

# South Korea's Economy Shudders After Growth Spurt

Economic growth contracted in the fourth quarter

A general view shows a part of the northern Seoul city skyline from the Hanhwa tower on Yeouido island. PHOTO: ED JONES/AGENCE FRANCE-PRESSE/GETTY IMAGES

By

*Kwanwoo Jun*

Updated Jan. 25, 2018 1:34 a.m. ET

[COMMENTS](#)

SEOUL—South Korea's surprisingly weak economic performance in the last three months of 2017 isn't cause for concern but does support the case for a cautious stance on central bank policy, according to economists and bank officials.

The economy ended its streak of outperforming expectations in the last quarter by recording its first quarter-on-quarter contraction since the global financial crisis.

That resulted in growth for the year—at 3.1%—coming in just below the government's 3.2% target, but above 2016's expansion of 2.8%. Markets on Thursday brushed aside the result, with the Kospi jumping 1% to reach record highs.

Still, the result will temper recent optimism about the economic outlook, while likely dispelling any idea at the Bank of Korea about raising rates until much later in the year. In November, the central bank raised rates for the first time in more than six years.

— ADVERTISEMENT —

The 0.2% quarter-on-quarter slide largely reflected a failure to maintain the rapid acceleration of the previous three months when exports expanded more than 20%, according to Seoul's trade ministry.

“A pullback was inevitable given the high base in Q3, when growth hit a seven-year high of 1.5%, but the outturn was still weaker than expected,” said Krystal Tan, Asia economist at Capital Economics.

The research firm remains bullish on growth in 2018, forecasting a 3.5% expansion on robust exports and government spending, helped by a possible resurgence in visitors from China after signs that tension is easing between the two nations about a U.S. missile defense system installed in South Korea. Capital Economics' forecast is well above Seoul's projection of 3.0% growth in 2018.

Fewer working days in the fourth quarter was another factor weighing on the soft data, analysts said.

Improved household spending offered one of the few bright spots in the gloomy quarterly figures.

“Private household consumer spending rose 1.1% on the quarter. That is the fastest quarter of growth since 4Q2015, and suggests that policy measures to support wages growth and boost benefits are having some positive effect at this level of the economy,” said Rob Carnell, ING's chief economist for the Asia-Pacific.

While softer trade took a slice out of quarter-on-quarter growth, exports remain strong year-over-year, driven by robust global demand for South Korean goods such as smartphones, memory chips, flat panels and other electronics.

Still, analysts said, with inflation lagging behind a 2% annual target, the growth figures favor a gradual approach to tightening policy at the central bank.

“The data...suggest that the Bank of Korea can afford to wait and gauge the impact of the government's wage hike and job creation measures,” said economists at Australia and

New Zealand Banking Group in a report. ANZ doesn't expect another rate increase until August.