



Economics Group

Tim Quinlan, Senior Economist

tim.quinlan@wellsfargo.com • (704) 410-3283

Korean GDP Slows a Bit in Q3 but Not as Much as Feared

Korea's economy grew 0.7 percent in the third quarter. Although that is a bit slower than the 0.8 percent growth reported in Q2, the outturn was a bit stronger than expected.

How Long Can Korea Grow in the Face of Slow Global Growth?

If there has been a theme to the growth story in Korea over the past couple of years, it has been how a trade-dependent economy has plodded forward despite steady headwinds from a slow-growing global economy. The slowing in global trade has been reflected in a drag from net exports in eight out of the past nine quarters.

While the challenges for Korea will not disappear overnight (particularly given the fact that growth in key trade-partner China is expected to slow further), there are some early signs that the drag from trade may be fading somewhat. While net exports exerted a 3.1 percentage point drag on growth during the quarter, it is worth observing that exports actually increased for the second straight period. The reason that net trade was a drag has to do with the fact that import growth has been outpacing the more modest gains on the export side.

Imports surged at a 10.0 percent annualized rate in the third quarter, which is the second fastest quarterly increase over the past three years. Importers are keeping up with back-to-back quarterly gains in consumer spending and three straight quarters of increased fixed capital formation.

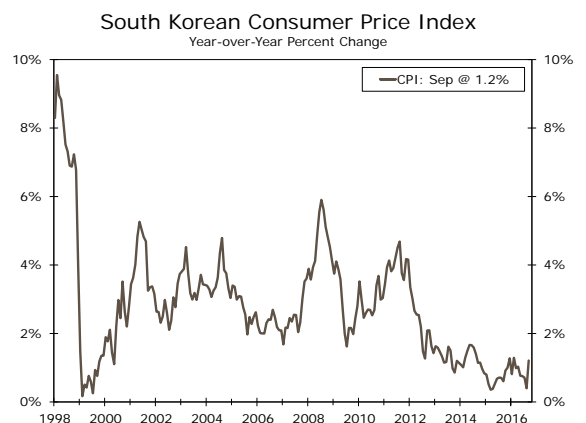
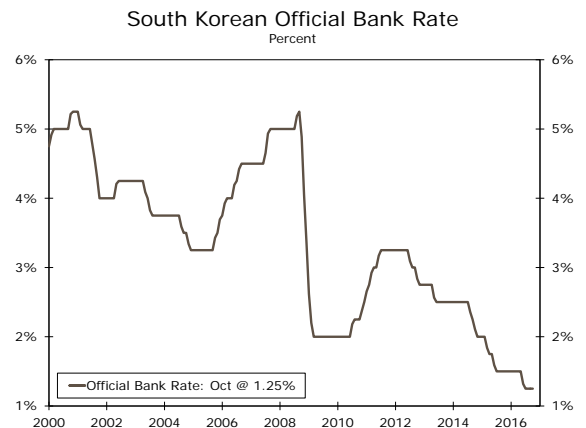
We are wary of the ability of consumer spending to be a steady long-term driver of Korean economic growth. The aging population combined with a household debt to GDP ratio that has increased from 80 percent three years ago to 85 percent today are two of the biggest reasons for our concern.

It also bears noting that the well-publicized bankruptcy filing for Hanjin Shipping combined with major strikes at Hyundai Motor Co. may be weighing on activity both directly and in terms of the negative impact on business confidence. The Nikkei/Markit PMI for Korea has fallen for three straight months and, at 47.6 in September, is currently signaling a contraction in manufacturing activity.

Implications for Monetary Policy

The Bank of Korea (BoK) has made only one adjustment to interest rates in 2016; a 0.25 percent cut in June which reduced the target lending rate to 1.25 percent. That marked the eighth cut in interest rates since 2012 and financial markets were weighing prospects for whether or not another cut was in the offing for this year. The two remaining BoK meetings are November 11 and December 15.

In our view, today's better-than-expected report likely means that the BoK has cover to sit tight at least through the end of 2016. The year-over-year rate of CPI inflation was 1.2 percent in September and while that marks the second-fastest inflation rate reported this year, it is still shy of the BoK's 2.0 percent target.



Wells Fargo Securities Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Anika R. Khan	Senior Economist	(212) 214-8543	anika.khan@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Eric Viloría, CFA	Currency Strategist	(212) 214-5637	eric.viloría@wellsfargo.com
Sarah House	Economist	(704) 410-3282	sarah.house@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Jamie Feik	Economist	(704) 410-3291	jamie.feik@wellsfargo.com
Erik Nelson	Currency Analyst	(212) 214-5652	erik.f.nelson@wellsfargo.com
Misa Batcheller	Economic Analyst	(704) 410-3060	misa.n.batcheller@wellsfargo.com
Michael Pugliese	Economic Analyst	(704) 410-3156	michael.d.pugliese@wellsfargo.com
Julianne Causey	Economic Analyst	(704) 410-3281	julianne.causey@wellsfargo.com
E. Harry Pershing	Economic Analyst	(704) 410-3034	edward.h.pershing@wellsfargo.com
Donna LaFleur	Executive Assistant	(704) 410-3279	donna.lafleur@wellsfargo.com
Dawne Howes	Administrative Assistant	(704) 410-3272	dawne.howes@wellsfargo.com

Wells Fargo Securities Economics Group publications are produced by Wells Fargo Securities, LLC, a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, the Financial Industry Regulatory Authority, and the Securities Investor Protection Corp. Wells Fargo Securities, LLC, distributes these publications directly and through subsidiaries including, but not limited to, Wells Fargo & Company, Wells Fargo Bank N.A., Wells Fargo Advisors, LLC, Wells Fargo Securities International Limited, Wells Fargo Securities Asia Limited and Wells Fargo Securities (Japan) Co. Limited. Wells Fargo Securities, LLC is registered with the Commodities Futures Trading Commission as a futures commission merchant and is a member in good standing of the National Futures Association. Wells Fargo Bank, N.A. is registered with the Commodities Futures Trading Commission as a swap dealer and is a member in good standing of the National Futures Association. Wells Fargo Securities, LLC and Wells Fargo Bank, N.A. are generally engaged in the trading of futures and derivative products, any of which may be discussed within this publication. Wells Fargo Securities, LLC does not compensate its research analysts based on specific investment banking transactions. Wells Fargo Securities, LLC's research analysts receive compensation that is based upon and impacted by the overall profitability and revenue of the firm which includes, but is not limited to investment banking revenue. The information and opinions herein are for general information use only. Wells Fargo Securities, LLC does not guarantee their accuracy or completeness, nor does Wells Fargo Securities, LLC assume any liability for any loss that may result from the reliance by any person upon any such information or opinions. Such information and opinions are subject to change without notice, are for general information only and are not intended as an offer or solicitation with respect to the purchase or sales of any security or as personalized investment advice. Wells Fargo Securities, LLC is a separate legal entity and distinct from affiliated banks and is a wholly owned subsidiary of Wells Fargo & Company © 2016 Wells Fargo Securities, LLC.

Important Information for Non-U.S. Recipients

For recipients in the EEA, this report is distributed by Wells Fargo Securities International Limited ("WFSIL"). WFSIL is a U.K. incorporated investment firm authorized and regulated by the Financial Conduct Authority. The content of this report has been approved by WFSIL a regulated person under the Act. For purposes of the U.K. Financial Conduct Authority's rules, this report constitutes impartial investment research. WFSIL does not deal with retail clients as defined in the Markets in Financial Instruments Directive 2007. The FCA rules made under the Financial Services and Markets Act 2000 for the protection of retail clients will therefore not apply, nor will the Financial Services Compensation Scheme be available. This report is not intended for, and should not be relied upon by, retail clients. This document and any other materials accompanying this document (collectively, the "Materials") are provided for general informational purposes only.

SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE