J.P.Morgan

Asia Economic Research

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Korea economic outlook in global perspectives

Bumpy recovery, yet resilient fundamentals

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See the end pages of this presentation for important disclosures.

Global: GDP growth

Baseline view is sustained above-trend growth, yet high inflation is a threat to global growth

		%y/y			%q/q saar				
	Avg 00-19	2020	2021	2022	4Q21	1Q22	2Q22	3Q22	4Q22
Developed markets	**1.7**	**-4.7**	**5.1**	**4.0**	**4.9**	**2.0**	**5.3**	**4.0**	**2.8**
US	2.1	-3.4	5.7	3.7	6.9	1.5	4.0	3.5	2.5
Euro	1.4	-6.5	5.2	4.7	1.2	2.0	8.0	5.0	3.5
Japan	0.9	-4.8	1.6	2.8	5.0	1.5	6.0	4.5	2.5
Emerging markets	**5.4**	**-1.2**	**7.0**	**4.6**	**7.5**	**3.8**	**5.9**	**4.5**	**4.5**
EM Asia	7.1	0.0	7.3	5.3	9.1	4.2	7.3	5.3	5.2
China	9.0	2.2	8.1	4.9	7.5	4.3	7.0	5.5	5.5
Korea	4.1	-0.9	4.0	3.3	4.5	3.0	4.0	3.2	3.2
Latin America	2.5	-6.6	6.6	1.7	1.0	2.2	0.8	1.4	0.8
EMEA EM	3.6	-2.6	6.0	3.7	4.4	2.6	2.6	3.5	3.7
Global (JPMorgan universe)	**2.9**	**-3.3**	**5.9**	**4.2**	**5.9**	**2.7**	**5.5**	**4.2**	**3.5**

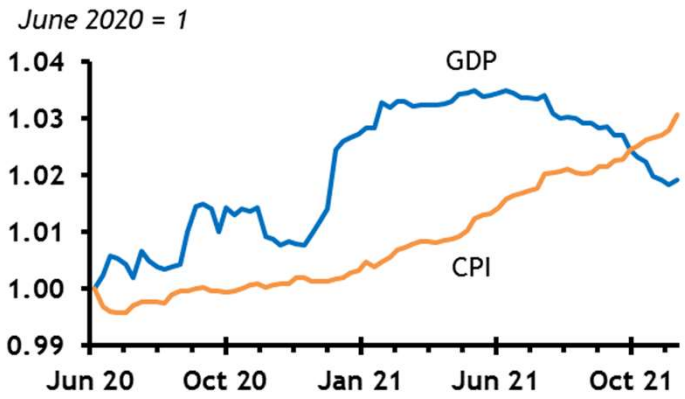
Source: J.P. Morgan estimates.

Baseline view: Sustained above-trend growth into 2022
Tension: Healthy private B/S and policy supports vs supply-driven high inflation

Global: Tension in the outlook

Inflation spike to drag purchasing power vs. healthy balance sheet to boost demand going forward

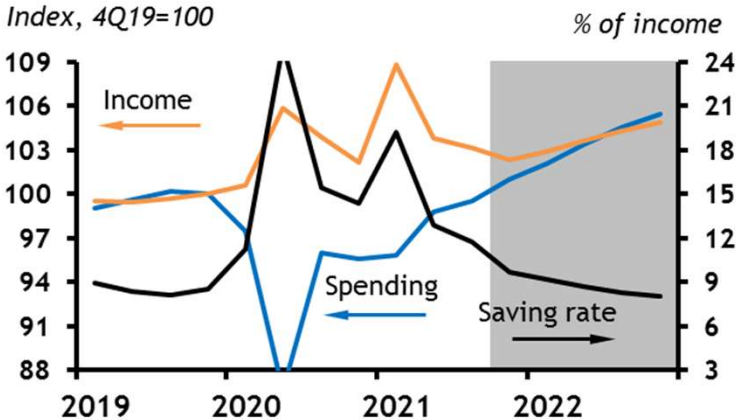
JPM global forecast revision index



Source: J.P. Morgan Global Economics

JPM sees higher inflation forecast than before, tilted toward negative supply-side impulse

HH income, spending, and saving: G-4



Source: J.P. Morgan Global Economics

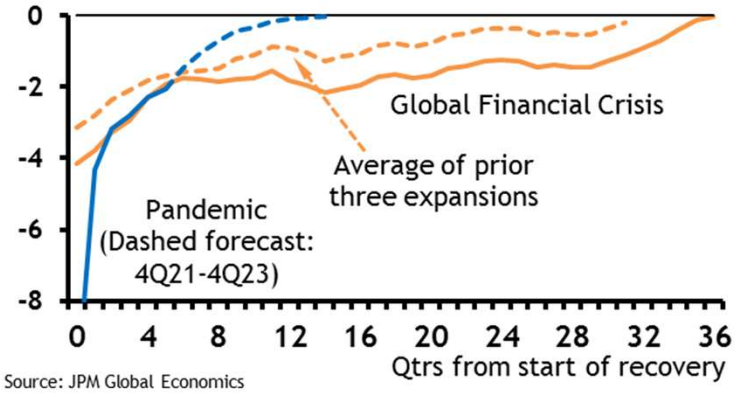
DM saving rate normalization should boost consumer spending

Global: Reflationary and uneven recovery

Fast and uneven recovery, amid a reflationary force

Global output gap, recovery from recessions

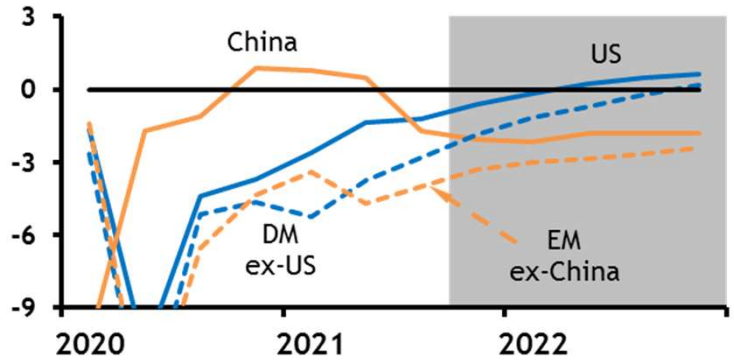
%, GDP relative to potential, year of trough shown



Source: JPM Global Economics

Real GDP, COVID-19 impact

% dev from pre-pandemic potential path



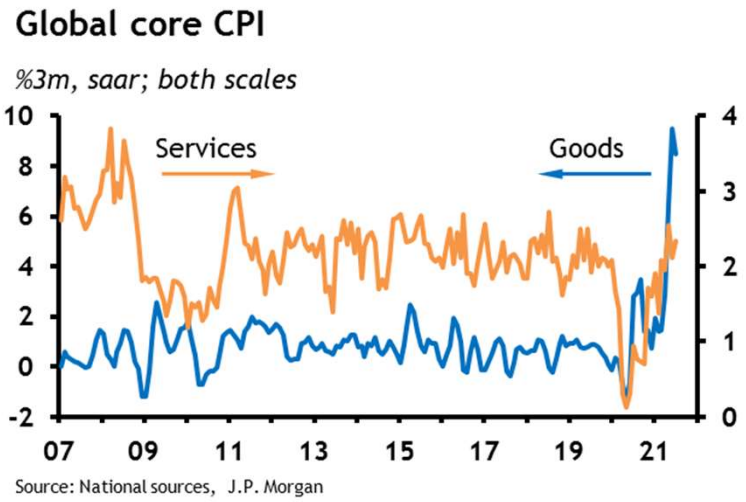
Source: J.P. Morgan

Output gap to close earlier than previous recessions, which should imply reflationary forces

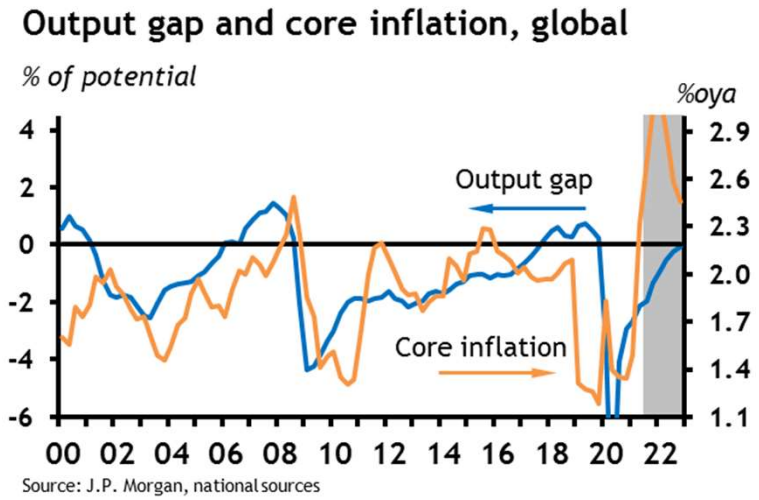
We expect a US leadership in recovery in the medium term amid tension in China's performance

Global: Inflation outlook

Global inflation should stabilize as temporary shock subsides, yet to a higher level than the pre-COVID norm



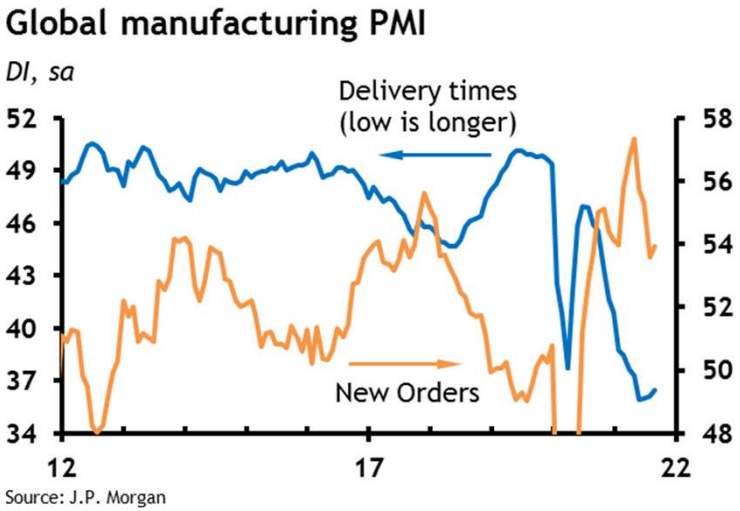
Supply bottlenecks for goods prices (likely transitory disruption) and service activity normalization (cyclical factor)



The current spike in core inflation should return to the usual relationship with the output gap

Global: COVID-19 and supply-side bottlenecks

Delayed pick-up in production amid demand surge

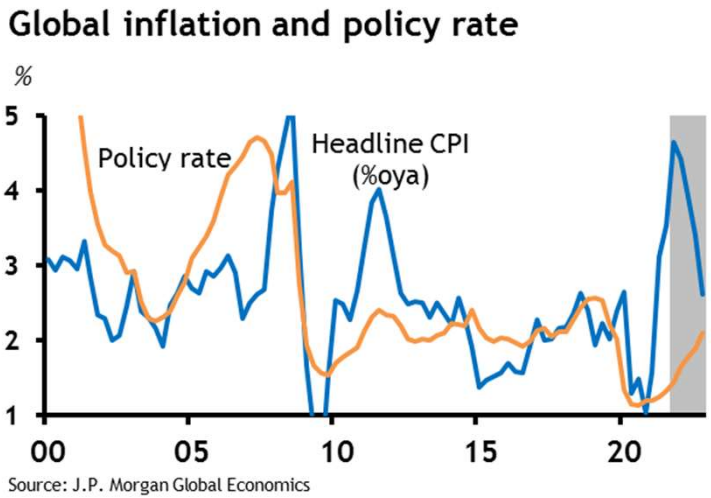


High-frequency data for tracking the bottlenecks: Demand (new orders) remains elevated and supply bottlenecks are lingering

- Some silver linings from easing of the bottlenecks, with production resumption in some EM Asia economies
- Yet it is hard to gauge when the bottleneck issues will finally be resolved, given the uncertainties around regulatory and geopolitical environments

Global: Inflation and central bank policy normalization

Signals from CBs are starting to shift



Differentiated responses from DM vs EM central banks, possibly due to expectation anchoring and credibility

Global Central Bank Watch

	Current rate (%pa)	Forecast next change	Forecast end-2022	CPI(%oya) 4Q21
US	0.25	Mar22 (+25bp)	1.50	6.7
Euro Area	-0.50	4Q22 (+25bp)	-0.25	4.6
Japan	-0.10	On hold	-0.10	0.8
UK	0.50	Mar22 (+25bp)	1.25	4.9
Canada	0.25	Mar22 (+25bp)	1.50	4.8
Sweden	0.00	Apr23 (+25bp)	0.00	3.4
Norway	0.50	Mar22 (+25bp)	1.25	4.6
Australia	0.10	4Q22 (+15bp)	0.25	3.1
New Zealand	0.75	Feb22 (+25bp)	1.00	5.3
Brazil	10.75	Mar22 (+100bp)	11.75	10.5
Mexico	5.50	Feb22 (+50bp)	7.25	7.0
Czech	3.75	Mar22 (+50bp)	5.00	6.1
Russia	8.50	Feb22 (+75bp)	8.75	8.3
India	3.35	Apr22 (+20bp)	4.00	5.0
Thailand	0.50	On hold	0.50	2.2
Taiwan	1.13	2Q22 (+13bp)	1.50	2.7

Source: Government agencies and J.P. Morgan Global Economics forecast

Global: FX view

US-led growth to favor USD value through 2022

Exchange rates vs. U.S. dollar

	Current	1Q22	2Q22	3Q22	4Q22
EUR	1.12	1.11	1.10	1.11	1.12
JPY	115	116	117	117	116
GBP	1.34	1.34	1.33	1.34	1.36
CNY	6.36	6.35	6.35	6.45	6.55
TWD	27.8	27.8	27.8	28.0	28.0
KRW	1206	1205	1205	1210	1215
JPM USD Index	122.6	122.8	123.4	123.9	124.1

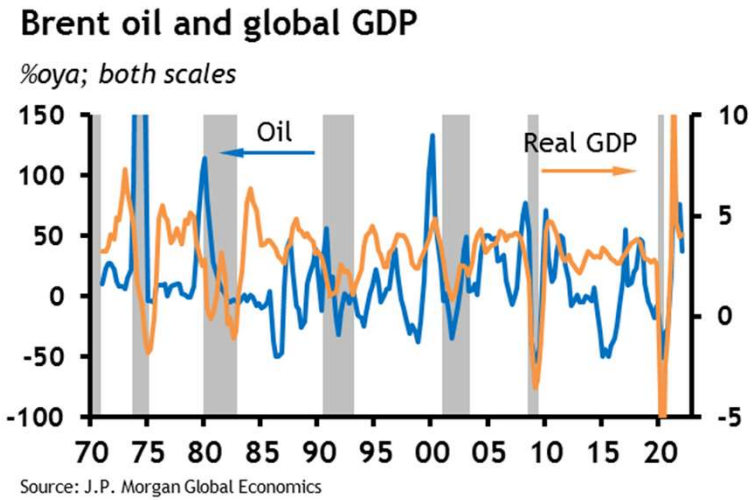
Source: J.P. Morgan forecast

Long-term bullish dollar view remains broadly intact.

Difference in monetary policy normalization between US vs. EA and Japan, strategic USD longs from an interest-rate perspective

Global: Geopolitical risk

Possible adverse oil supply shock and the global recovery



Identification matters, but oil price hikes usually associated with the recessions

Table 1: Model scenario, oil supply shock 1H22

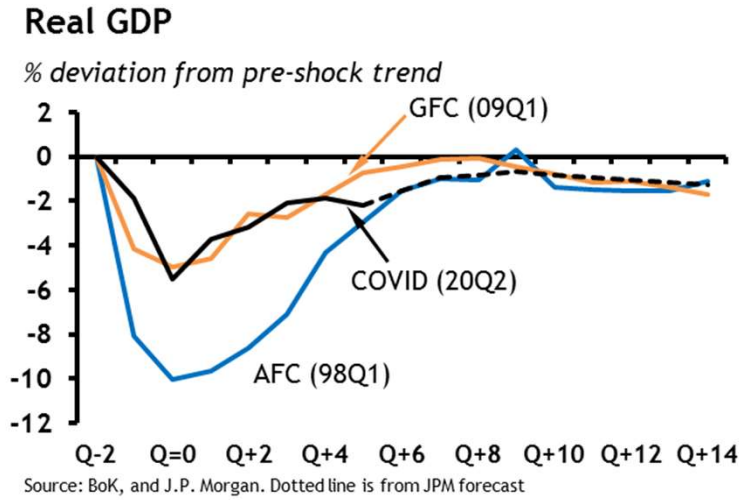
Oil supply shock		
Mbd	-2.3	
%chg	100%	
Price (base 4Q21=$75/bbl)	$150/bbl	
Real GDP impact, level (%)		
Global	-1.6	
Developed	-1.4	
Emerging	-2.0	
Consumer price impact, global	+2.0	
Real GDP, 1H22 saar	Current	Post-shock
Global	4.1	0.9
DM	3.7	0.8
EM	4.8	0.9
Consumer price inflation, global 1H22 saar	3.2	7.2

Source: J.P. Morgan

J.P. Morgan's scenario analysis on the oil shock, lower growth and higher inflation. Yet be mindful on policy response and structural changes (less-energy intensive economy)

Korea: Recovery after the pandemic shock

Korea's 2022 GDP growth: JPMe 3.3% y/y vs consensus 3.0%

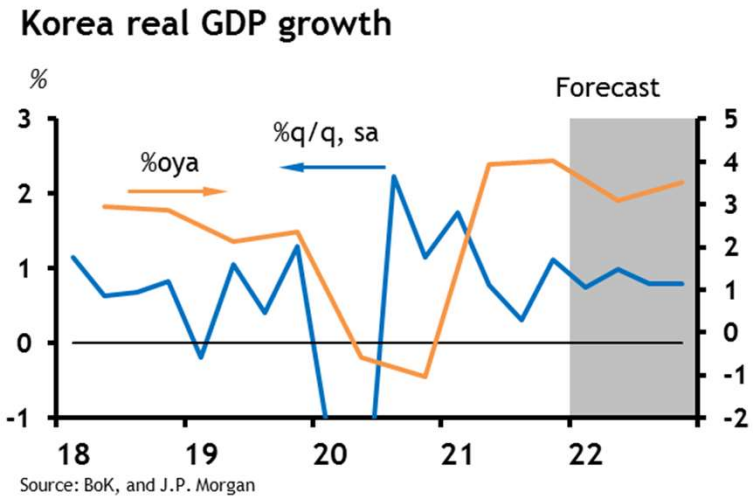


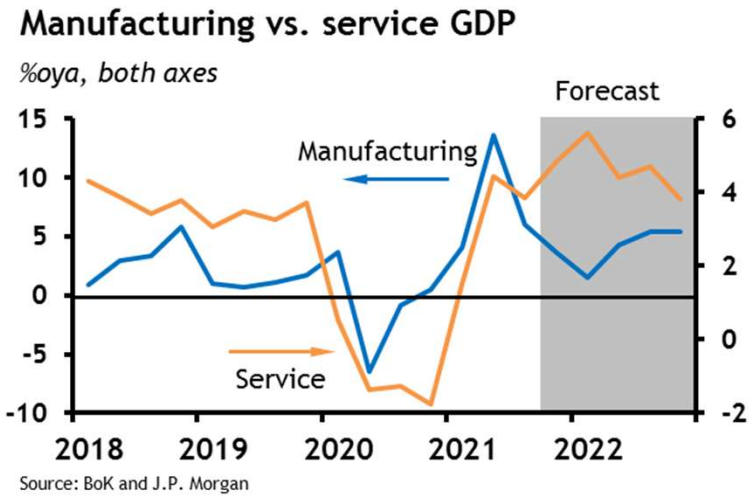
Post-COVID recovery looks to be modestly falling behind post-GFC recovery as in per cent deviation from the pre-shock trend path

- JPM sees modestly higher 2022 growth than market consensus
- Yet our growth forecast does not assume a full-recovery to the pre-pandemic path …
- … which is modestly falling behind post-GFC recovery, notably that in 2011
- A cautious outlook, being mindful of possible potholes such as lingering risk from COVID-19 resurgence and supply bottlenecks

Korea: Rotating growth drivers

Growth drivers are rotating towards services from manufacturing



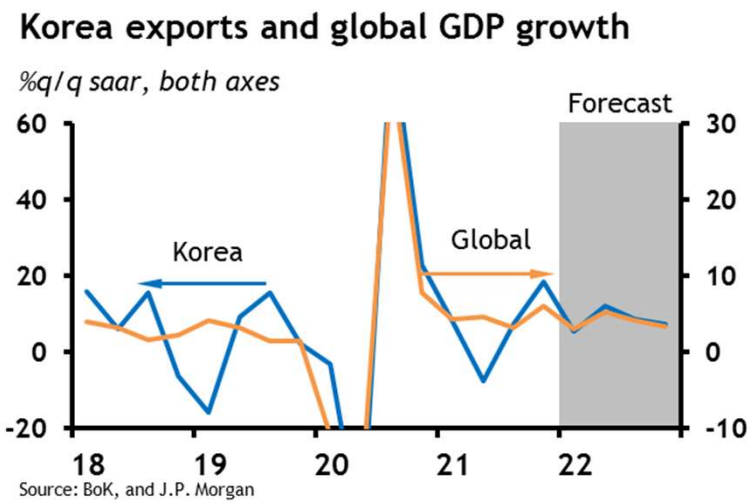


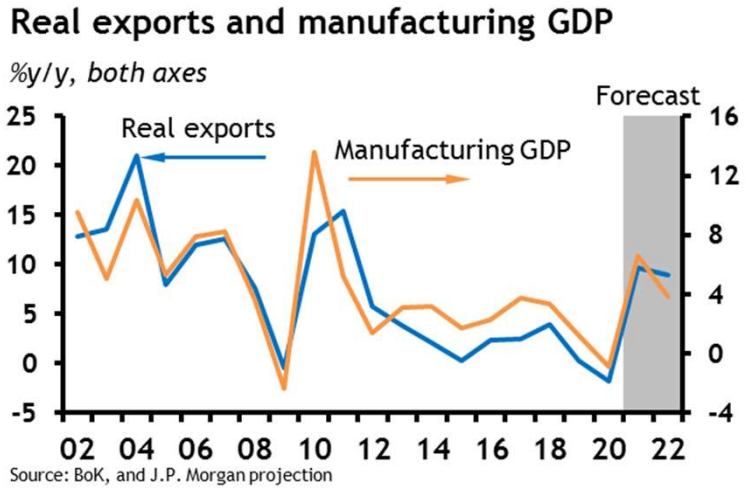
Near-term drag in 1Q with Omicron variant, yet quarterly growth should remain above-potential rate

Manufacturing growth has already peaked, service growth should peak in early 2022

Korea: Exports and manufacturing

Exports and manufacturing growth should moderate but remain above trend





Fitting with global growth projections, Korea real exports' solid growth should continue (around 9%y/y pace)

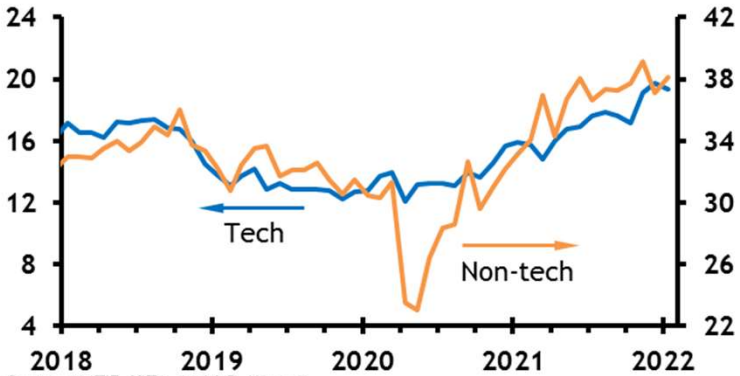
Manufacturing growth, led by exports, should remain above the long-term trend

Korea: Exports details

Export portfolio is well diversified and export growth is broad-based

Customs exports - tech vs. nontech

US$ bn, sa, both axes

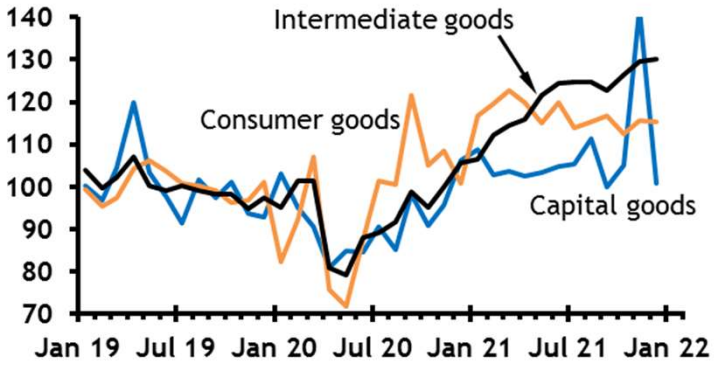


Source: MoTIE, KITA, and J.P. Morgan

Customs exports' gain is balanced between tech and non-tech in terms of USD value

Exports by goods type

2019=100, sa

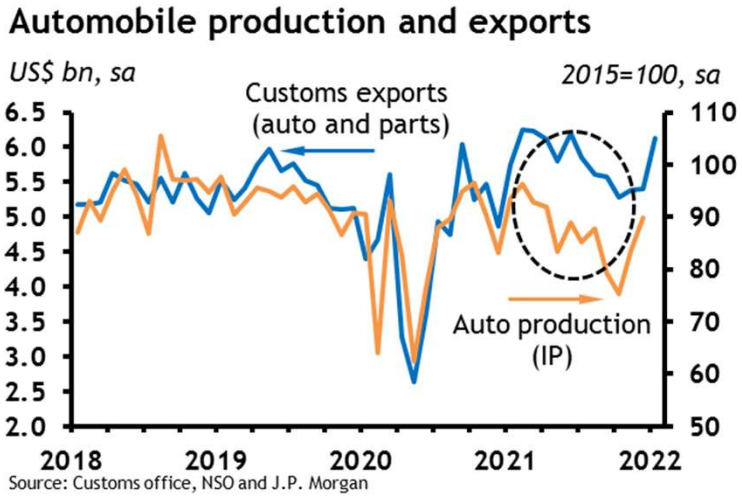


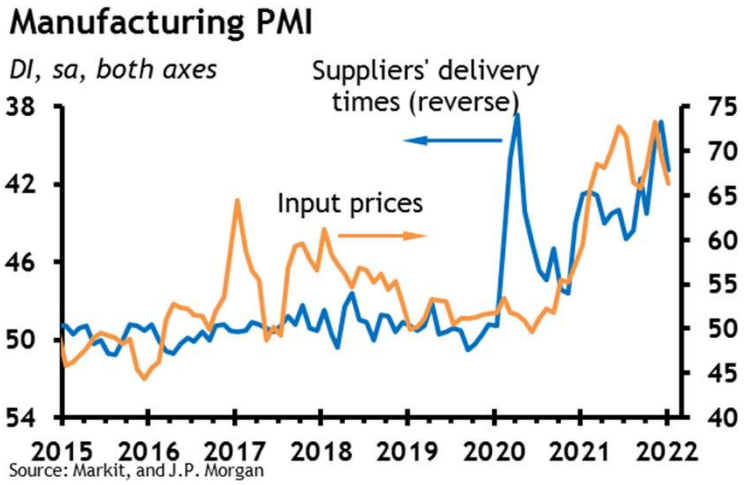
Source: KITA, and J.P. Morgan

Rotation of exports drivers: Supply bottlenecks and inventory build-up demand should boost intermediate goods' exports

Korea: Supply bottlenecks

Worst part of drag should have passed, but the issue is lingering



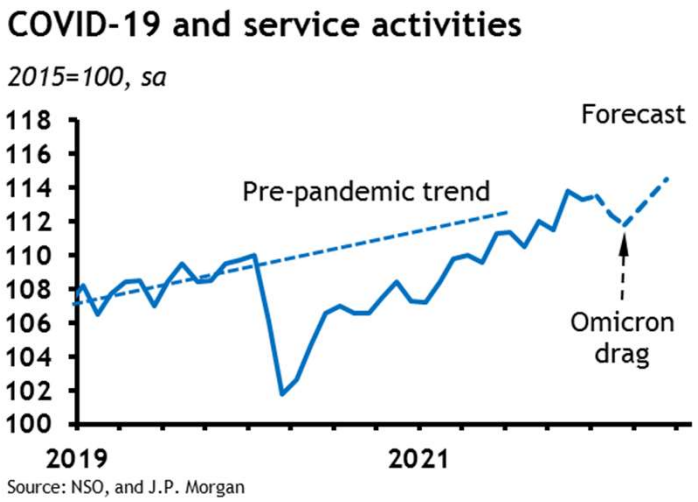


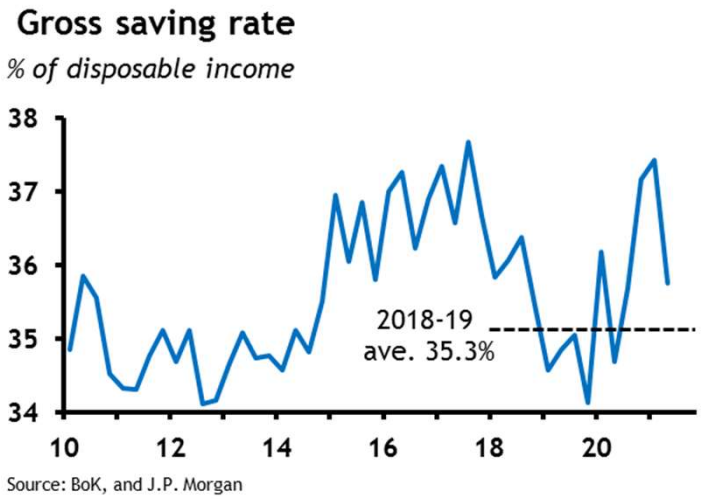
Supply bottleneck issue is broad, but auto sector showcases that the peak may have passed

Yet high-frequency data still shows an elevated stresses

Korea: Private consumption and service

Omicron variant drag is likely to be temporary in 1Q



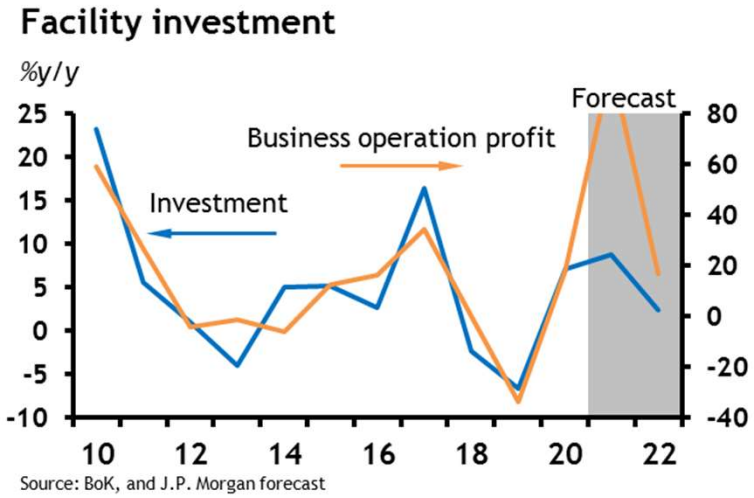


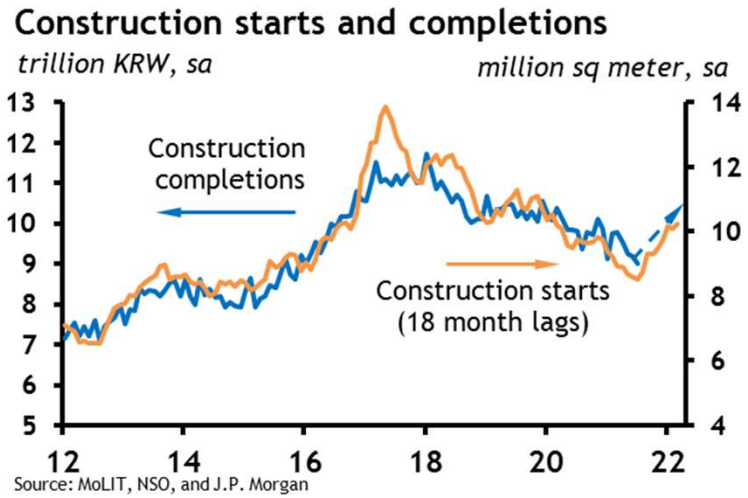
The Omicron variant may drag down service activities temporarily in 1Q, yet long-term recovery trend should be maintained

Some extra savings during the pandemic shock may lead to a lower saving rate and larger consumption

Korea: Fixed investment

Capex growth should moderate; construction investment should turn up



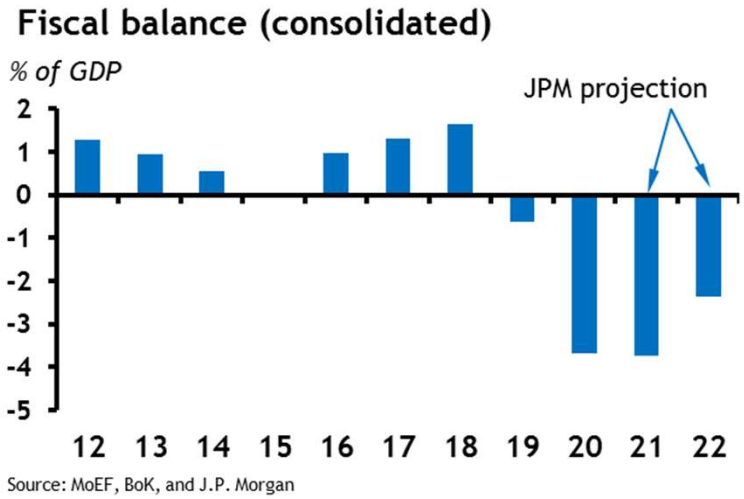


Capex growth should moderate in 2022 along with moderation in external demand and profits

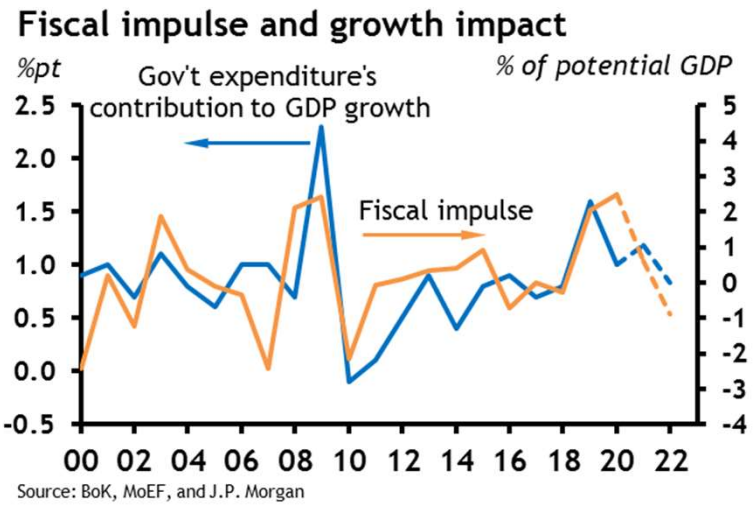
Construction investment should gradually rise to end a multi-year downcycle, according to forward-looking indicators

Korea: Fiscal policy

Original budget implied a decrease in fiscal deficit, yet supplementary budgets are in the pipeline



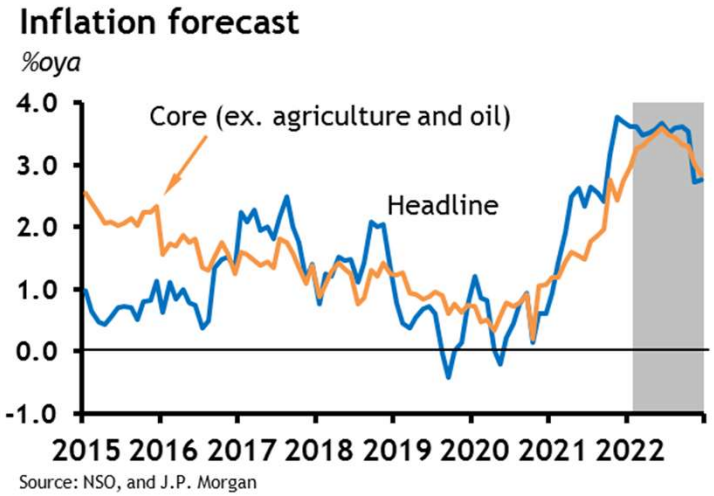
We expected the headline fiscal deficit to narrow to 2.4% of GDP in 2022 from 3.7% in 2021 (original budget) …

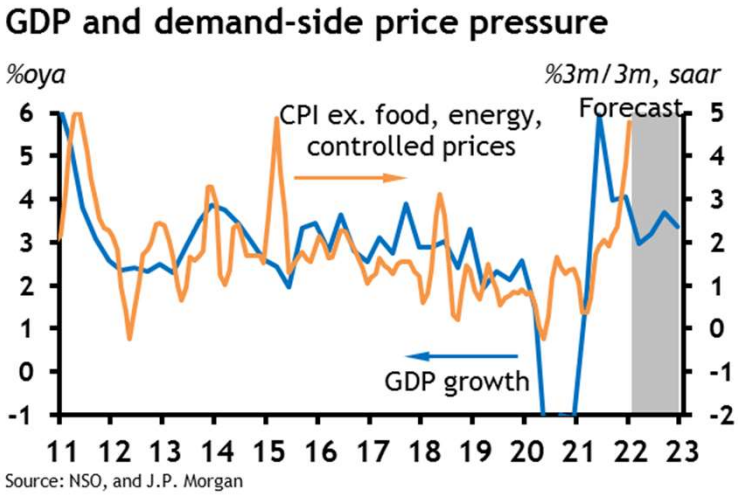


… which implies gradually easing fiscal contribution to overall growth

Korea: Consumer inflation

Inflation pressure should remain in place for now, yet should stabilize towards mid-2% pace by end-2022



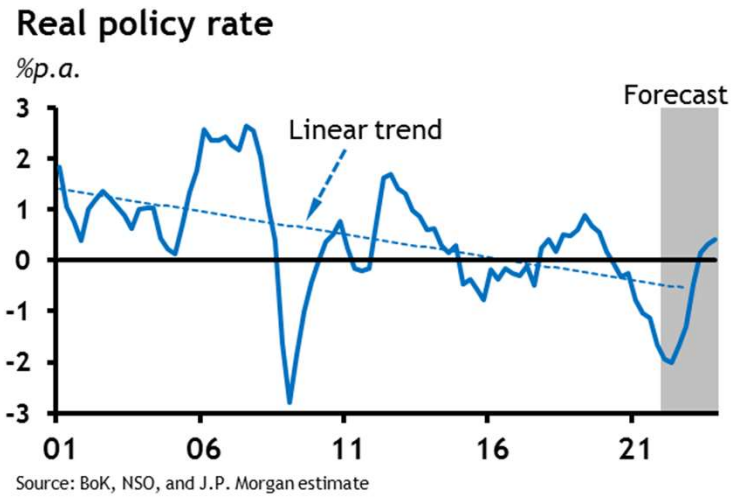


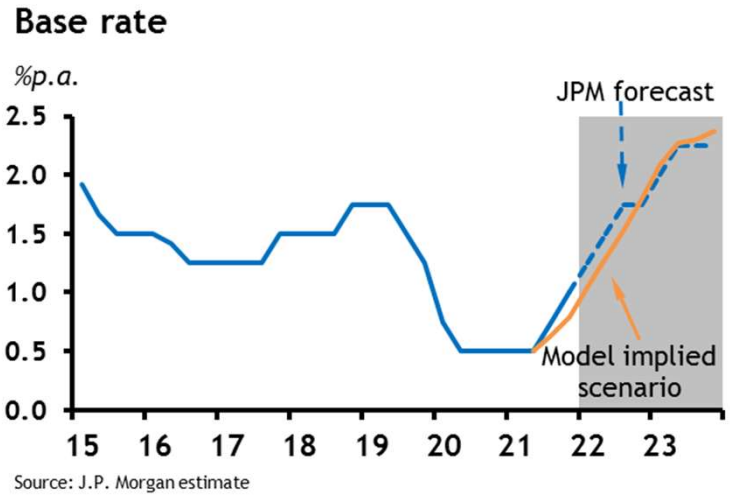
Mid-3% pace should be maintained by 3Q22, then stabilize towards mid-2% pace

Core price gain is outpacing what real GDP growth implies for. Price pressure is likely to remain for now.

Korea: Monetary policy

Preemptive policy normalization should continue; toward 2.25% by end-2023,





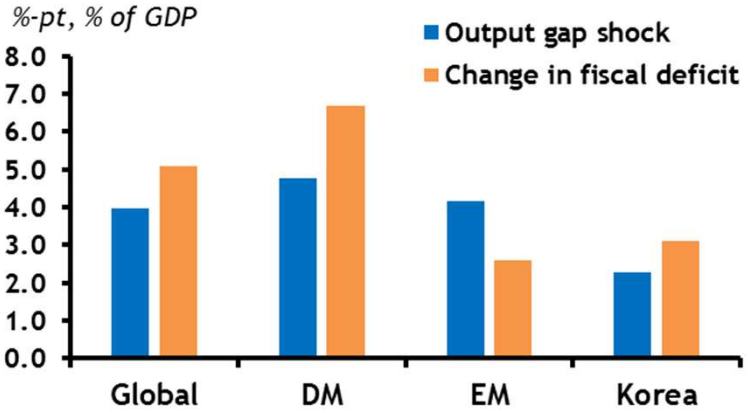
MPC turned hawkish on inflation expectation; hike cycle should be maintained by 2023

Our estimate of Taylor rule implies further hikes to 2.25% (April 22 with a risk of front-loading to February, 3Q22, 1Q23, 2Q23)

Korea: Presidential election

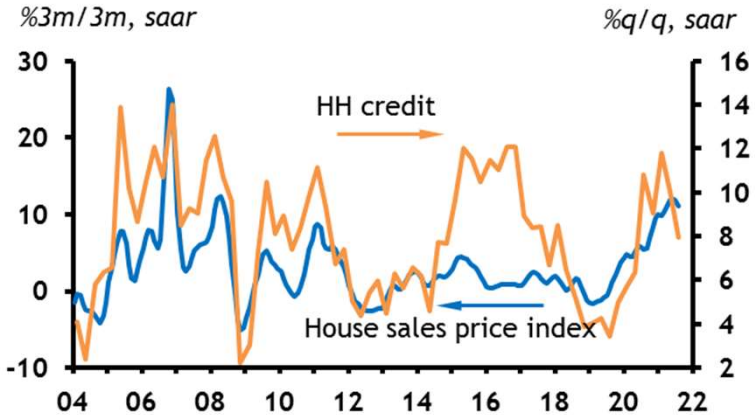
Continuation of the current macro policy stance in line with evolution of cycle

Fiscal response to COVID impact in 2020-21



Source: J.P. Morgan * %-pt change from 2019 to 2020-21 average

House sales price and household credit



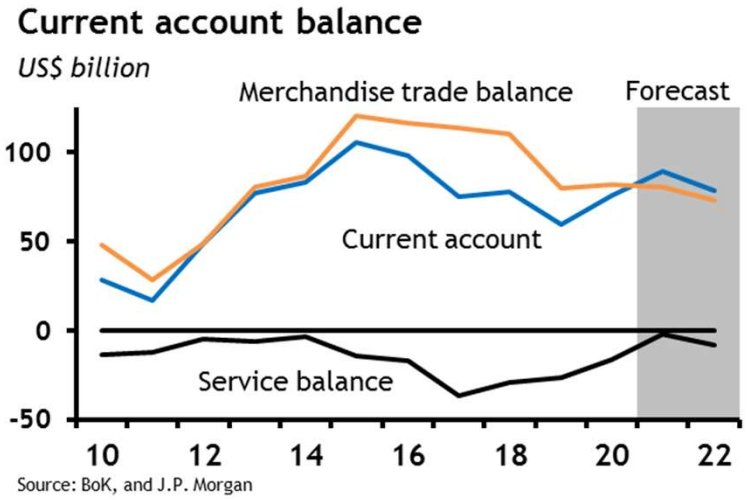
Source: Bank of Korea, Korea Appraisal Board, and J.P. Morgan

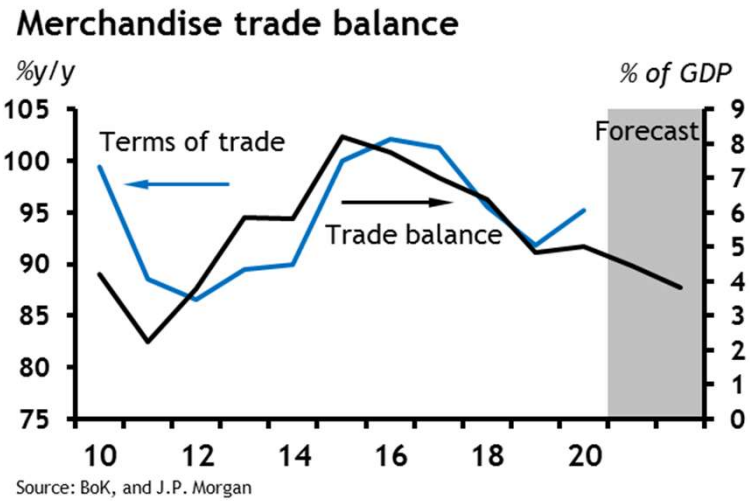
Fiscal policy stance evolved in line with cycle, and should continue to reflect the cycle, and be balanced by the National Assembly

Both parties are likely to adopt a cautious stance on household credit growth: MPC should continue gradual policy normalization

Korea: External account

Structural current account surplus should continue in 2022, yet recycling out to overseas investment



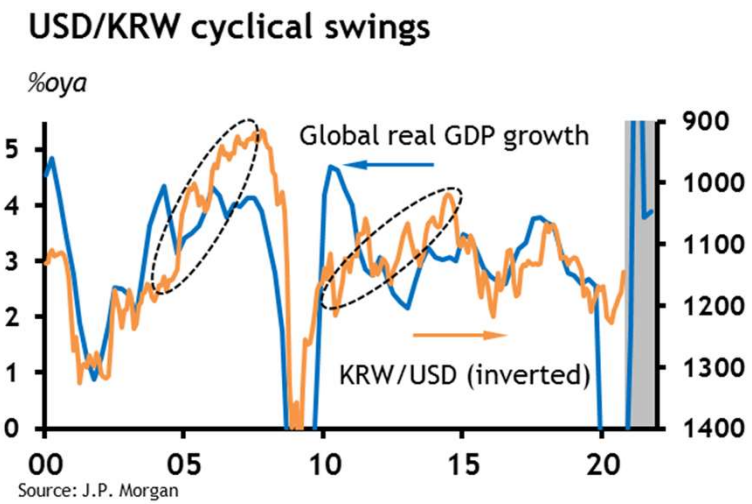


CA surplus to continue (elevated trade surplus and narrowed service deficit), yet it should continue recycling out to overseas investment

Both exports and imports growth should moderate in 2022, amid offset between oil deficit and non-oil trade surplus

Korea: FX view

Cross current for KRW: JPM house view for USD/KRW is 1,215 by end-2022

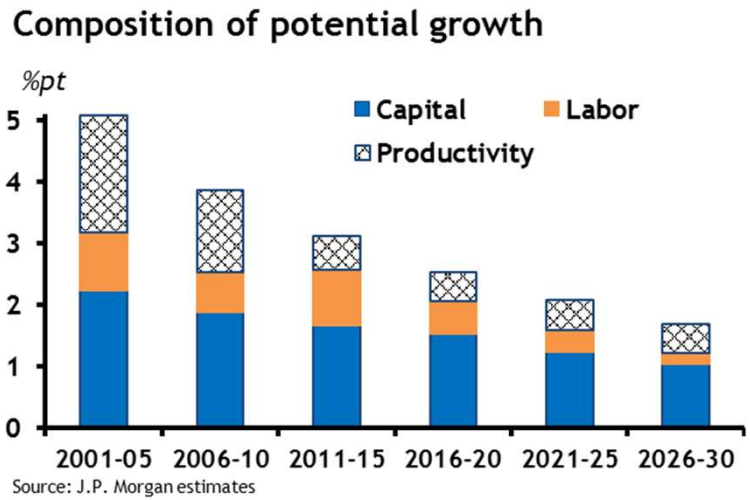


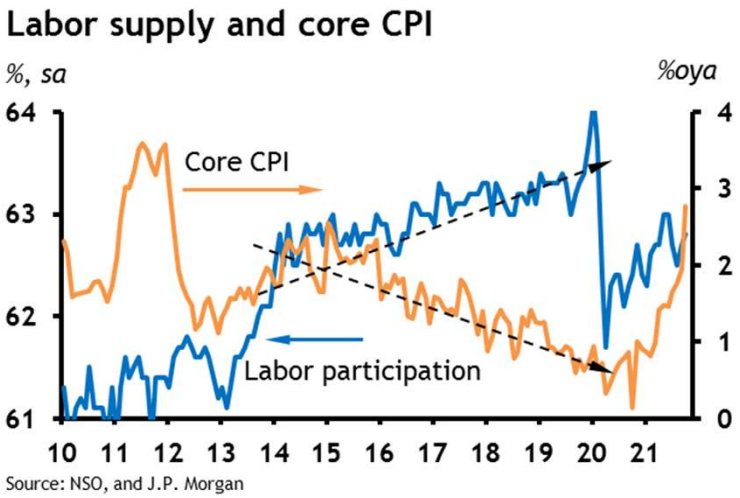
KRW's pro-cyclicality implies a modest appreciation against the USD, but there are offsetting factors from USD strength

US-KR growth differential points to moderation of the KRW appreciation trend through 2021, to be stabilized in 2022

Korea: Long-term challenges

Be mindful of long-term challenges returning after the pandemic noise





Potential GDP growth to slow to mid-1% pace in 10 years with population aging and maturing in an industrial structure

The pandemic shock disrupted the last decade's trend with rising participation and core inflation slowdown. This relationship may come back

Economic forecasts

South Korea: economic indicators

	Average 2015-19	2020	2021f	2022f	2023f
Real GDP, % change	2.8	-0.9	4.0	3.3	2.5
Consumption*	1.9	-1.6	2.6	2.3	1.6
Investment*	1.2	0.3	0.4	0.3	0.5
Net trade*	-0.4	0.5	1.0	0.7	0.3
Consumer prices, %oya	1.1	0.5	2.5	3.4	2.2
% Dec/Dec	1.2	0.5	3.7	2.8	1.8
Producer prices, %oya	-0.1	-0.5	6.3	5.4	1.6
Government balance, % of GDP	0.7	-3.7	-3.7	-2.4	-3.0
Current account balance	83.1	75.3	88.8	78.2	64.9
% of GDP	5.2	4.6	5.0	4.4	3.4

* Contribution to growth of GDP.

Source: Bank of Korea, National Statistics Office, J.P. Morgan estimates.

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