Korea economic outlook in the global perspective

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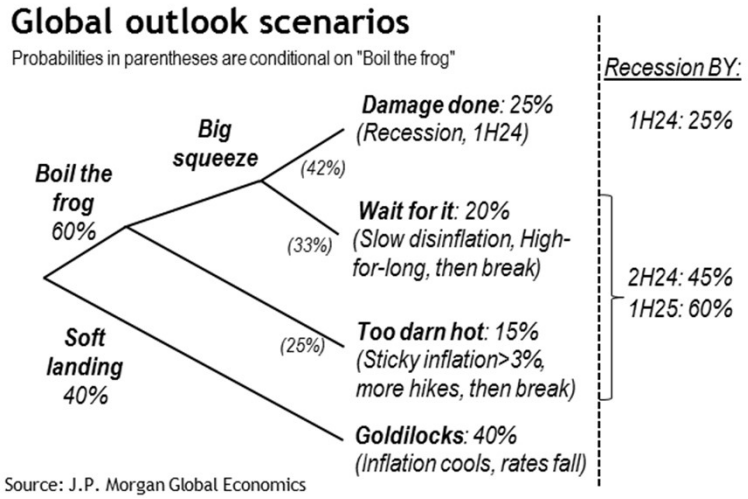
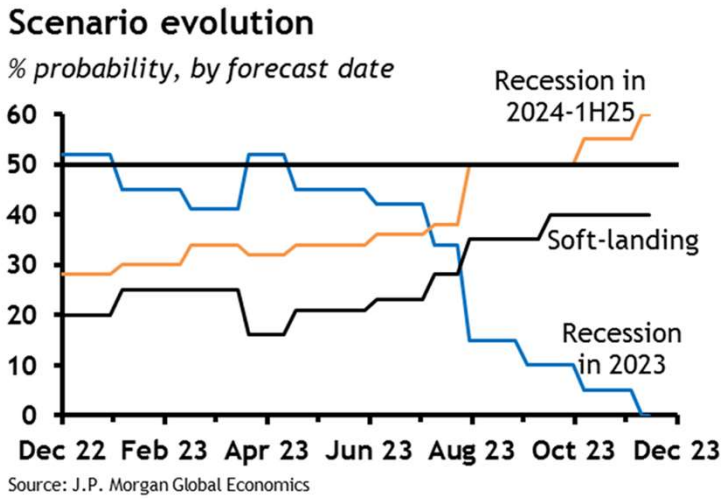
See the end pages of this presentation for important disclosures.

Global: Outlook scenarios

Goldilocks, or boil the frog?





Recession vs. soft-landing (60:40)
Recession by 2024 vs. by 1H25 (75:25)

Top-down views have become more open to a soft-landing, but remain biased towards an end to the expansion

Global GDP growth

Bottom-up view: GDP growth slows to a below-potential pace

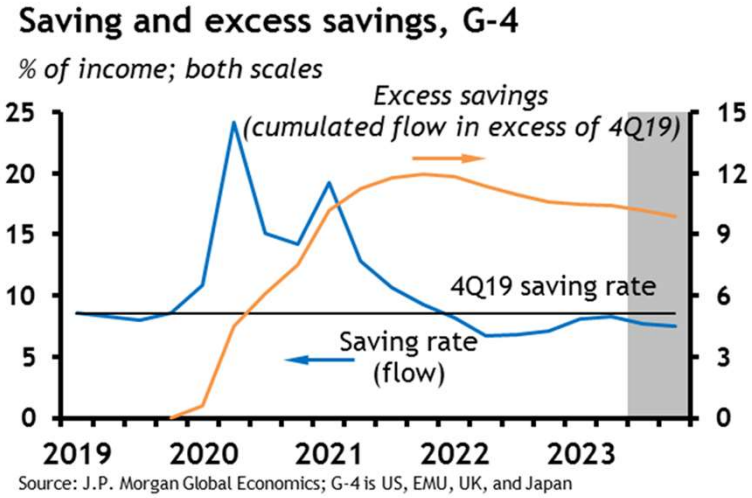
		%y/y			%q/q saar				
	Avg 00-19	2022	2023	2024	4Q23	1Q24	2Q24	3Q24	4Q24
Developed markets	**1.7**	**2.6**	**1.6**	**1.1**	**1.1**	**1.0**	**0.7**	**0.6**	**0.7**
US	2.1	1.9	2.5	1.6	2.0	1.3	0.5	0.5	0.7
Euro	1.4	3.4	0.5	0.4	0.0	0.5	0.7	0.7	0.7
Japan	0.9	0.9	1.7	0.9	0.5	1.3	1.6	0.7	0.7
Emerging markets	**5.4**	**3.5**	**4.1**	**3.8**	**3.6**	**4.1**	**3.6**	**3.7**	**3.6**
EM Asia	7.1	3.6	4.8	4.6	4.9	4.8	4.4	4.3	4.2
China	9.0	3.0	5.2	4.9	5.5	5.5	4.7	4.5	4.1
Korea	4.1	2.6	1.3	2.1	2.0	1.8	1.8	2.5	2.5
Latin America	2.4	3.7	2.0	1.3	-0.5	1.8	1.6	1.9	2.1
EMEA EM	3.6	2.3	2.3	2.1	1.3	2.0	0.7	1.4	1.9
Global (JPMorgan universe)	**2.8**	**2.9**	**2.6**	**2.2**	**2.1**	**2.3**	**1.9**	**1.9**	**1.9**

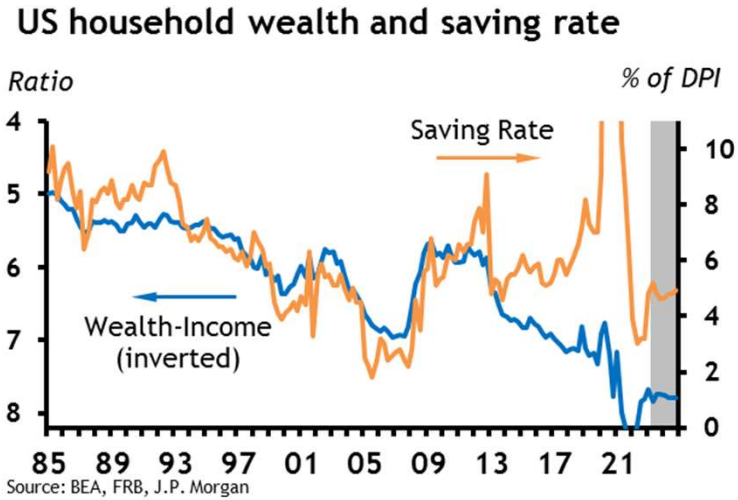
Source: J.P. Morgan estimates and forecasts.

Our bottom-up country forecasts do not incorporate a 2024-25 recession: US and EA growth slips and EM anticipated to grow at trend-like pace

Global: Resilient fundamentals

Resilient demands with fatter-than-expected tail of buffer



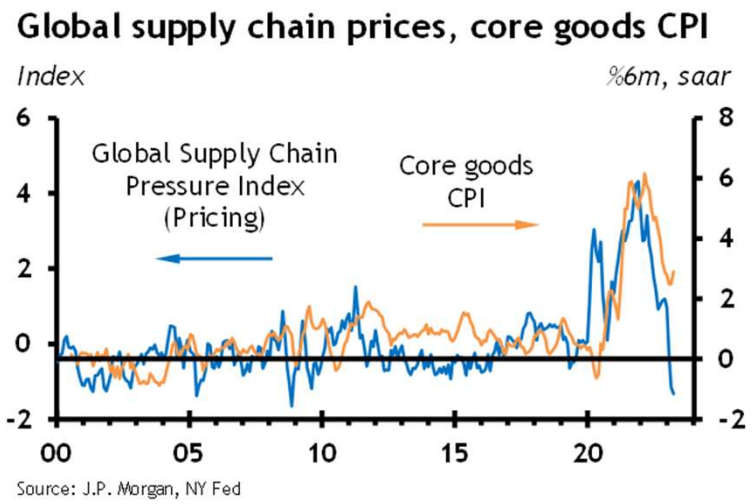


DMs' excess savings remain a buffer to consumption, roughly at 10% of income

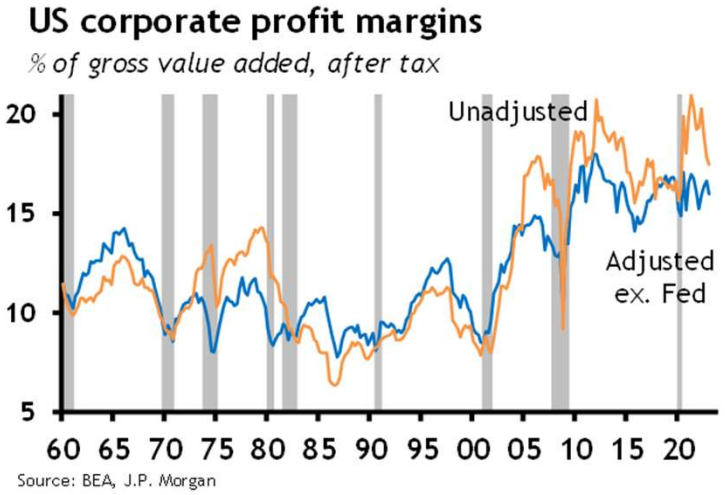
Net worth of US households is roughly $38tn higher in 2Q23 than in 4Q19

Global: Resilient fundamentals

Fading supply-side drags and inflation to support private B/S



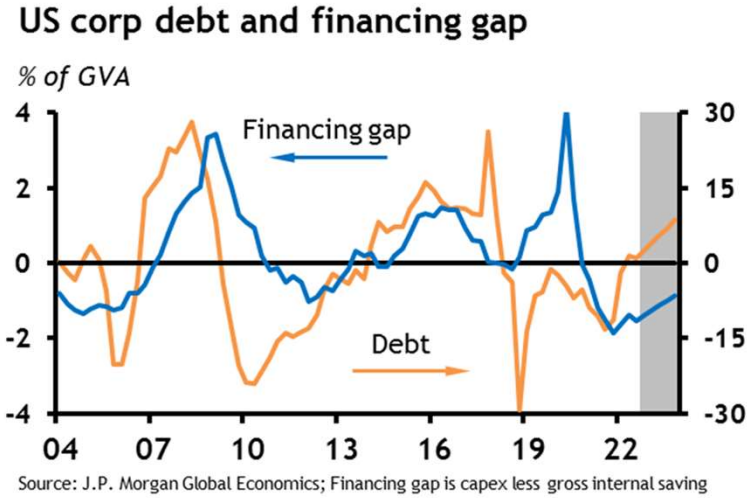
Supply constraints and the impacts of the Russian invasion are easing

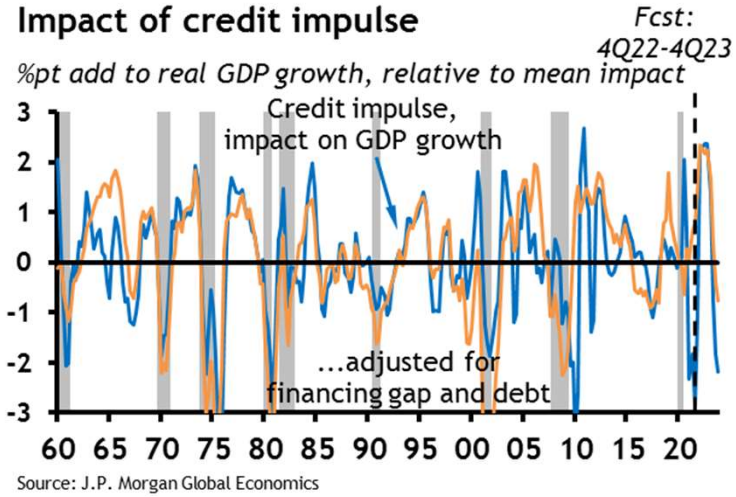


There is no evident signal for end-cycle characteristics with margin compression

Global: Gauging the credit shock

Positive backdrop to fade while tight credit persists





Positive backdrop: Limited external financing needs of the corporate sector

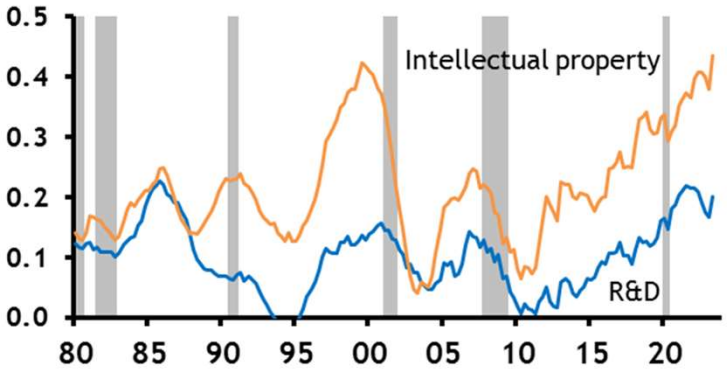
Model estimates show the credit drag to a still-large but more moderate 0.8%-pt

Global: Recipe for a soft-landing

New growth impulse is needed from supply side as in the mid-90s

Contributions to US GDP growth

%-pt contribution, moving average over 12 quarters

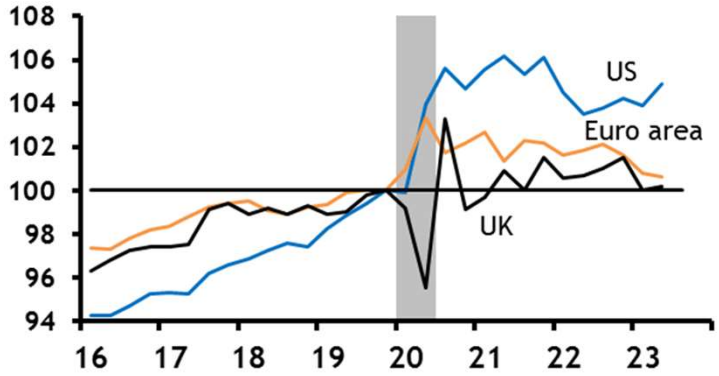


Source: BEA, J.P. Morgan

Rising optimism for US potential growth trending higher

DM labor productivity

Index, 4Q19 = 100; incl 2Q est. for UK and Euro area



Source: BLS, ECB, ONS, J.P. Morgan

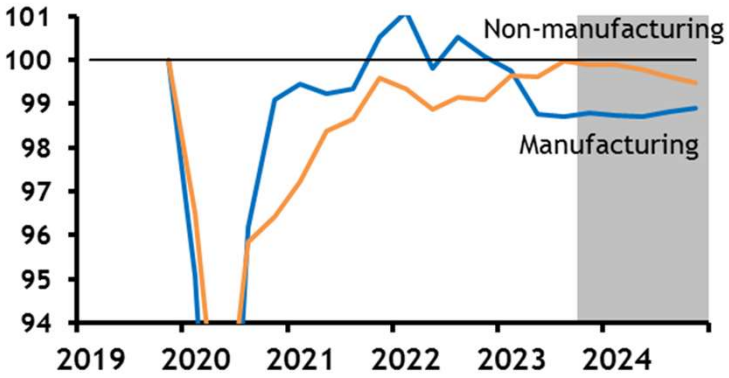
Supply-side boost to both productivity and labor supply fueled growth would seem to provide the best recipe for a soft-landing

Global: Divergent performance

Manufacturing a weak link

Global real GDP, relative to potential

Index, 4Q19=100



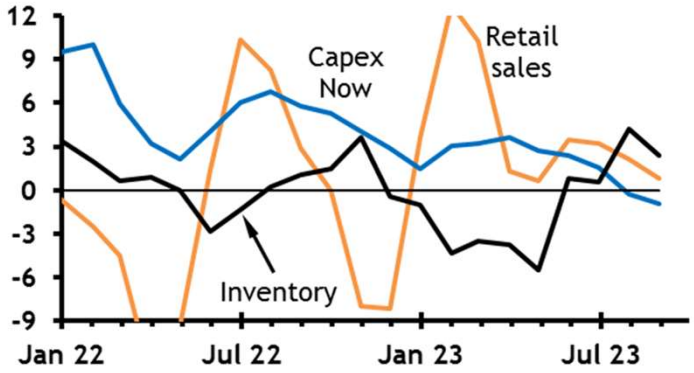
Source: National sources, J.P. Morgan. Details on request.

J.P. Morgan forecasts in the shaded area.

Sectoral divergence between relatively weak manufacturing and resilient services

Global goods demand

%3m, saar (through Sep 2023 tracking)



Source: National sources, J.P. Morgan. Details on request.

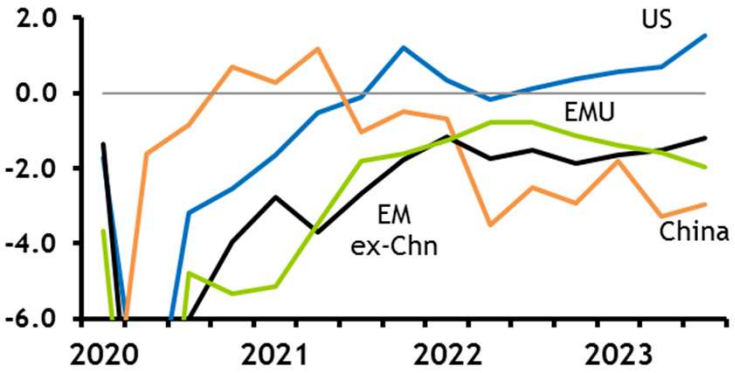
Concerns on softening consumer and capex spending growth

Global: Divergent performance

US consumer soars, Europe sleeps; China lifts, but is imbalanced

Real GDP relative to pre-pandemic potential

% deviation; thru 3Q

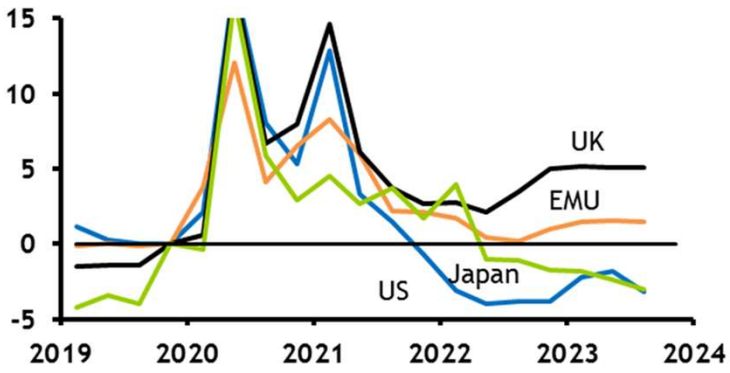


Source: J.P. Morgan Global Economics

US is the only major economy that recovered above the pre-pandemic norm

Personal saving rate deviation

%pt, deviation from 4Q19 level

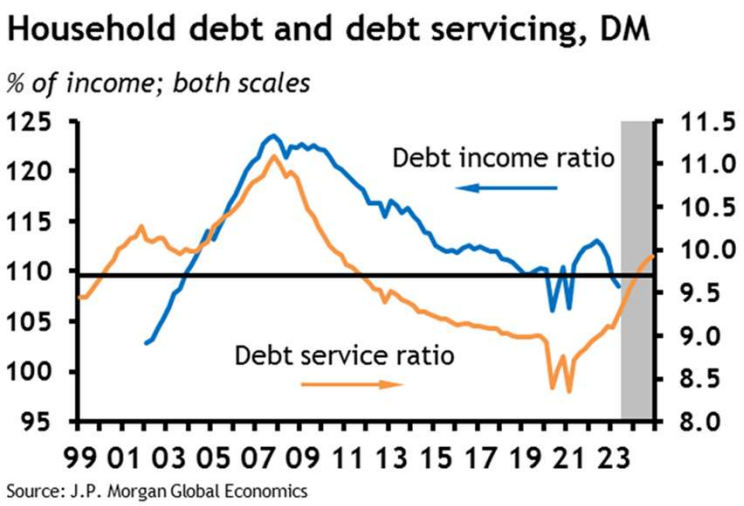


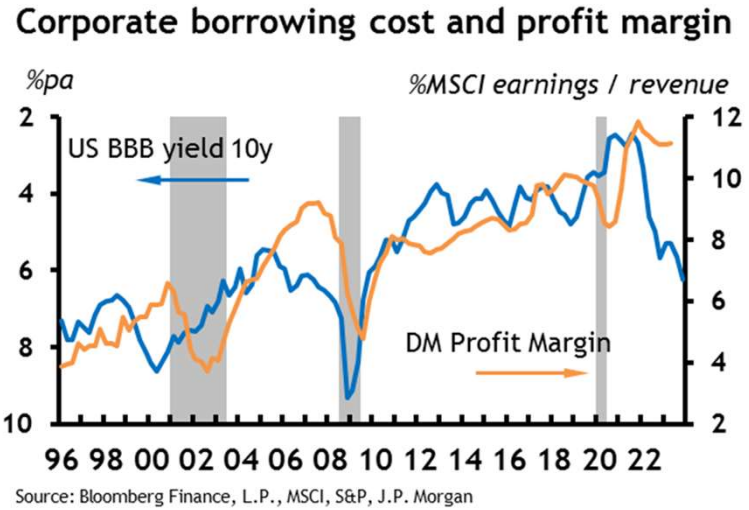
Source: National sources, J.P. Morgan. Details on request.

Divergence of the US from other DMs owing in large part to differences in consumer spending

Global: Boiling the frog is underway

Seeds for an end to the expansion are being sown



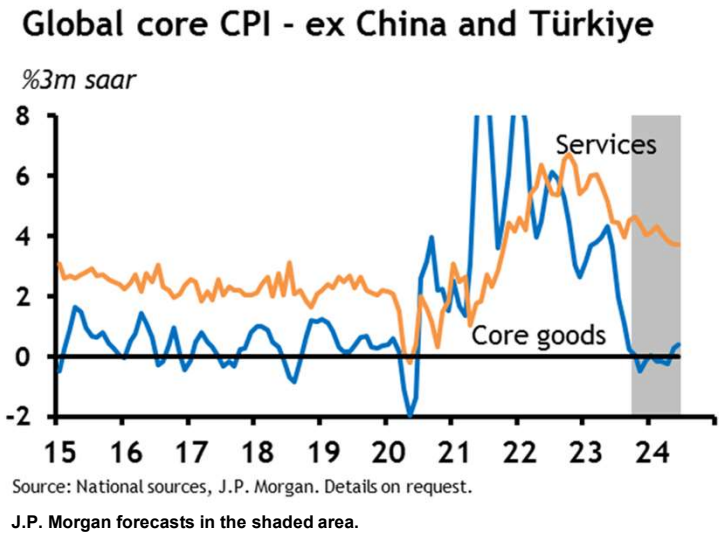


Debt servicing costs are on the rise as existing debt gradually rolls over

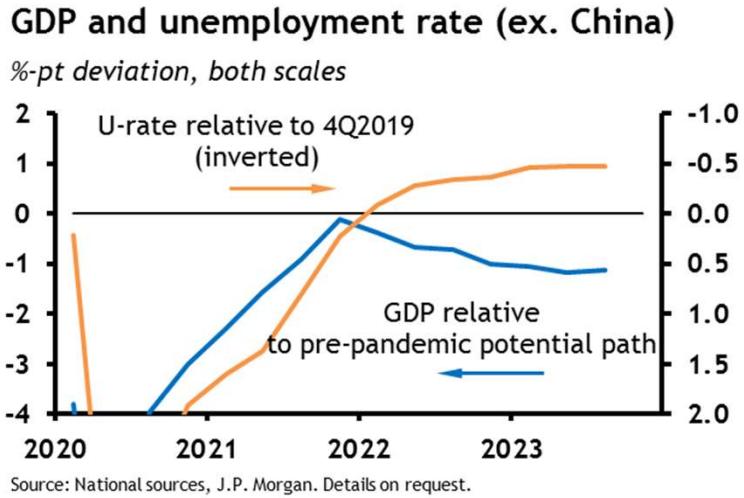
Combination of falling pricing power with an extended period of elevated borrowing costs would weigh on profit margins

Global: Sticky inflation

Sticky inflation keeps monetary policy stances restrictive



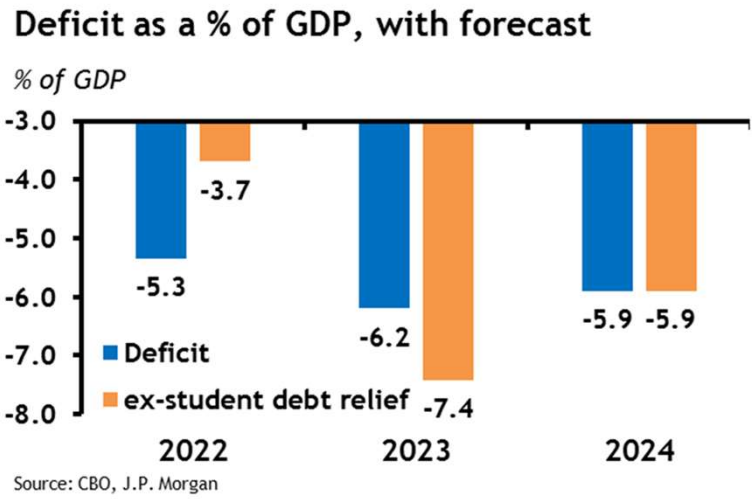
Global core CPI has moderated significantly since mid-2023 yet service price inflation remains elevated

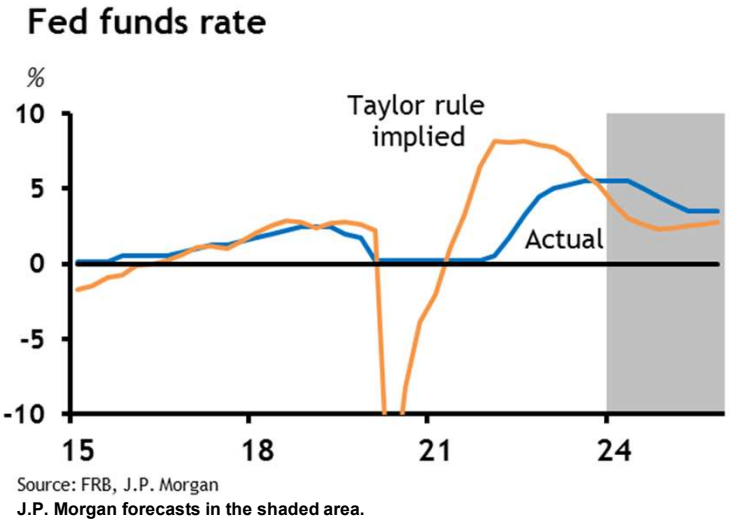


Continued tightness of labor markets despite the fading of pandemic dislocations

Global: US outlook

Walking a fine line between expansion and contraction



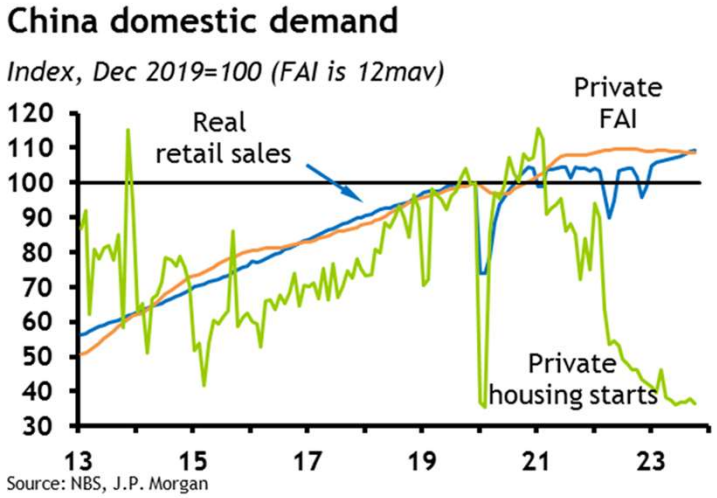


An important offset to monetary tightening has been fiscal easing: Federal deficit on a cash flow basis increased in 2023 to normalize in 2024

FOMC to start lowering rates in 2H24 to avoid a recession, with inflation close to, but still above, target

Global: China outlook

Advancing with a heavy load

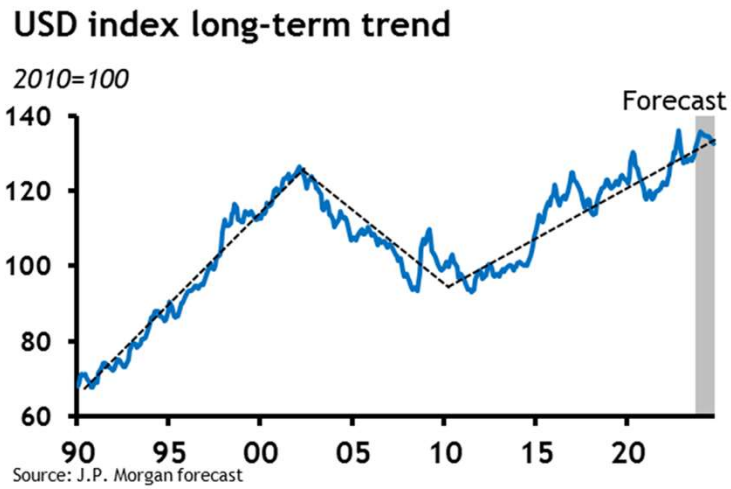


Fundamentally imbalanced economy with expanding factory output but domestic demands falling short to lead to deflation

- 5% growth target is challenging but achievable in 2023/24
- Deflationary pressure tends to ease. Nominal GDP growth should pick up to 6.7% (vs. 4.4% in 2023)
- Housing and local government hidden debt problem will remain. Debt swaps and restructuring can mitigate the liquidity stress, but it does not provide a fundamental resolution
- Restoring confidence and fixing policy distortion (production vs. consumption, manufacturing vs. services) are important for sustainable growth

Global FX

Baseline call for USD to be bumpy but elevated



Exchange rates vs. U.S. dollar

	Current	1Q24	2Q24	3Q24	4Q24
EUR	1.09	1.03	1.05	1.10	1.13
JPY	150	153	151	148	146
GBP	1.25	1.18	1.19	1.24	1.26
CNY	7.16	7.35	7.30	7.25	7.15
TWD	31.62	32.20	32.00	31.70	31.20
KRW	1305	1340	1310	1275	1250
JPM USD Index	130.4	134.1	133.3	131.3	129.7

Source: J.P. Morgan forecast

We expect that the bullish USD long-term theme should remain intact, yet one needs to be tactical on USD

Sustained USD weakness will require Fed cuts and better non-US growth. Both conditions are not met yet

Global: Cross-asset strategy

Another challenging year for market participants

JPM Forecasts

	Current	1Q24	2Q24	3Q24	4Q24
US SOFR	5.32	5.35	5.35	4.85	4.35
UST 10-yr	4.24	4.35	4.25	4.00	3.75
	Current	**1Q24**	**2Q24**	**3Q24**	**4Q24**
Brent ($/bbl, qtr end)	76	79	84	84	85
Copper ($/ton, qtr avg)	8,273	8,200	7,800	8,200	8,700
S&P 500	4,586				4,200
MSCI EM($)	970				1,070
MSCI Korea	771				835

Source: J.P. Morgan forecast, Bloomberg finance L.P. Data stream

Overall, we are not positive on the performance of risky assets: Interest rate shocks, geopolitical challenges to impact commodity prices, expensive risky asset valuation

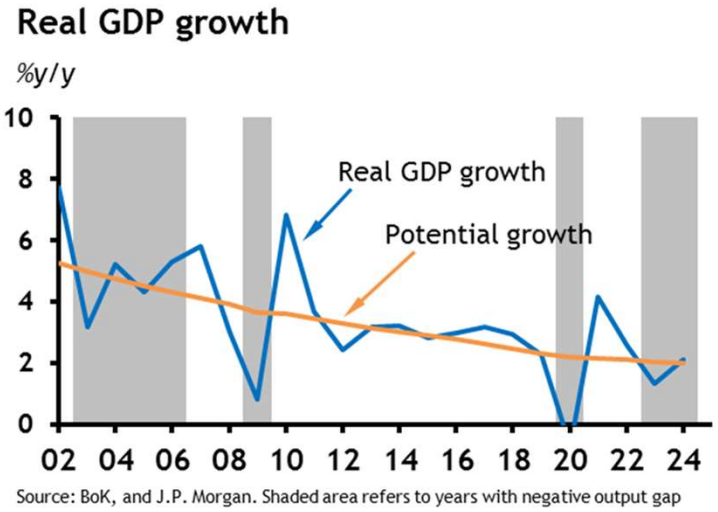
- **Equities**: Absent rapid Fed easing, we expect a more challenging macro backdrop for US stocks, yet EM should become more attractive through 2024 on EM-DM growth divergence

- **Rates**: We believe the Fed is done raising rates and expect cuts to start in 3Q24, at a pace of 25bp per meeting, bringing the Fed funds rates to 3.5% by mid-2025, and expect Treasury yields to decline and curves to steepen into 2024

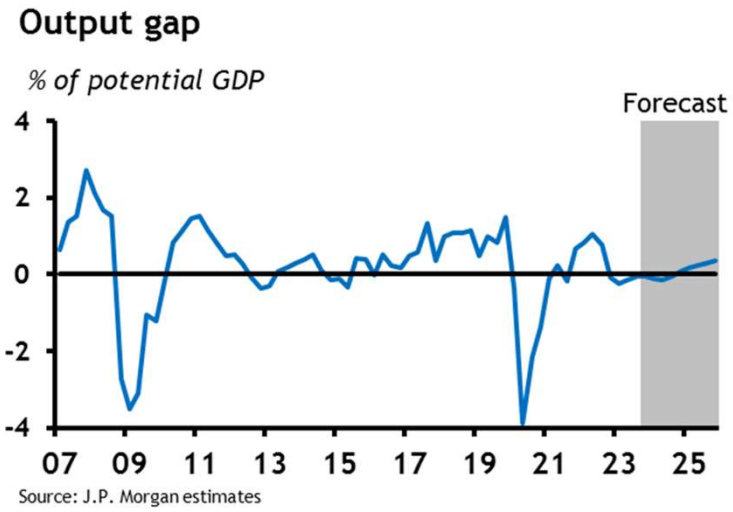
- **Commodities**: Without strong cross-complex drivers emerging from growth or inflation, investors need to continue to be more sector-specific and tactical within commodities in 2024

Korea: Real GDP growth

Earlier soft-landing than the trading partners (2023: 1.3%y/y, 2024: 2.1%)



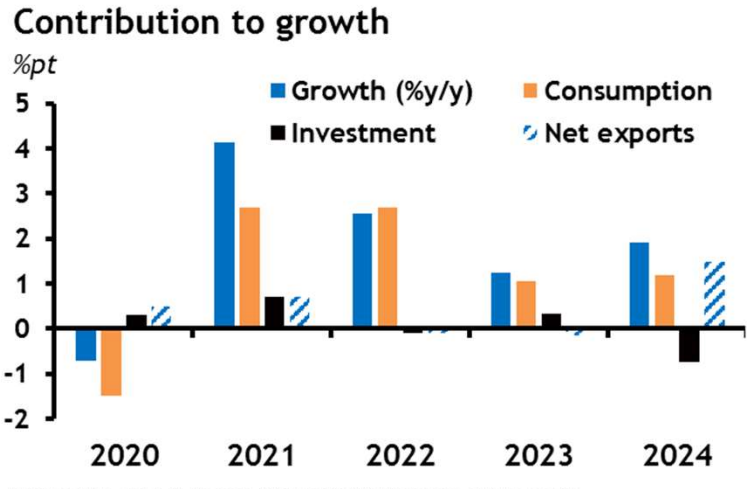
2023 growth to undershoot the potential, yet after two years' above-potential strong growth. Expecting a recovery in 2024



Weak 2023 growth would imply modestly negative output gap

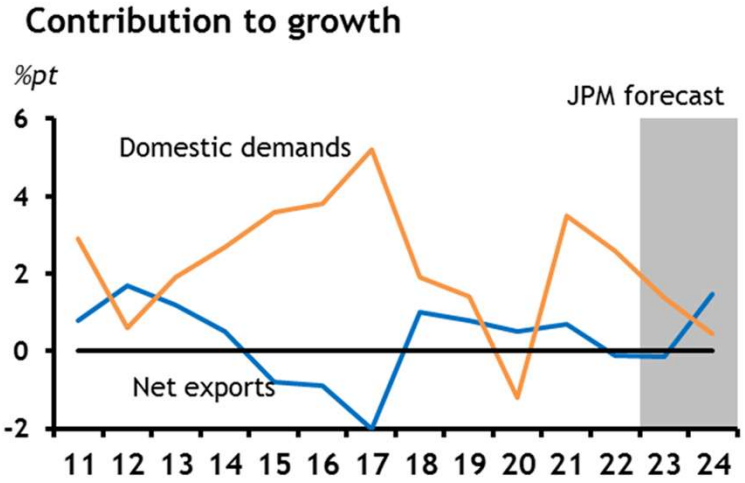
Korea: Real GDP growth

Growth drivers are rotating to provide stability



Source: BoK and J.P. Morgan. 2023 and 2024 are JPM forecasts.

Gradual moderation of growth impulse in domestic demand – Fiscal and construction should be a drag in 2024



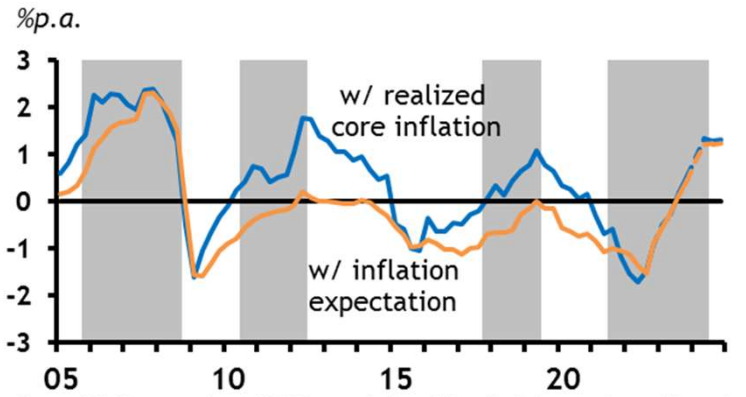
Source: BoK, and J.P. Morgan

Net exports should recover to provide an offset to the drag on domestic demand

Korea: Impact of policy tightening

Monetary policy tightening impacts likely have peaked in 2H23

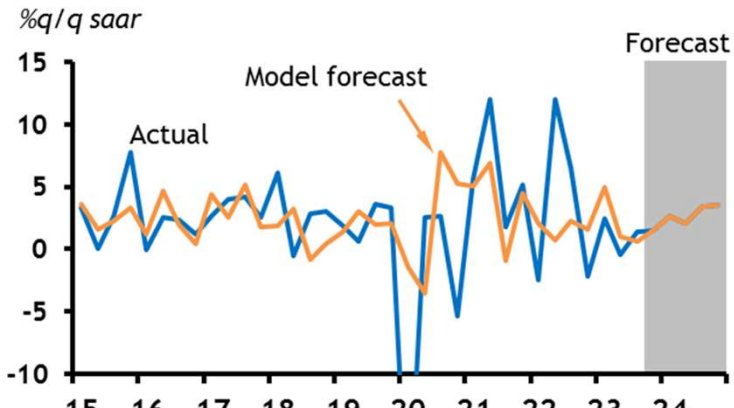
Real policy rate



Source: J.P. Morgan estimate *JPM forecast in dotted line. Shaded area refers to hike cycle, (periods between the first hike action and next cut action).

Real policy rate turned up since 3Q22; tightening bias continues though with fewer additional headwinds

Private consumption

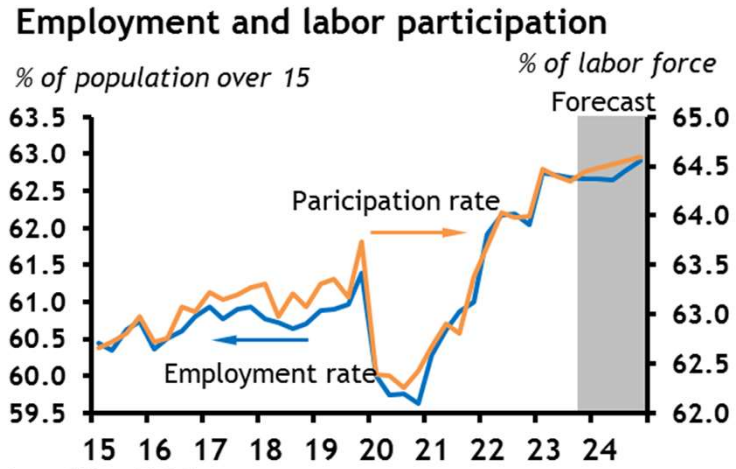


Source: BoK, and J.P. Morgan

Model forecast (income and wealth effect and monetary policy) suggests a gradual recovery of consumption after bottoming out in 2023

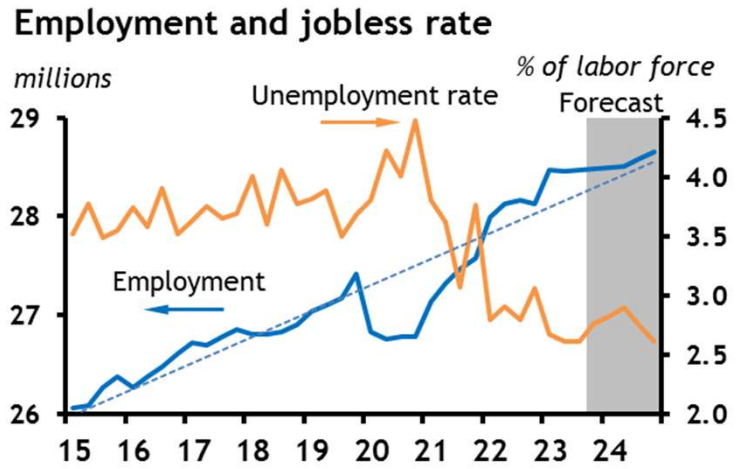
Korea: Labor income conditions

Labor income growth is likely to moderate



Source: NSO, and J.P. Morgan
J.P. Morgan forecasts in the shaded area.

Employment growth should underperform labor supply growth for now; returning to the long-term trend



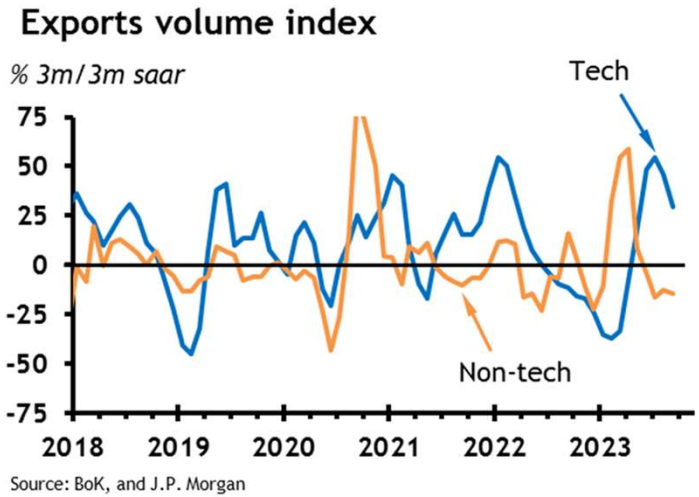
Source: NSO, and J.P. Morgan
J.P. Morgan forecasts in the shaded area.

Unemployment rate is likely to remain structurally lower than the pre-COVID norm

Korea: Exports outlook

Real exports growth is likely to be higher in 2024 than in 2023

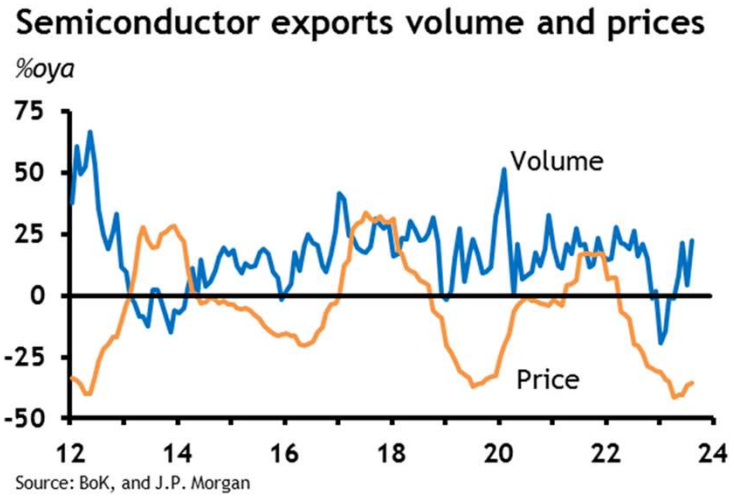
Annual real exports growth should recover in 2024 to 5% y/y from a subdued 2.2% in 2023



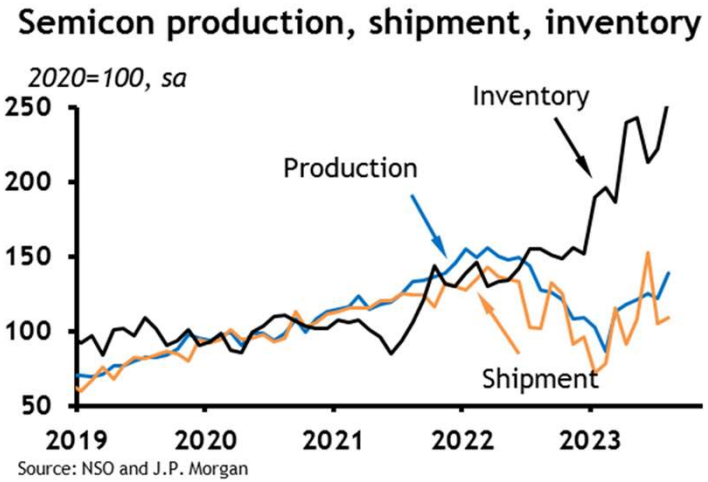
1H rebound was driven by non-tech (auto and steel); rotating towards tech in 2H23

Korea: Semiconductor exports

Cycle upturn was driven by volume growth



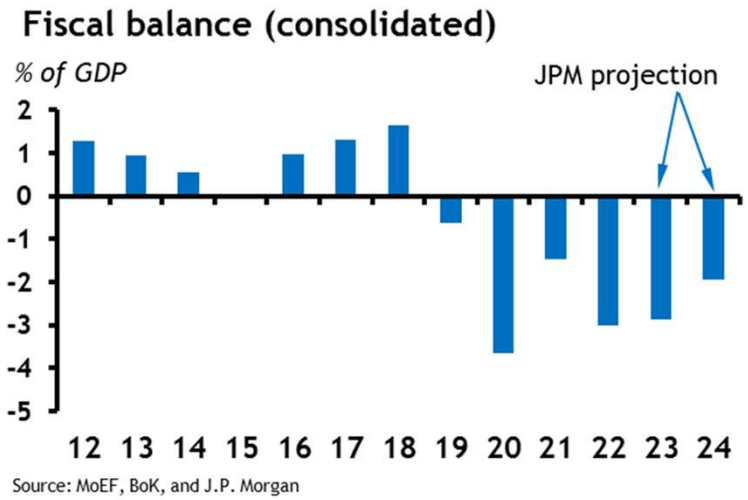
2023 recovery has been led by volume growth, while price recovery is delayed

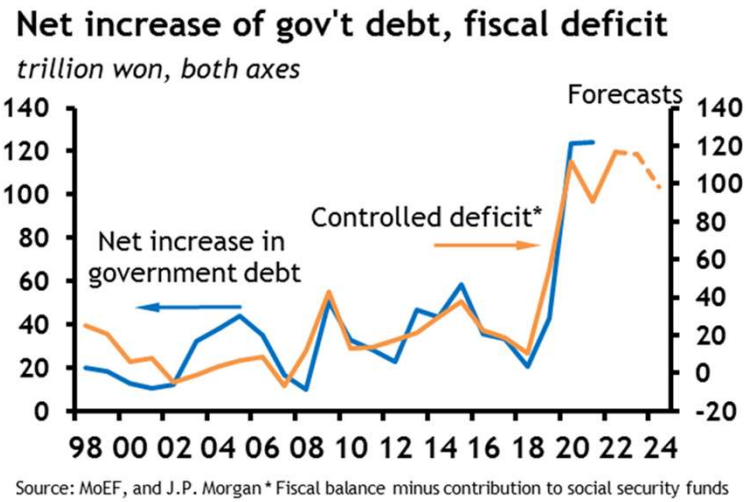


Inventory level remains elevated despite production recovery

Korea: Fiscal policy stance

Fiscal deficit should narrow slowly with revenue underperformance



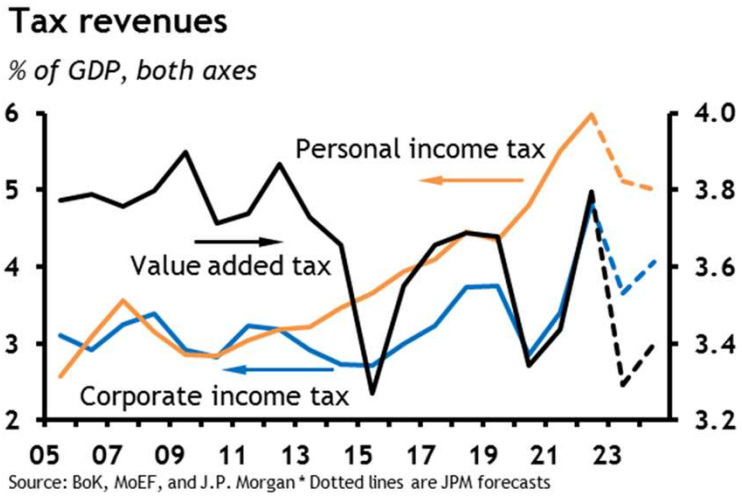


Expecting a slow narrowing down of the fiscal deficit in 2023-24. Both nominal expenditure and revenue should contract in 2023 and recover in 2024

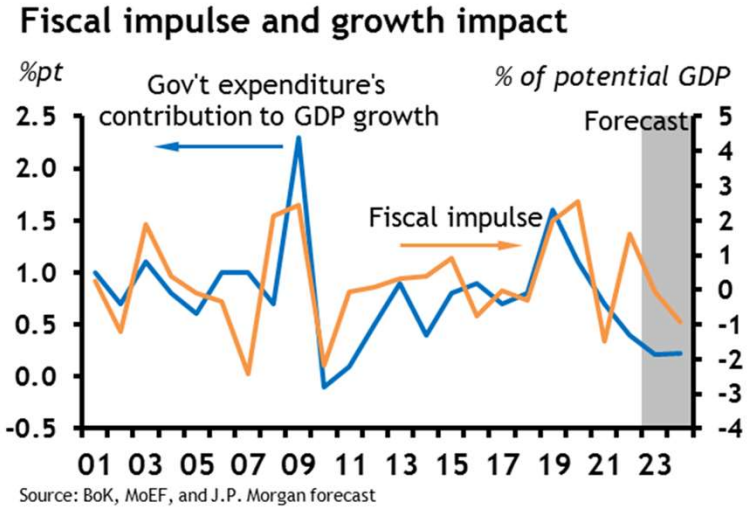
Controlled deficit should remain elevated with a modest fall

Korea: Fiscal policy stance

Growth impacts are likely to be subdued



Tax revenue to GDP ratio is expected to fall sharply in 2023, to be followed by a modest recovery in 2024

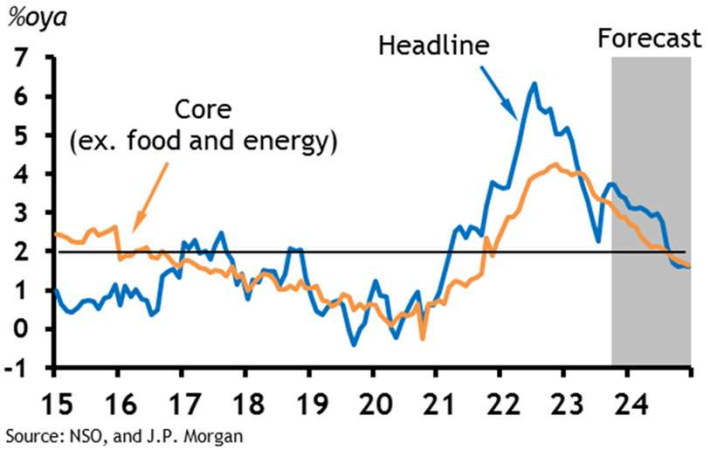


Fading of fiscal impulses implied by our projected fiscal balances

Korea: Consumer inflation

Annual headline inflation to mark 3.7% y/y; and core to mark 3.5% in 2023

Inflation forecast

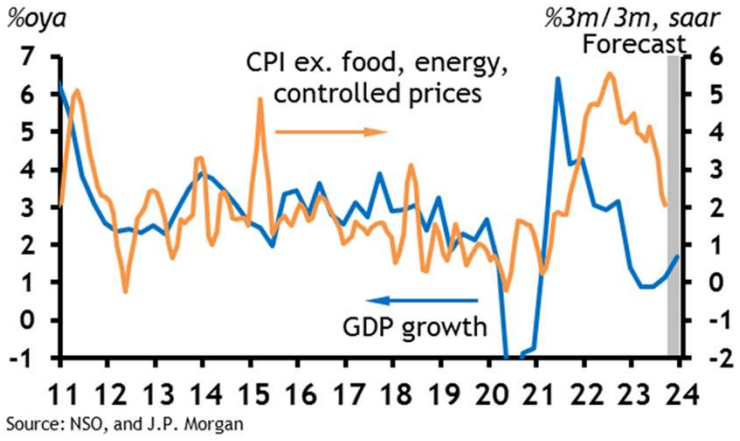


Source: NSO, and J.P. Morgan

J.P. Morgan forecasts in the shaded area.

Expected timing of headline inflation falling below the target delayed to late-3Q24

GDP and demand-side price pressure



Source: NSO, and J.P. Morgan

J.P. Morgan forecasts in the shaded area.

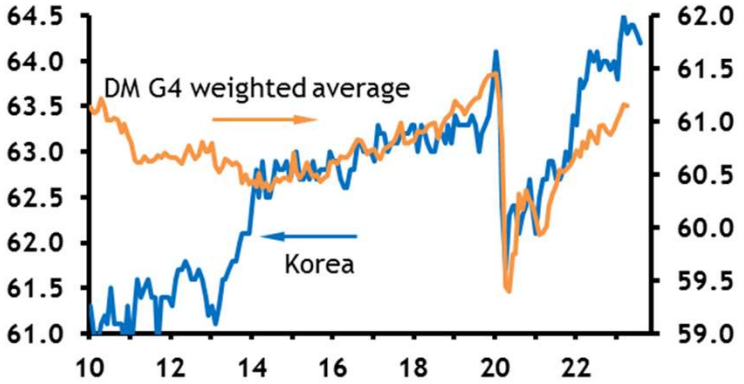
Yet core price's underlying trend growth has moderated in recent months as expected

Korea: Labor market conditions

Relatively flexible labor supply post-COVID implies muted wage pressure

Labor supply, DM vs. Korea

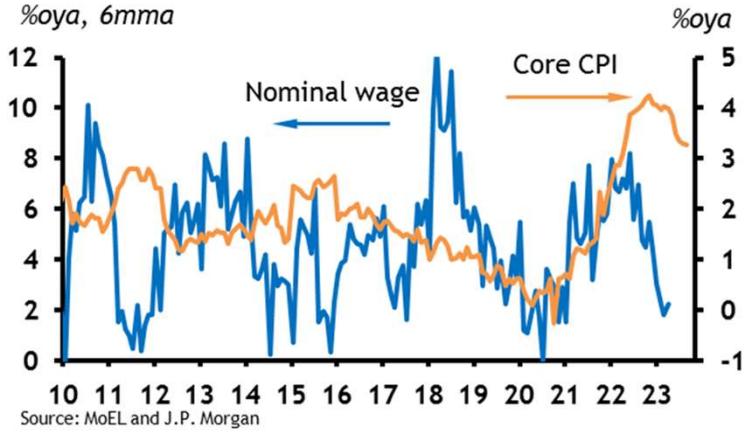
% of population over 15, both axes



Source: National sources, and J.P. Morgan

Korea's labor participation rate rose above the pre-pandemic norm, vs an incomplete recovery in DM

Wage and core consumer inflation

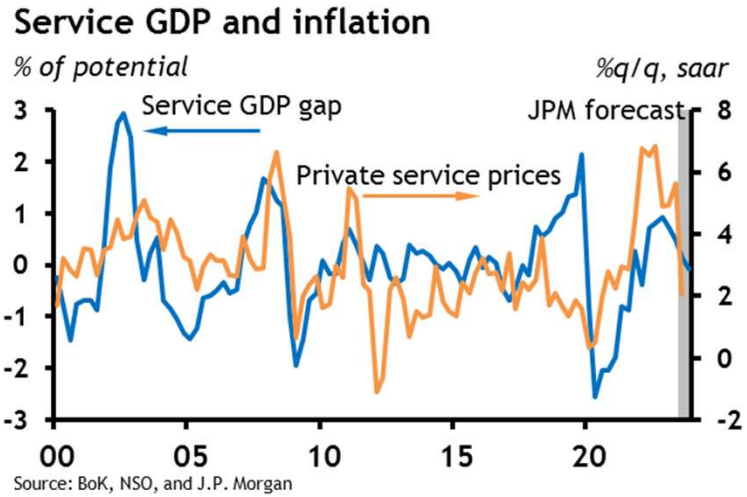


Source: MoEL and J.P. Morgan

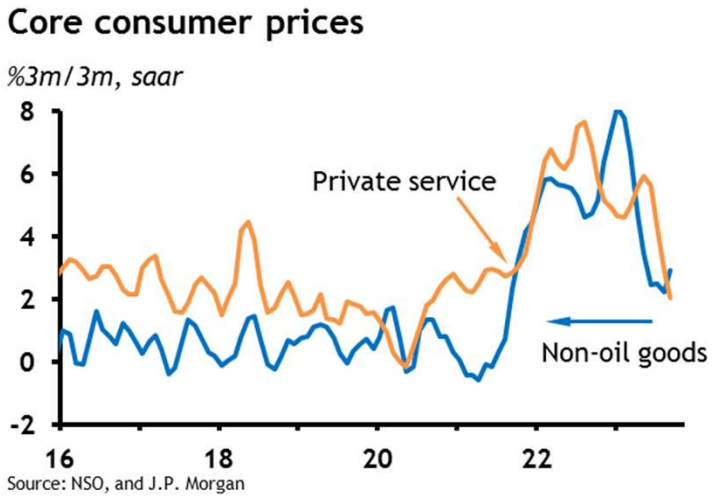
Wage growth is likely have peaked to imply lesser price pressure on core CPI

Korea: Consumer inflation

Inflation should gradually stabilize



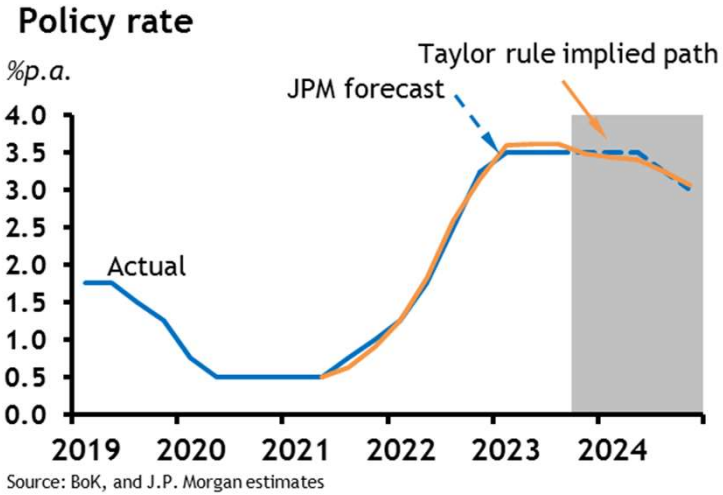
Private service price pressure should ease

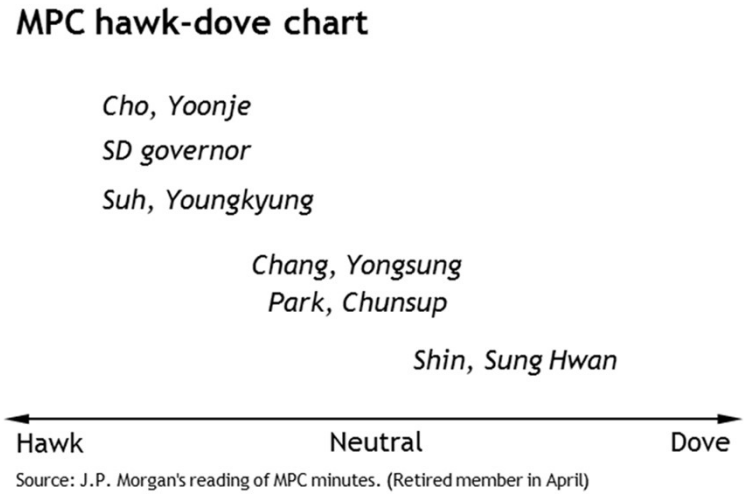


Rotation of core price pressure between services and goods

Korea: Monetary policy call

Extended wait-and-see mode; easing action may be delayed



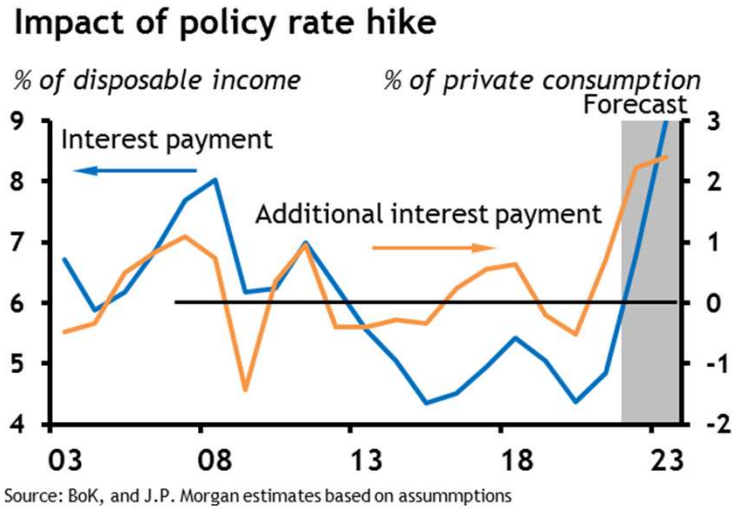


Output and inflation gaps to close, yet this is likely to be delayed

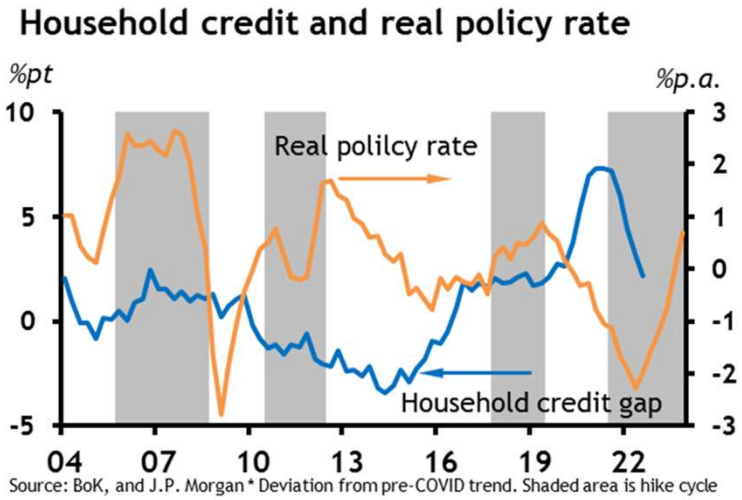
Convergence of members' tones towards a hawkish-neutral stance

Korea: Costs and benefits of monetary policy tightening

BoK sees long-term benefits from household de-leveraging



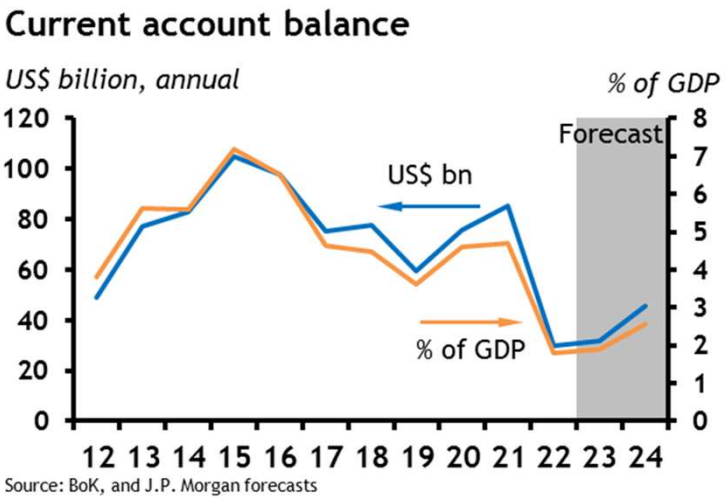
Rapidly rising debt servicing burden should be a headwind to household consumption



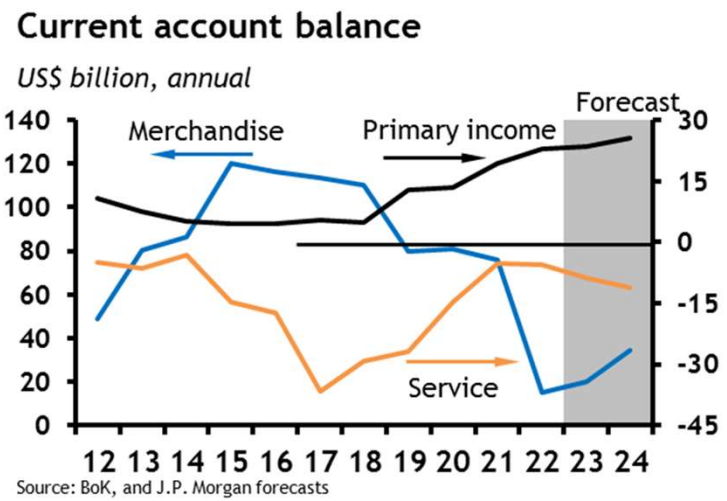
Yet the higher real policy rate should have long-term macro benefits from lesser financial imbalance

Korea: External account

CA surplus should recover gradually through 2024



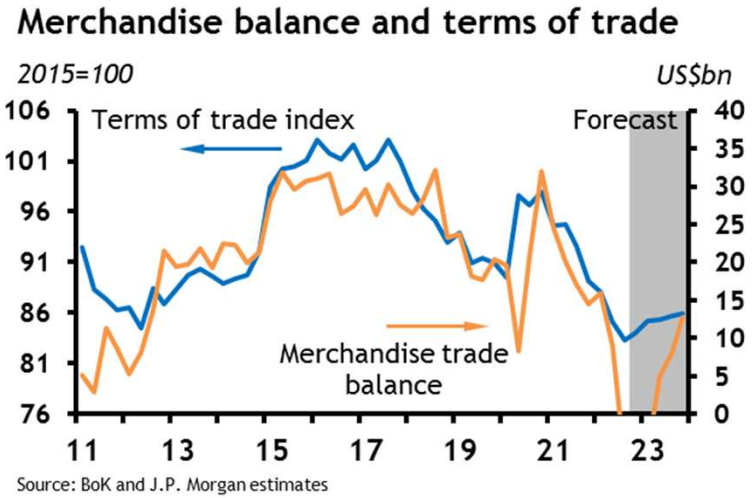
CA surplus likely to recover in 2024 to 2.5% of GDP

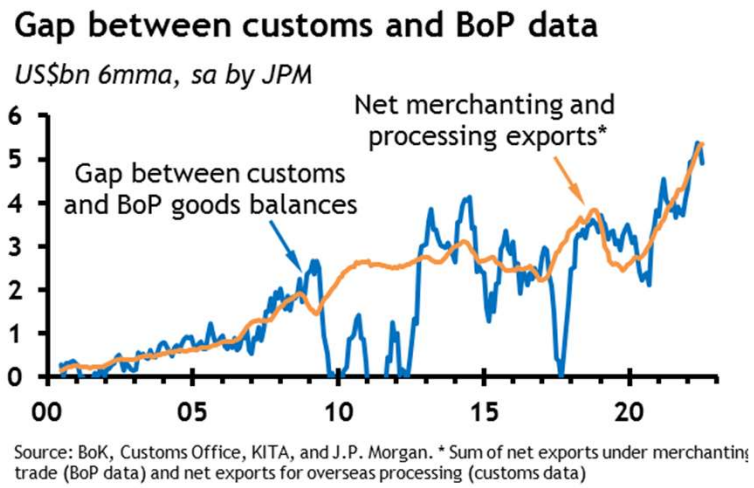


Terms of trade likely to recover gradually further in 2024 along with the tech cycle

Korea: External account

BoP merchandise balance to recover by end-2023



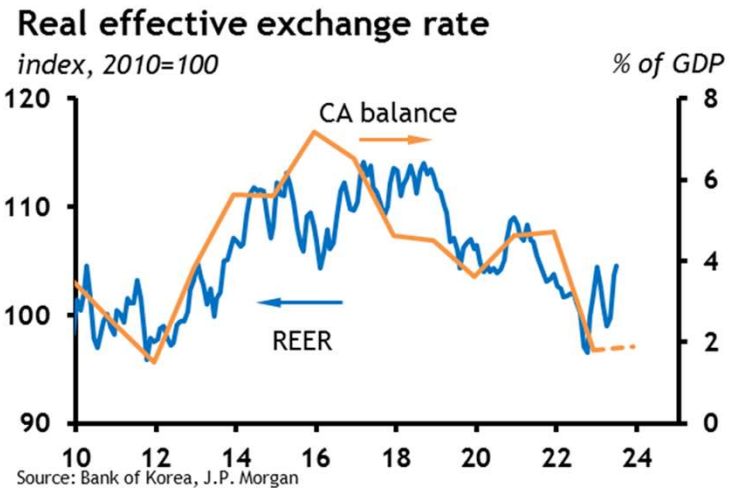


As terms of trade stabilize, we assume the gap between merchandise balance and ToT will narrow gradually

Gap between BoP and customs data remains widened: Customs trade deficits should persist

Korea: External account

Growth and CA fundamental vs REER



REER depreciated in 2022 with a fall in CA surplus, yet REER has been floating above what the CA balance implies

No fundamental deviation in RER vs USD with growth differential

Economic forecasts

South Korea: economic indicators

	Average 2015-19	2020	2021	2022	2023f	2024f
Real GDP, % change	2.8	-0.6	4.3	2.6	1.3	2.1
Consumption*	1.9	-1.5	2.6	2.6	1.1	1.2
Investment*	1.2	0.5	0.7	-0.2	0.3	-0.7
Net trade*	-0.4	0.4	1.0	0.2	-0.1	1.7
Consumer prices, %oya	1.1	0.5	2.5	5.1	3.7	2.6
% Dec/Dec	1.2	0.5	3.7	5.0	3.4	1.6
Producer prices, %oya	-0.1	-0.5	6.4	8.4	1.7	2.0
Government balance, % of GDP	0.7	-3.7	-1.5	-3.0	-2.8	-1.7
Current account balance	83.1	75.9	88.3	29.8	31.9	45.6
% of GDP	5.2	4.6	4.9	1.8	1.9	2.5

* Contribution to growth of GDP.

Source: National sources, J.P. Morgan forecasts

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