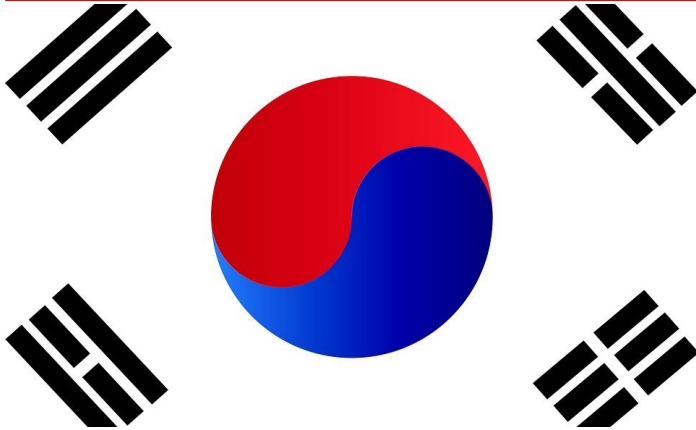




# South Korea Macroeconomic Report



### Macroeconomic Thesis:

The South Korean economy is currently left of peak in the business cycle. I am bullish in the short and long term because data from lagging, coincidental, and leading indicators suggests that South Korea has recovered from a mild recession during the COVID-19 pandemic and that economic growth is picking up.

During the COVID-19 pandemic, South Korea underwent a relatively mild GDP contraction compared to other developed nations. This contraction was largely due to their inability to export goods. This, paired with other economic data, indicates that they endured a relatively small recession compared to other developed countries during the same time period. These mild effects are largely due to Korea's effective management of the pandemic from its onset.

At present, the unemployment rate, consumer spending growth, value of exports, real estate market, government spending growth, and Consumer Price Index all signal that growth in the next South Korean business cycle is beginning to accelerate. Because South Korea is largely an export based economy, the reinvigoration of the global supply chain following the end of global lockdowns has been a key driver in South Korea's economic growth.

The geopolitical economic challenges that South Korea faces are primarily due to trade tensions with regional partners: North Korea and Japan. Conflicts between the countries stretch back to before the onset of WWII but have flared recently. There are also precautions that need to be taken to avoid inflation and further detrimental effects of the COVID-19 pandemic. South Korean inflation rates are at 9 year highs, so South Korea's central bank is considering new rate hikes to curtail it and avoid inflationary complications. Also, at the time of writing, over two thirds of South Korea's population is vaccinated, which bodes well for their future capacity to hold the pandemic at bay. If these potential problems can be avoided and regional relationships remain tenable, then the South Korean economy will remain on an upward trend.

### Economic Profile

<b>Country</b>	South Korea
<b>Currency</b>	Won (₩)
<b>Population</b>	52 Million
<b>Economy</b>	Developed
<b>GDP</b>	\$1.63 Trillion
<b>GDP Per Capita</b>	\$31,846
<b>Largest Trading Partner</b>	China

### Market Outlook

<b>Point in Econ. Cycle</b>	Right of Trough
<b>Outlook</b>	Bullish



Real Gross Domestic Product, Semi-Annual Percent Change, Prev. 10 years (Source: Federal Reserve)

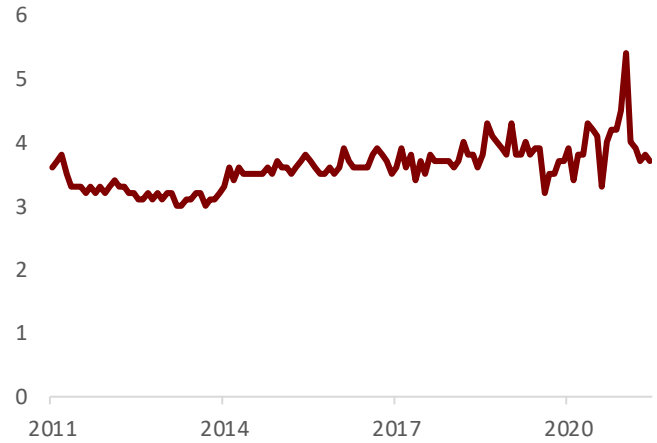


# Economic Indicators

## Unemployment

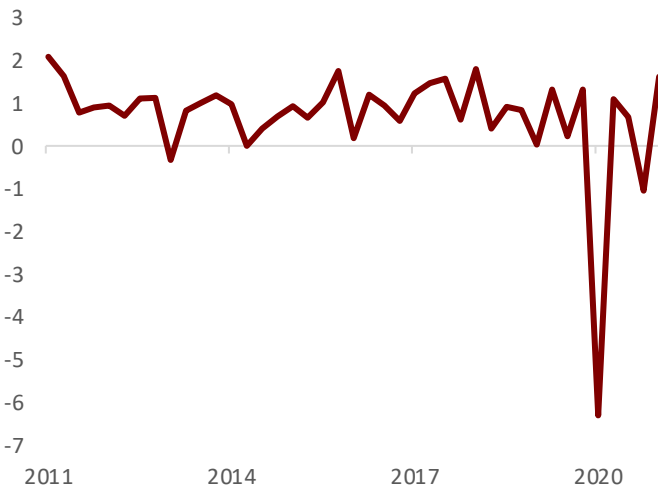
The South Korean unemployment rate is an important indicator of the economy's health. There was a mild uptick in unemployment at the beginning of the pandemic and a slightly more severe uptick at the beginning of 2021 due to increased distancing measures to mitigate the "third wave" of the pandemic in Korea. However, it has since returned to pre-pandemic levels due to loosened lockdown restrictions. Now that Korea is trending back to full employment, it is likely that there will be an upcoming consumer spending boom due to consumers having more disposable income. Waning unemployment is evidence of a strong South Korean economy.

## Unemployment Rate (%)



*Unemployment Rate, Prev. 10 Years (Federal Reserve)*

## Consumer Spending (%Δ)



*Real Personal Consumption Percent Change, Prev. 10 years (Federal Reserve)*

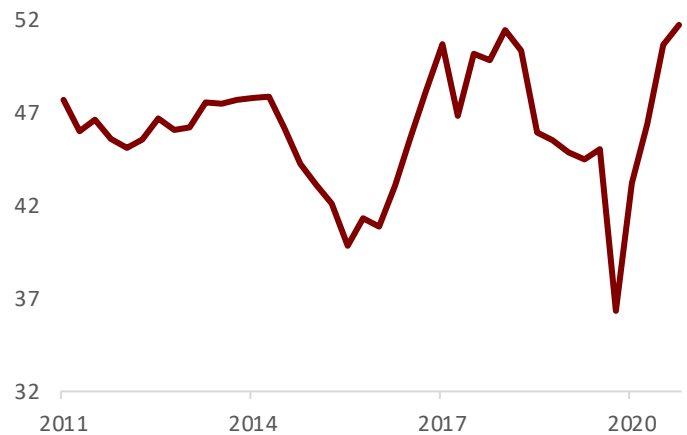
## Consumer Spending

Consumer spending is an important indicator of the health of South Korea's economy because it accounts for nearly half of the country's GDP. During the pandemic, there was a steep drop in consumer spending because of the lock down measures that were put in place and a spike in unemployment, which limited consumer's disposable income. Recently, consumer spending growth has returned to normal levels. Although the graph data indicates that consumer spending hasn't yet rebounded to pre-pandemic highs, data from second quarter of 2021 (not reflected on graph) shows that consumer spending has surpassed record highs and is gaining momentum.

## Exports

The value of exports is an extremely important metric to measure South Korean economic health because South Korea is largely an export based economy. Initially, South Korean exports took a hit during the pandemic because global lockdowns caused severe supply chain disruptions. After South Korea, China, and the U.S. loosened lockdown restrictions and recovered from the pandemic, South Korean exports quickly returned to all time highs. Exports are now surging, especially in the information technology and automotive sectors, which is a key reason why South Korea has seen such robust economic growth in the past few months.

## Korean Exports (\$Billions)

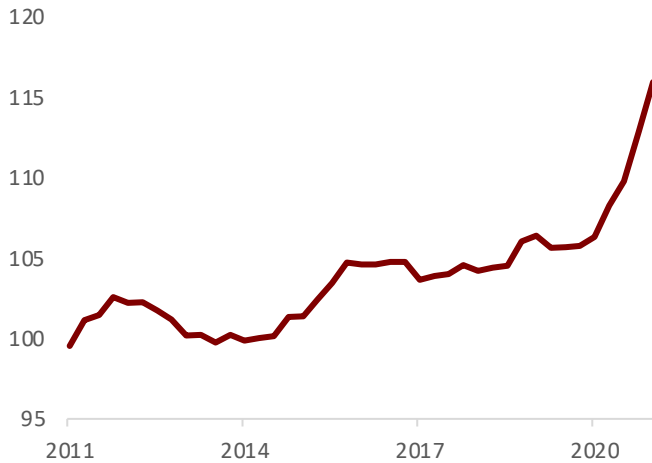


*Value of Korean Exports in Billions, Prev. 10 years (Federal Reserve)*



# Economic Indicators

## Residential Property Price Index



Residential Property Price Index, Prev. 10 years (Federal Reserve)

## Government Spending

During the onset of the pandemic, South Korea did not have a substantial spike in government spending in the same way that many other developed countries did. This is indicative of only a mild economic impact caused by the COVID-19 pandemic in the early part of 2020. By the beginning of 2021, however, during South Korea's "third wave" the economic impacts of the lockdown were more severe, which caused the South Korean government to implement more forceful expansionary fiscal policy. This increase in government spending has also spurred further investment in the private sector due to the spending multiplier.

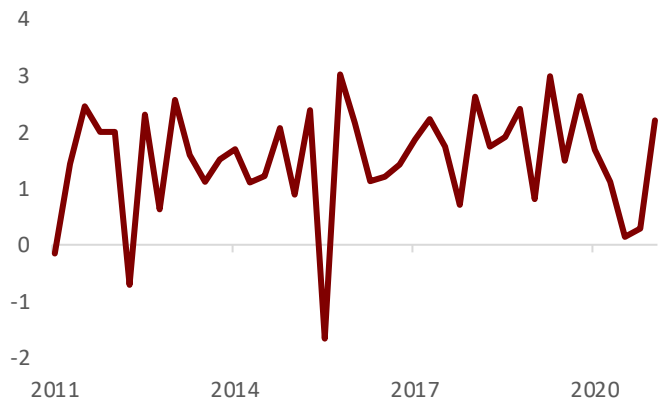
## Core Consumer Price Index (Core CPI)

The Core CPI measures the prices from a basket of goods (excluding food and energy) and compares them to measure inflationary growth. The Core CPI experienced moderate quarterly fluctuations at the beginning of the lockdown because of decreased spending. The Core CPI has recently returned to normal range of fluctuations as spending patterns return to normal. There is potential, however, for the CPI to rise more than usual in coming months due to increased money supply in the South Korean economy. Because of this, South Korean central bank is strongly contemplating interest rate hikes, which would help to mitigate inflationary pressures.

## Residential Property Price Index

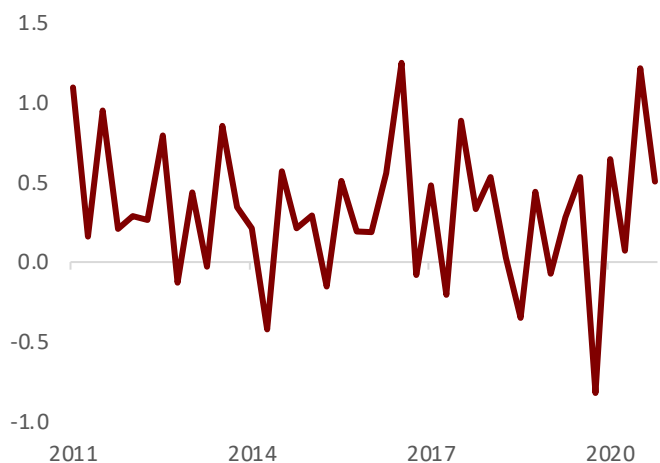
The Residential Property Price Index is a leading economic indicator, similar to housing starts, that is used to gauge consumer confidence. 2010 housing prices are 100 on the index, and data from 2021 shows an uptick of nearly ten points YoY. This recent data is promising because it shows that the South Korean housing market is strong. A strong housing market represents robust consumer sentiment because consumers wouldn't be willing to spend so much money on houses (a durable good) if they're confidence wasn't high and demand wasn't there. The strength of the South Korean housing market is further evidence of the economy's resilience since the onset of the COVID-19 Pandemic.

## Government Spending (%Δ)



Real Government Total Expenditures, Prev. 10 years (Federal Reserve)

## Core CPI (%Δ)



Core CPI, Quarter Percent Change, Prev. 10 years (Federal Reserve)



# Geopolitical Factors

## North Korea

It's no secret that the relationship between North and South Korea is strained. At the end of WWII, North and South Korea broke into separate nations, governed by ideologies at odds with each other. North Korea was supported by the Soviet Union and Soviet ideologies, while South Korea was supported by the United States and democracy. Tensions boiled in the 1950s during the military action of the Korean War. Since the Korean war, South Korea has developed into a robust democracy with a free market economy. North Korea, on the other hand, has remained as a communist dictatorship under the Kim dynasty. In recent years, North Korea has made efforts to develop a nuclear program – something that is a great threat to South Korea. A nuclear bomb strike to South Korea would decimate not only their economy, but also the livelihoods of every Korean. While it is unlikely that such extreme measures would ever be taken by North Korea due to their mutually assured destruction if they were to strike, the threat looms as long as the Kim dynasty remains in control. If another ground war were to take place on the Korean peninsula, that would also spell disaster for the Korean economy because it would disrupt the supply chain needed for South Korea to export their goods, it would redirect government spending towards military efforts, and it would potentially curtail consumer spending across all industry due to civilian involvement in the war effort.

## Japan

In addition to North Korea, South Korea also has tensions with Japan. Starting in 1910, Japan annexed the Korean peninsula as a colony and committed its inhabitants to forced labor. This practice ended in 1945 at the end of WWII, but bad blood remains. A treaty was signed in 1965 that provided \$800 million in monetary aid to Korea from Japan as reparations for their misconduct. This issue has become a hot topic again recently because in 2018, a Korean court ordered a Japanese firm to payout further damages to Koreans for forced labor. Japan, however, refuses to comply with the call for further intervention. This is problematic because neither country is willing to budge, which poses threats to their trade agreement. As Japan is one of South Korea's largest trading partners, this is something that could dampen the growth of the South Korean economy if South Korean firms are unable to export their goods to Japanese buyers. Both Japan and Korea are also critical parts of the supply chain for technological goods, so further tension could lead to global disruptions in the tech sector.

## COVID-19

While South Korea did an excellent job managing COVID-19 at the beginning of the pandemic, new cases are now reaching all time highs. This is bad news for two reasons: First, it may lead to more lockdowns which could cause a spike in unemployment and a deterioration in consumer spending; and second, it could lead to further supply chain disruptions, which would pose challenges for South Korean exports. Because consumer spending and exports are such a large part of the South Korean economy, future lockdowns could potentially spell disaster.

Surprisingly, new COVID-19 cases are reaching an all time high in South Korea despite over two thirds of the population being vaccinated. Currently, venues must close by 9 p.m., which has made it difficult for nightlife businesses to stay afloat. In fact, nearly half a million South Korean small businesses have closed permanently since the beginning of the pandemic, and severe losses in the most recent wave of the virus have caused several business owners to turn to suicide.

To remedy this, South Korean government officials have implemented several fiscal stimulus initiatives as a lifeline to small businesses. These measures have so far kept the economy sustained, and the revenue of big businesses like Samsung, Hyundai motors, and Kia motors have helped to soften the blow of small business failure, as well. While the remaining uncertainty regarding the pandemic is a factor potentially limiting growth, the South Korean economy has proven to be resilient, nonetheless.