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THE PENINSULA

US and South Korean Economic Growth Diverge in Q3 2024

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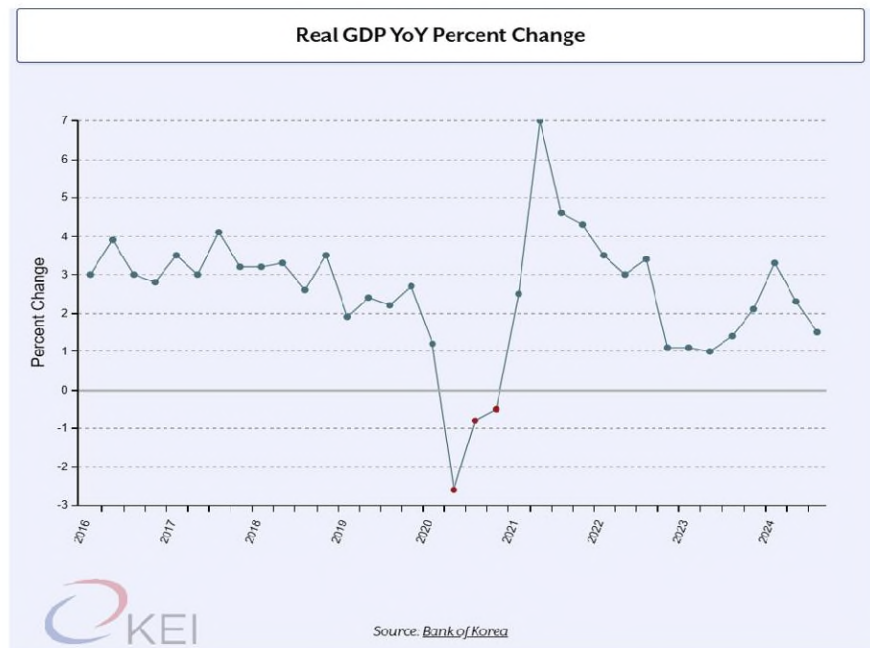


South Korea narrowly avoided a technical recession in the third quarter (Q3) of 2024 as GDP eked out a disappointing 0.1 percent gain from Q2, according to the Bank of Korea. The increase follows a small decrease in Q2 and a large upturn in Q1. The Q3 data corresponds to about a 0.4 percent gain on a seasonally adjusted annual rate (SAAR), which is the headline measure used by the United States. In contrast, the US Department of Commerce showed a 2.8 percent growth in the United States, down slightly from 3 percent in Q2.

In both countries, consumption—both private and government—is propelling growth. Based on SAAR, annualized Korean private consumption in the quarter was up about 2 percent, and government consumption was up about 2.4 percent. However, overall GDP was held down by an unusual drop in exports, largely due to falling automobile and chemical exports and continued weak investment spending, especially in the important construction sector. Facility investment, especially in machinery, equipment, and the semiconductor industry, was strong. In the United States, personal consumption increased to 3.7 percent while federal government spending rose at a 9.7 percent rate, including a 14.9 percent jump in defense.

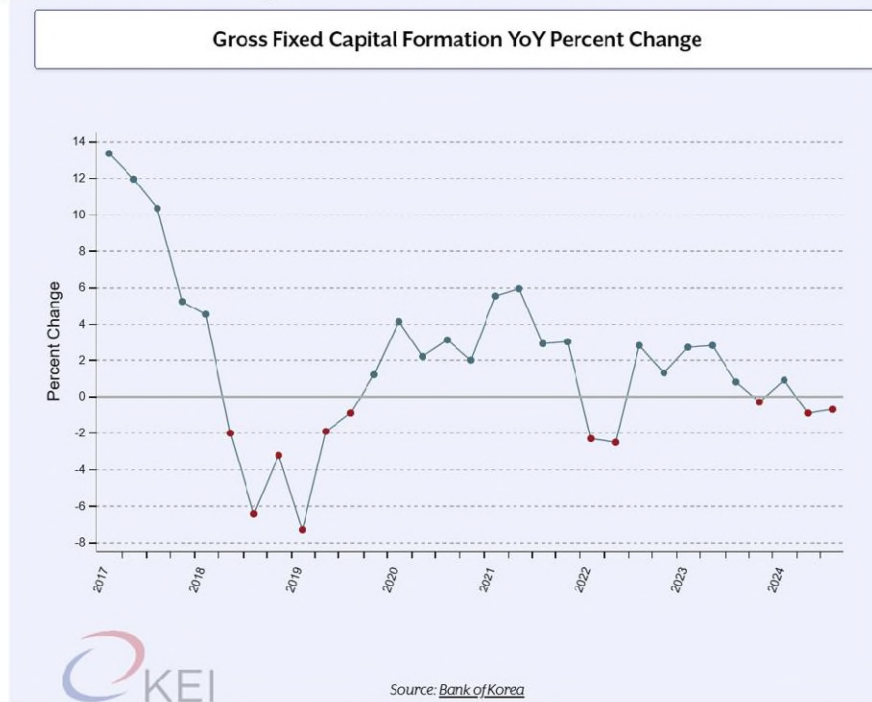
For Korea, the longer-term view is somewhat brighter than the Q3 data suggests. GDP was 1.5 percent higher than the same quarter in 2023 (see graph and link to Data Tab), which still showed a general slowing from the aftermath of the COVID-19 shock. As a

geographically small economy with a mix of lunar and solar holidays, South Korean quarterly data, even though it is seasonally adjusted, can be volatile—hence, many economists prefer this year-over-year, not seasonally adjusted, measure.



After years of relatively high interest rates aimed at curbing inflation caused by pandemic-induced fiscal stimulus, policy rates are being cut. Both the US Federal Reserve Board and the Bank of Korea have recently begun to lower their rates as inflation has eased in both countries to reach their 2 percent targets and as concerns over weak investment spending have increased. The Bank of Korea estimated that the weaker-than-expected GDP figure would likely cause the bank to lower its 2024 forecast to 2.2 percent from the 2.4 percent expected in August.

Over the past decade, US and South Korean GDP have moved almost in sync at a 2 percent growth rate but for different reasons. South Korean economic activity has been driven by investment and exports, with its surplus being invested overseas, much of which flows into the United States in the form of direct investment and into US Treasury securities. The US economy has been driven by strong private and government consumption, fueling a large increase in federal government debt, which is enabled by inflows of foreign investments. South Korea's government debt has risen but remains relatively low compared to other OECD countries. However, decreasing population growth, which results in yearly declines in the workforce, will put increased pressure to improve labor productivity through investments. As such, a diversion in investment from construction toward facilities such as machinery and transportation and in the semiconductor industry is likely to continue. Exports, long a driver of growth, will depend on demand from the rest of the global economy, especially the United States and China—Korea's largest trading partners. The won exchange rate remains historically low, adding to the country's competitiveness.



More South Korean data is available in the [Data Tab](#) of [KEI.org](#). This is a new initiative by KEI to report more economic news relevant to both economies. Any questions on the Korean data, which is provided by the Bank of Korea, can be addressed to the author or to Tom Ramage and Nils Osterberg at 202-464-1982. They can contact BOK and KIEP experts for expert analysis.

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