

## A last hurrah for Asian inflation

The US is not alone in seeing an unwelcome acceleration in inflation in January – a number of Asian economies have seen something similar. But for many of Asia's economies, this is likely to be the peak, or if not, close to it



Source: Shutterstock

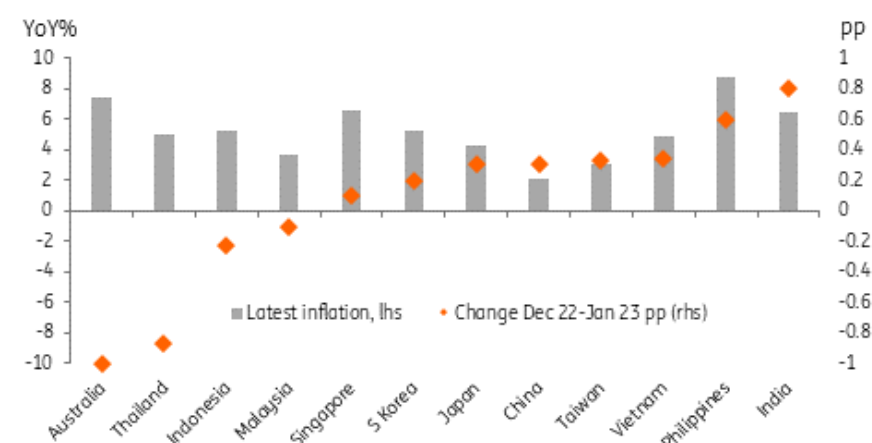
### It has been a bad start to the year for inflation in Asia

As well as the unwelcome resilience of inflation in the US and Europe, a number of Asian economies have provided upside misses to consensus inflation forecasts in the last month or two.

The biggest upset was in Australia, where monthly inflation rates in December jumped up to 8.4% year-on-year from 7.3% previously, a gain of more than a full percentage point. This has proved short-lived, with the January inflation figures already retreating back to 7.4%. There were also big increases in inflation in India and the Philippines.

Besides the reversal in Australian inflation, most other economies in the region have seen at least some small increase in the inflation rate between December 2022 and January 2023, and only in Thailand were the declines also particularly substantial with the year-on-year inflation rate dropping to 5.02% from 5.89%.

## Inflation is still rising in most Asian economies



Source: CEIC, ING

## A mixed bag of reasons for stubborn inflation

Exactly why inflation across most of the region staged a further increase in January seems to differ from economy to economy. Doing a lot of the damage to the Australian numbers in December was an eye-popping 30% increase in the costs of holidays – as reopening collided with seasonal holidays. That dropped out again in January, but it doesn't tell us much about the months ahead.

In India, food, as is often the case, was the main culprit. Rising wheat prices coupled with smaller declines in vegetable prices than in the previous month were responsible for much of the increase in the year-on-year rate, though base effects also played their role.

Japan's inflation, as the Bank of Japan has been keen to point out as it sticks to its ultra-easy monetary policy, remains largely driven by supply-side factors. Exclude food and energy, and the core rate is only 1.9% YoY even as headline inflation rose to 4.2% in January from 4.0% in December.

The Philippines is a slightly different story, with contributions from almost all categories, presenting Bangko Sentral ng Pilipinas (BSP) – the central bank of the Philippines – with more of a price-taming headache than many of its Asian peers. And inflation rates also continued to push higher in Vietnam, Taiwan, South Korea and Singapore in January.

## Policy prognosis equally mixed

With a mixed bag of reasons for the persistence of inflation across the region, there is no single policy remedy or likely outcome as we head further into the year. For some economies, the January figures do look like the last hurrah of earlier price increases. And with last year's price levels strongly affected from February onwards by the Russian invasion of Ukraine, year-on-year comparisons should help to bring year-on-year inflation rates down, absent any further positive price-level shocks, which against the backdrop of tense geopolitics and increasingly frequent climate change-related extreme weather events, is not a caveat you can lightly make these days.

Certainly, there are some economies in Asia where the inflation-taming struggle is not yet won, and the backdrop of a Federal Reserve also hard at work squeezing inflation out of the US

economy will keep central banks of the more inflation-challenged economies in tightening mode.

For others, it has felt for a few months now that the worst of the inflation crisis has passed. And while it may not be the right time to start talking about an Asian pivot, if inflation rates do begin to ease lower over the middle of the year, the monetary tightening already put in place across the region could begin to look not only adequate but perhaps a little excessive, raising the prospect of some paring of rates further down the line. For now, though, such thoughts are not even on the long-range radar, though it would probably only take a month of benign price data to bring such thoughts back into view.

## Author

### Robert Carnell

Regional Head of Research, Asia-Pacific

[robert.carnell@asia.ing.com](mailto:robert.carnell@asia.ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.