

# Korea: Consumer inflation moderated more than expected in February

Consumer inflation is expected to decelerate at a faster pace than the previous quarter in the coming months. The impact of the drop in jeonse prices (rental) has finally begun to appear in the index and base effects should also contribute to the slowdown



4.8%

Consumer price inflation

Year-on-year

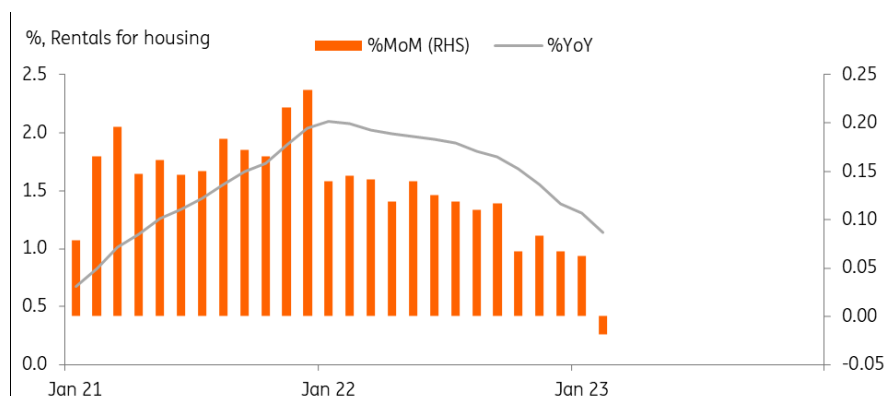
Lower than expected

## Both headline and core inflation moderated in February

Headline inflation rose 4.8% year-on-year in February (vs 5.2% in January and 5.0% market consensus). The increase was mainly driven by utility prices (28.4%) and manufactured food prices (10.4%), yet some other major prices, such as oil (-1.1%) and rental prices (1.1%) stabilised. In terms of the monthly change, oil prices dropped -1.3% (month-on-month, not seasonally-

adjusted) while rental prices also declined (-0.05%) for the first time since August 2019. As we have previously noted, the drop in market-observed housing and jeonse (rental) prices has begun to appear in the index and the monthly decline is expected to continue for the time being. We expect inflation in March to stabilise even more sharply on the back of a high base last year. In addition, a one-time mobile data provision programme is expected to lower mobile service prices and oil prices will continue to fall. The government has been asking local governments not to raise some public service charges at least during the first half of the year, thus inflation is expected to reach 3% at the end of the second quarter.

## Rental prices will likely drag down CPI from now on



Source: CEIC

## BoK Watch

The Bank of Korea is expected to continue to monitor how the inflation path evolves according to changes in internal and external conditions. If inflation slows to around 3% by the end of the second quarter, the BoK will begin adjusting its policy stance toward easing and eventually deliver a rate cut in the fourth quarter. We revised our BoK outlook last week, delaying the 25bp rate cut to the fourth quarter, as the Federal Reserve's terminal rate is set to rise to 5.5%. But, as uncertainty surrounding commodity prices is particularly high due to the geopolitical situation and the reopening of China, the Bank of Korea will likely keep its hawkish stance throughout the first half of the year.

### Author

#### Min Joo Kang

Senior Economist, South Korea and Japan

[min.joo.kang@asia.ing.com](mailto:min.joo.kang@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>.