

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

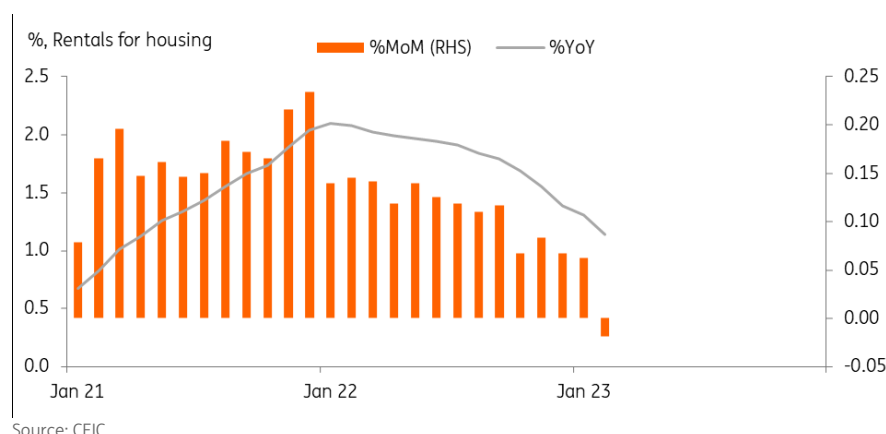
Lower than expected

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



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.

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