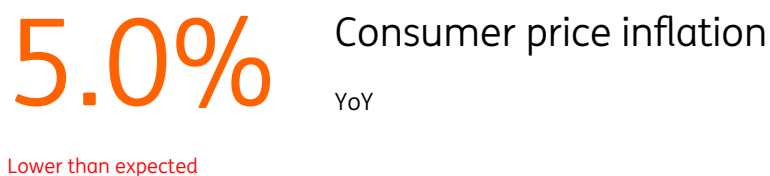


# Korea: Consumer inflation slowed sharply in November

The sharp slowdown in consumer price growth in November was largely due to stable gasoline and fresh food prices, but also to a high base last year. But we believe that today's outcome is not enough to dispel concern within the Bank of Korea (BoK) about inflation. And we expect the BoK to maintain its hawkish tone until early next year



Source: Shutterstock.com

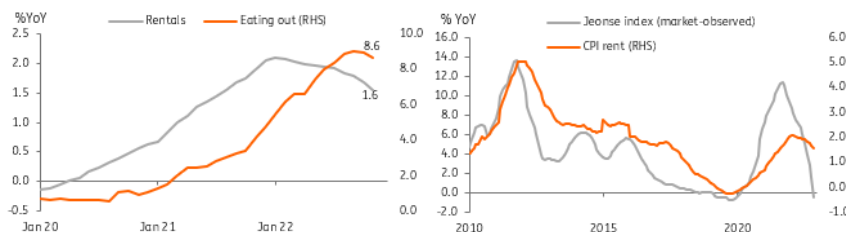


## Food and energy prices were the main reasons for the decline.

Consumer price inflation eased more than expected in November, with headline inflation declining to 5.0% YoY in November (vs 5.7% in October, 5.2% market consensus). The main cause of

November's inflation decline was a fall in agricultural prices (-2.0%), and gasoline prices returned close to pre-Ukraine-war levels. However, service price inflation remained at an elevated level, with core inflation up 4.8%. Eating-out prices rose the most (8.6%) in November while other service prices gradually stabilized. We believe that rents will continue to slow down as market-observed rentals declined in November. Since Korea's lease contracts are usually for two-year terms, the degree to which falling rents will be reflected in the CPI is limited. However, the recent rapid decline in Jeonse prices is expected to be visible in the price index with about a 6-month time lag.

## Rentals will decline gradually over the coming months



Source: CEIC

## BoK outlook

Today's lower-than-expected inflation is unlikely to change the BoK's policy stance. Governor Rhee Chang-yong had already mentioned last month that base effects leading to a temporary slowdown in CPI inflation would not change the BoK's inflation outlook. Also, core inflation is still high. Consequently, we expect the BoK to stay on a hiking path until early next year. We believe that rate increases in power and gas will follow early next year, but rent and service price growth should slow down. As a result, inflation will likely soften further throughout next year. We maintain our view that the BoK will take a pause until 2Q23 after raising 25bp in February.

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