

Korea: consumer prices slow to 3.3% in May

We expect headline inflation to touch the 2% range as early as June, but the Bank of Korea will likely pay more attention to stickier core inflation and keep its hawkish stance



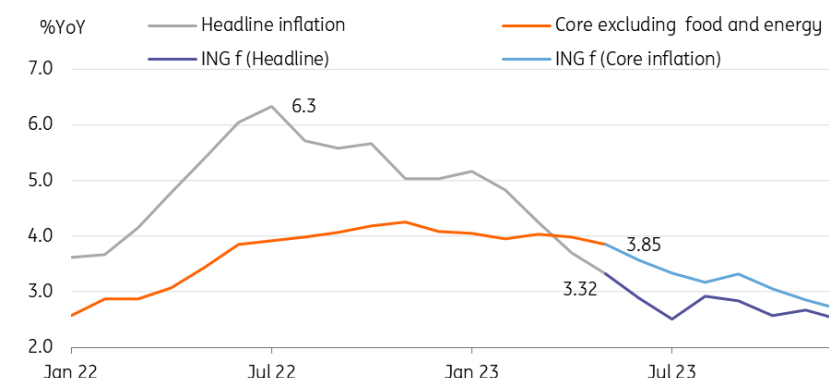
Consumer prices continued to slow in May

Consumer prices in Korea rose 3.3% last month from a year earlier, compared with a 3.7% year-on-year rise in April.

Utility prices shot up by 23.2% YoY in May, reflecting the recent hikes in power and city gas prices from the middle of May, but the decline of diesel (-24%) and gasoline (-16.5%) prices led to the slowdown in headline inflation. In a monthly comparison, prices reaccelerated by 0.3% month-on-month (vs 0.2% in April). We think some lingering effects of utility fee hikes will stay for a couple of months but strong base effects will contribute to bringing headline inflation down further. Given recent weak global commodity prices, we believe that inflation is expected to come down to the 2% level as early as June.

Meanwhile, core inflation excluding food and energy only edged down to 3.9% YoY in May from the previous month's 4.0%, showing the stickiness of core prices and staying above the headline inflation.

Inflation forecasts



Source: CEIC, ING estimates

Bank of Korea watch

We think that even if headline inflation hits the 2% range in June or July, the Bank of Korea (BoK) will likely maintain its hawkish stance by highlighting that core inflation is still at the 3% level and by projecting headline inflation will hit the 3% level by year-end.

We also think that risks are skewed to the upside because public service fees – usually decided by local governments – are set to increase over the summer and the second-round effects of such hikes could push prices back up. However, if global oil prices run below \$70 per barrel, then the deceleration trend will likely continue. We maintain our long-standing view that the BoK will stay pat throughout the third quarter.

Author

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

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