

Korea: CPI rises to decade high of 4.1%

Core CPI excluding agricultural products and oils went up to 3.3 % in March (vs 3.2% in February), suggesting that inflationary pressures are broadly based. This will pressure Bank of Korea to take more rate hike decisions in the second half of the year



4.1%

 Consumer Price Index

Higher than expected

CPI has risen to its highest level since December 2011

The consumer price index accelerated to 4.1% year-on-year in March (vs 3.7% in February) mainly driven by higher oil prices (+31.2%) while fresh food prices continued to drop (by -2.2%, vs -0.9% in February) due to base effects.

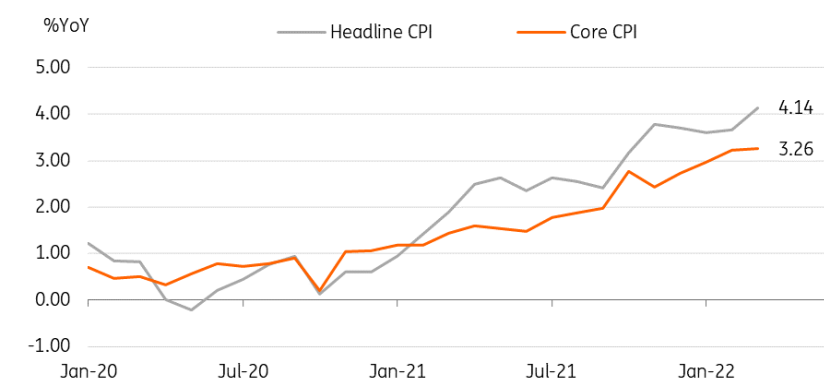
Despite the surge in global commodity prices, utility price rises (for electricity, water and gas) have

stayed at 2.9% for three months on the back of the government's efforts at stabilisation. The electricity bill will rise from April, reflecting last December's price hike decision (+6 won/kwh).

Meanwhile, services prices rose 3.1% for the second month in a row. Public services prices were up 0.6% but at a slower pace than the 0.9% gain in February. Private service prices increased 4.4%, on the back of a significant 6.6% gain in eating out (vs 6.2% in February).

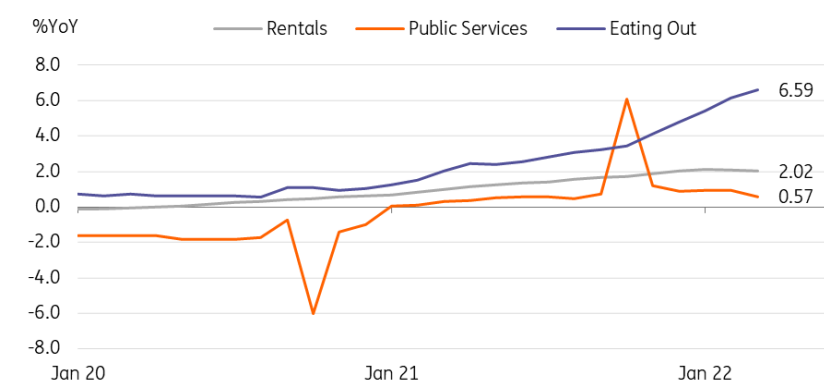
With growing concerns over higher inflation, the government has decided to expand its temporary fuel tax cut to 30% (vs 20% currently). This will apply from May to July. It has halted additional electricity rate hikes for the second quarter of 2022. The government's measures could relieve some pressures at best, but CPI is expected to hover around 4% in the second quarter of this year. As underlying pipeline pressures increases, we expect it soon to be passed on to domestic prices – not only in commodity prices but also in services prices.

Headline and core CPI rose strongly in March



Source: CEIC

Service prices are on the rise



Source: CEIC

We revise up our CPI forecast

Given the higher-than-expected CPI in March and the continued increase in inflationary pressures, we revise our CPI forecasts for 2022 from 3.6% to 3.9% and expect Bank of Korea (BoK) to raise rates three times this year. We still think BoK will stay put in April as a base case and resume its rate hikes in May when BoK issues its revised macro-outlook report. But, it would not be surprising

if the BoK takes action in April, sooner than previously expected. In a statement this morning, the BoK said, "2022 inflation is likely to be higher than the BoK's February forecast of 3.1% and inflation is likely to remain in the 4% level for some time due to rising oil and grain prices". We interpret this as the BoK seeing the high inflation environment remaining for a considerable time, something which will prompt BoK action. A rate hike appears to be just a matter of time.

Author

Min Joo Kang

Senior Economist, South Korea and Japan

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 www.ing.com.