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

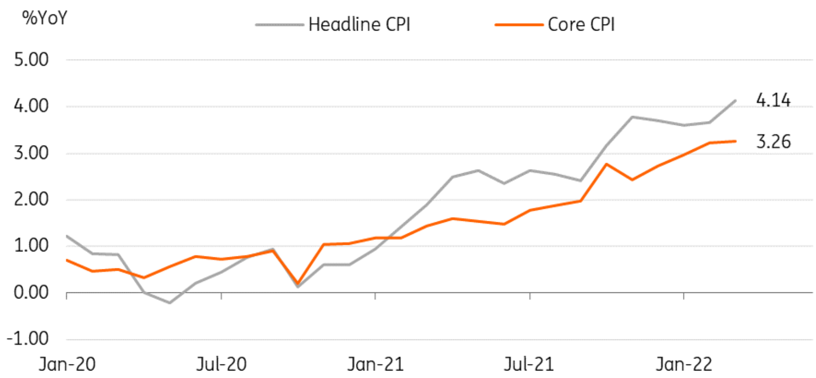
The consumer price index accelerated to 4.1% year-on-year in March (vs 3.7% in February) mainly driven by higher oil prices (+31.2%) while fresh food prices continued to drop (by -2.2%, vs -0.9% in February) due to base effects.

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).

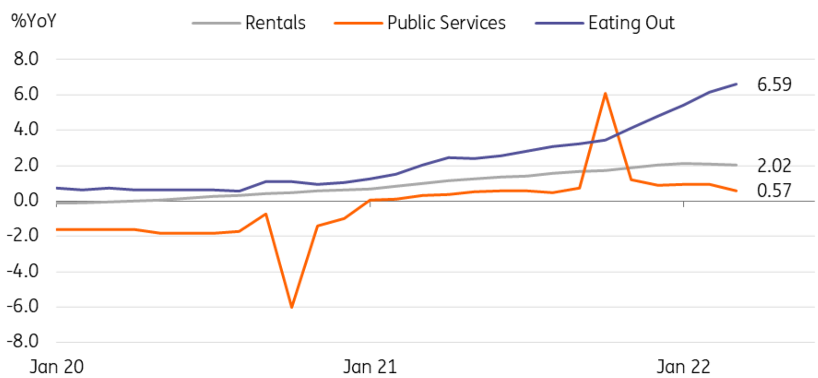
With growing concerns over higher inflation, the government has decided to expand its temporary fuel tax cut to 30% (vs 20% currently). This will apply from May to July. It has halted additional electricity rate hikes for the second quarter of 2022. The government's measures could relieve some pressures 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.

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