

# Korea: July inflation accelerated

Headline CPI inflation in July hit its highest rate since November 1998. But it was mostly in line with the BoK’s projections, so we expect them to return to their usual 25bp pace of hiking at their August meeting.



Korean won

**6.3** **CPI inflation**

YoY%

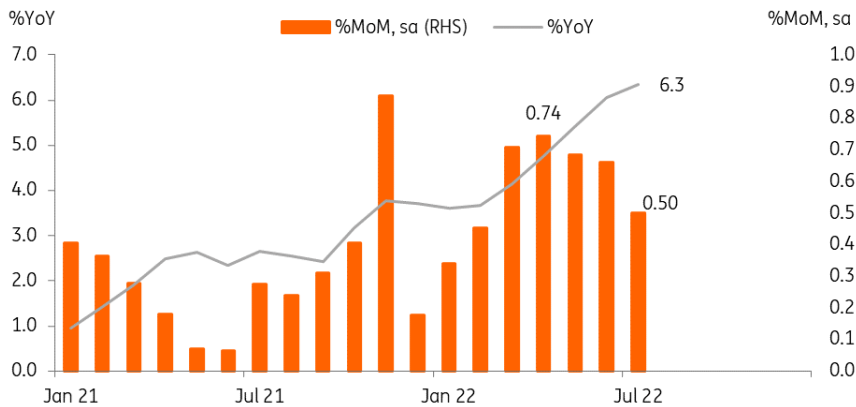
As expected

## CPI inflation rose 6.3%YoY in July (vs 6.0% in June) on the back of higher fresh food and utility prices

Fresh food and utility inflation rose to a 13.0%YoY and 15.7% pace respectively, due to bad weather and higher electricity and gas rates. As the wet season is lasting longer than usual, fresh food prices will likely rise further in the coming months. Additional rate increases for power and city gas are scheduled in October. As a result, the headline inflation rate will likely stay above 6% until October. However, we also see some signs of price pressures easing. Gasoline prices at the pump have fallen following the government’s fuel tax cut and decline in

global crude oil prices.

## Monthly price growth continued to decelerate in July

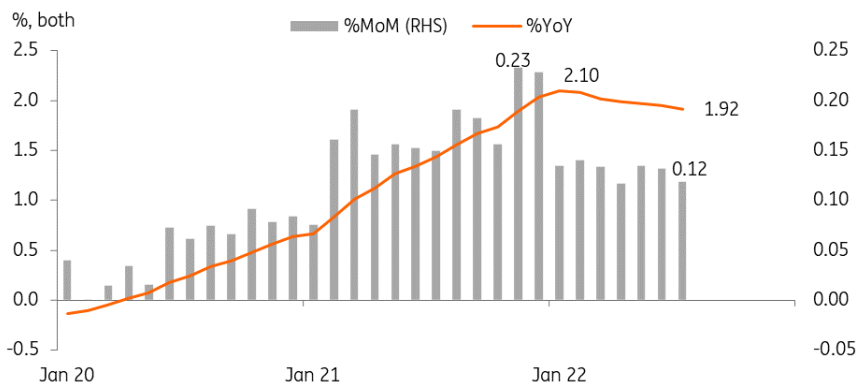


Source: CEIC

## Core inflation excluding food and energy remained unchanged at 3.9% for the second month

Today's data indicate that underlying inflation pressures will likely peak out early next quarter. Among services, rental price growth slowed to 1.9%YoY from its recent peak of 2.1% in January. Typically, rentals follow the path of house prices after a few months, so we expect rental prices to decelerate further as we head towards the year-end. In addition, as housing and rental prices are the key determinants of inflation expectations, we also believe that inflation expectations will begin slowing in the near future.

## We expect rents to decelerate further in the coming months



Source: CEIC

### We maintain our BoK call to raise rates 25bp in August

We think that the July inflation release was broadly in line with the BoK's projections. Forward-looking data signals a rapid deterioration in consumption and service sector activity, so the BoK likely be more cautious in the future. Based on today's data, we expect the BoK to raise rates by 25bp at its August meeting and we maintain our full-year 2022 inflation forecast of 5.3%YoY.

#### Author

##### Min Joo Kang

Senior Economist, South Korea and Japan

[min.joo.kang@ing.com](mailto:min.joo.kang@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](http://www.ing.com).