

# Korean inflation rises to highest since August 2017

Headline inflation for April rose to 2.3%YoY, and will rise further next month coming close to 3.0%YoY before base effects start to fade - we don't think this will have much impact on the BoK's stance for some time unless underlying inflation rises further



Source: Shutterstock

**2.3%** Inflation  
YoY%

Higher than expected

## Mainly base effects - but some underlying pickup

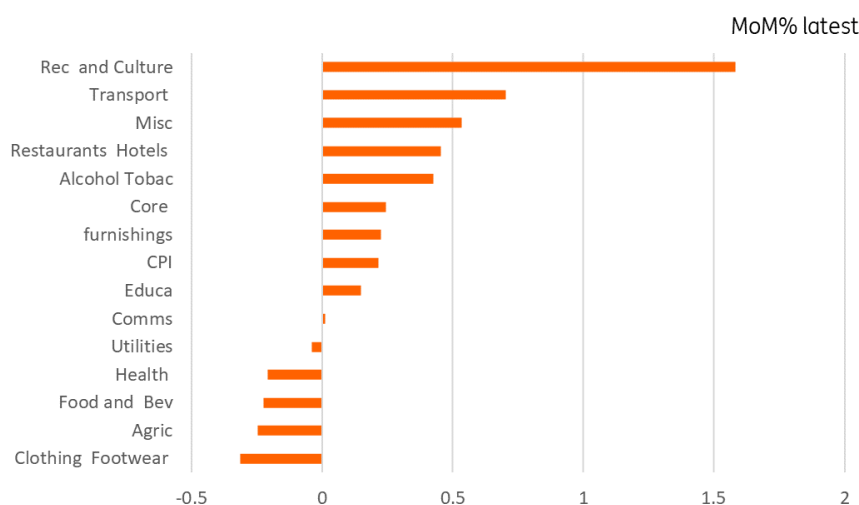
There is far less to the Korean April inflation story than our sensationalist click-bait title suggests. The reality is, Korea is just experiencing the same base comparison effects as countless other economies around the world when comparing today's price level with the bombed-out price level

in the early stages of the Covid-19 pandemic last year.

The rise to 2.3%YoY was a bit stronger than the consensus had been expecting (Consensus 2.1%, INGf 2.3%) but given rising global commodity prices, rising electronics parts prices, global supply chain interruptions and a recovering Korean service sector, the 0.2% MoM increase in the April price level was not all that surprising (we thought it could have been a little higher).

Pushing up the price level in April was a 0.7% MoM increase in the transport component (reflecting crude oil price increases). A 1.6% increase in recreation and culture points to the recovery of the service sector, as does the 0.5% increase in restaurants and hotels (miscellaneous prices up 0.5% MoM too).

## Korean CPI by component (MoM%)



Source: CEIC

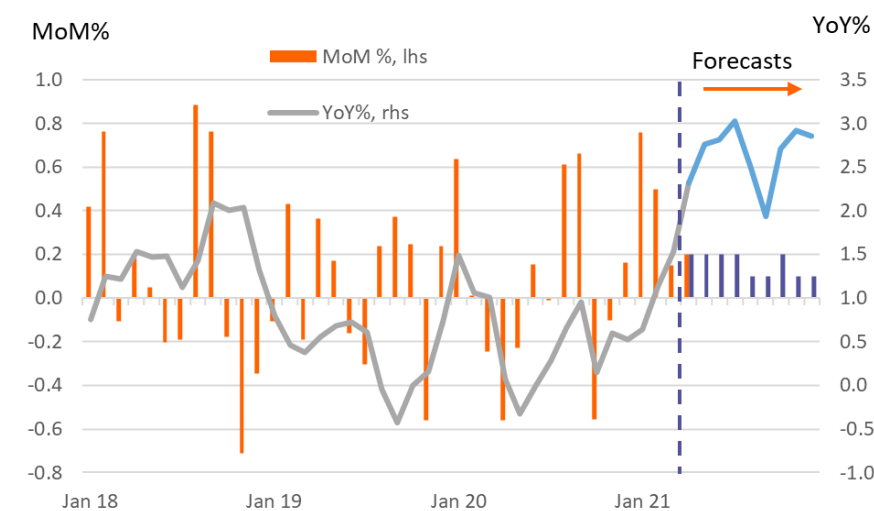
## Inflation hasn't finished rising yet

Inflation in Korea hasn't topped out yet and base effects are even more favourable next month, where a similar 0.2%MoM increase would take headline inflation for May to 2.8%. The depressed price level in Korea through the latter part of 2020 will provide further year-on-year support, so even without any underlying inflation, we anticipate that the 3% inflation level will be breached with the release of the July CPI data in August this year, and inflation will remain close to this level for the rest of the year before drifting back to about 2% in 2022.

And it will not be until 2022 at the earliest, that we think the Bank of Korea (BoK) will start to look more closely at the data with a view to an eventual tightening of policy rates, which we anticipate starting very slowly later that year.

Key to such decisions will not be year-on-year growth rates, but the underlying rates of annualised growth - telling the BoK what is happening to prices now, not what happened 12 months ago. Right now, the 3m/3m annualised growth rate of headline inflation has picked up, but from around zero at the beginning of the year, to only about 1.2% now. This rate will have to pick up a lot further and then stay elevated to cause the BoK any concern about its current policy stance.

## Korean inflation and forecasts



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