

# South Korea: Consumer inflation slowed in March, mainly due to falling fuel prices

Consumer prices slowed sharply in March and the Bank of Korea is expected to keep its policy rate at 3.5% next week



Source: shutterstock.com

4.2%

Consumer inflation

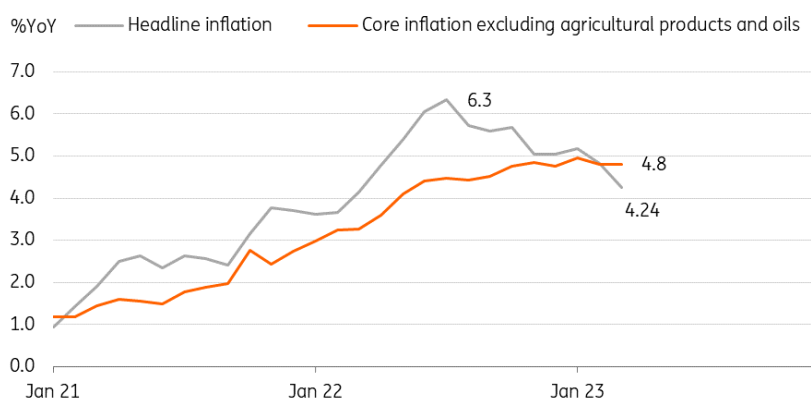
%YoY

Lower than expected

## Consumer inflation slowed in March, mainly due to falling oil prices

Headline CPI slowed to 4.2% YoY in March (vs 4.8% in February and 4.3% market consensus), mainly due to falling fuel prices and base effects. Prices of gasoline (-17.5%) and diesel (-15%) dropped the most, while food prices continue to rise, by 6.1%. Heating costs increased due to the severe cold in January and February.

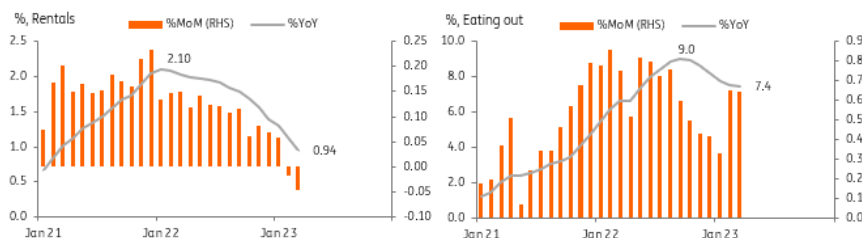
## Headline CPI decelerated sharply. Core CPI remains sticky



Source: CEIC

Excluding volatile oil and agricultural prices, core inflation was anchored at 4.8%. Core CPI tends to be more sticky than headline - it will take more time to see clear signs of any slowdown. Among service items, rental prices (0.9%) and eating out (7.4%) continued to decelerate in March. As we have already noted, the housing market slump which began last year began to be reflected in the price index. The monthly decline in rent prices deepened in March. Prices for eating out and other personal services remained high, reflecting ongoing second round effects of price hikes for utilities and food.

## Rents declined for the second month, but the cost of eating out remained high



Source: CEIC

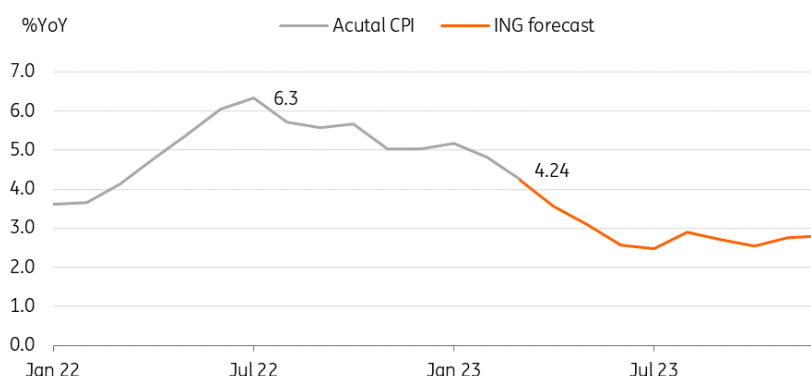
## Inflation is expected to cool, despite the recent sudden rise of global oil prices

Although the sudden price hikes in global oil prices will add to inflationary pressures, we still believe that the downtrend in inflation will continue throughout the year.

Base effects will play a main role in any slowdown in the second and third quarters, unless global oil prices return to last year's above \$100 level. Second, we have just begun to see a decline of rents but this is set to have a more prominent impact on service prices in the near future. Third, the government has postponed electricity and gas price increases for the time being, fearing additional charges would push up inflation again. Fourth, if necessary a government fuel tax cut could partially mitigate the price shock. Last but not least, higher commodity prices could lead to

a more serious economic downturn in Korea, so offering downside pressure on inflation.

## Inflation is expected to slow throughout the year



Source: CEIC, ING estimates

## Bank of Korea watch

The BoK is scheduled to hold a policy meeting next Tuesday and expects to keep its policy rate at 3.5%, given clear signs of slowing inflation. The BoK will maintain its hawkish stance for the time being - as a precaution against a sharp rise in global oil prices that could add to upward inflationary pressures.

As previously mentioned, inflation is expected to head towards 2% over the next few months. We think that the BoK will stay unchanged until the third quarter of this year. In addition, even if inflation rebounds due to rising global oil prices, it will be difficult for the BoK to resume its hiking cycle as further rate hikes could lead to a more serious economic downturn at a time when underlying growth conditions are already weak. Despite high inflation-related uncertainties, we maintain our previous forecast that the BoK will cut interest rates in the fourth quarter.

### 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).