South Korea’s inflation rebounds, but not enough to halt rate cuts

South Korea's inflation remained around 2% and exports weakened quite dramatically in September, supporting the argument for rate cuts. However, a renewed rise in property prices in Seoul could delay the timing

2.1% YoY

Consumer price inflation

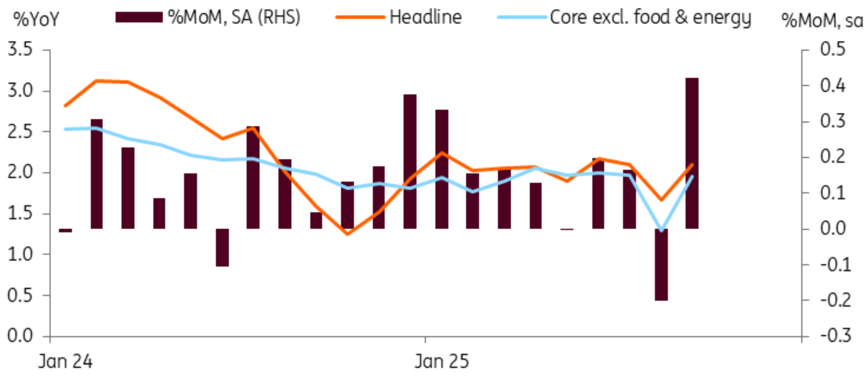
Higher than expected

Monthly rise narrowly concentrated in communications fees

Consumer price inflation rose to 2.1% year-on-year in September from 1.7% in August, broadly in line with market consensus. The rebound was primarily attributed to the end of one-off mobile service charge discounts. Communications prices rose 0.1% following a 13.3% drop in August.

Also, ahead of the early October Chuseok holiday, vegetable and meat prices rose, while oil prices fell thanks to lower global commodity prices. Core inflation, excluding food and energy, also jumped to 2.0% (vs 1.3% in August). Yet today's inflation data is not likely to prompt any material change in the Bank of Korea's policy easing stance.

Inflation rebounded but underlying pressures remained soft



Source: CEIC

BoK watch

We still expect the BoK to cut rates by 25 basis points in October, although rising house prices could push this back to November. We believe that the recent weakness of exports and economic activity points to the need for looser monetary policy. Regarding housing prices, the BoK will rely on government measures, which are likely to be tightened in order to stabilise the housing market. Therefore, the BoK will prioritise supporting growth.

Author

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@ing.com