Steady Korean inflation leaves room for rate cut if housing slowdown continues

With South Korean consumer inflation near 2% and GDP projected to rise, the Bank of Korea is likely to wait for clearer signs of housing market stability before easing. We still prefer an October rate cut over August

2.1% YoY

Consumer price inflation

Core excluding food and energy rose 2.0% YoY

As expected

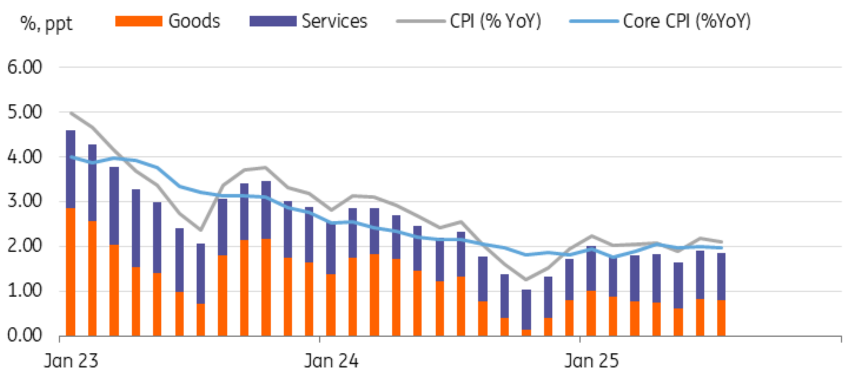
Core inflation, excluding food and energy, stayed at 2.0% for a third month

South Korean consumer price inflation rose 2.1% year on year in July (vs 2.2% in June, 2.1% market consensus). Food and transport costs rose because of poor weather and higher Seoul subway fares, while utility prices dropped sharply thanks to summer electricity fee waivers. Core inflation, excluding food and energy, stayed at 2.0% for a third month.

With inflation steady near 2% throughout this year and expectations declining toward 2%, we consider prices well anchored within the Bank of Korea's target range. As a result, policy focus has shifted to supporting growth and strengthening financial stability.

Second-quarter growth was stronger than expected. Even higher growth is expected in 2H25, but the negative GDP gap will remain. As such, BoK easing is needed. The timing will likely depend on developments in the housing market. Recent data showed a stabilising Seoul housing market. But we believe it's premature for the BoK to deliver a cut. Thus, the BoK is likely to take a wait-and-see approach in August and cut in October.

Inflation is expected to stay around 2% for a while



Source: CEIC

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