

Taiwan inflation moderates ahead of electricity price hikes

Taiwan's inflation slowed to 2.14% year-on-year in March, but all eyes will be on the impact of the electricity price hikes which took effect on 1 April



Xinyi District in downtown Taipei, Taiwan

2.13% YoY Taiwan CPI inflation

Lower than expected

March inflation cooled and returned toward the 2% target

Taiwan's CPI inflation slowed to 2.14% YoY in March from 3.08% YoY in Feb, moderating but remaining above target. It came in below consensus forecasts of 2.5% YoY. In MoM terms, inflation fell by -0.66%, a slightly larger than typical decline following the Lunar New Year. Core inflation was almost exactly in line with headline inflation, down to 2.13% YoY from 2.9% YoY.

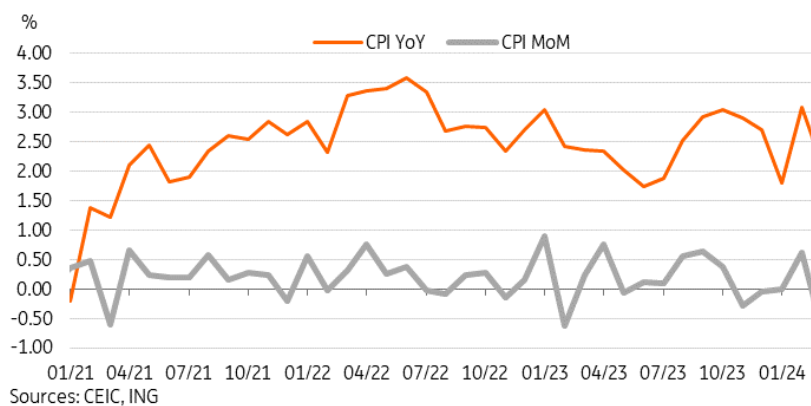
As expected, the moderation of CPI inflation partly reflected a normalisation of food prices after

the Lunar New Year Holiday, with food inflation falling -0.58% MoM down to 2.86% YoY from 4.5% YoY previously.

However, non-food categories once again played a larger role in the lower-than-expected inflation, as most categories saw lower MoM and YoY growth. Last month's significant surge in nursing care was reversed, dropping to a more normal 2.1% YoY level after last month's 25.9% YoY. Education and entertainment inflation also slowed to 1.9% YoY from 3.7% YoY.

In contrast, housing and health inflation remained relatively sticky at 1.9% YoY and 3.2% YoY, respectively.

Taiwan CPI inflation returned toward the 2% target

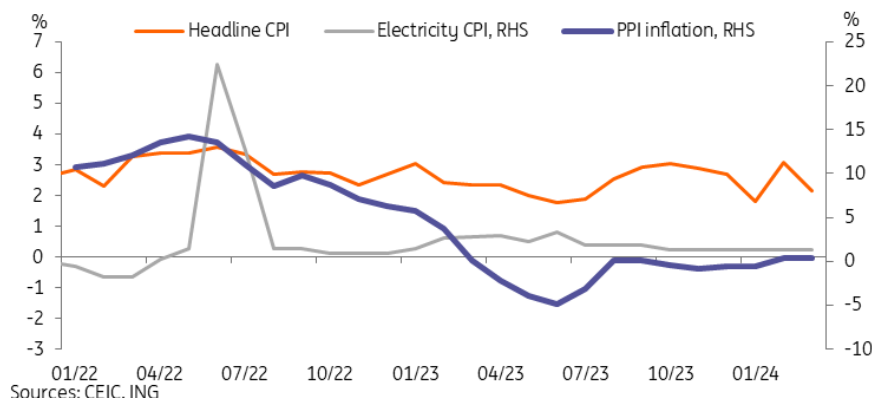


Electricity price hikes will come into focus next month

An 11% hike to electricity prices which came into effect on 1 April may cause a degree of upward pressure on inflation, though we expect this impact to be modest in the near term. As for its direct impact, the most recent weight of electricity in the CPI basket was only 1.15%. However, electricity price hikes may also have an indirect impact via companies passing on higher input costs to consumers, although this would likely come with a lag. We're revising our whole year inflation forecast a little higher to 2.3% YoY.

Consequently, the PPI data is also worth monitoring moving forward. PPI inflation has been very muted over the past year, only returning to positive levels in February. Electricity represents around 4% of the weight for PPI.

Impact of electricity price hikes to take effect starting from April data



Monetary policy likely to be on hold in the near-term

Last month's surprise rate hike was a pre-emptive move to counter this impact. In our baseline case, we expect the hike to be a 'one and done' move. The March inflation data should help alleviate policymakers' inflation worries to some extent, but the true test remains the upcoming data.

With expectations for US rate cuts falling and inflation likely to remain above target in the coming months, we've also pared back our expectations for Taiwan rate cuts. We now expect only one rate cut in the fourth quarter of this year, with the risks of seeing no cuts at all beginning to rise this year.

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