Taiwan’s January CPI rose to 11-month high on holiday effects

Various factors tied to the Lunar New Year holiday helped boost the CPI inflation reading but the upside surprise should not have major implications for March's monetary policy decision

Taiwan's central bank

2.7%

Taiwan's January CPI inflation (year-on-year)

Higher than expected

Lunar New Year drives several key categories higher in January

Taiwan's CPI inflation accelerated to 2.7% year-on-year in January, up from 2.1% YoY in December. This growth rate marked an 11-month high and came in a little hotter than market forecasts for a 2.5% YoY reading, and well above the central bank's 2% inflation target. Core inflation also rose to 2.3% YoY, up from 1.7% YoY in December, also marking an 11-month high.

The higher-than-expected reading can largely be attributed to the holiday effect from the Lunar

New Year falling in January this year. The most significant uptick was in the services sector, where Nursery & Nursing Care prices rose by 13.5% month-on-month and 15.0% YoY, reflecting the traditional holiday bonus. Entertainment expenses also rose by 3.6% MoM or 4.8% YoY. We also saw upticks in categories which are often also used as Lunar New Year gifts, including fruit (10.5% YoY) and tobacco (3.0% YoY).

Holiday effects aside, other subcategories indicated that markets did not need to be too concerned about the uptick in inflation in January. Food inflation slowed to 2.9% YoY despite the holiday, and housing (2.4%) and clothing (-0.8%) inflation levels were little changed from December.

PPI inflation also surged to 3.9% YoY in January, which was the highest level since January 2023. The electricity price hikes for large industrial users hit the PPI harder than the CPI, with the electricity component of PPI up 14.9% YoY.

Taiwan's Central Bank of China remains likely to hold rates steady in March

At first glance, the latest batch of data could lend support to hawkish arguments at the CBC, especially as growth recovered to a three-year high of 4.3% in 2024. However, stripping out holiday effects, we're likely to see inflation cool a little in the coming months, and given the heightened uncertainty in the external environment coupled with slightly softer-than-expected export growth at the start of the year, it would seem to make sense to err on the side of caution. As such, we are maintaining our call for the CBC to keep rates unchanged in March.

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