

Korea Watch

Feb CPI: inflation rebounded on fresh food price; core inflation remained stable

Exhibit 1: Overview of inflation data

Inflation in Feb surprised to the upside, where core inflation remained stable

In % yoy	Actual	Previous	Consensus	BofA
Headline CPI	3.1	2.8	3.0	3.0
Core CPI (ex. Agri and oil)	2.3	2.4	-	-
Core CPI (ex. Food & energy)	2.5	2.5	2.5	-

BofA Global Research, Korea statistics, Bloomberg

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Headline CPI rebounded in Feb; core remained at 2.5%

CPI inflation edged up to 3.1% yoy in Feb from 2.8% previously (Exhibit 1), higher than the consensus and our forecast of 3.0%. Sequentially, it came at 0.5% mom from 0.4% in Jan. On the other hand, core inflation remained largely stable (Exhibit 2). Core (excluding agriculture & oil products) inched down to 2.3% from 2.4% previously, and core (excluding food & energy) inflation stayed at 2.5%.

LNy holiday effect drove the higher fresh food price

Goods inflation picked up to 3.9% yoy (0.6% mom s.a., Exhibit 4), vs 3.1% in Jan, mostly driven by the higher fresh food price due to LNY holiday effect. Within food inflation, processed food inflation dropped to 1.9% yoy from 3.2% in Jan, while prices of agriculture and marine products continued to edge up higher sequentially (2.1% mom s.a. in Feb), driving the yoy reading to 11.5% from 8.0% in Jan. Meanwhile, utility inflation edged down to 4.9% yoy. Oil price saw yoy growth of -1.5% in Feb, despite the sequential improvement of 1.1% mom s.a. vs. -2.3% previously).

Services inflation edged down to 2.5% yoy (0.15% mom s.a.) in Feb (Exhibit 5), with both private and public services saw softening yoy reading. Despite the higher sequential improvement in ex-dining personal services inflation (of 0.34% mom s.a.), personal services inflation moderated to 3.4% yoy (0.23% mom s.a.) from 3.5% yoy, while public services inflation also softened to 2.1% yoy (from 2.2% in Jan).

Disinflation shall continue in coming months

In our view, the higher CPI reading is mostly due to LNY effect, while the stable core inflation continued to suggest a disinflationary trend on the way. Specifically, we continue to see the core inflation to soften towards low 2% handle going forward, and the headline to moderate to sub-2.5% level by mid-year.

In terms of the inflation trajectory to the BoK policy decision, we have penciled in the first cut in 3Q in our earlier notes (see [our Feb 22 report](#)), and we continue to expect so in the near term. BoK will be likely to review the inflation trajectory relatively more carefully and to maintain its balanced act in the near term.

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S.a.: seasonal adjusted

LNy: Lunar New Year

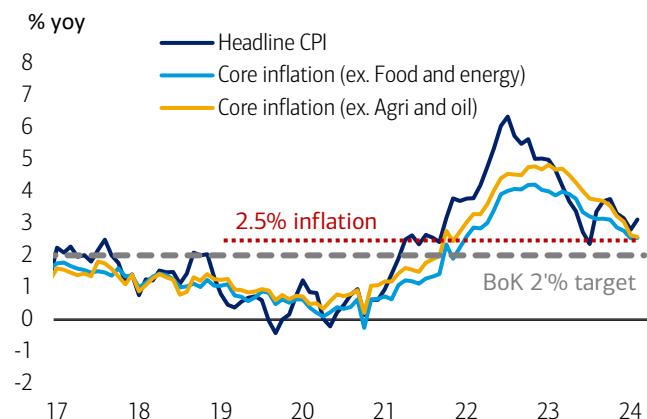
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Exhibit 2: CPI inflation and core trend (% yoy)

Headline CPI edged up to 3.1% in Feb (from 2.8% previously), while core inflation stayed flat at 2.5%

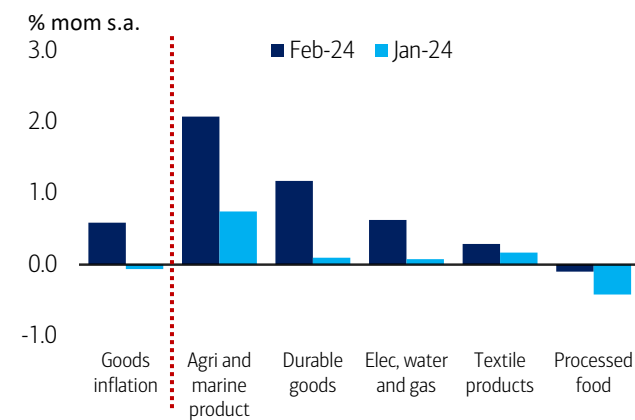


Source: Haver, BofA Global Research

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Exhibit 4: Month-on-month change in goods inflation

In seasonally adjusted terms, goods inflation in general edged higher, especially for agri and marine product and durable goods

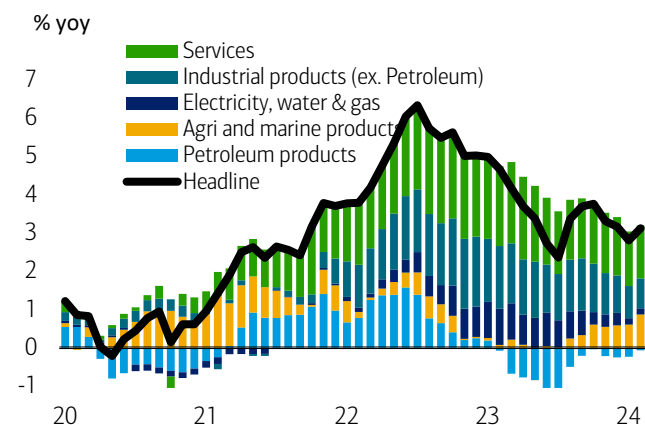


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Exhibit 3: CPI inflation by key breakdown

Agri and marine products contributed the most of the new growth in Feb

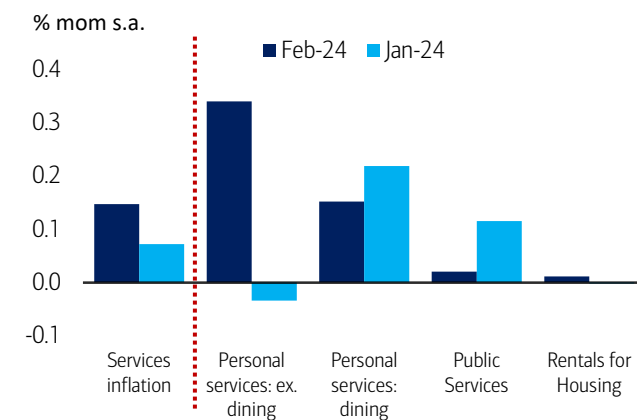


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Exhibit 5: Month-on-month change in services inflation

Personal services ex. dining also increased sequentially, while that of public services moderated

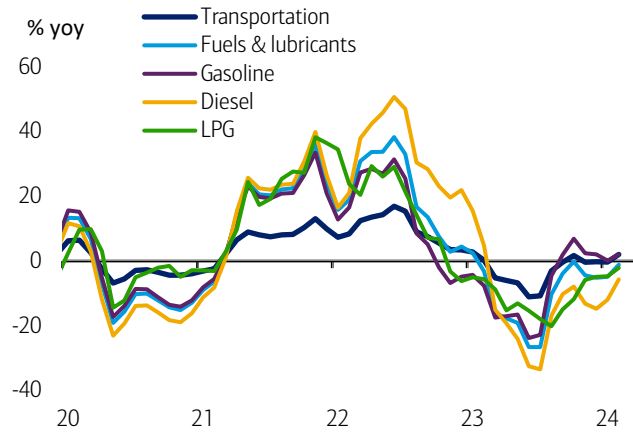


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Exhibit 6: Key sub-component price trend in transport category

Transport inflation picked to 2% yoy in Feb, mostly due to higher gasoline price

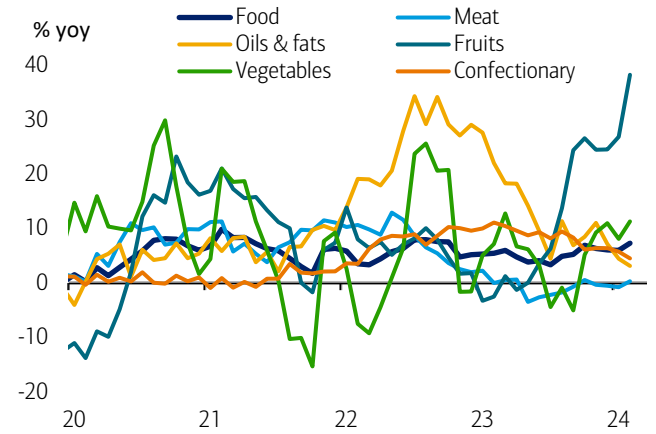


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Exhibit 7: Key sub-component price trend in food category

Inflation in fruits price surged in Feb

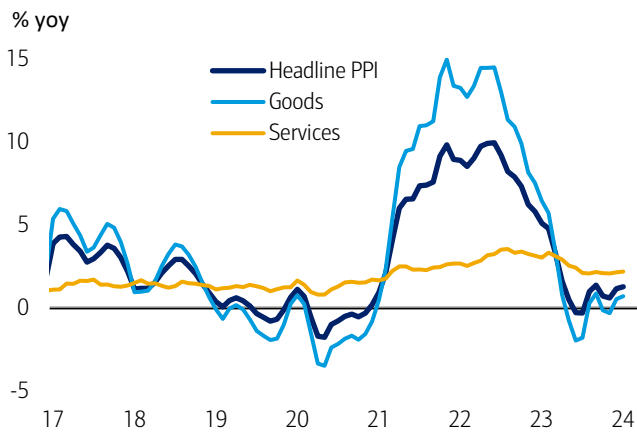


Source: Haver, BofA Global Research

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Exhibit 8: PPI inflation by goods and services (as of Jan)

PPI inflation inched up in Jan

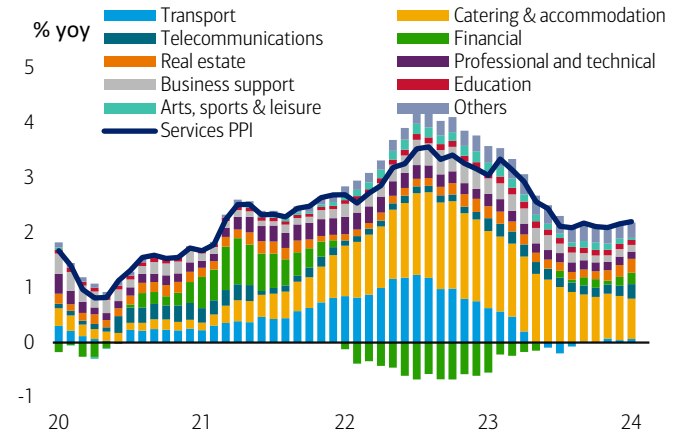


Source: Haver, BofA Global Research

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Exhibit 9: Services PPI inflation breakdown by components (as of Jan)

Services PPI inflation also picked up slightly in Jan



Source: Haver, BofA Global Research

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