

Korea Watch

Jan CPI: Domestic disinflation continues, but external uncertainties lingered

Exhibit 1: Overview of inflation data

Inflation in Jan surprised to the downside

In % yoy	Actual	Previous	Consensus	BofA
Headline CPI	2.8	3.2	2.9	2.9
Core CPI (ex. Agri and oil)	2.6	3.1	-	-
Core CPI (ex. Food & energy)	2.5	2.8	-	-

BofA Global Research, Korea statistics, Bloomberg

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Both headline and core CPI moderated in Jan

CPI inflation edged down to 2.8% yoy in Jan from 3.2% previously (Exhibit 1), lower than the consensus and our forecast of 2.9%. Sequentially, it came at 0.4% mom from 0.0% in Dec. Meanwhile, core inflation also moderated (Exhibit 2). Core (excluding agriculture & oil products) and core (excluding food & energy) inflation edged down to 2.6% yoy (from 3.1%) and 2.5% (from 2.8% in Dec), respectively.

Disinflation across goods & services

Goods inflation inched down to 3.1% yoy (-0.1% mom s.a., Exhibit 4), vs 3.6% in Dec. The lower oil price was partially offset by higher fresh food prices in Jan (Exhibit 3). Oil prices further edged down sequentially (-2.5% mom, -5.0% yoy). Within food inflation, processed food inflation also dropped to 3.2% yoy from 4.2% in Dec, although prices of agriculture and marine products rebounded by 2.9% mom in Jan, driving the yoy reading back to 8.0% from 7.7% in Dec. Meanwhile, utility inflation edged down to 5.0% yoy.

Services inflation edged down to 2.6% yoy (0.1% mom s.a.) in Jan (Exhibit 5), with a mixed trend in private and public services. Dining inflation moderated to 4.3% yoy (0.3% mom s.a.) from 4.4% yoy, while the most sticky part, ex-dining personal service inflation, also dropped to 3.0% (0% mom s.a. vs. 0.41% previously). On the other hand, public services inflation rose to 2.2% yoy (from 1.9%).

Further moderation down the road, tail risks still lingered

The disinflation trend continued in Jan, particularly in private services, and is a welcome sign to see. We continue to expect the headline inflation to wane below 3% in 1Q before fall further towards 2.5% by Apr. That said, external uncertainties may post certain tail risk, and is worth to watch in the near term.

Amid the red sea incident, Brent oil price went up from \$75/b in mid-Dec to above-\$80/b level, while shipping cost also surged by 100-300% in key shipping routes. This could pose upside pressure on headline inflation. On the other hand, Powell said that a "March cut is unlikely" during the press conference after Jan FOMC meeting, also posted downside risk for BoK to pivot any time soon. All combined, we believe the BoK will maintain its balanced act in the near term, and the monthly inflation trajectory as well as the Fed stance are critical for them to make rate decisions.

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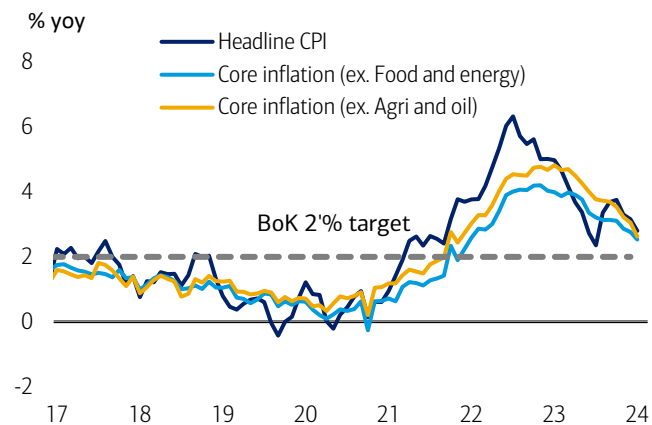
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S.a.: seasonal adjusted

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

Headline CPI edged down to 2.8% in Jan, while core inflation edged lower

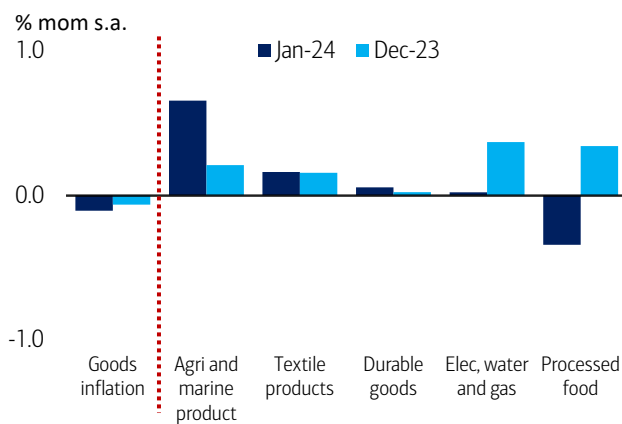


Source: Haver, BofA Global Research

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

In seasonally adjusted terms, drop in processed food prices offset rise in agriculture products

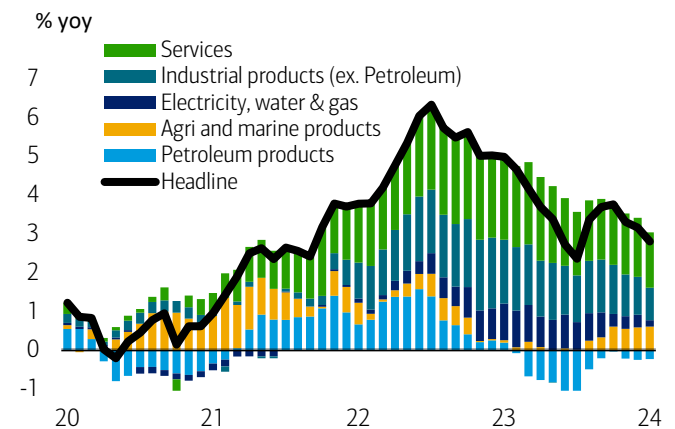


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Exhibit 3: CPI inflation by key breakdown

The disinflation was broad based across goods & services

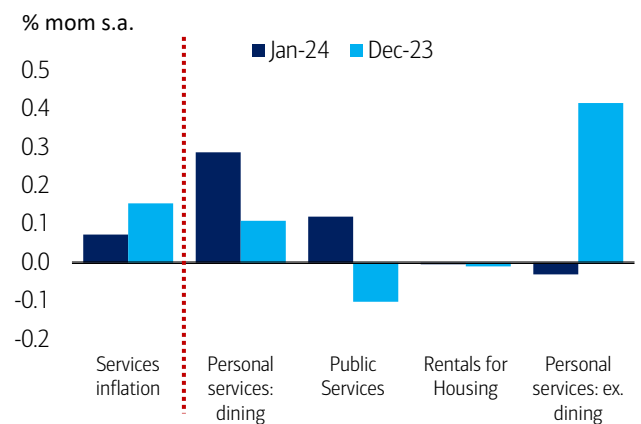


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Exhibit 5: Month-on-month change in services inflation

Personal services ex. dining dropped sequentially, driving services inflation lower

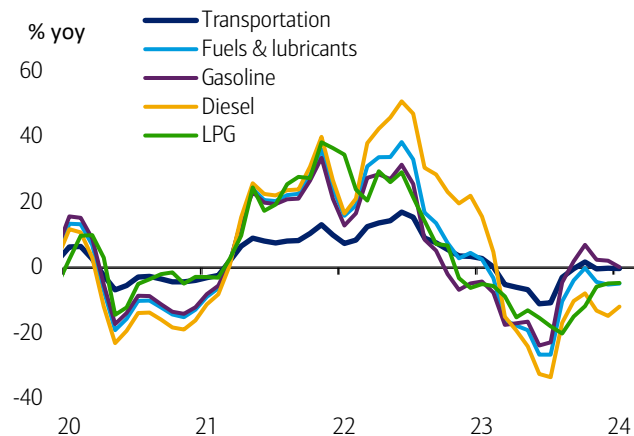


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Exhibit 6: Key sub-component price trend in transport category

Transport inflation still in deflationary zone in Jan

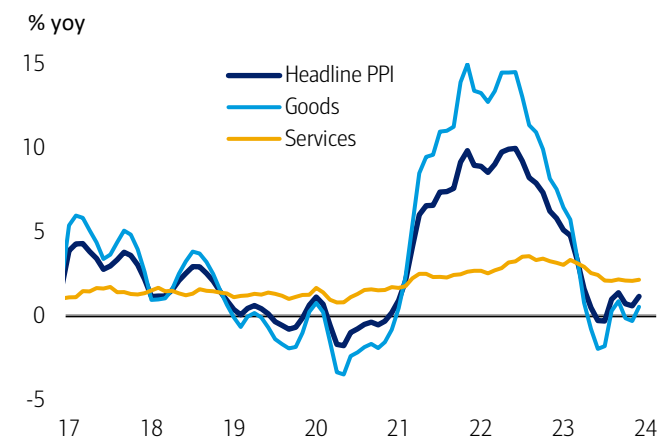


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Exhibit 8: PPI inflation by goods and services (as of Dec)

PPI inflation moderated in Dec

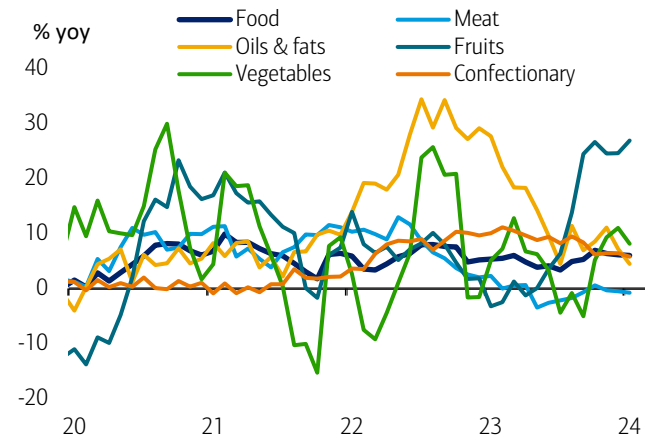


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Exhibit 7: Key sub-component price trend in food category

Inflation in food prices largely mixed in Jan

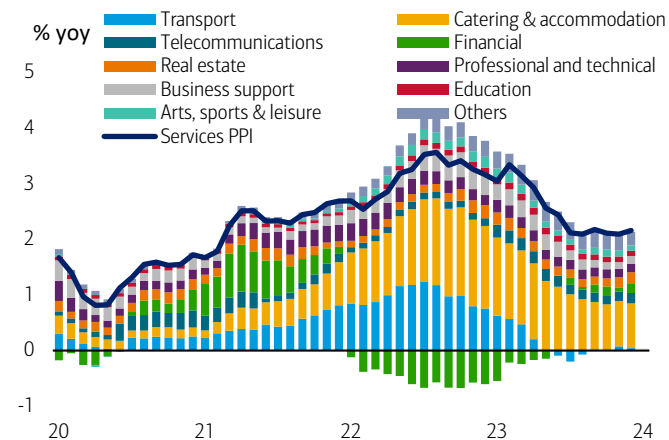


Source: Haver, BofA Global Research

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

Services PPI inflation picked up slightly in Dec



Source: Haver, BofA Global Research

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