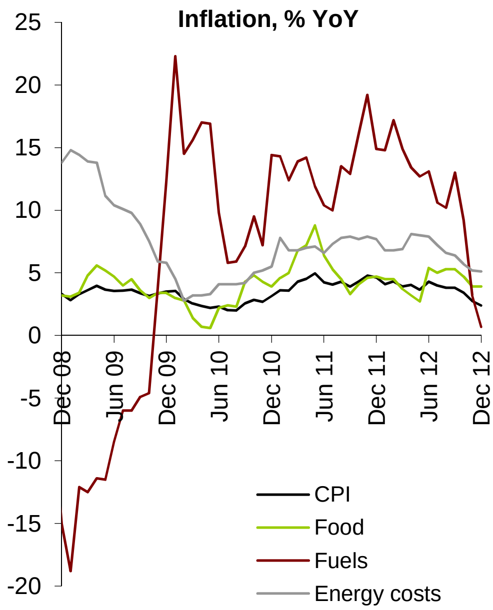
Bank Zachodni WBK

Instant comment

Inflation below target

15 January 2013

CPI inflation fell in December to 2.4%YoY, in line with our forecast and below market expectations. In spite of a strong rise in food prices, no inflationary pressure is visible in other categories, which is perfectly mirrored by behaviour of core inflation excluding food and energy prices, which posted a marked decline to 1.3%YoY. These figures are an argument for an interest rate cut in February. Elżbieta Chojna-Duch said after the release that chances for such a decision rose. Still, the interest rate market did not react substantially to the inflationary data.



Inflation decelerated in December to 2.4%YoY, in line with our forecast and slightly below market consensus (2.5%YoY). Consequently, CPI dropped below the official NBP target for the first time since August 2010. The downward pressure on CPI was provided largely by fuel prices – December was already a third month in a row when prices of fuel were falling, this time by 1.3%MoM. Still, lower inflation is not only due to prices of fuel. Very low pace of price growth was recorded in the majority of goods and services (in 5 out of 12 subcategories prices even declined on monthly basis). The pace of growth of food prices was a negative surprise for us (the monthly increase of 0.8% was double of what we had expected). Still, that was compensated by lower pace of growth of other categories. As a result, the core CPI after excluding food and energy prices has probably tumbled in December – according to our estimates it has reached 1.3%YoY, lowest for over 2 years (before today's inflation release our forecast and market consensus were at 1.6%).

We predict that downward trend of CPI inflation will continue also this year. It is likely that in January inflation rate will decelerate to ca 2%YoY (or even below this level) and will stay below this level through the better part of the year. The CPI inflation decline will come from further drop in prices of fuel and other sources of energy (among others reduction in gas prices). We think that core inflation, after excluding food and energy prices, might temporary increase, but we do not expect it to exceed 2%. To sum up, the upcoming inflation data will also clearly show that there is no inflationary pressure.

Data on inflation are strongly supporting our expectations about another interest rate cut in February. We are predicting that Friday's set of data on labour market and output will deliver further arguments underpinning such a scenario.

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