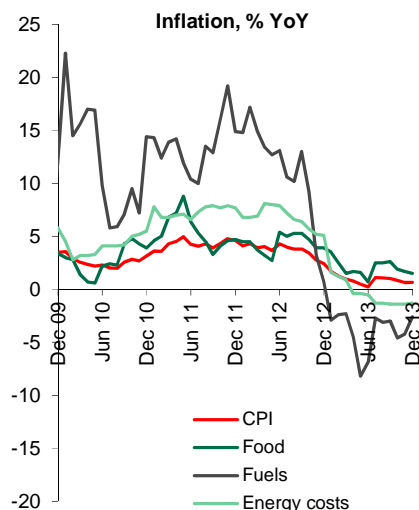


# INSTANT COMMENT

15 January 2014

## Slightly higher inflation in December

Inflation increased slightly in December, to 0.7%YoY, but still remains very low, well below NBP inflation target. Core CPI after excluding food and energy prices has probably even declined marginally, to 1.0%YoY. We still expect to see a gradual rebound of inflation in the next months – in 1Q 2014 it should be above 1% and at the end of the year above 2%. Still, much will depend on the situation in the food market. Regarding the outlook for monetary policy, today's data do not change much – interest rates will stay at current level at least until mid-2014. Actions of the MPC beyond this time horizon will depend on the pace of economic growth and on inflation in nearest two quarters and how it will impact MPC's expectations for future.



Inflation rate rose slightly in December 2013, to 0.7%YoY, and was in line with market consensus (our forecast was slightly higher, at 0.8%YoY). As compared to November, average price level increased by 0.1%. Two most important factors that pushed CPI index up in monthly terms were – in line with our expectations – prices of food and non-alcoholic beverages (0.7%MoM) and fuels (0.4%MoM). As regards the former, it was the first significant rise in prices in the last six months. Although to some extent a seasonal pattern also contributed to this change, it cannot be excluded that a solid rise is heralding a change of trend in this market. We expect that this year the growth of food prices will be gradually accelerating and will no longer be as disinflationary factor as it used to be in 2013. As regards fuel prices, December's hikes were quite temporary, and in January we are observing a downward trend again at fuel stations.

Apart from food and fuel, prices in other categories were stable or slightly decreased. The third in a row reduction of prices in recreation and culture (by 0.7%MoM) was the biggest surprise for us. In previous two months it came from lower cost of holiday trips and audio-video equipment and we guess that this situation also repeated in December. What is more, we observed also lower cost of furnishings, household equipment and maintenance of the house (-0.2%MoM), prices of clothing and footwear (-0.6%MoM) and costs of healthcare (-0.1%MoM). Apparently a gradual revival of private consumption, which is observed since mid-2013, is still too weak to allow retailers to start rising prices.

After today's CPI data we estimate that core inflation excluding food and energy prices declined in December to 1.0%YoY from 1.1%YoY in November (before the data release we used to predict a rebound of core inflation to 1.3%YoY).

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