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Economic Comment

Anemic growth of services prices

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The final November CPI was 1.3% y/y vs. 1.8% in October. The second time in a row the flash reading was revised up by 0.1pp. Inclusion of the revisions of non-core components led us to estimates of November core inflation of 0.7-0.8% y/y (so down vs October print). The services inflation decreased to 0.9% y/y from 1.5% y/y in October and 2.8% y/y in January, despite this part of CPI seemed highly vulnerable to the transmission of wages pressures to consumer prices. In our view, core CPI should reach 0.8% y/y in December and will rise to c2.5% y/y at the end of 2019. The headline inflation could ease further at the end of this year. Should there be only small impact of higher energy prices, in 2019, we expect CPIto reach 2% in mid-year and settle above 2.5% target in December. The data strengthen the MPC view that there are still no reasons to consider rate hikes.

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In food category, we saw continuation of price rise of bread (+1.7% m/m, yielding +8.8% y/y), flour, noodles and vegetables (+2.3% m/m for the latter, second lowest for November in the last 10 years, pretty low given the supply losses due to drought). Fruit prices fell by as much as 3.8% y/y, the biggest drop for November in the last 10 years.

Contribution of the non-core components (food, energy) to the headline CPI fell to 0.8pp in November from 1.6pp in July. This was expected to happen in 2H18 due to base effects. However, the inability of the core CPI to rise in the supportive macro environment was surprising.

Going forward, we face a next puzzle: how the stat office will account for the next year's energy price hikes and the compensation promised by the government. We assume the impact of the approach on the CPI will be negligible. Regardless of the way the stat office counts the price change, the MPC will stick to its dovish bias and the interest rates should stay flat for the better part of 2019 if not the whole year.

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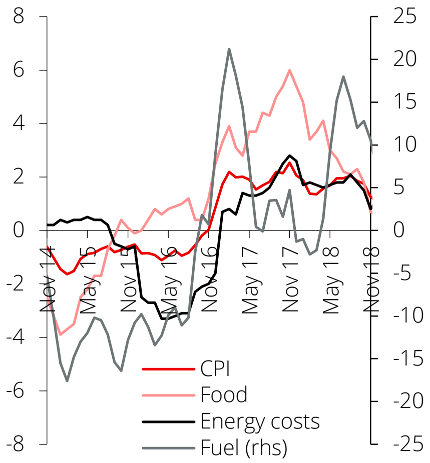
Inflation measures, % y/y



Source: GUS, Santander Bank Polska

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