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## Economic Comment

### Weaker sales and construction in holiday month

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CPI inflation was 5.5% y/y in August (the flash release showed 5.4% y/y), which means that it strengthened at the highest level in 20 years. Core inflation probably rose in August to 3.9-4.0% y/y from 3.7% in July (official print will be released tomorrow by NBP). The price pressure is seen in many categories and is particularly strong in footwear, water supply, telecommunication services, hotels and restaurants. In our view CPI inflation will hold above 5% y/y for at least a few quarters. In 1Q22 it is possible that it goes up to 6% y/y, but the key issue here will be the scale of electricity price hikes at the start of the year. Heightened inflation is to a growing extent generated by demand-side factors so it is increasingly pointing to the need for monetary policy normalisation. We expect to see the start of the normalisation soon – if not in November then in one of the next months at the turn of the year.

According to the final data CPI inflation was 5.5% y/y in August (the flash release showed 5.4% y/y), which means that it strengthened at the highest level in 20 years. Compared to July there was acceleration of both goods prices (5.1% y/y, up from July's 4.4%) and services prices (6.6% y/y vs. 6.2% previously).

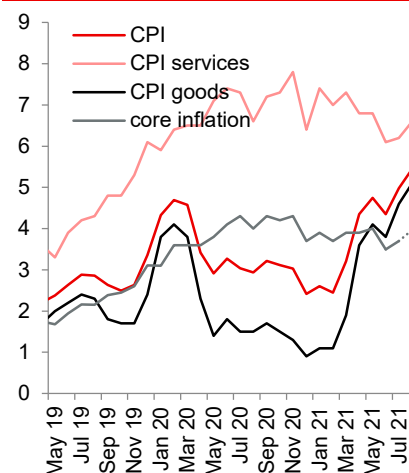
The statistics office revised higher its estimate of food and energy prices and these were the main reasons behind the upward correction of the data from the flash release (and of the acceleration of inflation from 5.0% y/y seen in July). Food prices fell by 0.2% m/m but compared to the usual seasonal pattern this was a relatively high reading. A strong performance was seen among many food categories, including bread, pork, beef, fish, milk, fats and oils, fruits, vegetables, juices and drinks.

Energy prices rose by 1.2% m/m, with natural gas up 5.3% m/m, solid fuel up 0.9% m/m, heating up 0.3% m/m. In our view the cost of energy will be going up in the coming quarters. The largest increases may be seen at the start of 2022 when new electricity prices will be set.

Core inflation probably rose in August to 3.9-4.0% y/y from 3.7% in July (official print will be released tomorrow by NBP). The price pressure is seen in many categories. Here are a few where it is particularly strong: footwear, water supply, telecommunication services, hotels and restaurants. The prices of refuse collection, which are recently often named by the NBP governor Adam Glapiński as a reason of high inflation, have been observing a declining y/y growth for nine months running, in other words their contribution to annual rate of inflation is getting smaller and smaller.

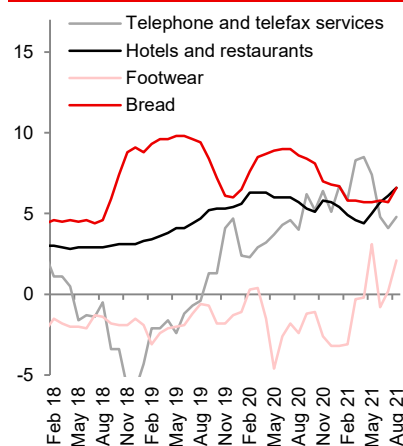
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CPI inflation, % y/y



Source: GUS, Santander

CPI inflation, selected categories, % y/y



Source: GUS, Santander

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