

Economic Comment

Cheaper coal sent CPI lower

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Final CPI inflation in November was at 17.5% y/y as compared to flash estimate at 17.4% y/y. This is its first decline since February 2022. The detailed data confirm that the decline from October's 17.9% y/y was mainly driven by energy and fuel prices. Core inflation continued to rise in November. We estimate it at 11.3% y/y against 11.0% y/y in October. We believe that the annual CPI growth rate will remain fairly stable or fall gently in December and is likely to remain above 10% throughout 2023.

Final CPI inflation in November was at 17.5% y/y as compared to flash estimate at 17.4% y/y. This is its first decline since February 2022 (when the fall was driven by the Anti-Inflation Shield) and its second decline since mid-2021. Commodity prices grew at a rate of 18.8% y/y (previously 19.5% y/y) and dragged the headline inflation lower. Services price inflation rose to 13.2% y/y from 13.0%.

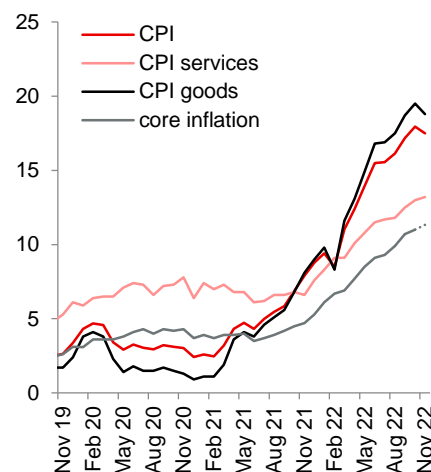
The detailed data confirm that the inflation decline from October's 17.9% y/y was mainly driven by energy and fuel prices. Solid fuel (i.e. coal) prices fell by 1.8% m/m, but in November last year they rose by 16.4%, hence such a strong translation of their current decline into CPI inflation on a y/y basis. This category alone added 0.8 percentage points less to inflation in November than in October. Fuels, on the other hand, with a fall of 1.2% m/m, contributed to annual inflation by 0.2-0.3pp less than in October. Heat prices continued to rise quite strongly in November, by 3.1% m/m, although at a slower rate than in previous months (5% m/m in September, 6.6% m/m in October).

In food prices, marked hikes were seen in fish (2.6% m/m) and dairy (2.8% m/m), although other price movements were also significant. In the case of rice, flour, vegetable oils and meat, the inflationary impulse seems to have started to weaken, but this may be a temporary phenomenon. There is no food product in the data set from the GUS whose price fell m/m in the November reading.

Core inflation continued to rise in November. We estimate it at 11.3% y/y against 11.0% y/y in October. Items such as restaurants and hotels (+1.2% m/m), insurance (+3.1% m/m) or furniture (+3.1% m/m) continue to show strong price momentum. In others, price increases seem to be quite moderate compared to the seasonal pattern (e.g. household appliances, +0.2% m/m, leisure and cultural services, -1.0% m/m). It might be that the CPI data are beginning to show in some categories the difficulty of passing on costs to consumers, who are having to forgo some non-essential spending in the face of rapidly rising costs of living. The signals are however not consistent across the data so we treat them as an issue to monitor in future CPI releases.

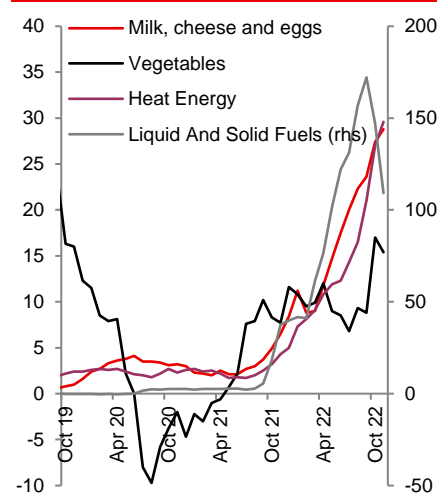
We believe that the annual CPI growth rate will remain fairly stable or fall gently in December, before jumping up due to the cancellation of the VAT relief and possibly exceeding 20% in February. After that, it should enter a downward trend. We believe that CPI inflation is likely to remain above 10% throughout 2023, though.

CPI inflation, % y/y



Source: GUS, NBP, Santander

CPI inflation, selected categories, % y/y



Source: GUS, Santander

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