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Economic Comment

Coal weighed on CPI inflation again

Piotr Bielski, tel. +48 691 393 119, piotr.bielski@santander.pl
Grzegorz Ogonek, tel. +48 609 224 857, grzegorz.ogonek@santander.pl

CPI inflation fell in December to 16.6% y/y from 17.5%, confirming the flash estimate. One of the main sources of the fall in inflation was the deceleration in energy prices, driven mainly by cheaper coal (-10.8% m/m). Solid fuel prices subtracted around 0.5 pp from the inflation rate in December (0.8 pp in November). Overall, the retreat in inflation in December was mainly due to non-core components, while core inflation remained at record high levels. Unless inflation rate jumps significantly above 20% in 1Q23, we believe that the MPC will not consider further monetary tightening in the coming months. On the other hand, we continue to believe that market-priced expectations of interest rate cuts before the end of 2023 are too optimistic, as the disinflation process will be slower than assumed by the central bank's latest projection.

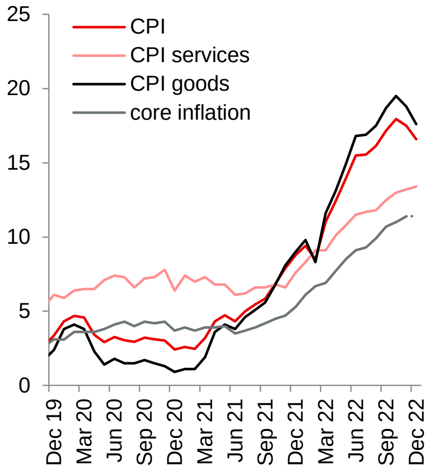
Final CPI data showed inflation rate decline to 16.6% y/y in December (in line with the flash estimate) from 17.5% in November, after 0.1% m/m price increase (vs flash 0.2% m/m). Goods prices inflation dropped to 17.6% y/y from 18.8% while services prices inflation kept pushing higher, to 13.4% y/y from 13.2%.

One of the main sources of inflation decline was deceleration of energy prices, driven predominantly by cheaper coal (-10.8% m/m, after -1.8% m/m in November). Solid fuel prices subtracted around 0.5 pp from the inflation rate in December (0.8 pp in November). Fuel prices declined 1.6% m/m in December, which also helped to lower inflation. Food prices went up slightly less than we had anticipated, and less than in the previous year, also helping CPI to decline. In other categories there were some minor surprises on both sides – for example, prices in clothing and footwear, recreation, transport increased more than we expected, while communication, "miscellaneous goods and services" (incl. personal care, insurance, financial services) were below our forecast.

Overall, the inflation's retreat was mainly the result of non-core components, while core inflation remained at the record-high 11.4% y/y, according to our estimate. We think that in January CPI may go up to 17.8% y/y, and the local peak will be established in February, probably slightly below 20% y/y. Those estimates should be treated with caution, due to large uncertainty about the scale of price increases in various categories at the turn of the year.

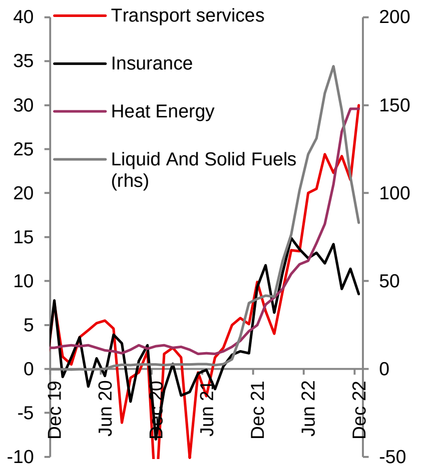
Unless inflation exceeds 20% by a large margin in 1Q23, we think the MPC will not consider any further policy tightening in the coming months. On the other hand, we still think that market-priced expectations of interest rate cuts before the end of 2023 are too optimistic, as the disinflation process will be slower than assumed by the central bank's latest projection.

CPI inflation, % y/y



Source: GUS, NBP, Santander

CPI inflation, selected categories, % y/y



Source: GUS, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: santander.pl/en/economic-analysis
Piotr Bielski +48 22 534 18 87
Jarosław Kosaty +48 887 842 480
Marcin Luziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17. 00-854 Warsaw. Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. http://www.santander.pl.