

15 February 2023

Economic Comment

CPI rose less, but core CPI rose more

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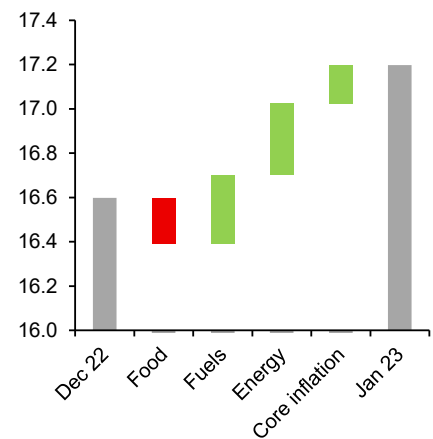
CPI inflation rose less than had been forecasted, to 17.2% y/y, mostly due to smaller price growth in food and energy. However in other areas, the new year apparently brought a stronger upward price correction than might have been expected, as according to our estimates, core inflation rose to 11.8% y/y, setting a new record with a monthly price change of as much as 1.3%, the highest rise recorded so far for January. From March onwards, inflation will probably start to decline, but we still believe that it will be close to 10% y/y at the end of this year. Moreover, the reduction in core inflation will be proceeding noticeably slower.

CPI inflation rose in January to 17.2% y/y from 16.6% in December. The reading was below market consensus and our forecast, both at 17.6% y/y. On a monthly basis, prices rose 2.4% (we had expected 2.7% m/m).

The first release of CPI data for January is, as always, not very detailed, and is just a preliminary estimate. The full picture will be shown in one month, together with a change in CPI weights system. For now, we have learned that food prices increased 1.9% m/m, energy prices 10.4% m/m, fuel prices 0% m/m, alcohol and tobacco 1.2% m/m – in all these cases the move was notably smaller than we had anticipated. Yet, according to our estimates the rise in other prices must have been stronger than we had thought, as the core inflation most likely jumped to 11.8% y/y from 11.5% in December, more than we had expected. This corresponds to 1.3% m/m increase in core CPI excluding food and energy – another re-acceleration to almost record level seen so far.

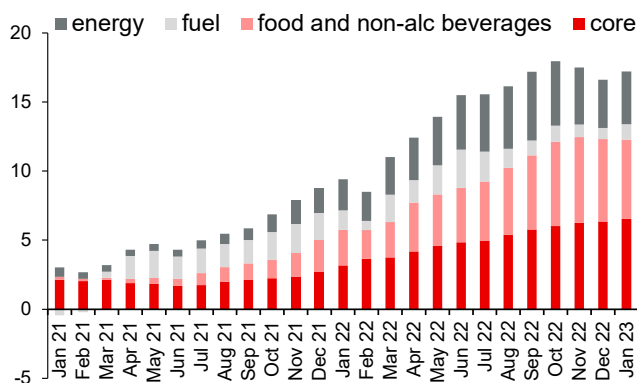
We still think that CPI will go up again in February, to large extent due to low base effect, setting the local peak somewhere between 18.5% and 19% y/y. As mentioned earlier, in February the data will reveal the changes in the CPI weighting system, which – according to our estimates – may add 0.1-0.2pp to the headline number (so the January print will be revised accordingly). Since March CPI inflation should start descending, but we keep our view that the downward trend will not be quick enough to push inflation much below 10% before the year-end. Moreover, like in many other countries, it turns out that the core inflation in Poland is much more persistent than the headline CPI, so the central bank may have little reasons to declare victory in its fight with inflation in the nearest months.

CPI inflation, breakdown of change vs last month, % y/y



Source: GUS, Santander

CPI inflation – breakdown into main components, % y/y



Source: GUS, Santander

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