31 March 2023

Economic Comment

Inflation does not ease

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CPI inflation slid to 16.2% y/y in March from 18.4% y/y in February and was above expectations (us 15.8% y/y, Bloomberg median 16.0% y/y). The data confirmed that February marked the peak of the y/y inflation. We expect annual CPI growth to fall further in the coming months, mainly due to weakening effects of last year's shocks and statistical base effects. However, the price momentum is still strong and greater than expected - on a monthly basis, CPI has risen by 1.1% m/m, and already by almost 5% since December. This supports our claim that inflation will fall this year slower than expected by the market, NBP experts and the NBP president himself. We expect 10% inflation at the end of the year. This makes us still consider it unlikely that the MPC will decide to cut interest rates this year.

Our calculations show that core inflation (CPI excluding food and energy prices) may have risen to 12.2% y/y in March from 12.0% y/y in February, thus setting yet another record. On a monthly basis, the increase was 1.2% m/m, similar to February.

CPI inflation slid to 16.2% y/y in March from 18.4% y/y in February and was above expectations (us 15.8% y/y, Bloomberg median 16.0% y/y). The preliminary data showed a 0.6% m/m decline in energy prices, a 1.8% m/m decline in fuel prices and a 2.3% m/m increase in food prices - roughly in line with our expectations.

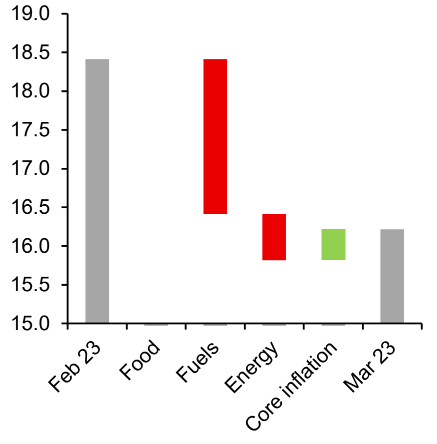
Out of all the March readings, such a high increase in food prices happened only once since the mid-1990s, in 1996. According to our estimates, prices of all the main components of the 'food' category went up in March. The largest contributor to the achieved increase in food prices was meat (it may have increased by around 6% m/m). A significant contribution was also made by fruits, vegetables, bread, and most likely also the sub-category comprising sweets (sugar and confectionery, jam, honey, chocolate).

Nevertheless, it is not food prices that are of most concern in the flash CPI release but the momentum in the other categories. Our calculations show that core inflation (CPI excluding food and energy prices) may have risen to 12.2% y/y in March from 12.0% y/y in February, thus setting yet another record. On a monthly basis, the increase was 1.2% m/m, similar to February. This was the highest March since comparable data are available. We have to wait until 14 April for detailed data on the breakdown of inflation, but in our view, services were mainly to blame.

The data confirmed that February marked the peak of the y/y inflation. However, it is worth noting that this is mainly due to technical/statistical factors - it is the result of numerous tax changes and base effects (the fall in y/y inflation in March is mainly a base effect on fuels). The peak of 'raw' inflation, cleared of tax effects, was, according to our estimates, actually in October. And core inflation, as we mentioned above, continues to accelerate.

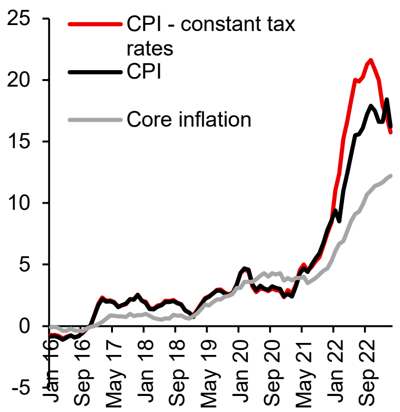
We expect annual CPI growth to fall further in the coming months. However, the price momentum is still strong and greater than expected - on a monthly basis, CPI has risen by 1.1% m/m, and already by almost 5% since December. This supports our claim that inflation will fall this year slower than expected by the market, NBP experts and the NBP president himself. In June, prices will probably already be 7% higher than in December, which means that President Glapiński's scenario of inflation falling to 6-7% y/y by the end of the year will become very improbable. We expect 10% inflation at the end of the year. This makes us still consider it unlikely that the MPC will decide to cut interest rates this year.

Annual GDP growth breakdown, % y/y



Source: GUS, Santander

CPI inflation measures, % y/y



Source: GUS, NBP, Santander

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