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Economic Comment

Single-digit CPI inflation is approaching

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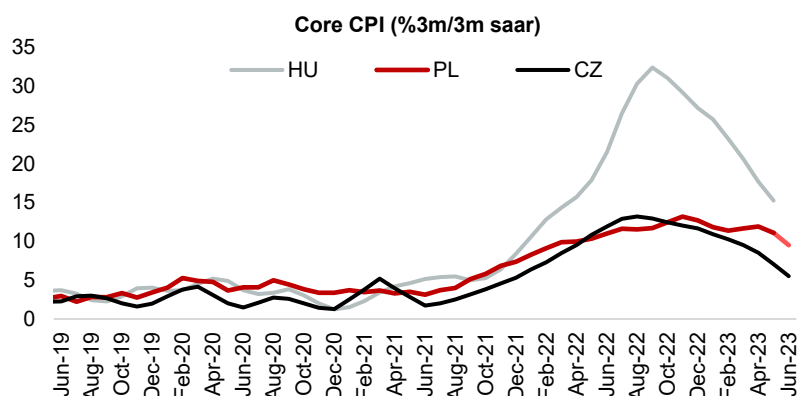
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GUS confirmed inflation declined in June to 11.5% y/y from 13.0% in May, in line with its early flash print. Inflation was driven down by food, energy, fuels and core inflation. We estimate core inflation excluding food and energy prices at 11.0% y/y as compared to 11.5% y/y in May. Inflation of goods' prices fell to 11.4% y/y from 13.0% y/y and in services' prices to 11.7% y/y from 12.3% y/y. We are expecting a further gradual reduction in inflation to ca. 7.3% y/y at the year-end. We still see the first single-digit CPI print in September, which can encourage the MPC to cut rates in October. Our current forecast for August is 10.2% y/y, so it is quite probable that single digit reading will appear in that month, delivering an earlier signal for the MPC to begin monetary easing.

Food and non-alcoholic beverages prices decreased by 0.3% m/m in June, and that was the lowest reading for the month since 2014. Food prices were dragged lower mostly by oils and fats (-1.7% m/m - the market is adjusting after strong price increases related to the oilseed crop supply disruption in Ukraine), dairy products (-0.1% m/m - the effect of increased milk supply and weak demand from China) and fish (-0.3% m/m - a rather surprising decline for us). Other categories behaved roughly in line with the seasonal pattern, with stronger than usual prices for vegetables, coffee, tea and fruit juices, among others. In our view, adverse weather conditions in Poland and globally will put upward pressure on fruit and vegetable prices later in the year.

Price tendencies were also fairly low in the home furnishings (-0.3% m/m), which was mainly due to reductions in furniture prices (-2.3% m/m). Still, most of the main categories rose in line with the seasonal pattern: clothing and footwear (-0.9% m/m), dwelling and energy (0.0% m/m, note the 0.2% m/m drop in heating prices - they fell for the first time in two years), health (0.5% m/m), communications (0.1% m/m), recreation and culture (1.1% m/m, with books rising strongly: 5.0% m/m), and other goods and services (0.0% m/m, with a 2.3% m/m drop in insurance prices standing out). The only category with above-normal price increases is restaurants and hotels (0.7% m/m), but here too, the price shock is showing signs of weakening.

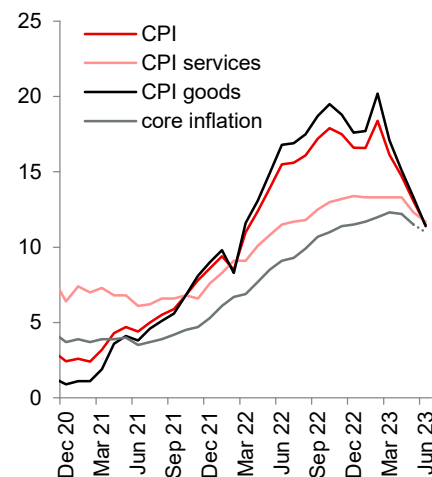
Overall, the data indicate a reduction in upward pressure on prices, which supports our forecast of a further decline in CPI in the coming months. According to our estimates, the bill just passed by the Sejm increasing the cap on electricity consumption from 2 to 3 MWh should further reduce the inflation rate by ca. 0.2pp once it is implemented - in September or October. However, we are expecting the upward price impulses to appear at the end of the year, stemming from the drought and a rebound in the domestic demand, will somewhat weaken further disinflation.



Source: GUS, regional statistical offices, Santander

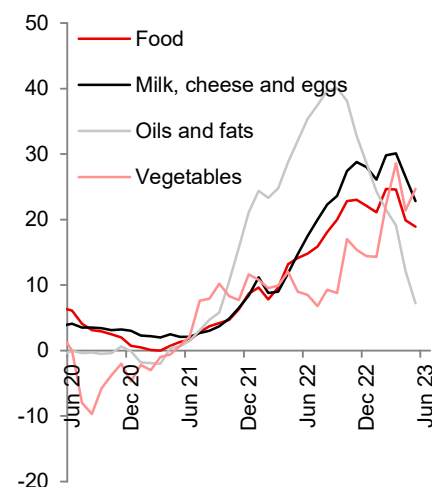
Note: seasonal adjustment by Santander

CPI, main measures, % y/y



Source: GUS, NBP, Santander

Food prices, % y/y



Source: GUS, Santander

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