31 July 2023

Economic Comment

Rising chances for single-digit CPI in August

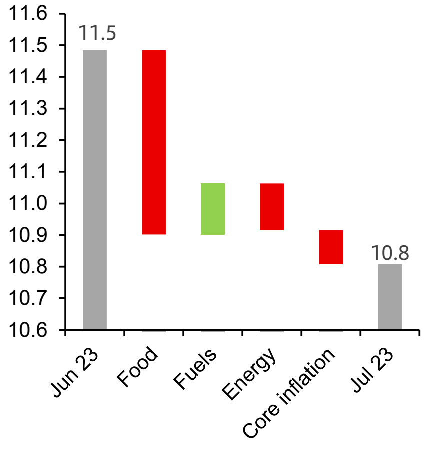
Piotr Bielski, tel. 691 393 119, piotr.bielski@santander.pl

Flash CPI inflation dropped to 10.8% y/y in July from 11.5% in June, slightly below our forecast 10.9% and market consensus 11.0%. Prices declined 0.2% m/m, which is the first monthly drop since February 2022. The main source of downward surprise was food prices, which dropped 1.2% m/m (we were predicting -0,3%). At the same time, prices of energy (0.0% m/m) and fuels (0.4% m/m) surprised to the upside. The latter is a big surprise, as our observation of prices at the pump suggested a drop in July by almost 2% m/m. At the same time, it confirms that our assumption that the fuel price promotions limited to members of loyalty programmes should not enter the CPI proved correct.

The data imply that the core inflation must have been also lower than we anticipated – it dropped to 10.6% y/y, according to our estimate, its lowest since August 2022. We will see more details in the final CPI release on August 14th.

Overall, inflation keeps surprising to the downside, which results not only from retreating food and energy shock but also waning core inflation inertia. Today's print increases probability that CPI may drop below 10% y/y already in August, however our forecast is currently at the verge (10.01% y/y), suggesting that the first interest rate cut is still slightly more likely in October than in September. The downward risk for August CPI stems from lower trajectory of food prices (both June and July were lower than anticipated and the impact of extreme drought may fail to show up in the data as early as next month) but also core components, although it may be partly offset by a rebound in fuel prices (as Brent keeps trending higher).

Breakdown of change in annual CPI, % r/r



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 +48 691 393 119
Bartosz Białas +48 517 881 807
Cezary Chrapek, CFA +48 887 842 480
Marcin Luziński +48 510 027 662
Grzegorz Ogonek +48 609 224 857