CEE Economics

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Economic Comment

Another CPI decline

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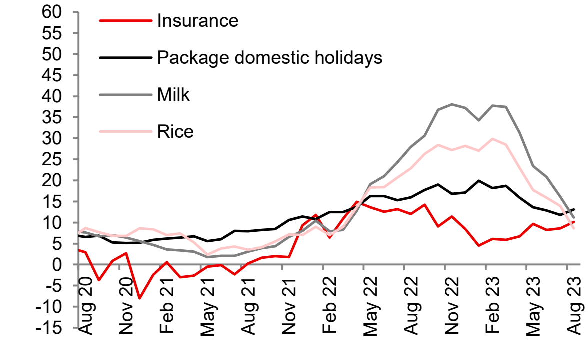
In August, inflation fell to 10.1% y/y with goods prices decelerating to 9.8% y/y and services prices to 11.1% y/y. It seems that core inflation fell to 10.0% y/y from 10.6%. The data show low upward pressure on prices in many food categories, but also a rebound in durable goods (furniture, white goods). In our view, inflation will almost certainly drop below 9% y/y in September and should continue falling until the end of the year, reaching below 7% y/y. However, we assume that in 2024 the downward trend will no longer continue and that a rebound is possible in the second half of the year.

The final GUS figures confirmed that inflation fell in August to 10.1% y/y (0.0% m/m). The data are published with one decimal place precision, but after looking at the details of the publication, we get the impression that it was a 'strong' 10.1%, close to 10.2% after rounding. Commodity prices grew at a rate of 9.8% y/y (previously 10.6% y/y), while in services the deceleration of annual growth was slower: 11.1% y/y in August after 11.3% in July.

Food prices fell by 0.9% m/m, one of the lower August readings in recent years. Food prices subtracted as much as 0.8 percentage points from the headline inflation(compared to the July reading). Many categories observed low upward pressure on prices or even declines in prices, for example bread, fish, dairy products, oils and fats. This is largely the result of falling agricultural production costs and increased supply following the pandemic and in response to the disruption in Ukrainian farming. In our view, food prices will lower CPI in the coming months, with their growth rate declining from 12.7% y/y in August to around 6% y/y at the end of the year. Fruit and, to a lesser extent, vegetables will break out of this pattern, in our opinion, due to the losses caused by the drought (according to GUS's preliminary estimate, the supply of domestic fruit fell by around 9%, and of vegetables by around 3%). However, this will not change the overall trends on the food market.

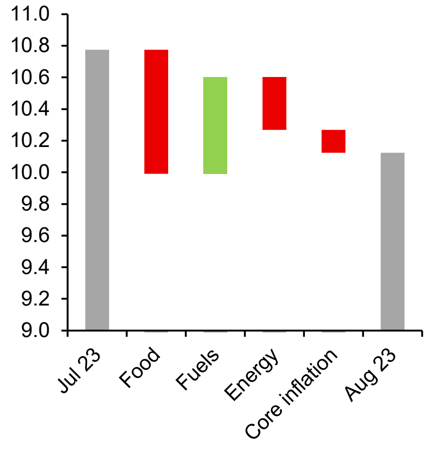
CPI, selected categories, %y/y



Source: GUS, Santander

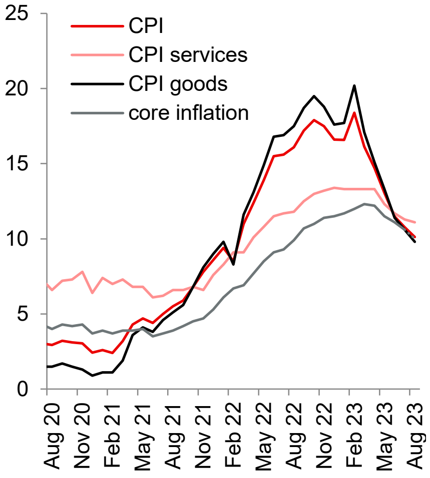
Energy inflation fell to 13.9% y/y in August, down from 16.8% in July and around 30% y/y in early 2023. Frozen electricity prices have, of course, remained unchanged, but this is likely to change soon. The GUS has said that it will include any legal changes to consumer prices in the GUS once the legislation comes into force. This means that the increase in the electricity cap (according to us, it will subtract about 0.1 percentage points from the inflation rate) will probably already be taken into account in September. We assume that the one-off refund aimed at compensating 5% of households' spending on electricity will not affect the CPI (as it is a cash benefit rather than a price reduction), but we are not completely sure how is GUS going to address this issue. If it is accounted for, it can deduct 0.2pp from the headline. Natural gas prices fell by 0.3% m/m (the seventh consecutive decline), solid fuel by 0.5% m/m (the 10th consecutive decline, annual growth rate falling to -17.5%y/y), while heat energy rose by 0.5% m/m after a 0.4% m/m price increase in July.

Decomposition of CPI inflation change, % y/y



Source: GUS, NBP, Santander

Price growth in main CPI categories, % y/y



Source: GUS, Santander

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According to our calculations, core inflation fell 10.0% y/y in August after 10.6% in July. Our attention was especially drawn to the behaviour of the prices of furniture, decorative items, lighting equipment (0.6% m/m rebound) and household equipment (0.4% m/m rebound). This may be a signal of an ongoing(or expected in the near future) improvement in demand for home furnishings. In our view, spending on durable goods, which has been held back for the past quarters, may now start to rebound in the face of a consistent improvement in consumer sentiment and a wave of revival in demand for home loans.

In our view, inflation will almost certainly dive below 9% y/y in September. Whether it will be 8.9% y/y or less depends on, among other things, the behaviour of fuel and food prices for the rest of the month and whether the GUS takes into account the one-off refund for energy consumers (in our view, it will not). The fall in inflation could last until the end of the year and reach below 7% y/y. However, in 2024 we assume that the downward trend will no longer continue and there may be some rebound in the second half of the year. 2024 average CPI is strongly dependent on political decisions regarding energy prices and VAT on food.

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