CEE Economics

Poland

13 October 2023

Economic Comment

Prices went down in September

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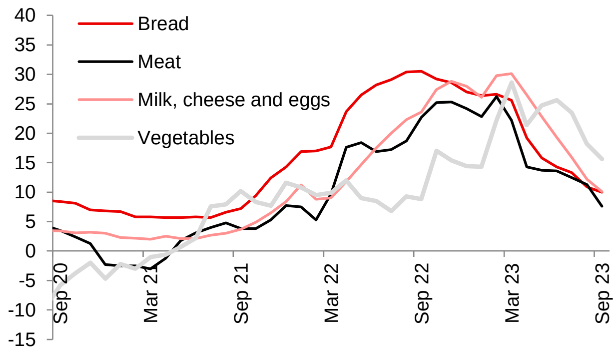
CPI Inflation fell to 8.2% y/y in September with goods prices slowing down to 7.6% y/y and services prices to 9.7% y/y. Core inflation according to our estimates fell to 8.4% y/y from 10.0% y/y in August. On the one hand, we can see that inflation has retreated in many service categories, on the other hand, regulatory changes and one-off special offers were responsible for part of the September decline, which will soon be reversed or not repeated. We assume that October will bring a further sharp drop in inflation, probably below 7% y/y, but the CPI path will become flatter in the following months. At the end of the year, inflation, in our opinion, could be slightly below 7% y/y.

GUS confirmed a fall in CPI inflation to 8.2% y/y in September from 10.1% y/y in August and a monthly price decline of 0.4%. Main factors behind the decline were: lower food and energy price growth as well as lower core inflation. Goods price inflation fell for the seventh consecutive month to 7.6% y/y (9.8% y/y in August, peak was reached at 20.2% y/y in February 2023). Services price inflation fell for the fifth consecutive month, to 9.7% y/y (11.1% in August, 13.3% y/y was recorded in January-April 2023).

Prices of food and non-alcoholic beverages fell by 0.4% m/m, which is a very low reading for September (over the last 30 years) – the same rate of decline was seen in the record year 2020. This is the fourth consecutive historically low reading of the monthly change in food prices. Thanks to September's decline, the contribution of this category to the annual CPI growth decreased to 2.9 pp. (in August it was 3.5 pp.) and was the lowest since last March. In our view, there is still some space for a further decline in the contribution of food prices to overall inflation – in the rest of 2023 and in 2024, the contribution could stay within the range of 1.0-2.5 pp., assuming a moderate impact of this year's drought and no new global shocks which could affect food supply or production costs (including shocks to energy commodity prices). Most food categories shown by GUS recorded m/m declines in prices, particularly sugar (-2.8%), poultry and pork meat (-2.7% and -1.5%), oils and fats (-1.5%), and rice (-0.9%). On the other hand, marginal price increases appeared in bread and non-alcoholic beverages (0.2% each) as well as pasta (+0.5%). Monthly price changes in most categories were markedly below the usual seasonal pattern, although, we can see some upward impact of drought on fruit and vegetable prices.

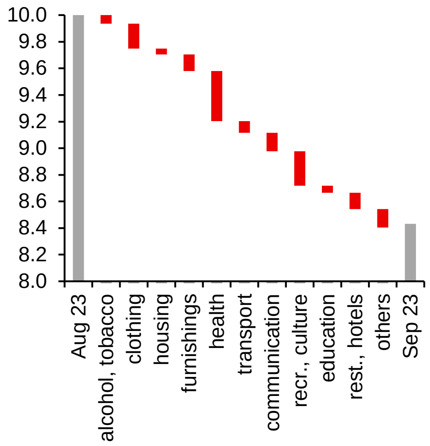
CPI, selected items from the 'food' category, %y/y



Source: GUS, Santander

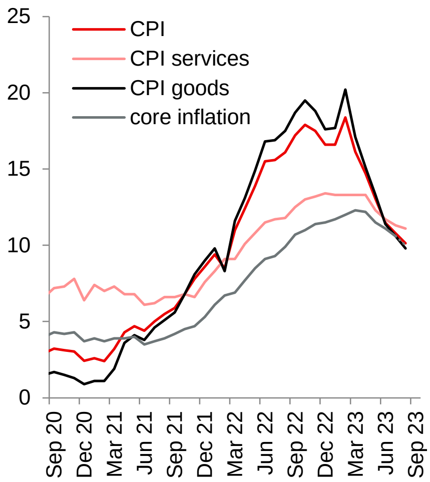
The behaviour of energy prices, which fell by 0.7% m/m (resulting in an annual growth rate of 9.9% y/y vs. 13.9% y/y in August), shows the impact of the decision to increase the electricity usage cap (it looks like its full effect was attributed to September), whereas the decision to make a one-off payment equal to a 5% annual reduction in electricity prices was apparently not included in the CPI, in line with our assumptions. The gradual decline in gas prices continued (-0.2% m/m), solid fuel prices stopped falling (0.0% m/m) and heat prices rose by 0.8% m/m (more than we had expected, but less than in September 2022, resulting

Core inflation, breakdown of change in annual rate, % y/y



Source: GUS, NBP, Santander

Construction production in Poland



Source: GUS, Santander

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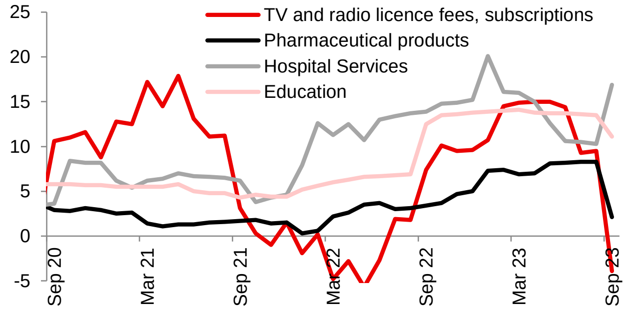
in their annual growth falling to +30.7% y/y). In the case of fuels, annual price increases were almost unchanged, but this was achieved by keeping the prices relatively low given the behaviour of Brent crude oil prices and the zloty exchange rate over the period.

As regards core categories, the main downward swings were visible in health (-2.4% m/m), driven by the introduction of free medicines for people under 18 and over 65 (pharmaceuticals -5.3% m/m), recreation and culture (-1.5% m/m), impacted by a 7.9% m/m drop in broadcasting fees (this is, in our view, the effect of a special offer in one of the big streaming platforms), and communications (-0.5% m/m), where telecom services prices fell by 0.5% m/m. Transport prices fell by 14.3% m/m, which is roughly in line with the seasonal pattern and is due to fluctuations in airfares. However, it is likely that railway ticket discounts helped skim a few percentage points from the category as well. There was a marked increase in education, by 4.9% m/m, which we believe was mainly due to the indexation of pre-school fees. Other categories behaved roughly in line with the seasonal pattern.

CPI, selected categories, %y/y



Source: GUS, Santander

We estimate that core inflation eased in September to 8.4% y/y from 10.0% y/y in August. On a monthly basis, prices in the core categories probably declined. However, a significant part of this decline was due to one-off and regulatory factors, which will soon be reversed or not be repeated. Without these effects, the monthly change in core prices would have remained similar to previous months. We expect core inflation to be close to 7% y/y by the end of the year.

We assume that October will bring a further sharp decline in inflation, probably below 7% y/y, but in the following months the CPI path will become flatter. At the end of the year, inflation, in our opinion, may be slightly below 7% y/y. 2024 CPI inflation will largely depend on the government's decisions on VAT on food and the unfreezing of energy prices. In general, however, disinflation may be slow in 2024, i.e. the CPI path will be fairly flat. Our expectation of a large drop in inflation in October this year may encourage the MPC to cut rates by 25bp at the next meeting.

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