CEE Economics

Poland

15 November 2023

Economic Comment

Slight upward correction of October CPI

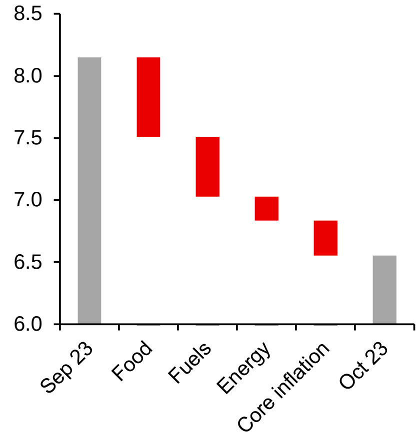
Bartosz Białas, tel. 517 881 807, bartosz.bialas@santander.pl
Marcin Luziński, tel. 510 027 662, marcin.luzinski@santander.pl
Grzegorz Ogonek, tel. 609 224 857, grzegorz.ogonek@santander.pl

GUS raised its estimate of October CPI inflation to 6.6% y/y from 6.5% y/y and versus 8.2% y/y in September. The reduction in the annual inflation rate was due to lower annual growth in all major categories - food, energy, fuel and core inflation. In our view, CPI inflation will remain close to 6.5% y/y in November and December. Its level next year will largely depend on the government's decisions on energy prices and VAT on food. However, the recovery in consumer demand and strong growth in social benefits will mean that the disinflationary trend will be halted in 2024, which will support the stabilisation of NBP rates, in our view.

We estimate that core inflation eased to 8.0% y/y in October from 8.4% y/y in September, with upside risks to this estimate. We expect further declines in core inflation in the coming months, although we believe it should not fall below 4% y/y next year.

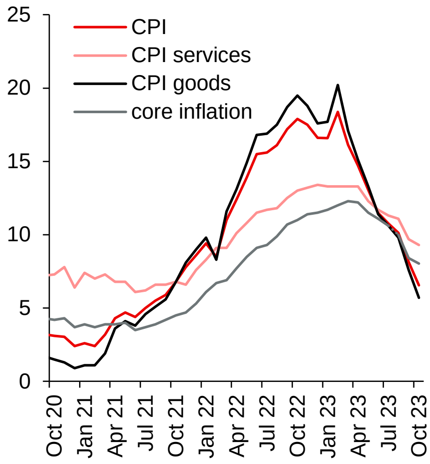
In 3Q23, housing prices jumped markedly after a couple of quarters of stabilisation or even declines – this happened primarily thanks to a major rebound in demand.

Breakdown of change in annual CPI, % y/y



Source: GUS, NBP, Santander

Main inflation measures, % y/y



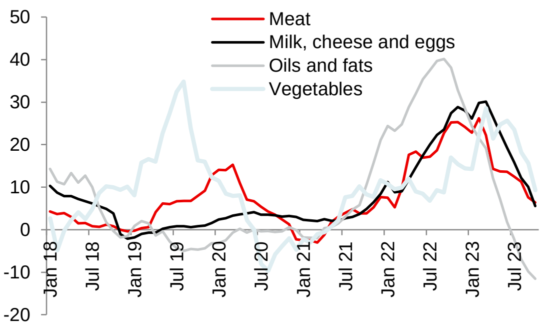
Source: GUS, NBP, Santander

CPI revised slightly higher

GUS raised its estimate of October CPI inflation to 6.6% y/y from 6.5% y/y and versus 8.2% y/y in September. The reduction in the annual inflation rate was due to lower annual growth in all major categories - food, energy, fuel and core inflation. Goods price growth declined to 5.7% y/y from 7.6% y/y, and services price growth to 9.3% y/y from 9.7% y/y. In our view, CPI inflation will remain close to 6.5% y/y in November and December. Its level next year will largely depend on the government's decisions on energy prices and VAT on food. However, the recovery in consumer demand and strong growth in social benefits will mean that the disinflationary trend will be halted in 2024, which will support the stabilisation of NBP rates, in our view.

Inflation in prices of food and non-alcoholic beverages for October was revised 0.1pp higher vs. the flash reading to +0.5% m/m. This print is in line with the usual historical behaviour of this category in October and this is an important change since the previous four prints were significantly below the seasonal pattern. Before the flash CPI release we expected to see +0.1% m/m in food. Despite this relatively strong m/m rise of food prices, the contribution of this category to annual headline CPI fell to 2.2pp from 2.9pp. Using the FAO index as a leading indicator, adding some local correction for 2023 drought and assuming relatively stable PLN next year we see this contribution fall to slightly below 2pp in 2024. Government decision on restoring (or not) the 5% VAT on basic food in 2024 will be crucial for this part of CPI (we assume the tax will be imposed).

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



Source: GUS, Santander

It is worth noting that many food categories that had seen meaningful declines in September and previous months were rebounding, stabilising, or at least dropping much

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

less in October: rice price rebounded by 0.6% m/m after a 0.9% fall a month earlier, meat was 0.0% m/m (vs. -0.8% previously), dairy products were +0.2% m/m (after -0.3%), oils and fats moved to +0.8% m/m from -1.5% with butter alone moving to +2.9% m/m from -1.4%, fruit and vegetable prices rose by c.2% m/m (having declined in September by -1.0% and -0.7%, respectively) – some impact of this year's drought is already showing up here, as we assumed. Tea prices have not seen any m/m decline in almost two years and in the last three months were going up by more than 1% per month. On the other hand pasta products (-0.4% m/m) and bread (+0.1% m/m) deviated significantly to the downside vs. the seasonal pattern.

The energy prices rose by 0.3% m/m (revised from 0.2% m/m) with heating standing out, as it rose by 1.2% m/m. We think that energy prices may increase slightly faster in the coming months as outside temperatures drop.

Fuel prices decreased by 4.2% m/m (unchanged from the preliminary reading). This means, in our view, that GUS took into account prices at pump stations from before the strong rebound in the second half of October. Thus, in November data the fuel price growth – calculated vs. the period of price stabilisation at low levels prior to the elections – will be quite high, close to double digit in monthly terms.

In the core categories, alcoholic beverages and tobacco products, communication and home furnishings stood out on the upside. Tobacco products rose by 0.7% m/m and this was their second strong increase in a row. Prices in communications went up by 1.3% m/m, driven mainly by an increase in the telecommunication services (1.4% m/m). To a large extent, this may have been the result of a rebound after the fall in prices in September. On the other hand, in the case of home furnishings (0.6% m/m), the key factor was the increase in the price of household appliances (0.8% m/m). In our view, this category may also stand out in the coming months, due to the strong recovery in demand in the housing market.

In other categories, price increases were roughly in line with the seasonal pattern, though we would direct some attention to housing costs. In this section, prices rose by barely 0.3% m/m, not very much for October. This, however, resulted mainly from a small increase in the price of energy, while increases in the prices of water, sewerage and landlord fees were quite pronounced.

We estimate that core inflation eased to 8.0% y/y in October from 8.4% y/y in September, with upside risks to this estimate. We expect further declines in core inflation in the coming months, although we believe it should not fall below 4% y/y next year.

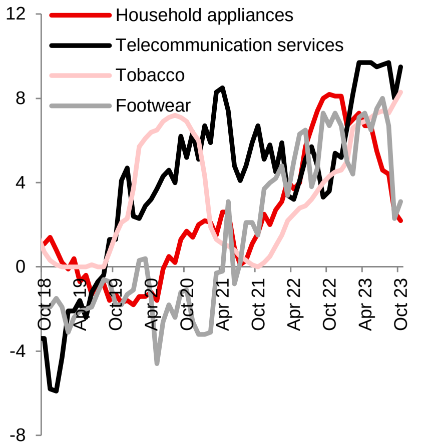
Real estate prices do not fall anymore

In 3Q23, the average prices of apartments in Poland's 17 largest cities rose by around 3.5% q/q in both the primary and secondary markets. The jump in prices was significant, considering it came after several quarters of stabilisation or even declines, and was the strongest change recorded since mid-2022.

The strong recovery is primarily the result of a rebound in demand, particularly evident in new mortgage sales, which amounted to PLN15.2bn in 3Q23 compared to PLN11.1bn in 2Q23 and PLN6.3bn in 4Q22 (the lowest figure in recent quarters). The trigger for the rebound in demand came from the economic recovery, strong growth in disposable income, the fall in market interest rates and the introduction of the government's 2% Safe Mortgage Loan programme. In the first five months of the programme's operation (i.e. since July), banks signed loan contracts worth more than PLN10bn, which we believe represents more than a third of the loans granted during this period.

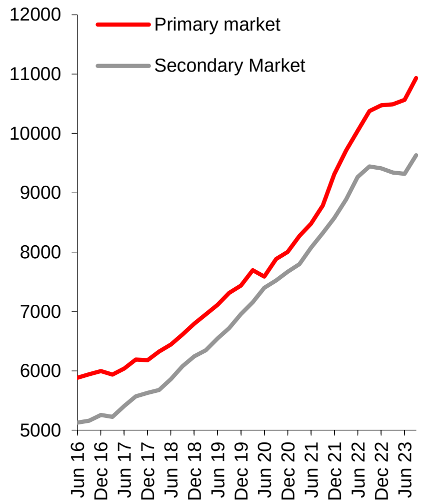
At the same time, the supply is currently limited, as the collapse in demand for housing in 2022 led to developers reducing construction. As we assume that the above factors will persist in the coming quarters, prices of residential real estate are likely to continue growing.

CPI, selected core inflation components, %y/y



Source: GUS, Santander

Average price per sqm in 17 largest Polish cities, PLN (Santander estimate based on NBP data)



Source: GUS, NBP, Santander

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division. Economic Analysis Department. al. Jana Pawła II 17. 00-854 Warsaw. Poland. phone +48 22 534 18 87. email ekonomia@santander.pl. http://www.santander.pl.