

15 January 2024

Economic Comment

Inflation pressure eased in December

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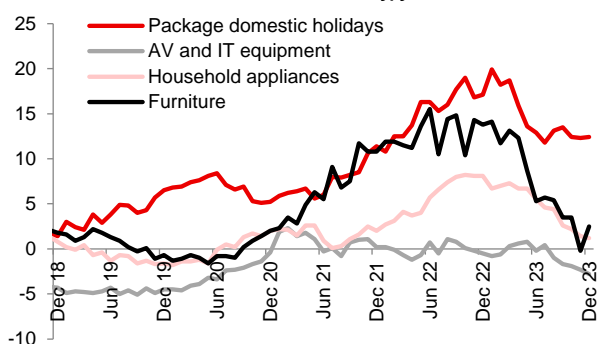
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CPI inflation in December reached 6.2% y/y (revised up from 6.1% flash estimate), amid 0.1% m/m price growth. Our estimate of core inflation ex food and energy is still on the verge of 6.8% and 6.9% y/y, i.e. at the lowest level since March 2022. Overall, the slight upward revision of the CPI numbers does not change the fact that December saw surprisingly strong easing of price pressure. Our forecast for the coming months sees CPI going down to below 3% y/y in March and then rebounding towards 7% y/y by the year-end, with core inflation descending to c.5% y/y in 1Q and then hovering near this level. Such trajectory is now anticipated by the central bank and – as suggested by comments of NBP president – will not be a trigger for policy easing unless we see some significant improvement in inflation outlook.

CPI inflation in December reached 6.2% y/y (revised up from 6.1% flash estimate), amid 0.1% m/m price growth. The revision affected mainly the core inflation components, with food prices confirmed at 0.2% m/m, fuel prices -1.8% m/m and energy prices only marginally revised up to -0.2% m/m (from -0.3%). Our estimate of core inflation ex food and energy is still on the verge of 6.8% and 6.9% y/y, i.e. at the lowest level since March 2022.

Prices of food and non-alcoholic beverages rose by 0.2% m/m in December. This time, the preliminary estimate by GUS was not revised upwards by 0.1 percentage points as happened in the previous two months. This is a much lower increase than the historical average for December of almost 1.0% m/m. Particularly large downward deviations from the natural behaviour of food prices in December occurred in the case of fish (-1.2% m/m), vegetable fats (-3.0% m/m), sugar (-4.7% m/m). Relatively low price increases occurred for fruit and vegetables (after relatively strong increases in November) and meat (especially pork and beef). Unlike in November, no food category saw a large upward deviation from the normal pattern of seasonal price movements. Since the VAT rate on food is not due to normalise until April (this seems more likely to us than another extension by the government of the zero rate), the following months should still be marked by a retreat in annual food price growth, from 6.0% in December to c.2% in March. Its rebound later in the year, however, will, in our view, push the average for the whole of 2024 close to 6%.

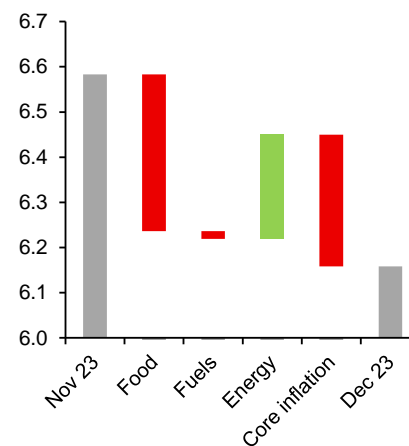
CPI inflation in Poland, selected items, %/y



Source: GUS, Santander

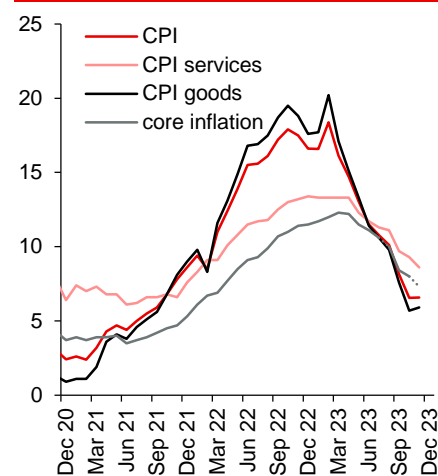
Energy prices decreased by 0.2% m/m in December (against a preliminary estimate of -0.3% m/m). Electricity and gas prices remained stable. Solid fuel continued to cheapen, and at a faster rate than in previous months (-2.0% m/m). Prices of heat energy rose by 0.4% m/m, which is, however, quite typical for December. The annual growth of energy prices went up from just under 8% to 9.8% in December, but as a result of the extension of the freeze on electricity and gas prices to the first half of this year, we should now see a shift to negative prints in this category lasting until June. Fuel prices were 1.8% lower in December than a month earlier and 6.0% lower than a year earlier. Under our assumptions for crude oil price

Breakdown of change in annual CPI, % y/y



Source: GUS, NBP, Santander

CPI inflation in Poland and main categories, % y/y



Source: GUS, NBP, Santander

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and exchange rate for this year, annual fuel price growth should remain negative for a few more months, and the average for the whole of 2024 may be also moderately negative.

We estimate that core inflation fell to 6.8-6.9% y/y from 7.3% y/y. The m/m price movement within core inflation may have been 0.2% which is slightly higher than the historical average for December. Within core inflation, relatively large price increases occurred in transport services (+21.6% m/m), domestic tourism services (+2.6% m/m) and the category covering restaurants and hotels (+0.5% m/m). Higher-than-usual price increases were also seen in some other services (dental, financial) and furniture (+2.6% m/m), the latter causing the broader category of 'home furnishing, household equipment and routine household maintenance' to rebound by 0.4% m/m after falling by 0.3%. The falls in the prices of audio-visual equipment and household appliances from November, which we associated with the Black Friday effect, were not reversed in December.

Overall, the slight upward revision of the CPI numbers does not change the fact that December saw surprisingly strong easing of price pressure. Both goods and services saw price slowdown: to 5.5% and 8.2% y/y, respectively and there were only a few upward surprises in the detailed CPI data.

Our forecast for the coming months sees CPI going down to below 3% y/y in March and then rebounding towards 7% y/y by the year-end, with core inflation descending to around 5% y/y in 1Q and then hovering near this level. Such trajectory is now anticipated by the central bank and – as suggested by comments of NBP president – will not be a trigger for policy easing unless we see some significant improvement in inflation outlook.

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