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Economic Comment

Last month with CPI in target

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GUS confirmed the increase in CPI inflation to 2.6% y/y in June from 2.5% y/y in May. The slight increase was mainly due to a stronger increase in food prices from 1.6% y/y to 2.5% y/y after a monthly rise by 0.7% m/m. Increases in inflation rates were recorded for most major categories of food products. The growing price momentum may be the result of several overlapping effects, including the ongoing drought in Poland, global price increases (reflected by rising FAO indexes), or further impact of the April VAT increase on food prices. Energy prices fell by 0.1% m/m in June, so they were not very important from the point of view of changes in the inflation rate. According to our estimates, prices in core categories increased by c. 0.2% m/m and core inflation amounted to 3.7% y/y vs. 3.8% y/y in May. In our view, core inflation will remain in the vicinity of 3.5-4.0% y/y in the coming months, which will be supported primarily by a high increase in labour costs. In July, we expect CPI inflation to rebound strongly to slightly above 4.0% y/y due to the increase in electricity and gas prices. In the coming months, the upward trend in CPI will continue and we expect 5.0-5.5% y/y at the end of the year. We are forecasting that the peak of inflation will be registered in March 2025. In our opinion, such a path of inflation will cause the MPC to maintain a hawkish stance in the coming months and start reducing rates in mid-2025 at the earliest.

Inflation slightly up to 2.6% y/y

GUS confirmed the increase in CPI inflation to 2.6% y/y in June from 2.5% y/y in May. The slight increase was mainly due to a stronger increase in food prices. Therefore, the prices of goods accelerated to 1.3% y/y from 1.2% y/y, while the prices of services grew slightly slower, by 6.1% y/y after 6.2% y/y in May.

In July, we expect CPI inflation to rebound strongly to slightly above 4.0% y/y due to the increase in electricity and gas prices, which in our opinion will add 1.4 percentage points to the inflation rate. In the coming months, the upward trend in CPI will continue and we expect 5.0-5.5% y/y at the end of the year. We are forecasting that the peak of inflation will be registered in March 2025, when the CPI will increase to around 6.0% y/y. In our opinion, such a course of inflation will cause the MPC to maintain a hawkish stance in the coming months and start reducing rates in mid-2025 at the earliest.

Food price inflation up

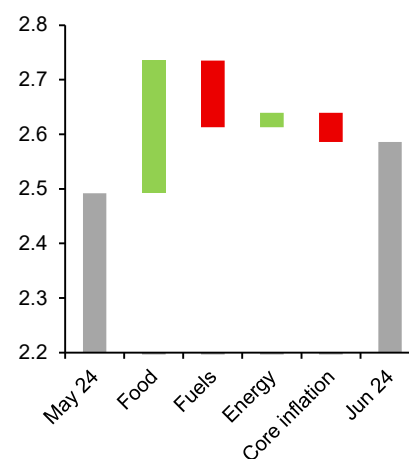
Inflation of food and non-alcoholic beverages prices rose from 1.6% y/y in May to 2.5% y/y in June, which was the result of an increase in this category by 0.7% m/m, i.e. to a relatively large extent for June. In the last ten years, price increases at such a level have been recorded only in June 2022, while in other June of the last ten years, the absolute scale of price changes did not exceed 0.3% m/m.

Although the data did not indicate a wide-ranging acceleration of inflation in May, in June an increase in its momentum was recorded in most major categories of food products. Inflation accelerated, in bread and cereal products (from 4.9% y/y in May to 5.5% y/y in June), meat (from 1.2% y/y to 1.7% y/y), milk, cheese and eggs (from -0.1% y/y to +0.6% y/y), oils and fats (from -3.9% YoY y/y -0.6% y/y), as well as fruit (from -2.5% y/y to +1.2% y/y) and vegetables (from 0.1% y/y to 1.1% y/y).

The growing price momentum may be the result of several overlapping effects, including the ongoing drought in Poland, global price increases (reflected, m.in, by rising FAO indexes), or further impact of the April VAT increase on food prices.

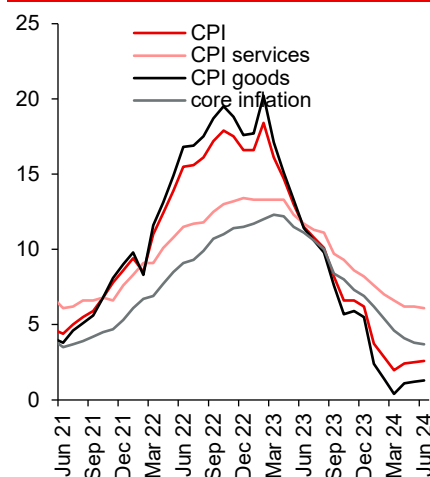
We expect that for these reasons, we will observe further increases in food price inflation in the coming months. In the last quarter of the year, its rate may exceed 5% y/y.

Breakdown of change in annual CPI indicator, % y/y



Source: GUS, Santander

Inflation measures, % y/y



Source: GUS, NBP, Santander

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Energy prices will increase significantly only in July

Energy prices fell by 0.1% m/m in June, so they were not very important from the point of view of changes in the inflation rate. However, energy will again come to the fore in July, when changes in energy service tariffs will push inflation above 4% y/y. Still, June's detailed data showed – interestingly – an increase in solid fuel prices by 0.2% m/m (the first positive reading since October 2022), with a decrease in heat prices by 0.5% m/m (the first decline since June 2023).

Core inflation slightly down

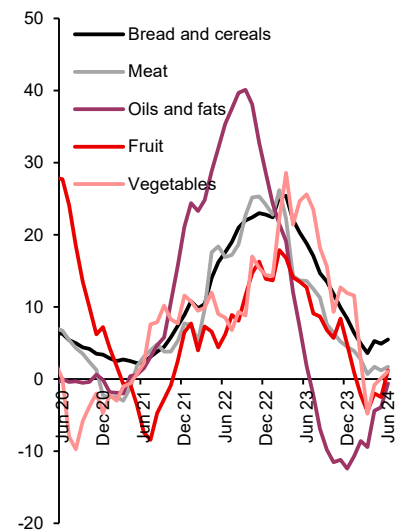
We estimate that prices in core categories increased by c. 0.2% m/m, which is a relatively small increase – the average in June in 2018-2023 was 0.4% m/m. According to our estimates, the core inflation in annual terms amounted to 3.7% y/y vs. 3.8% y/y in May.

Among the core categories, the low course of clothing prices is noteworthy, as they fell by 1.9% m/m in June – clearly more than usual in that month. Summer sales, on the other hand, were weak in the case of footwear, which fell by 0.9% m/m, which is less than usual. Prices also decreased significantly in communication (-0.9% m/m), which was mainly due to a decrease in Internet services (-8.9% m/m) and is probably related to a temporary promotion from one of the operators. The transport category was also quite low, with a further decrease in the prices of passenger cars (-0.8% m/m), and cheaper bicycles (-0.7% m/m). We can also see a clear disruption of the seasonal pattern in air transport services. Usually, strong price drops in May were followed by a jump in June. This time, in May, prices fell less than usual, while in June they decreased slightly (-3.8% m/m).

On the other hand, a growth stronger than the seasonal pattern was visible in recreation and culture (1.4% m/m), which was due to stronger than usual increases in several components, e.g. in recorded media (8.1% m/m), horses and ponies (6.2% m/m), books and photographic equipment (both 1.0% m/m). Prices in other categories and services also increased relatively strongly (0.5% m/m), mainly due to the rising prices of insurance (1.8% m/m).

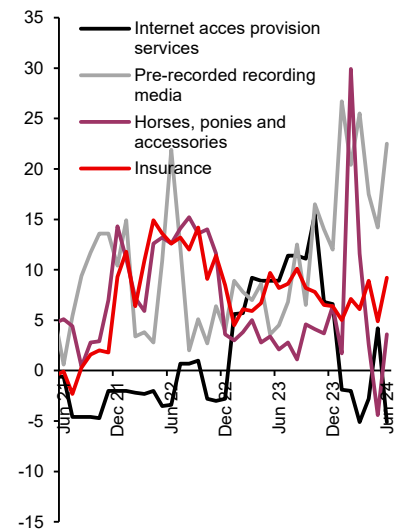
In our view, core inflation will remain in the vicinity of 3.5-4.0% y/y in the coming months, which will be supported primarily by a high increase in labour costs.

Selected food CPI components, % y/y



Source: GUS, Santander

Selected CPI components, % y/y



Source: GUS, Santander

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