

## Economic Comment

### CPI inflation surprised to the upside

Marcin Luziński, tel. +48 510 027 662, [marcin.luzinski@santander.pl](mailto:marcin.luzinski@santander.pl)

January CPI inflation surprised to the upside, reaching 5.3% y/y against our expectation of 5.1% y/y and the market consensus of 5.0% y/y. We estimate January core inflation at 4.0-4.1% y/y vs. 4.0% y/y in December. We expect CPI to peak in March, slightly above the January level, and then gradually decline to 4.0% y/y by the end of the year. Note that today's CPI reading has been calculated using basket weights for 2024 and will be revised in March. However, we assume that this revision will not result in a significant change in the reading. Today's figures support NBP's Adam Glapiński in his claim that it is too early to cut rates.

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The upward surprise was caused by stronger-than-expected increases in prices of food (1.6% m/m), fuel (1.8% m/m), alcoholic beverages/tobacco (1.5% m/m) and housing (1.4% m/m). Energy prices rose by 1.4% m/m, in line with our assumptions. The stats office publishes only limited data in January, so we do not know yet what exactly happened in the other categories, but it looks like on average they were in line with our expectations.

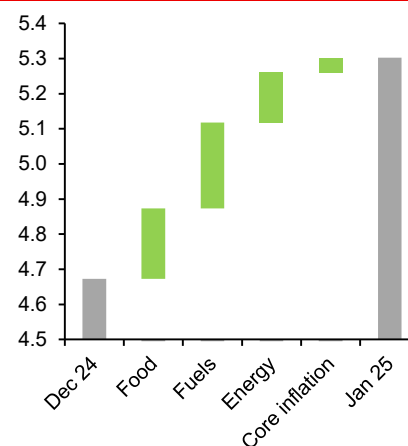
In our view, the upward surprise does not necessarily indicate an increase in inflationary pressures. We recall that inflation surprised to the downside in December, with low readings appearing in the prices of alcoholic beverages and household appliances, among others. We signalled in our comment to the December CPI data that this could have been the result of year-end special offers. The strong price increases in the alcoholic beverages/tobacco and housing categories in January provide support for this hypothesis. What is more, the growth in the rest of the inflation basket was in line with our expectations, which suggests that January's price movements were not stronger than might have been expected. The exception may be food, recently hit by a few price shocks, and also witnessing a marked jump in wholesale agricultural prices in December.

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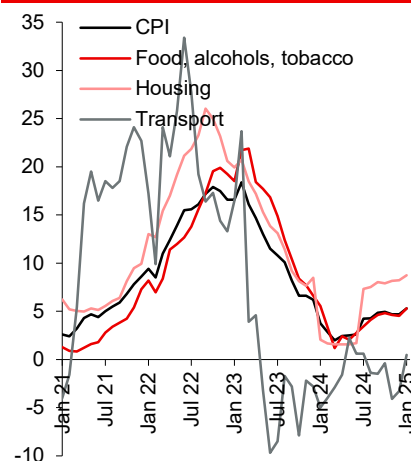
14 February 2025

CPI inflation, breakdown of change vs December, % y/y



Source: GUS, Santander

CPI inflation, main indicators, % y/y



Source: GUS, Santander

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#### Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa

email: [ekonomia@santander.pl](mailto:ekonomia@santander.pl)

website: [santander.pl/en/economic-analysis](http://santander.pl/en/economic-analysis)

Piotr Bielski +48 691 393 119

Bartosz Białas +48 517 881 807

Marcin Luziński +48 510 027 662

Grzegorz Ogonek +48 609 224 857