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Economic Comment

Heating prices slowly up

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Final inflation data for September confirmed the preliminary reading at 2.9% y/y and 0.0% m/m. According to the GUS release, food prices fell by 0.4% m/m, which is 0.1 pp less than their preliminary print. Fuel prices dropped by 0.4% m/m and energy prices rose only by 0.2% m/m, while we had forecasted an increase of over 1% m/m in the latter category, based on the assumption of a significant rise in heat prices. Apparently, that assumption turned out to be incorrect, although detailed GUS data show the first signs of heating price increases. Overall, the fact that CPI inflation in September was clearly below our forecast (3.2% y/y) was solely due to non-core categories (food, energy). We believe CPI inflation in October will likely return to a level starting with a "3", which, together with the September economic data set (which we expect to be strong), will support the MPC's decision to keep interest rates unchanged at the next meeting in November.

Final inflation data for September confirmed the preliminary reading at 2.9% y/y and 0.0% m/m. According to the GUS release, food prices fell by 0.4% m/m, which is 0.1 pp less than suggested by their preliminary print, but still significantly below our earlier assumptions. Fuel prices dropped by 0.4% m/m, in line with our forecast. Energy prices rose only by 0.2% m/m, while we had forecasted an increase of over 1% m/m in this category, based on the assumption of a significant rise in heat prices. That assumption turned out to be incorrect, although detailed GUS data show the first signs of heating price increases. We still believe that by year-end, this category will ultimately see a price increase of nearly 10%, adding around 0.2 pp to the CPI inflation rate, but this will take more time than we had anticipated.

Goods price inflation broke its downward trend, rising from 1.7% y/y in August to 1.9% y/y in September. Meanwhile, services price inflation slightly declined from 6.0% y/y to 5.8% y/y while remaining the main driver of overall price growth. Our estimates of core inflation excluding food and energy point to a level of 3.2–3.3% y/y in September. Super-core inflation (additionally eliminating regulated prices) rose to 2.7% y/y from 2.6% in August, according to our calculations.

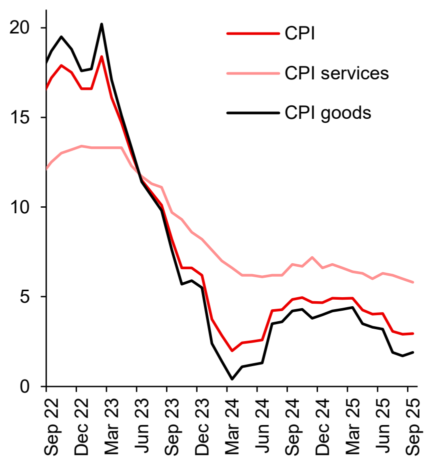
We still believe that CPI inflation in October will likely return to a level starting with a "3" and should end the year at 3.2–3.3% y/y. We believe that such an inflation trajectory, along with the set of real economy activity data for September (which we expect to be strong), will support the MPC's decision to keep interest rates unchanged at the next meeting in November.

Cheaper flights and tourism, more expensive clothing, footwear and furniture

While the overall core inflation category recorded a price increase close to our forecast, some subcategories behaved differently than expected. Among core components, we were surprised by a deeper-than-seasonal drop in transport services prices, which fell by -12.4% m/m, translating into a decline of 0.9% y/y. The main category responsible for this result was air transport, where prices were 7.6% y/y lower. Package holidays were also cheaper than in August (by 4.0%), reducing annual inflation rate in this category from 5.8% in August to 5.1% in September.

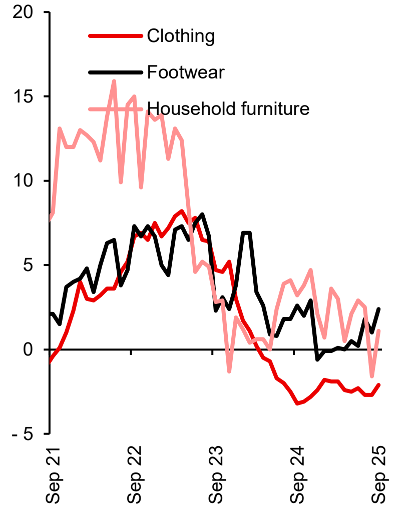
Passenger cars continued to decline in price, albeit at a slower pace: in September by 0.3% m/m after a 0.4% drop in July, resulting in a y/y decrease of 5.9%. As in the previous month, lower prices applied only to used cars (down 0.7% m/m), while new cars slightly increased in price (up 0.1% m/m). On the other hand, clothing and footwear became relatively more expensive: up 2.7% compared to August, although prices were still lower than in 2024 (down 0.8% y/y, versus a 1.5% y/y drop in August). We had expected household furnishing prices to keep declining, but their prices rose by 0.3% m/m instead, and the annual price

CPI inflation, % y/y



Source: GUS, Santander

CPI, selected categories, % y/y



Source: GUS, Santander

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decline slowed from -1.1% to -0.9% y/y. This was driven by more expensive furniture, with prices rising by 1.1% y/y after a 1.6% y/y drop in August. In annual terms, inflation in the alcoholic beverages and tobacco category accelerated from 6.6% to 6.8% y/y, mainly due to the latter component – tobacco product prices rose by 17.7% y/y compared to 16.6% y/y in August. High services inflation was supported by the health category, particularly medical and dental services, with annual price increases of 7.7% and 9.4%, respectively. Educational services rose seasonally by 2.6% compared to August, while their annual price growth slowed from 8.6% y/y in August to 6.8% y/y in September.

Food prices lower thanks to good domestic harvests

Food prices fell by 0.4% m/m in September, which is a relatively low reading for this month (preliminary data suggested a 0.5% m/m drop).

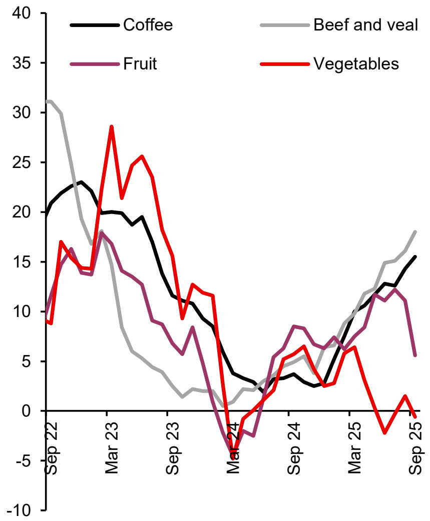
Part of the low food price reading is due to this year's good domestic harvests. According to the latest GUS estimate published at the end of September, total fruit harvests will be 10% higher than a year earlier, and field vegetables 6% higher. Vegetable prices fell by 2.2% m/m in September, including beetroot by 13.1% m/m, cabbage by 6.3% m/m, cucumbers by 5.5% m/m, and onions by 5.2% m/m. Fruit prices dropped by 3.7% m/m, including apples by 15.1% m/m and stone fruits by 3.8% m/m. In our view, high supply will continue to slow the pace of fruit and vegetable price growth in the coming months.

Additionally, bread prices recorded a relatively low reading (-0.1% m/m), supported by good global grain harvests. Meat prices rose by 0.3%, led by beef, which increased by 1.6% m/m. Currently, demand for this type of meat is rising in the US and China, contributing to beef price increases. Coffee continues to rise sharply (1.4% m/m), driven by poor harvests this year and shrinking cultivation area. Price changes in other categories followed seasonal patterns.

Heat prices beginning to rise

Energy carrier prices rose by 0.2% m/m. Most prices in the category remained relatively stable, except for thermal energy prices, which rose by 1.1% m/m, including hot water by 1.2% m/m and heating by 1.0% m/m. This indicates that price increases for these services are beginning to materialise following the end-of-June expiry of regulations curbing the wholesale prices of heat. However, the household-level heat price increases are weaker than we had assumed, although we believe they will strengthen in the coming months.

Prices of selected food items, % y/y



Source: GUS, Santander