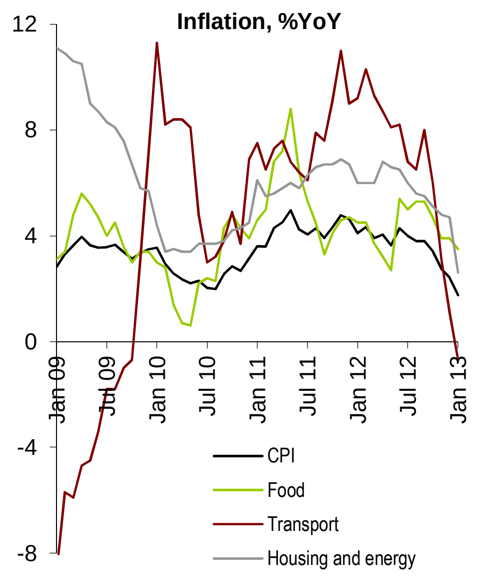
Bank Zachodni WBK

Instant comment

Inflation fell like a meteorite

15 February 2013

CPI inflation fell in January to 1.7%YoY, i.e. more considerably than expected. This decline was underpinned by one-off factors (cuts of gas and communication prices), but primarily it is an effect of general lack of inflationary pressure given weak economic growth. This conclusion is supported by low level of core inflation, which, according to our estimates, amounted to ca. 1.5%. Inflation figure is a strong argument for another rate cut in March. Dovish MPC members confirmed their eagerness to follow such a policy. Still, it is difficult to say if they will gather a majority, especially as March decision (and further) will depend also on results of GDP and CPI projections, which will be published after the meeting. We maintain our forecast that rates will be cut by 25bps in March, and such a move will also be supported by other data due for release this month.



Inflation rate slid in January more than expected, to 1.7%YoY from 2.4% in December (market consensus and our forecast indicated 1.9%), being the lowest reading since August 2007. It is worth reminding that market forecasts of today's figure varied strongly (1.6-2.3%), which is due to the fact that there were numerous risk factors in January's flash reading (cuts of gas and electricity prices, hikes of administered prices).

In monthly terms prices climbed by a mere 0.1% and this is the slowest January's increase since 2005. As we expected, price reductions were implemented in clothing and footwear (-3.4%MoM), fuel and personal cars (-0.6%MoM in the whole transport category), gas and communication services. Influence of price hikes in other categories proved to be less considerable than we expected. Food prices rose slightly stronger than we anticipated (1.2%MoM).

Based on data released today, we estimated that core inflation excluding food and energy prices amounted to 1.5%YoY in January, i.e. only slightly more than in December (1.4%). We worried that this increase may be more considerable (even to 1.9%). This is an important figure, as the NBP president Marek Belka noted recently that core inflation is an important factor for future MPC decisions. Even though the NBP does not release core inflation measures in February (as usual, due to reweighing of CSO inflation basket), one can expect that MPC members will see its estimates at the upcoming meeting. We are expecting further declines of CPI and core inflation in the upcoming months (in Q2 even below 1.5%, i.e. lower range of tolerance band).

Today's data and perspectives of low inflation in the upcoming months will be supportive for further interest rate cuts. We are expecting that the incoming data, due for release this month (weak output, labour market figures), will provide arguments for interest rate cut in March by 25bps. MPC members Anna Zielińska-Głębocka and Elżbieta Chojna-Duch suggested today after the release that interest rate cut in March is justified. Andrzej Bratkowski is constantly dovish, and he said today that rates should be reduced to 3% until the end of Q2. We think that also the NBP president Marek Belka will be eager to cut. He said recently that pause in March is not a given. In total, this makes four MPC members, hence one vote is missing to implement another cut in March. A single vote was missing also in two ballots in autumn 2012,

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when Marek Belka was in minority. Still, we think that this time the majority will be gathered, given quickly declining inflation. Current inflation figure is an important factor for some MPC members when taking decisions on rates.

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