

13 September 2018

Economic Comment

Rise of services inflation

Final print of August CPI confirms what we saw in the flash publication: inflation stayed at 2% y/y. However, its breakdown changed markedly. In August, services prices rebounded from 1.4% y/y to 1.8% after its 1H18 descent from 2.8% to 1.4%, despite tight labour market generating substantial wage pressure. Vegetable prices fell less significantly than usually in August, exposing the effect of the drought. We estimate that the core CPI accelerated to 0.9% y/y in August from 0.6% y/y and this should be the beginning of an upward trend that will take core inflation to 1.3% y/y at the end of this year and around 2.5% at the end of 2019. At the same time, headline CPI might ease somewhat to 1.7% y/y in December due to the base effect in food and fuel prices.

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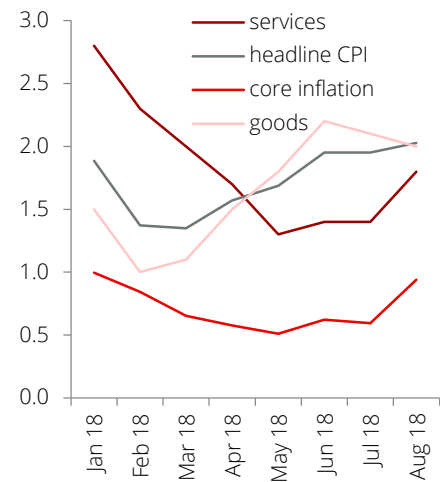
In food prices, sugar posted a major increase, by 3.8% m/m, but still in annual terms its price is by 30% lower than one year ago. Monthly change of fruit prices was in line with the seasonal pattern, despite downward pressure on the wholesale market due to high crops. On the other hand, vegetable prices fell less significantly than usually, by 4.6% m/m as compared to -10% m/m on average in 2010-2017. In our view, this is the effect of the drought and it should hold in the months to come.

In August footwear and clothing prices were decreasing at a slower pace than we assumed. It was a sign of strong demand and solid financial situation of households, which received the new government school kit benefit in August.

In August increase of gas prices amounted to 2.0% m/m, in line with our estimates. It translated into an increase of energy prices inflation to 2.1% y/y from 1.8% y/y – the highest level this year.

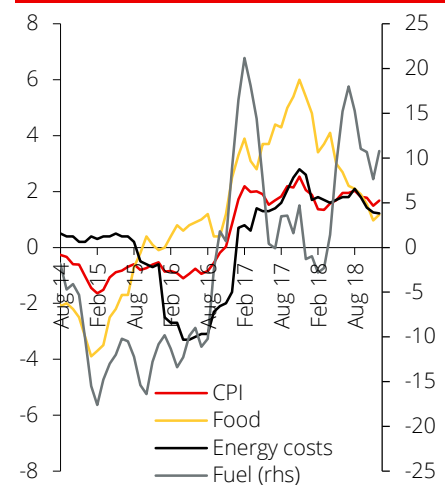
We estimate that core CPI accelerated to 0.94% y/y in August from 0.60% y/y. Market consensus for core CPI was adjusted up to 0.8% y/y after the CPI flash reading. In our view, this is the beginning of the upward trend that will take core inflation to 1.3% y/y at the end of this year and around 2.5% at the end of 2019. At the same time, headline CPI might ease somewhat to 1.7% y/y in December due to the base effect in food and fuel prices.

Inflation measures, % y/y



Source: Stats Office, Santander Bank Polska

Selected inflation components, % y/y



Source: Stats Office, Santander Bank Polska

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