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# Economic Comment

## CPI down, but will climb again

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Final September CPI amounted to 1.9% y/y vs flash estimate at 1.8% y/y. We estimate core CPI was at 0.9% y/y. Fall of CPI versus August's 2.0% y/y was mainly due to high volatility in services prices. We believe that prices will accelerate in 2019 to 2.6% y/y on average vs 1.8% y/y in 2017. Acceleration of inflation will strengthen the arguments used by MPC hawks, which will eventually lead to a rate hike (in late 2019 at the earliest). Today, MPC member Grażyna Ancyparowicz, which up to now supported stabilisation of interest rates, stated that there may be a need to start a discussion on monetary tightening in 2H19.

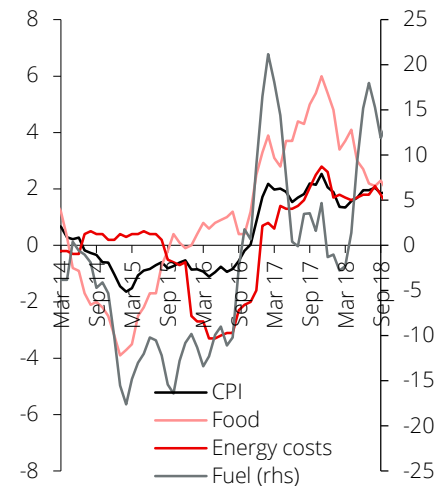
Final September CPI amounted to 1.9% y/y vs flash estimate at 1.8% y/y. Goods prices rose 2% y/y (unchanged vs August) and services by 1.5% y/y (vs 1.8% y/y in the previous month). We estimate core CPI was at 0.9% y/y.

Compared to the previous month, food prices rose faster, particularly vegetables and bread (as a result of drought) as well as pork meat (amid lower supply). Upside pressure on prices was generated also by healthcare, recreation, other goods and services (mainly insurance prices) and energy (after gas prices rise introduced in August).

Note that our initial forecast assumed September's CPI at 2.0% y/y (unchanged vs August). Our forecast was missed due to the strong fall of prices of transport services (-6.1% m/m), packaged holidays prices (-3.9% m/m) and communication services (-2.3% m/m). The prices of services mentioned in this report have been the main factors responsible for CPI volatility in the last months – their growth rates were dropping strongly and then rising significantly – which made the interpretations of the underlying price trends harder. We believe that prices will accelerate in 2019 to 2.6% y/y on average vs 1.8% y/y in 2017. The risk for this scenario is skewed to the upside due to the rising cost pressures on corporates. Furthermore the path for CPI in 2019 strongly depends on the changes of energy and gas tariffs for households.

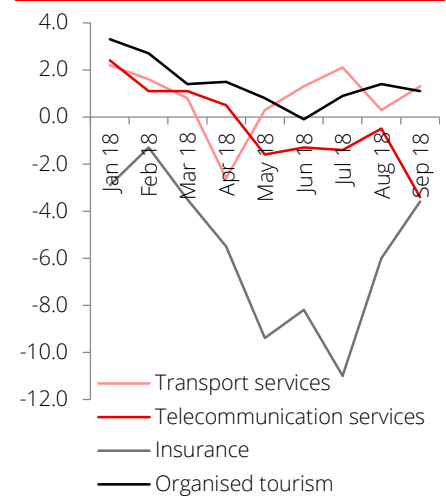
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Selected CPI inflation components, %/y



Source: Stats Office, Santander Bank Polska

Prices of selected services, %/y



Source: Stats Office, Santander Bank Polska

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