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Economic Comment

Inflation trough set in December?

Marcin Luziński, +48 22 534 18 85
marcin.luzinski@santander.pl

In December, Poland CPI inflation amounted to 1.1% y/y, in line with the flash estimate. A drop vs November's 1.3% y/y was driven mainly by lower fuel prices (-3.3% m/m). In the remaining categories, prices trended somewhat down – our estimate for the December core CPI is 0.6% y/y vs 0.7% in November. We expect core inflation to move up gradually in 2019. In our view, the margin compression process in companies is so advanced that we should see its impact on prices soon. We think the December's 1.1% would be a through on the inflation path and CPI should move gradually up in the months to come. We expect a peak in December 2019 at just below the 2.5% target. On average, inflation will be slightly below 2% this year which would not generate a pressure on the MPC to hike interest rates.

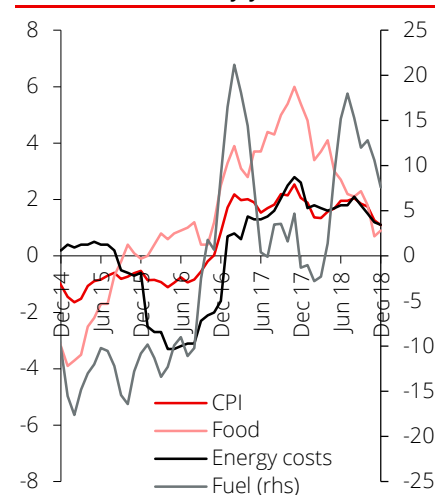
Food got 0.7% m/m more expensive in December, which is more or less in line with an average behaviour in this category in Decembers. However, the change of prices for the whole category is hiding strong opposite tendencies at a lower level of aggregation – the drought effect and reduced supply are pushing up prices of vegetables and bread products (rise by 10.1% y/y and 9.1% y/y, accordingly). An opposite development was recorded in fruits (-12% y/y), eggs (-14.5% y/y) and sugar (-17.3% y/y). We expect that in 2019 the trends in food prices will look similar, i.e. there will be a small rise on average hiding large changes among more detailed categories.

Electricity prices did not change in December. It is hard to predict what is going to happen next months: on one hand, utilities which tariffs are not controlled by the state energy regulator (URE) have already sent bills with higher prices to clients. On the other hand, URE has recently warned that the obligatory freeze of electricity prices means de facto a decrease of payments as the transition charge and excise duties have been lowered at the same time. Still, retail prices of other energy commodities should rise (maybe except fuels, owing to lower oil prices). For example, the retail gas prices were rising by 0.5% m/m over the last months.

According to our estimates, core inflation decreased slightly in December, and detailed breakdown by categories does not show many interesting features. The price growth in annual terms decreased slightly in communication and alcohol/tobacco, but mainly owing to the base effects. We expect the core inflation to increase gradually in 2019.

Services inflation amounted to 0.9% y/y unchanged versus November, while goods inflation was at 1.2% y/y as compared to 1.4% y/y in November.

Inflation measures, % y/y



Source: GUS, Santander Bank Polska

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
email: ekonomia@santander.pl
website: skarb.santander.pl
Piotr Bielski + 48 22 534 18 87
Marcin Luziński + 48 22 534 18 85
Grzegorz Ogonek + 48 22 534 19 23
Konrad Soszyński + 48 22 534 18 86
Marcin Sulewski, CFA + 48 22 534 18 84

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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, <http://www.santander.pl>.