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# Economic Comment

## CPI soon to cross 4%

Grzegorz Ogonek, +48 22 534 19 23, [grzegorz.ogonek@santander.pl](mailto:grzegorz.ogonek@santander.pl)

December CPI inflation was confirmed at 3.4% y/y. Our core inflation estimate remains at 3.2% y/y, up from 2.6% y/y in November. Some of the rapid rise of core inflation could be a one-off factor in transport services, similar to what happened in 2019 around Easter. The January print might be 4.1% y/y (as the large electricity price hike will kick in and other administered prices will also go up).

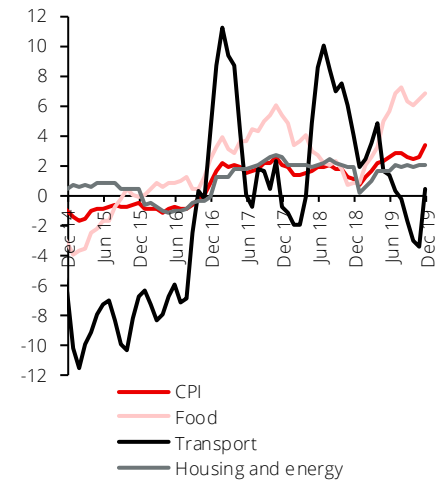
December CPI inflation was confirmed at 3.4% y/y shown in the flash release. Our core inflation estimate remains at 3.2% y/y, up from 2.6% y/y in November. Services prices inflation went up to 6.1% y/y from 5.3% while goods prices inflation was up to 2.4% y/y from 1.7%.

Some of the rapid rise of core inflation could be a one-off factor – transport services prices rose by 29.4% m/m, which may be due to Christmas holidays (a similar phenomenon was seen around Easter 2019, the category added 0.25pp to headline CPI only to subtract the same amount a month later). This time the contribution of transport services was also 0.25pp, but not all of this will disappear in our view in January as there are public transport price hikes in the pipeline.

Other notable increases of inflation were seen in insurance services. The upside surprise in food inflation (compared to our estimates from before the flash release) came from pork, meat products and poultry and these categories are unlikely to pull back due to ASF and avian flu.

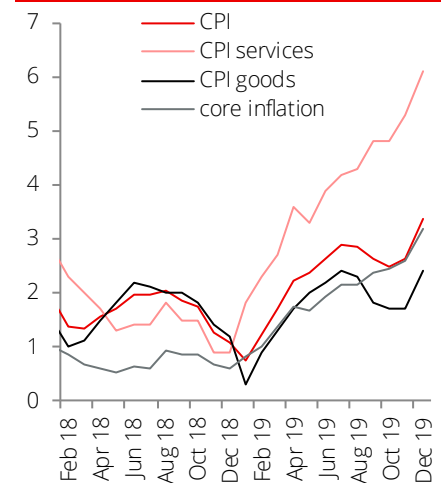
This all means that the January print might be 4.1% y/y (as the large electricity price hike will kick in and other administered prices will also go up). It would be a high reading, but bear in mind that the market had started to consider 4.5% as a probable outcome after the flash release and the probability of such a print declined after today's detailed December CPI data. CPI growth should stay around 4% in the whole 1Q and start to descend to 3.5% by mid-year, stay around 3% in 2H and drop further towards the NBP target in December. Core inflation may be 3.1-3.2% in January and the following months and we expect it to gradually move down after 1Q.

CPI inflation and selected components, %y/y



Source: GUS, Santander

CPI and core inflation, %y/y



Source: GUS, NBP, Santander

### Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa  
 email: [ekonomia@santander.pl](mailto:ekonomia@santander.pl)  
 website: [santander.pl/en/economic-analysis](http://santander.pl/en/economic-analysis)  
 Piotr Bielski +48 22 534 18 87  
 Marcin Luźniński +48 22 534 18 85  
 Wojciech Mazurkiewicz +48 22 534 18 86  
 Grzegorz Ogonek +48 22 534 19 23  
 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](mailto:ekonomia@santander.pl). <http://www.santander.pl>.*