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# Economic Comment

## CPI down, but will rise soon

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February CPI fell to 2.4% y/y (consensus and our call: 2.6%) from 2.6% after revision of CPI basket in January. The CPI basket revision was quite significant, and in line with our estimates. However, the effect on CPI was negative contrary to our expectations. While CPI was lower than expected, core inflation was probably higher than we thought: 3.9% in January and 3.6% in February (vs. 3.7% in December). We think that CPI is likely to go up in the upcoming months and exceed 3% and even 3.5%, while 2021 average should remain close to 3%. Core inflation is likely to decline, in our view to about 2.5% on average in 2021. Such CPI developments should be comfortable for the Polish MPC and rates are to remain on hold.

In February CPI fell to 2.4% y/y from 2.6% in January (after revision from 2.7%). Prices of goods rose by 1.1% y/y, unchanged vs January, and services by 7.0% y/y vs 7.4% in January.

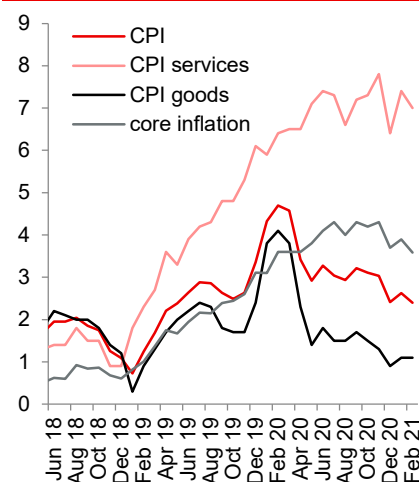
Annual change of CPI basket weights was in line with our expectations – weights for food, tobacco and alcoholic beverages, communication, household maintenance and healthcare went up. However, the impact on CPI was to the downside, that is contrary to what we had expected. We think that this is mostly result of changes of weights within categories, especially in transport and recreation/culture.

In February the CPI declined mostly due to lower y/y change in household maintenance and energy. This was to blame mostly on base effects: in 2021 the electricity prices in January grew significantly (+10.8% m/m) as a result of higher tariffs and introduction of power surcharge, while in 2020 the price increases were spread on January and February as energy providers were trying to negotiate higher prices with the regulator (URE). This resulted in a delayed introduction of new prices. Interestingly, in February 2021 electricity prices declined by 1.2% m/m and this is a question mark for us. Gas prices declined in January by 1.6% m/m and then increased in February by 1.3% m/m. This erratic behaviour results from the fact that gas prices have been initially lowered while later on the distribution fees were increased. High base from 2020 affected also other categories, e.g. waste collection prices which grew this year but noticeably lower than in 2020. Negative contribution to annual headline CPI growth also came from alcoholic beverages and tobacco - mainly due to lack of excise duty hikes in 2021.

Upward pressure on annual CPI was exerted by transport, where prices declined in February by 1.6% y/y after falling by 4.0% y/y in January. Changes which occurred in this category are a function of a strong increase in fuel prices (2.6% m/m in January and 2.4% m/m in February). In the nearest months this will be a main reason pulling headline CPI higher, also thanks to significant fuel price reduction in the spring of 2020 (low base effect). The sugar tax was the reason behind the beverages price increases by 3.3% m/m in January and 2.0% m/m in February - this were the highest reading in this category in over 10 years. The partial reopening of the economy in February was visible in some categories: clothing and footwear prices declined by 0.5% m/m and this was the smallest decrease in this month in many years. Furniture prices grew by 1.0% m/m, organised tourism by 3.9% m/m (foreign trips by as much as 9.4% m/m).

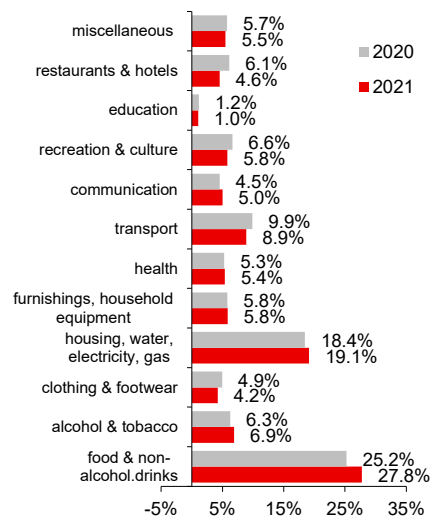
We think that CPI is likely to go up in the upcoming months and exceed 3% (in April) and even 3.5% (in May). In 2H21 it is likely to go down again with 2021 average close to 3%. Core inflation is likely to decline, in our view to about 2.5% on average in 2021. Such CPI developments should be comfortable for the Polish MPC and rates are to remain on hold.

CPI and selected components, % y/y



Source: GUS, Santander

CPI weights in 2020 and 2021



Source: GUS, Santander

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