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Economic Comment

Broad-based acceleration of CPI confirmed

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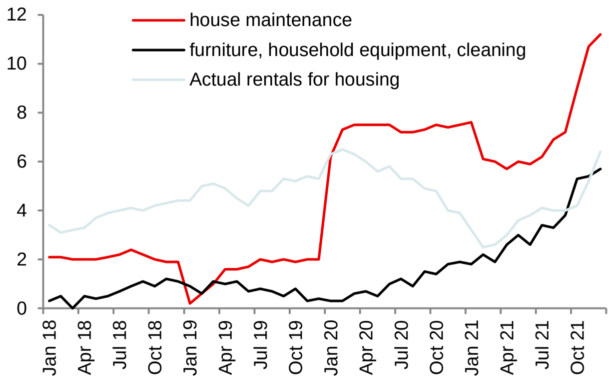
Final CPI inflation was confirmed at 8.6% y/y in December. Out of the 0.8pp rise of inflation vs. November's 7.8% y/y, some 0.6pp may be attributed to food, 0.4pp to stronger core inflation - according to our estimate, the core inflation excluding prices of food and energy jumped in December to 5.3% y/y from 4.7% in November. It would be unfair to say that the inflation rise is only the product of exogenous factors, as the price increases were widespread. In the early months of 2022 the effects of the government's "anti-inflation shield" will kick in, which may push CPI down to around 6% in February-July, according to our estimates (in January it will be still elevated, near 8.4%). Then (unless the "shield" is extended) inflation will bounce up sharply above 8% again and may remain elevated until 3Q23. From the central bank's point of view, the data is another argument that interest rate hikes should be continued, in our view. We expect another +50bp rate hike in February.

Final CPI inflation was confirmed at 8.6% y/y in December, in line with the flash estimate. This is the highest reading since November 2000. Prices rose 0.9% m/m (third month in a row the monthly pace was near 1%) confirming that exceptionally strong momentum continues. The last time consumer prices grew 0.9% or more in December was in 1999.

Food prices soared 2.1% m/m (y/y growth of bread rose to 14.3%, flour to 11.3%, meat to 7.7%, dairy to 8.4%, while oils and fats to 21.1%; fruit inflation reached 6.5%, up from 2.5% while vegetables saw 11.6% y/y price growth). Energy costs were up 0.8% m/m (solid fuel prices rose a "tiny" 1.9% m/m compared to the double-digit pace from the previous two months, gas price was up 1.1% m/m and heating was +1.2%). Fuel prices were almost stable (0.2% m/m) despite the excise tax reduction implemented by the government on December 20 – this means that most likely the full impact of this measure will show up in January data. Out of the 0.8pp rise of headline CPI growth vs. November's 7.8% y/y, some 0.6pp may be attributed to food, 0.4pp to stronger core inflation. Energy added less than 0.1pp and fuels deducted around 0.2pp.

It would be unfair to say that the inflation rise is only the product of exogenous factors, as the price increases were widespread. Prices of many services were rising rapidly, including recreation and culture (up 0.8% m/m), hotels and restaurants (also +0.8% m/m), transport services (+7.4% m/m). There were also notable price hikes in local organised tourism (+2.2% m/m, while package holidays abroad already got more expensive a month earlier) and in insurance (+3.4% m/m, recovering traffic and growing repair services prices may keep boost this category in 2022). Housing-related prices were also moving at a growing rate.

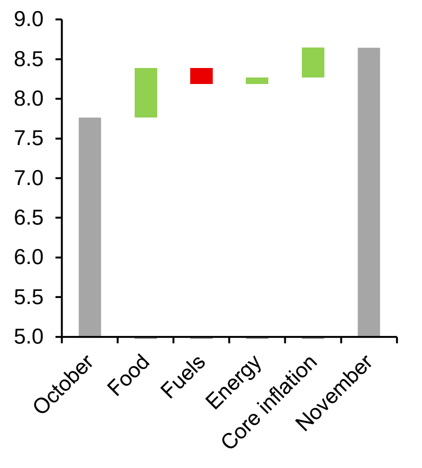
Selected housing-related CPI components



Source: GUS, Santander

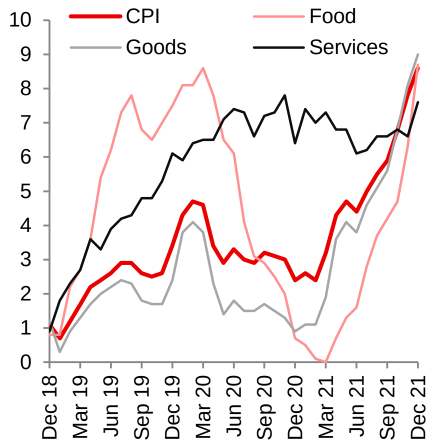
In general prices of goods were up 9% y/y (0.9% m/m) and prices of services 7.6% y/y (1.0% m/m). In case of the latter the December rise from 6.6% y/y reversed what was left from the descent that occurred during 2021. This is the second highest reading during the pandemic after 7.8% y/y in November 2020.

CPI inflation change, contribution of main components, % y/y



Source: GUS, Santander

CPI inflation, selected categories, % y/y



Source: GUS, Santander

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In the early months of 2022 the effects of the government's "anti-inflation shield" will kick in, which may push CPI down to around 6% in February-July, according to our estimates (in January it will be still elevated, near 8.4%). Then (unless the "shield" is extended) inflation will bounce up sharply above 8% again and may remain elevated until 3Q23. The exact inflation forecast remains highly uncertain as the government may adjust its tax cuts in response to the changing market situation.

According to our estimate, the core inflation excluding prices of food and energy jumped in December to 5.3% y/y from 4.7% in November. Note that government's "anti-inflation shield" is focused on non-core components of CPI and may make it more difficult for core CPI to drop due to cash transfers and savings on food, fuel and energy it will generate in households' budgets that can be later used to buy items from the core CPI basket. We expect core CPI to climb above 6% y/y in February and stay there until the end of summer. At the end of 2022 it might still be just a bit below 5.5% y/y.

From the central bank's point of view, the data is another argument that interest rate hikes should be continued, in our view. We expect another +50bp rate hike in February.

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