

15 July 2022

Economic Comment

CPI close to peak?

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June CPI inflation was revised up to 15.5% y/y from 15.6% y/y. In May, inflation stood at 13.9% y/y. We estimate core inflation at 9.2% y/y, up from 8.5% y/y in May. We think that the CPI is close to its peak. We were expecting the peak to be reached in August, just below 16% y/y, but the upcoming months will be under impact of new price policies (discounts on fuel stations, government proposal to lower coal price), which adds uncertainty to the CPI forecast, as it is not sure how are these going to affect the headline. The CPI data clearly suggest a gradual fading of the 1Q inflation shock, so in our view the data for July and August may even show a slight decline in inflation. However, the risk of new shocks in food and energy prices in autumn is growing.

June CPI inflation was revised up to 15.5% y/y from 15.6% y/y. In May, inflation stood at 13.9% y/y. All major components contributed to the higher CPI. Fuel prices rose by 9.4% y/y and added 0.7 percentage points to the annual CPI, energy prices rose by 2.7% y/y (solid fuel prices by 10.4% y/y) and added 0.4pp to inflation, core inflation (according to our estimate based on today's data) rose to 9.2% y/y (a new record, +0.3 pp to inflation), while food prices rose by 0.7% y/y.

Goods accelerated to 16.8% y/y from 14.9% y/y (+1.4 pp to CPI) and services to 11.5% y/y from 10.8% y/y (+0.2 pp to CPI).

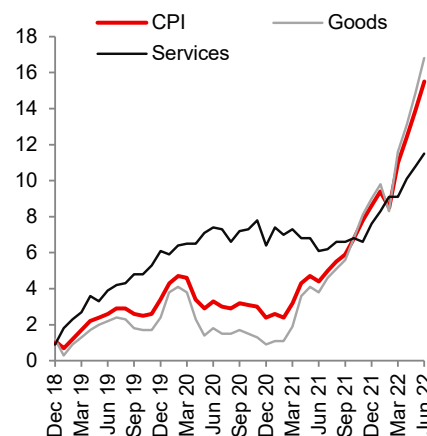
Food prices show that the shock triggered by war in Ukraine is fading, although some categories continue to grow strongly, e.g. oils and fats +3.4% m/m, dairy +2.8% m/m, fish +1.9% m/m, bread +1.7% m/m. In our view, however, recent news that agricultural drought is present across all voivodeships suggests a risk of rising food prices in the autumn, especially in case of vegetables and fruit.

Housing-related categories continued to see significant increases: rents and furniture prices went up by 1.0% m/m, but the momentum was weaker than in earlier months. Transport category was not lenient for consumers, as prices rose strongly not only in fuels but also in cars (0.7% m/m) and transport services (5.6% m/m). However, the situation will change in July - observations from petrol stations in the first half of the month suggest a fall in prices. Prices in the recreation and culture category also continued to rise strongly (1.7% m/m), mainly due to more expensive organised tourism (7.0% m/m).

We think that the CPI is close to its peak. We were expecting the peak to be reached in August, just below 16% y/y, but the upcoming months will be under impact of new price policies (discounts on fuel stations, government proposal to lower coal price), which adds uncertainty to the CPI forecast, as it is not sure how are these going to affect the headline. The CPI data clearly suggest a gradual fading of the 1Q inflation shock, so in our view the data for July and August may even show a slight decline in inflation. However, the risk of new shocks in food and energy prices is growing.

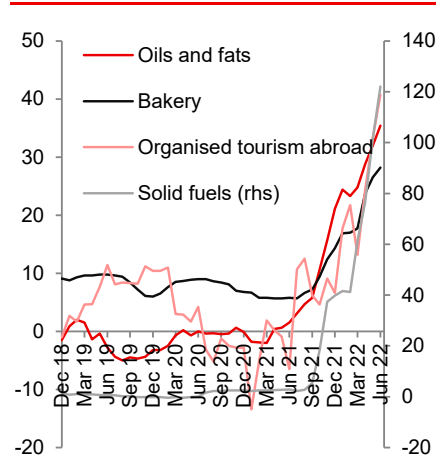
Meanwhile, core inflation may rise further and could approach 10% by the end of the year. Monthly core inflation dynamics are likely to have slowed to 0.6-0.7% m/m from the 1.0% m/m recorded in previous months.

CPI inflation, % y/y



Source: GUS, Santander

CPI inflation, selected categories, % y/y



Source: GUS, NBP, Santander

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