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Economic Comment

CPI is not tired of rising

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Final September CPI inflation data confirmed the preliminary estimate of 17.2% y/y and 1.6% m/m. Increases in food, energy and core categories contributed to the higher reading, while fuel prices fell by 2.1% m/m. Goods prices increased by 18.7% y/y (17.5% y/y in August) and services prices by 12.5% y/y (11.8% y/y in August).

We expect CPI inflation to rise further in the coming months. A breakthrough of 18% is possible in October, a peak in February could be close to 20%, and possibly higher - depending on how GUS decides to introduce the effect of a freeze on electricity prices up to a certain consumption limit in its inflation estimates. Our baseline scenario assumes that in the first few months, electricity prices will enter the CPI with zero growth and only over the course of the year will increases for consumption above the freeze limits be gradually added. From 2Q23 onwards, inflation may start to slowly fall, but it is unlikely to reach single-digit levels before 4Q23, and possibly not even before the end of next year. In our view, under such circumstances, the MPC will decide to raise interest rates by 25bp in November and then again in early 2023.

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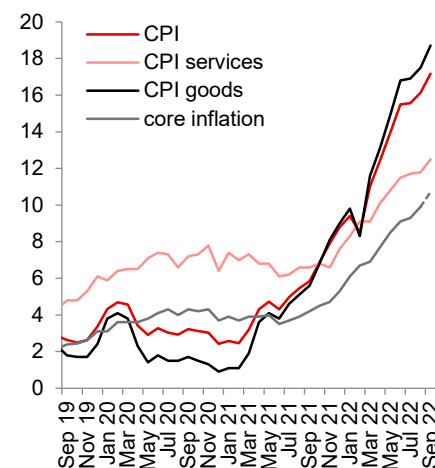
Food prices rose 1.7% m/m, including strong rises in rice (3.8% m/m) and pasta (3.1% m/m), as well as in meat (2.6% m/m, including pork up 4.6% m/m) and fruit (0.9% m/m, but note that fruit prices typically fall in September). In many other categories, increases were high by historical comparison, but the shocks seem to be fading gradually. Sugar prices, in particular, have calmed down and, after jumping more than 40% in August, were up just 0.7% in September. We expect food price increases to gradually go down in the coming months, although upward pressure in the meat category is possible.

In energy we continue to see increases in solid fuel prices, although somewhat weaker than in previous months (9.0% m/m in September, 12.1% m/m in August). However, heating prices have accelerated (5.0% m/m in September - the highest ever), and we believe prices in this category will continue to climb. Fuel prices declined by 2.1% m/m, but a marked increase in this category is observed in October, supported by the rebound in oil prices and the weakening of the zloty against the dollar.

Among the core categories, our attention was drawn to clothing and footwear, where prices rose by 4.8% m/m, restaurants and hotels (1.7% m/m), home furnishings (1.5% m/m, including furniture +2.1% m/m, household appliances and consumer electronics +1.7% m/m) and, in particular, education and social care, where prices jumped by as much as 7.4% m/m and 8.4% m/m, respectively. According to our estimates, core inflation rose to 10.7-10.8% y/y (1.4-1.5% m/m) in September and will continue to rise in the coming months, breaking through 12% by the turn of the year.

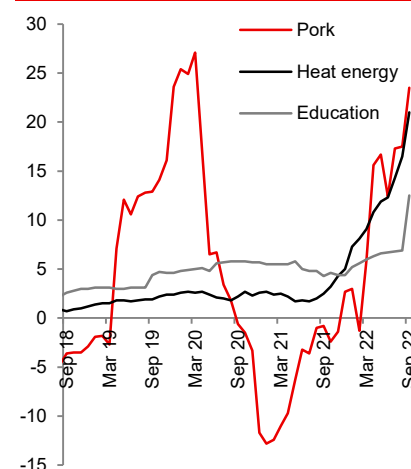
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CPI inflation, % y/y



Source: GUS, NBP, Santander

CPI inflation, selected categories, % y/y



Source: GUS, Santander

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