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Economic Comment

CPI proved more persistent than expected

Piotr Bielski, tel. +48 691 393 119, piotr.bielski@santander.pl

Marcin Luziński, tel. +48 510 027 662, marcin.luzinski@santander.pl

Grzegorz Ogonek, tel. +48 609 224 857, grzegorz.ogonek@santander.pl

CPI rose to 18.4% y/y in February, in line with our forecast and a bit lower than the market consensus (18.5%), while the data for January were revised down from 17.2% to 16.6% y/y. We think this is the peak of inflation in y/y terms. However, the monthly price dynamics were well above expectations - prices rose by 1.2% m/m in February against our forecast of 0.7% m/m and the market consensus of 0.8%, and by 2.5% m/m in January (revised from 2.4%).

The most important takeaway is that despite the annual inflation rates in January and February coming below consensus, the data show much higher inflation inertia than expected - the price momentum is still very strong and shows no signs of abating. These data suggest a higher inflation trajectory towards the end of 2023 than we thought, and reduce the likelihood of reaching inflation levels that could lead the MPC to contemplate rate cuts.

CPI rose to 18.4% y/y in February, in line with our forecast and a bit lower than the market consensus (18.5%), while the data for January were revised down from 17.2% to 16.6% y/y. The change in January CPI growth rate was the result of a revision of the weights, which subtracted as much as 0.6 percentage points - the most in years, even though the opposite effect had been quite widely expected.

Despite the weaker year-on-year CPI growth, the monthly dynamics were well above expectations - prices rose by 1.2% m/m in February against our forecast of 0.7% m/m and the market consensus of 0.8%, and by 2.5% m/m in January (revised from 2.4%). The inflationary impulse is particularly strong in services, where prices rose by 1.3% m/m in January and 1.6% in February.

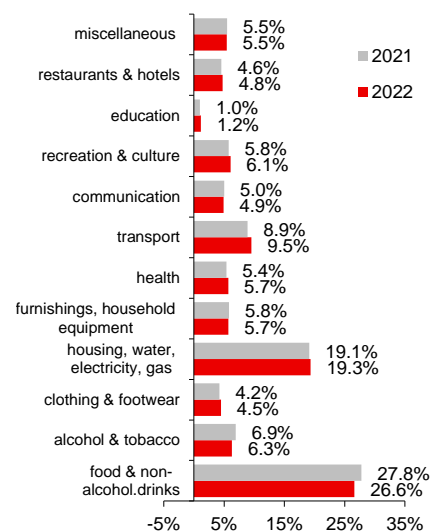
It is difficult to estimate core inflation for now as GUS has not published detailed weights, so we stick to our previous forecasts of 11.8% y/y in January and 11.9% y/y in February. Official core inflation data will be published tomorrow by the NBP.

Food prices continued to increase strongly, by 1.9% m/m in January and 1.8% m/m in February. Particularly strong rise was seen in fish, dairy products and vegetables, coffee, tea and fruit juices. These are mainly products that are globally experiencing increased demand or reduced supply. In contrast, oils and fats saw a significant price drop m/m, as a result of the fading shock related to the war in Ukraine, a large producer of oil crops. Alcoholic beverages and tobacco products became more expensive too: 1.2% m/m in January and 2.4% m/m. This was partly due to excise duty increases, but in our view this effect may have added around 1 percentage point to the price move in this category.

Although energy price growth eased (0.0% m/m in February after 12.6% m/m in January, when the previous VAT rates were restored), other housing costs increased, e.g. water charges (1.0% m/m in January, 2.2% in February), sewerage services (1.8% m/m in January, 1.1% m/m in February). The prices of telecommunications services (1.4% m/m in January, 3.0% m/m in February) and in recreation and culture (2.4% m/m in January, 2.3% m/m in February) went up markedly. For some categories, it is apparent that there was a strong price list correction in January and that prices no longer rose in February (social care, medical services, dental services, hospital services).

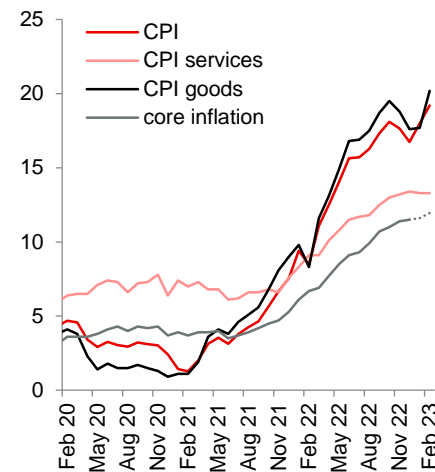
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CPI basket weights



Source: GUS, Santander

Main CPI measures, % y/y



Source: GUS, NBP, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa

email: ekonomia@santander.pl

website: santander.pl/en/economic-analysis

Piotr Bielski +48 691 393 119

Jarosław Kosaty +48 887 842 480

Marcin Luziński +48 510 027 662

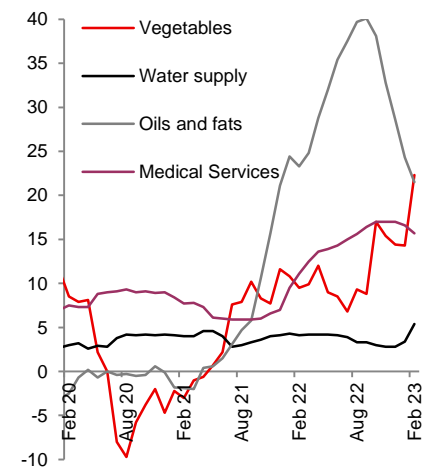
Grzegorz Ogonek +48 609 224 857

Change of CPI basket weights

The CPI basket revision resulted in a 0.4pp increase in the weights of 'food and non-alcoholic beverages' (to 27.0%, only twice since 2004 has this weight been higher, in 2006 and 2021) and 'transport' (to 9.9%, second only to 2019 in the whole data history, this category includes fuels). The weights of 'housing, water, electricity, gas and other fuels' and 'restaurants and hotels' increased by 0.3pp (to 19.6% and 5.1% respectively). The largest decreases in weights were in 'alcoholic beverages and tobacco products' (down 0.6pp, to 5.8%, the lowest in more than a decade) as well as 'communication' and 'household furnishings, equipment and maintenance' (both down 0.4pp, to 4.5% and 5.3% respectively). Expenditure on health reached its highest share of the basket ever (since 1999) and expenditure on education - since 2008.

In a note explaining the weight revision process, GUS informed that 'shrinkflation' (the phenomenon of frequent reduction of product packaging to hide an increase in unit price) did not affect the revision of the January reading, as it is taken into account on an ongoing basis in the calculation of inflation. GUS also highlighted methodological problems around prices under government support programs (e.g. electricity or coal).

CPI, selected categories, % y/y



Source: GUS, Santander

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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, <http://www.santander.pl>.