

14 April 2023

Economic Comment

Inflation's first step down, but the target is far away

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CPI inflation was 16.1% y/y in March, not 16.2% as initially estimated by GUS. The drop from 18.4% y/y in February is mainly due to the base effect in fuels. March monthly price growth, 1.1% m/m, was not revised downwards and suggests inflation persistence. In our view, core inflation rose to 12.2% y/y in March from 12.0% y/y in February, which would mark a new record and, so far, no downward bend. We expect the annual CPI growth rate to continue to decline in the following months, possibly below 13% y/y by mid-year and to around 10% by the end of the year. We assume that the persistence of inflation will continue to show up in subsequent monthly data and this will discourage the MPC from cutting interest rates this year.

CPI inflation was 16.1% y/y in March, slightly lower than GUS flash estimate (16.2% y/y). The decline from the 18.4% y/y recorded in February is mainly due to the base effect in fuels. The monthly consumer prices change in March was 1.1% m/m, the same as indicated in the flash release, and signals the continued persistence of inflation. Since the beginning of the year, consumer prices have already gone up by nearly 5%. Services price inflation was 13.3% y/y for the third consecutive month and goods price inflation fell to 17.1% y/y from 20.2% y/y.

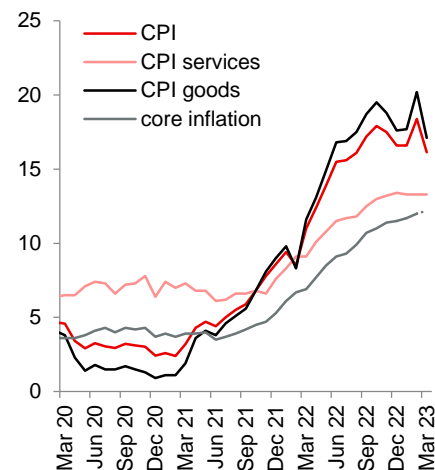
Food became more expensive in March by 2.2% m/m and by 24.0% y/y. Such a strong monthly increase in food prices in March is a very rare sight in the history of Polish inflation. Particularly strong price increases (relative to their typical pattern of change during the year) occurred in vegetables (7.0% m/m), pork meat (4.9% m/m), eggs (1.5% m/m), fish (1.4% m/m) and non-alcoholic beverages (1.9% m/m). Vegetable prices rose mainly due to a poor harvest in southern Europe, while the increase in pork prices was largely an aftermath of low livestock numbers as there was not enough time to rebuild the stock after the pandemic. In contrast, price reductions were seen in oils and fats (-0.2% m/m), and sugar (-0.7% m/m). These categories recorded very high growth in previous months. We forecast that food price inflation will halve this year, to 12% y/y, or even more, and this view is supported by the behaviour of the FAO global food price Index. However, we see risks of slower disinflation in this part of CPI.

In March, there was a 0.6% m/m decline in energy prices, thanks to a 4.4% m/m lower solid fuel price and a 0.4% m/m lower gas price. On the other hand, the price of district heating continued to rise, albeit slower than in previous months (1.4% m/m, following a 3.6% increase in February). The price of electricity was unchanged m/m - but (according to our interpretation of the GUS approach) may start to rise in the later months of this year as households exceed the designated electricity consumption threshold below which the price is frozen. In our view, price increases - albeit modest at first - may already emerge in the coming months. Fuel prices were on average 1.8% lower m/m in March and their annual growth rate was reduced from 30.8% to 0.2% by the base effect (March 2022 saw a sharp increase in fuel prices, by 28.1% m/m, as a consequence of Russia's attack on Ukraine). In the next three months, fuel and energy prices should continue to help bring down headline CPI inflation. In our current assessment, their impact in the second half of the year is less obvious.

Our estimates indicate that core inflation (CPI excluding food, fuel and energy prices) rose to 12.2% y/y in March from 12.0% y/y in February, which would mark a new record and, so far, no downward bend. On a monthly basis, its increase could be 1.2% m/m (February was 1.3%, January 0.9%). Key to the behaviour of core inflation are services, the contribution of which has remained stable (prices in this category have been rising by 13.3% y/y since January), and in March, on top of the services contribution there was also the effect of quicker increase of non-energy industrial goods prices (especially personal care and cleaning products, clothing and footwear, and household equipment). We estimate that the increase in non-energy industrial goods prices accelerated to 11.4% y/y in March from 10.4% y/y in February.

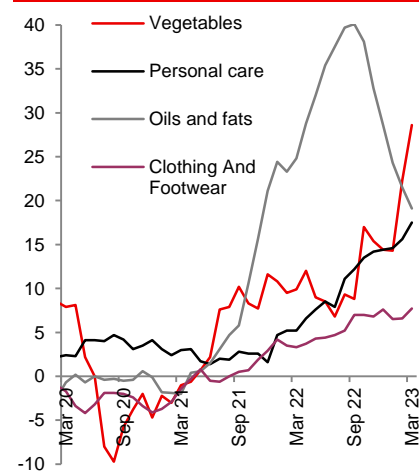
We expect the annual CPI growth rate to continue to decline in the following months, possibly below 13% y/y by mid-year and to around 10% by the end of the year. This is a higher inflation path than in the last NBP projection. We assume that the persistence of inflation will continue to show up in subsequent monthly data and this will discourage the MPC from cutting interest rates this year.

CPI inflation in Poland, % y/y



Source: GUS, NBP, Santander

CPI, selected categories, % y/y



Source: GUS, Santander

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