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# Economic Comment

## First decline in core inflation

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April's CPI was confirmed at 14.7% y/y (as compared to 16.1% y/y in March). Services prices went up by 13.3% y/y, for the fourth month in a row, while goods prices eased to 15.1% y/y from 17.1% y/y in March. Food was the main factor decreasing the annual CPI growth. Food prices rose by 19.7% y/y in April after 24.0% y/y in March. According to our estimates core inflation excluding food and energy decreased to 12.1% m/m from 12.3% m/m. Monthly growth rate weakened as well to 1.1% m/m from 1.3%, though it still remains strong. Data confirm that the inflation pressure is gradually easing. In our view at the year-end CPI will be close to 10% y/y, which will discourage MPC from cutting rates this year.

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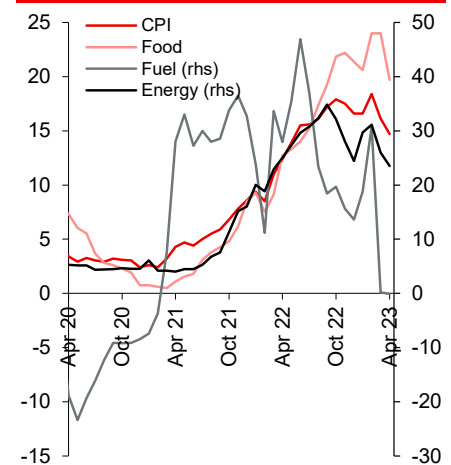
Food was the main factor decreasing the annual CPI growth. Food prices rose by 19.7% y/y in April after 24.0% y/y in March. The m/m rise was just 0.5%, quite low compared to readings from previous months. Price growth decreased in most categories, some even saw outright price declines: flour price was down 2.4% m/m, oils and fats down 2.2% m/m, milk down 0.2% m/m (splendid information for béchamel sauce fans). There was a surprising move by vegetable prices, which went down by 1.6% m/m having grown by more than 7% m/m for two months in a row. At the same time pasta, juices, coffee, tea and eggs were still getting more expensive.

Energy prices declined by 0.3% m/m with stable electricity prices, 0.3% m/m drop in gas prices, 2.6% m/m decline in solid fuel prices and increase in heat prices by 1.2% m/m. Household electricity usage still did not reach the threshold level set in the approved bill to trigger price increase.

According to our estimates core inflation excluding food and energy decreased to 12.1% m/m from 12.3% m/m. Monthly growth rate weakened as well to 1.1% m/m from 1.3%, though it still remains strong. There were stronger than usual price increases in clothing and footwear (3.3% m/m), health (0.6% m/m), transport services (24.8% m/m), restaurant and hotels (1% m/m), other goods and services (1.1% m/m)

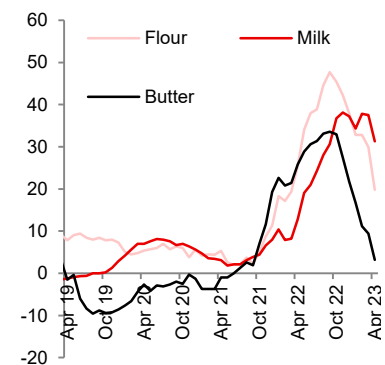
Data confirm that the inflation pressure is gradually easing. In our view at the year-end CPI will be close to 10% y/y, which will discourage MPC from cutting rates this year.

CPI inflation, % y/y



Source: GUS, Santander

CPI inflation, selected categories, % y/y



Source: GUS, Santander

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