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Economic Comment

CPI inflation drop continues

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GUS confirmed in the final CPI data release its preliminary estimate that inflation fell in July to 10.8% y/y from 11.5% in June. The decline was mainly driven by food, with energy and core inflation also supporting the fall, but to a lesser extent. The 0.2% m/m drop in CPI was also confirmed. After the data we keep our July core inflation estimate at 10.6% y/y (down from 11.1% in June, official release due this Wednesday). July's CPI data suggest a lower pressure on price growth, supporting our forecasts of a further decline in CPI in the upcoming months. It also suggest that the next CPI reading may be close to 10% y/y with a significant probability of dropping below this level. If we assume that this is a sufficient signal for Polish MPC to cut rates, then the monetary policy easing in September or October (we see the latter a bit more likely).

GUS confirmed in the final CPI data release its preliminary estimate that inflation fell in July to 10.8% y/y from 11.5% in June. The decline was mainly driven by food, with energy and core inflation also supporting the fall, but to a lesser extent. The 0.2% m/m drop in CPI was also confirmed. Goods price inflation fell to 10.6% y/y from 11.4% y/y, while services price inflation fell to 11.3% y/y from 11.7% y/y.

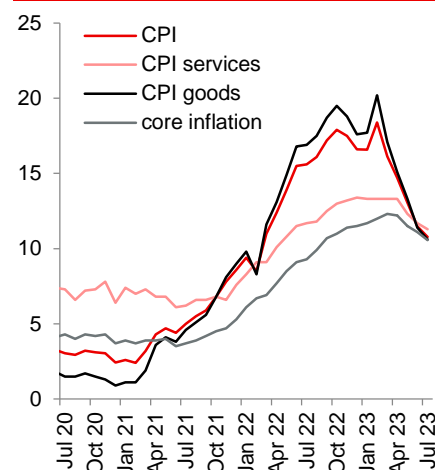
Prices of food and non-alcoholic beverages fell by 1.2% m/m in July, slightly stronger than the seasonal pattern would indicate. Downward or relatively weak upward trends were present in many categories, with particularly low relative readings in the prices of flour (-3.0% m/m), meat (-0.2% m/m), fish and seafood (0.0% m/m), milk, cheese and eggs (-0.6% m/m), and oils and fats (-1.6% m/m). Fruit and vegetable prices fell in line with the seasonal pattern, but in our view, crop losses due to the agricultural drought may translate into stronger price increases for these products, especially fruit, in autumn. Fuel prices rose by 0.4% m/m, while prices of energy remained unchanged - in line with the preliminary reading.

After the data we keep our July core inflation estimate at 10.6% y/y (down from 11.1% in June, official release due this Wednesday). This would mean a waning core inflation inertia - a print in line with our estimates would imply a m/m price change in core CPI almost equal to the usual seasonal pattern, while back in 1Q the readings were coming some 1pp above the pattern. Most categories of core inflation were in line with their multi-year averages, with a few still running high, e.g. recreation and culture (+1.6% m/m - mainly due to a strong rise in newspapers and magazines by 9.4% m/m and in package holidays abroad by 11.6% m/m).

July's CPI data suggest a lower pressure on price growth, supporting our forecasts of a further decline in CPI in the upcoming months. The higher limit of electricity consumption setting a border for stable prices, which is likely to kick in in September or October, will bring inflation down by 0.1pp. At the end of the year we are also likely to see an upward impulse connected to the drought and the expected rebound in domestic demand. This may make further disinflation more challenging.

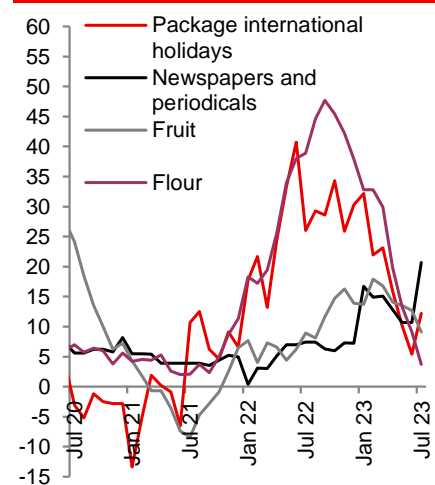
Today's data suggest that the next CPI reading may be close to 10% y/y with a significant probability of dropping below this level. If we assume that this is a sufficient signal for Polish MPC to cut rates, then the monetary policy easing in September or October (we see the latter a bit more likely).

CPI, main measures, % y/y



Source: GUS, NBP, Santander

Price growth in selected CPI categories, % y/y



Source: GUS, Santander

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