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Economic Comment

CPI escaped from the target tolerance range

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July's CPI inflation printed 4.2% y/y, slightly below our forecast (4.3% y/y) and market consensus (4.4% y/y). The increase vs June's 2.6% y/y resulted primarily from a hike in energy and natural gas prices. Based on today's numbers, we estimate core inflation to hit 3.6-3.7% y/y in July (yet even 3.8% y/y is possible). Flash estimate of main crops suggests an upward pressure on fruit prices in autumn. We continue to expect the CPI inflation rate to end the year in 5.0-5.5% y/y range and to peak in March 2025, somewhat below 6% y/y. Such CPI path will support the MPC's stance to keep rates unchanged, at least until mid-2025.

CPI higher due to energy prices

July's CPI inflation printed 4.2% y/y, slightly below our forecast (4.3% y/y) and market consensus (4.4% y/y). The increase vs June's 2.6% y/y resulted primarily from a hike in energy and natural gas prices, with total energy prices up by 11.8% m/m, in line with our estimates. This category added as much as 1.4 percentage points to the headline.

Food prices accelerated to 3.2% y/y from 2.5% y/y (+0.2pp to CPI) so a bit less than we assumed, while fuel prices were flat in monthly terms, and this comes as a surprise for us as we forecasted a decline by 1% m/m. We also assumed that water and sewage prices went up, but this category added less than 0.1pp to the headline CPI and we have to wait for the full set of CPI data to corroborate this estimate (14 August).

Based on today's numbers, we estimate core inflation to hit 3.6-3.7% y/y in July (yet even 3.8% y/y is possible). This means that the downward tendency of core inflation, valid since March 2023, was halted.

July's CPI does not change our expectations about future inflation path. We continue to expect the CPI inflation rate to end the year in 5.0-5.5% y/y range and to peak in March 2025, somewhat below 6% y/y. In 2025, the government's decision on energy prices will be crucial, currently we assume that it will continue to put a cap on their rise. Such CPI path will support the MPC's stance to keep rates unchanged, at least until mid-2025.

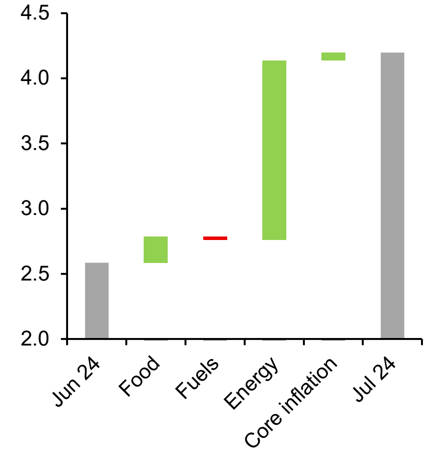
Decline of agricultural output

According to the preliminary estimates produced by the stats office, harvest of most major agricultural and horticultural crops was lower in 2024 than it was in 2023. Lower production were registered for basic cereals, whose yield is estimated at 25.6mn tonnes (-4% y/y), rape and turnip rape, with output of 3.4 mn tonnes (-0.9% y/y), as well as fruit from trees, bushes, and berry plantations, whose production equalled c. 4.1 mn tonnes and was c. 17% lower than in 2023. Particularly noteworthy is the poor fruit harvest (the lowest since 2019), which may lead to increased upward pressure on fruit prices in the second half of the year.

As the stats office reported, the weaker results of crop production were related to April frosts, rainfall deficit in the second half of April and May, as well as extreme climatic events in June and July.

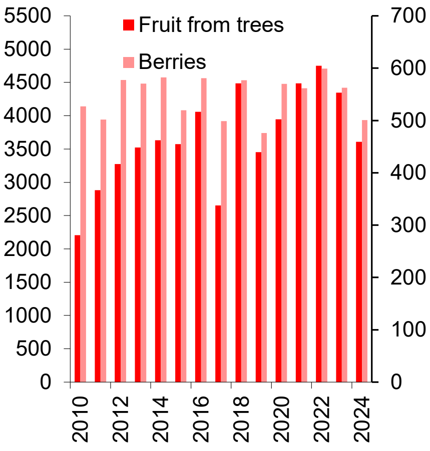
The only main crop whose harvest increased in 2024 was field vegetables. Their production amounted to 3.8 mn tons and was about 2% higher than in 2023. This means that in the case of vegetables we will probably not see increased price pressure in autumn.

Breakdown of change in annual CPI rate, % y/y



Source: GUS, Santander

Harvest of fruit, thousand tonnes



Source: GUS, Santander

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