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Economic Comment

Inflation gradually up

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Statistical office confirmed an increase in inflation in September to 4.9% y/y (0.1% m/m) from 4.3% y/y in August, driven mainly by an increase in core inflation from 3.7% y/y to our estimate of 4.3% y/y. Rise in core inflation, in turn, was mainly a consequence of the increase in services inflation, which rose to 6.8% y/y from 6.2% (where it had been from April to August), while the rise in goods inflation to 4.2% y/y from 3.6% was largely driven by food (0.2% m/m) and energy (-3.4% m/m). Rise in core inflation resulted among others from a low statistical base, with the September 2023 expansion of free drug entitlements and special offers on streaming services, but also increases in many categories this year. We expect the next CPI reading to exceed the 5% y/y threshold level and it could reach 5.2% y/y in December. In our view, inflation will peak in March 2025 at below 6% y/y, and by the end of next year inflation should fall below 4% y/y. Today's data may have a limited impact on the MPC's stance, although an upward trend in inflation will ensure no change in rates until at least March next year. Our baseline scenario still assumes a first rate cut in July next year, but after recent statements by MPC members, we think the risk of a move in 2Q25 has increased.

The statistical office confirmed that inflation in September rose to 4.9% y/y (0.1% m/m) from 4.3% y/y in August, driven mainly by an increase in core inflation, but also higher annual growth in food and energy prices.

Food price growth spent another month above the seasonal pattern

Inflation in the prices of food and non-alcoholic beverages increased to 4.7% y/y in September from 4.1% y/y in August, and rising continuously since May from 1.6% y/y. The monthly price increase of 0.2% in September is the sixth consecutive reading above the usual seasonal pattern for this category, established on the basis of multi-year medians for each month.

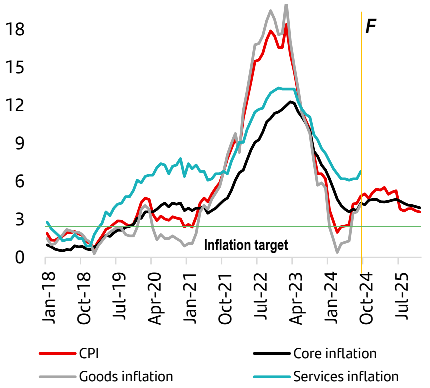
Unusually strong price increases were recorded in the case of oils and fats (2.4% m/m, especially butter at 4.7% m/m) and fruit (1.1% m/m, we attribute this to the drought) and flour (0.6% m/m). On the other hand, the largest price drops were recorded for pork (-1.0% m/m), fish and bread (-0.6% m/m each). Sugar price has been going down m/m for ten months now, this time by as much as 4.0% m/m. Smaller drought losses in the case of vegetables than fruit could have been responsible for the almost stable prices of the former (-0.2% m/m). On an annual basis, vegetables were more expensive by 5.7% and fruit by 8.5%.

We assume that the annual growth of food and non-alcoholic beverage prices will continue to rise and in the first months of 2025, due to the drought effect, it may be around 6-7%.

Heat a little more expensive, big drop in fuel prices

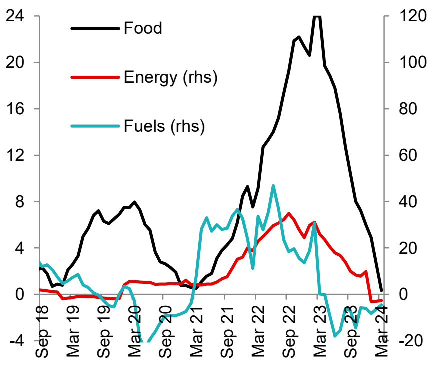
Energy prices increased by 0.2% m/m in September, mainly due to slight increases in heat prices. We assume that heat will continue to become more expensive in the coming months due to the adjustment of tariffs after they were unfrozen in July. However, this will not be a dynamic increase, as the prices of coal used in heating have decreased. On an annual basis, energy prices increased by 11.4% y/y vs. 10.4% y/y, which is related to the base effect of September 2023, when the usage limit on the reduced electricity price was increased. Fuel prices fell by 3.4% m/m in September and are likely to fall in October as well, although in the second half of the month there may be an upward tendency related to increases in oil prices on global markets and the weakening of the zloty.

Inflation measures, % y/y



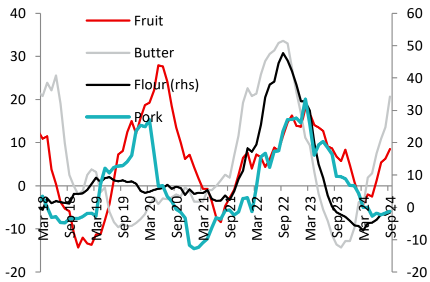
Source: GUS, NBP, Santander

Inflation measures, % y/y



Source: GUS, NBP, Santander

Selected CPI components, % y/y



Source: GUS, NBP, Santander

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Core inflation goes up

According to our estimates core inflation increased in September to 4.3% y/y from 3.7% in August. Detailed data on CPI suggest monthly growth in core CPI at ca. 0.5% m/m up from 0.3% in August and YtD average at 0.4%. To large extent this was the increase in services inflation to 6.8% from 6.2%, which accounted for increase in core inflation as the increase in goods inflation to 4.2% y/y from 3.6% was largely driven by food and energy.

Largest increase in services inflation was recorded for telecommunication (3.1% y/y and 1.1% m/m - large price hike for some online streaming services) as well as transport and tourism (respectively -0.1% y/y and -7.1% m/m, 13.6% r/r and -3.2% m/m), which recorded smaller seasonal declines than a year ago. Waste collection prices increased by 1.7% y/y and 1.2% m/m with further rise in water supply prices as well. These were only partly offset by declines in insurance (6,3% y/y and -1.4% m/m) and financial services with smaller weights in CPI basket. A sizable price increase of 4.5% m/m was recorded in education, but slightly less than a year ago, also leading to a deceleration in annual price growth.

Core goods showed deepening of negative price dynamics for clothing (-3.2% y/y), cars (-6.7% y/y), telecommunication equipment (-13.7% y/y) and audio-visual, photographic and information processing equipment, which may be related to further normalization of markups of international producers but also relatively strong zloty. There was also deceleration in positive annual price growth for furniture, therapeutic equipment. Spike in pharmaceutical products inflation was driven by low base effect related to significant price reduction in the corresponding period a year ago.

Annualized Core CPI 3m/3m momentum increased slightly further toward 4.8% y/y from average in previous four months at ca. 4.5%.

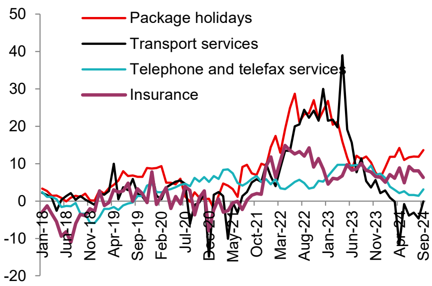
All in all taking into account strong real wage and private consumption growth we presume relatively high core inflation in the following months. Our forecast assumes core inflation to stay in range 3.6%-4,6% till end of 2025 with monthly price dynamics at average of ca. 0.35% m/m.

Inflation peak still ahead of us, MPC scenario unchanged

We estimate that the October inflation reading will already exceed 5% y/y and in December it will amount to 5.2% y/y. The peak in the current upward inflation trend will fall in March 2025 and annual CPI growth should not exceed 6% y/y (assuming no significant new year changes in energy prices). At the end of next year, CPI inflation may be below 4% y/y, according to our forecast.

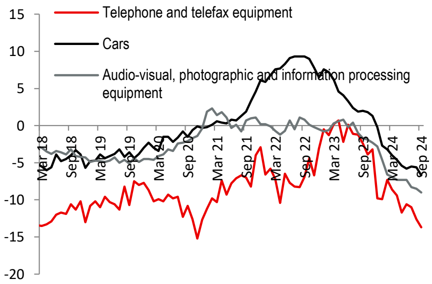
In the base scenario, we still assume the first rate cut in July next year, but after the recent comments from the MPC members, we believe that the possibility of a move in 2Q25 has increased. September inflation data may have a limited impact on the approach of the Monetary Policy Council. The average inflation for 3Q, 4.5% y/y, turned out to be 0.1pp higher than the value in the July NBP projection, and core inflation could be 0.1-0.2pp higher. Subsequent monthly core inflation readings exceeding 4% y/y may lead to more cautious communication from the central bank about interest rate cuts next year and the potential for their rapid reduction. We see the main risk for our policy rate scenario in the form of faster interest rate cuts mainly in the delay in the economic recovery in the main trading partners (continuation of the weakness of the German economy) and a significant strengthening of the zloty in the event of an extension of the interest rate disparity with an already noticeable increase in real ex-ante rates.

Selected CPI components, % y/y



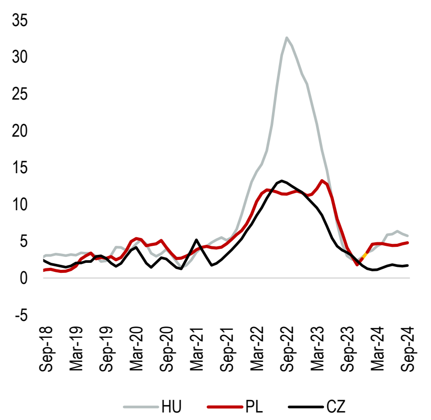
Source: GUS, Santander

Selected CPI components, % y/y



Source: GUS, Santander

Annualized core CPI 3m/3m in CEE region



Source: GUS, Santander