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Economic Comment

December CPI surprised to the downside, again

Marcin Luziński, tel. +48 510 027 662, marcin.luzinski@santander.pl

Grzegorz Ogonek, tel. +48 609 224 857, grzegorz.ogonek@santander.pl

In the final reading for December, GUS showed CPI inflation at 4.7% y/y and 0.0% m/m. This is lower than its flash estimate of 4.8% y/y and 0.2% m/m, which itself was a downside surprise at the time of its release. No inflation rise vs. November was due to unusually low food price growth and core CPI behaviour in December – apparently, it dropped to 3.9-4.0% y/y from 4.3%. In our view, the core inflation decline was to some extent linked to December special offers – price cuts that may be reversed in the following months. Goods price inflation increased in December from 3.8% y/y to 4.0% y/y, while services price inflation eased from 7.2% y/y to 6.6% y/y. The CPI data provide a dovish argument for the MPC, although we are not sure that they will persuade the NBP Governor to soften his tone at his Friday's press conference.

In the final reading for December, GUS showed CPI inflation at 4.7% y/y and 0.0% m/m. This is lower than its flash estimate of 4.8% y/y and 0.2% m/m, which itself surprised economists downwards (the median forecast for December inflation before its publication was 4.9% y/y and we expected to see 5.0% y/y). The figures presented by GUS for non-core categories - food, fuel and energy - were not revised down. Thus, core inflation apparently fell in December to 3.9-4.0% y/y from 4.3% in November rather than the 4.2% y/y indicated by the flash CPI reading. Goods price inflation increased in December from 3.8% y/y to 4.0% y/y, while services price inflation eased from 7.2% y/y to 6.6% y/y – equal to its average for the second half of last year.

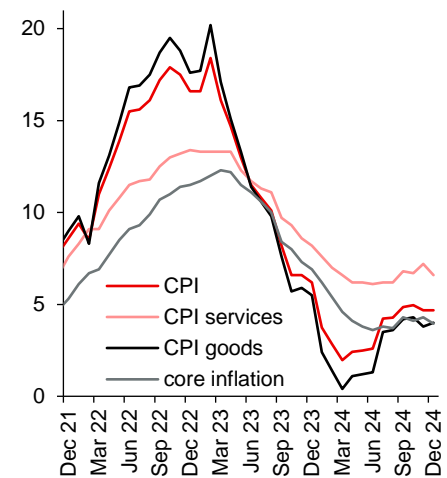
Food prices went up by just 0.2% m/m in December (or 4.8% y/y, unchanged from November). This is as much as 0.8 percentage points below the multi-year median monthly price change for December. This is the first downward deviation from the seasonal pattern since March last year. In December 2023, food prices also rose by just 0.2% m/m, but this took place due to a price war, i.e. intensified price competition between major retail chains. An exceptionally small monthly price increase occurred in fruit (0.5%) and vegetables (0.8%), while their average December increases for the last ten years were 2.2% and 4.4% respectively. The weather disturbances affecting the domestic supply of fruit this year triggered increases in fruit prices from June to November much stronger than usual in these months. The price change of meat (-0.7% m/m, including poultry at -2.0% m/m), cured meats (-0.6% m/m) and fish (-0.6% m/m) were also uncharacteristically low for this month, as was the lack of a m/m increase in bread prices. Also, the rapid fall in sugar prices continued, reaching 35.2% on an annual basis, with a movement of -6.6% m/m in December alone. At the same time, several price categories experienced major upward deviations from their historical pattern. Oils and fats rose by 2.6% m/m, mainly driven by butter (+5.2% m/m), egg prices were up by 4.5% m/m, juices by 0.9% m/m.

Fuel prices rose by 0.3% m/m in December and were 3.9% lower than a year earlier. On a monthly basis, we saw smaller increases in diesel and petrol than in November, and the price of LPG corrected down by 1% after increasing by 6% a month earlier. Energy prices were unchanged in December and were 12% higher on a year-on-year basis. The rise in oil prices and the recent weakening of the zloty will translate into stronger fuel price growth in January.

In the core categories, we see a number of strong and unusual price declines, which we believe may be partly related to Christmas special offers and therefore may imply a reversal in January. We estimate that core inflation equalled 3.9%-4.0% y/y vs. 4.3% y/y in November. On a monthly basis, core CPI growth was zero, the smallest since the end of 2023, against an average of 0.4% m/m in the rest of 2024.

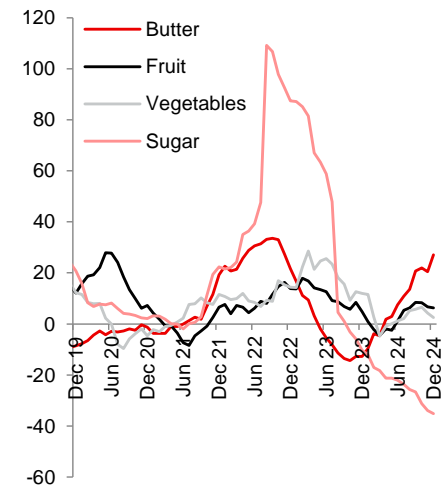
Price reductions were particularly evident for: beer (-1.3% m/m), footwear (-4.5% m/m), household appliances (-1.5% m/m), computers (4.0% m/m), and childcare (-27.7% m/m). Only data for the following months will make it possible to assess whether these price cuts

CPI inflation, main indicators, % y/y



Source: GUS, Santander

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Economic Analysis Department:

aL. Jana Pawła II 17, 00-854 Warszawa

email: ekonomia@santander.pl

website: santander.pl/en/economic-analysis

Piotr Bielski +48 691 393 119

Bartosz Biały +48 517 881 807

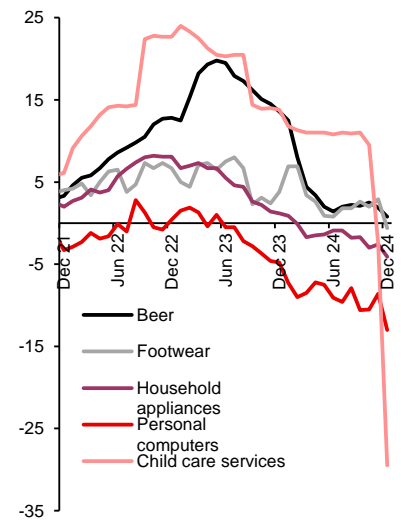
Marcin Luziński +48 510 027 662

Grzegorz Ogonek +48 609 224 857

were indeed only temporary. On the other hand, the decline in the childcare category may, in our opinion, be linked to the introduction of the 'Active Parent' programme of government subsidies which partially cover childcare fees.

The CPI data provide a dovish argument for the MPC, although we are not sure that they will persuade the NBP Governor to soften his tone at his Friday's press conference - last month he justified his hawkish pivot with concerns about a possible rise in energy prices towards the end of 2025, once the energy price freeze expires, and he may choose to repeat this argument.

Prices in selected categories, % y/y



Source: GUS, Santander

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Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, http://www.santander.pl.