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Economic Comment

CPI went below 5%, helped by basket revision

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CPI in February reached 4.9% y/y, 0.4pp below 5.3% y/y expected by us and the market. Reweighing of the CPI basket brought January print down to 4.9% y/y from 5.3% y/y. It looks like the downward surprise in inflation is almost entirely the product of the annual revision of the weights system in CPI. According to our estimates, annual core inflation may slow to 3.6-3.7% in February, down from 3.8-3.9% in January. Because of the much lower starting point, we need to move down our CPI inflation trajectory, at least in the nearest months. At the moment we see CPI in March stable at 4.9% y/y, and this was supposed to be the 2025's high. The lower than expected inflation at the start of the year is good news, which may intensify discussion in the MPC about the monetary easing. We still do not believe that the first rate cut is possible before the presidential elections and so we assume that it will take place in July.

CPI in February reached 4.9% y/y, 0.4pp below 5.3% y/y expected by us and the market. Reweighing of the CPI basket brought January print down to 4.9% y/y from 5.3% y/y. It looks like the downward surprise in inflation is almost entirely the product of the annual revision of the weights system in CPI (which, among other things, reduced the share of food and housing costs). CPI rose 0.3% m/m in February, which is a notch below our forecast 0.4%, after 1.0% in January. Overall, it may correspond to core inflation's monthly rate around 0.4% in February, vs. 0.5% in January – still above the trajectory consistent with the inflation target. Core inflation's annual growth may potentially slow to 3.6-3.7% in February, down from 3.8-3.9% in January, according to our estimate. Goods inflation accelerated from 4.0% y/y in December to 4.2% y/y in January and 4.3% y/y in February. Services inflation was equal in February and December at 6.6% y/y, but printed 6.8% y/y in January.

Because of the much lower starting point, we need to move down the CPI inflation trajectory, at least in the nearest months. At the moment we see CPI in March stable at 4.9% y/y, and this was supposed to be the 2025's high. In April the downward trend should start, bringing the CPI inside of the NBP inflation target's tolerance band in 2H25, and even possibly as early as in July if oil prices remain low and the zloty strong.

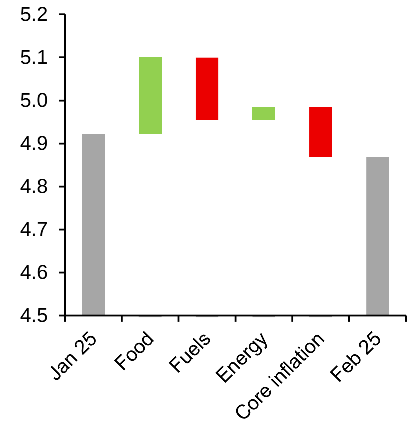
To sum up, the lower than expected inflation at the start of the year is good news, which may intensify discussion in the MPC about the monetary easing. We still do not believe that the first rate cut is possible before the presidential elections and so we assume that it will take place in July.

Core inflation is declining, although monthly price increases remain strong

Despite the downward surprise in inflation, in core categories, the price momentum remained fairly robust and we estimate that core inflation excluding energy and food prices rose by 0.5% m/m in January and 0.4% m/m in February. The annual growth rate of core inflation, however is likely to fall below 4% and stand at 3.8-3.9% in January and 3.6-3.7% in February. Supercore inflation, i.e. core inflation excluding administered prices, printed 0.2% m/m in January and 0.4% m/m in February, and on an annual basis 3.3% and 3.1% respectively after 3.5% y/y in December 2024.

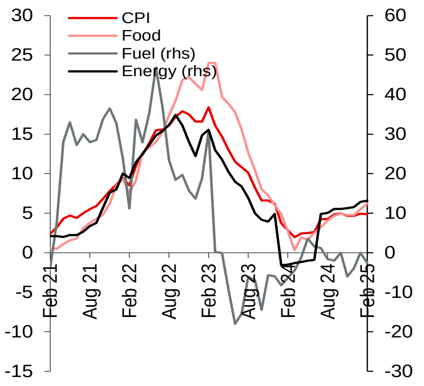
Price growth was stronger than our expectations in a few categories. In alcohol and tobacco prices advanced by 1.4% m/m in January and 1.3% m/m in February, which we believe is due to pre-emptive price rises ahead of the introduction of higher tobacco excise duties in March. Tobacco products alone rose by 2.1% m/m in January and 2.6% m/m in February, clearly stronger than in earlier years. We believe this suggests a weaker effect of excise in the subsequent months. Household costs excluding energy rose quite markedly in January, by 2.1% m/m, and grew in line with average by 0.5% m/m in February. The January was

CPI inflation, breakdown of change vs January, % y/y



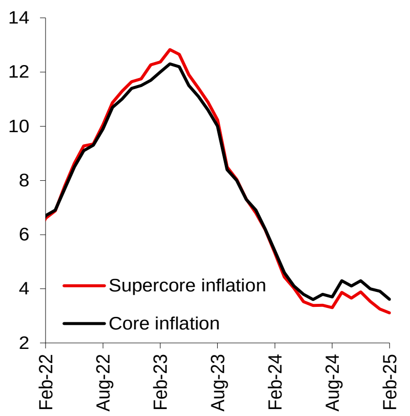
Source: GUS, Santander

CPI inflation, main indicators, % y/y



Source: GUS, Santander

CPI – core and supercore, % y/y



Source: GUS, Santander

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driven higher by waste collection fees (+6.7% m/m). Price increases in health (0.9% m/m and 0.8% m/m), recreation and culture (1.1% and 2.7% m/m) also looked relatively strong, the latter driven in part by a jump in software prices of almost 20% m/m in February and domestic organised tourism of 3.1% m/m.

Home furnishing prices were stable in January and February, so our call that the price decline in December would be reversed was not confirmed. The transport category was quite low, driven by falls in car prices (-0.5% m/m and -0.7% m/m), and the same can be said about communications (0.1% m/m and 0.0% m/m), as well as restaurants and hotels (0.5% m/m and 0.7% m/m) and the 'other' category (0.2% m/m and -0.2% m/m). The latter category continued to see a decline in childcare prices (-3.7% m/m and -1.0% m/m), which we consider to be the aftermath of the introduction of the 'Active Parent' programme. On the other hand, the cost of legal and accounting services jumped markedly in January (14.9% m/m) and of travel insurance in February (4.5% m/m).

Food inflation crept above 6% in early 2025

Food and non-alcoholic beverages were 6.2% more expensive in February than a year earlier and 5.5% more expensive in January. The biggest year-on-year differences in February were seen in case of chocolate (+27.0% y/y) and butter (+25.0% y/y), while price rises of a dozen or so percent y/y occurred in apples and stone fruit, fruit and vegetable juices, olive oil, tomatoes and poultry meat. Food items that were much cheaper were sugar (-32.6% y/y) and its substitutes and some vegetables (carrots -10.3% y/y).

In January alone, food prices went up by 1.6% m/m, slightly less than usual for this month (the multi-year average is 1.9% m/m). In February, the price increase was 0.3% m/m and was also below average (0.7% m/m) and smaller than we had expected. Unusually large price increases in February, deviating by at least 1 percentage point from the seasonal pattern, were for eggs, dairy products, coffee, cocoa and chocolate, rice and beef. On the other hand, the monthly price dynamics of pork (down 3.2% m/m), sugar and flour deviated to the downside from the seasonal pattern. Fruits, whose prices were boosted last year by reduced domestic supply, recorded price changes at the beginning of this year that were 3-4 percentage points lower than typical growth rates for the period, including an unusual fall in February, by 2.1% m/m. Vegetables behaved in line with the pattern (in February they became more expensive by 1.2% m/m). Very low rainfall and snowfall since autumn poses risk that 2025 will be another year marked by drought, leading to upward pressure on domestic fruit and vegetable prices. We assume that food price inflation will decline from the current level of over 6% to around 4% y/y by mid-year and that further deceleration will depend on meteorological conditions.

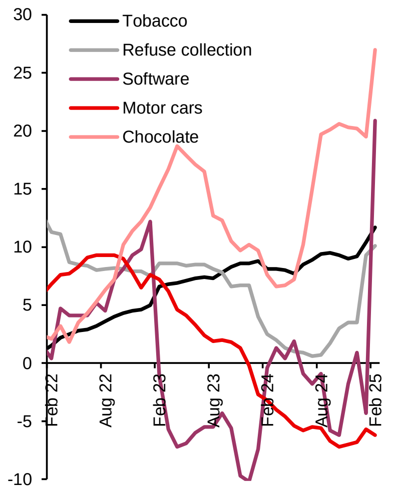
Fuels slightly cheaper than a year ago, energy 13% more expensive

Although fuel prices increased in January and February (1.7% m/m and 0.5% m/m respectively), their total increase was smaller than a year ago. As a result, on an annual basis, fuels were 2.6% cheaper in February. Relatively low oil prices and a strong local currency should deepen this decline in the coming months. Energy prices rose by 0.1% m/m in February, amid a slight decline in fuel prices (-0.4% m/m) and with system heat 0.4% more expensive m/m. Natural gas for households became more expensive by 0.1%. This translates into a year-on-year price increase of 13.1% and the growth rate may continue to go up until mid-year due to further systematic increases in heat prices. In July, a strong base effect will come into play and bring this rate down to around 5-6% y/y.

The revision of CPI basket weights increased the importance of core categories

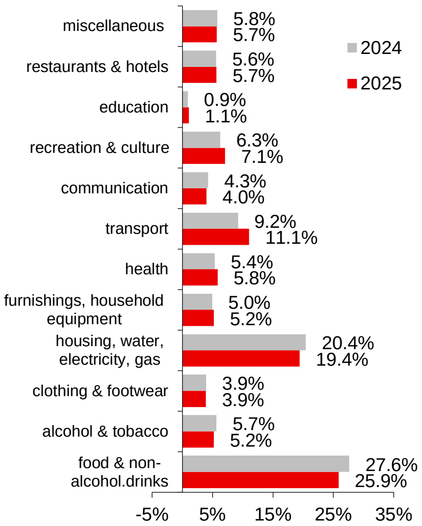
Due to the revision of CPI basket weights, the category of transport registered the strongest increase in its weights among all the main aggregates of consumer goods and services, by 1.81 pp to 11.05%, which was caused mainly by an over fourfold increase in the weight of new passenger cars (from 0.26% to 1.43%) and a doubling of the weight of used passenger cars (from 0.83% to 1.78%). Simultaneously, there was also a reduction in the weight of fuels. The next aggregates with the strongest increases in weights were the category of recreation and culture, whose share in the basket rose by 0.81 pp to 7.07% (mainly due to an increase in the weight of organised tourism by 0.48 pp), and the category of health, whose share was increased by 0.46 pp to 5.82% (which was caused by increases in the weights of medical and dental services by a total of 0.44 pp, with a simultaneous decrease in the weight of pharmaceuticals by 0.24 pp).

CPI inflation, selected categories, % y/y



Source: GUS, Santander

CPI basket composition



Source: GUS, Santander

On the other hand, the strongest reduction in share in the CPI basket was registered by food and non-alcoholic beverages, by 1,76 pp to 25.87%, due to e.g. a 0.5 pp decrease in the weight of meat, a 0.32 pp decrease in the weight of dairy, and 0.25 pp decrease in the weight of bread and cereal products. Apart from that, weights were also reduced e.g. in the case of housing and energy, by 0.99 pp (predominantly due to a decrease in the share of energy by 0.72 pp), alcoholic beverages and tobacco, by 0.45 pp, and communication, by 0.28 pp (due to a decrease in the weight of mobile phone services by 0.24 pp).

Overall, the revision of CPI basket weights increased the importance of core categories at the expense of non-core categories such as food and energy, which is largely responsible for the revision of the January CPI inflation print from 5.3% y/y to 4.9% y/y.

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