Polish inflation falls sharply at start of 2024

CPI inflation fell sharply in January, as we had expected. It should remain low in the first quarter, but is expected to bounce back later on. Low inflation in January gives some grounds for optimism, but challenges remain. We still see interest rates remaining unchanged this year

Inflation fell further at the beginning of 2024

According to the flash estimate from the StatOffice, CPI inflation fell to 3.9% year-on-year in January (ING: 3.8%; consensus: 4.2%). This is a big drop in annual inflation as back in December, it was at 6.2% YoY.

Compared to December, food prices increased by 0.9%, energy prices by 0.4% and fuel prices decreased by 2.3%. January also brought a further deceleration in core inflation (to around 6.1% YoY from 6.9% YoY in December). Compared to December, core prices did not change significantly, as was the case in 2018-20. Thus, there was no so-called 'January effect' (price rises), which was feared by some observers and which we noted in January's US CPI data. Also, food price increases were relatively low compared to historical data. The price war between the large discount chains may have contributed to this phenomenon.

We expect the first quarter to be marked by significant disinflation amid a high reference base from last year, among other things. In March, CPI inflation may temporarily come close to the National Bank of Poland's target of 2.5%, but we expect it to rise again in subsequent quarters. This increase will be driven mainly by fiscal and administrative decisions, specifically, the timing of the reintroduction of the 5% VAT rate on food, and the formula for withdrawing electricity and gas price freezes.

Should the 'inflationary overhang' associated with frozen electricity and gas for households materialise in the second half of the year, the inflation outlook for 2025 would clearly improve. That would increase the chances of inflation moving towards the NBP's target over the medium term and may make some room for monetary easing, as suggested by some MPC members. Given the uncertainty over discretionary decisions, our baseline scenario currently assumes that interest rates will remain unchanged until the end of 2024.

The January consumer inflation data published today is preliminary and based on the structure of the 2023 CPI basket. The data will be revised with the publication of CPI inflation for February. At that time, we will also know the new weights that will apply in 2024. Only after the publication of the February data and the basket update will we also know the January and February core inflation data.

Is low CPI inflation in January grounds for complacency?

In terms of the positives, we see:

- Low food price growth (only 0.9% month-on-month) - the lowest since 2016.
- A further decline in core inflation.
- Price cuts at some important food and furniture retailers.

On the other hand, there are several reasons for prudence:

- We will see CPI around 2.5% YoY in March, but this is unsustainable.
- There is 4-5ppt of inflation still hidden in the frozen energy prices and zero VAT rate on food.
- High housing price growth, 2.3% MoM, despite falling energy prices, may increase other dwelling costs.

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