

## Poland: CPI jumps to 8-year high on minimum wage rise, strong demand

CPI reached 4.4% year-on-year in January, the highest level since 2012. We think the jump largely reflects new-year price adjustments linked to the higher minimum wage and strong demand. We still expect the MPC to keep rates flat, underlining the regulatory factors behind the strong CPI and weakening activity domestically



Shoppers at the Poznan City mall in Poland

### The minimum wage rise and strong demand likely to blame

This is a preliminary reading with scarce details, so core inflation cannot be reliably determined. The data will be revised in March based on new CPI weights and more details will be also presented.

The data shows a substantial rise in housing costs – to 4.9% year-on-year from 2.0% previously. The category contains energy prices linked to housing and related services etc. We already assumed a rise linked to electricity costs, but the overall scope hints that services jumped as well. The price of food, alcohol and tobacco rose by 6.7% YoY, somewhat high even considering the rise in the excise rate by 10% (pushing up alcohol and tobacco).

The relatively broad scope of components which pushed CPI higher suggests that it largely

reflected new-year price adjustments linked to the rising minimum wage (+15.6%) and strong demand. Surveys of small retailers, highly affected by wage costs, showed a substantial rise in expected prices. Housing costs were likely affected as well, e.g. in the case of security services.

Therefore the rise in prices should prove to be sustainable, suggesting that overall CPI will be 0.1-0.2pp higher. We now expect CPI to top out around 4.5-4.6% YoY in March, despite the recent decline in oil prices.

## CPI in Poland, %YoY



## The MPC stance unlikely to change

The CPI reading is unlikely to substantially alter the MPC's stance. The Council is likely to continue to focus on regulatory factors behind the rising inflation, overlooking labour costs and strong demand. They are likely to reiterate that the rise in prices is temporary and should be subdued in the latter half of the year due to slowing activity domestically.

This is seemingly reinforced by the fourth quarter GDP print, revealing a slowdown from 3.9% to 3.1% YoY. This is also an initial reading and no details are available. We mostly blame slowing internal demand, as household spending lags behind disposable incomes. The external sector and the overall industry seem to be doing fine, as evidenced by a recent current account reading, which showed a further surplus.

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