Snap | 21 January 2022

Elevated PPI inflation and wages growth to trigger further growth of CPI in Poland

High inflation in Poland is not only due to external price shocks, but is also a consequence of expansionary economic policy in recent years

Customers shopping in Wroclaw, Poland

Wages in enterprises saw double-digit growth (11.2% Year-on-Year) in December as businesses were paying bonuses planned for 1Q22 in late 2021 in order to do it before tax changes (under the Polish Deal tax reform) came into force. Data on average employment disappointed as its growth moderated from 0.7% YoY in November to 0.5% YoY in the last month of 2021. The number of jobs declined by 2,000 Month-on-Month in December 2021, after six years of positive December figures.

Producer price index (PPI) inflation increased to 14.2% YoY in December from a revised 13.6% YoY in November. Prices in mining and quarrying went down in monthly terms amid lower prices of copper and coal, while prices in manufacturing went up by a mere 0.2% MoM, posting the slowest monthly increase since December 2020. The last month of 2021 brought a sharp rise in the prices of electricity, gas, steam and air conditioning supply (5.4% MoM, 16.2% YoY).

PPI data show another wave of commodity price shock that is yet to feed into Consumer Price Index (CPI) inflation via rising costs. The December surge in wages growth is not yet a sign of second round effects, but the risk of price-wage risk is mounting. High inflation in Poland is not only due to external price shocks, but is also a consequence of expansionary economic policy in recent years and a consumption boom. The combination of high inflationary pressure, coming from strong domestic demand, and high external price growth means that in January 2022 CPI inflation will approach 10% YoY and Polish inflation will remain elevated even when external shocks die out. The Monetary Policy Committee will continue hiking rates up to 4% this year and 4.5% in 2023.

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