

## Poland: Clothing prices boost core inflation

Core inflation increased strongly in March, but the surprise was related to a single category - clothing. We expect CPI to continue the upward trend, but the index is unlikely to reach the central bank's target in 2019



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The final reading for the CPI in March confirmed an increase from 1.2% to 1.7% YoY. Core inflation rose from 1% to 1.3% YoY, above the initial market forecasts. However, the surprise was related solely to clothing & footwear prices, which added 0.13 percentage points to CPI and 0.2ppt to core inflation. Stronger growth in this category is likely related to methodological changes in the index compilation and if that's the case, we should expect stronger dynamics to be persistent.

Demand-driven categories recorded some increase but overall their monthly readings did not diverge strongly from typical seasonal patterns.

We expect CPI to stabilise in April. A stronger increase should occur during the summer months. Still, the highest reading, which should occur in June and July, is unlikely to exceed the National Bank of Poland's inflation target (2.5% YoY). We forecast a figure of close to 2.3% YoY.

In the second half of the year, we forecast CPI to decelerate due to the lower contribution of food prices. Still, core inflation should continue its expansion driven by demand pressure. We expect the index to be around 2.4% YoY in December 2019.