Poland: Core CPI jumps to highest level since 2001

A counterintuitive rise in core CPI is due to price imputation, pent-up demand, domestic spending and regulated prices. The slide in CPI has been postponed, but inflation should drop close to the lower bound of the CPI target (2.5% YoY+/-1%) in the first quarter of next year

Shoppers at the Poznan City mall in Poland

According to the final reading, June CPI was confirmed at 3.3% year-on-year vs 2.9% YoY in May. Core and fuel prices were the key factors behind this rise. We estimate that CPI, excluding food, fuel and energy prices, grew 4.1% YoY, reaching the highest level since 2001.

There are a few reasons behind the CPI jump.

1. The statistical office has still been imputing an important part of the CPI basket by estimating items which are not representative or unavailable. This extends the pre-Covid-19 trend of rising prices and may explain the counterintuitive rise in foreign tourist services. The statistical office will gradually return to normal price recording from July onwards, so this effect should fade in the coming months.
2. Price increases are also seen in other services, some of which are the effect of pent-up demand exaggerated by households spending long weekends and holidays inside the

country (long weekend after Corpus Christi). This can be seen in recreational services and domestic tourist services. We also see a rise in prices of cable TV.

3. Other increases are regulated and quasi regulated prices (rubbish collection prices and train tickets) or some goods (books).

The effects of price estimation (raising CPI) will expire from July onwards, but the effect of pent-up demand and 'staycations' will delay the fall of the CPI. We expect CPI to return to the National Bank of Poland's target (2.5% YoY) in October-November and reach a bottom in 1Q21, falling close to the lower bound of the CPI target (2.5%YoY+/-1%) in 1Q21.

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