

Poland: Core inflation below expectations in May

Core inflation decelerated in May after an extraordinary increase a month ago. Demand is weak in our opinion. We expect CPI to oscillate in the 2-2.5% year-on-year range in the second half of 2019



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According to the flash estimate, CPI accelerated modestly in May from 2.2% to 2.3% YoY, below market expectations of 2.4%. The increase was mainly related to food prices (from 3.3% to 5% YoY) due to supply side shocks i.e. low supply of vegetables in Poland after last year's drought and low supply of pork meat after an outbreak of African Swine Fever in China.

1.6

Core inflation in May

ING estimate

Lower than expected

At the same time, core inflation decelerated from 1.7% to approximately 1.6% YoY, well below local market consensus at 1.9% and in line with our forecasts. The extraordinary increase of plane ticket prices added 0.25 percentage points to CPI in April – this effect was an anomaly related to the Easter holiday. In May, these prices returned to the standard level. The decrease in core inflation would have been stronger if not for supply side increases of communication and garbage collection. The leading telecommunications operator raised prices in May to finance infrastructure investments (e.g. related to 5G introduction). Also, local governments are increasing fees related to garbage collection due to new legal requirements. Therefore overall demand pressure is weak, in our opinion.

We forecast modest increases in the coming months – CPI should remain slightly below the central bank's target of 2.5% in June and July. In the second half of the year, we expect a deceleration, with CPI oscillating between 2 and 2.5% YoY. The increase of core inflation is likely to be offset by lower food and fuel prices. These volatile categories should lower overall CPI as well.