

Poland: Core inflation increases

Core inflation came in above expectations in August. Its growth, however, seems unsustainable as it likely resulted from legal and methodological changes



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The final CPI reading confirmed a 2% year-on-year increase in August. The deceleration of fuel prices (from 18.0 to 15.3% YoY) and prices of food (from 2.2 to 2.1% YoY) were offset by a regulatory increase in gas tariffs, which added 0.05 percentage points to the headline figure.

Core inflation accelerated from 0.6% YoY to approximately 0.8%-0.9%, above our estimates based on the flash reading. It was mainly driven by clothing & footwear prices (the Central Statistical Office changed its methodology in March) and insurance prices (prone to regulatory changes). Among the demand-driven categories, stronger growth took place only in hotels & restaurants, and this is likely to moderate in the coming months. This structure does not provide any evidence for a rapid increase of core inflation in 4Q18.

Overall, we expect CPI to decelerate in 4Q18 to approximately 1% YoY in November due to a deceleration of fuel and food prices. This inflation weakness, however, should be temporary – a return above 2% YoY is projected in 1Q19 due to an increase in energy tariffs and the expiry of other effects currently dampening core inflation.

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