

Poland: CPI in June confirmed at 4.4%

We believe the slowdown in June CPI will not continue. At the end of the year, inflation should rise from the current 4.4% pace to around 4.9%. The November projection from the National Bank of Poland will likely be crucial for the interest rate path in Poland



Customers shopping in Wrocław, Poland

4.4%

CPI in June (YoY)

In line with flash estimate

As expected

The final CPI reading confirmed that inflation fell from 4.7 to 4.4% YoY in June. Fuel prices rose 27% YoY and still made a high contribution to CPI, albeit less than a month ago. The cost of energy rose by 4.4% YoY, the same as in May. Food prices accelerated from 1.7 to 2% YoY (mainly meat and vegetables).

We estimate that in June core inflation fell to 3.5% YoY from 4.0% a month before. This is partly due to lower prices of services (6.1% YoY compared to 6.8% YoY in May and April), mainly of telecommunication services, broadcasting fees and charges for waste disposal. The cost of

transport services was also lower. Inflation in prices of goods eased slightly to 3.8% YoY from 4.1% YoY in May. This was due to slower growth in the prices of furniture and household appliances, and a year-on-year drop in the prices of clothing and footwear. On the other hand, prices of services such as tourism, hotels and restaurants accelerated. This is the effect of easing sanitary restrictions and opening of these branches.

In our view, the fall in core inflation is temporary. The closing negative output gap should soon put upward pressure on prices again. Stronger demand, driven among others by a double fiscal stimulus (investments from the Recovery Fund and tax cuts from the Polish Deal) shall be combined with prolonged supply-side disruptions. We think these disruptions may still be felt by the global economy next year, as the vaccination progress in developing countries remains weak. We expect that companies can easily pass on higher costs to final goods prices as demand rises.

Due to base effects and trends in global markets, food price increases should also continue. Therefore, we estimate that after a temporary drop in CPI, it should start to accelerate again in 4Q21 to ca. 4.9% YoY in December 2021. We estimate CPI in 2021 at 4.1% average and 3.5% in the following year.

The July NBP projection showed similar trends. However, this does not take into account the effects of the Polish Deal, which we believe to be pro-inflationary due to stimulation of consumer demand. The lack of this effect is probably the reason why NBP experts are more optimistic about the average inflation in Poland next year (3.3% YoY) than we are.

We think that the November NBP projection update may be crucial for potential changes in the monetary policy in Poland. It should allow for a quantitative assessment of consequences for GDP and inflation arising from the autumn wave of COVID-19 (we believe they will be moderate), as well as from changes announced in the Polish Deal (by that time, we should already know the specific legislative clauses).