

Poland: CPI rose faster than expected in March

CPI in March accelerated faster than expected. The rise was driven by fuel prices and core components. We see a risk of the CPI exceeding 4.0% year-on-year during 2021



3.2%

CPI in March (YoY)

Consensus at 2.9%

Higher than expected

According to the flash estimate by the Central Statistical Office, CPI inflation in March jumped to 3.2% YoY from 2.4% in February. This is higher than our estimate and market expectations (2.9%). The increase in inflation was driven by higher fuel prices (+7.6% YoY in March vs. -3.7% YoY in February) and an acceleration in core prices. CPI details for March will be released on 15 April. We estimate that core inflation accelerated to 3.8% YoY from 3.7% YoY in February. The market expected it to slow down to 3.6%.

This rise in core inflation is supported by cost pressures due to disruptions in supply chains. This includes the effect of limited access to electronic components (i.e. chips), or the high number of workers in quarantine. We think this pressure should continue during the year, as already indicated by the rising PPI. While we expect lower core inflation readings over the next months due to the high levels last year, the deceleration will be moderate. We see growing cost pressures not only in Poland, but also globally.

March was the first month this year when YoY inflation exceeded the 3% threshold. We estimate that it will not fall below this threshold in 2021, as the CPI should continue to grow. In the coming months, the low base for food and fuel prices will no longer apply. The cost pressures resulting from disruptions in supply chains should continue. We should also see the effects of pent-up demand. Our estimate for the average CPI in 2021 is 3.4% YoY, with risks on the higher side. By year-end, CPI readings could exceed 4.0%. However, this should not affect the MPC's approach, in our view. We expect the Council to keep rates unchanged until the end of the term (mid-2022).