Poland: CPI jumps on stronger demand; little impact from regulated prices

The detailed CPI reading confirms that inflation increased from 2.6% to 3.4% year-on-year, in line with the flash reading. Core CPI jumped from 2.6% to 3.2% YoY due to stronger growth in demand-driven categories. We expect CPI to top out at 4.2-4.4% YoY in the first quarter

Shoppers at the Poznan City mall in Poland

The jump in core inflation was generated by: 1) transport services, which added 0.25 percentage points to the headline rate. The increase was likely related to public transport (potentially reflecting a jump in the minimum wage) or airline tickets; 2) insurance added 0.09ppt; 3) clothing, where the seasonal drop of 0.6ppt was weaker-than-usual and 4) communication. These are all categories driven by demand, at least partially. The impact of regulatory-driven categories (such as refuse collection) was weak, in contrast to a statement by MPC Chairman Adam Glapiński at the January MPC meeting. Food prices rose by 0.5ppt to 7.0% YoY, while fuel accelerated by 5.2ppt to -0.1% YoY.

The overall structure of CPI confirms our view that inflation will exceed 4% YoY in January, as retail electricity prices went up. We remain wary about a further rise in core prices in 2020. Discussions with local businesses confirm that the rise in the minimum wage will impact not only prices of services for households (which jumped from 5.3% to 6.1% YoY in December), but also costs for retailers. Hence it will also increase prices of some goods, which up to this point have significantly lagged behind the overall CPI.

In 2020, CPI is expected to top out (around 4.2-4.4%YoY) in February-March. Inflation should decelerate in the second quarter towards 3.5% YoY (the upper central bank target band) and should remain close to that level for many months. We see 2020 CPI averaging at 3.6% YoY. This, however, will not sway the MPC – rates should remain unchanged in 2020-21, as the Council prioritises GDP growth over price stability.

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