Poland: CPI rose in June on pent-up demand

According to a flash estimate, CPI rose to 3.3% year-on-year in June from 2.8% in May. The core component is largely to blame, likely reflecting pent-up demand after the Covid-19 lockdown was lifted

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According to our estimates core inflation rose from 3.8% to 4.0% year-on-year. CPI is likely to remain at an elevated level during the holiday period, as Poles skip foreign trips this year and avoid the crowds at domestic destinations. After the holiday period (September and beyond) CPI should decelerate, falling below the National Bank of Poland's target (2.5% YoY) in late 2020 / early 2021. Labour market figures show a substantial rise in unemployment and a sharp slowdown in wage growth. This should trim demand.

The high CPI reading should have a minor impact on the Monetary Policy Committee. The council is largely focused on the real economy, rather than price stability. And weakening labour market conditions should curb CPI soon anyway. We expect rates to remain unchanged at least until 2022.

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