

Poland: September surprise for CPI

September CPI jumped to 3.2% year-on-year, above consensus and the previous reading (both 2.9% YoY). The core rate has resumed growth, perhaps due to the highest fiscal impulse in the region. Still, inflation should subside in 1Q21 on base effects



We think the main reason behind the upside surprise in the CPI is the core rate, which increased to 4.3% YoY vs 4.0% YoY in August. The flash reading offers no insight into this rise. We see a strong recovery in consumption in the third quarter (to 0-1% YoY from -10.9% YoY in 2Q), likely driven by a generous fiscal package. The strong recovery of domestic demand might have an inflationary impact, especially at the beginning of the new spending cycle post summer and when schools start. Also, the rise in the core rate might be caused by education costs, a pick-up in airfare tickets (this category plummeted a month prior), or fewer reduced-priced goods offered after the first wave of the pandemic. The final CPI reading (including details on the core component) will be published on 15 October. Despite the surprise in September, CPI slowed to 3.0% on average in 3Q20 from 3.2% in 2Q20.

3Q CPI data indicates that the slowdown in core prices should be shallower than anticipated. Nonetheless, CPI should be subdued in the coming months on a strong 1Q20 base and inflation should bottom early next year.

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