Poland: CPI slows in December

CPI inflation in December dropped to 2.4% year-on-year compared to 3.0% YoY in November. This was due to lower growth in food (0.8% YoY vs. 2.0% YoY in November) and core prices (we estimate it at 3.8% YoY in December vs. 4.3% YoY in November). On average CPI was 3.4% in 2020 vs 2.3% in 2019

Source: Shutterstock

2.4% YoY

Higher than expected

CPI inflation in December

0.1ppt higher than the flash estimate

The decline in core inflation is mainly the result of lower growth in services prices (6.4% YoY in December vs. 7.8% YoY in November). This was due to a sharp decline in prices of transportation services (down 14.9% YoY vs. a 2.0% increase in November) and lower price growth in the communications category. Also, clothing prices fell more sharply in December than in November. This is a result of demand disruption caused by the introduction of new restrictions, as well as an acceleration of the sales season following the post-Christmas retail restrictions announced in mid-December.

In 1Q21, due to base effects for fuel and food, price growth should amount to ca. 2.5% YoY, but in 2021 CPI should average 3.1% YoY. The most important pro-inflationary factors this year includes administrative decisions: the introduction of the power fee, the Renewable Energy Sources fee, the sugar tax, the retail tax and the increase in rubbish collection fees. We estimate that the combined impact of these factors on CPI is about 1.0ppt. Companies are also likely compensating for the cost of adjusting their operations to stricter sanitary requirements.

Upward pressure on CPI is also expected to come from the expected rebound in consumption. Already in 3Q20, consumer demand was higher than in 4Q19, the pre-pandemic period, despite a sharp contraction in 2Q20. A low unemployment rate, generous fiscal programmes increasing households' disposable income combined with double-digit growth of money supply, should be an effective inflation stimulus. The record low share of private investment in GDP is also not conducive to easing inflationary pressure. Such a growth structure is not supportive for building competitive advantages which, through increased productivity, would alleviate inflationary pressures from higher consumption.

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