Poland: Headline CPI down but services prices jump

While headline inflation decelerated in September, core inflation remains on an upward trend. This has been driven by higher labour costs and a consumption boom fuelled by a strong labour market and election social transfers

Source: Shutterstock

CPI decelerated in September to 2.6% year-on-year from 2.9% in August. This primarily reflected a respite in food prices as well as fuel – overall goods inflation decelerated to 1.8% YoY from 2.3%.

But core inflation keeps on rising, growing by 2.3% year-over-year in September vs 2.2% YoY in August. This was mainly due to higher services prices, which accelerated to 4.8% YoY from 4.5%. Strong growth of services prices comes from the lagged effects of higher labour costs and an ongoing consumption or social boom.

The biggest advances are recorded in the following categories of services (numbers refer to yearly inflation):

1. Education (by 1.3 percentage point) to 4.4% YoY – this is the biggest increase since 2011,

likely caused by the extension of child benefits and maybe the aftermath of failed reforms in the education system;

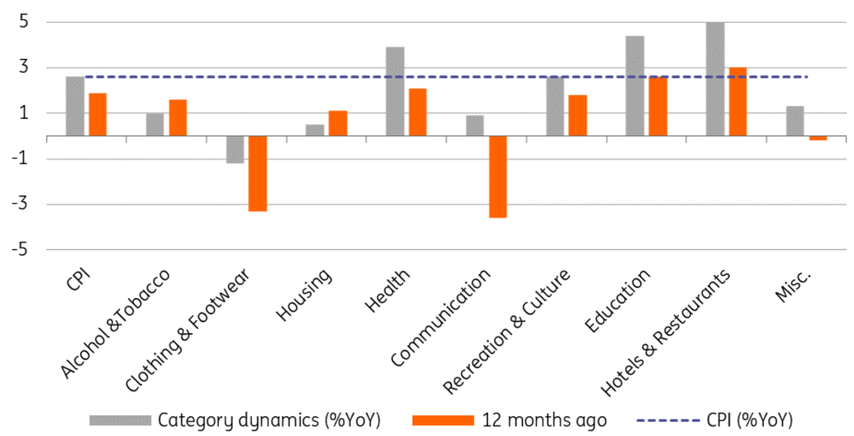
2. Telecommunications (by 1.6ppt) to 0.9% YoY – prices here have been in a multi-year deflation trend, which is coming to an end;
3. Accommodation & restaurants (by 0.5ppt) to 5.2% YoY - mainly caused by restaurant prices, which have jumped the most since 2009 amid higher food prices and labour costs;
4. Miscellaneous (by 0.6ppt) to 1.3% YoY - this category aggregates both demand-driven categories (i.e. social care) and those more dependent on legal, financial & insurance services.

We expect relatively modest changes to the headline CPI in the coming two months. The lower contribution from food and fuel prices should mask the rising core inflation. The next noticeable rise in headline CPI should be seen in December, when the index should inch up to 3.2% YoY. Headline CPI is likely to exceed 3.5% YoY in the first quarter of 2020, even with another freeze in electricity costs.

We strongly disagree with the National Bank of Poland in regard to the performance of CPI in the second half of 2020. The NBP forecasts that inflation will decelerate below its target (2.5% YoY). We remain sceptical and expect CPI to stay close to 3% YoY – with a strong increase in the minimum wage resulting in higher core inflation and the CPI (assuming frozen energy prices).

Even in the wake of stronger inflation, the MPC is unlikely to change policy. The global context, i.e. the European Central Bank's policy easing should prevent rate changes in Poland.

CPI in September - annual dynamics (%YoY)



Source: GUS

Author

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Disclaimer