

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,

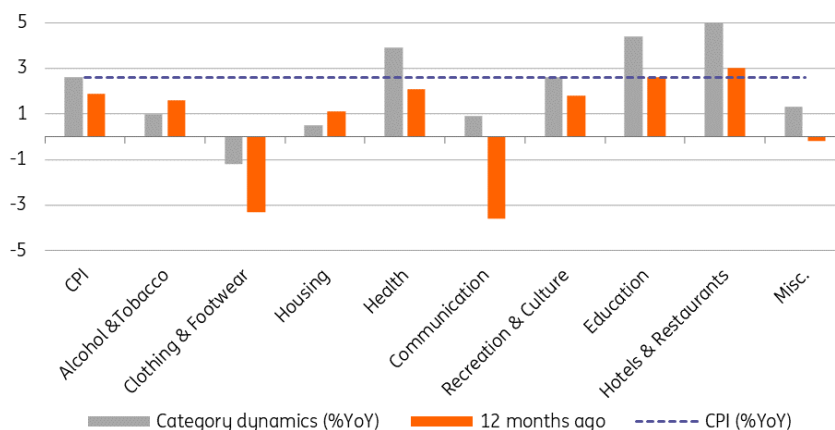
- likely caused by the extension of child benefits and maybe the aftermath of failed reforms in the education system;
2. Telecommunications (by 1.6ppt) to 0.9% YoY – prices here have been in a multi-year deflation trend, which is coming to an end;
 3. Accommodation & restaurants (by 0.5ppt) to 5.2% YoY – 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

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.