Polish core inflation surges higher

The strong rise of Polish core inflation in September reflects some regulated price effects but also the impact of strong fiscal stimulus on consumption

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The Polish central statistical office confirmed its preliminary inflation estimate for September at 3.2% year-on-year vs. 2.9% YoY in August.

The higher prices are mainly due to acceleration in the core component. We estimate core inflation in September increased to 4.3% YoY vs. 4.0% YoY in August. The annual growth rates of food prices were lower, fuel prices were similar, while energy prices were higher than in August.

The details show that the strong increase in September core inflation was caused by services with the acceleration of the annual price by 0.6p.p., from 6.6% in August to 7.2% now. This reflects regulated price pressure but also the impact of strong fiscal stimulus, which boosted consumption from 10.9% YoY in 2Q20 to 0/+1% increase YoY in 3Q20.

The yearly inflation in the “communication” category increased by 2.1 p.p., from 3.4% YoY in August to 5.5% YoY in September, due to the higher telecommunications services prices. The prices in the "culture and recreation" category accelerated by 1.4p.p. compared to August (from 2.2% YoY to 3,6% YoY) due to a huge increase in the radio and TV subscription fees. The costs of furnishing apartments, including furniture and household appliances, are also rising. Similarly, we see an increase in transportation prices, which is a result of higher fuel prices, but also a huge increase in the prices of transport services, by as much as five percentage points. This is probably due to the rebound of air ticket prices – in the previous month.

The structure of the growth in core inflation indicates that it should subside, but may remain at an elevated level also in the coming months.

The second wave of the pandemic calls for GDP to slow down in 4Q20, but if the statistical office switches to price imputation again because pollsters are unable to collect prices, such an operation should prolong the current price trends. Without an epidemiological element, our models showed a decrease in core inflation to the central bank target (2.5% YoY) in 2H21.

We expect CPI prices to rise by 3.0% YoY on average in 4Q20. In 1Q21, due to the base effect on fuels and food, price growth is likely to slow down to 2.5% YoY, but overall in 2021, prices will increase by 2.8% YoY on average. The fall in inflation caused by Covid-19 will be smaller than previously expected.

The average inflation in 2021 will be much higher than the central bank's exceptionally low forecasts for 2021 (1.5% YoY), but this does not change the fact that the MPC will be ready for more monetary easing, mainly through the purchase of assets.

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