Core CPI and food drive Poland's inflation rate lower

Polish CPI in August slowed to 2.9% from 3.0% YoY the previous month. This reflects lower annual inflation in food and core CPI following the waning inflationary effects of Covid-19

Poland's annual CPI inflation rate fell in August to 2.9% YoY compared to 3.0% YoY in July, according to the final readings. The numbers were in line with the preliminary GUS data. The lower annual CPI growth is mainly the result of lower food prices, while annual energy and fuel price inflation remained unchanged in August compared to July this year.

An important factor behind the decline in the annual CPI is core inflation, which according to our estimates fell to 4.1% YoY against 4.3% YoY in July.

Detailed data shows that inflation in some services began to decline, including in the following categories: restaurants and hotels, recreation and culture (decrease in annual inflation in domestic and foreign tourism) as well as communication (decrease in annual inflation in equipment and services). These details show that the inflationary impact of Covid-19 is waning. There is much higher domestic tourism demand; new restaurant and hotel costs combined with deferred demand prevented the earlier price decline in this category despite the recession.

Core inflation is still boosted by rising inflation in other categories, including financial services' prices. This is a side effect of cutting interest rates to close to zero, a phenomenon also observed in other countries that previously experienced similarly low rates (as the rates drop to such low levels, the profitability of the banking sector significantly deteriorates, which causes an increase in fees and commissions, so effectively the monetary policy is not loosening as the rate cut would suggest).

We expect that on average in Q3 the prices of consumer goods and services will rise by 2.9% and in the following quarters the price increase will amount to 2.3% and 1.4%. We estimate that in 2020, CPI will increase by an average of 3.3%, and in 2021 it will increase to about 2%. Lower annual inflation in the subsequent periods will be supported by base effects and the expected gradual decline in core inflation. Inflationary pressure will be limited by the lagged effects of the recession caused by Covid-19 as well as the still possible spike in unemployment and lower wage growth. On the other hand, in the first quarter of 2021 some regulated prices should rise and another countercyclical increase in the minimum wage should lessen disinflationary pressure.

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