

Poland: Central bank likely to cut inflation forecast

Poland's consumer price index decelerated further in January, with no surprises from core inflation. We expect the central bank to cut its forecasts for 2018 CPI in March, trimming hike expectations



Source: Shutterstock

The CPI decelerated last month from 2.1%YoY to 1.9%YoY, in line with the market consensus. The main drivers of this lower trajectory were food prices – food, beverage and tobacco prices in aggregate have dropped from 4.5% to 4.1%YoY (this was actually 0.2pp above our expectations, increasing the headline figure by 0.06pp). In addition, energy prices excluding fuels decelerated, as tariffs for electricity and gas remained nearly flat. Based on partial (official) GUS data (January figures present only a short summary; the consumer basket weights weren't updated either), we estimate core inflation at 1.0%YoY (vs 0.9%YoY in December).

1.0% Core inflation (YoY)

ING estimate for January

Looking ahead, we see a further deceleration of food prices related to:

- 1) The exhaustion of supply shocks in the dairy and oils categories
- 2) Globally lower growth on soft commodity prices
- 3) A strong statistical base effect related to a weak harvest of fruits/vegetables in 2017 (due to unfavourable weather conditions).

As a result, food prices are likely to hover close to 0%YoY in 4Q18.

Food prices ING forecast



Source: GUS, ING

The core inflation rate showed a stronger increase in clothing prices (-4.3%YoY, 0.7pp above our expectations) and health expenditure (1.7%YoY). Both categories are likely to be affected more by weather effects (clothing) and regulatory changes (healthcare) rather than demand conditions. All in all, core inflation is underperforming November-17 National Bank of Poland inflation projections – after a relatively small discrepancy in 4Q17 (0.1pp) the gap should widen strongly in 1Q18. Central bank analysts project core CPI close to 1.5%YoY for 1Q but this is unlikely to materialise (ING expects average close to 1%YoY – such a difference suggests the CPI headline rate will be reduced by nearly 0.3pp).

With a slow increase in core inflation and a potential further deceleration in the headline rate in February (our short-term models forecast 1.7%YoY growth in the next month and rebound to the present level in March) NBP March inflation projections are likely to show lower CPI forecasts for 2018 (despite initial inflationary surprises in 4Q17 with food prices). In our opinion, the March inflation projection should trim present rate hike expectations (nearly 75pb in 2019, above our

50pb call).