13 March 2020
Snap

# Polish CPI peaks in February

## Headline CPI jumped to 4.7%, but given lower oil prices and lacklustre demand, we think it will subside in the coming months

Polish headline CPI jumped to 4.7% year on year from 4.3% a month earlier, above market expectations of 4.4%.

A broad rise in the core component is largely to blame – a mix of regulated prices and a massive minimum wage hike. But in the coming months, we expect inflation to subside given lower oil prices and lacklustre demand.

The rise in core inflation was broad-based, including housing (rents, garbage collection, etc.), as well as demand-driven categories, such as education and furniture. The generous rise of the minimum wage (15.6%) and previous demand pressure pushed up the price of hotels and restaurants. Also, the impact of an excise rise on alcohol and tobacco was stronger than expected. Changes in the inflation basket had a negligible impact on the headline figure.

> The 2020 average should be close to 3.5% YoY, rather than the 3.9% we expected

As of March, CPI should subside, and decrease even further in April as the pandemic spreads. Covid-19 may cause some prices to rise in the short run, but the disinflationary impact should prevail, especially in the case of oil prices. Some necessity products like canned food, hygiene items and medication may become more expensive, as households stockpile, but their weight in the CPI basket is just 8%. So far local commodity exchanges show no pronounce rise in food prices in early March with the exception of poultry.

On the other hand, weak demand should prevail and result in substantially lower prices in leisure and hospitality, recreation, etc (eg, cinemas) and overall prices due to weak demand. These categories also constitute about 8% of the CPI basket. The most disinflationary factor should be lower prices of some durable goods, such as automobiles.

Also, the collapse of oil prices should lower CPI – fuels for private transportation constitutes about 5% of the CPI basket. If crude prices remain at US$35/bbl level, this will subtract 0.7ppt from the headline and inflation should move back to 3.5-3.6% YoY in April.

The 2020 average should be close to 3.5% YoY, rather than the 3.9% we expected.

Prospects of a substantial slowdown in the domestic economy and subsiding CPI should convince the central bank to cut rates in 2020.

We expect the epidemic to subtract more than 0.5-1.0ppt from GDP, which we initially forecast.

So far, the central bank remains backwards-looking, and we expect them to act when the slowdown becomes visible in the data, possibly in July or even later. Given the weak demand for credit, the central bank believes rate cuts are not as effective, so a single 25bps is probably the most likely option.

Rafal Benecki
Chief Economist, Poland
+48 22 820 4696
rafal.benecki@ingbank.pl

## Disclaimer