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Economic Comment

Inflation has not yielded to the epidemic yet

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Polish CPI inflation fell in March to 4.6% y/y from 4.7% in February, vs our forecast and market consensus at 4.4%. Core inflation ex food and energy rose in March to 3.7% y/y, according to our estimate. Inflation did not fall in categories where coronavirus should have put a negative pressure, while some price rise occurred in categories where the epidemic should have put upside pressure. The results should be approached with caution, as the inflation measurement during the lockdown is difficult and subject to many errors. Overall, we would not draw very strong conclusions from the March CPI number. We still think that the large-scale contraction of demand is likely to result in strongly disinflationary environment and as a result inflation rate should be descending quite quickly in the following months. The majority of Polish MPC members share a similar view, it seems, which was expressed in their latest press release.

Polish CPI inflation fell in March to 4.6% y/y from 4.7% in February, vs our forecast and market consensus at 4.4%. Interestingly, the surprise did not come from the food market, where prices rose 0.8% m/m (roughly in line with our estimate) but from areas where we would expect to see a clear downward move in prices in response to the epidemic: clothing and footwear (+2.5% m/m), restaurants and hotels (+0.4% m/m). Also, the drop in fuel prices (-4.6% m/m) was smaller than we estimated based on observed prices at the pump (-7% m/m). As a result, the core inflation ex food and energy rose in March to 3.7% y/y, according to our estimate.

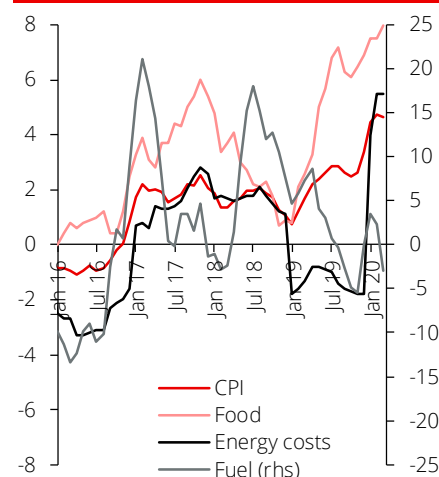
Goods inflation scaled back only a little, to 3.8% y/y from 4.1%, while services inflation inched higher, to 6.5% y/y from 6.4%. Housing costs kept going up at an accelerated pace. Some rise of inflation was seen in categories where we would expect upward pressure due to the epidemic: cleaning products, pharmaceuticals, personal care, insurance, but the growth rates of prices were not striking. As we mentioned, the negative response of prices to coronavirus was hard to spot in the most-exposed categories, with the exception of package holidays abroad (-7.1% m/m vs -0.3% m/m for domestic package holidays).

Some food categories continued to show upside pressure: bread prices (+8.5% y/y) kept rising in m/m terms for the third month at a pace way higher than in the same months of the last decade. Meat prices also kept rising, with pork up already 27.1% y/y. Media reports of chicken meat price going up 50-100% m/m were not confirmed by GUS, which showed +5.2% m/m. In response to the reports, during the month the consumer protection office and trade inspection were doing local price checks to ensure prices are being set by retailers at justified levels. The obstacles to exporting meat to the euro zone may cause this CPI category to start falling in the coming months. Milk price growth accelerated to 7% y/y from 5.6% a month earlier, possibly due to difficulties with milk collection from individual farmers as quarantine was introduced.

The results should be approached with caution, as the inflation measurement during the lockdown is difficult and subject to many errors - many areas of the economy are shut down, only online sampling is available. Polish stats office informed earlier that it is going to follow [Eurostat's guidelines](#) in this regard.

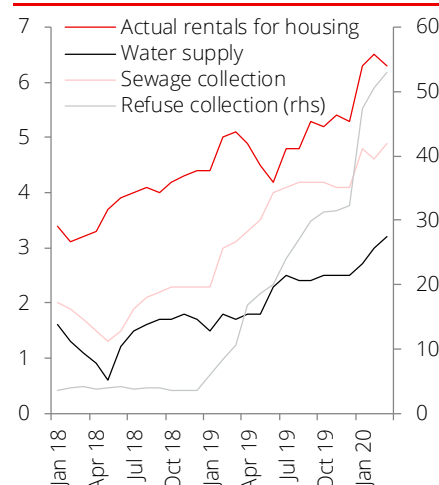
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CPI and selected components, %y/y



Source: GUS, Santander

Selected CPI components. %y/y



Source: GUS, Santander

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