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# Economic Comment

## Twofold epidemic impact on prices

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In May Polish CPI inflation was 2.9% y/y, down from 3.4% and in line with the flash release. The slowdown was caused mainly by falling fuel prices and slower growth of food prices, while core inflation rose to 3.7% y/y from 3.6% according to our estimate. The effect of the epidemic is becoming more visible in the data: in some categories it is causing price cuts (footwear, tourism), in some - their rise (medical services, hairdressing).

We expect CPI inflation to keep falling this year, to c1.5% in December, with core inflation also going down but slower and unlikely below 2% this year.

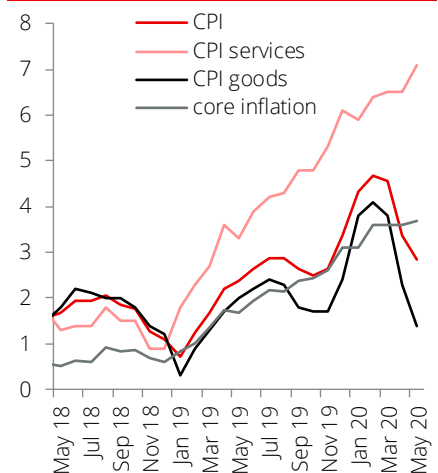
It seems the epidemic has now negative impact on goods prices (1.4% y/y in May vs 2.3% in April) and positive impact on services prices (7.1% y/y in May vs 6.5% in April).

Food price inflation declined to 6.2% y/y from 7.4%, mostly due to a drop of poultry and pork meat affected by global demand. Fuel prices fell by 4.5% m/m, and it was their fourth monthly decline in a row. We think this trend may reverse in June amid higher oil price. Shoes and clothing prices decreased by 0.9% m/m and their y/y growth dropped for the fourth time running, to -4.2% y/y.

More and more price categories become „alive” together with gradual opening of the economy. The „health” category recorded an increase by 1.6% m/m, with hospital and sanatorium services going up by 10.6% m/m, dental services up by 7.8% m/m and this is in our view due to additional sanitary precautions. Similar conclusions could be drawn from price development in hairdressing, beauty and care services (+4.3% m/m), but here the prices could have been boosted also by postponed demand. A strong rise was also recorded in financial services – by 42.9% m/m. Possibly, banks reacted to lower interest rates with hikes of their fees.

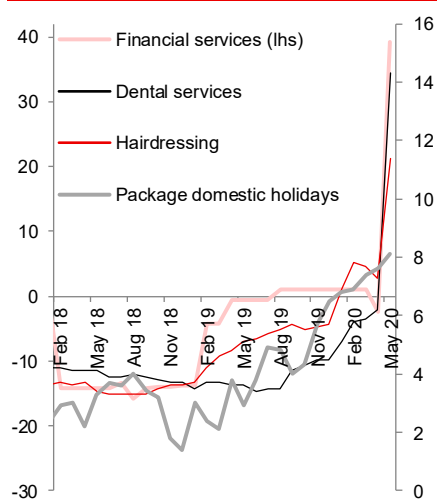
Prices of organised tourism declined by 2.6% m/m, with organised tourism in Poland going up by 2.4% m/m and foreign trips down by 6.5% m/m. In our view this pattern is likely to be repeated in the upcoming months, as the touristic demand could concentrate more on domestic trips.

### Main inflation measures, % y/y



Source: GUS, Santander

### Selected CPI components - services, % y/y



Source: GUS, Santander

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