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Economic Comment

Upside pressure on prices is not letting go

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June CPI inflation was confirmed at flash 3.3% y/y. The increase from 2.9% y/y in May was driven mostly by higher fuel prices (+0.2pp to the headline) and core inflation, which likely jumped to 4.3% y/y from 3.8% y/y (official data due for release tomorrow). We are expecting inflation to go down in the months to come, below 2% y/y in early 2021, yet some short-term upward disruptions due to the coronavirus effect are possible. Preliminary GUS data on foreign trade for May showed a rebound of exports to euro zone and other developed countries while imports from these directions stayed depressed, as a result trade balance in goods was the highest since at least 2004.

Core inflation rose strongly

Goods' prices rebounded for a first time in a few months (1.8% y/y vs 1.4% y/y in May), while services' prices kept on accelerating (7.4% y/y versus 7.1% y/y in May).

Core inflation was fuelled mostly by culture and recreation (higher prices of organised tourism) and clothing/footwear. Many services categories still record rising price growth, so do categories like furnishing and household equipment (durables). Prices in personal care, hairdressing, social care were still going up yet slower than in May. The only broad category witnessing a falling price pressure is food, which – in our view – is a result of lower demand from horeca sector in Poland and Europe.

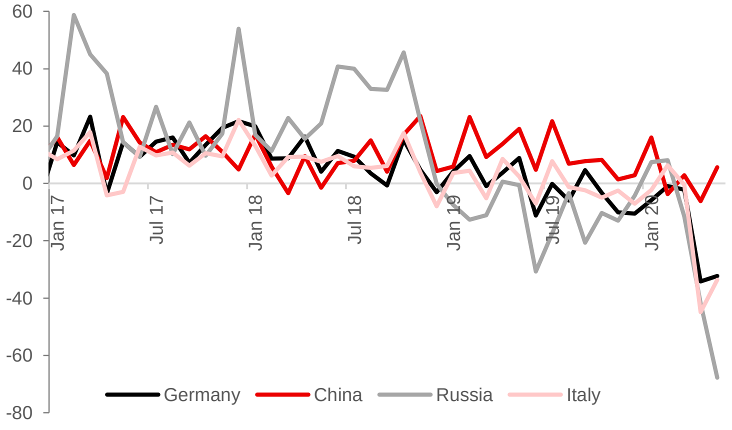
We are expecting inflation to follow a downward trend in the months to come, yet some short-term upward disruptions due to the coronavirus effect are possible. Currently, some businesses may be benefitting from a demand overhang created during lockdown and imposing sanitary charges. Later on, the effects of depressed demand are likely to become more and more conspicuous. In July GUS resumed collecting prices directly in shops and this should improve the credibility of data.

Improved trade with Europe

According to preliminary GUS data on foreign trade, in May export growth rose to -20.7% y/y from -29.2%, thanks to recovering trade with euro zone and other developed countries. Exports to Germany – the main trading partner - again looked much better than to the rest of euro zone (-17.7% y/y vs -24.9%). However, import growth remained at around -28% y/y, with no improvement in import from developed countries (-30% y/y), a further collapse of deliveries from Russia (-68% y/y vs -42% previously) but further revival of trade with China (+5.7% y/y) and South Korea (+12.5% y/y).

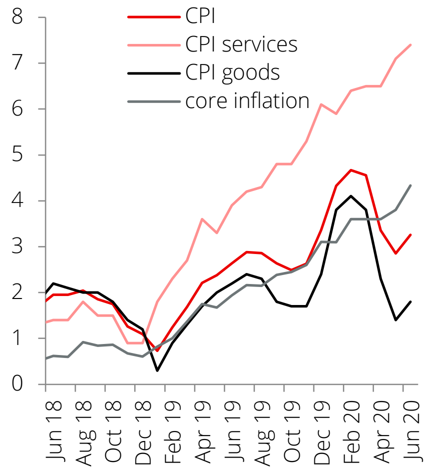
As a result, May trade balance in goods was the highest on record (since 2005) at €1.2bn. Trade balance with Germany stood at €1.5bn and was €0.5bn better than a year ago.

Import from selected countries, %y/y (May'20 implied from preliminary data)



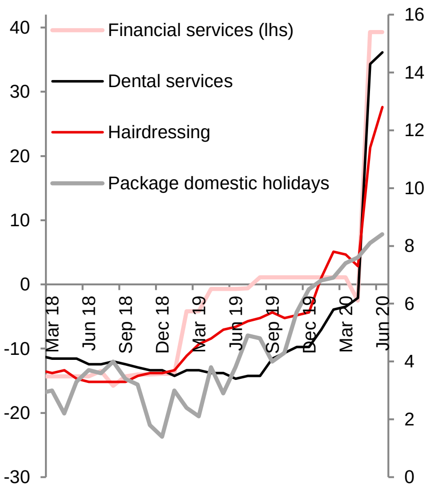
Source: GUS, Santander

Inflation measures, % y/y



Source: GUS, NBP, Santander

Selected inflation categories, % y/y



Source: GUS, Santander

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