CEE Economics

Poland

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Economic Comment

Inflation gradually up

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Statistical office confirmed that CPI inflation increased in May to 2.5% y/y from 2.4% in April. This comprised marginal increase in goods inflation to 1.2% y/y from 1.1% and stabilization of services inflation at 6.2% y/y. Food inflation decreased to 1.6% from 1.9% amid relatively low 0.3% m/m print signalling slow pass through of higher VAT on food reintroduced in April. Key downward surprises to our estimates came from foreign tourist services, furniture, some goods with high exposure to strong zloty as well as insurance services. This was partly offset by higher m/m price prints for clothing and footwear and tobacco and alcohol, with the latter possibly explained by delayed impact of new excise this year. We estimate the core inflation for May at 3.8% with 0.1% monthly price growth. Our forecasts assumes increase in headline inflation to ca. 3.9% in July, 5.3% at year-end and near 4% at the end of 2025. We expect average core inflation at 0.3% m/m and 4% y/y till the end of next year. Although CPI data tended to surprise to the downside over the last several months core inflation remains elevated, which in our view amid recovering consumer demand will keep the MPC away from cutting rates at least till mid-25.

Inflation gradually up to 2.5% y/y

The statistics office confirmed that inflation in May rose to 2.5% y/y from 2.4% in April. This included a marginal increase in goods inflation to 1.2% y/y (0.1% m/m) from 1.1%, and stabilization of services inflation at its lowest level since July 2021 at 6.2% with a slight increase of 0.1% m/m.

Slow rise in food prices

Food inflation fell to 1.6% from 1.9% with a relatively low 0.3% m/m increase signaling a slow pass-through of the higher VAT on food reintroduced in April. Although the first CPI response to the reinstatement of the higher VAT rate was relatively high, it did not reflect the full effect, and we had assumed that retailers would raise prices while defending margins in subsequent months as well, but such a trend is not clearly visible in the May data.

Detailed data for the time being do not show signs of accelerating food price dynamics. The prices of rice, pork, oils and fats and sugar continued to fall. Price growth for cocoa and chocolate powder was quite low with a slowing annual growth rate (3.9% y/y from 5.4% in April), which stands in contrast to record cocoa prices on world markets. The low annual dynamics of flour prices (-4.7% y/y) may translate into decelerating bread price growth in the coming months (4.9% y/y in May).

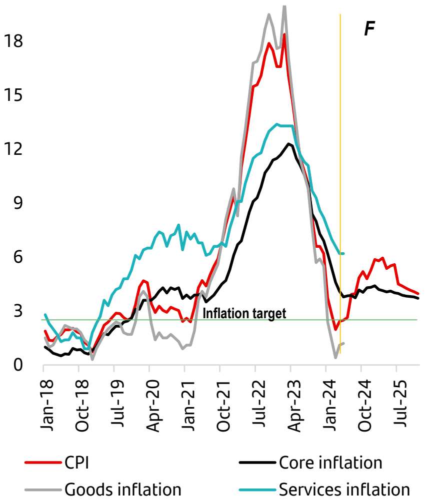
However, FAO data and pessimistic drought reports suggest that food inflation will increase in the coming months. In the baseline scenario, we assume year-end food inflation at 4.8% y/y.

Energy will not rise significantly until July

Prices of energy declined by 0.2% m/m in May, which translated into a slight acceleration of the annual growth rate to -1.9% y/y from -2.2%. As in previous months, the drop in prices was driven mainly by fuel prices (-1.3% m/m). Fuel prices fell by 0.3% m/m with annual price dynamics accelerating to 3.6% y/y from -1.2% in April.

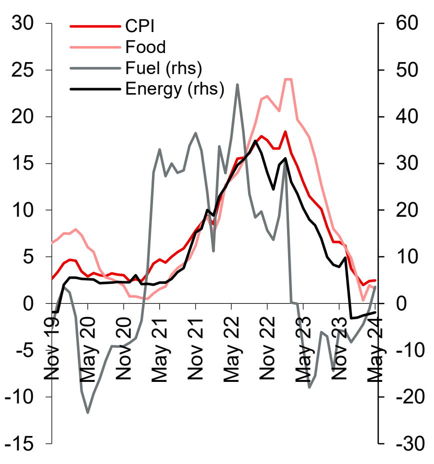
As a result of the government's new energy bill we assume price growth in this category in July at 9.8% m/m. In our scenario, we assume a 21% m/m increase in electricity prices, which takes into account the reduction in the power fee. In addition, we assume a gas price increase of about 10% and a heat price increase of about 5% spread gradually over the second half of the year. The increases in prices of energy carriers in July will, in our opinion, add just over 1 percentage point to the annual inflation rate.

Main inflation measures, % y/y



Source: GUS, Santander

Inflation measures, % y/y



Source: GUS, NBP, Santander

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Core inflation declines, but not for long

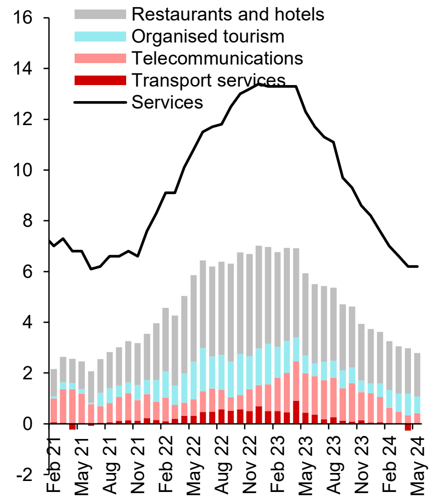
We estimate that core inflation eased in May to 3.8% y/y from 4.1% with price growth of 0.1% m/m, the lowest since November and below May's reading for 2021-2023. The key downward surprises to our estimates came from foreign travel services (about -10% m/m), furniture and some goods with high exposure to the strong zloty, including again cars and consumer electronics, as well as insurance services. This was partially offset by higher m/m prices for clothing and footwear, as well as tobacco and alcohol, which in the latter category can be explained by the delayed impact of the new excise tax this year.

We expect a gradual increase in core inflation in the second half of the year to around 4.3% by year-end and 3.7% by the end of 2025. We assume that the persistence of elevated core inflation will be influenced by recovering consumer demand and a tight labor market with still high growth in unit labor costs (13% for the full year) and average real wage growth for the first months of the year at around 9% y/y. In addition, some sectors with sizable exposure to oil prices, i.e., such as transportation services (domestic and international airline tickets have had markedly negative annual growth in recent months) may see a base effect that will drive up annual dynamics in these categories. We expect average core inflation dynamics of 0.3% m/m and 4% y/y by the end of next year.

Our forecast points to increase in headline inflation to around 3.9% y/y in July, 5.3% y/y by year-end and 4% by the end of 2025.

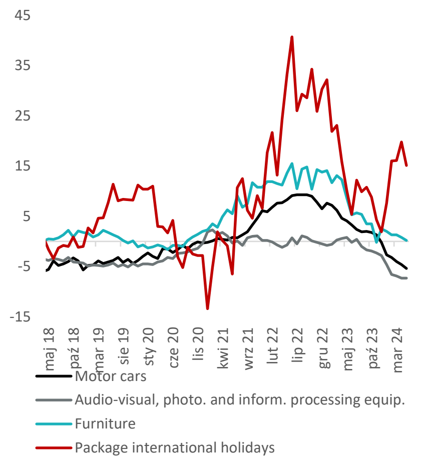
Although CPI data has surprised downwards in recent months, core inflation remains high and, in our view, in the face of a recovery in consumer demand, this will keep the MPC from cutting rates this year. Our baseline scenario predicts the first downward rate move only in mid-2025.

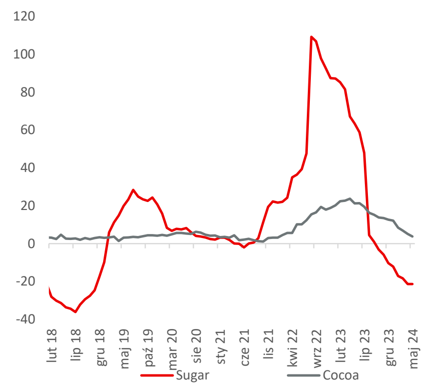
Inflation in services, breakdown, % y/y



Source: GUS, Santander

CPI components, % y/y





Source: GUS, Santander

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