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Economic Comment

CPI surged again, but not for long

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In February Polish CPI inflation surged to 4.7% y/y from 4.3% (revised from 4.4%) in January. Services inflation continued to rise, to 6.4% y/y in February, while goods inflation pushed to 4.1% y/y from 2.4% in December. Core inflation ex food and energy rose to 3.4% and 3.6% in January-February, according to our estimate. Definitely the inflationary impulse at the start of the year was stronger and more broad-based than we expected. However, going forward, the spread of the virus triggered a large-scale price cuts in many kinds of services and the massive decline of crude oil prices should also put a downward pressure on inflation. Thus, we expect inflation to decrease in the coming months.

In February Polish CPI inflation surged to 4.7% y/y, from 4.3% (January print revised down from 4.4% on annual change of weights).

The biggest change in CPI weights is a decrease of share of housing costs, plus slight drop in transport and slight rise in food. On balance, slightly lowering CPI in the first months of the year.

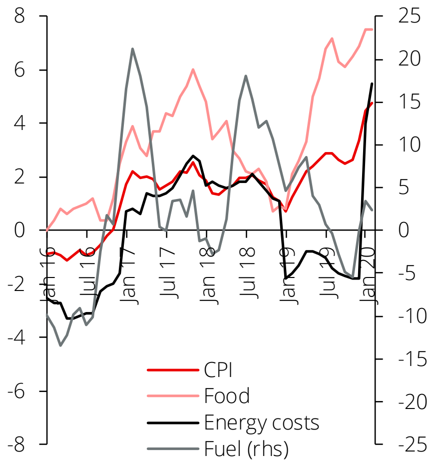
Several categories contributed to the further rise of inflation. The effect of the large energy price hike was spread among the first two months, and so was the effect of higher excise on alcohol and tobacco products. Food prices continued to grow at 7.5% y/y with vegetables, fruits and bread among the categories (as well as restaurants and catering) with the strongest impact on m/m inflation in February. House maintenance prices rose significantly more than we expected, reaching 7.3% y/y in February (vs our 6.8% estimate). Other items coming above our forecasts were housing equipment, health, transport services, communication, hotels and restaurants.

Overall, services inflation continued to rise, to 6.4% y/y in February, while goods inflation pushed to 4.1% y/y in February from 2.4% in December. Core inflation ex food and energy rose to 3.4% in Jan and 3.6% in Feb, according to our estimate.

Definitely the inflationary impulse at the start of the year was stronger and more broad-based than we expected. However, going forward, the epidemic has already triggered a large-scale price cuts in many kinds of services (e.g. travel, recreation, hotels) and this process is likely to continue. Also, the massive decline of crude oil prices should also put a downward pressure on inflation. The only thing that could halt CPI's downward move is a potential rise of prices of food and healthcare amid consumers' panic buying. However, the trend for the next quarter seems to be clear: inflation should be decreasing, as the severe economic slowdown is on the horizon.

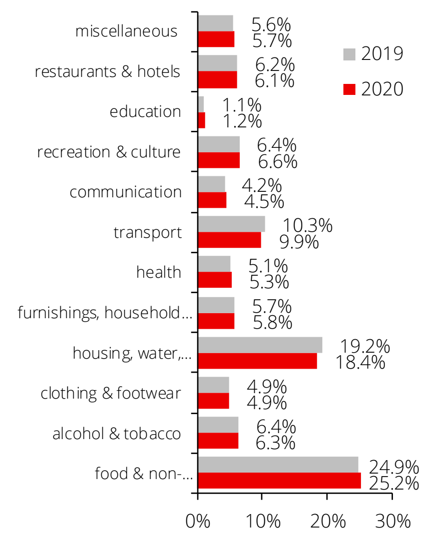
At the moment, we predict CPI should drop below 4% by April and probably below 3% by June.

CPI and selected components, %y/y



Source: GUS, Santander

CPI weights in 2019 and 2020



Source: GUS, Santander

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