

15 September 2020

Economic Comment

Inflation goes below 3%

Marcin Luzziński, +48 534 18 85, marcin.luzinski@santander.pl

Grzegorz Ogonek, +48 22 609 224 857, grzegorz.ogonek@santander.pl

Final reading of Polish CPI inflation confirmed a decline in August to 2.9% y/y from 3.0%. Services price growth eased to 6.6% y/y from 7.3%. We maintain our estimate of August core inflation at 4.1% y/y, down from 4.3% in July and expect a further decline of headline and core CPI growth in the following months. GUS foreign trade data for July showed a rebound in imports amid stabilising exports with significant recovery in trade turnover with the EU.

Core CPI trend may have changed direction

Final reading of Polish CPI inflation confirmed a decline in August to 2.9% y/y from 3.0%. Having seen the detailed data we maintain our estimate of core CPI at 4.1% y/y, down from 4.3% in July - this would mean the first noticeable decline of core inflation ex food and energy since Dec 18 and a sign that the disinflationary effects of the pandemic (demand collapse in 2Q and possibly still subdued consumption in 3Q) have finally started materialising and outweighed its pro-inflationary effect like higher sanitary costs, supply shortages. We expect inflation to descend further this year below the NBP target, and to stay below 2% in 2021, while core inflation may drop to c.3% still this year and even below 1% in some months of 2021.

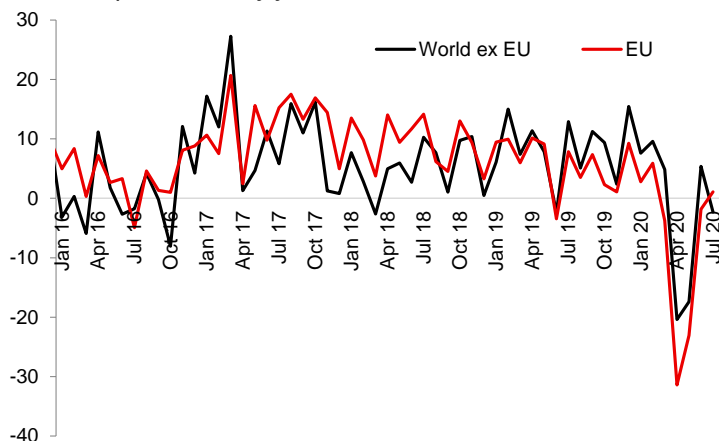
In August the growth of services prices eased to 6.6% y/y from 7.3%, but mostly due to falling prices in transport (-6.1% y/y vs +4.6% previously) and organised tourism (-0.2% y/y vs +1.2% previously), while many other services categories saw a further rise of price growth (e.g. medical services now at 9.3% y/y, dental services at 14.5% y/y, hairdressing at 13.5% y/y, financial services at 42.5% y/y). Goods prices inflation stayed at 1.5% y/y.

Further significant deceleration of food price growth in August, to 3.0% y/y from 3.9% in July, 5.7% in June and a peak at 8.0% in March, was caused by vegetable prices declining at an even faster rate (-9.7% y/y), easing meat price inflation (4.3% y/y, down from 5.4% in July and 14.5% on average in 1Q) and the first drop this year of y/y bread price growth (to 8.6%). Fruit prices also contributed, with their y/y growth down to 18.5% from 24.1%. The 1.1% m/m drop of food prices was the largest for August since 2014. The recently announced Chinese ban on German pork due to ASF may put additional downward pressure on meat prices in Poland, leading to further quick disinflation in food category.

Stabilising exports and rebounding imports in GUS trade data

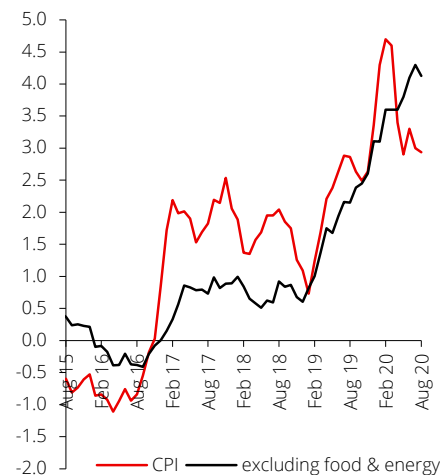
GUS foreign trade data were more or less in line with yesterday's NBP data, showing a rebound in imports amid stabilising exports. The lower decline of imports in July (-4.2% as compared to -13.5% in June) was mainly attributable to improving trade with Germany (increase by 1.1% y/y after a decline by 10.6% in June), but in general the improvement in imports was broad-based. Export statistics show a mixed picture: improving export to EU (+1.1% y/y vs -1.8% y/y in June) was accompanied by lower sales to developing countries (-0.1% y/y in July versus +12.0% y/y in June) and to the USA (-2.1% y/y in July versus +48.9% in June).

Poland's export, in EUR, %/y



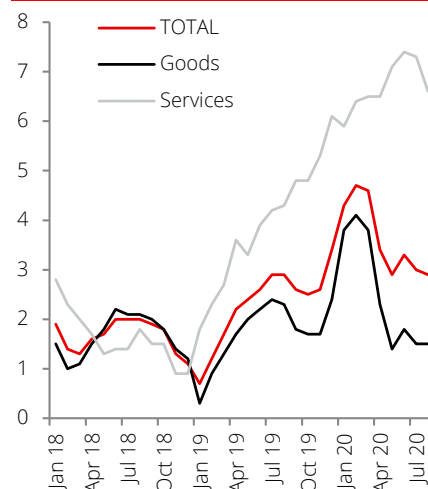
Source: GUS, Santander

CPI Inflation and core inflation, %/y



Source: GUS, NBP, Santander

CPI, main categories, %/y



Source: GUS, Santander

Economic Analysis Department:

al. Jana Pawła II 17, 00-854 Warszawa
 email: ekonomia@santander.pl
 website: santander.pl/en/economic-analysis
 Piotr Bielski +48 22 534 18 87
 Marcin Luzziński +48 22 534 18 85
 Wojciech Mazurkiewicz +48 22 534 18 86
 Grzegorz Ogonek +48 22 534 19 23
 Marcin Sulewski, CFA +48 22 534 18 84

This publication has been prepared by Santander Bank Polska S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Santander Bank Polska S.A. its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Santander Bank Polska S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Santander Bank Polska S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication.

Additional information is available on request. Please contact Santander Bank Polska S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854 Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@santander.pl, <http://www.santander.pl>.