



Inflation Review for January 2016

In January 2016, headline inflation was 0.9% m-o-m (0.7% m-o-m sa). In annual terms, it moderated to 40.3%, down from 43.3% in December.

The data released by the State Statistics Service of Ukraine were generally in line with the NBU's expectations (1.1% m-o-m in January). January's price developments were consistent with the projected disinflation path, envisaging moderation of headline annual inflation to 12% by the end of 2016.

Core inflation, however, was noticeably below the NBU's forecast. In January, core CPI remained flat compared to December 2015 (grew by 0.2% m-o-m sa), whereas the NBU expected a 0.7% m-o-m increase, which would have contributed 0.3 percentage points to the monthly CPI change. The deviation is explained by a deeper-than-expected decline in prices for clothes and footwear (by 4.4% m-o-m). This has offset an expected moderate increase in prices for other components of core inflation, mostly imported goods (such as household appliances, pharmaceuticals, audio and photographic equipment, as well as data processing equipment), largely due to heightened hryvnia exchange rate volatility in January. As a result, core inflation slowed down to 31.3% y-o-y, outperforming the forecast.

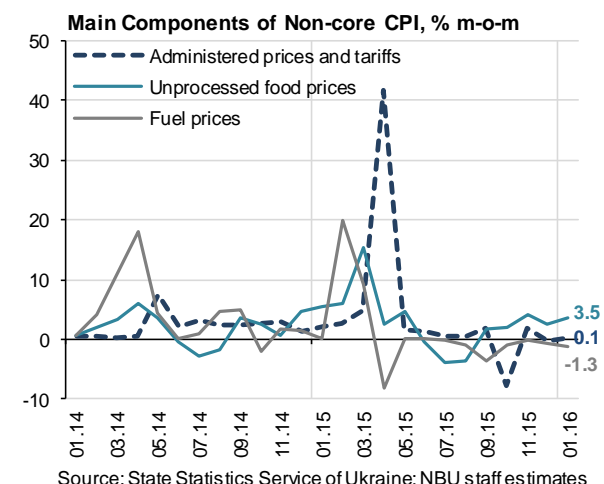
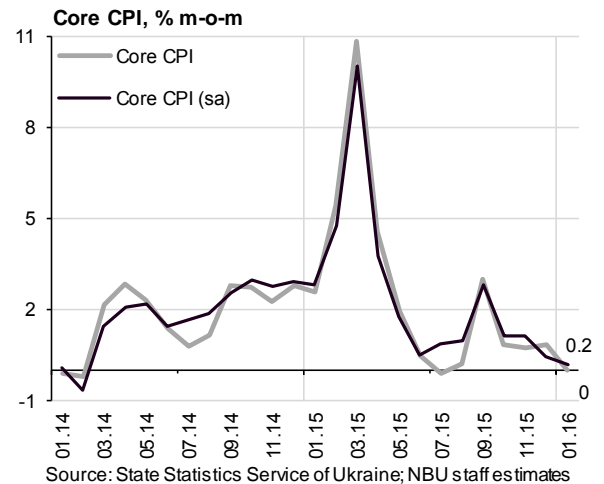
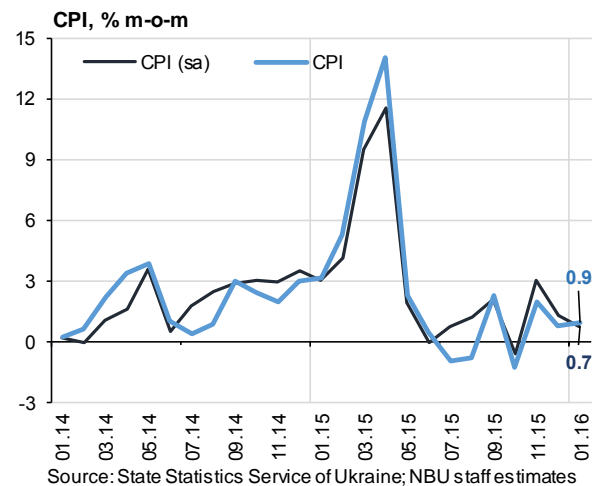
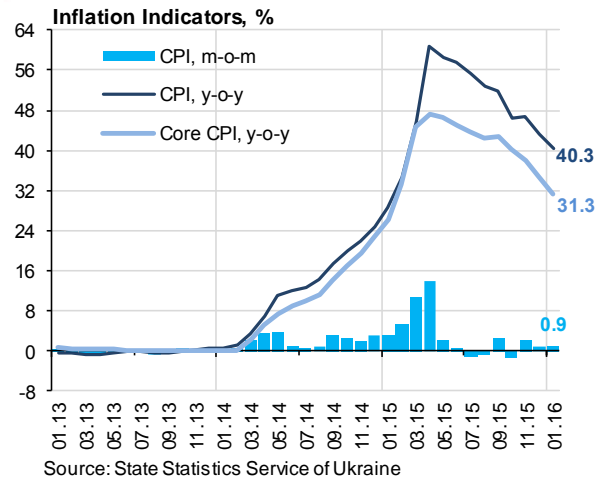
Non-core inflation amounted to 1.8% m-o-m, which was broadly in line with the NBU's expectations.

The increase in the non-core inflation indicator was mainly driven by a rise in raw food prices (by 3.5% m-o-m). As expected, prices for milk and dairy products kept rising due to a further decline in cattle stock and stronger demand by milk and dairy producers amid growing export opportunities. There was a seasonal increase in prices for eggs and vegetables. The prices for imported fruit and vegetables also rose, driven, among other factors, by the exchange rate weakening. At the same time, a seasonal increase in supply caused a reduction of prices for mandarins, oranges, and pork.

As anticipated, domestic fuel prices dropped by 1.3% m-o-m, reflecting a further decline in global oil prices and aided by regulatory measures of the government.

Administered prices and tariffs remained almost flat in January as projected (recording a 0.1% m-o-m increase). The prices for tobacco products kept declining (by 3.4% m-o-m) due to some producers decreasing their prices. The decrease was offset by an increase in other administered prices and tariffs, such as alcoholic beverages and bread, as well as certain utilities, in particular water supply.

The producer price index (PPI) dropped by 1.1% m-o-m in January, while annual growth eased to 21.2% y-o-y. The fall in world commodity prices, including for crude oil and metal ores, remained the dominant factor, affecting domestic producer price developments. In particular, this resulted in a decline in domestic prices for the extraction of crude oil and natural gas, and metal ores.



CPI and PPI growth by components in 2015-16															
CPI (NBU classification)															
	Share in CPI, %	m-o-m, %													January, y-o-y %
		2015												2016	
		January	February	March	April	May	June	July	August	September	October	November	December	January	
Consumer Price Index	100.0	3.1	5.3	10.8	14.0	2.2	0.4	-1.0	-0.8	2.3	-1.3	2.0	0.7	0.9	40.3
Core inflation	46.8	2.6	5.4	10.8	4.6	1.9	0.4	-0.1	0.2	3.0	0.8	0.7	0.4	0.0	31.3
Non-core inflation*	53.2	3.6	5.2	10.8	22.5	2.5	0.1	-1.6	-1.6	1.7	-3.0	3.0	1.0	1.8	42.5
Raw foods	28.3	5.2	6.0	15.4	3.1	3.8	-0.6	-4.0	-3.7	1.8	1.9	4.3	2.4	3.5	38.0
Administered prices and tariffs	22.5	2.1	2.7	4.9	53.9	1.2	1.4	0.6	0.4	2.0	-7.7	1.9	-0.3	0.1	51.5
Fuels	2.4	0.0	19.8	9.3	-8.3	0.1	0.0	-0.2	-1.1	-3.6	-1.0	0.0	-0.6	-1.3	11.1
CPI (State Statistics Service of Ukraine classification)															
Food and non-alcohol	50.8	4.7	5.7	15.6	4.4	3.1	0.0	-2.0	-1.7	1.2	1.1	2.5	1.7	2.2	38.1
Alcohol, tobacco	6.9	4.6	3.4	3.3	1.8	2.2	2.5	1.7	1.1	2.2	0.5	-0.6	-1.9	-1.9	15.1
Clothing and footwear	7.1	-1.9	2.2	13.5	4.6	1.0	-1.8	-4.7	-1.2	18.3	3.6	0.8	-1.7	-4.4	31.5
Housing, water, electricity, gas and other fuels incl.:	11.3	0.5	1.6	1.1	109.7	1.2	1.2	0.2	0.2	2.4	-13.8	3.3	0.0	0.7	103.4
Imputed rentals for housing	1.3	0.1	0.3	0.1	0.9	0.9	1.3	0.7	0.6	0.3	0.1	0.0	0.0	0.0	5.3
Water supply	0.0	1.0	2.1	0.2	0.2	7.0	7.8	2.1	0.0	0.8	0.1	0.2	-0.2	12.1	36.5
Hot water	0.4	0.0	0.0	0.0	0.0	44.3	7.5	0.0	0.0	0.0	0.2	0.1	0.0	0.0	55.8
Natural gas	2.3	0.0	0.0	0.0	453.4	0.0	0.0	0.0	0.0	0.0	-32.6	0.0	0.0	0.0	273.0
Central heating	1.8	0.5	0.1	-0.2	-0.1	-0.2	0.0	0.0	0.0	0.0	49.1	19.7	0.0	0.0	77.8
Transport	5.1	1.2	16.4	7.4	-4.3	0.2	1.1	0.2	-0.3	-1.6	-0.6	0.6	-0.1	-0.4	18.5
Communication	3.3	0.6	0.9	1.7	0.0	0.6	0.1	0.1	0.1	0.6	1.7	0.4	0.0	0.3	6.7
Education	1.3	2.5	4.1	2.0	1.8	1.5	1.5	0.7	0.1	6.9	0.5	0.3	0.2	2.5	24.2
PPI															
	Share in PPI, %**	m-o-m, %													January, y-o-y %
		2015												2016	
		January	February	March	April	May	June	July	August	September	October	November	December	January	
Producer Price Index	100.0	2.3	4.8	10.5	4.0	-0.4	0.6	2.0	-0.3	2.0	-2.4	0.1	0.3	-1.1	21.2
Mining and quarrying	13.0	0.4	7.3	10.8	11.5	-4.3	-0.1	1.6	-3.2	0.7	-0.7	-1.8	-4.2	-3.7	12.7
Manufacturing of coal	3.2	1.1	-0.2	1.1	-0.3	0.4	-0.1	0.1	0.1	5.5	-5.4	-0.2	-2.6	5.4	3.5
Extraction of crude petroleum and natural gas	2.6	-0.2	-1.0	31.2	86.2	1.3	-1.2	-0.4	-5.5	-1.2	0.9	0.2	-3.0	-14.2	89.4
Mining of metal ores	6.1	-0.4	15.7	12.7	-7.9	-13.9	1.2	4.6	-3.8	-1.6	1.8	-5.7	-8.0	-3.0	-11.2
Manufacturing	68.2	2.2	8.4	9.5	1.3	-0.4	0.6	0.2	0.2	0.0	0.0	0.4	-0.2	0.2	21.3
Manufacture of food products, beverages and tobacco products	21.5	3.8	7.8	10.7	3.3	0.0	1.2	0.6	1.3	0.7	0.6	1.5	0.5	1.1	32.9
Manufacture of coke, and refined petroleum products	3.7	0.7	15.2	2.4	0.2	-3.7	0.2	-0.5	-1.7	-2.3	-0.8	-1.3	-2.5	-6.0	-2.3
Manufacture of chemicals and chemical products	3.9	2.5	21.9	5.9	-4.7	0.4	1.6	-0.8	0.0	0.3	-0.2	-2.0	-0.7	-0.5	20.6
Manufacture of rubber and plastics products, and other non-metallic mineral products	4.8	3.2	8.6	9.4	3.3	0.7	0.0	0.7	-0.2	0.0	0.1	0.7	0.4	0.4	26.1
Manufacture of basic metals and fabricated metal products, except machinery and equipment	19.2	0.9	3.6	14.6	0.4	-1.5	-0.9	-0.5	-0.4	-0.9	-0.8	-0.6	-1.1	-1.8	9.4
Manufacture of transport equipment	3.2	-0.4	6.7	1.6	0.6	0.5	2.3	0.4	0.1	0.1	0.1	2.1	0.7	5.3	22.1
Electricity, gas, steam and air-conditioning supply	18.8	3.4	-5.5	13.4	7.9	1.5	0.8	7.0	-0.1	7.5	-8.7	0.3	3.3	-3.4	24.5
* NBU staff preliminary estimates based on State Statistics Service of Ukraine.															
** The shares of PPI components are NBU staff estimates based on SSSU data on volume of industrial production by type of activity for 2014.															