



NATIONAL BANK OF UKRAINE

January 2018 Inflation Review

In January 2018, headline inflation accelerated to 14.1% yoy from 13.7% in December 2017. In monthly terms, consumer prices rose 1.5%.

The actual inflation came in higher than the forecast trajectory published in the January 2018 Inflation Report as prices for raw foods and fuels were rising at a faster pace.

Core inflation accelerated to 9.8% yoy in January (stood at 0.7% mom), largely in line with the forecast. The acceleration was driven by markedly higher service prices tracked in this measure. Their rate of change increased 15.2% yoy. In particular, prices for dwelling maintenance, cable television and the internet, and health care services recorded significant increases. This was due to a number of factors:

- the continuing effect of wage rises (including as a result of another minimum wage increase by 16.3% year to date);
- a depreciation of the hryvnia in the last few months;
- the fast pace of consumer demand growth as reflected in the rapid increase in retail trade turnover in December 2017 (up by 16.1% yoy);
- pricing revisions, which are common at the start of a new fiscal year.

Meanwhile, prices of processed foods decelerated (to 12.8% yoy) as expected, due to a slower pace of increase in the corresponding raw food prices. Specifically, dairy prices grew at a slower rate in January (19.2% yoy) owing to lower procurement prices for raw milk, and, also, against the background of descending global prices for milk and dairy products.

The growth in prices for clothes and footwear as well as other nonfood prices predictably accelerated (to 1.8% yoy and 4.7% yoy respectively), not least because of the hryvnia depreciation in November – January.

In January, raw food prices grew 23.6% yoy, faster than expected. Specifically, prices for most of the “borshch vegetables” accelerated (to 20.3% yoy). Prices for greenhouse vegetables, most of which are imported, also accelerated beyond expectations. Meat prices also continued to grow (by 30.6% yoy). Although global meat prices have been decreasing over the past few months, domestic factors played a dominant role: supplies of certain types of meat declined after the end of the holiday season while export volumes remained high. Prices for eggs and fruit also accelerated (to 27.8% yoy and 39.3% yoy respectively). On the other hand, the decline in sugar prices deepened (to 8.8% yoy) amid low global prices and ample supply in the domestic market. Simultaneously, a higher harvest, compared to 2016 and the five-year average, drove lower buckwheat prices (by 31.6% yoy).

Administered prices grew by 16.2% yoy, largely in line with the forecast. Their growth was driven by rising prices for postal (up by 108% yoy) and local landline phone services (up by 16% yoy). In addition, a rise in fuel prices has led to a faster growth in public transport fares (up to 20.3% yoy). In the meantime, growth in prices for alcoholic beverages and tobacco goods slowed down (to 11.5% yoy and 35.6% yoy respectively).

Fuel prices went up by 21.8% yoy due to higher global oil prices and the weaker hryvnia.

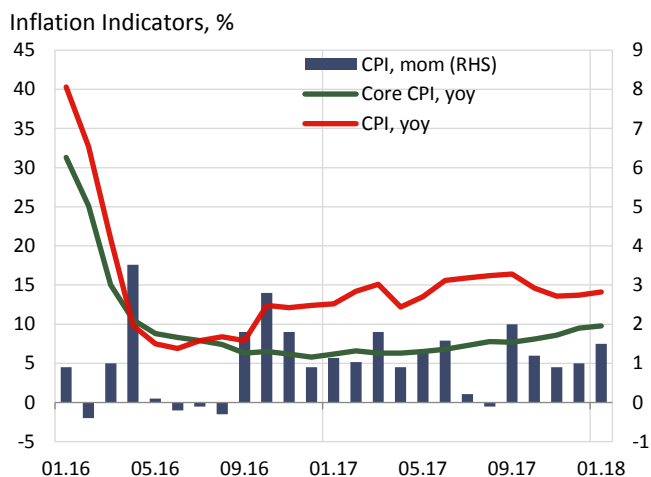
In January 2018, the producer price index growth accelerated (to 22.0% yoy from 16.5% yoy in December 2017). In monthly terms, producer prices increased 4.4%. The main factor behind the acceleration in PPI inflation was rapidly rising prices in the supply of electricity, gas, steam and air-conditioned air. This occurred as the National Commission for State Regulation in the Energy and Utilities raised electricity tariffs for industrial energy consumers by 5-11%, and the share of nuclear power generation in the structure of electricity production, which is relatively cheaper compared to other types of generation, dropped significantly.

In contrast, prices in the mining industry slowed (to 23.7% yoy), which, along with lower prices for imported coal affected also price movements at the next stages of the production chain. Thus, price growth for coke and refined petroleum products slowed (to 34.4% yoy), while the rate of growth in metals prices remained almost unchanged (26.8% yoy), compared with the previous month, despite higher world steel prices.

The rate of growth in prices in the chemical industry slowed considerably (to 17.5% yoy) on the back of lower world prices for fertilizers in annual terms. In addition, the growth of prices in food industry decelerated (to 11.9% yoy). In particular, prices in the production of dairy products slowed to 14.9% yoy due to lower export prices, as well as in beverage production (to 14.8% yoy) thanks to the unchanged excise tax rates for most alcoholic beverages after last year’s rise. Instead, price increases in the production of meat products accelerated (to 29.9% yoy).

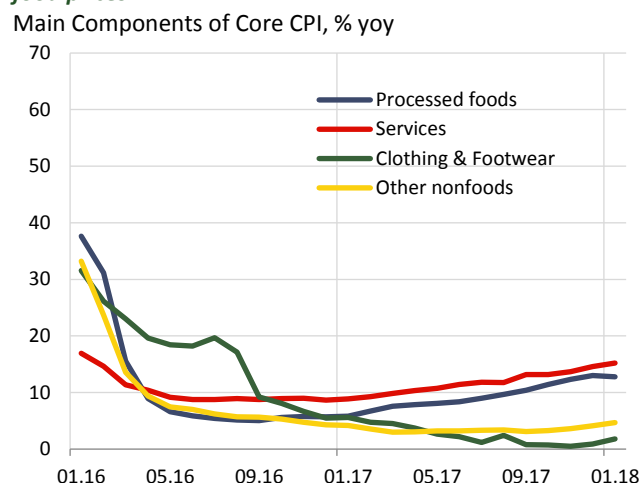
The Review is a translation of the original text in Ukrainian. In case of any discrepancies between the original document and its English translation, readers should consider the Ukrainian version of the Review as correct.

In January 2018, headline and core inflation accelerated



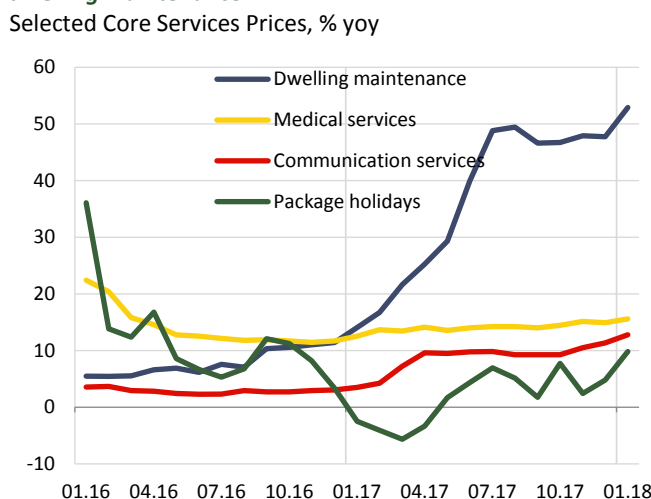
Source: State Statistics Service of Ukraine

Core inflation sped up due to markedly higher service and non-food prices



Source: State Statistics Service of Ukraine; NBU staff estimates

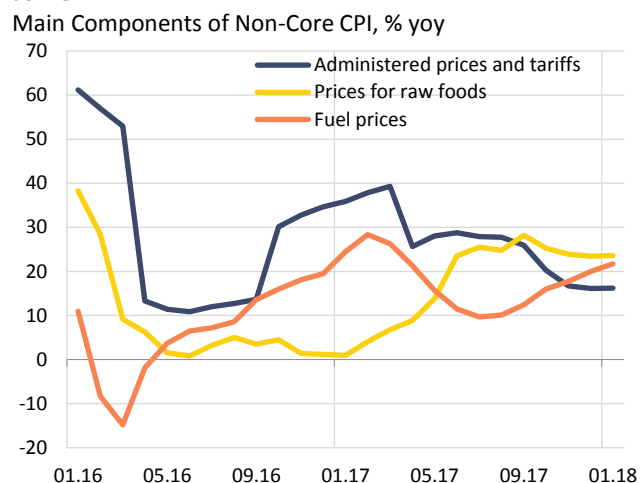
Prices for most types of services accelerated with the most significant contribution made by communication services* and dwelling maintenance



* Communication services include mobile communications, cable television and the Internet

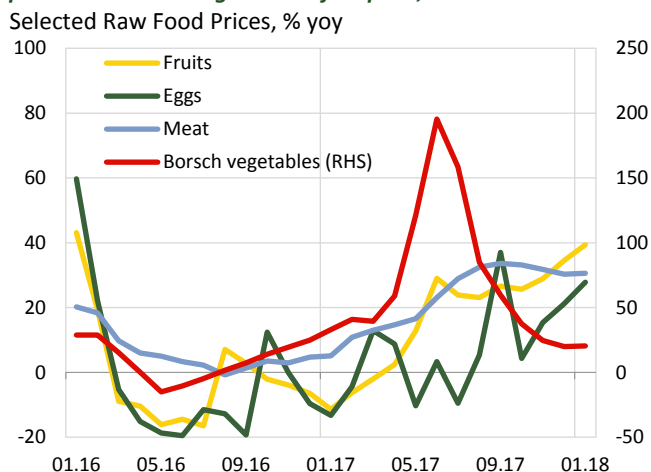
Source: State Statistics Service of Ukraine; NBU staff estimates

Among the non-core CPI components, prices for raw foods continued to grow at the fastest pace, fuel prices rose rapidly as well



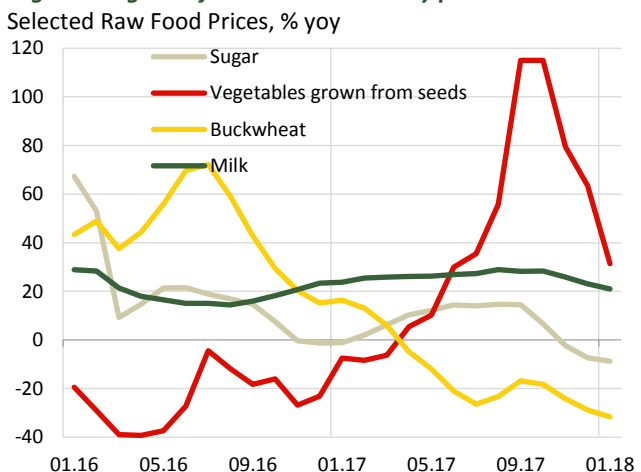
Source: State Statistics Service of Ukraine; NBU staff estimates

The rise in raw food prices was driven by accelerating growth in prices for fruit, eggs and borsch vegetables. In addition, meat prices continued to grow at a fast pace,...



Source: State Statistics Service of Ukraine; NBU staff estimates

... which was partially offset by lower prices for sugar and buckwheat, as well as a slowdown in price growth for selected vegetables grown from seeds* and dairy products

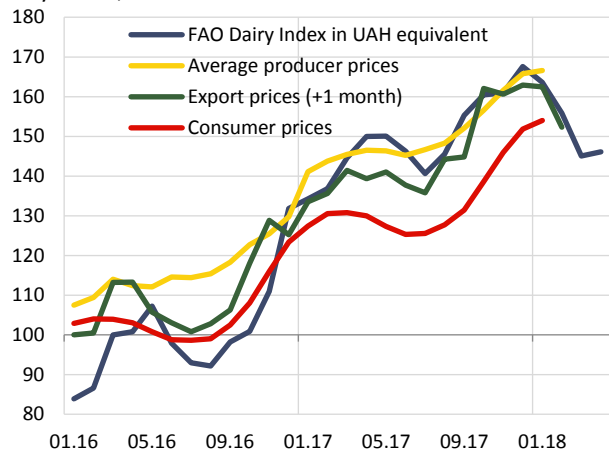


*Includes tomatoes, cucumbers, peppers, eggplants, and zucchini

Source: State Statistics Service of Ukraine

Movements in domestic prices for dairy products (both for consumer and producer prices) reflected a corresponding slowdown in world prices with a 2-3 month lag

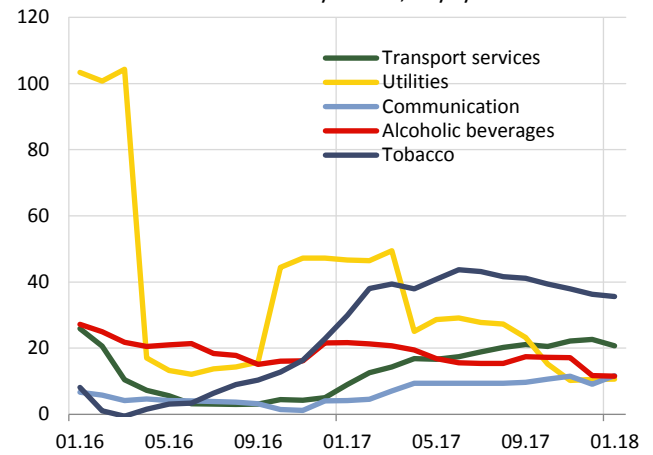
Dairy Prices, 12.2015 = 100



Source: SSSU; SFS; FAO; NBU staff estimates.

The acceleration in prices for communication services restrained the slowdown in administered prices in January

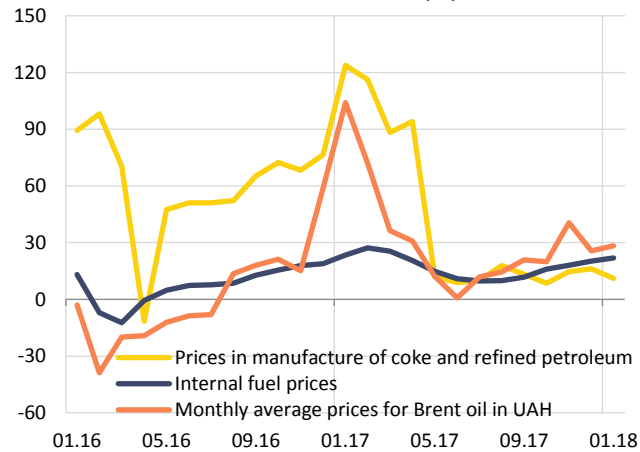
Administered Prices and Utility Tariffs, % yoy



Source: State Statistics Service of Ukraine

Fuel prices went up by 21.8% yoy driven by a surge in global oil prices and the weaker hryvnia in previous periods

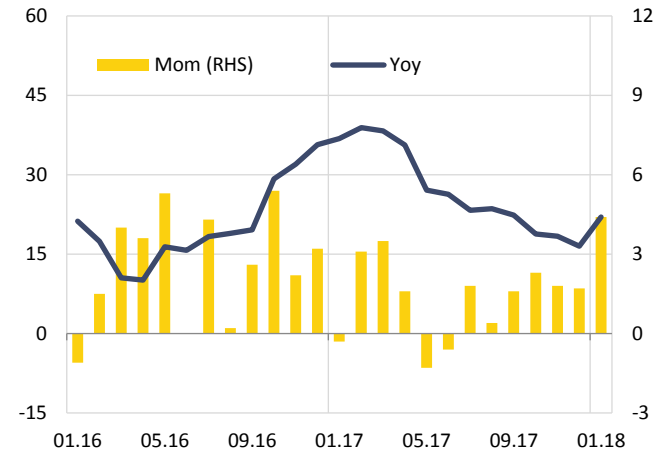
Consumer Fuel Prices, Prices in Extraction of Crude Petroleum and Natural Gas and Global Oil Prices, % yoy



Source: State Statistics Service of Ukraine, Thomson Reuters Datastream

In January 2018, producer price index accelerated significantly...

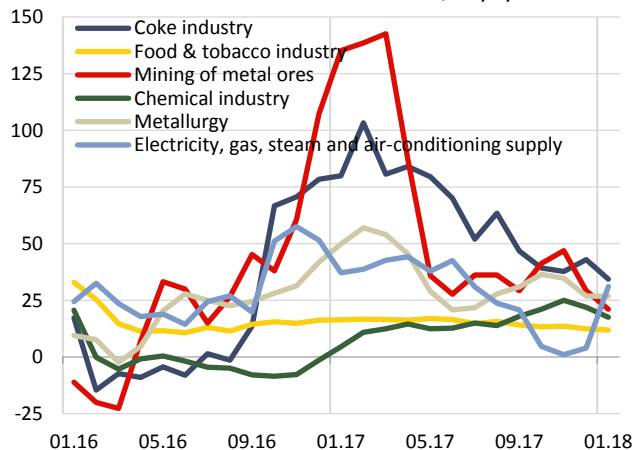
Producer Price Index, %



Source: State Statistics Service of Ukraine

... due to the sharp increase in prices for electricity, gas, steam and air conditioning. In contrast, in most other industries, price growth slowed down as a result of ...

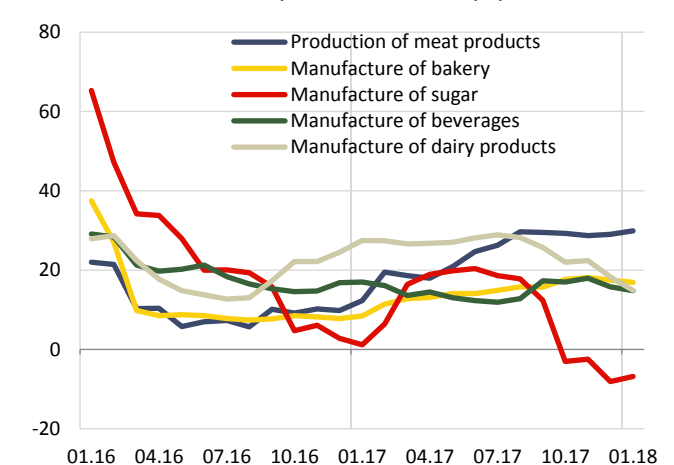
Producer Price Indexes in Select Industries, % yoy



Source: State Statistics Service of Ukraine

... lagged effects of movements in world prices and divergent trends in some of industry sub-branches

Prices in the Food Industry Sub-Branches, % yoy



Source: State Statistics Service of Ukraine

CPI and PPI growth by components in 2016 - 2018					
CPI (NBU classification)					
	Share in CPI for 2018, %	yoy, %			January, mom %
		2016	2017	2018 January	
Consumer Price Index	100.0	12.4	13.7	14.1	1.5
Core inflation	58.9	5.8	9.5	9.8	0.7
Non-core inflation *	41.1	17.5	19.4	19.8	2.4
Raw foods	18.6	1.2	23.5	23.6	3.2
Administered prices and tariffs	18.5	34.6	16.1	16.2	1.2
Fuels	4.0	19.5	20.0	21.8	4.4
CPI (State Statistics Service of Ukraine classification)					
Food and non-alcohol	42.6	3.3	17.7	17.9	2.0
Alcohol, tobacco	8.3	22.5	20.7	20.6	1.1
Clothing and footwear	5.6	5.5	0.9	1.4	-3.9
Housing, water, electricity, gas and other fuels incl.:	6.1	47.2	10.6	10.7	0.4
Imputed rentals for housing	0.3	11.5	47.5	52.7	6.0
Water supply	0.2	42.1	20.2	20.6	0.4
Hot water	0.2	82.9	0.9	0.9	0.1
Natural gas	1.7	42.0	1.2	1.2	0.0
Central heating	1.1	89.3	3.8	3.7	0.1
Electricity	1.0	60.0	28.1	28.1	0.0
Transport	11.8	11.4	16.7	17.1	3.0
Communication	3.1	4.0	9.1	11.7	2.8
Education	1.5	13.7	14.9	15.3	1.4
PPI					
	Share in PPI for 2018, %**	yoy, %			January, mom %
		2016	2017	2018 January	
Producer Price Index	100.0	35.7	16.5	22.0	4.4
Mining and quarrying	14.7	85.1	30.4	23.1	2.7
Manufacturing of coal	2.5	40.4	47.8	37.1	-0.1
Extraction of crude petroleum and natural gas	5.1	76.5	16.1	11.1	4.1
Mining of metal ores	6.0	107.2	29.3	21.1	3.1
Manufacturing	65.7	22.6	18.5	18.0	2.3
Manufacture of food products, beverages and tobacco products	21.2	16.2	12.5	11.9	0.8
Manufacture of coke, and refined petroleum products	3.9	61.7	43.0	34.4	-1.7
Manufacture of chemicals and chemical products	2.8	-1.4	21.9	17.5	1.7
Manufacture of basic pharmaceutical products and pharmaceutical preparations	1.4	8.5	11.0	11.9	2.8
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.1	9.5	12.5	13.8	2.6
Manufacture of basic metals and fabricated metal products, except machinery and equipment	18.4	41.8	26.9	26.8	3.7
Manufacture of transport equipment	2.8	11.4	17.9	22.1	6.8
Electricity, gas, steam and air-conditioning supply	19.6	51.5	4.0	31.1	10.2

* Revised NBU staff estimates based on the State Statistics Service of Ukraine data. The sum of contributions of CPI components may deviate from the total CPI through the use of dynamic weights according to the methodology of the SSSU and rounding.

** The shares of PPI components are NBU staff estimates based on the SSSU data on volume of industrial production by type of activity for 2016.