



Consumer price inflation decelerated to 8.8% yoy in February, down from 9.2% yoy in January. In monthly terms, prices rose 0.5%. Actual inflation in February was practically in line with the forecast trajectory the NBU published in its [January 2019 Inflation Report](#). Core inflation decelerated slightly faster than expected, thanks to a substantial strengthening of the hryvnia. This balanced out more rapid growth of food prices, which was primarily driven by temporary factors.

Core Inflation

Core inflation slowed to 7.8% yoy in February, down from 8.3% yoy in January. In monthly terms, the core CPI increased 0.2%.

The growth in non-food prices decelerated most noticeably (to 2.8% yoy), primarily due to the strengthening of the hryvnia, which affected the prices of imported goods and goods with a significant import share in their production costs. In particular, prices for home appliances increased more slowly (2.3% yoy), as did the prices of furniture (6.8% yoy), pharmaceuticals (6.5% yoy), and clothing and footwear (0.5% yoy), while the prices of computer equipment actually declined (by 1.8% yoy) from last year.

The prices of services grew less rapidly (by 14.1% yoy). In particular, the growth in housing rentals and the cost of catering, out-patient services, and insurance decelerated. The growth in dwelling maintenance fees (16.3% yoy) continued to slow against a high comparison base. Meanwhile, the deceleration in the price growth of services as a group was restrained by the continued increase in the prices of other services, including telecommunications. Higher price growth in telecommunications was driven by sizable investments, among other factors.

The growth in the prices of processed foods slightly decelerated (to 9.2% yoy) as well. The slower growth of meat product prices (9.6% yoy) was due to cheaper raw materials. However, the slowdown in the price growth for this group was restrained by a rise in the prices for certain dairy products, driven, inter alia, by an increase in the prices of these products on external markets, and the continued decline in cattle livestock and related production.

Changes in Raw Food Prices

The growth in raw food prices sped up in February (to 4.6% yoy), primarily driven by the prices of greenhouse vegetables, which rose after adverse weather affected Turkey, the main supplier of these products in wintertime. Flour prices kept growing (20.3% yoy), driven by higher global prices and the limited supply of quality raw materials. Prices for borshch vegetables continued to rise rapidly (85.5% yoy), although

the annual rate of their increase remained unchanged from the previous month. The fast annual increase in the prices of these goods reflected their sharp rise in previous months following poorer vegetable harvests in Ukraine and the EU.

At the same time, fruit prices continued to go down (by 21.6% yoy), owing to a bumper harvest of apples and lower prices for imported bananas and citrus fruits. The sharp drop in egg prices (14.4% yoy) was attributable to a strong large output increase in poultry farming. Meat prices grew more slowly (6.1% yoy) as global meat prices continued to fall.

Changes in Administered Prices

The growth in administered prices held steady (18.7% yoy). The faster increases in heating and hot water tariffs, and passenger rail fares was offset by slightly slower growth in the prices of bread and tobacco products.

Changes in Fuel Prices

Fuel prices continued to decline (by 5.9% yoy), thanks to a fall in global oil prices in previous months, and the strengthening of the hryvnia.

Producer Price Inflation

In February 2019, producer price inflation decelerated slightly to 10.2% yoy from 10.4% yoy in January.

The main contributors to the slower producer price growth included the decline in most commodity prices in international markets and the strengthening of the hryvnia against the currencies of Ukraine's main trading partners. In particular, this was reflected in deeper decreases in the prices of manufacturing products that are sold outside Ukraine (the price declined by 3.7% yoy in February, compared to a 1.2% yoy decrease in January). At the same time, the prices of such products sold in Ukraine increased 5.2% yoy.

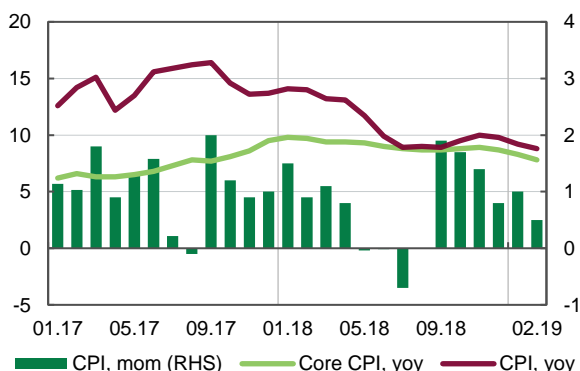
Following the trends that dominated the global market in previous periods, prices in metal ore mining declined more rapidly (7.6% yoy), as did prices in metallurgy (5.5% yoy). In addition, the cheaper natural gas and the slower growth in global fertilizer prices led to a slower price growth in the chemical industry.

Price growth in the production of food, beverage and tobacco products decelerated as well (to 5.0% yoy). Prices for meat products grew more slowly (1.1% yoy), thanks to cheaper raw materials in domestic and external markets. Moreover, the drop in global sugar prices, along with a supply glut of sugar in Ukraine, prompted sugar prices to hold a decline (12.8% yoy). Meanwhile, the price growth in manufacture of dairy products accelerated (to 10.8% yoy).

Meanwhile, the slowdown in producer price inflation was restrained by further price growth in crude oil and natural gas production (20.7% yoy) amid growth in global oil prices in February. Furthermore, price growth in the energy sector accelerated (to 29.3% yoy) as the share of solar power – the most expensive type of electricity – in total power output expanded, and tariffs for electricity generated by thermal power plants increased.

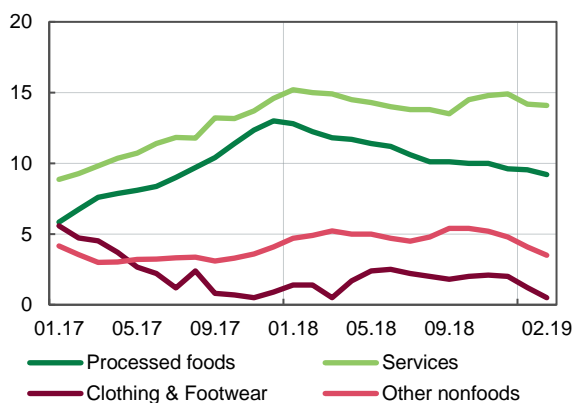
In February 2019, headline and core inflation continued to decelerate. More specifically, the substantially stronger hryvnia slowed the growth in the prices of imported goods and goods with a significant import share in their production costs

Chart 1. Consumer Price Indices, %



Source: SSSU.

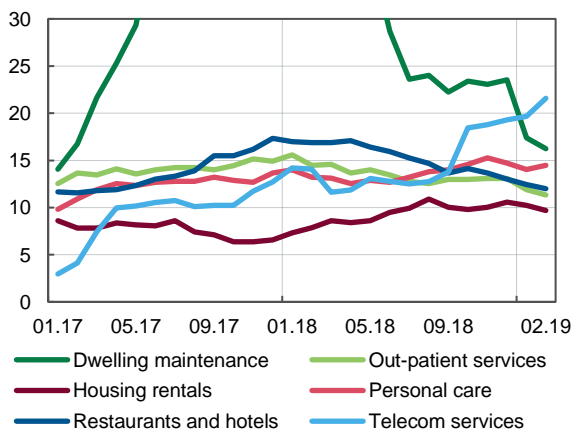
Chart 2. Main Core CPI Components, % yoy



Source: SSSU, NBU staff estimates.

The prices of services increased somewhat more slowly, but were prevented from even further deceleration by faster price growth in other services, like telecommunications

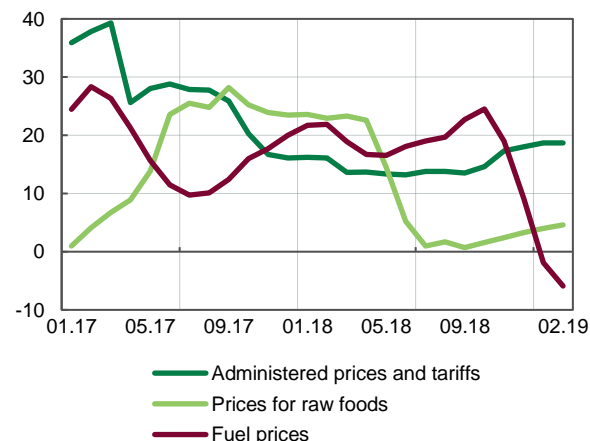
Chart 3. Selected Market Services, % yoy



Source: SSSU, NBU staff estimates.

Non-core inflation slowed, primarily due to the decline in fuel prices, which balanced out the accelerated growth in raw food prices and administered prices

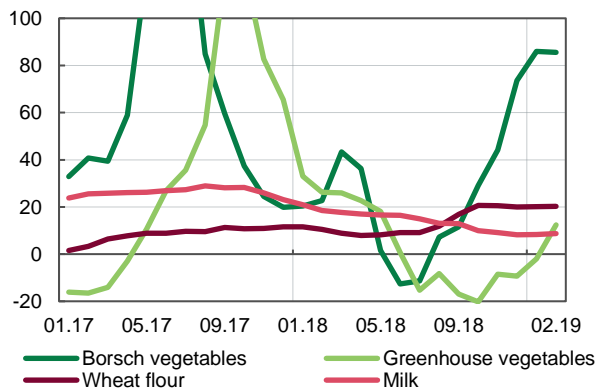
Chart 4. Main Components of Non-Core CPI, % yoy



Source: SSSU.

The acceleration in raw food price inflation was mainly driven by more rapid growth in the prices of greenhouse vegetables, owing to unfavorable weather in Turkey

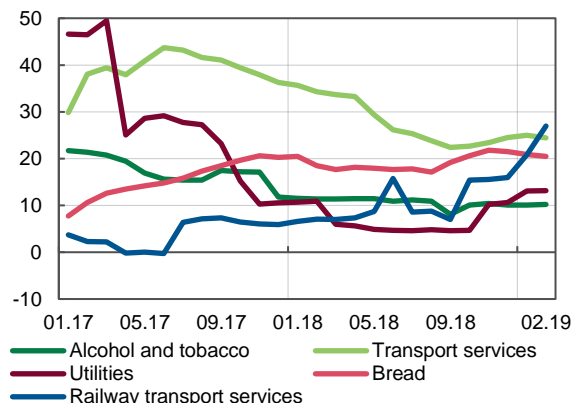
Chart 5. Prices for Selected Raw Food, % yoy



Source: SSSU.

The faster increase in heating and hot water prices and passenger rail fares was offset by the slightly slower growth in prices for bread and tobacco products

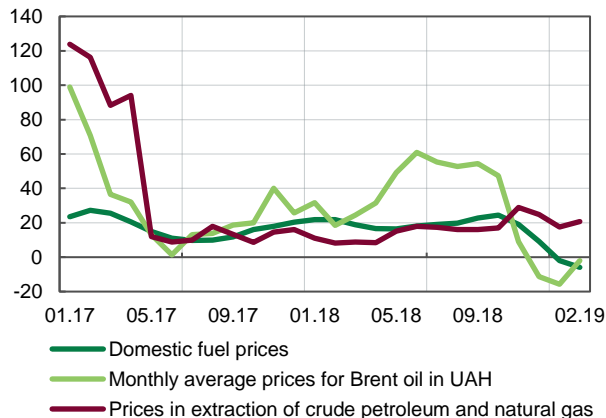
Chart 6. Administered Prices and Utility Tariffs, % yoy



Source: SSSU.

The decrease in global oil prices in earlier months and the strengthening of the hryvnia were the main contributors to the fall in fuel prices compared to last year

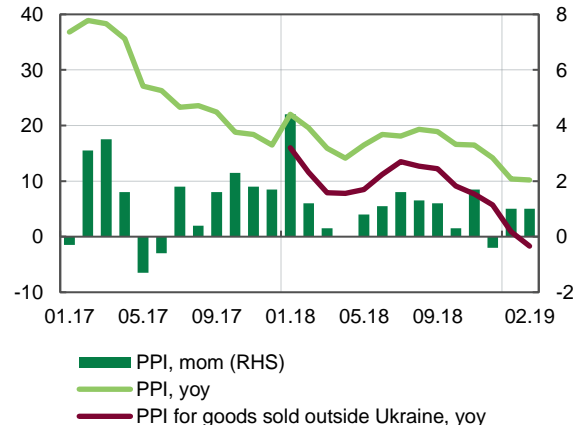
Chart 7. Fuel Price Indexes, % yoy



Source: SSSU, Thomson Reuters Datastream.

In February, producer price inflation declined somewhat, including due to lower global commodity prices and the strengthening of the hryvnia...

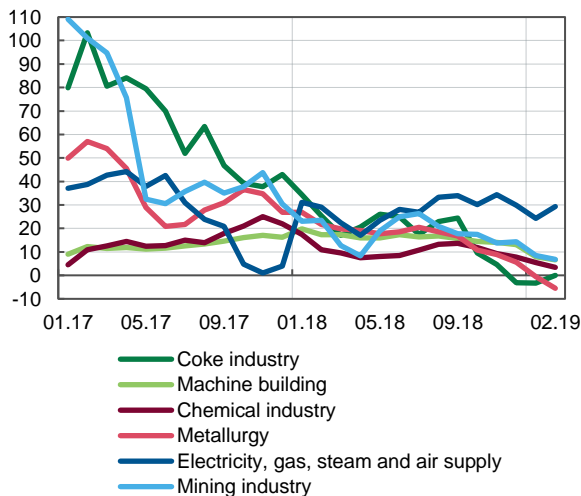
Chart 8. Producer Price Index, % yoy



Source: SSSU.

...but the accelerated growth in prices for oil, gas, and electricity counteracted the decrease in producer price inflation

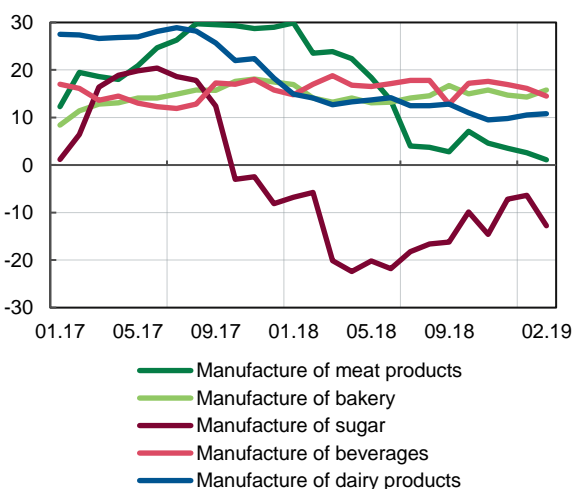
Chart 9. Producer Price Indexes in Select Industries, % yoy



Source: SSSU.

The food industry saw a deceleration in the growth of prices for meat products and beverages, and a sharper price drop in the production of sugar

Chart 10. Prices in the Food Industry Subsectors, % yoy



Source: SSSU.

CPI and PPI Growth by Components in 2016–2019

	Share in CPI for 2019, %	% yoy						%mom Feb 2019
		2016	2017	2018	2019			
					Jan	Feb		
CPI (NBU classification)								
Consumer Price Index	100.0	12.4	13.7	9.8	9.2	8.8	0.3	
Core inflation	59.3	5.8	9.5	8.7	8.3	7.8	0.2	
Non-core inflation*	40.7	17.5	19.4	10.7	10.3	10.2	1.0	
Raw foods	20.0	1.2	23.5	3.3	4.0	4.6	1.2	
Administered prices and tariffs	16.8	34.6	16.1	18.0	18.7	18.7	1.2	
Fuels	3.9	19.5	20.0	9.1	-1.9	-5.9	-2.0	

CPI (State Statistics Service of Ukraine classification)							
Food and non-alcohol	45.4	3.3	17.7	7.8	7.9	7.8	0.9
Alcohol, tobacco	8.3	22.5	20.7	17.9	18.0	17.8	1.2
Clothing and footwear	5.3	5.5	0.9	2.0	1.2	0.5	-3.5
Housing, water, electricity, gas and other fuels incl.	4.9	47.2	10.6	10.6	13.1	13.2	0.5
Dwelling maintenance	0.2	11.5	47.5	23.7	17.5	16.3	1.2
Water supply	0.1	42.1	20.2	19.9	21.2	20.8	1.8
Hot water	0.2	82.9	0.9	3.2	12.9	14.0	1.1
Natural gas	1.2	42.0	1.2	22.9	22.9	22.9	0.0
Central heating	0.8	89.3	3.8	5.2	16.6	18.4	1.6
Electricity	0.9	60.0	28.1	0.0	0.0	0.0	0.0
Transport	11.4	11.4	16.7	12.9	7.7	6.0	-0.1
Communication	3.1	4.0	9.1	15.1	14.8	15.7	1.5
Education	1.3	13.7	14.9	13.4	13.4	13.4	0.4

PPI

	Share in PPI for 2019, %**	% yoy						%mom Feb 2019
		2016	2017	2018	2019			
					Jan	Feb		
Producer Price Index	100.0	35.7	16.5	14.2	10.4	10.2	1.0	
Mining and quarrying	15.2	85.1	30.4	14.3	8.4	6.8	1.1	
Manufacturing of coal	2.9	40.4	47.8	5.4	11.4	11.3	0.1	
Extraction of crude petroleum and natural gas	5.3	76.5	16.1	24.9	17.5	20.7	0.1	
Mining of metal ores	5.8	107.2	29.3	8.2	-2.9	-7.6	2.5	
Manufacturing	65.3	22.6	18.5	7.4	4.6	4.6	-0.6	
Manufacture of foods, beverages and tobacco products	20.2	16.2	12.5	7.0	6.3	5.0	-0.3	
Manufacture of coke, and refined petroleum products	3.9	61.7	43.0	-3.1	-3.3	0.0	2.1	
Manufacture of chemicals and chemical products	2.7	-1.4	21.9	7.7	5.5	3.4	-0.9	
Manufacture of basic pharmaceutical products and pharmaceutical preparation	1.4	8.5	11.0	16.7	14.8	15.8	1.2	
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.2	9.5	12.5	12.6	11.3	10.6	0.1	
Manufacture of basic metals and fabricated metal products, except machinery and equipment	18.5	41.8	26.9	5.6	-0.5	-5.5	-2.5	
Manufacture of transport equipment	2.9	11.4	17.9	17.3	11.1	11.5	0.1	
Electricity, gas, steam and air-conditioning supply	18.5	51.5	4.0	29.8	24.2	29.3	4.3	

* 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 due to 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 2018.

Terms and abbreviations:

CPI	consumer price index	yoy	in annual terms; year-on-year change
PPI	producer price index		
SSSU	State Statistics Service of Ukraine		
TPP	thermal power plant	mom	in monthly terms; month-on-month change
Borshch vegetables	Vegetables used in cooking traditional Ukrainian soup "borshch": potatoes, onions, white cabbage, carrots and beetroots	RHS	right-hand scale