



In March 2019, consumer price inflation declined in annual terms to 8.6%, down from 8.8% in February. In monthly terms, prices increased by 0.9%. Actual inflation in March was practically in line with the forecast trajectory that the NBU published in its [January 2019 Inflation Report](#). Core inflation decelerated slightly faster than expected, primarily due to a strengthening of the hryvnia against the currencies of Ukraine's main trading partners. At the same time, the temporary factors that drove the acceleration in the growth of raw food prices in the final days of 2018 and at the start of 2019 are gradually wearing off.

Core Inflation

In March 2019, core inflation declined in annual terms to 7.6%, down from 7.8% in February. In monthly terms, the core CPI increased 1.2%.

The growth in non-food prices continued to decelerate (to 2.7% yoy). Compared to the previous month, the prices of home appliances increased more slowly (1.6%), as did the prices of furniture (5.8% yoy), household goods (5.8% yoy), and pharmaceuticals (5.9% yoy). In addition, prices of audio-visual devices and information processing equipment declined in annual terms. At the same time, the increase in the prices of clothing and footwear was modest (2.0% yoy).

The prices of services grew at the same rate as in the previous month (14.1% yoy). The prices of catering services, chemical cleaning services, repair services, outpatient services, and insurance services increased at a slower rate, as did housing rentals. The growth in housing maintenance fees (15.2% yoy) slowed against a high comparison base. Meanwhile, cable TV subscription rates, prices for mobile communication services, and cinema ticket prices grew more rapidly, as businesses in these sectors ramped up investment.

The growth in the prices of processed foods slightly decelerated (to 8.7% yoy) as well. Meat product prices grew less rapidly (8.9% yoy), thanks to a more ample supply and lower global prices for these goods. Lower global prices for oilseeds, and a bumper harvest of sunflowers contributed to the slower growth in sunflower oil prices. In addition, the growth in the prices of dairy products slowed (to 8.8% yoy). In contrast, higher production costs accelerated the increase in bread product prices.

Changes in Raw Food Prices

The growth in raw food prices decelerated (to 3.6% yoy). More specifically, fruit prices continued to fall (by 22.6% yoy), owing to cheaper imported bananas and citrus fruits, and an ample harvest of apples last year. Egg prices continued to decline (by 18.1% yoy) due to a large increase in the output of poultry farming. In addition, the growth in the prices of

borshch vegetables decelerated but remained high (67.2% yoy), as the supply of these products in the domestic and European markets was weak in previous periods. At the same time, the prices of greenhouse vegetables increased more rapidly (by 16.5% yoy), reflecting the scarce supply of these goods amid lower imports from Turkey. Higher prices in external markets and a shortage of quality raw materials were additional factors that caused a steep rise in flour prices (20.4% yoy).

Changes in Administered Prices

The growth in administered prices held steady (18.7% yoy). The increase in the charges for cold water supply and sewage collection (by 22.2% yoy and 25.2% yoy, respectively) and in passenger rail and public transport fares (by 28.7% yoy and 46.5% yoy, respectively) was offset by slower growth in the prices of so-called social bread (20.0% yoy) and of alcoholic beverages and tobacco products (9.9% yoy and 24.0% yoy, respectively).

Changes in Fuel Prices

Fuel prices remained lower than last year (down 3.5% yoy), thanks to a fall in global oil prices in previous periods and the strengthening of the hryvnia. At the same time, with the rise of oil prices on the world markets in recent months, the fall in domestic fuel prices in March slowed compared to February.

Producer Price Inflation

In March 2019, producer price inflation decelerated to 8.9% yoy (down from 10.2% yoy in February).

One of the main contributors to the slower producer price growth was a sharp drop in global prices of natural gas. Consequently, Naftogaz of Ukraine NJSC cut natural gas tariffs for industrial companies. This factor also contributed to the fall in the price of electricity generated by thermal power plants. As a result, price growth in the supply of electricity, gas, steam, and air conditioning decelerated significantly – to 19.0% yoy from 29.3% yoy in February.

Price growth in the production of food, beverages, and tobacco products decelerated (to 4.4% yoy). More specifically, price growth in the production of bread products

and beverages slowed (to 14.7% yoy and 13.3% yoy, respectively). Prices in the production of meat products were unchanged from last year (after rising 1.1% yoy in February), thanks to cheaper raw materials in the domestic and external markets. This balanced out the price acceleration in the manufacture of dairy products (to 11.4% yoy), driven by increases in global dairy prices.

Prices in the chemical industry rose a steady 3.4% yoy amid relatively stable global fertilizer prices.

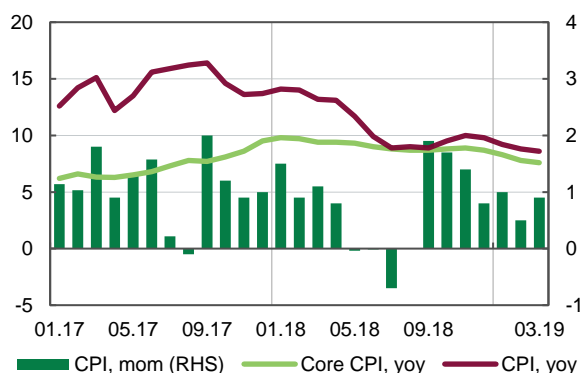
Prices of metal products continued to decline compared to last year (by 5.0% yoy), reflecting trends in the global steel

market. Meanwhile, the slight deceleration from February in the decrease in metal product prices was due to a surge in prices of metal ores (10.0% yoy), fueled by iron ore supply disruptions from Brazil and Australia.

Producer price inflation was restrained by rising global oil prices. Driven by higher prices in the global market for oil, prices in the production of crude oil and natural gas continued to rise rapidly (19.7% yoy), while prices in the production of coke and oil products returned to growth (7.3% yoy).

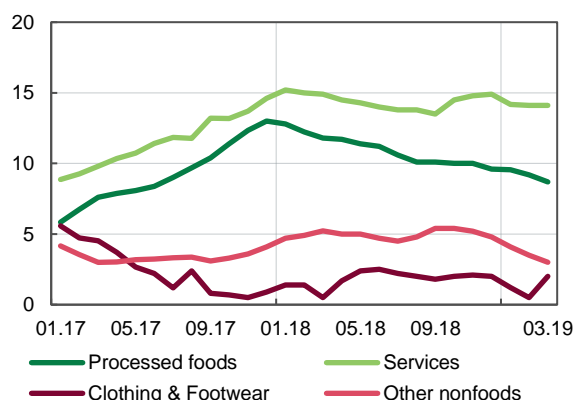
In March 2019, headline and core inflation continued to decelerate, as the hryvnia strengthened against the currencies of Ukraine's main trading partners

Chart 1. Consumer Price Indices, %



Source: SSSU.

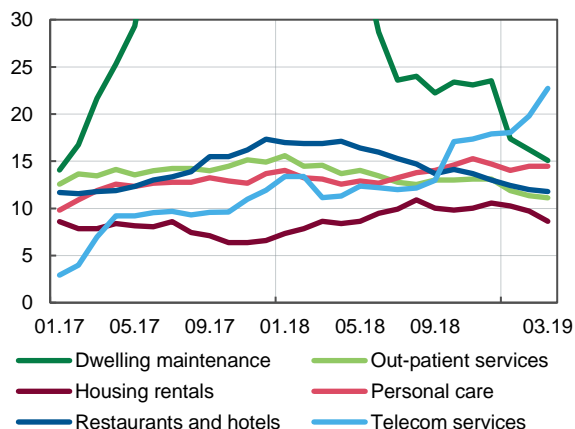
Chart 2. Main Core CPI Components, % yoy



Source: SSSU, NBU staff estimates.

The growth in service prices remained unchanged, driven by pressure from production costs, including investment spending

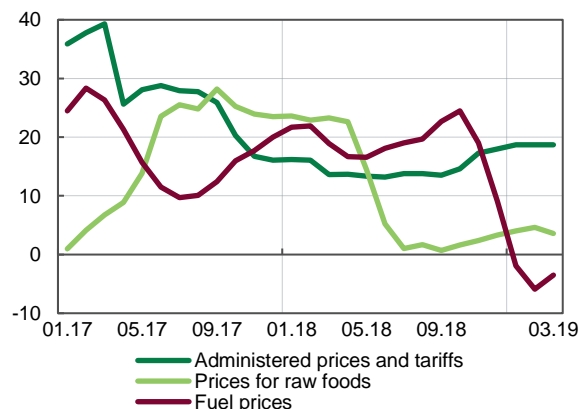
Chart 3. Selected Market Services, % yoy



Source: SSSU, NBU staff estimates.

Noncore inflation decelerated, thanks to the slower pace of growth in raw food prices

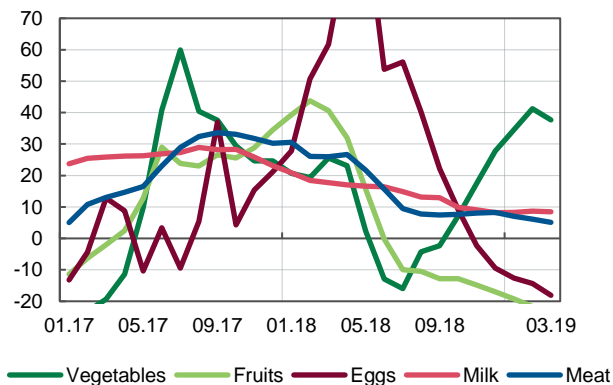
Chart 4. Main Components of Non-Core CPI, % yoy



Source: SSSU.

The slower growth in the prices of vegetables, meat, and milk, and the steeper fall in fruit and egg prices contributed to the deceleration of raw food price inflation

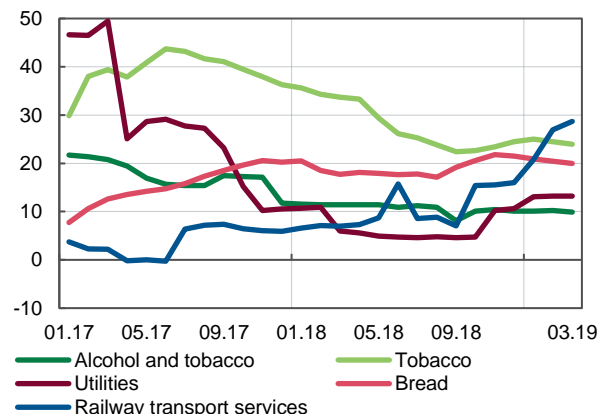
Chart 5. Prices for Selected Raw Food, % yoy



Source: SSSU.

The increase in cold water and sewage charges and passenger rail fares accelerated, but this acceleration was offset by slower growth in prices of bread, alcoholic beverages, and tobacco products

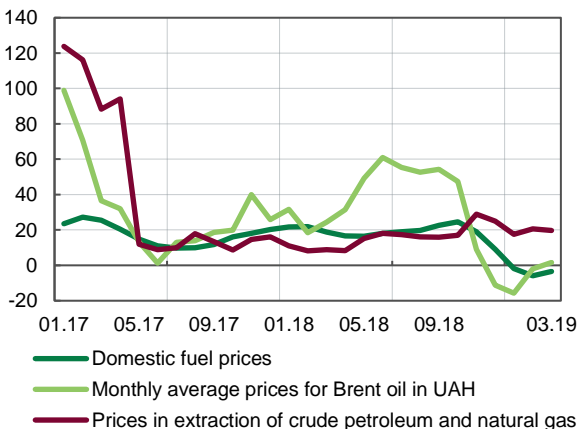
Chart 6. Administered Prices and Utility Tariffs, % yoy



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

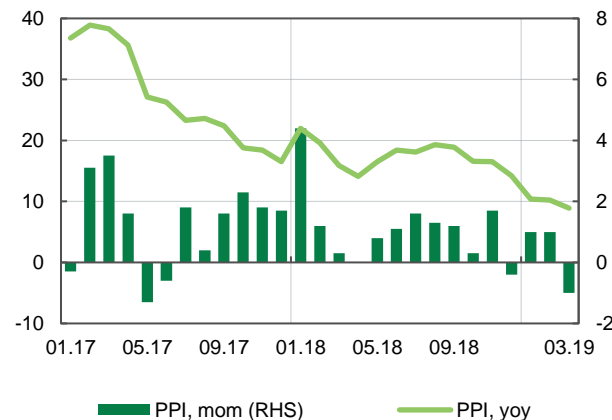
Chart 7. Fuel Price Indexes, % yoy



Source: SSSU, Thomson Reuters Datastream.

In March, producer price inflation declined significantly, primarily due to lower natural gas prices...

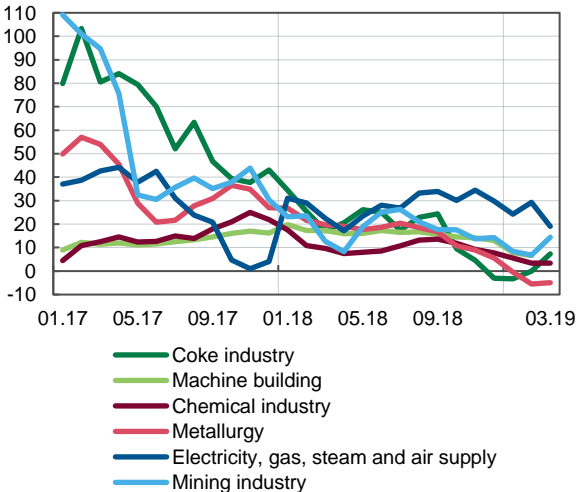
Chart 8. Producer Price Index, % yoy



Source: SSSU.

...but the accelerated growth in iron ore and oil prices restrained the decrease in producer price inflation

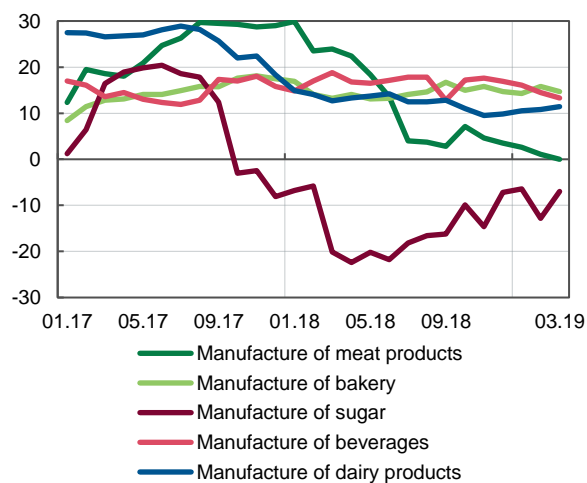
Chart 9. Producer Price Indexes in Select Industries, % yoy



Source: SSSU.

The food industry saw a deceleration in price growth due to the slower growth in prices of beverages, bread, and meat products

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



Source: SSSU.

CPI and PPI Growth by Components in 2017–2019

	Share in CPI for 2019, %	% yoy						%mom Mar 2019
		2017	2018	2019				
				Jan	Feb	Mar		
CPI (NBU classification)								
Consumer Price Index	100.0	13.7	9.8	9.2	8.8	8.6	0.9	
Core inflation	59.3	9.5	8.7	8.3	7.8	7.6	1.2	
Non-core inflation*	40.7	19.4	10.7	10.3	10.2	10.0	0.6	
Raw foods	20.0	23.5	3.3	4.0	4.6	3.6	0.3	
Administered prices and tariffs	16.8	16.1	18.0	18.7	18.7	18.7	1.0	
Fuels	3.9	20.0	9.1	-1.9	-5.9	-3.5	0.0	

CPI (State Statistics Service of Ukraine classification)							
Food and non-alcohol	45.4	17.7	7.8	7.9	7.8	7.0	0.4
Alcohol, tobacco	8.3	20.7	17.9	18.0	17.8	17.3	0.9
Clothing and footwear	5.3	0.9	2.0	1.2	0.5	2.0	11.3
Housing, water, electricity, gas and other fuels incl.	4.9	10.6	10.6	13.1	13.2	13.2	0.3
Dwelling maintenance	0.2	47.5	23.7	17.5	16.3	15.2	0.6
Water supply	0.1	20.2	19.9	21.2	20.8	22.2	1.9
Hot water	0.2	0.9	3.2	12.9	14.0	15.1	0.9
Natural gas	1.2	1.2	22.9	22.9	22.9	22.9	0.0
Central heating	0.8	3.8	5.2	16.6	18.4	19.2	0.7
Electricity	0.9	28.1	0.0	0.0	0.0	0.0	0.0
Transport	11.4	16.7	12.9	7.7	6.0	7.3	0.5
Communication	3.1	9.1	15.1	14.8	15.7	17.5	2.2
Education	1.3	14.9	13.4	13.4	13.4	13.3	0.1

PPI

	Share in PPI for 2019, %**	% yoy						%mom Mar 2019
		2017	2018	2019				
				Jan	Feb	Mar		
Producer Price Index	100.0	16.5	14.2	10.4	10.2	8.9	-1.0	
Mining and quarrying	15.2	30.4	14.3	8.4	6.8	14.4	1.9	
Manufacturing of coal	2.9	47.8	5.4	11.4	11.3	11.1	-0.2	
Extraction of crude petroleum and natural gas	5.3	16.1	24.9	17.5	20.7	19.7	-1.9	
Mining of metal ores	5.8	29.3	8.2	-2.9	-7.6	10.0	6.2	
Manufacturing	65.3	18.5	7.4	4.6	4.6	2.8	0.4	
Manufacture of foods, beverages and tobacco products	20.2	12.5	7.0	6.3	5.0	4.4	-0.1	
Manufacture of coke, and refined petroleum products	3.9	43.0	-3.1	-3.3	0.0	7.3	3.3	
Manufacture of chemicals and chemical products	2.7	21.9	7.7	5.5	3.4	3.4	0.7	
Manufacture of basic pharmaceutical products and pharmaceutical preparation	1.4	11.0	16.7	14.8	15.8	15.2	0.9	
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.2	12.5	12.6	11.3	10.6	9.5	0.7	
Manufacture of basic metals and fabricated metal products, except machinery and equipment	18.5	26.9	5.6	-0.5	-5.5	-5.0	0.7	
Manufacture of transport equipment	2.9	17.9	17.3	11.1	11.5	9.2	-0.5	
Electricity, gas, steam and air-conditioning supply	18.5	4.0	29.8	24.2	29.3	19.0	-5.2	

* 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 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	mom	in monthly terms; month-on-month
PPI	producer price index		change
SSSU	State Statistics Service of Ukraine	RHS	right-hand scale
yoy	in annual terms; year-on-year		change