



NATIONAL BANK OF UKRAINE

May 2016 Inflation Review

In May 2016, as expected, headline inflation continued to decelerate, reaching 7.5% y-o-y (0.1% m-o-m) compared with 9.8% y-o-y (3.5% m-o-m) in April.

Overall, the change in consumer prices mirrored the projected disinflation path published by the NBU in the Inflation Report (April 2016). A deeper than expected reduction in food prices offset a more significant contribution by the administered component to annual inflation. Current CPI and its components' developments confirm that the headline inflation target for the end of 2016 (12% y-o-y +/-3 pp) remains within reach.

A further slowdown in consumer inflation reflected both a continued reduction in overall inflationary pressures amid improved inflation expectations and administrative tariff adjustments.

Core inflation slowed to 0.2% m-o-m and 8.8% y-o-y. The slowdown came slightly faster than expected and was underpinned by the hryvnia strengthening and subdued consumer demand. Thus, among the core CPI components, prices for vehicles, audio equipment, and photographic and information processing equipment continued to decline. Prices for clothing and footwear remained flat. Secondary effects from lower prices for certain types of raw foods were an additional factor contributing to moderation of core inflation.

In particular, in May vegetable prices dropped by 5.8% m-o-m, mainly driven by the seasonal expansion of the supply of early vegetables produced domestically, as well as an ample supply of imported goods. Also, seasonal factors and the persistence of low prices for dairy products in foreign markets contributed to a decrease in prices for milk and dairy products. Sugar prices kept declining amid low consumer demand and abundant supply. Meanwhile, the calendar effect¹ reinforced a seasonal acceleration in price growth for meat and meat products, as well as eggs. **Altogether, prices for raw foods went up by 0.2% m-o-m in May.**

Domestic fuel prices continued to increase (by 5.8% m-o-m), reflecting global oil price developments.

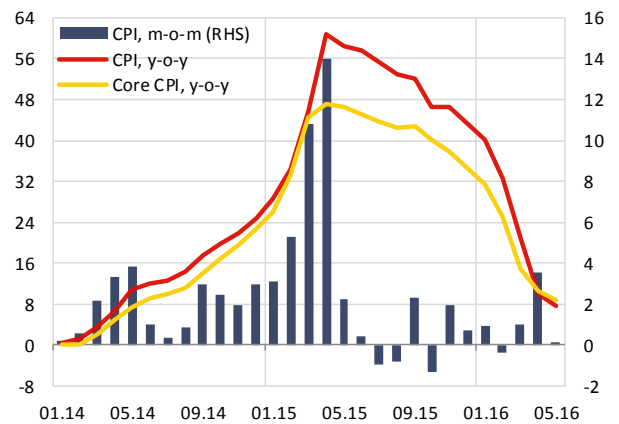
Gas prices for households were reduced by 4.3% since 1 May 2016. At the same time, price growth accelerated for the category "tobacco and alcohol products" due to the pricing policy of individual producers and the delayed effects of an increase in excise taxes in Q1. Overall, **administered prices and tariffs dropped by 0.5% m-o-m.**

The rise in raw food and fuel prices offset a reduction in administered prices and tariffs in May. **As a result, non-core inflation amounted to zero in May.**

In May, producer price inflation accelerated to 16.4% y-o-y (5.3% m-o-m). This was primarily due to external factors, such as rising global prices for oil as well as for steel and iron ore in the previous months. In particular, the impact of growing global commodity prices on producer prices outweighed the effect of the hryvnia strengthening. As a result, after relatively minor changes during the previous months, prices in the domestic extraction of crude oil and natural gas surged up by 68.8% m-o-m in May. Prices for mining metal ores and the metallurgy industry increased by 7.3% m-o-m and 13.4% m-o-m, respectively.

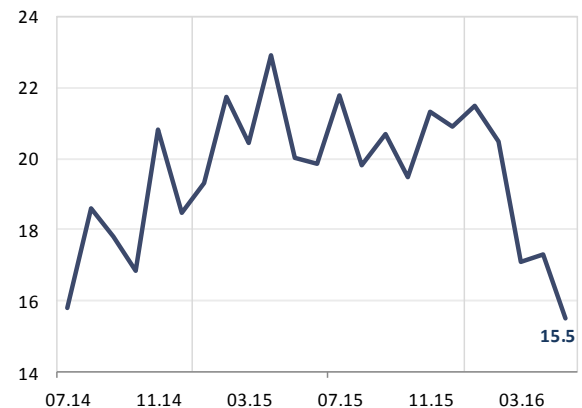
Although price developments in other industries were moderate in May, overall prices in the mining industry picked up by 19.7% m-o-m, and in the processing industry – up by 4.0% m-o-m. Also, producer prices continued to increase in the supply of electricity, gas, steam, and conditioned air (by 2.4% m-o-m).

Inflation Indicators, %



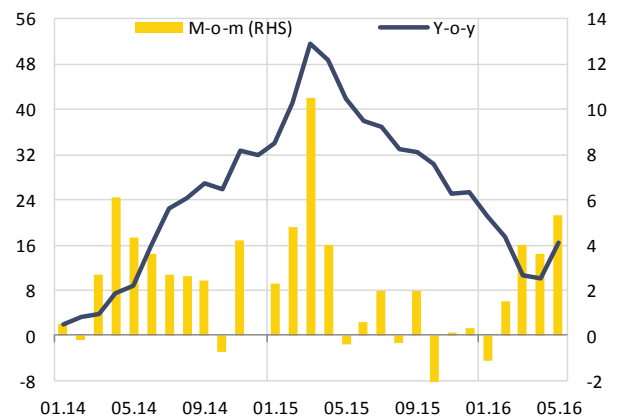
Source: State Statistics Service of Ukraine

Inflation Expectations of Households for the Next 12 Months, %



Source: GfK; NBU staff estimates

Producer Price Index, %



Source: State Statistics Service of Ukraine

¹ According to our estimates, since Orthodox Easter was celebrated on 1 May 2016, pre-holiday price increases were reflected in May's inflation data.

CPI and PPI growth by components in 2015-16																				
CPI (NBU classification)																				
	Share in CPI, %	m-o-m, %																		May, y-o-y %
		2015												2016						
		January	February	March	April	May	June	July	August	September	October	November	December	January	February	March	April	May		
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	-0.4	1.0	3.5	0.1	7.5	
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	0.4	1.9	0.6	0.2	8.8	
Non-core inflation*	53.2	3.6	5.1	10.9	21.1	2.9	0.3	-1.6	-1.6	1.6	-3.0	2.9	1.0	1.7	-1.0	0.3	5.8	0.0	6.4	
Raw foods	28.3	5.2	5.8	15.8	2.5	4.8	-0.5	-4.0	-3.7	1.7	1.9	4.2	2.4	3.3	-1.8	-1.5	-0.3	0.2	1.6	
Administered prices and tariffs	22.5	2.2	2.6	4.8	51.4	1.2	1.2	0.5	0.4	1.9	-7.7	1.9	-0.3	0.2	-0.1	2.1	12.2	-0.5	11.4	
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	-1.0	1.6	5.4	5.8	3.7	
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	-0.7	-0.7	0.1	0.2	3.9	
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	-1.3	1.3	2.8	3.3	9.9	
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	-2.0	10.7	1.7	0.0	18.4	
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	0.3	2.9	20.1	-2.0	13.3	
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	0.3	0.2	2.0	1.1	6.8	
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	1.9	0.7	0.4	0.3	28.6	
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	-0.1	-0.1	0.0	0.2	8.0	
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	0.0	0.0	48.4	-4.3	-4.3	
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	-0.1	-0.1	0.0	0.0	78.2	
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	0.0	1.0	2.4	2.8	5.1	
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	0.1	0.1	0.5	0.1	4.2	
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	1.0	0.9	0.3	0.7	16.5	
PPI																				
	Share in PPI, %**	m-o-m, %																		May, y-o-y %
		2015												2016						
		January	February	March	April	May	June	July	August	September	October	November	December	January	February	March	April	May		
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	1.5	4.0	3.6	5.3	16.4	
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	6.4	7.7	13.1	19.7	37.9	
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	17.2	0.4	0.2	-0.1	20.7	
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	3.6	12.8	-3.3	68.8	47.5	
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	4.2	8.9	27.4	7.3	33.2	
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	1.1	2.7	2.3	4.0	12.0	
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	1.8	1.2	0.3	0.3	11.6	
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	-6.4	16.0	-3.5	1.6	-8.6	
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	1.0	0.4	-0.2	1.7	0.4	
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	1.6	1.2	1.9	0.2	7.1	
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	1.9	3.9	7.6	13.4	20.4	
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	-1.2	0.7	1.7	2.2	15.2	
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	0.6	5.7	2.9	2.4	18.9	
* Revised NBU staff 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.																				