



# NATIONAL BANK OF UKRAINE

## June 2016 Inflation Review

In June 2016, consumer prices fell by 0.2% m-o-m and headline inflation slowed to 6.9% y-o-y (down from 7.5% y-o-y in May).

The NBU expected a further slowdown in annual inflation and the actual CPI reading was even slightly below the projected path published in Inflation Report (April 2016). Deviations from the forecast are attributed to faster than expected deceleration of annual core inflation and a rapid decline in the annual rate of change of raw food prices. These price developments offset a higher contribution from administratively regulated prices and tariffs to annual CPI growth. Given consumer price performance in June, headline inflation target for the end of 2016 (12% y-o-y +/-3 pp) remains within reach.

June's monthly deflation reflected declines of both core and non-core sub-indices.

Core CPI declined by 0.1% m-o-m (annual core inflation eased to 8.3%) driven by further strengthening of the hryvnia, lower inflation expectations, and weak consumer demand. Looking into greater detail, a seasonal drop in prices for clothing and footwear occurred (by 2.0% m-o-m). Also, prices for vehicles, audio equipment, and photographic and information processing equipment continued to decline. The **second-round effects from lower raw food prices** contributed as an additional factor to the decrease in core CPI as well.

Raw food prices fell by 1.3% m-o-m, primarily due to a substantial reduction in prices for selected vegetables, such as cabbage, tomatoes, and cucumbers. The high supply of fresh vegetables produced domestically, as well as imported goods, influenced vegetable prices. Also, consistent with seasonal patterns, prices for fruit, sugar, milk, and dairy products decreased.

As expected, domestic fuel prices rose by 2.7% m-o-m as world oil prices continued to move upwards.

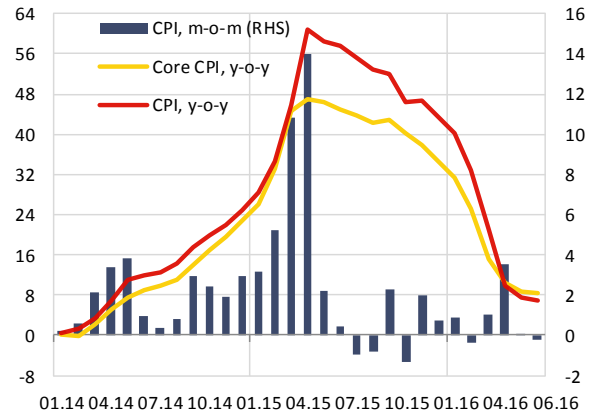
In line with expectations, administered prices and tariffs went up by 0.7% m-o-m. The increase was primarily due to a rise in prices for alcoholic beverages and tobacco products. In particular, prices for alcoholic beverages picked up, reflecting the lagged effect of March's hike in excise taxes on these products. The pricing policies of individual producers prompted the rise in tobacco product prices. In contrast, utility prices remained flat in June.

However, the impact of the downward movement of raw food prices outweighed the effects of rising fuel and administrated prices on aggregate non-core CPI. As a result, non-core CPI decreased by 0.1% m-o-m.

In June, the producer price index remained flat (its annual growth slowed down to 15.7%). Lower prices in the mining industry and in the supply of electricity, gas, steam, and conditioned air offset a slight price increase in the processing industry.

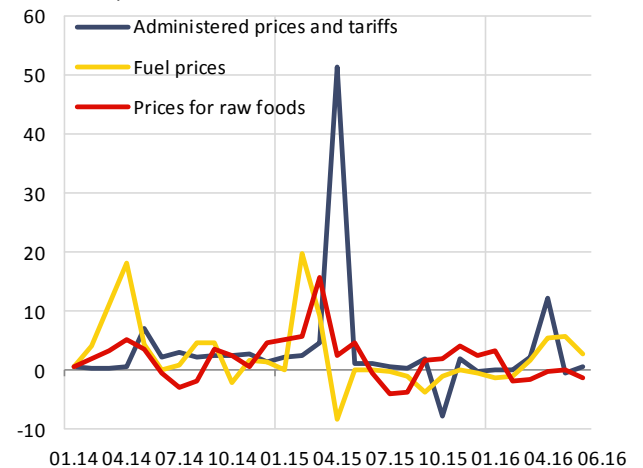
Producer price inflation was shaped mainly by external factors. In particular, rising world oil prices drove domestic prices upward for the extraction of crude oil and natural gas, as well as in the manufacturing of refined petroleum products. Lower world steel and iron prices contributed to a decrease in prices in the mining of metal ores and a slowdown in the price growth in metallurgy. Price developments in other industries were relatively moderate.

### Inflation Indicators, %



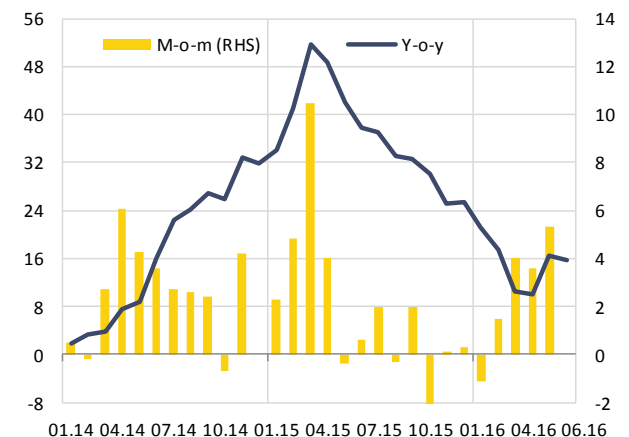
Source: State Statistics Service of Ukraine

### Main Components of Non-Core CPI, % m-o-m



Source: State Statistics Service of Ukraine; NBU staff estimates

### Producer Price Index, %



Source: State Statistics Service of Ukraine

## CPI and PPI growth by components in 2015-16

CPI (NBU classification)																					
	Share in CPI, %	m-o-m, %																			June, y-o-y %
		2015												2016							
		January	February	March	April	May	June	July	August	September	October	November	December	January	February	March	April	May	June		
<b>Consumer Price Index</b>	<b>100.0</b>	<b>3.1</b>	<b>5.3</b>	<b>10.8</b>	<b>14.0</b>	<b>2.2</b>	<b>0.4</b>	<b>-1.0</b>	<b>-0.8</b>	<b>2.3</b>	<b>-1.3</b>	<b>2.0</b>	<b>0.7</b>	<b>0.9</b>	<b>-0.4</b>	<b>1.0</b>	<b>3.5</b>	<b>0.1</b>	<b>-0.2</b>	<b>6.9</b>	
<b>Core inflation</b>	<b>46.8</b>	<b>2.6</b>	<b>5.4</b>	<b>10.8</b>	<b>4.6</b>	<b>1.9</b>	<b>0.4</b>	<b>-0.1</b>	<b>0.2</b>	<b>3.0</b>	<b>0.8</b>	<b>0.7</b>	<b>0.4</b>	<b>0.0</b>	<b>0.4</b>	<b>1.9</b>	<b>0.6</b>	<b>0.2</b>	<b>-0.1</b>	<b>8.3</b>	
<b>Non-core inflation*</b>	<b>53.2</b>	<b>3.6</b>	<b>5.1</b>	<b>10.9</b>	<b>21.1</b>	<b>2.9</b>	<b>0.3</b>	<b>-1.6</b>	<b>-1.6</b>	<b>1.6</b>	<b>-3.0</b>	<b>2.9</b>	<b>1.0</b>	<b>1.7</b>	<b>-1.0</b>	<b>0.3</b>	<b>5.8</b>	<b>0.0</b>	<b>-0.1</b>	<b>5.9</b>	
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	-1.3	0.8	
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	0.7	10.9	
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	2.7	6.5	
CPI (State Statistics Service of Ukraine classification)																					
<b>Food and non-alcohol</b>	<b>50.8</b>	<b>4.7</b>	<b>5.7</b>	<b>15.6</b>	<b>4.4</b>	<b>3.1</b>	<b>0.0</b>	<b>-2.0</b>	<b>-1.7</b>	<b>1.2</b>	<b>1.1</b>	<b>2.5</b>	<b>1.7</b>	<b>2.2</b>	<b>-0.7</b>	<b>-0.7</b>	<b>0.1</b>	<b>0.2</b>	<b>-0.6</b>	<b>3.2</b>	
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	2.7	10.2	
<b>Clothing and footwear</b>	<b>7.1</b>	<b>-1.9</b>	<b>2.2</b>	<b>13.5</b>	<b>4.6</b>	<b>1.0</b>	<b>-1.8</b>	<b>-4.7</b>	<b>-1.2</b>	<b>18.3</b>	<b>3.6</b>	<b>0.8</b>	<b>-1.7</b>	<b>-4.4</b>	<b>-2.0</b>	<b>10.7</b>	<b>1.7</b>	<b>0.0</b>	<b>-2.0</b>	<b>18.2</b>	
<b>Housing, water, electricity, gas and other fuels incl.:</b>	<b>11.3</b>	<b>0.5</b>	<b>1.6</b>	<b>1.1</b>	<b>109.7</b>	<b>1.2</b>	<b>1.2</b>	<b>0.2</b>	<b>0.2</b>	<b>2.4</b>	<b>-13.8</b>	<b>3.3</b>	<b>0.0</b>	<b>0.7</b>	<b>0.3</b>	<b>2.9</b>	<b>20.1</b>	<b>-2.0</b>	<b>0.1</b>	<b>12.1</b>	
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	0.7	6.1	
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	0.5	19.9	
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	0.1	0.5	
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	0.0	-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	0.0	78.2	
<b>Transport</b>	<b>5.1</b>	<b>1.2</b>	<b>16.4</b>	<b>7.4</b>	<b>-4.3</b>	<b>0.2</b>	<b>1.1</b>	<b>0.2</b>	<b>-0.3</b>	<b>-1.6</b>	<b>-0.6</b>	<b>0.6</b>	<b>-0.1</b>	<b>-0.4</b>	<b>0.0</b>	<b>1.0</b>	<b>2.4</b>	<b>2.8</b>	<b>1.2</b>	<b>5.2</b>	
<b>Communication</b>	<b>3.3</b>	<b>0.6</b>	<b>0.9</b>	<b>1.7</b>	<b>0.0</b>	<b>0.6</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.6</b>	<b>1.7</b>	<b>0.4</b>	<b>0.0</b>	<b>0.3</b>	<b>0.1</b>	<b>0.1</b>	<b>0.5</b>	<b>0.1</b>	<b>0.0</b>	<b>4.1</b>	
<b>Education</b>	<b>1.3</b>	<b>2.5</b>	<b>4.1</b>	<b>2.0</b>	<b>1.8</b>	<b>1.5</b>	<b>1.5</b>	<b>0.7</b>	<b>0.1</b>	<b>6.9</b>	<b>0.5</b>	<b>0.3</b>	<b>0.2</b>	<b>2.5</b>	<b>1.0</b>	<b>0.9</b>	<b>0.3</b>	<b>0.7</b>	<b>1.1</b>	<b>16.1</b>	
PPI																					
	Share in PPI, %**	m-o-m, %																			June, y-o-y %
		2015												2016							
		January	February	March	April	May	June	July	August	September	October	November	December	January	February	March	April	May	June		
<b>Producer Price Index</b>	<b>100.0</b>	<b>2.3</b>	<b>4.8</b>	<b>10.5</b>	<b>4.0</b>	<b>-0.4</b>	<b>0.6</b>	<b>2.0</b>	<b>-0.3</b>	<b>2.0</b>	<b>-2.4</b>	<b>0.1</b>	<b>0.3</b>	<b>-1.1</b>	<b>1.5</b>	<b>4.0</b>	<b>3.6</b>	<b>5.3</b>	<b>0.0</b>	<b>15.7</b>	
<b>Mining and quarrying</b>	<b>13.0</b>	<b>0.4</b>	<b>7.3</b>	<b>10.8</b>	<b>11.5</b>	<b>-4.3</b>	<b>-0.1</b>	<b>1.6</b>	<b>-3.2</b>	<b>0.7</b>	<b>-0.7</b>	<b>-1.8</b>	<b>-4.2</b>	<b>-3.7</b>	<b>6.4</b>	<b>7.7</b>	<b>13.1</b>	<b>19.7</b>	<b>-2.0</b>	<b>35.3</b>	
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	-8.1	11.0	
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	1.1	51.0	
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	-1.4	29.9	
<b>Manufacturing</b>	<b>68.2</b>	<b>2.2</b>	<b>8.4</b>	<b>9.5</b>	<b>1.3</b>	<b>-0.4</b>	<b>0.6</b>	<b>0.2</b>	<b>0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.4</b>	<b>-0.2</b>	<b>0.2</b>	<b>1.1</b>	<b>2.7</b>	<b>2.3</b>	<b>4.0</b>	<b>1.5</b>	<b>13.1</b>	
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	0.3	10.7	
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	2.4	-6.6	
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	-0.8	-1.9	
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	0.5	7.7	
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	5.1	27.8	
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	-2.1	10.3	
<b>Electricity, gas, steam and air-conditioning supply</b>	<b>18.8</b>	<b>3.4</b>	<b>-5.5</b>	<b>13.4</b>	<b>7.9</b>	<b>1.5</b>	<b>0.8</b>	<b>7.0</b>	<b>-0.1</b>	<b>7.5</b>	<b>-8.7</b>	<b>0.3</b>	<b>3.3</b>	<b>-3.4</b>	<b>0.6</b>	<b>5.7</b>	<b>2.9</b>	<b>2.4</b>	<b>-3.0</b>	<b>14.4</b>	
* 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 2015.																					