

**There continued to be a slowdown in consumer price inflation in July 2018, to 8.9% yoy (compared to 9.9% in June).** In month-on-month terms, prices dropped by 0.7%.

The further drop in year-over-year inflation was driven primarily by slower growth in food prices on the back of a surge in the food supply. In addition, the growth in the prices of some non-foods was less pronounced due to the strengthening of the hryvnia against the currencies of Ukraine's trading partners seen in previous months, which was caused by, among other things, the NBU's tight monetary policy.

**Core inflation slowed slightly in July, to 8.8% yoy.** Nevertheless, core inflation remains high amid sustained consumer demand, buoyed by strong growth in real wages.

The growth in the prices of processed foods slowed, to 10.6% yoy. This resulted, among other things, from a slowdown in the growth of raw food prices, which was caused in part by an expansion in the supply of domestic and imported raw foods, and a decline in global food prices. Specifically, there continued to be a slowdown in the growth of prices for meat and dairy products (to 15.6% and 13.4% yoy respectively), including butter (to 15.4% yoy).

The growth in non-foods prices also decelerated. In part, this was attributed to the strengthening of the hryvnia against the currencies of Ukraine's trading partners that was seen in previous months. This affected the prices of clothes, footwear (2.2% yoy) and some other non-foods (4.5% yoy). Thus, growth in the prices for some pharmaceuticals, small household appliances, mobile phones and TV sets moderated.

The prices of services also grew at a more moderate pace (13.8% yoy). Most notably, the growth in catering prices decelerated (to 15.1% yoy) on the slower growth in food prices. In addition, the growth in the dwelling maintenance costs continued to slow (to 23.6% yoy) due to the waning effect of a high comparison base. To the upside, there was an acceleration in the rise in the cost of personal care and other personal services, as well as temporary accommodation services, reflecting continued pressure from consumer demand.

**The growth in raw food prices decelerated noticeably in July, to 1.0% yoy.** A drop in vegetable and fruit prices (by 16.0% and 10.0% yoy, respectively) was the major contributor to this slowdown. In particular, the prices of most vegetables used in cooking borsch (cabbage, potatoes, and onions) and vegetables grown from seed (cucumbers and tomatoes) fell

as domestic and imported supply expanded. Favorable weather increased the supply of domestic fruit and berries, while, simultaneously, slowing the growth in prices for watermelons (to 21.9% yoy) and deepening the fall in prices for grapes (up to 21.6% yoy) and apples (13.8% yoy). Along with that, a fall in global meat prices, coupled with a decline in pork and beef exports, contributed to a slowdown in the growth of domestic prices for raw meat (to 13.8% yoy). Growth in milk prices decelerated (to 14.9% yoy) due to the same factors.

Meanwhile, egg prices rose at a faster pace (by 56.1% yoy), driven by robust external demand and higher export prices, as did prices for carrots and beetroots (33.7% and 85.9% yoy respectively) amid limited supply in the off-season.

**Administered prices grew more quickly, by 13.8% yoy.** Most specifically, the cost of urban public transport increased (to 27.1% yoy), reflecting a rise in the cost of Kyiv public transport. The growth in water supply and sewage rates also accelerated (to 13.4% yoy and 12.2% yoy respectively) on the back of higher rates in some cities. Despite a deceleration, prices for tobacco products continued to grow at a fast pace (25.3% yoy).

**Fuel prices grew more rapidly (to 19.0% yoy),** due to an increase in global oil prices in previous months, and a hike in liquefied gas prices.

**In July 2018, the PPI inflation slightly decelerated, down to 18.1% yoy from 18.4% yoy in June.** Month on month, the producer price index rose by 1.6%.

The acceleration of prices in the mining industry (to 26.3% yoy) prevented producer prices from slowing faster. Most specifically, prices in the extraction of metal ores continued to accelerate (to 32.3% yoy), driven by rising export prices. This affected the next stages of production with prices in metallurgy also accelerating (to 20.4% yoy).

Rapidly rising world prices, along with the easing competition in the fertilizer market on the back of antidumping duties for Russian producers, caused prices in the chemical production to accelerate (to 10.8% yoy).

The pace of price growth in the extraction of crude oil and natural gas was flat (18.0% yoy), while prices for coke and oil refining products grew at a slower pace (17.4% yoy) on the back of slower growth in world oil prices.

Prices in motor vehicles production rose at a slightly slower pace (17.7% yoy).

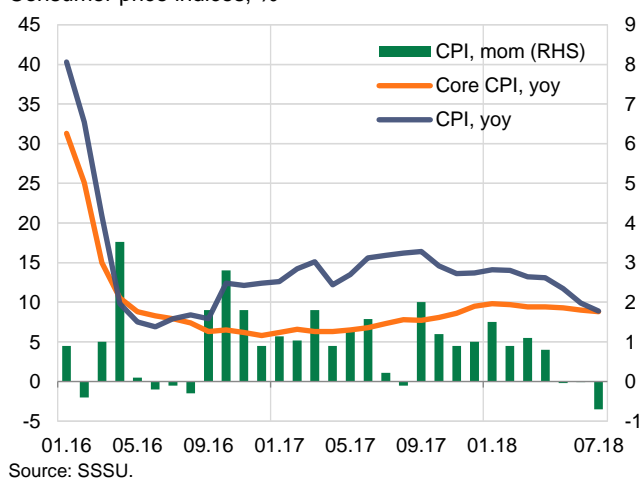
Price growth in the supply of electricity, gas, steam and air-conditioning slowed (to 26.8% yoy). This, among other factors, was driven by the rapid deceleration in the growth of tariffs for electricity produced by the hydroelectric power plants, due to the large amount of precipitation in July, considerably higher than the norm.

The growth in prices in manufacture of foods, beverages and tobacco products continued to slow (to 8.4% yoy). This was

primarily driven by the increased supply of imported raw materials and lower world prices, which led, in particular, to a slowdown in price growth in meat production (up to 4.0% yoy) and dairy products (up to 12.5% yoy). At the same time, the pace of price growth in bread production increased slightly (to 14.1% yoy, against the backdrop of rising world wheat prices), similar to the price trends in production of beverages (to 17.8% yoy).

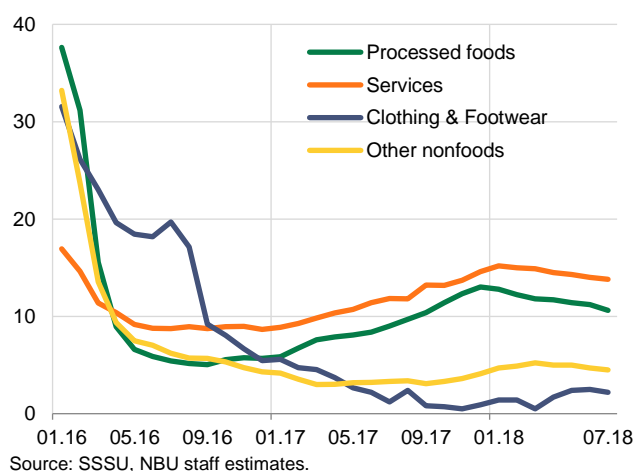
***In July 2018, headline and core inflation decelerated amid the strengthening hryvnia NEER and slowing food prices...***

Consumer price indices, %



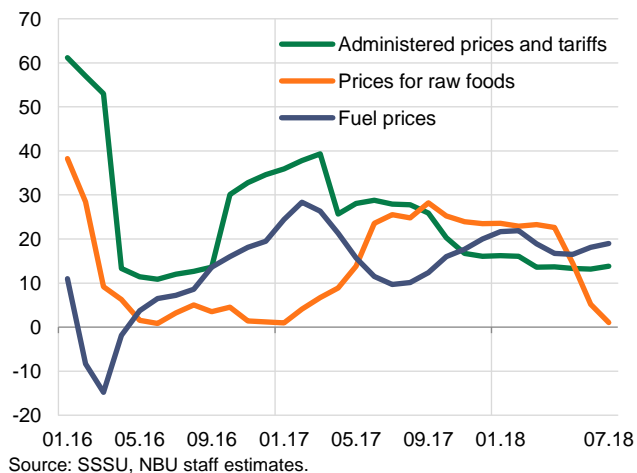
***...which offset the impact of solid consumer demand***

Main Core CPI Components, % yoy



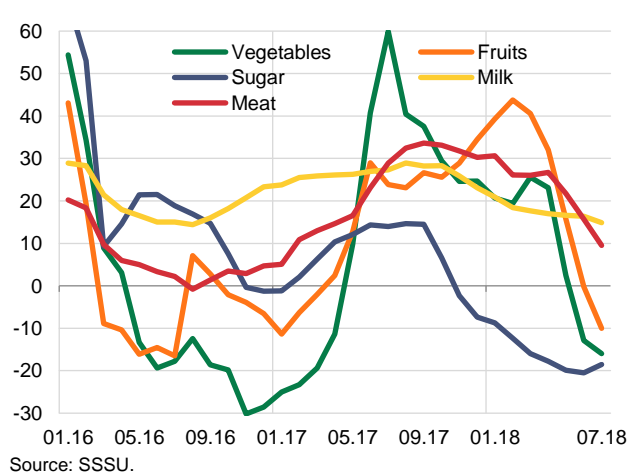
***A slowdown in non-core inflation was led by raw food prices...***

Main Components of Non-Core CPI, % yoy



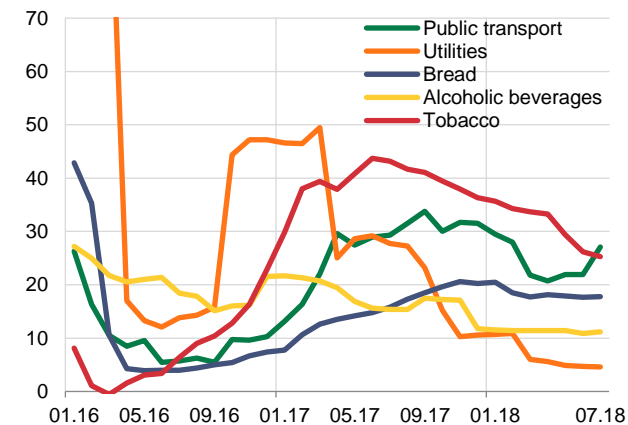
***...as a result of a more ample food supply on the back of rising imports and favorable weather***

Selected Raw Food Prices, % yoy



**The accelerating cost of urban transport services led to a pickup in the pace of administered inflation**

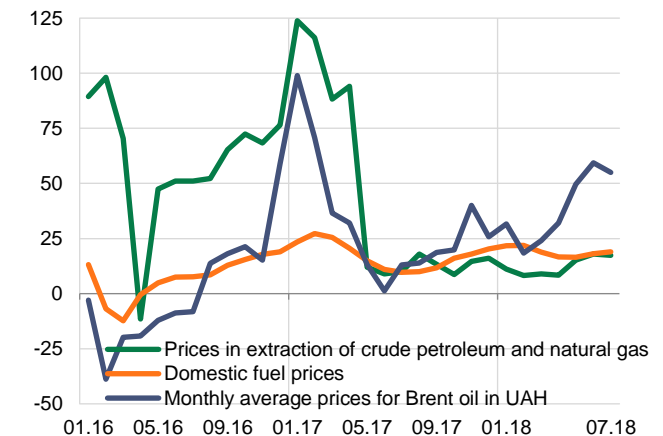
Administered Prices and Utility Tariffs, % yoy



Source: SSSU.

**Fuel prices accelerated, driven by rising global oil prices in the previous months**

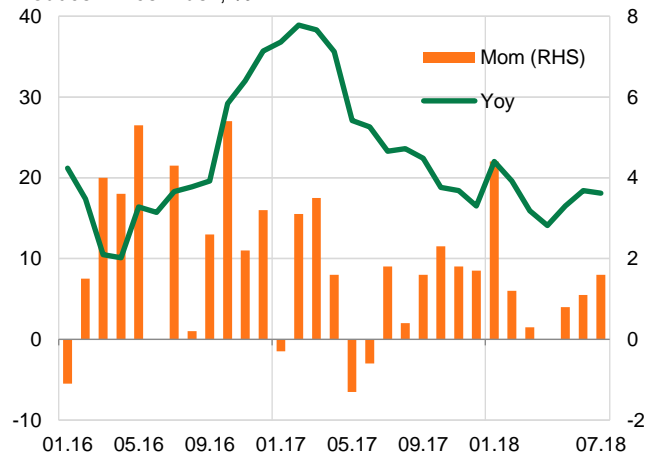
Consumer Fuel Prices, Prices in Extraction of Crude Oil and Natural Gas and Global Oil Prices, % yoy



Source: SSSU, Thomson Reuters Datastream.

**In July 2018, the producer price index decelerated...**

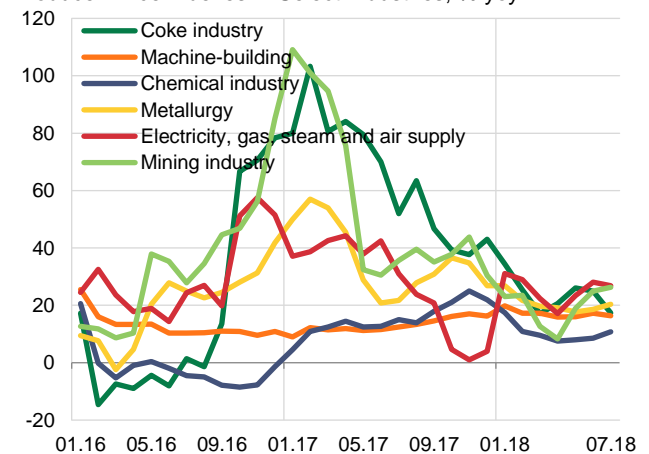
Producer Price Index, %



Source: SSSU.

**... the slowdown, however, was restrained by the accelerating prices in the extraction of metal ores, metallurgy and the chemical industry**

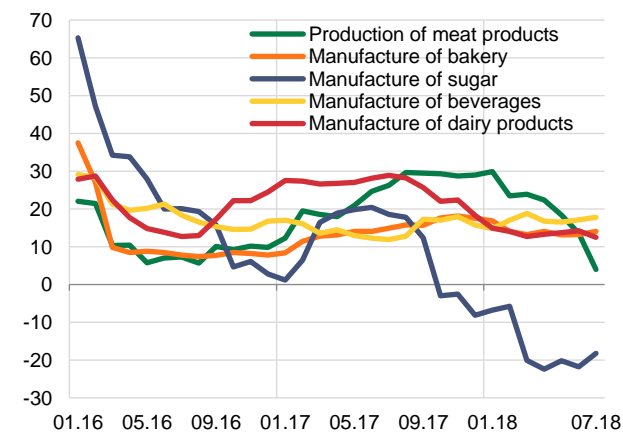
Producer Price Indexes in Select Industries, % yoy



Source: SSSU.

**To the downside, price growth in the food industry slowed...**

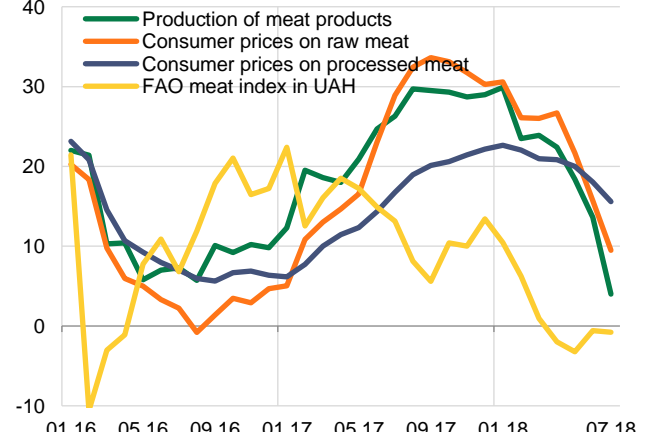
Prices in the Food Industry Subsectors, % yoy



Source: SSSU.

**... due to a slowdown in prices for meat and dairy products following similar trends in world prices**

Meat and Meat Products Prices, % yoy



Source: SSSU, FAO, NBU staff estimates.

## CPI and PPI growth by components in 2016 - 2018

	Share in CPI for 2018, %	2016	2017	% yoy May	2018 pik June	July	% mom July
<b>CPI (NBU classification)</b>							
<b>Consumer Price Index</b>	<b>100.0</b>	<b>12.4</b>	<b>13.7</b>	<b>11.7</b>	<b>9.9</b>	<b>8.9</b>	<b>-0.7</b>
<b>Core inflation</b>	<b>58.9</b>	<b>5.8</b>	<b>9.5</b>	<b>9.3</b>	<b>9.0</b>	<b>8.8</b>	<b>-0.1</b>
<b>Non-core inflation</b>	<b>41.1</b>	<b>17.5</b>	<b>19.4</b>	<b>14.1</b>	<b>10.3</b>	<b>8.9</b>	<b>-1.2</b>
Raw foods	18.6	1.2	23.5	14.5	5.2	1.0	-4.1
Administered prices and tariffs	18.5	34.6	16.1	13.3	13.2	13.8	1.4
Fuels	4.0	19.5	20.0	16.5	18.1	19.0	-0.3

## CPI (State Statistics Service of Ukraine classification)

<b>Food and non-alcohol</b>	<b>42.6</b>	<b>3.3</b>	<b>17.7</b>	<b>17.2</b>	<b>13.7</b>	<b>7.1</b>	<b>-1.9</b>
<b>Alcohol, tobacco</b>	<b>8.3</b>	<b>22.5</b>	<b>20.7</b>	<b>20.5</b>	<b>19.4</b>	<b>18.5</b>	<b>1.8</b>
<b>Clothing and footwear</b>	<b>5.6</b>	<b>5.5</b>	<b>0.9</b>	<b>1.7</b>	<b>2.4</b>	<b>2.2</b>	<b>-4.6</b>
<b>Housing, water, electricity, gas and other fuels incl.:</b>	<b>6.1</b>	<b>47.2</b>	<b>10.6</b>	<b>5.6</b>	<b>4.9</b>	<b>4.6</b>	<b>0.5</b>
Dwelling maintenance	0.3	11.5	47.5	41.6	37.2	23.6	4.2
Water supply	0.2	42.1	20.2	21.4	14.9	13.3	2.2
Hot water	0.2	82.9	0.9	0.9	-0.2	-0.3	0.0
Natural gas	1.7	42.0	1.2	1.2	0.3	0.2	0.0
Central heating	1.1	89.3	3.8	3.8	3.8	3.8	0.0
Electricity	1.0	60.0	28.1	0.0	0.0	0.0	0.0
<b>Transport</b>	<b>11.8</b>	<b>11.4</b>	<b>16.7</b>	<b>13.6</b>	<b>13.7</b>	<b>15.4</b>	<b>0.7</b>
<b>Communication</b>	<b>3.1</b>	<b>4.0</b>	<b>9.1</b>	<b>8.4</b>	<b>8.7</b>	<b>8.9</b>	<b>-0.2</b>
<b>Education</b>	<b>1.5</b>	<b>13.7</b>	<b>14.9</b>	<b>15.3</b>	<b>15.2</b>	<b>15.4</b>	<b>0.2</b>

## PPI

	Share in PPI for 2018, %**	2016	2017	% yoy May	2018 pik June	July	% mom July
<b>Producer Price Index</b>	<b>100.0</b>	<b>35.7</b>	<b>16.5</b>	<b>16.5</b>	<b>18.4</b>	<b>18.1</b>	<b>1.6</b>
<b>Mining and quarrying</b>	<b>14.7</b>	<b>85.1</b>	<b>30.4</b>	<b>18.9</b>	<b>25.0</b>	<b>26.3</b>	<b>0.9</b>
Manufacturing of coal	2.5	40.4	47.8	25.9	25.3	24.4	-0.3
Extraction of crude petroleum and natural gas	5.1	76.5	16.1	15.2	18.0	18.0	0.5
Mining of metal ores	6.0	107.2	29.3	16.1	29.2	32.3	1.1
<b>Manufacturing</b>	<b>65.7</b>	<b>22.6</b>	<b>18.5</b>	<b>13.6</b>	<b>13.6</b>	<b>13.2</b>	<b>-0.2</b>
Manufacture of foods, beverages and tobacco products	21.2	16.2	12.5	10.0	9.6	8.4	0.0
Manufacture of coke, and refined petroleum products	3.9	61.7	43.0	26.1	25.0	17.4	-2.7
Manufacture of chemicals and chemical products	2.8	-1.4	21.9	8.0	8.5	10.8	0.5
Manufacture of basic pharmaceutical products and pharmaceutical preparations	1.4	8.5	11.0	11.8	12.9	12.8	0.5
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.1	9.5	12.5	11.9	12.5	12.7	0.7
Manufacture of basic metals and fabricated metal products, except machinery and equipment	18.4	41.8	26.9	17.7	18.6	20.4	-0.5
Manufacture of transport equipment	2.8	11.4	17.9	16.6	20.8	17.7	0.6
<b>Electricity, gas, steam and air-conditioning supply</b>	<b>19.6</b>	<b>51.5</b>	<b>4.0</b>	<b>23.4</b>	<b>28.1</b>	<b>26.8</b>	<b>5.8</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 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 2017.

*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.*

## Terms and abbreviations:

CPI – Consumer Price Index

PPI – Producer Price Index

NBU – National Bank of Ukraine

NEER – Nominal Effective Exchange Rate

SSSU – State Statistics Service of Ukraine

yoy – in annual terms; year-on-year change

mom – in monthly terms; month-on-month change