



NATIONAL BANK OF UKRAINE

August 2016 Inflation Review

In August 2016, consumer prices fell for the third month in a row (by 0.3% m-o-m). In annual terms, consumer inflation accelerated to 8.4%.

The annual inflation reading was anticipated and was in line with the NBU's forecast (both for the headline CPI and its major components), published in the Inflation Report (July 2016). The forecast envisages a return of inflation to 12% y-o-y by the end of 2016.

At the same time, inflationary pressures from fundamental factors continued to ease. That was evident from a further slowdown of core inflation to 7.4% y-o-y in August. In monthly terms, core CPI fell by 0.3%. The appreciation of the hryvnia in previous months, falling inflation expectations and subdued demand led to a further decline in import prices. In particular, prices for vehicles, pharmaceutical products, medical appliances and equipment, audio, photographic and information processing equipment decreased. These factors, reinforced by seasonal effects, contributed to a further decline in prices for clothing and footwear (by 3.3% m-o-m). Also, processed food prices remained virtually flat (were up by only 0.1% m-o-m) as a result of second-round effects from lower raw food prices.

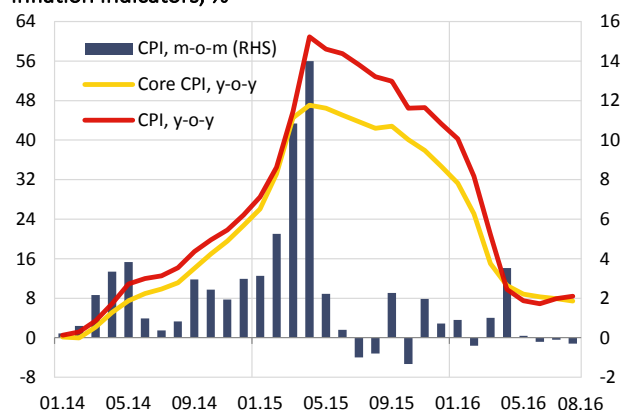
Raw food prices fell by 2.0% m-o-m (with annual growth accelerating to 5.0%), primarily reflecting an ongoing reduction in prices for "borshch¹ vegetables", as well as certain fruits. The fall in their prices was mainly attributed to ample supply, in particular due to a seasonal expansion of domestic fresh produce.

Administratively regulated prices and tariffs increased by 1.0% m-o-m (with annual growth accelerating to 12.7%). As expected, an upward adjustment of utility prices, including cold water, sewerage and housing maintenance tariffs, made the largest contribution to the administrative inflation. In addition, a further increase in hot water prices was reported in August, reflecting the lagged effect of July's tariff adjustment (see [«July 2016 Inflation Review»](#)).

Fuel prices were almost flat in August (increased by 0.2% m-o-m, annual growth accelerated to 8.6%). Domestic fuel prices usually follow global oil price developments, albeit with some lag. On average, oil prices marginally changed in August compared to July and remained below the June's level. However, in August, the prices of liquefied gas for vehicles rose sharply (up by 11.0% m-o-m), affected by a significant reduction in imports from Russia and Belarus.

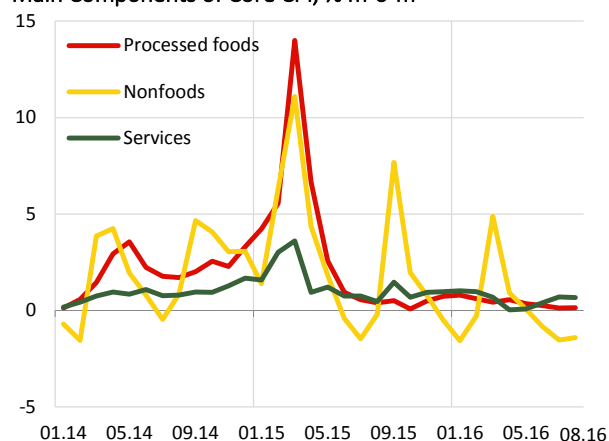
In August, industrial producer price inflation stood at 0.2% m-o-m (accelerated to 18.9% y-o-y). A slight increase in producer price index was due to price growth in electricity, gas, steam and air-conditioning supply and mining industry. Upward price

Inflation Indicators, %



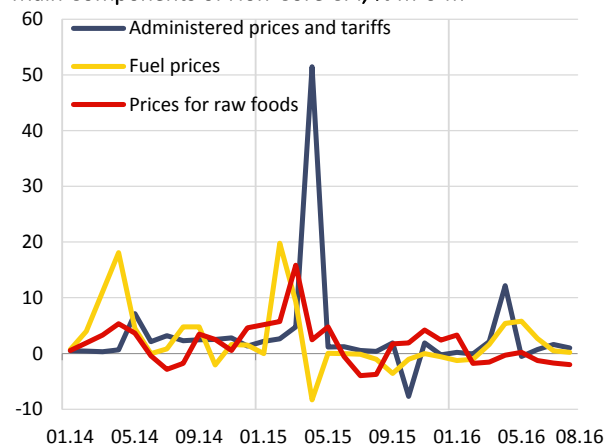
Source: State Statistics Service of Ukraine

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



Source: State Statistics Service of Ukraine; NBU staff estimates

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



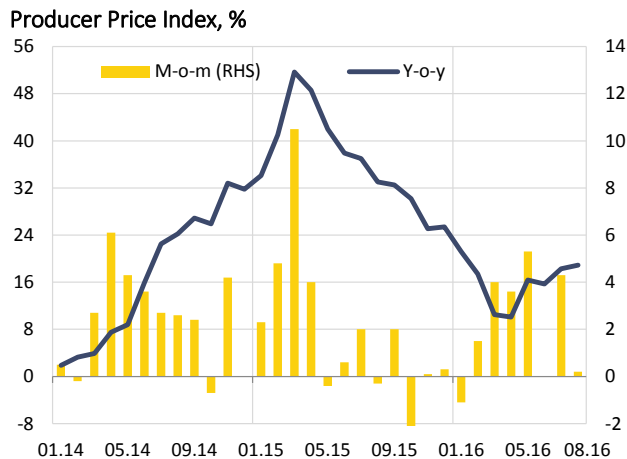
Source: State Statistics Service of Ukraine; NBU staff estimates

¹ Borshch is a traditional soup in Ukrainian cuisine. While recipes for borshch vary, vegetables are the main ingredients: beet, potato, carrot, cabbage, and onion.

developments in these industries were partially offset by falling prices in manufacturing.

Within the mining industry, prices grew significantly in mining of metal ores, reflecting rising global iron ore prices. Meanwhile, prices in extraction of crude petroleum and natural gas and the oil refining industry decreased following descending global oil prices in previous months.

In addition, metallurgy and chemical production reported a decrease in prices. The decline in prices in the former industry was attributed to falling prices at the earlier stages of the price chain in the previous month, namely in metal ore mining. The respective price developments in domestic chemical industry were driven by receding global prices for fertilizers since June this year. In addition, high supply of imported fertilizers also contributed to a decline in domestic market prices. Prices in the food processing industry as a whole remained unchanged.



Source: State Statistics Service of Ukraine

The Review is a translation of the original Review 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.

CPI and PPI growth by components in 2015-16

CPI (NBU classification)																						
	Share in CPI, %	m-o-m, %																				August, y-o-y %
		2015												2016								
		January	February	March	April	May	June	July	August	September	October	November	December	January	February	March	April	May	June	July	August	
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	-0.2	-0.1	-0.3	8.4
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	-0.1	-0.4	-0.3	7.4
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	-0.1	0.0	-0.4	9.0
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	-1.7	-2.0	5.0
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	1.6	1.0	12.7
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	0.5	0.2	8.6
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	-0.6	-0.9	-1.0	5.1
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	2.5	2.4	12.4
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	-2.0	-3.5	-3.3	17.1
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	0.1	1.7	0.7	14.3
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	0.7	2.1	0.1	7.1
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	0.2	8.7	27.9
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	58.7	0.9	61.0
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	0.0	0.0	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	0.1	0.0	78.4
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	1.2	0.4	0.2	6.0
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	0.0	-0.1	0.0	3.7
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	1.1	0.5	-0.2	15.5
PPI																						
	Share in PPI, %**	m-o-m, %																				August, y-o-y %
		2015												2016								
		January	February	March	April	May	June	July	August	September	October	November	December	January	February	March	April	May	June	July	August	
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	0.0	4.3	0.2	18.9
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	-2.0	-4.0	1.8	34.5
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	-0.9	-1.7	7.9
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	-0.4	-4.7	52.2
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	-7.4	6.0	26.6
Manufacturing	68.2	2.2	8.4	9.5	1.3	-0.4	0.6	0.2	0.2	0.0	0.4	-0.2	0.0	0.2	1.1	2.7	2.3	4.0	1.5	1.0	-0.7	13.0
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	0.3	2.7	0.0	11.5
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	15.9	-4.3	5.9
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	-3.4	-0.4	-4.9
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	0.5	0.4	8.2
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	-2.7	-2.3	22.6
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	1.3	0.1	11.3
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	-3.0	16.4	2.0	27.0

* 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.