

**In August 2018, consumer price inflation stood at 9.0% yoy, compared to 8.9% yoy in July. In month-on-month terms, consumer prices held steady.**

**Core inflation decelerated slightly in August, to 8.7% yoy** (stood at 0.1% in monthly terms).

The growth in the prices for processed foods continued to slow down, to 10.1% yoy. This resulted, among other things, from a more ample domestic and imported supplies, and a decline in global dairy and meat product prices.

The growth in the prices for clothes and footwear decelerated, to 2.0% yoy, on the back of the strengthening of the hryvnia against a basket of the currencies of Ukraine's trading partners in previous months. At the same time, August's weakening in the hryvnia caused the prices for other, mostly imported, non-foods to rise slightly faster (by 4.8% yoy). More specifically, the growth in the prices for household appliances, cars and dishware, as well as for cleaning goods accelerated (to 6.2% yoy, 3.4% yoy, 4.5% yoy and 5.4 yoy, respectively).

Service prices rose at a steady pace (13.8% yoy). The growth in catering prices decelerated, to 14.5% yoy, on the slower growth in food prices. In the meantime, the growth in the cost of personal care services, travel services, and home renovation services accelerated (to 13.8% yoy, 13.9% yoy, and 11.2% yoy, respectively), reflecting continued pressure from consumer demand and costs (in part due to robust wage growth and a significant share of imported inputs in the costs of some services).

**The pace of growth in raw food prices, at 1.7% yoy, remained low, although slightly higher, compared to July.** Fruit prices expectedly deepened their decline (to 10.5% yoy), driven by the bountiful harvest of apples, some other fruit, and berries. Also, the growth in prices for raw meat, milk and eggs slowed (to 7.8% yoy, 13.1% yoy and 40.2% yoy respectively). Prices for buckwheat and sugar continued to fall at a fast pace (35.1% yoy and 18.8% yoy, respectively). Instead, vegetable prices declined at a slower pace than in July (4.2% yoy compared to 16.0% yoy, respectively). This was due to the acceleration of prices for mushrooms (to 11.2% yoy), the recovery in price growth for potatoes and cabbage (by 0.9% yoy and 2.5% yoy), as well as a slower pace of decline in the prices for onions (by 5.8% yoy). Prices of carrots and beets continued to grow rapidly (by 62.7% yoy and 24.2% yoy, respectively). These trends, among other things, reflected increased exports of these products.

**The pace of growth in administered prices, at 13.8% yoy, remained flat compared to the previous month.** The growth in tobacco and alcohol prices slowed (to 23.8% yoy and 10.9% yoy, respectively), offsetting the acceleration in prices for transportation services (to 23.2% yoy). Specifically, there was an increase in prices for urban public transport in Kyiv and some other cities, and in airline fares, reflecting higher fuel prices and wage costs.

**Fuel prices rose at a faster pace (19.7% yoy) amid higher global oil prices.**

**In August 2018, the PPI inflation continued to accelerate, to 19.3% yoy from 18.1% yoy in July.** Month-on-month, the producer price index rose by 1.3%.

The acceleration in PPI inflation in annual terms was driven by the upsurge in prices for supply of electricity, gas, steam and air-conditioned air, which rose by 33.2% yoy. In particular, in August "Naftogaz" NJSC raised tariffs on natural gas supply for industrial consumers on the back of an upward trend in global energy prices and higher procurement prices for domestic gas. Prices for electricity generation at CHP plants also increased, partly due to the unresolved issue of supplying gas at preferential tariffs for the Kyiv power plants.

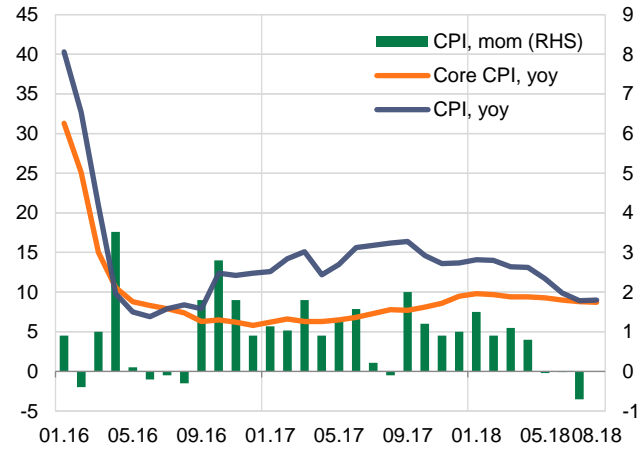
Price growth in manufacturing also accelerated (to 13.7% yoy). The acceleration of prices in manufacturing (by 13.7% yoy) was paced by price increases in most types of activities in July.. Higher global energy prices in recent months drove up prices in the chemical industry (by 13.2% yoy) and in the production of coke and refined products (by 22.9% yoy).

Faster growth in manufacture of foods, beverages and tobacco products (8.9% yoy) primarily reflected a slower decline in prices for sugar production (16.6% yoy). In addition, the growth in prices in manufacture of bakery and farinaceous products (14.6% yoy) accelerated amid rising input costs, mainly due to higher wheat prices and wage costs. The growth rates of prices in dairy and beverage production did not change (12.5% yoy and 17.8% yoy, respectively). At the same time, increased supplies of imported raw meat and lower global prices led to a slowdown in price growth in meat production (to 3.7% yoy).

Instead, the deceleration in prices for metal ores (to 23.5% yoy) and metallurgy (to 18.5% yoy) held back the overall PPI inflation. This primarily reflected the deepening decline in global prices for iron ore and the slowdown in steel prices.

**In August 2018, annual headline and core consumer price inflation remained virtually unchanged from the previous month**

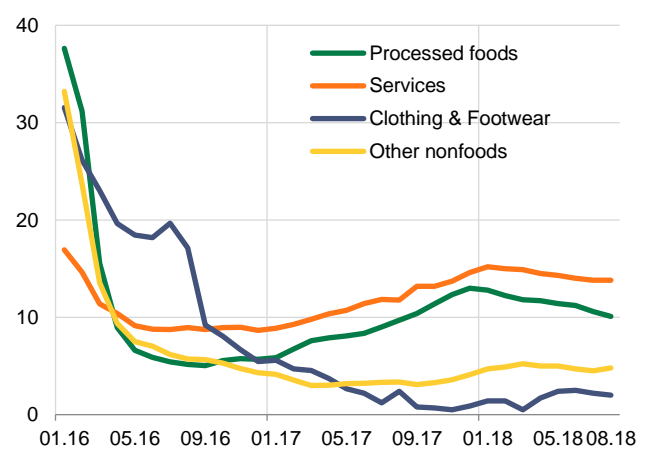
Consumer price indices, %



Source: SSSU.

**High core inflation was driven by steady consumer demand growth, partially offset by the easing of pressure from food prices and the strengthening the hryvnia NEER in H1**

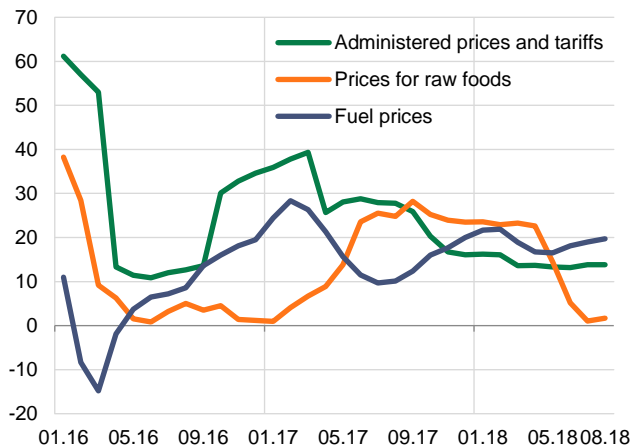
Main Core CPI Components, % yoy



Source: SSSU, NBU staff estimates.

**Non-core inflation accelerated, driven by a pick-up in price growth for raw foods and fuels rose faster, while administered prices kept growing at a fast pace**

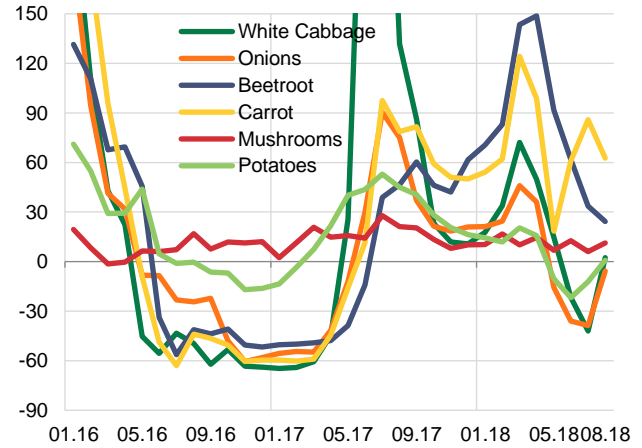
Main Components of Non-Core CPI, % yoy



Source: SSSU, NBU staff estimates.

**The pace of growth in raw food prices remained low, although was higher than in July due to a slower decline in prices for vegetables amid increased exports**

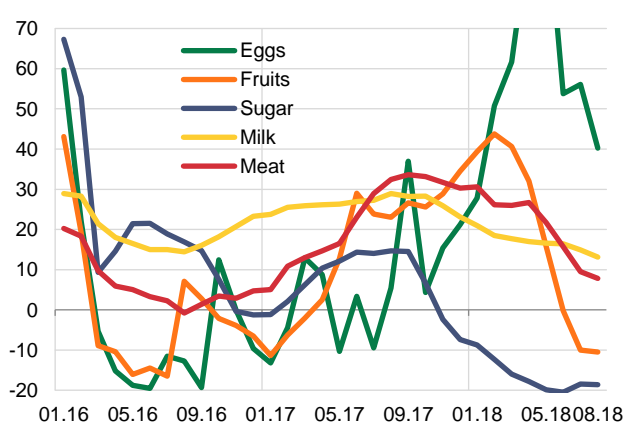
Selected Vegetable Prices, % yoy



Source: SSSU.

**Prices for the other raw foods decelerated due to an increased supply and lower global prices**

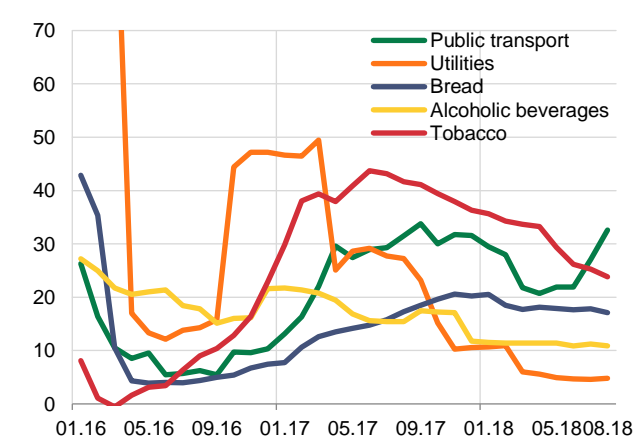
Selected Raw Food Prices, % yoy



Source: SSSU.

**The acceleration in prices for transport services was a major factor behind the rapid growth in administered prices, despite a slower growth in prices for other components**

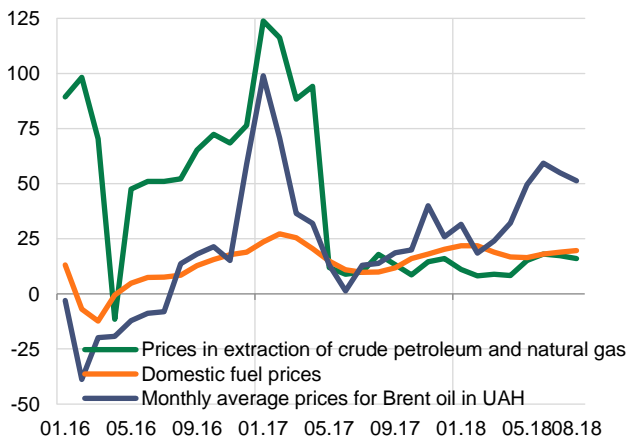
Administered Prices and Utility Tariffs, % yoy



Source: SSSU.

**Fuel prices accelerated, driven by rising global oil prices**

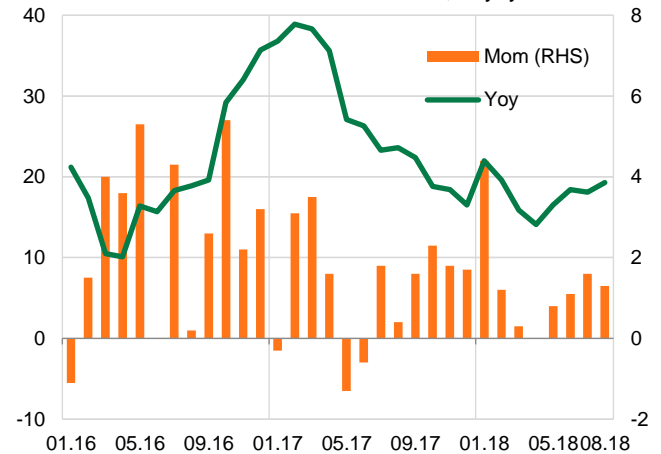
Fuel Price Indices, % yoy



Source: SSSU, Thomson Reuters Datastream.

**In August 2018, the producer price index rose at a faster pace than in July...**

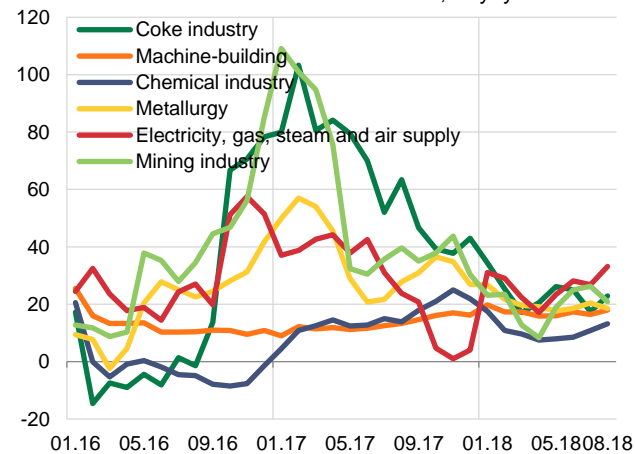
Producer Price Indexes in Select Industries, % yoy



Source: SSSU.

**... mainly due to the acceleration of prices in the supply of electricity, gas and conditioned air, as well as in some other manufacturing sectors**

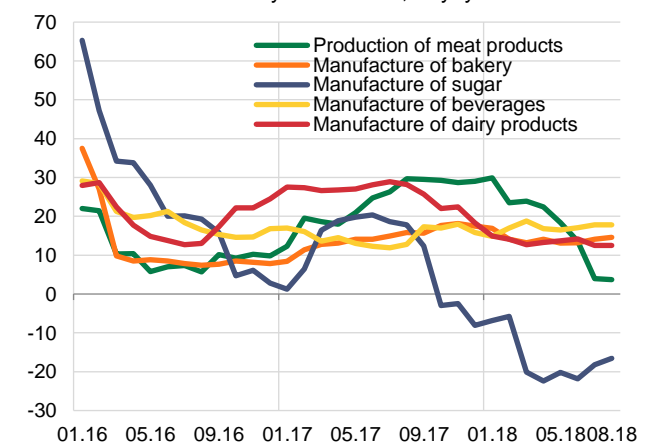
Producer Price Indexes in Select Industries, % yoy



Source: SSSU.

**Price growth in the food processing also accelerated slightly amid slower decline in prices for sugar production**

Prices in the Food Industry Subsectors, % yoy



Source: SSSU.

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

	Share in CPI for 2018, %	% yoy						% mom August
		2016	2017	June	2018 pik July	August		
<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>9.0</b>	<b>0.0</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>8.7</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>9.1</b>	<b>-0.2</b>	
Raw foods	18.6	1.2	23.5	14.5	5.2	1.7	-1.9	
Administered prices and tariffs	18.5	34.6	16.1	13.3	13.2	13.8	0.9	
Fuels	4.0	19.5	20.0	16.5	18.1	19.7	1.1	

**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>-0.6</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>17.9</b>	<b>0.9</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>2.0</b>	<b>-2.6</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>4.8</b>	<b>0.5</b>
Dwelling maintenance	0.3	11.5	47.5	41.6	37.2	24.1	0.9
Water supply	0.2	42.1	20.2	21.4	14.9	12.3	0.8
Hot water	0.2	82.9	0.9	0.9	-0.2	3.8	1.1
Natural gas	1.7	42.0	1.2	1.2	0.3	0.1	0.0
Central heating	1.1	89.3	3.8	3.8	3.8	0.7	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>16.2</b>	<b>1.5</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>9.0</b>	<b>0.1</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>0.1</b>

**PPI**

	Share in PPI for 2018, %**	% yoy						% mom August
		2016	2017	June	2018 pik July	August		
<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>19.3</b>	<b>1.3</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>20.9</b>	<b>0.2</b>	
Manufacturing of coal	2.5	40.4	47.8	25.9	25.3	20.4	2.6	
Extraction of crude petroleum and natural gas	5.1	76.5	16.1	15.2	18.0	16.1	0.6	
Mining of metal ores	6.0	107.2	29.3	16.1	29.2	23.5	-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>13.7</b>	<b>1.6</b>	
Manufacture of foods, beverages and tobacco products	21.2	16.2	12.5	10.0	9.6	8.9	1.4	
Manufacture of coke, and refined petroleum products	3.9	61.7	43.0	26.1	25.0	22.9	7.7	
Manufacture of chemicals and chemical products	2.8	-1.4	21.9	8.0	8.5	13.2	0.8	
Manufacture of basic pharmaceutical products and pharmaceutical preparations	1.4	8.5	11.0	11.8	12.9	12.6	0.4	
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.1	9.5	12.5	11.9	12.5	13.1	0.8	
Manufacture of basic metals and fabricated metal products, except machinery and equipment	18.4	41.8	26.9	17.7	18.6	18.5	0.9	
Manufacture of transport equipment	2.8	11.4	17.9	16.6	20.8	18.0	2.1	
<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>33.2</b>	<b>1.2</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:**

CHP – Combined Heat and Power  
 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