

In August 2019, annual consumer inflation declined to 8.8%, slowing from 9.1% in July. In monthly terms, prices dropped by 0.3%. Actual inflation moved closer to the forecast published in the NBU's July 2019 Inflation Report, but nonetheless exceeded it after a deviation in the previous month. Food prices continued to grow faster than expected in August, which was offset by a faster-than-expected slowdown in administered prices and core inflation. Moreover, fuel prices plunged on the back of developments in the global energy market. Coupled with the stronger hryvnia, this caused producer price inflation to slow to 4.5% yoy.

### Core Inflation

Core inflation slowed to 7.2% yoy in August, down from 7.4% yoy in previous months. In monthly terms, core CPI decreased by 0.1%.

Tight monetary policy continued to contain underlying price pressures, particularly through the exchange rate. This was mainly reflected in the pace of growth of prices of nonfood products with a high import share in their production costs, which slowed to 1.4% yoy. In particular, prices for home appliances, furniture, recreational products, pharmaceuticals, household chemicals, and other goods grew more slowly. Prices for clothing and footwear were unchanged from last year, and prices for motor vehicles and computer equipment decreased.

Prices for processed foods grew at the same rate as in the previous month (8.9% yoy). Growth in dairy prices continued to accelerate (to 9.5% yoy), driven by tighter supply of raw milk and increased demand for high-quality dairy products as producers prepared for the implementation of [new hygienic requirements](#). Moreover, prices for meat products also grew rapidly, fueled by a steady demand from abroad. In contrast, other food prices grew slower due to benign FX market conditions and other factors. More specifically, prices for pasta, coffee, olive oil, and sauces increased at a slower pace.

Services prices grew somewhat faster in August (13.9% yoy) compared to the previous month, reflecting sustained consumer demand and relatively strong wage growth. In particular, prices accelerated for restaurant services, mobile communications, culture, and outpatient services.

### Changes in Raw Food Prices

Growth in raw food prices continued to accelerate, to 10.9% yoy. In particular, prices for animal products grew faster. Growth in milk prices sped up considerably to 13.4% yoy. Prices for beef and pork also grew at a faster pace (4.0% and 4.8% yoy, respectively) due to reduced

livestock and stronger external demand. In addition, the decline in egg prices slowed markedly to 7.0% yoy.

Vegetable prices also grew faster, primarily because of accelerated growth in potato prices (96.1% yoy) caused by a poor harvest. However, the overall impact of supply factors, which in previous periods led to a surge in prices for vegetables and fruits, weakened somewhat in August. In particular, watermelon prices declined in annual terms amid an ample harvest. The greater supply slowed the rise in prices for most vegetables, including onions, tomatoes, cucumbers, and zucchinis.

### Changes in Administered Prices

Growth in administered prices slowed to 14.8% yoy. More specifically, natural gas prices for households decreased due to a drop in global gas prices and changes in the methodology for calculating household rates<sup>1</sup>. At the same time, the rates of growth in prices for tobacco products and alcoholic beverages were unchanged from last month.

### Changes in Fuel Prices

Fuel prices continued to decline in annual terms (by 3.2%), mainly due to a drop in global oil prices and favorable conditions on the FX market.

### Producer Price Inflation

Producer price inflation decelerated in August, returning to the June level of 4.5% yoy. In monthly terms, producer prices dropped by 0.7%.

The continued decrease in global oil and gas prices was one of the main factors behind the decline in producer price inflation. With rising global oil and gas prices, prices in oil and gas production and in the chemical industry fell further (to 13.3% and 1.8% yoy, respectively), while prices in the production of coke and petroleum products decreased year-on-year (by 5.7%). Moreover, lower global gas prices enabled [a cut in gas tariffs for industrial producers](#), which contributed to slower inflation for the supply of electricity, gas, steam, and

<sup>1</sup>Resolution of the Cabinet of Ministers of Ukraine No. 485 dated 5 June 2019.

air conditioning (8.6% yoy).

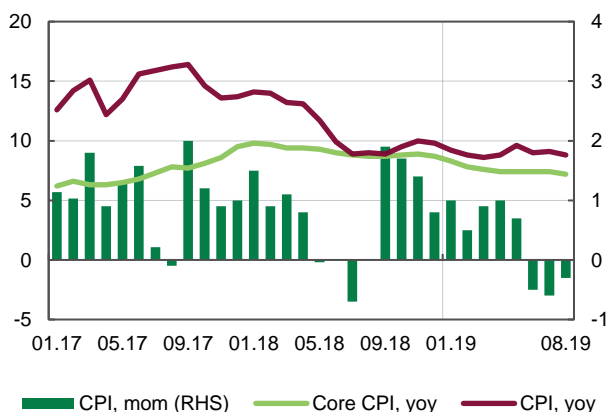
Prices for metallurgical products dived further as global steel prices fell. At the same time, price growth in the machinery industry slowed to 2.0% yoy.

The hryvnia's continued strengthening against the currencies of partner countries was another factor behind the slowdown of producer price inflation, which was reflected in deeper drops in the prices of manufacturing products that are sold outside Ukraine (prices dropped by 6.9% yoy, compared to 4.5% yoy in July).

Price growth in the production of food, beverages, and tobacco products decelerated as well (to 4.6% yoy), particularly owing to a deeper dive in sugar prices (4.9% yoy) following corresponding declines in global sugar prices. In addition, growth in prices for meat products slowed to 9.5% yoy. Bread prices also grew slower, at 12.3% yoy, owing to this year's rich harvest of grain crops. On the other hand, prices of dairy products accelerated to 10.8% yoy as high-quality inputs grew more expensive due to their limited supply.

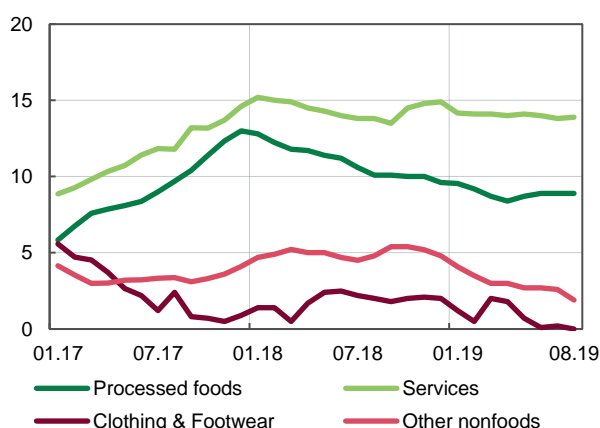
**Consumer inflation and core inflation declined in August 2019, owing to tight monetary policy, which manifested itself through the exchange rate channel, and lower energy prices, among other factors. However, prices for certain food products and consumer demand continued to put upward pressure on inflation**

Chart 1. Consumer Price Indices, %



Source: SSSU.

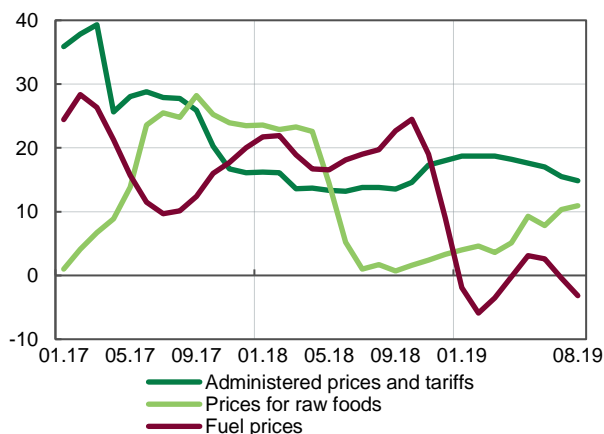
Chart 2. Main Core CPI Components, % yoy



Source: SSSU, NBU staff estimates.

**Noncore inflation continued to decline, primarily owing to lower global gas and oil prices, but the slowdown was restrained by pressure from raw product prices**

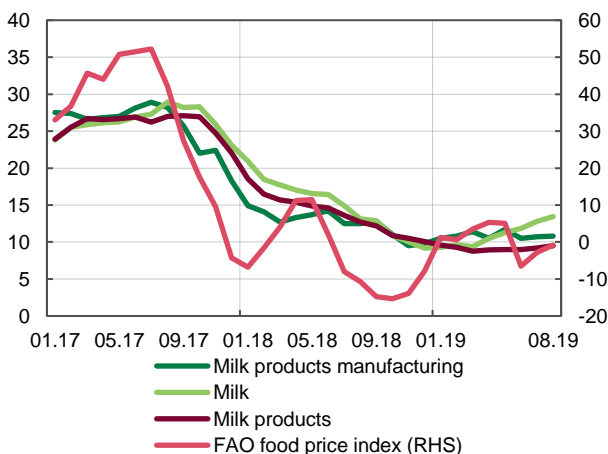
Chart 3. Main Components of Non-core CPI, % yoy



Source: SSSU.

**Declining cattle herds sped up growth in the prices of milk and dairy products**

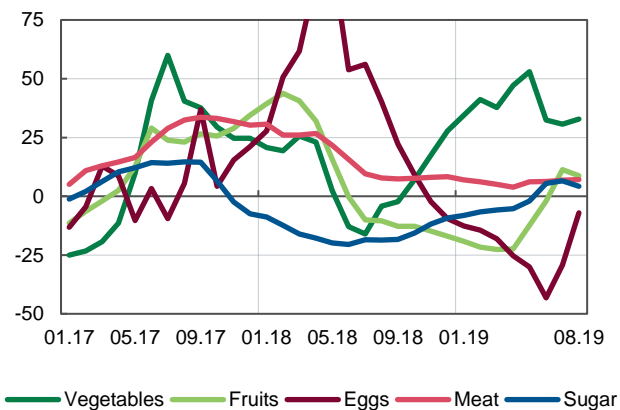
Chart 4. Prices for Milk Products, % yoy



Source: SSSU, NBU staff estimates, FAO.

**Rapid growth in prices for animal products and some vegetables spurred inflation in raw food products**

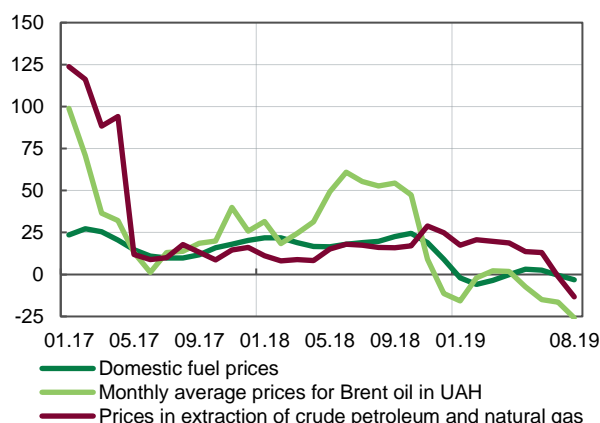
Chart 5. Prices for Selected Raw Food, % yoy



Source: SSSU.

**Fuel prices continued to decline, largely owing to a fall in global oil prices and the hryvnia's strengthening**

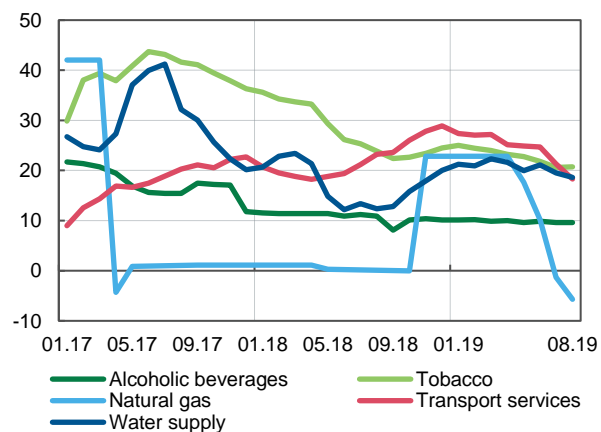
Chart 6. Fuel Price Indices, % yoy



Source: SSSU, Refinitiv.

**Administered prices grew at a slower pace as gas prices were reduced for households**

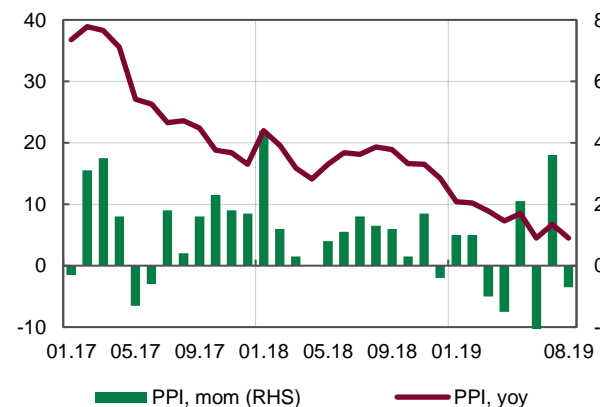
Chart 7. Administered Prices, % yoy



Source: SSSU.

**Producer price inflation resumed its downward trend under the influence of global energy prices**

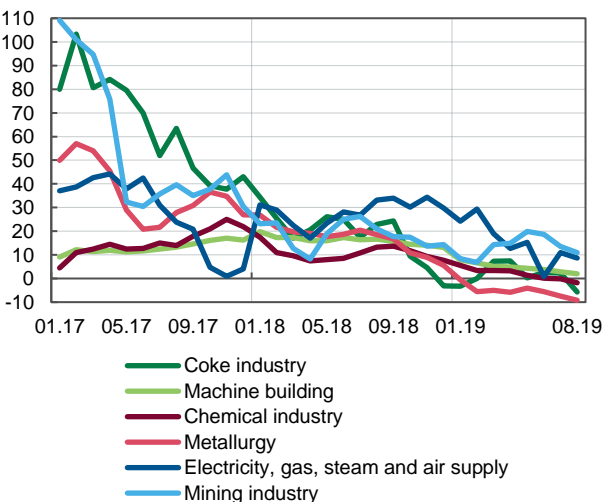
Chart 8. Producer Price Index, %



Source: SSSU.

**Falling global gas and oil prices remained among the factors behind the slower price inflation in the mining and manufacturing industries**

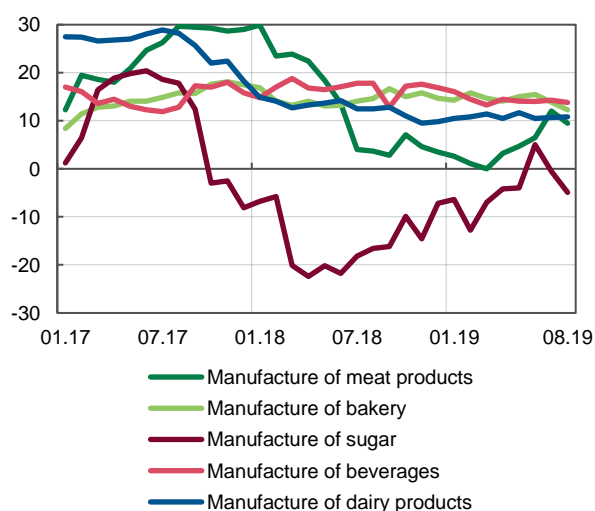
Chart 9. Producer Price Indices in Selected Industries, % yoy



Source: SSSU.

**Price growth in the food industry slowed markedly, particularly due to falling prices in the production of sugar and slower price growth for meat products**

Chart 10. Prices in the Food Industry Subsectors, % yoy



Source: SSSU.

## CPI and PPI Growth by Components in 2017–2019

	Share in CPI for 2019, %			% yoy			%mom August 2019
	2017	2018	2019				
			June	July	Aug		
<b>CPI (NBU classification)</b>							
<b>Consumer Price Index</b>	<b>100.0</b>	<b>13.7</b>	<b>9.8</b>	<b>9.0</b>	<b>9.1</b>	<b>8.8</b>	<b>-0.3</b>
<b>Core inflation</b>	<b>59.3</b>	<b>9.5</b>	<b>8.7</b>	<b>7.4</b>	<b>7.4</b>	<b>7.2</b>	<b>-0.1</b>
<b>Non-core inflation*</b>	<b>40.7</b>	<b>19.4</b>	<b>10.7</b>	<b>11.7</b>	<b>11.7</b>	<b>11.3</b>	<b>-0.6</b>
Raw foods	20.0	23.5	3.3	7.8	10.3	10.9	-1.3
Administered prices and tariffs	16.8	16.1	18.0	17.0	15.5	14.8	0.4
Fuels	3.9	20.0	9.1	2.6	-0.4	-3.2	-1.7
<b>CPI (State Statistics Service of Ukraine classification)</b>							
<b>Food and non-alcohol</b>	<b>45.4</b>	<b>17.7</b>	<b>7.8</b>	<b>8.5</b>	<b>9.9</b>	<b>10.2</b>	<b>-0.3</b>
<b>Alcohol, tobacco</b>	<b>8.3</b>	<b>20.7</b>	<b>17.9</b>	<b>15.9</b>	<b>15.2</b>	<b>15.0</b>	<b>0.8</b>
<b>Clothing and footwear</b>	<b>5.3</b>	<b>0.9</b>	<b>2.0</b>	<b>0.1</b>	<b>0.2</b>	<b>0.0</b>	<b>-2.8</b>
<b>Housing, water, electricity, gas and other fuels incl.</b>	<b>4.9</b>	<b>10.6</b>	<b>10.6</b>	<b>10.4</b>	<b>7.3</b>	<b>5.8</b>	<b>-0.9</b>
Dwelling maintenance	0.2	47.5	23.7	13.2	9.2	8.9	0.7
Water supply	0.1	20.2	19.9	21.1	19.5	18.6	0.1
Hot water	0.2	0.9	3.2	16.6	16.6	15.4	0.1
Natural gas	1.2	1.2	22.9	10.2	-1.3	-5.7	-4.5
Central heating	0.8	3.8	5.2	19.5	19.5	19.5	0.0
Electricity	0.9	28.1	0.0	0.0	0.0	0.0	0.0
<b>Transport</b>	<b>11.4</b>	<b>16.7</b>	<b>12.9</b>	<b>8.7</b>	<b>6.8</b>	<b>4.6</b>	<b>-0.6</b>
<b>Communication</b>	<b>3.1</b>	<b>9.1</b>	<b>15.1</b>	<b>16.0</b>	<b>16.1</b>	<b>17.0</b>	<b>0.9</b>
<b>Education</b>	<b>1.3</b>	<b>14.9</b>	<b>13.4</b>	<b>13.3</b>	<b>13.2</b>	<b>13.4</b>	<b>0.3</b>

## PPI

	Share in PPI for 2019, %**			% yoy			%mom August 2019
	2017	2018	2019				
			June	July	Aug		
<b>Producer Price Index</b>	<b>100.0</b>	<b>16.5</b>	<b>14.2</b>	<b>8.5</b>	<b>6.7</b>	<b>4.5</b>	<b>-0.7</b>
<b>Mining and quarrying</b>	<b>15.2</b>	<b>30.4</b>	<b>14.3</b>	<b>19.9</b>	<b>13.5</b>	<b>11.0</b>	<b>-2.0</b>
Manufacturing of coal	2.9	47.8	5.4	7.6	-4.6	-1.9	5.4
Extraction of crude petroleum and natural gas	5.3	16.1	24.9	13.7	-1.2	-13.3	-11.7
Mining of metal ores	5.8	29.3	8.2	31.6	37.2	42.8	3.0
<b>Manufacturing</b>	<b>65.3</b>	<b>18.5</b>	<b>7.4</b>	<b>2.5</b>	<b>1.8</b>	<b>-0.1</b>	<b>-0.3</b>
Manufacture of foods, beverages and tobacco products	20.2	12.5	7.0	5.0	6.0	4.6	0.1
Manufacture of coke, and refined petroleum products	3.9	43.0	-3.1	0.3	2.3	-5.7	-0.6
Manufacture of chemicals and chemical products	2.7	21.9	7.7	1.4	-0.1	-1.8	-0.9
Manufacture of basic pharmaceutical products and pharmaceutical preparation	1.4	11.0	16.7	14.8	13.2	13.4	0.5
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.2	12.5	12.6	8.9	7.6	6.7	-0.1
Manufacture of basic metals and fabricated metal products, except machinery and equipment	18.5	26.9	5.6	-4.0	-7.4	-9.2	-1.0
Manufacture of transport equipment	2.9	17.9	17.3	7.2	6.0	5.7	1.7
<b>Electricity, gas, steam and air-conditioning supply</b>	<b>18.5</b>	<b>4.0</b>	<b>29.8</b>	<b>15.3</b>	<b>10.9</b>	<b>8.6</b>	<b>-0.9</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 2018.

## Terms and abbreviations:

CPI	consumer price index	yoy	in annual terms; year-on-year change
PPI	producer price index		
SSSU	State Statistics Service of Ukraine		
		mom	in monthly terms; month-on-month change
		RHS	right-hand scale