



# NATIONAL BANK OF UKRAINE

## September 2017 Inflation Review

In September 2017, headline inflation stood at 16.4% in annual terms and 2% in monthly terms.

Actual inflation in annual terms came in above the NBU's forecast published in the July 2017 Inflation Report. This primarily reflected a faster growth in raw food prices, rising production costs and a slight recovery in consumer demand. Core inflation also came in above the forecast, although overall underlying inflation pressures remained moderate.

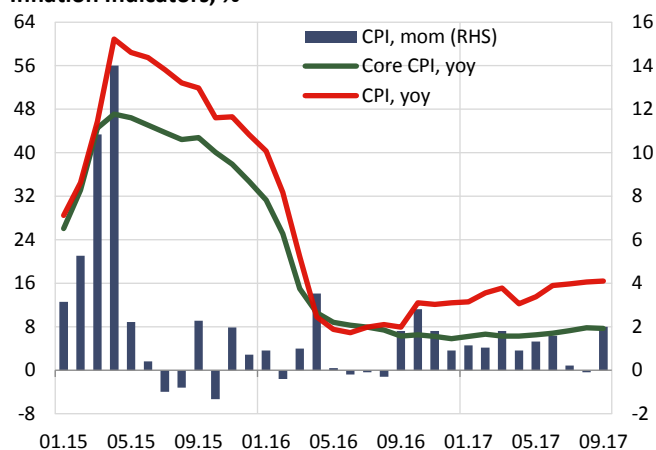
**Core inflation in September stood at 7.7% yoy (1.9% mom).** First, prices for core services grew at a fast rate (13.2% yoy); in particular, costs of secondary and higher education and taxi prices rose due to the increased labor costs. In addition, prices for processed foods accelerated (to 10.4% yoy); in particular, prices for meat and dairy products grew faster on the back of higher prices for the corresponding raw products. Accordingly, prices in public catering also accelerated. At the same time, prices for clothes and footwear decelerated (to 0.8% yoy), as well as other non-food goods' prices (to 3.1% yoy), mostly for imported goods due to a favorable situation on the foreign exchange market in the previous months. In particular, prices for selected electronics devices, home appliances, and personal care products were lower than a year ago.

**The growth in raw food prices continued to accelerate** in September (to 28.2% yoy) and had the greatest effect on the deviation of the overall inflation from the projected trajectory. Specifically, egg prices accelerated significantly (to 37.0% yoy) due to a gradual rebound in their exports following the elimination of restrictions on imports of the Ukrainian poultry by a number of countries and the seasonal reduction in its supply. Also, the prices for all types of meat accelerated (to 33.6% yoy) as a result of a decline in supply on domestic market amid large export volumes, as well as fruit prices (up to 26.6% yoy), including apples due to poor harvests. The growth of milk and vegetable prices remained high (28.2% and 37.6% yoy respectively). Meanwhile, prices for buckwheat were lower than a year ago (by 16.9%) due to a good harvest.

**Growth of administered prices and tariffs decelerated (to 25.9% yoy) as expected** due to a favorable comparison base as electricity tariffs were raised in September last year. Meanwhile, in September minimum prices for alcoholic beverages were raised according to the Government's decision resulting in the expected acceleration in their prices to 17.5% yoy. Tobacco products remained an important driver of the administrative component of the CPI this year, with prices up 41.1% yoy. In addition, prices for bread and transport services continued to accelerate amid higher costs.

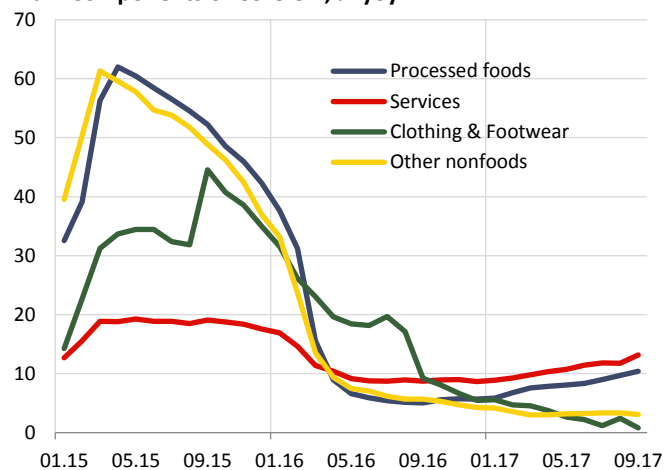
**Fuel prices accelerated to 12.4% yoy as expected (up by 2.9% mom).** In particular, gasoline and diesel prices rose in September due to rising global oil prices and the euro's appreciation, since fuel excises are set in this currency. In addition, despite the drop in liquefied gas prices at the end of September, they were higher than in August, which resulted in their significant acceleration in annual terms (to 20.4% yoy).

Inflation Indicators, %



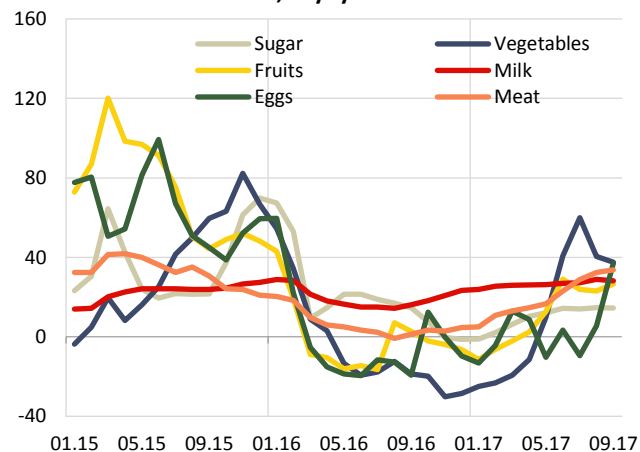
Source: SSSU

Main Components of Core CPI, % yoy



Source: SSSU; NBU staff estimates

Selected Raw Food Prices, % yoy



Source: State Statistics Service of Ukraine

In September 2017, the producer price index decelerated to 22.4% yoy (from 23.6% in August), in monthly terms prices grew by 1.6%. In particular, prices in the mining industry slowed down significantly. Thus, in September, prices for the metal ores mining decelerated (to 29.3% yoy) due to a favorable comparison base last year. However, in monthly terms, prices increased (by 7.1% mom), despite contrary trends on world markets, which can be largely attributed the shutdown of some iron ore mines in Ukraine. In addition, in spite of growth in monthly terms amid rising world prices, prices in crude oil and natural gas extraction also decelerated in annual terms (to 13.3% yoy) due to high comparison base. This affected the dynamics of prices in upper stages of production, specifically, price growth in the manufacture of coke and refined petroleum products slowed (to 46.7% yoy). At the same time, coal prices accelerated significantly as world prices for these raw materials rose.

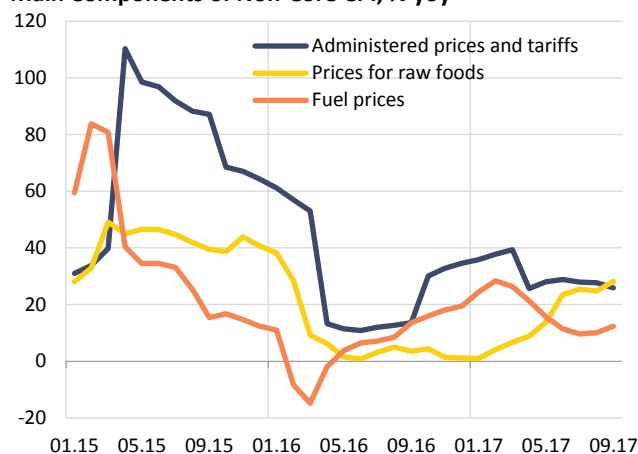
Moreover, under the influence of the growth of world steel prices, prices for metallurgical production accelerated (to 30.9% yoy), while higher prices for fertilizers drove prices in the chemical industry higher (up by 17.9% yoy). In addition, growth of prices in electrical equipment production significantly accelerated (up to 17.0% yoy), which can be attributed to the shortage of graphite electrodes on world markets.

However, prices in the food industry slowed down considerably (to 14.1% yoy from 15.7% yoy in August). Thus, prices in sugar production continued to decelerate (to 12.4% yoy), primarily due to the start of the season of sugar refining amid bountiful harvest. In addition, prices for meat and dairy products slowed down slightly, albeit due to a favorable comparison base (respectively, to 29.5% and 25.7% yoy). Meanwhile, in beverage production, prices accelerated as minimum prices for alcoholic beverages were raised.

Prices in the supply of electric power, natural gas, steam, and conditioned air continued to decelerate (to 20.8% in September from 23.8% yoy in August) due to a high share of nuclear generation in total electricity production.

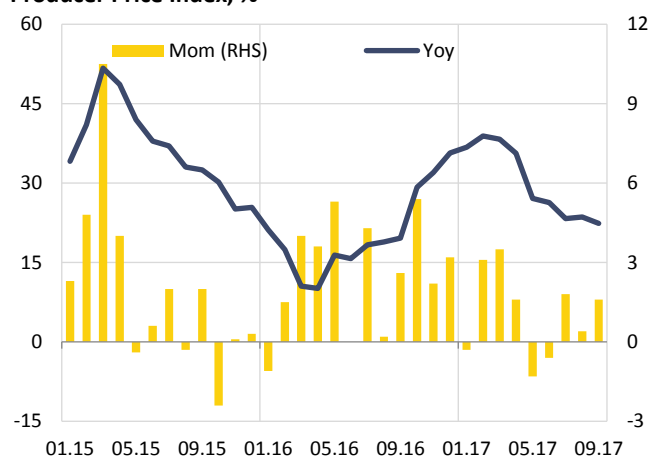
*The Review is a translation of the original text in Ukrainian. In case of any discrepancies between the original document and its English translation, readers should consider the Ukrainian version of the Review as correct.*

Main Components of Non-Core CPI, % yoy



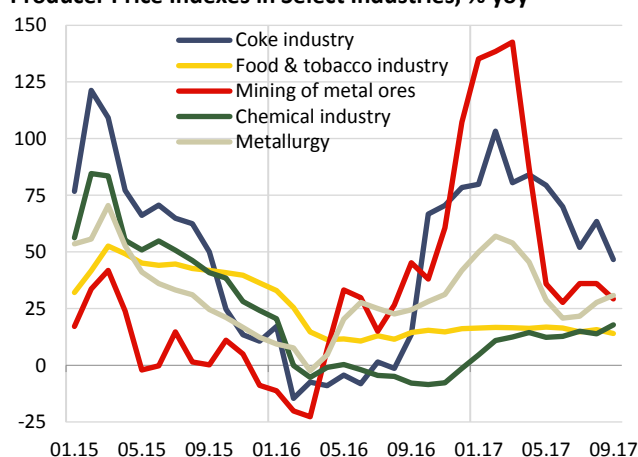
Source: State Statistics Service of Ukraine; NBU staff estimates

Producer Price Index, %



Source: State Statistics Service of Ukraine

Producer Price Indexes in Select Industries, % yoy



Source: State Statistics Service of Ukraine

CPI and PPI growth by components in 2015 - 2017													
CPI (NBU classification)													
	Share in CPI for 2017, %	yoy, %											September, mom %
		2015	2016	2017** †									
				January	February	March	April	May	June	July	August	September	
<b>Consumer Price Index</b>	<b>100.0</b>	<b>43.3</b>	<b>12.4</b>	<b>12.6</b>	<b>14.2</b>	<b>15.1</b>	<b>12.2</b>	<b>13.5</b>	<b>15.6</b>	<b>15.9</b>	<b>16.2</b>	<b>16.4</b>	<b>2.0</b>
Core inflation	57.4	34.7	5.8	6.2	6.6	6.3	6.3	6.5	6.8	7.3	7.8	7.7	1.9
Non-core inflation *	42.6	49.7	17.5	17.9	20.8	22.8	17.7	20.7	25.0	25.2	25.0	25.7	2.1
Raw foods	19.0	40.7	1.2	1.0	4.1	6.7	8.9	13.8	23.6	25.5	24.8	28.2	2.9
Administered prices and tariffs	18.6	64.4	34.6	35.9	37.8	39.3	25.6	28.1	28.8	27.9	27.8	25.9	1.3
Fuels	5.0	12.5	19.5	24.5	28.4	26.3	21.3	15.7	11.5	9.7	10.1	12.4	2.9
CPI (State Statistics Service of Ukraine classification)													
Food and non-alcohol	41.8	41.5	3.3	3.0	5.3	7.2	8.3	10.6	15.0	16.3	16.8	18.8	2.0
Alcohol, tobacco	7.9	22.7	22.5	26.3	30.2	30.2	28.3	27.5	27.4	26.3	25.1	25.8	2.7
Clothing and footwear	5.4	35.0	5.5	5.6	4.7	4.5	3.7	2.7	2.1	1.2	2.1	0.8	8.9
Housing, water, electricity, gas and other fuels incl.:	7.5	103.0	47.2	46.6	46.5	49.5	25.1	28.6	29.2	27.8	27.3	23.2	0.4
Imputed rentals for housing	0.5	5.4	11.5	14.1	16.8	21.7	25.3	29.3	39.9	48.7	49.3	46.5	1.5
Water supply	0.3	23.0	42.1	26.7	24.7	24.1	27.3	37.1	40.0	41.2	32.1	30.1	0.7
Hot water	0.2	55.8	82.9	82.9	83.2	83.3	83.3	83.0	82.9	15.3	14.4	14.5	0.0
Natural gas	2.1	273.0	42.0	42.0	42.0	42.0	-4.3	0.9	1.0	1.0	1.1	1.2	0.1
Central heating	1.2	78.7	89.3	89.7	90.1	90.2	90.2	90.2	90.2	90.0	90.0	90.0	0.0
Electricity	1.0	66.9	60.0	60.0	60.0	63.7	63.7	63.7	63.7	63.7	63.7	28.1	1.5
Transport	12.1	20.4	11.4	14.9	17.2	16.8	15.7	13.1	11.5	11.1	11.8	12.6	1.5
Communication	3.2	7.0	4.0	4.1	4.6	7.1	9.4	9.4	9.4	9.4	9.4	9.7	0.4
Education	1.6	24.2	13.7	12.1	11.5	10.7	10.3	9.7	8.9	8.5	8.8	15.7	12.0
PPI													
	Share in PPI for 2017, %***	yoy, %											September, mom %
		2015	2016	2017									
				January	February	March	April	May	June	July	August	September	
<b>Producer Price Index</b>	<b>100.0</b>	<b>25.4</b>	<b>35.7</b>	<b>36.8</b>	<b>38.9</b>	<b>38.3</b>	<b>35.6</b>	<b>27.1</b>	<b>26.3</b>	<b>23.3</b>	<b>23.6</b>	<b>22.4</b>	<b>1.6</b>
Mining and quarrying	13.2	17.6	85.1	109.1	101.0	94.7	75.7	32.4	30.5	35.7	39.6	35.1	4.8
Manufacturing of coal	2.4	-0.8	40.4	43.5	21.0	20.5	35.4	37.1	49.8	51.9	63.8	70.5	4.3
Extraction of crude petroleum and natural gas	4.7	120.3	76.5	123.8	116.2	88.3	94.1	12.0	8.9	10.0	17.9	13.3	3.2
Mining of metal ores	5.1	-8.9	107.2	135.2	138.5	142.6	87.0	35.9	27.7	36.1	36.1	29.3	7.1
<b>Manufacturing</b>	<b>65.1</b>	<b>23.8</b>	<b>22.6</b>	<b>25.6</b>	<b>28.9</b>	<b>27.5</b>	<b>25.4</b>	<b>21.1</b>	<b>18.7</b>	<b>17.8</b>	<b>20.1</b>	<b>19.9</b>	<b>2.0</b>
Manufacture of food products, beverages and tobacco products	21.8	36.4	16.2	16.4	16.7	16.6	16.3	16.9	16.5	14.7	15.7	14.1	1.9
Manufacture of coke, and refined petroleum products	3.4	4.7	61.7	79.9	103.3	80.6	84.1	79.5	70.0	52.0	63.4	46.7	2.1
Manufacture of chemicals and chemical products	3.2	24.2	-1.4	4.5	10.9	12.5	14.5	12.4	12.7	15.0	13.9	17.9	0.6
Manufacture of basic pharmaceutical products and pharmaceutical preparations	1.4	31.5	8.5	8.3	9.2	9.0	9.0	9.0	8.7	8.9	9.3	9.8	1.0
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.2	29.6	9.5	10.6	11.7	12.2	11.2	11.7	11.5	11.6	11.7	11.3	1.2
Manufacture of basic metals and fabricated metal products, except machinery and equipment	17.3	12.4	41.8	49.9	57.0	54.0	45.5	28.9	20.8	21.7	27.8	30.9	3.1
Manufacture of transport equipment	2.2	15.5	11.4	9.1	15.4	14.5	16.1	14.2	14.2	16.4	18.4	17.9	0.4
Electricity, gas, steam and air-conditioning supply	21.8	33.2	51.5	37.1	38.7	42.6	44.2	37.9	42.5	31.0	23.8	20.8	-1.1

\* 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.

\*\* Since January 2017, the methodology for calculating the CPI was modified. For more information, see the official web-page of the State Statistics Service of Ukraine.

\*\*\* The shares of PPI components are NBU staff estimates based on the SSSU data on volume of industrial production by type of activity for 2016.

† Changes in prices for the selected components of the consumer basket according to NBU classification based on SSSU data were revised due to review of the weights calculation methodology.