

**Consumer price inflation remained almost flat in September 2018, at 8.9% yoy (versus 9.0% yoy in August),** exceeding the upper limit of the target range (6.5% +/- 2 pp as of the end of Q3 2018). In monthly terms, prices grew by 1.9%, largely driven by seasonal factors.

Inflationary pressure has remained high despite the lower food price inflation. Thus, in September, annual inflation came in above the forecast published in the July [Inflation Report](#) (8.3%) due to its core component and fuel prices. Sustained domestic demand, fast growth in wages, and a sharp increase in global oil prices supported the rapid price growth.

**Core inflation in September remained at the previous month's level (8.7% yoy).** The major factors behind the sustained high annual rate of growth in the core CPI were the weakening of the hryvnia exchange rate over past few months (both to the US dollar and to the basket of MTP countries' currencies) and the further acceleration in wage growth.

Growth in prices for non-food products that are mostly imported (refrigerators, washing machines, cars, kitchenware, medicines, newspapers, books, etc.) accelerated to 4.5% yoy. At the same time, slower growth in prices for clothing and footwear (1.8% yoy), weighed down by the strengthening of the hryvnia NEER, helped contain the price increase in this category (according to NBU estimates, the prices for these products react to a change in the exchange rate with a significant lag).

Growth rates of prices for processed foods remained unchanged at 10.1% yoy. Thus, although growth in prices of goods with a sizeable share of imported inputs (chocolate, coffee, tea, confectionery, dried fruit, pasta, etc.) accelerated, prices for meat and dairy products rose slower (by 12.7% yoy and 12.2% yoy) thanks to lower growth rates of raw material prices amid expansion of supply and lower global food prices.

The growth rate of prices for services slowed (13.6% yoy). The persisting pressure from higher production costs, in particular labor costs, and demand-side pressure, as well as a significant import content in selected types of services, caused prices for personal care, recreation, travel, medical, mobile communications and other services to accelerate. At the same time, growth in prices charged by restaurants

continued to decelerate (to 13.9% yoy), primarily on slower growth in food prices.

**Raw food prices rose at a slower pace in September (0.8% yoy).** Fruit prices declined further (to 12.8% yoy), driven by the bountiful harvest of apples and some other fruit and berries, although vegetable prices declined at a slower pace than in the previous month. Specifically, bell peppers and eggplants became cheaper; prices of cucumbers, beans, and garlic also declined further. Along with that, growth in prices for borshch vegetables accelerated due to the delayed harvest season for late vegetable crops, possibly reflecting heavy precipitations in September (by 19 - 168% above the norm, according to [the data of the Ukrainian Hydrometeorological Center](#)). In addition, flour prices grew faster (by 16.9% yoy), which passed through to the prices of bakery products (accelerated to 19.2% yoy). Also, the growth in egg prices slowed down (to 22.2% yoy) on the back of the similar trends in external markets.

**The growth in administered prices decelerated (to 13.5% yoy).** In September, the prices for alcoholic beverages grew at a slower pace (8.1% yoy) against favorable base of comparison<sup>1</sup>, as did the prices for tobacco products (22.4% yoy). At the same time, faster growth in wages and fuel prices continued to push up administered prices. In particular, the rapid growth in fares of urban public transport (32.7% yoy) was accompanied by a faster increase in minibus fares (23.8% yoy). Moreover, prices were raised for some postal services starting on 10 September 2018 (overall, growth in prices for postal services included in the CPI accelerated to 60.0% yoy).

**Fuel price growth accelerated (to 22.7% yoy) amid rapidly rising global oil prices and weaker hryvnia.**

**In September 2018, producer price inflation moderated slightly – to 18.9% yoy (from 19.3% yoy in August).** Month-on-month, the producer price index rose by 1.2%.

The slowdown in annual producer price inflation was primarily prompted by slower price growth in the mining industry (17.7% yoy). Specifically, coal prices rose at slower pace (15.6% yoy). In addition, the slump in iron ore prices in annual terms contributed to a slowdown in prices for metal ores (to 17.5% yoy), as well as in metallurgy (to 16.8% yoy).

<sup>1</sup> Last year, the government raised the minimum prices for alcoholic beverages in September, and this year this increase occurred from 2 October.

Prices in machine building decelerated (to 15.7% yoy). In particular, price growth in production of electrical equipment slowed down markedly (by 19.3% yoy) against a favorable comparison base – last year saw prices rise due to the shortage of graphite electrodes on world markets.

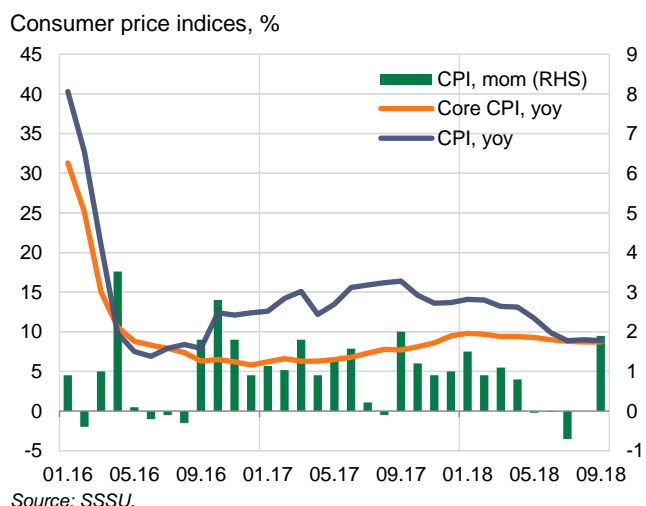
At the same time, the remaining manufacturing sectors recorded faster increase in prices. Specifically, prices accelerated in the chemical industry (by 13.6% yoy) and in the production of coke and refined products (by 24.4% yoy), driven by higher global energy prices.

Price growth in food, beverages and tobacco production continued to accelerate (to 9.2% yoy). This primarily reflected an acceleration in prices in manufacture of bread and farinaceous products (to 16.7% yoy), driven by higher input costs, mainly due to rising prices for wheat and flour

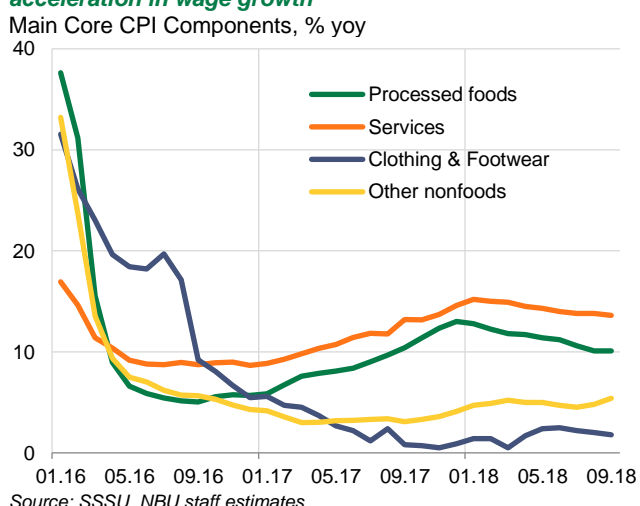
in annual terms, as well as due to higher electricity rates and wages. Increased supplies of imported raw meat and lower global prices led to a slowdown in price growth in meat production (to 2.8% yoy), while a favorable comparison base explained a slowdown in price growth in beverage production (by 12.8% yoy).

The prices for electricity, gas, steam and air-conditioned air rose somewhat faster (33.9% yoy). This was primarily due to rising gas prices. At the same time, in monthly terms prices fell slightly (by 0.6%). This was due to a decline in the cost of electricity generation by the TPP units due to slower growth in coal prices, as well as solar energy amid active construction of new SPP.

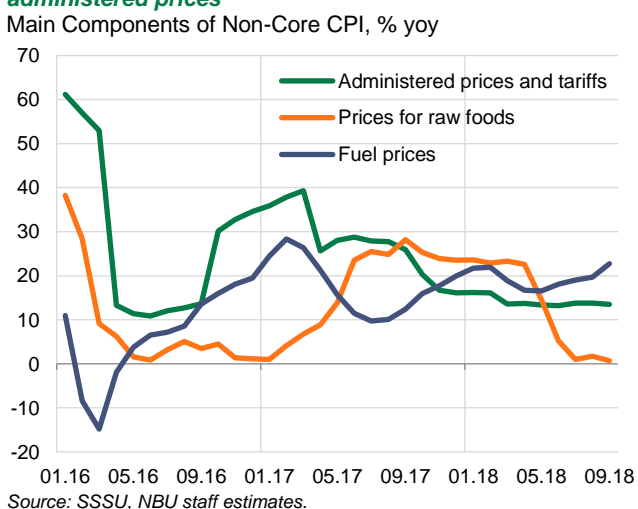
**Headline and core inflation remained broadly flat in September 2018**



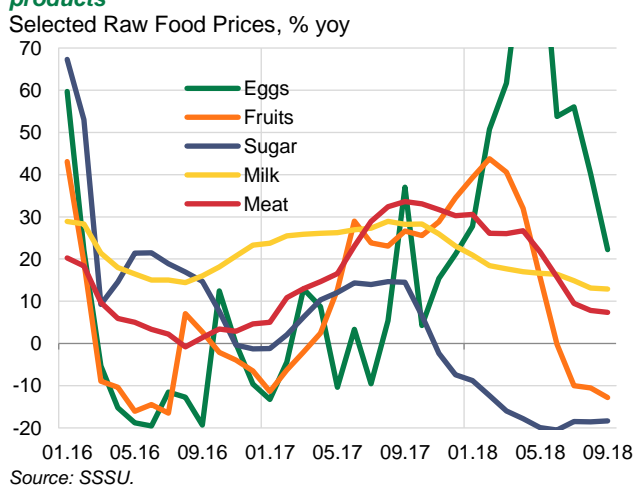
**High core inflation was driven by the weakening of the hryvnia exchange rate over past few months and further acceleration in wage growth**



**Non-core inflation also remained high due to the acceleration in fuel prices, despite a slower pace of growth in raw food and administered prices**

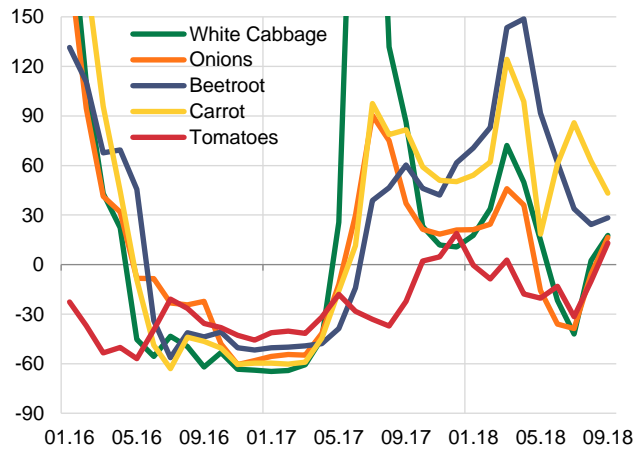


**The pace of growth in raw food prices slowed down owing to increased supplies and lower world prices for selected products**



*The delayed harvest season of the “borsch” vegetables, as well as the earlier ripening of tomatoes, reduced the supply of these products, causing price inflation to accelerate*

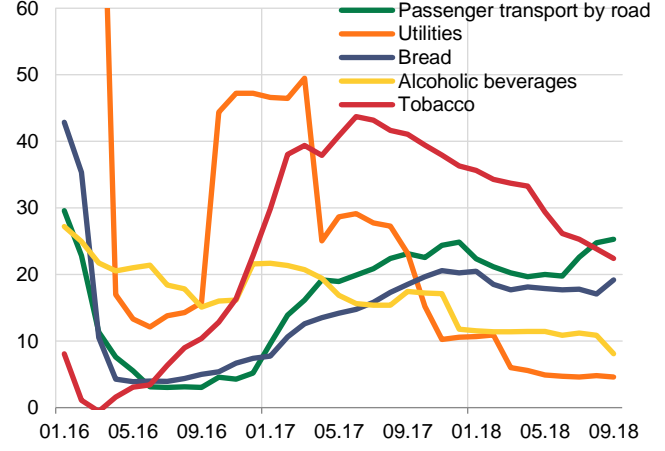
Selected Vegetable Prices, % yoy



Source: SSSU.

*The rate of growth in administered prices slowed due to the slower pace of growth in prices for alcohol and tobacco products. At the same time, the increase in the prices for bread, transport and communications accelerated*

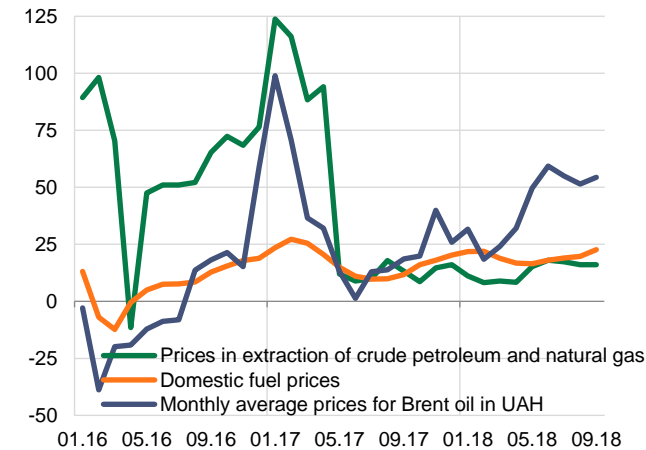
Administered Prices and Utility Tariffs, % yoy



Source: SSSU.

*The rising global oil prices and the weakening of the hryvnia exchange rate caused fuel prices to accelerate*

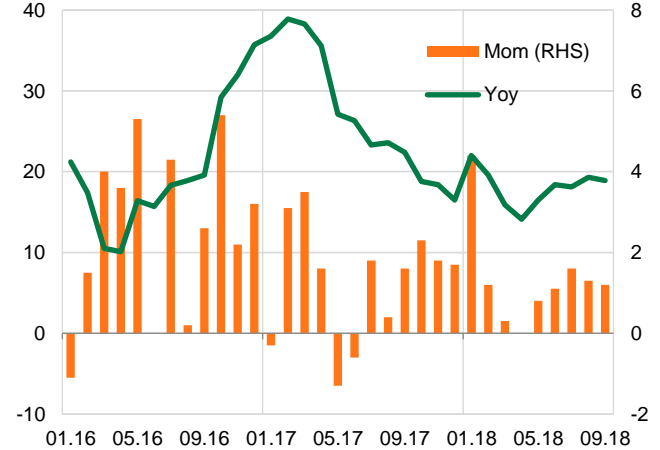
Fuel Price Indexes, % yoy



Source: SSSU, Thomson Reuters Datastream.

*In September 2018, producer price inflation slowed somewhat in annual terms ...*

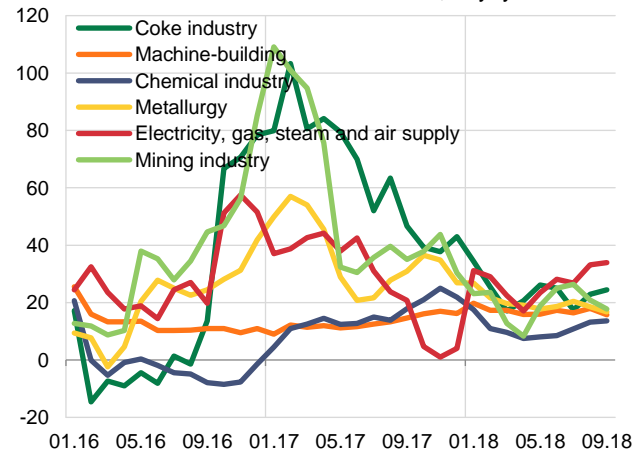
Producer Price Index, % yoy



Source: SSSU.

*... mainly due to lower growth rate of prices in the mining industry, which also impacted the next stages of the production process, in particular, metallurgy*

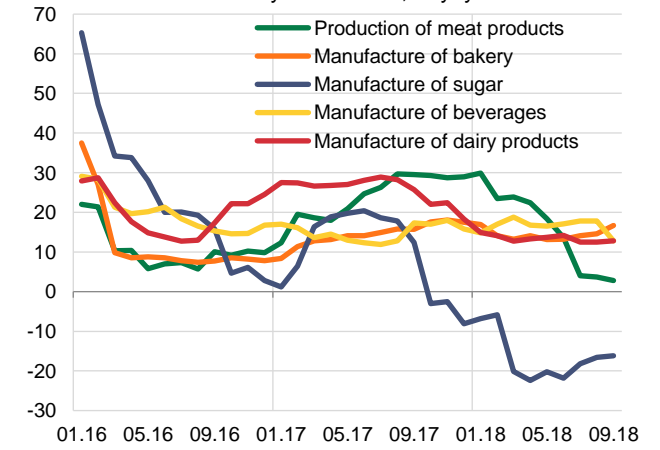
Producer Price Indexes in Select Industries, % yoy



Source: SSSU.

*Price growth in the food industry also accelerated slightly, led by prices in the manufacture of bread and farinaceous products*

Prices in the Food Industry Subsectors, % yoy



Source: SSSU.

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

	Share in CPI for 2018, %	2016	2017	% yoy			% mom September
				July	2018 August	September	
<b>CPI (NBU classification)</b>							
<b>Consumer Price Index</b>	<b>100.0</b>	<b>12.4</b>	<b>13.7</b>	<b>9.9</b>	<b>9.0</b>	<b>8.9</b>	<b>1.9</b>
<b>Core inflation</b>	<b>58.9</b>	<b>5.8</b>	<b>9.5</b>	<b>9.0</b>	<b>8.7</b>	<b>8.7</b>	<b>1.9</b>
<b>Non-core inflation</b>	<b>41.1</b>	<b>17.5</b>	<b>19.4</b>	<b>10.3</b>	<b>9.1</b>	<b>8.9</b>	<b>1.8</b>
Raw foods	18.6	1.2	23.5	5.2	1.7	0.8	2.0
Administered prices and tariffs	18.5	34.6	16.1	13.2	13.8	13.5	1.0
Fuels	4.0	19.5	20.0	18.1	19.7	22.7	5.4
<b>CPI (State Statistics Service of Ukraine classification)</b>							
<b>Food and non-alcohol</b>	<b>42.6</b>	<b>3.3</b>	<b>17.7</b>	<b>13.7</b>	<b>7.1</b>	<b>6.7</b>	<b>1.6</b>
<b>Alcohol, tobacco</b>	<b>8.3</b>	<b>22.5</b>	<b>20.7</b>	<b>19.4</b>	<b>17.9</b>	<b>15.7</b>	<b>0.8</b>
<b>Clothing and footwear</b>	<b>5.6</b>	<b>5.5</b>	<b>0.9</b>	<b>2.4</b>	<b>2.0</b>	<b>1.8</b>	<b>8.6</b>
<b>Housing, water, electricity, gas and other fuels incl.:</b>	<b>6.1</b>	<b>47.2</b>	<b>10.6</b>	<b>4.9</b>	<b>4.8</b>	<b>4.6</b>	<b>0.2</b>
Dwelling maintenance	0.3	11.5	47.5	37.2	24.1	22.2	0.0
Water supply	0.2	42.1	20.2	14.9	12.3	12.7	1.1
Hot water	0.2	82.9	0.9	-0.2	3.8	1.0	0.3
Natural gas	1.7	42.0	1.2	0.3	0.1	0.0	0.0
Central heating	1.1	89.3	3.8	3.8	0.7	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>13.7</b>	<b>16.2</b>	<b>17.7</b>	<b>2.8</b>
<b>Communication</b>	<b>3.1</b>	<b>4.0</b>	<b>9.1</b>	<b>8.7</b>	<b>9.0</b>	<b>10.9</b>	<b>2.1</b>
<b>Education</b>	<b>1.5</b>	<b>13.7</b>	<b>14.9</b>	<b>15.2</b>	<b>15.4</b>	<b>13.3</b>	<b>10.0</b>
<b>PPI</b>							
	Share in PPI for 2018, %**	2016	2017	% yoy			% mom September
				July	2018 August	September	
<b>Producer Price Index</b>	<b>100.0</b>	<b>35.7</b>	<b>16.5</b>	<b>18.4</b>	<b>19.3</b>	<b>18.9</b>	<b>1.2</b>
<b>Mining and quarrying</b>	<b>14.7</b>	<b>85.1</b>	<b>30.4</b>	<b>25.0</b>	<b>20.9</b>	<b>17.7</b>	<b>2.0</b>
Manufacturing of coal	2.5	40.4	47.8	25.3	20.4	15.6	0.2
Extraction of crude petroleum and natural gas	5.1	76.5	16.1	18.0	16.1	16.0	3.1
Mining of metal ores	6.0	107.2	29.3	29.2	23.5	17.5	1.9
<b>Manufacturing</b>	<b>65.7</b>	<b>22.6</b>	<b>18.5</b>	<b>13.6</b>	<b>13.7</b>	<b>13.5</b>	<b>1.8</b>
Manufacture of foods, beverages and tobacco products	21.2	16.2	12.5	9.6	8.9	9.2	2.2
Manufacture of coke, and refined petroleum products	3.9	61.7	43.0	25.0	22.9	22.4	3.3
Manufacture of chemicals and chemical products	2.8	-1.4	21.9	8.5	13.2	13.6	1.0
Manufacture of basic pharmaceutical products and pharmaceutical preparations	1.4	8.5	11.0	12.9	12.6	12.1	0.5
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.1	9.5	12.5	12.5	13.1	12.6	0.8
Manufacture of basic metals and fabricated metal products, except machinery and equipment	18.4	41.8	26.9	18.6	18.5	16.8	1.6
Manufacture of transport equipment	2.8	11.4	17.9	20.8	18.0	19.5	1.7
<b>Electricity, gas, steam and air-conditioning supply</b>	<b>19.6</b>	<b>51.5</b>	<b>4.0</b>	<b>28.1</b>	<b>33.2</b>	<b>33.9</b>	<b>-0.6</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  
 NBU – National Bank of Ukraine  
 NEER – Nominal Effective Exchange Rate  
 PPI – Producer Price Index  
 RHS – Right hand scale

SSSU – State Statistics Service of Ukraine  
 SPP, TPP – Solar and Thermal Power Plants  
 yoy – in annual terms; year-on-year change  
 mom – in monthly terms; month-on-month change