

In September 2019 consumer inflation slowed to 7.5% yoy (down from 8.8% in August). In monthly terms, prices grew by 0.7%. Actual inflation was below the projections published in the NBU's July 2019 Inflation Report. Core inflation, as well as administered prices and fuel prices, grew more slowly than expected – primarily due to the continued appreciation of the hryvnia. That outweighed the impact from raw food prices, which continued to grow faster than expected.

### Core Inflation

Core inflation slowed to 6.5% yoy in September, compared to 7.2% yoy in August. In monthly terms, core CPI increased by 1.2%.

Tight monetary policy, which was manifested in particular through the exchange rate channel, was a strong factor in holding back underlying price pressures. This was mainly reflected in the slower price increases for nonfood products with a high import share in their cost, down to 0.4% yoy. Specifically, prices for furniture, newspapers, textiles, stationery, pharmaceuticals, jewelry, bicycles, etc. increased more slowly. The prices of clothing and footwear remained at last year's levels, while cars, home appliances, and computer equipment became cheaper.

The growth in prices for processed foods decelerated slightly (to 8.4% yoy) as well – a reflection of benign FX market conditions, among other things. Slower growth was seen in the prices of pasta, chocolate, hard candy, and baby food. Prices for rice and dried fruit fell more steeply. The growth in bread prices slowed (to 16.9% yoy), which may reflect the slower increase in flour prices. The growth in the prices of meat products also slowed. Meanwhile, the prices of dairy products continued to grow rapidly (by 9.3% yoy) on the back of a decrease in the supply of raw milk and steady demand for high-quality milk.

The increase in prices for services decelerated in September (to 13.1% yoy) amid favorable FX market conditions and a slowdown in real wage growth. The prices of services with a high import share in their cost grew at a slower pace. These services include dry cleaning, repairs, cinema tickets, telecommunications, restaurants, manicure, tours and travel, and outpatient services. At the same time, the rate of increase in prices for services remained high, amid robust consumer demand and rising household incomes. For instance, prices for insurance services, financial services, and housing rentals, as well as housing maintenance fees, grew at an accelerated pace.

### Changes in Raw Food Prices

The growth in raw food prices decelerated in September (to 8.6% yoy). Increased supply slowed the growth in the prices of most vegetables, including onions, beetroot, cabbage and tomatoes, and drove the prices of carrots, cucumbers, and peppers lower. As with last month, potato prices bucked the trend, more than doubling compared to September 2018 due to a poor harvest of this crop.

The price slowdown was broad-based across animal farming products, in particular for all types of meat and milk, while egg prices declined further. The growth in flour prices decelerated, driven by the bumper harvest of wheat.

In contrast, fruit prices rose at a faster pace (by 14.6% yoy) due to a poorer harvest of apples and faster growth in the prices of citrus fruits.

### Changes in Administered Prices

The growth rates of administered prices decreased (to 14.1% yoy). Specifically, natural gas prices for households continued to decline (by 8.5% yoy), driven by a drop in global gas prices and changes in the government approach to setting gas tariffs for households<sup>1</sup>. Weaker growth was also recorded in the prices of alcoholic beverages, pre-school education, cold water supply and sewage, and postal services. At the same time, the growth in prices for tobacco products sped up (to 21.6% yoy) after excise taxes were raised on 1 July.

### Changes in Fuel Prices

Fuel prices continued to fall (by 8.2% yoy), driven by a drop in global oil prices and favorable conditions on Ukraine's FX market.

### Producer Price Inflation

In September producer price inflation slowed to 1.7% yoy, its lowest since the beginning of 2014. Over the month producer prices declined by 1.5%. The slowdown in the growth of producer prices primarily reflected a decline in global energy prices and the prices of most of Ukraine's other main export commodities, as well as the strengthening of the hryvnia. This was reflected in price declines for manufacturing products

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

that are sold outside Ukraine (prices declined by 7% yoy, compared to a 0.9% yoy increase in August).

Prices in the mining of metal ores grew significantly more slowly (by 8.2% yoy, down from 42.8% yoy in August), reflecting, with a certain lag, external market trends. Prices for metal products continued to decline (by 12.3% yoy), driven by a further fall in global steel prices.

As a result of a protracted decline in global energy prices, prices in the extraction of crude oil and natural gas fell more steeply, as did prices in the chemical industry and in the production of coke and petroleum products – sectors that heavily rely on energy in the manufacturing process. Meanwhile, the increase in prices for the supply of electricity, gas, steam, and air conditioning accelerated in September to 9.3% yoy, continuing to put upward pressure on producer

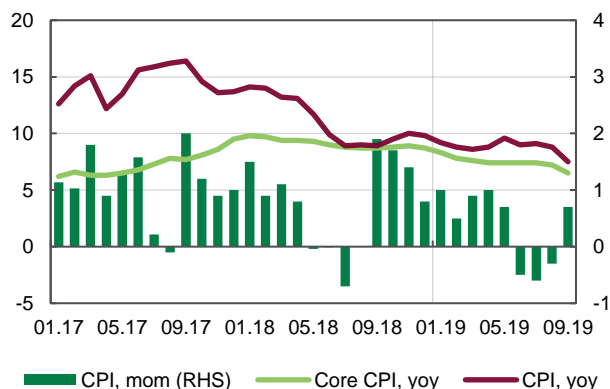
price inflation.

In addition, the slowdown in price growth in machinery (to 0.5% yoy), textile production (to 5.5% yoy), and the manufacture of rubber and plastic products (to 5.6% yoy) continued. Prices in the woodwork and timber industry decreased more steeply (by 3.8% yoy).

Price growth in the production of food, beverages, and tobacco products decelerated as well (to 3.1% yoy). In particular, price growth in the production of meat slowed (to 5.0% yoy) thanks to cheaper raw materials. In addition, the growth in prices in bread production decelerated (to 9.7% yoy), driven by lower flour prices. At the same time, price growth in the manufacture of dairy products continued to accelerate (to 11.2% yoy), fueled by strong demand for, and limited supply of, high-quality raw materials.

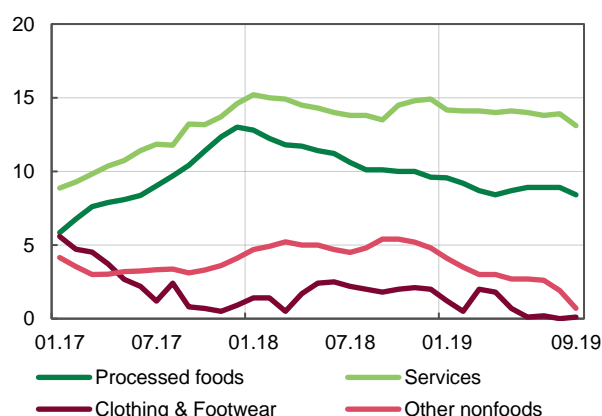
**Consumer inflation and core inflation declined in September 2019, in part due to tight monetary policy, which primarily manifested itself through the exchange rate channel**

Chart 1. Consumer Price Indices, %



Source: SSSU.

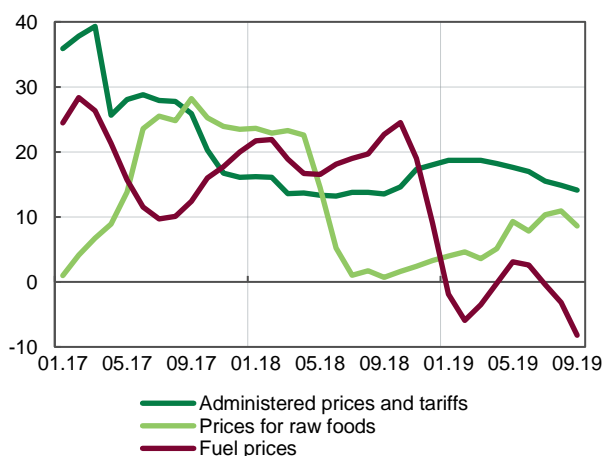
Chart 2. Main Core CPI Components, % yoy



Source: SSSU, NBU staff estimates.

**Noncore inflation decelerated because of slower growth in all of its components**

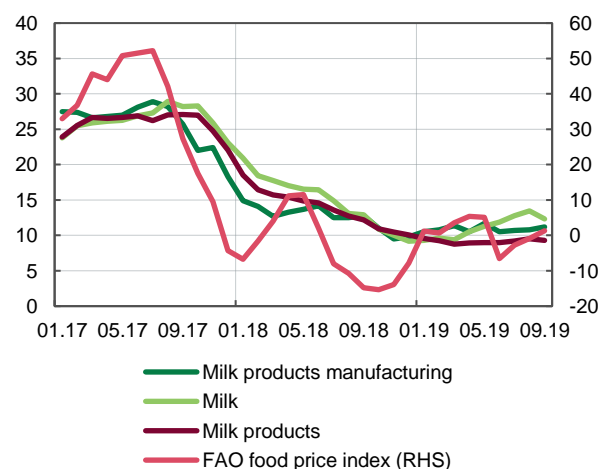
Chart 3. Main Components of Non-core CPI, % yoy



Source: SSSU.

**Sustained demand amid supply cuts continued to exert upward pressure on dairy prices**

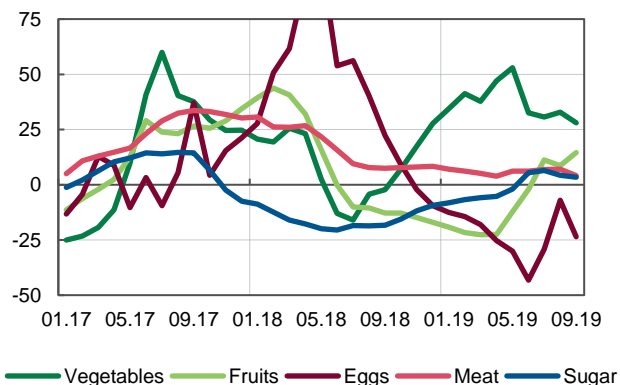
Chart 4. Prices for Milk Products, % yoy



Source: SSSU, NBU staff estimates, FAO.

**An ample supply of certain vegetables and weaker growth in prices for animal farming products dragged down raw food inflation**

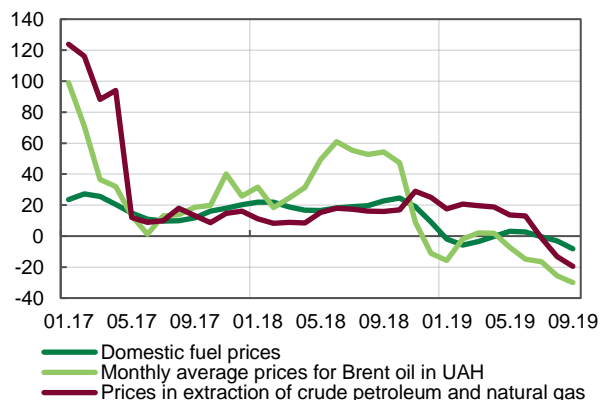
Chart 5. Prices for Selected Raw Food, % yoy



Source: SSSU.

**Fuel prices fell, driven by a drop in global oil prices and favorable conditions on Ukraine's FX market**

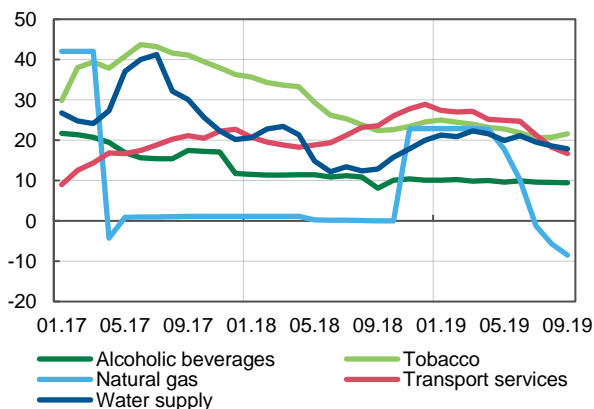
Chart 6. Fuel Price Indices, % yoy



Source: SSSU, Refinitiv.

**The lower price of natural gas for households was a significant contributor to the slowdown in the growth of administered prices**

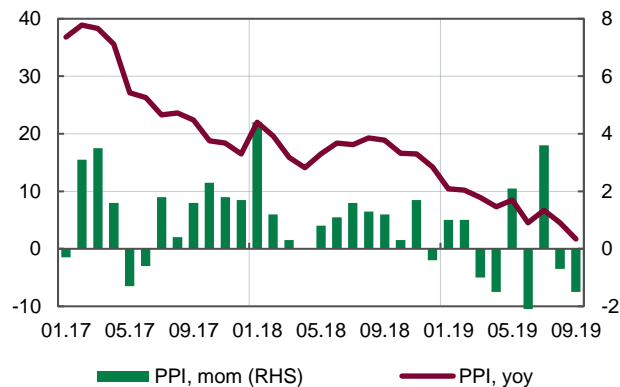
Chart 7. Administered Prices, % yoy



Source: SSSU.

**Producer price inflation slowed to its lowest since the beginning of 2014**

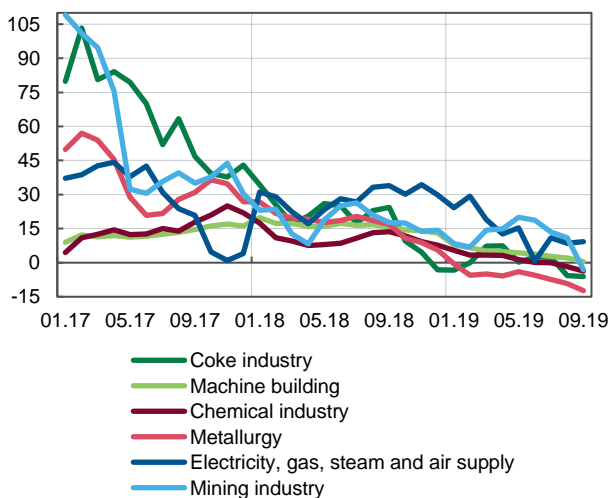
Chart 8. Producer Price Index, %



Source: SSSU.

**The reduction in prices in mining and manufacturing was driven by external market trends and a strengthening of the hryvnia**

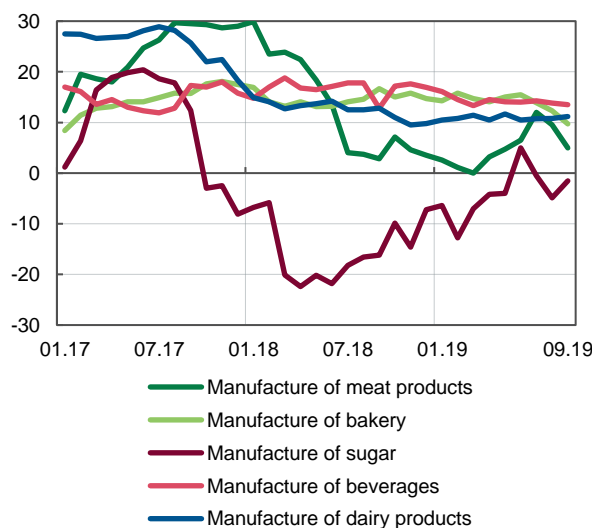
Chart 9. Producer Price Indices in Selected Industries, % yoy



Source: SSSU.

**Price growth in the food industry decelerated, driven by falling prices in the manufacture of meat products, bread, and beverages**

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, %	2017		2018		% yoy			%mom September 2019
		2017	2018	2019					
				July	Aug	Sep			
<b>CPI (NBU classification)</b>									
<b>Consumer Price Index</b>	<b>100.0</b>	<b>13.7</b>	<b>9.8</b>	<b>9.1</b>	<b>8.8</b>	<b>7.5</b>	<b>0.7</b>		
<b>Core inflation</b>	<b>59.3</b>	<b>9.5</b>	<b>8.7</b>	<b>7.4</b>	<b>7.2</b>	<b>6.5</b>	<b>1.2</b>		
<b>Non-core inflation*</b>	<b>40.7</b>	<b>19.4</b>	<b>10.7</b>	<b>11.7</b>	<b>11.3</b>	<b>9.4</b>	<b>0.1</b>		
Raw foods	20.0	23.5	3.3	10.3	10.9	8.6	-0.2		
Administered prices and tariffs	16.8	16.1	18.0	15.5	14.8	14.1	0.4		
Fuels	3.9	20.0	9.1	-0.4	-3.2	-8.2	-0.1		

<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>9.9</b>	<b>10.2</b>	<b>8.8</b>	<b>0.3</b>		
<b>Alcohol, tobacco</b>	<b>8.3</b>	<b>20.7</b>	<b>17.9</b>	<b>15.2</b>	<b>15.0</b>	<b>15.3</b>	<b>1.0</b>		
<b>Clothing and footwear</b>	<b>5.3</b>	<b>0.9</b>	<b>2.0</b>	<b>0.2</b>	<b>0.0</b>	<b>0.1</b>	<b>8.7</b>		
<b>Housing, water, electricity, gas and other fuels incl.</b>	<b>4.9</b>	<b>10.6</b>	<b>10.6</b>	<b>7.3</b>	<b>5.8</b>	<b>5.4</b>	<b>-0.2</b>		
Dwelling maintenance	0.2	47.5	23.7	9.2	8.9	9.5	0.5		
Water supply	0.1	20.2	19.9	19.5	18.6	17.9	0.5		
Hot water	0.2	0.9	3.2	16.6	15.4	15.0	0.0		
Natural gas	1.2	1.2	22.9	-1.3	-5.7	-8.5	-3.0		
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>6.8</b>	<b>4.6</b>	<b>1.3</b>	<b>-0.4</b>		
<b>Communication</b>	<b>3.1</b>	<b>9.1</b>	<b>15.1</b>	<b>16.1</b>	<b>17.0</b>	<b>14.5</b>	<b>-0.1</b>		
<b>Education</b>	<b>1.3</b>	<b>14.9</b>	<b>13.4</b>	<b>13.2</b>	<b>13.4</b>	<b>13.3</b>	<b>9.9</b>		

<b>PPI</b>									
	Share in PPI for 2019, %**	2017		2018		% yoy			%mom September 2019
		2017	2018	2019					
				July	Aug	Sep			
<b>Producer Price Index</b>	<b>100.0</b>	<b>16.5</b>	<b>14.2</b>	<b>6.7</b>	<b>4.5</b>	<b>1.7</b>	<b>-1.5</b>		
<b>Mining and quarrying</b>	<b>15.2</b>	<b>30.4</b>	<b>14.3</b>	<b>13.5</b>	<b>11.0</b>	<b>-3.1</b>	<b>-10.9</b>		
Manufacturing of coal	2.9	47.8	5.4	-4.6	-1.9	-4.0	-1.9		
Extraction of crude petroleum and natural gas	5.3	16.1	24.9	-1.2	-13.3	-19.5	-4.3		
Mining of metal ores	5.8	29.3	8.2	37.2	42.8	8.2	-22.9		
<b>Manufacturing</b>	<b>65.3</b>	<b>18.5</b>	<b>7.4</b>	<b>1.8</b>	<b>-0.1</b>	<b>-1.9</b>	<b>-0.1</b>		
Manufacture of foods, beverages and tobacco products	20.2	12.5	7.0	6.0	4.6	3.1	0.7		
Manufacture of coke, and refined petroleum products	3.9	43.0	-3.1	2.3	-5.7	-6.1	2.9		
Manufacture of chemicals and chemical products	2.7	21.9	7.7	-0.1	-1.8	-3.7	-1.0		
Manufacture of basic pharmaceutical products and pharmaceutical preparation	1.4	11.0	16.7	13.2	13.4	13.9	1.1		
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.2	12.5	12.6	7.6	6.7	5.6	-0.1		
Manufacture of basic metals and fabricated metal products, except machinery and equipment	18.5	26.9	5.6	-7.4	-9.2	-12.3	-1.8		
Manufacture of transport equipment	2.9	17.9	17.3	6.0	5.7	3.2	-0.8		
<b>Electricity, gas, steam and air-conditioning supply</b>	<b>18.5</b>	<b>4.0</b>	<b>29.8</b>	<b>10.9</b>	<b>8.6</b>	<b>9.3</b>	<b>0.0</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