



NATIONAL BANK OF UKRAINE

October 2016 Inflation Review

In October 2016, headline inflation stood at 2.8% m-o-m, in annual terms it accelerated to 12.4%.

The inflation reading was anticipated and in line with the NBU's inflation forecast published in the Inflation Report (October 2016). The forecast envisages a return of inflation to 12% y-o-y by the end of 2016.

Acceleration of inflation occurred on account of its non-core component, while inflationary pressures from fundamental factors remained subdued.

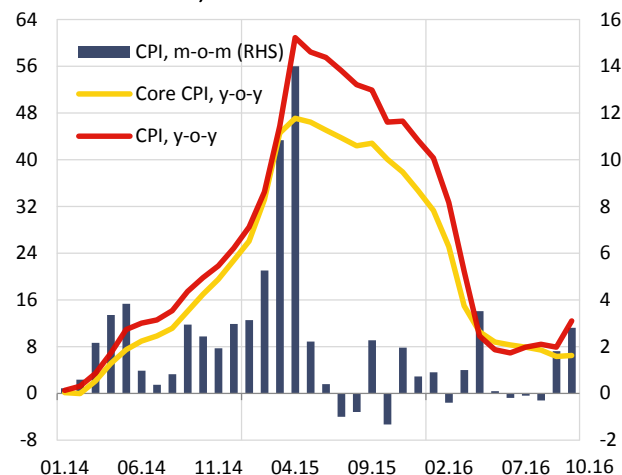
Thus, annual core inflation was 6.5% (0.9% m-o-m) in October, almost flat compared to September. The price increase for non-foods, mostly imported ones, has slowed down due to declining inflation expectations, moderate pass-through-effects of the depreciation of the hryvnia in August-September on consumer prices, as well as a high base of comparison. These price developments offset price increases for processed foods, which were driven by faster growth in raw food prices. The annual increase in the cost of services of core CPI in October remained almost unchanged.

The main driver of non-core inflation was administered prices and tariffs, which growth accelerated to 30.1% y-o-y (5.7% m-o-m). The acceleration was reported for a broad range of utility tariffs with a significant contribution of heating prices (up by 52.2% m-o-m and 82.1% y-o-y). The latter reflected July's upward tariff adjustment.¹ In addition, the annual rate of increase in gas prices went up to 42% as last year there were preferential tariffs in effect (in monthly terms, prices have not changed). Prices for tobacco products and alcoholic beverages also accelerated in annual terms.

Raw food inflation sped up to 4.5% y-o-y (stood at 2.9% m-o-m), driven primarily by supply side factors. Thus, prices for eggs rose sharply, reflecting stronger exports to Middle East countries in the previous months. As expected, the growth in prices for meat and meat products (except pork) sped up, reflecting a reduction in the livestock population and higher production costs. These factors, reinforced by an upturn in global food prices observed in previous months, have contributed to an increase in prices for milk and dairy products. The surge in prices for beef and dairy products was also supported by stronger external demand for Ukrainian products. The effect of the suspension of state price regulation for select socially important products, effective from 1 October 2016, is assessed as being moderate.

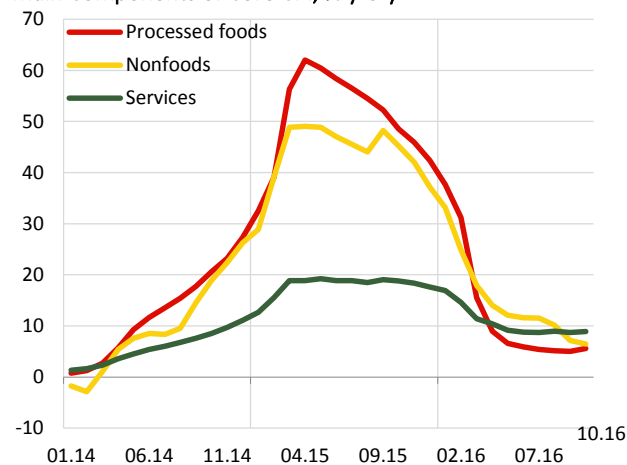
Fuel prices accelerated to 16.0% y-o-y (1.1% m-o-m), driven by a rise in global oil prices in late September and the first half of October following an OPEC agreement to freeze production. Price growth sped up for almost all fuels within CPI, except liquefied gas. Price growth in the latter slowed down

Inflation Indicators, %



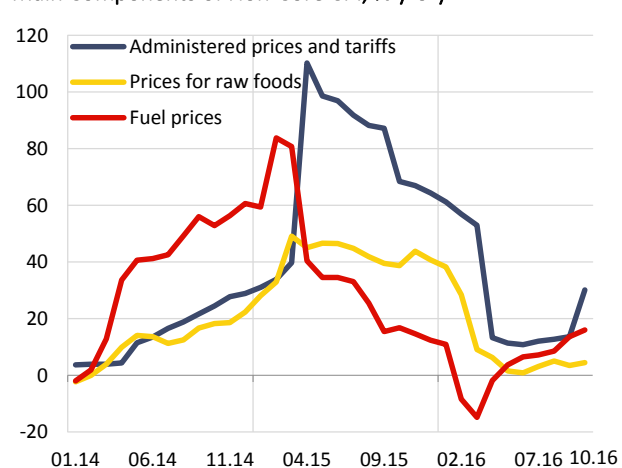
Source: State Statistics Service of Ukraine

Main Components of Core CPI, % y-o-y



Source: State Statistics Service of Ukraine; NBU staff estimates

Main Components of Non-Core CPI, % y-o-y



Source: State Statistics Service of Ukraine; NBU staff estimates

¹ Although heating tariffs were raised on 1 July 2016, their increase is reflected in CPI in the month in which the consumption of service at the new price commences, according to the methodology.

significantly on account of its narrowing deficit in the domestic market amid diversified supplies.

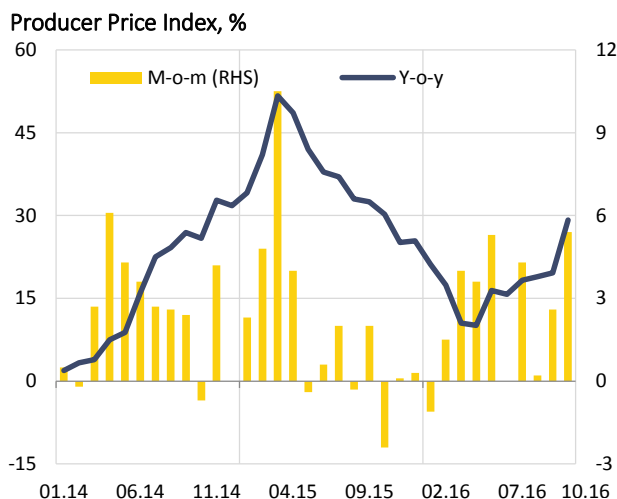
In October, producer price index growth accelerated significantly (to 29.2% y-o-y and 5.4% m-o-m), primarily reflecting the upward adjustment of electricity tariffs for industrial consumers. Thus, price growth for the category of “electricity, gas, steam and conditioned air” sped up significantly.

In addition, domestic producer prices were pressured upwards by ascending global commodity prices. In particular, prices in the mining industry grew at a high pace for the second consecutive month as a rise in global prices for coking coal and oil spurred an increase in domestic producer prices in the extraction of coal, crude oil, and natural gas. This had an upward impact on prices in the later stages of the production chain, including in the manufacture of coke and refined petroleum products, as well as metallurgy. Price growth in metallurgy also reflected the recent upswing in global prices for iron ore and scrap metal.

At the same time, the decline in prices in the chemical industry deepened amid descending global fertilizer prices.

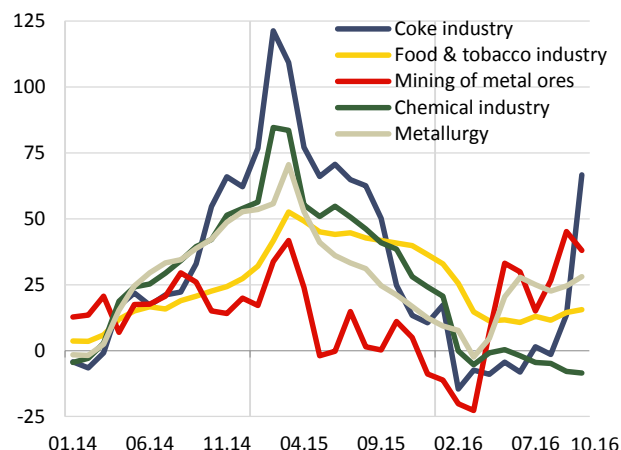
Price developments in the food industry were diverse. Thus, producer prices growth in meat production slowed due to lower purchasing prices for pigs in live weight. Annual producer price inflation in the manufacture of sugar also declined amid a high sugar beet harvest this year, although the improvement was restrained by a rebound in sugar exports. Meanwhile, producer price inflation sped up in the manufacture of bread due to increased production costs, as well as in the production of dairy products owing to rising global dairy prices and strengthened foreign demand for Ukrainian products. As a result, overall producer price growth in the food industry showed a modest upturn.

Given a relatively moderate price increase in the food industry, the impact of producer inflation on consumer price developments generally remained weak (for more details see [“Impact of Producer Price Inflation on Consumer Price Developments in Ukraine”](#) published in the Inflation Report for July 2016, pp. 16-17).



Source: State Statistics Service of Ukraine

Producer Price Index by Select Industries, % y-o-y



Source: State Statistics Service of Ukraine

The Review is a translation of the original Review 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.

CPI and PPI growth by components in 2015 - 2016													
CPI (NBU classification)													
	Share in CPI, %	y-o-y, %											October, m-o-m %
		2015	2016										
			January	February	March	April	May	June	July	August	September	October	
Consumer Price Index	100.0	43.3	40.3	32.7	20.9	9.8	7.5	6.9	7.9	8.4	7.9	12.4	2.8
Core inflation	46.8	34.7	31.3	25.1	15.0	10.6	8.8	8.3	7.9	7.4	6.3	6.5	0.9
Non-core inflation*	53.2	49.7	46.9	38.5	25.2	9.4	6.4	5.9	7.7	9.0	9.0	17.2	4.3
Raw foods	28.3	40.7	38.3	28.4	9.2	6.2	1.6	0.8	3.2	5.0	3.5	4.5	2.9
Administered prices and tariffs	22.5	64.4	61.2	57.0	53.0	13.3	11.4	10.9	12.0	12.7	13.6	30.1	5.7
Fuels	2.4	12.5	11.1	-8.2	-14.7	-1.9	3.7	6.5	7.2	8.6	13.6	16.0	1.1
CPI (State Statistics Service of Ukraine classification)													
Food and non-alcohol	50.8	41.5	38.1	29.7	11.4	6.9	3.9	3.2	4.4	5.1	4.2	4.9	1.8
Alcohol, tobacco	6.9	22.7	15.1	9.8	7.7	8.8	9.9	10.2	11.0	12.4	12.3	14.2	2.2
Clothing and footwear	7.1	35.0	31.5	26.1	23.0	19.6	18.4	18.2	19.7	17.1	9.2	8.1	2.5
Housing, water, electricity, gas and other fuels incl.:	11.3	103.0	103.4	100.8	104.3	17.0	13.3	12.1	13.8	14.3	15.8	44.4	7.5
Imputed rentals for housing	1.3	5.4	5.3	5.3	5.4	6.6	6.8	6.1	7.6	7.1	10.4	10.6	0.3
Water supply	0.0	23.0	36.5	36.3	37.0	37.2	28.6	19.9	17.7	27.9	29.8	37.1	5.7
Hot water	0.4	55.8	55.8	55.6	55.5	55.5	8.0	0.5	59.5	61.0	60.8	69.9	5.9
Natural gas	2.3	273.0	273.0	273.0	273.0	0.0	-4.3	-4.3	-4.3	-4.3	-4.3	42.0	0.0
Central heating	1.8	78.7	77.8	77.5	77.7	77.8	78.2	78.2	78.4	78.4	78.4	82.1	52.2
Transport	5.1	20.4	18.5	1.8	-4.2	2.5	5.1	5.2	5.4	6.0	8.5	10.0	0.8
Communication	3.3	7.0	6.7	5.8	4.2	4.7	4.2	4.1	3.9	3.7	3.2	1.5	0.0
Education	1.3	24.2	24.2	20.5	19.2	17.5	16.5	16.1	15.9	15.5	13.8	13.8	0.5
PPI													
	Share in PPI, %**	y-o-y, %											October, m-o-m %
		2015	2016										
			January	February	March	April	May	June	July	August	September	October	
Producer Price Index	100.0	25.4	21.2	17.4	10.5	10.1	16.4	15.7	18.3	18.9	19.6	29.2	5.4
Mining and quarrying	12.3	17.6	12.7	11.8	8.7	10.3	37.9	35.3	27.9	34.5	44.6	46.8	0.8
Manufacturing of coal	2.6	-0.8	3.5	21.5	20.7	21.2	20.7	11.0	9.9	7.9	2.5	15.3	6.4
Extraction of crude petroleum and natural gas	3.9	120.3	89.4	98.2	70.4	-11.5	47.5	51.0	51.0	52.2	65.3	72.4	5.2
Mining of metal ores	5.7	-8.9	-11.2	-20.1	-22.7	6.9	33.2	29.9	15.0	26.6	45.2	38.0	-3.2
Manufacturing	68.4	23.8	21.3	13.2	6.2	7.2	12.0	13.1	14.0	13.0	15.4	18.1	2.4
Manufacture of food products, beverages and tobacco products	23.6	36.4	32.9	25.5	14.7	11.3	11.6	10.7	13.0	11.5	14.4	15.5	1.5
Manufacture of coke, and refined petroleum products	3.5	4.7	-2.3	-20.6	-10.1	-13.4	-8.6	-6.6	8.8	5.9	23.2	52.5	22.7
Manufacture of chemicals and chemical products	4.3	24.2	20.6	-0.1	-5.3	-0.9	0.4	-1.9	-4.5	-4.9	-7.9	-8.5	-0.9
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.2	29.6	26.1	17.9	9.1	7.7	7.1	7.7	7.5	8.2	9.8	10.2	0.4
Manufacture of basic metals and fabricated metal products, except machinery and equipment	18.5	12.4	9.4	7.7	-2.4	4.6	20.4	27.8	25.0	22.6	24.5	28.1	2.1
Manufacture of transport equipment	2.6	15.5	22.1	13.0	11.9	13.3	15.2	10.3	11.3	11.3	12.1	11.5	-0.5
Electricity, gas, steam and air-conditioning supply	19.3	33.2	24.5	32.5	23.6	17.8	18.9	14.4	24.4	27.0	19.8	51.2	15.3

* 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.

** The shares of PPI components are NBU staff estimates based on the SSSU data on volume of industrial production by type of activity for 2015.