



NATIONAL BANK OF UKRAINE

October 2017 Inflation Review

In October 2017, consumer inflation decelerated to 14.6% yoy as expected. In monthly terms, the consumer price index rose 1.2%.

Actual inflation was close to the forecast published in the October 2017 Inflation Report.

Core inflation in September stood at 8.1% yoy (rose 1.2% mom). In particular, prices for services included in core inflation kept growing at a solid pace (13.2% yoy), driven by higher production costs and a pick-up in consumer demand. Also, prices for restaurants and hotels, financial, insurance, medical and tourist services accelerated. By contrast, prices for secondary education services, repair of household appliances, rentals for housing, etc. slowed down. In addition, prices for processed foods accelerated (to 11.4% yoy). In particular, prices for meat and dairy products continued to rise rapidly, reflecting secondary effects of higher prices for the corresponding raw foods.

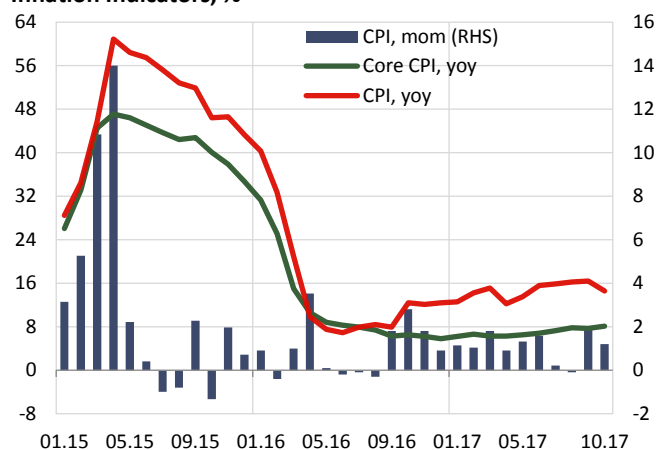
Also, the prices for a number of predominantly imported non-food products, including cars, pharmaceutical products, furniture, and heaters, slightly accelerated (up to 3.3% yoy) as the hryvnia weakened to foreign currencies in October. At the same time, prices for clothing and footwear slowed their pace of increase (to 0.7% yoy) with the exchange rate movements feeding into prices more slowly (as most clothing and footwear retailers make purchases a few months ahead of the start of the season).

Raw food prices decelerated to 25.3% yoy in October. Thus, prices for vegetables slowed down predictably (to 29.4% yoy) amid rising supplies of late harvest crops, primarily the borsch vegetables. Similarly, fruit prices decelerated (to 25.6% yoy), responding mainly to increased supplies of apples. In addition, growth in sugar prices slowed down as expected (to 6.6% yoy), while the fall in buckwheat prices deepened (to 18.3% yoy). Egg prices, despite a sharp rise compared to September, decelerated in annual terms (to 4.3% yoy) due to the high comparison base. At the same time, the growth rates of milk and meat prices remained high (at 28.3% yoy and 33.1% yoy, respectively). Prices for pig fat grew even faster (48.4% yoy), which could be attributed to smaller production volumes due to livestock reduction and a gradual increase in the share of meat varieties of pigs in animal breeding.

Growth in administered prices and tariffs decelerated (to 20.3% yoy) as expected due to a favorable comparison base as heating and hot water tariffs were raised in October last year. In addition, prices for alcoholic beverages (17.2% yoy), tobacco products (39.4% yoy) and transport services (20.5% yoy) slowed down. Meanwhile, prices for bread (19.5% yoy) and local telephone services (29.4% p/p) continued to accelerate driven by higher costs.

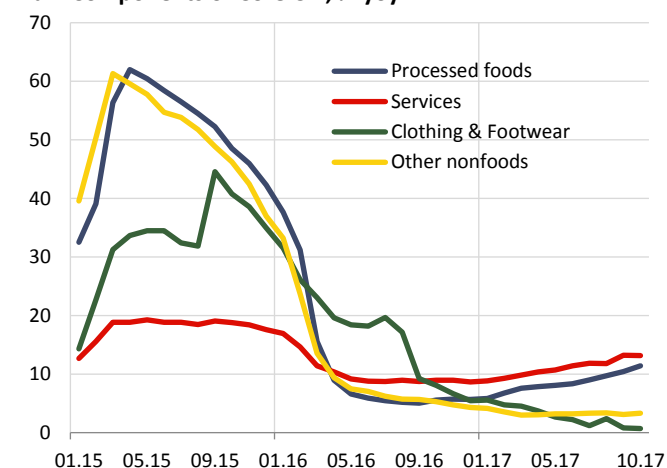
Fuel prices accelerated to 16.0% yoy as expected (up 4.4% mom). In particular, gasoline and diesel prices rose in October

Inflation Indicators, %



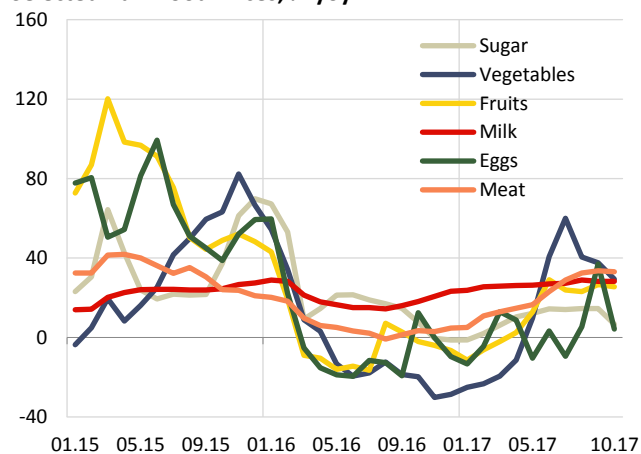
Source: SSSU

Main Components of Core CPI, % yoy



Source: SSSU; NBU staff estimates

Selected Raw Food Prices, % yoy



Source: State Statistics Service of Ukraine

due to both rising global oil prices and the euro's appreciation (since fuel excises are set in this currency).

In October 2017, the producer price index continued to decelerate (to 18.4% yoy). In monthly terms, prices grew 2.3%. In particular, prices in the supply of electric power, natural gas, steam, and conditioned air slowed down significantly (to 4.7% in October from 20.8% in September). This, among other factors, can be explained by the high share of nuclear power in the generation of electricity and the reduction of average prices for electricity produced by thermal power plants.

Also, prices in the food industry slowed down. This slowdown occurred primarily as a result of falling prices in sugar production (by 3.0% yoy) amid bountiful sugar beet harvest¹ and lower world prices. Apart from that, the price growth in dairy product production slowed down, which, however, was due to an increase in the comparison base (with external demand for products of Ukrainian production strengthening in autumn last year on the back of higher world prices). Similarly, the prices in the production of bakery and farinaceous products accelerated against the backdrop of higher costs.

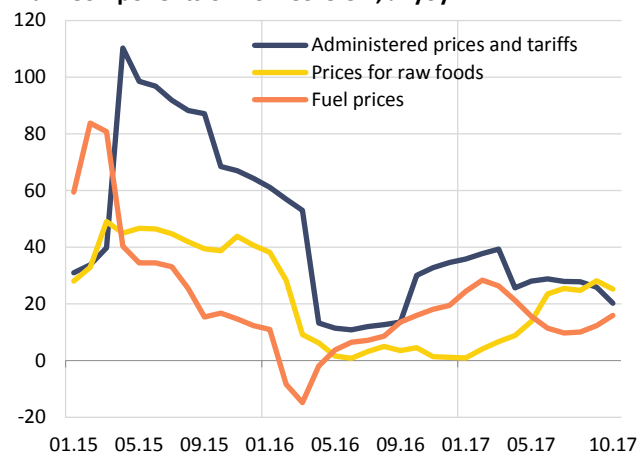
The prices in the mining industry slightly accelerated primarily driven by rising prices in metal ore mining (up 41.2% yoy). This stood in contrast to the opposite trends in world markets and can be attributed to reduced supply due to logistics difficulties and the closure of some iron ore mines in Ukraine. At the same time, the growth in prices in the mining industry was restrained by the slower price growth in crude oil and natural gas extraction (8.6% yoy) and coal mining (61.2% yoy) against a higher comparison base.

Accordingly, the price pattern at the later stages of production chains also reflected these trends. In particular, prices in coke and refined petroleum production continued to slow down (39.3% yoy), while prices in metallurgy accelerated to 36.5% yoy.

In addition, rising world prices for fertilizers led to an acceleration in prices in the chemical industry (up 21.0% yoy). Also, prices continued to accelerate in production of electrical equipment (up 22.3% yoy), which can be attributed to the rising external demand for graphite electrodes, as well as in transport equipment production (up 18.9% yoy) amid stronger demand.

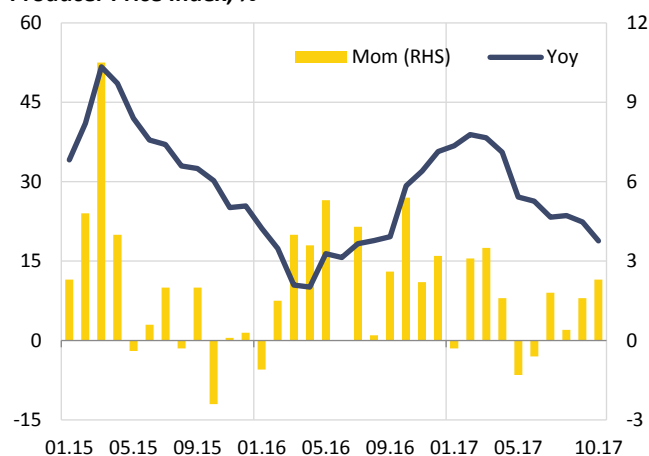
The Review is a translation of the original text in Ukrainian. In case of any discrepancies between the original document and its English translation, readers should consider the Ukrainian version of the Review as correct.

Main Components of Non-Core CPI, % yoy



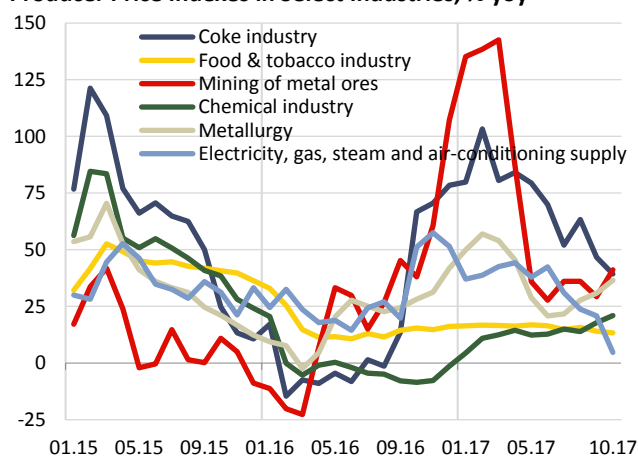
Source: State Statistics Service of Ukraine; NBU staff estimates

Producer Price Index, %



Source: State Statistics Service of Ukraine

Producer Price Indexes in Select Industries, % yoy



Source: State Statistics Service of Ukraine

¹ Despite slightly lower yields (according to the data of the Ministry of Agrarian Policy and Food as of 03.11.2017), the crop of sugar beets is expected not less than last year due to a larger sown area this year.

CPI and PPI growth by components in 2015 - 2017														
CPI (NBU classification)														
	Share in CPI for 2017, %	yoy, %												October, mom %
		2015	2016	2017** †										
				January	February	March	April	May	June	July	August	September	October	
Consumer Price Index	100.0	43.3	12.4	12.6	14.2	15.1	12.2	13.5	15.6	15.9	16.2	16.4	14.6	1.2
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	8.1	1.2
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	21.9	1.1
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	25.3	0.5
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	20.3	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	16.0	4.4
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	18.0	1.1
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	24.7	1.3
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	0.7	2.4
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	15.2	0.5
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	46.7	0.4
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	25.6	2.1
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	8.5	0.3
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	1.2	0.0
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	25.0	0.1
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	28.1	0.0
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	14.4	2.4
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	10.6	0.8
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	15.4	0.2
PPI														
	Share in PPI for 2017, %***	yoy, %												October, mom %
		2015	2016	2017										
				January	February	March	April	May	June	July	August	September	October	
Producer Price Index	100.0	25.4	35.7	36.8	38.9	38.3	35.6	27.1	26.3	23.3	23.6	22.4	18.8	2.3
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	37.8	2.8
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	61.2	0.6
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	8.6	0.8
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	41.2	5.7
Manufacturing	65.1	23.8	22.6	25.6	28.9	27.5	25.4	21.1	18.7	17.8	20.1	19.9	20.7	3.1
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	13.3	0.8
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	39.3	16.5
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	21.0	1.7
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	10.3	0.9
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	11.7	0.7
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	36.5	6.5
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	18.9	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	4.7	-0.1

* 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.