

In October 2018, consumer price inflation accelerated to 9.5% yoy, up from 8.9% yoy in September. In monthly terms, prices grew by 1.7%.

In October, the Consumer Price Index (CPI) was in line with the NBU's forecast published in its [October 2018 Inflation Report](#). As expected, the underlying inflationary pressure remained high due to increased costs, including labor costs, and the sustained domestic demand. In addition, the higher global fuel and grain prices expectedly exerted the upward pressure on domestic prices.

Core inflation accelerated slightly in October, to 8.8% yoy. The underlying price dynamics primarily reflected the rise in services prices (to 14.5% yoy), driven by the further growth in production costs, wages in particular, and the pressure from consumer demand. Specifically, growth accelerated in the services prices of hair salons, cable TV, some types of home repairs and maintenance, mobile communication, etc. In addition, growth in the costs of the mobile communication services sharply accelerated (to 21.5% yoy from 13.7% yoy in the previous month). This may be attributed to a change in the terms of the tariff plans of mobile operators.

Prices for non-food goods rose a steady 4.5% yoy in October. Prices for some durable goods (in particular, TV sets and mobile phones) dropped, offsetting the increase in prices of other durables (materials for the repair of the dwelling, jewelry, etc.). Prices for clothing and footwear grew at a slightly faster pace than in the previous month (2.0% yoy), as did prices for goods for routine household maintenance and cosmetics.

The pace of growth for processed food prices, at 10.0% yoy, barely changed in October. On one hand, higher flour prices boosted growth in prices of pasta, confectionery, and sweet baked goods. On the other hand, prices for meat and dairy products grew at a slower pace (12.2% yoy and 10.7% yoy, respectively) due to the slowdown in raw food prices, amid increased supply and lower global prices.

Raw food prices rose a faster 1.6% yoy in October. Thus, the growth in flour prices accelerated (to 20.7% yoy), due both to the higher global prices and to the limited supply of quality grains. In addition, in October, prices of borschh vegetables continued to accelerate (to 29.1% yoy), driven by the persisting shortage of these vegetables in the first half of the month due to a later harvest season. However,

prices of vegetables increased a less than expected 7.1% yoy, in part, due to the larger supply of greenhouse vegetables. In addition, prices for peppers, eggplants and garlic remained cheaper than last year. The lower fruit prices kept a lid on raw food prices (12.8% yoy) owing to the bountiful harvest of apples. Also, the growth in egg and milk prices slowed down (to 9.2% yoy and 9.9% yoy, respectively) on the back of the similar trends in external markets.

Administered prices grew at a faster pace (14.6% yoy). The increase in minimum prices spurred prices of alcoholic drinks. The rise in fuel prices and the persisting pressure from labor costs resulted in higher fares for road passenger transport. A rise in fares for minibuses, suburban and intercity buses added to the increases in city transport fares. Furthermore, Ukrzaliznytsia PJSC, effective October 1, conducted the second stage of the phased indexation, raising fares for railroad passenger transport by 12% (15.4% yoy). Also, the rise in [postal tariffs](#) since September 10, 2018 was partially felt in October, according to the SSSU methodology (the overall increase in tariffs for postal services in the CPI accelerated to 75.0% yoy).

Fuel prices advanced, posting a 24.5% rise yoy amid surging global oil prices and the hryvnia weakening seen in the previous periods.

In October 2018, producer price inflation continued to decline (down to 16.6% yoy from 18.9% yoy in September). Month-on-month, the producer price index rose by 0.3%.

Slower price growth in electricity, gas, steam and air-conditioned air supply (30.1% yoy) prompted the slowdown in annual producer price inflation. In particular, TPP electricity rates went down due to a decrease in [regulatory coefficients](#), in part owing to the favorable weather conditions in October. In addition, the pace of growth for HPP electricity prices decreased due to the adjustment of electricity tariffs by Ukrhydroenergo PJSC¹.

The manufacturing industry saw a marked deceleration in price growth (to 11.3% yoy) on the back of the respective developments on global commodity markets. Specifically, weaker global steel prices contributed to a price growth slowdown in metallurgy (to 10.8% yoy). At the same time, global iron ore prices recovered, which, however, did not pass through to the domestic prices in the production of

¹ NERC resolutions No. [1486](#) dated 28.12.2017 and No. [1219](#) dated 16.10.2018.

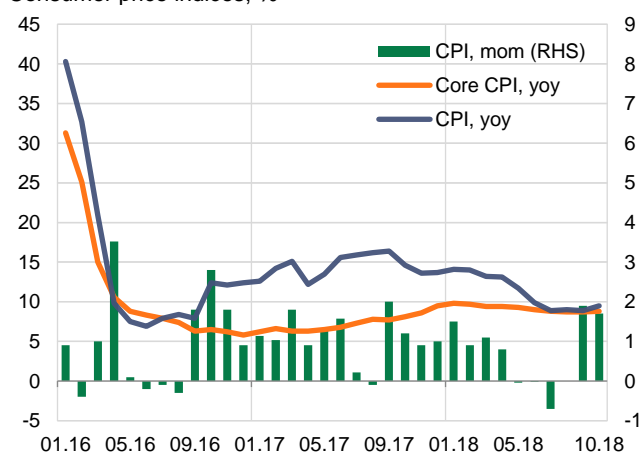
metal ores (the price increase was down to 17.0% yoy). Prices were rising at a slower pace in coal mining (14.6% yoy) and, correspondingly, in manufacturing of coke and refined petroleum products (9.5% yoy), reflecting the slowdown in the imported coal prices. A notable deceleration in global fertilizer prices contributed a slowdown in domestic chemical industry prices (to 11.8% yoy). Growth in prices in machine building continued to ease (to 14.5% yoy). In particular, price growth in production of electrical equipment moderated (to 14.4% yoy) against a favorable comparison base due to the last year's shortage of graphite electrodes in global markets.

At the same time, pharmaceuticals production recorded a faster increase in prices (to 14.2% yoy), possibly due to increased production costs, including wages.

Price growth in food, beverages and tobacco production continued to accelerate (to 9.6% yoy). This primarily reflected faster price growth in beverage production (up to 17.2% yoy), especially, the firm increase in alcohol prices. In addition, the decline in sugar prices moderated markedly due to the fading effect of the base of comparison (9.9% yoy). Instead, prices for dairy products grew at a slower pace compared to the previous month (11.0% yoy versus 12.8% yoy in September).

In October 2018, headline and core inflation accelerated

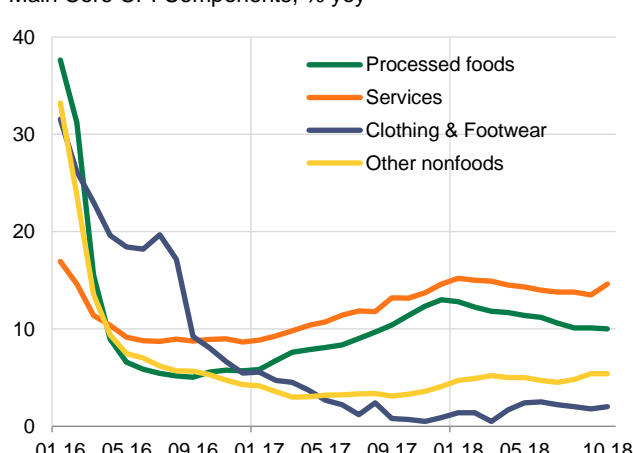
Consumer price indices, %



Source: SSSU.

Core inflation was driven by further acceleration in production costs and consumer demand pressure, which was primarily seen in the faster pace of growth in service prices

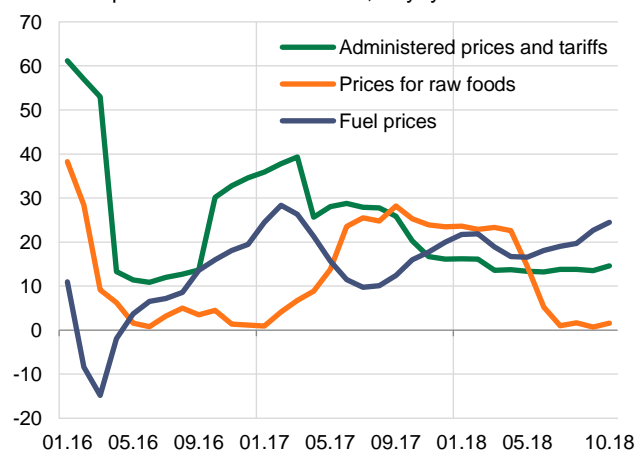
Main Core CPI Components, % yoy



Source: SSSU, NBU staff estimates.

Non-core inflation also rose on account of faster growth in all of its components

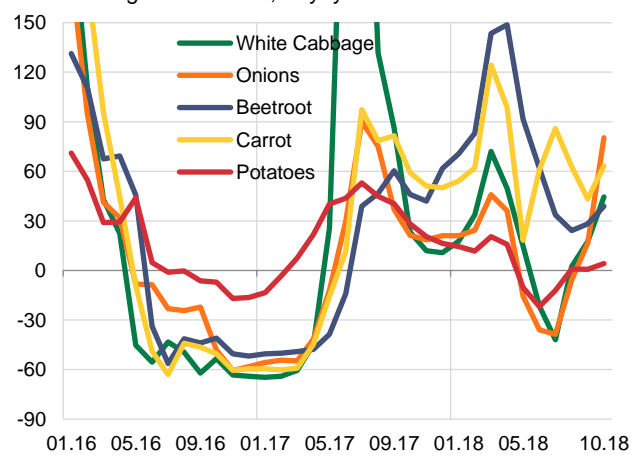
Main Components of Non-Core CPI, % yoy



Source: SSSU, NBU staff estimates.

The rapid increase in borschch vegetable and sugar prices contributed significantly to the growth in raw food prices, offsetting ...

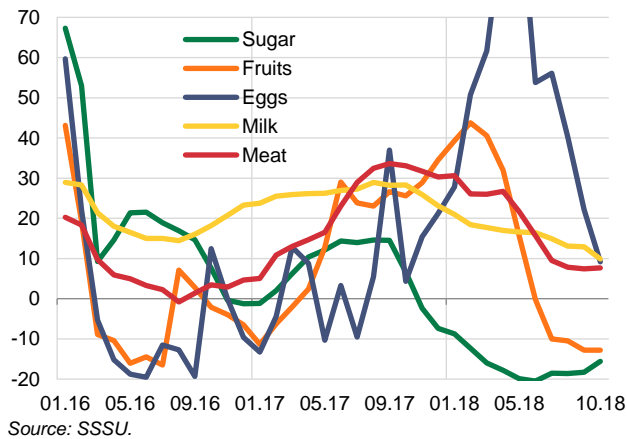
Borschch Vegetable Prices, % yoy



Source: SSSU.

... slower growth in prices for other raw foods due to their larger supply

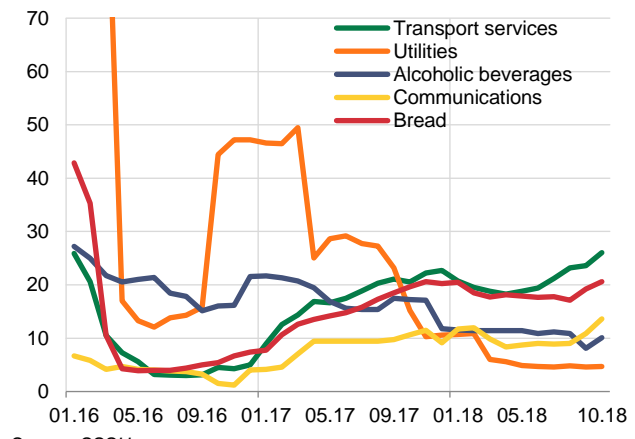
Selected Raw Food Prices, % yoy



Source: SSSU.

Growth in administered prices accelerated, led by prices for alcoholic beverages, tariffs for postal and transport services

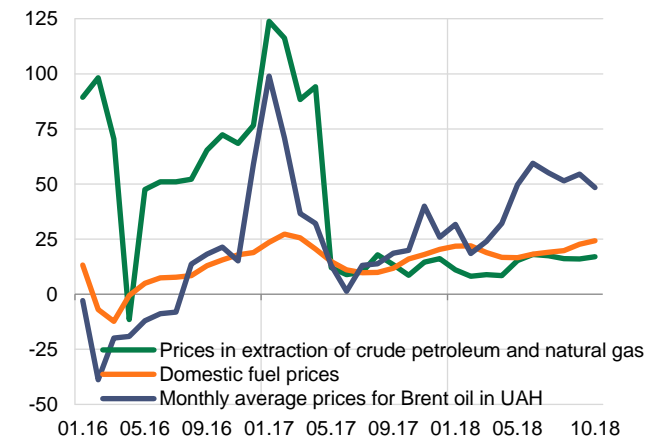
Administered Prices and Utility Tariffs, % yoy



Source: SSSU.

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

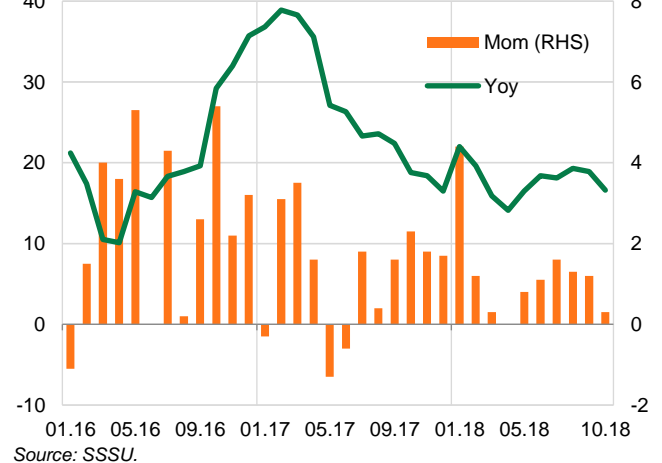
Fuel Price Indexes, % yoy



Source: SSSU, Thomson Reuters Datastream.

In October 2018, producer price inflation continued to slow down in annual terms ...

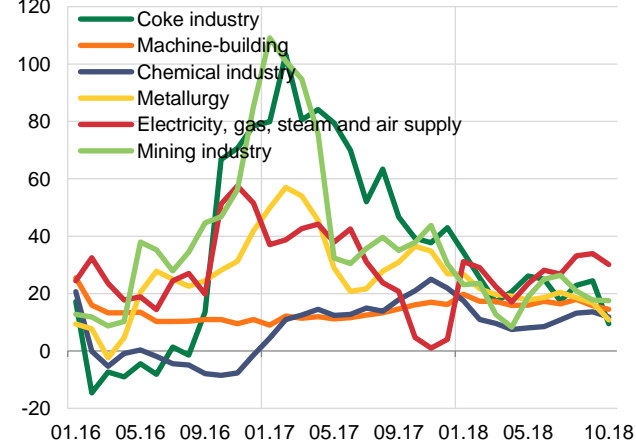
Producer Price Index, % yoy



Source: SSSU.

... mainly due to the slower pace of price growth in the energy supply, as well as in selected sectors of the manufacturing industry

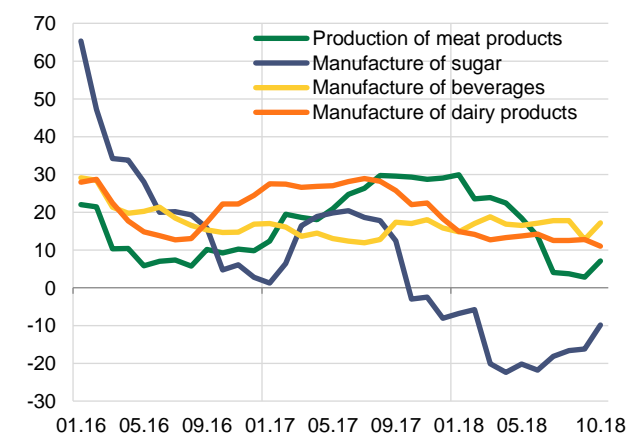
Producer Price Indexes in Select Industries, % yoy



Source: SSSU.

Price growth in the food industry accelerated, mostly due to rising prices for beverage production and slower decline in prices for sugar production

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 October
				August	2018 September	October	
CPI (NBU classification)							
Consumer Price Index	100.0	12.4	13.7	9.0	8.9	9.5	1.7
Core inflation	58.9	5.8	9.5	8.7	8.7	8.8	1.3
Non-core inflation	41.1	17.5	19.4	9.1	8.9	9.8	2.1
Raw foods	18.6	1.2	23.5	1.7	0.8	1.6	1.3
Administered prices and tariffs	18.5	34.6	16.1	13.8	13.5	14.6	1.9
Fuels	4.0	19.5	20.0	19.7	22.7	24.5	6.0

CPI (State Statistics Service of Ukraine classification)

Food and non-alcohol	42.6	3.3	17.7	7.1	6.7	7.0	1.4
Alcohol, tobacco	8.3	22.5	20.7	17.9	15.7	16.9	2.3
Clothing and footwear	5.6	5.5	0.9	2.0	1.8	2.0	2.6
Housing, water, electricity, gas and other fuels incl.:	6.1	47.2	10.6	4.8	4.6	4.7	0.6
Dwelling maintenance	0.3	11.5	47.5	24.1	22.2	23.4	1.4
Water supply	0.2	42.1	20.2	12.3	12.7	15.7	4.8
Hot water	0.2	82.9	0.9	3.8	1.0	0.9	0.3
Natural gas	1.7	42.0	1.2	0.1	0.0	0.0	0.0
Central heating	1.1	89.3	3.8	0.7	3.8	4.0	0.3
Electricity	1.0	60.0	28.1	0.0	0.0	0.0	0.0
Transport	11.8	11.4	16.7	16.2	17.7	18.5	3.1
Communication	3.1	4.0	9.1	9.0	10.9	13.6	3.3
Education	1.5	13.7	14.9	15.4	13.3	13.2	0.1

PPI

	Share in PPI for 2018, %**	2016	2017	% yoy			% mom October
				August	2018 September	October	
Producer Price Index	100.0	35.7	16.5	19.3	18.9	16.6	0.3
Mining and quarrying	14.7	85.1	30.4	20.9	17.7	17.5	2.7
Manufacturing of coal	2.5	40.4	47.8	20.4	15.6	14.6	-0.2
Extraction of crude petroleum and natural gas	5.1	76.5	16.1	16.1	16.0	17.0	1.7
Mining of metal ores	6.0	107.2	29.3	23.5	17.5	17.0	5.2
Manufacturing	65.7	22.6	18.5	13.7	13.5	11.3	1.1
Manufacture of foods, beverages and tobacco products	21.2	16.2	12.5	8.9	9.2	9.6	1.2
Manufacture of coke, and refined petroleum products	3.9	61.7	43.0	22.9	22.4	9.5	2.6
Manufacture of chemicals and chemical products	2.8	-1.4	21.9	13.2	13.6	11.8	0.1
Manufacture of basic pharmaceutical products and pharmaceutical preparations	1.4	8.5	11.0	12.6	12.1	14.2	2.8
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.1	9.5	12.5	13.1	12.6	13.0	1.1
Manufacture of basic metals and fabricated metal products, except machinery and equipment	18.4	41.8	26.9	18.5	16.8	10.8	1.0
Manufacture of transport equipment	2.8	11.4	17.9	18.0	19.5	19.0	0.1
Electricity, gas, steam and air-conditioning supply	19.6	51.5	4.0	33.2	33.9	30.1	-2.9

* 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
 NERC – The National Commission for State Regulation in the Energy and Utilities
 PPI – Producer Price Index
 RHS – Right hand scale

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