



NATIONAL BANK OF UKRAINE

November 2017 Inflation Review

In November 2017, consumer inflation predictably decelerated to 13.6% from 14.6% yoy. In monthly terms, the consumer price index also decelerated to 0.9% from 1.2% in October.

Actual inflation came in above the forecast published in the October 2017 Inflation Report due to a faster increase in food prices.

Core inflation in November ran at 8.6% yoy (rose 1.0% mom). Prices for processed foods grew more than expected (12.3% yoy), reflecting secondary effects of higher prices for the corresponding raw foods. In particular, price growth for meat products accelerated (to 20.7% yoy) and price growth for dairy products remained strong, rising 24.7% yoy.

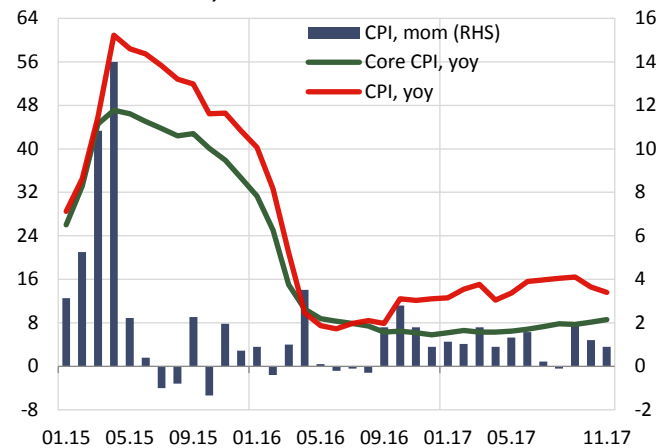
Price growth for services included in core inflation also accelerated (to 13.7% yoy), driven by higher production costs and a pick-up in consumer demand. In particular, costs of communication, culture, restaurants and hotels, financial, insurance and medical services grew faster than in the previous month.

Also, price growth for most of predominantly imported goods (primarily, pharmaceuticals, medical products, home appliances, furniture, goods for maintenance of household cleanliness and personal care), slightly accelerated (to 3.6% yoy) as the hryvnia weakened to foreign currencies in October-November. At the same time, prices for clothing and footwear slowed their pace of increase as in previous months (to 0.5% 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 in November (to 23.9% yoy), however, also slightly exceeded the forecast. Thus, milk and meat prices grew faster than expected (25.9% yoy and 31.8% yoy, respectively) despite their expected slowdown in comparison to previous months. Price growth for vegetables slowed down predictably (to 24.6% yoy) amid rising supplies of late harvest crops, primarily the borsch vegetables. In addition, sugar price growth eased (to 2.4% yoy) amid low world prices and ample supply in the domestic market, while a good harvest continued to weigh on buckwheat prices, which fell 24.2% yoy. Instead, fruit prices accelerated (increased 28.9% yoy), primarily due to higher citrus prices than last year. Also, egg prices rose faster (15.4% yoy) amid growing external demand and expanding exports of Ukrainian poultry¹.

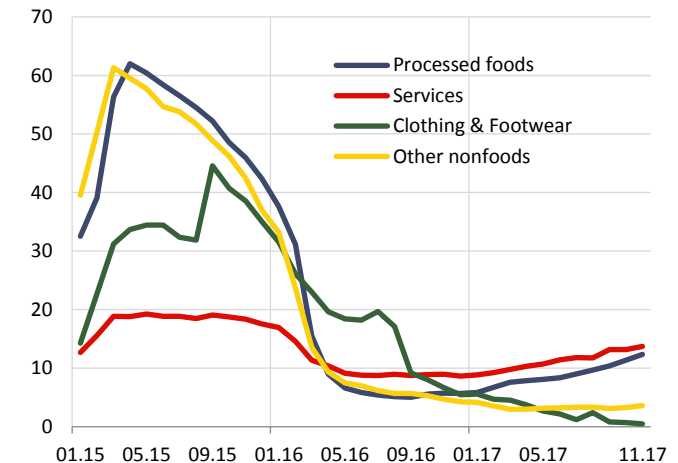
Growth in administered prices and tariffs decelerated, as expected (to 16.7% yoy) due to a favorable comparison base as heating and hot water tariffs were raised in October-November last year. In addition, prices for alcoholic beverages, tobacco products and railway transport services slowed down.

Inflation Indicators, %



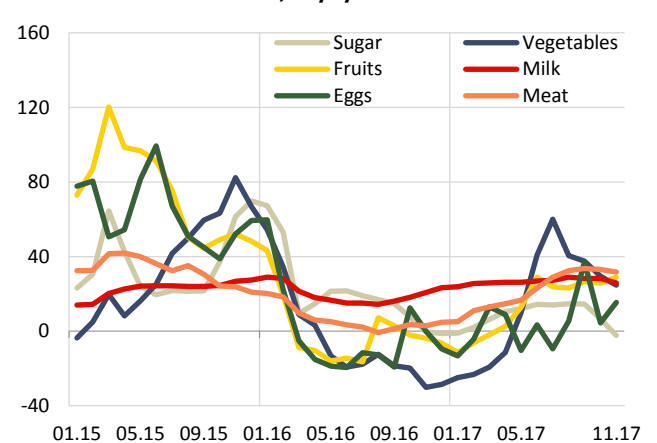
Source: SSSU

Main Components of Core CPI, % yoy



Source: SSSU; NBU staff estimates

Selected Raw Food Prices, % yoy



Source: State Statistics Service of Ukraine

¹ During 2017, Ukrainian producers continued to receive permits for the export of food products of animal origin to the EU. In particular, in September, among such companies was one of the largest egg producers. In addition, in early November, Saudi Arabia lifted a ban on the Ukrainian poultry imports.

Meanwhile, prices for bread and road transportation services continued to accelerate driven by higher costs.

The growth in fuel prices (17.7% yoy) also turned out to be faster than forecast, due to both rising global oil prices and hryvnia weakening against euro (fuel excises are set in euro).

In November 2017, the producer price index continued to decelerate (to 18.4% yoy). In monthly terms, prices grew 1.8%. As in the previous month, a slower growth in prices in the supply of electric power, natural gas, steam, and conditioned air was the main factor behind the slowdown in the annual producer price inflation (to 1.0% from 4.7% in October). This, among other factors, can be attributed to a slump in the average price of electricity produced by hydroelectric power stations amid higher water levels in the rivers and the inflow to the reservoirs than the respective norms, as well as the high share of nuclear power generation in the overall electricity production. Also, the average prices for electricity produced by thermal power plants was lower than last year.

Price growth in the food industry remained almost unchanged at 13.5% yoy. Thus, prices in meat production slowed down somewhat (to 28.7% yoy), and prices in sugar production kept falling (by 2.5% yoy). However, this was fully offset by a slightly faster rate of increase in prices in the manufacture of dairy products due to robust external demand, and, also, by the acceleration in prices in the production of beverages and farinaceous products (18.0% yoy and 18.1% yoy, respectively) owing to higher costs.

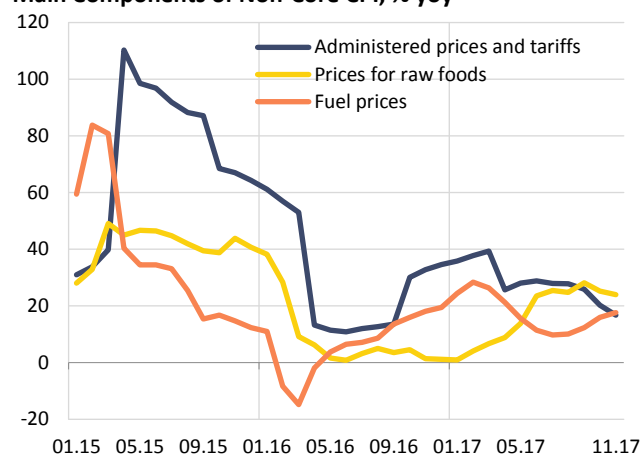
Prices in the mining industry accelerated significantly (to 43.8% yoy). In particular, the rate of inflation in coal mining increased (to 75.3% yoy), including due to the raised sale prices of coal from state mines for thermal generation. In addition, price growth in the extraction of metal ores and crude oil accelerated (to 46.9% yoy and 14.6% yoy, respectively) driven by rising world prices. However, the price changes in the mining industry still have had no effect on price developments at the later stages of production chains. In particular, price growth in coke and refined petroleum production continued to slow down (to 37.5% yoy), and decelerated in metallurgy (to 34.8% yoy), including due to a higher comparison base.

Price growth in the chemical industry accelerated (to 25.0% yoy), primarily due to fertilizer prices amid high agricultural sector demand and certain import restrictions.

Also, price growth continued to accelerate in transport equipment production (to 20.6% yoy) and machine building (to 17.0% yoy) amid stronger demand.

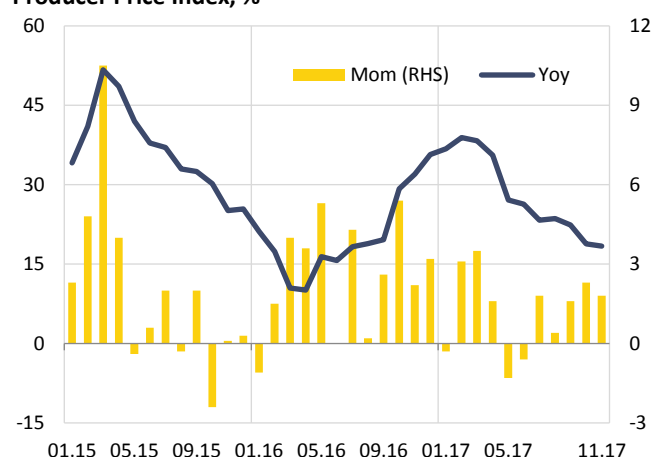
The Review is a translation of the original text in Ukrainian. In case of any discrepancies between the original document and its English translation, readers should consider the Ukrainian version of the Review as correct.

Main Components of Non-Core CPI, % yoy



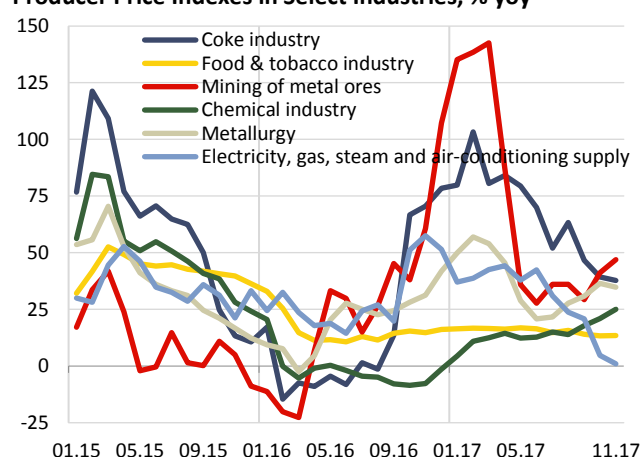
Source: State Statistics Service of Ukraine; NBU staff estimates

Producer Price Index, %



Source: State Statistics Service of Ukraine

Producer Price Indexes in Select Industries, % yoy



Source: State Statistics Service of Ukraine

CPI and PPI growth by components in 2015 - 2017															
CPI (NBU classification)															
	Share in CPI for 2017, %	yoy, %													November, mom %
		2015	2016	2017** *											
				January	February	March	April	May	June	July	August	September	October	November	
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	13.6	0.9
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	8.6	1.0
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	19.7	0.8
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	23.9	0.1
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	16.7	0.9
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	17.7	3.2
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	13.6	0.9
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	23.8	0.6
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	0.5	-0.7
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	10.3	0.8
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	47.9	1.2
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	22.3	0.3
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	2.1	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	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	2.8	2.5
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	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	15.4	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	11.5	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	15.1	0.2
PPI															
	Share in PPI for 2017, %***	yoy, %													November, mom %
		2015	2016	2017											
				January	February	March	April	May	June	July	August	September	October	November	
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	18.4	1.8
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	43.8	8.9
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	75.3	8.7
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	14.6	3.4
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	46.9	14.1
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	20.7	1.0
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	13.5	1.1
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	37.5	1.9
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	25.0	2.2
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	10.4	0.7
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	12.1	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	34.8	0.6
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	20.6	0.8
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	1.0	0.8

* 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.