

**In November 2018, consumer price inflation accelerated to 10.0% yoy.** Prices rose by 1.4% mom.

In November, inflation was close to the NBU's forecast published in the [October 2018 Inflation Report](#). A slight increase in the core inflation readings and the rate of growth in administered prices was almost completely offset by a slower pace of growth in the prices of raw foods.

**Core inflation sped up 8.9% yoy in November.** In monthly terms, the core CPI grew by 1.1%. The rise primarily reflected the acceleration in the annual rate of services price inflation (to 14.8% yoy), driven by further increases in production costs, wages in particular, and pressure from consumer demand. This includes the higher cost of services such as package holidays, chemical cleaning, laying ceramic tiles, hospitals, sports facilities, hairdressers, ritual services, etc.

Prices for processed foods grew a steady 10.0% yoy. Prices for pasta, confectionaries and flour products accelerated due to higher flour prices and the rise in other production costs. At the same time, this acceleration was counterbalanced by slower growth in the prices of other food products. More specifically, prices for meat and dairy products rose at a slower pace (11.9% yoy and 10.5% yoy, respectively) on the back of a drop in global prices. This same factor, together with expectations of a bumper sunflower harvest in Ukraine, contributed to a deceleration in the price growth for sunflower oil, spreads and mayonnaise.

The growth in the prices for non-foods also decelerated slightly, to 4.4% yoy. In particular, the prices for household appliances and cars increased at a slower pace (5.8% yoy and 5.3% yoy, respectively), while TV prices fell even further (to 7.4% yoy). The price increases in clothing and footwear remained modest (2.1% yoy). This can be largely attributed to the strengthening of the hryvnia seen in October and November.

The growth in raw food prices sped up to 2.4% yoy in November. The growth in borsch vegetable prices continued to accelerate (to 44.1% yoy). The price upswing is largely explained by tighter supply due to unfavorable weather conditions, the poor vegetable harvest in Europe and for some domestically produced vegetables (including onions, rising a strong 137.5% yoy). Higher wheat prices and scarcity of quality raw materials pushed up flour prices (up to 20.6% yoy). Meanwhile, the deepening decline in fruit prices (by 14.8% yoy), which was primarily due to bountiful

apple harvest, kept raw food prices from rising even higher. Eggs grew cheaper as compared with the previous year (by 2.3% yoy), and milk prices rose at a slower pace in November (9.1% yoy) on the back of the corresponding trends in external markets.

**The growth in administered prices accelerated to 17.3% yoy.** Indeed, November witnessed an increase in the prices of natural gas for households (by 22.9%), and residential landline telephone service tariffs (by 7.5% on the first stage, the second stage is scheduled for January 1, 2019). Apart from that, the faster increases, compared to the previous month, were recorded in prices for alcoholic beverages (10.4% yoy) and tobacco goods (23.4% yoy), as well as passenger road transport fares (29.0% yoy).

A drop in global oil prices, coupled with the strengthening of the hryvnia, contributed to a slower growth in fuel prices (to 19.0% yoy).

**In November 2018, producer price inflation, at 16.5% yoy, remained virtually unchanged (16.6% yoy in October).** The producer price index rose by 1.7% mom.

The price increases in the mining industry slowed (to 13.7% yoy), in particular in the extraction of coal and metal ores (to 5.3% yoy and 4.6% yoy, respectively). At the same time, the price growth in crude oil and natural gas extraction accelerated (to 28.9% yoy). In particular, along with the hike in natural gas tariffs for the household consumers, the [price for gas](#) extracted by public enterprises and sold to NJSC "Naftogaz of Ukraine" was increased.

This same factor affected the growth in prices for electricity, gas, steam and air-conditioned air supply (up 34.4% yoy). In addition, prices in electricity production grew at a faster pace, due both to a lower share of relatively cheaper nuclear energy and a marked acceleration in electricity prices produced by HPP on the back of early frosts in November.

Most manufacturing industries saw a marked deceleration in price growth on the back of the respective developments in global commodity markets. Thus, lower world energy prices contributed to a slowdown in prices for coke and refined petroleum products (to 4.6% yoy) and chemical industry (to 9.3% yoy). Weaker world steel prices in annual terms translated into a slowdown in prices for domestically produced metallurgical products (to 8.9% yoy).

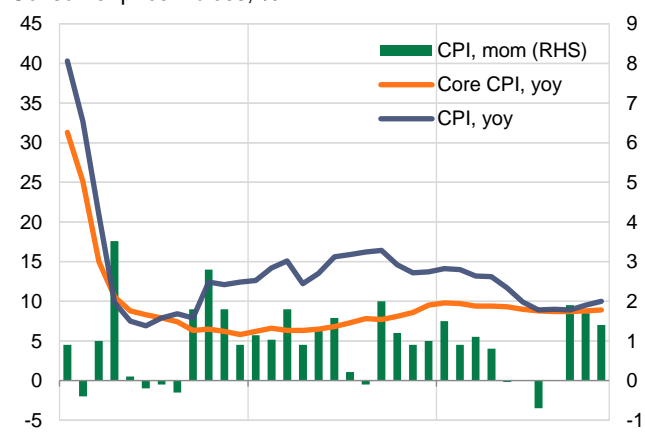
Price growth in food, beverages and tobacco production also decelerated (to 8.6% yoy). This reflected, first of all,

slower price growth for dairy and meat products (9.5% yoy and 4.6% yoy, respectively) due to lower input prices and a drop in world prices for these food products. The uncertainty regarding sugar exports from Ukraine to some countries in

November exacerbated the fall in prices in sugar production (to 14.6% yoy). However, prices for bread and farinaceous products grew at a faster pace (15.8% yoy and 17.6% yoy, respectively).

**In November 2018, headline and core inflation accelerated**

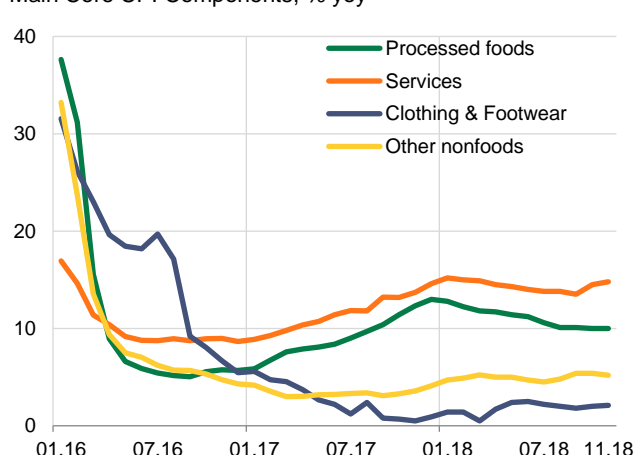
Consumer price indices, %



Source: SSSU.

**Faster growth in service prices amid further acceleration in production costs and consumer demand pressure drove core inflation higher**

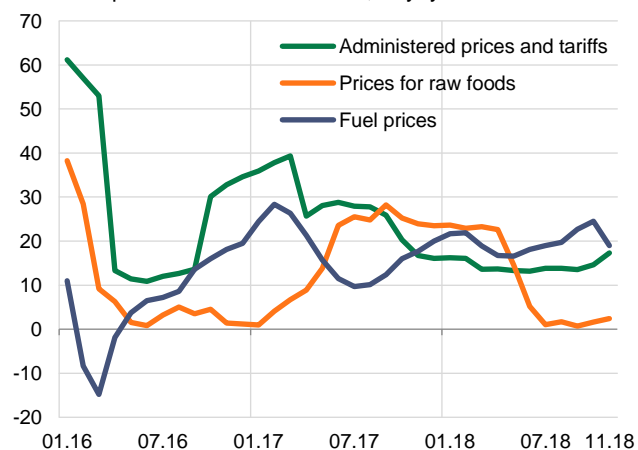
Main Core CPI Components, % yoy



Source: SSSU, NBU staff estimates.

**The rise in non-core inflation was led by a faster growth in administered and raw food prices**

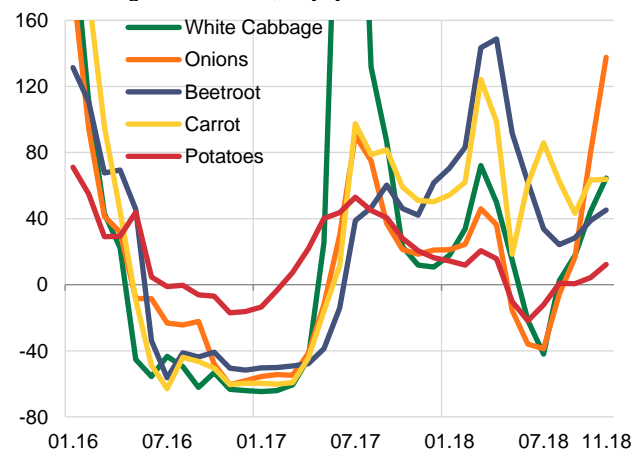
Main Components of Non-Core CPI, % yoy



Source: SSSU, NBU staff estimates.

**Narrowing supply due to adverse weather conditions and poor vegetable crops in Europe led to an acceleration in vegetable prices**

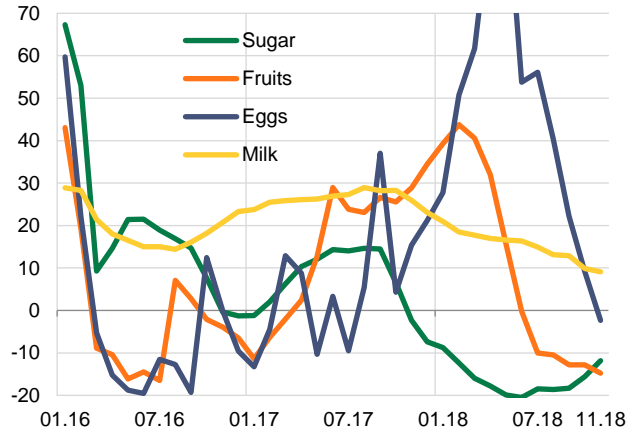
Borshch Vegetable Prices, % yoy



Source: SSSU.

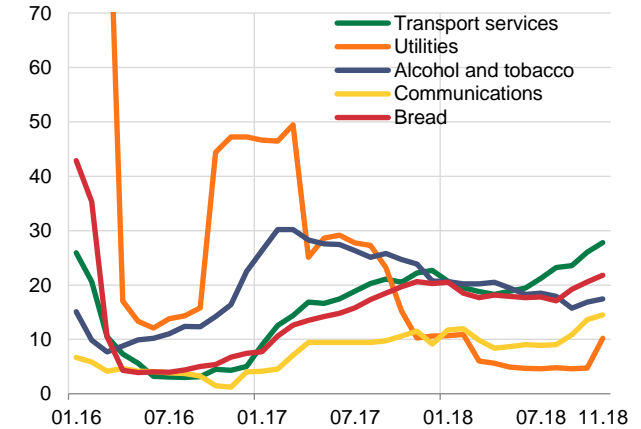
However, growth in prices for other raw foods continued to slow down due to larger supply

Selected Raw Food Prices, % yoy



Source: SSSU

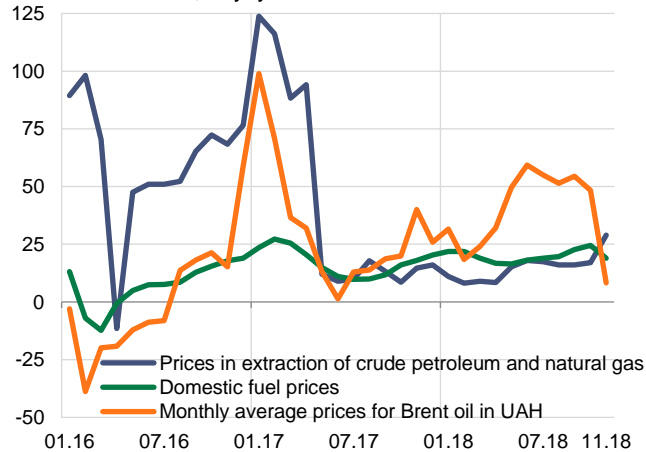
The hike in natural gas tariffs made the largest upward contribution to the growth of administered prices, although growth in prices for other components also accelerated



Source: SSSU.

Growth in fuel prices decelerated thanks to a drop in global oil prices coupled with the strengthening of the hryvnia

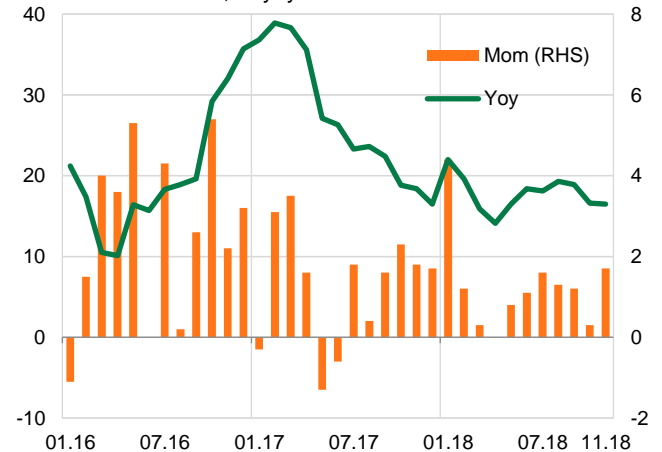
Fuel Price Indexes, % yoy



Source: SSSU, Thomson Reuters Datastream.

In November 2018, annual producer price inflation remained flat at the previous month's level ...

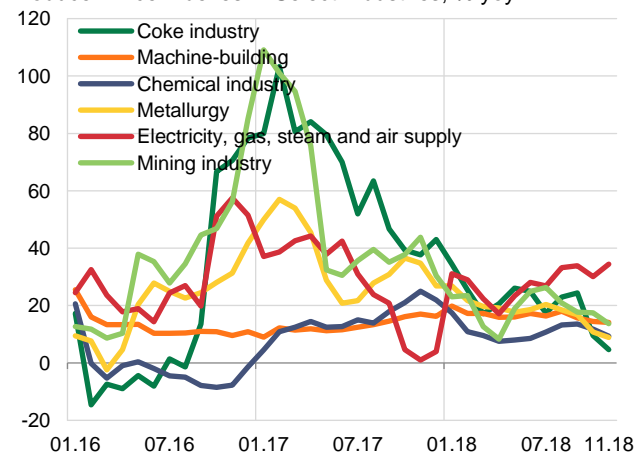
Producer Price Index, % yoy



Source: SSSU.

... due to slower price growth in most sectors of the mining and manufacturing industry

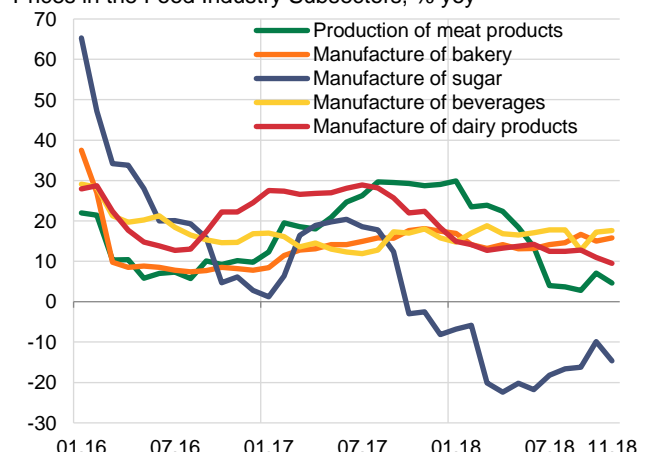
Producer Price Indexes in Select Industries, % yoy



Source: SSSU.

In the food industry, price growth slowed in the manufacture of meat and dairy products, while the decline in sugar prices deepened

Prices in the Food Industry Subsectors, % yoy



Source: SSSU.

**CPI and PPI growth by components in 2016 - 2018**

	Share in CPI for 2018, %	% yoy					
		2016	2017	Sep	2018 Oct	Nov	% mom Nov
<b>CPI (NBU classification)</b>							
<b>Consumer Price Index</b>	<b>100.0</b>	<b>12.4</b>	<b>13.7</b>	<b>8.9</b>	<b>9.5</b>	<b>10.0</b>	<b>1.4</b>
<b>Core inflation</b>	<b>58.9</b>	<b>5.8</b>	<b>9.5</b>	<b>8.7</b>	<b>8.8</b>	<b>8.9</b>	<b>1.1</b>
<b>Non-core inflation</b>	<b>41.1</b>	<b>17.5</b>	<b>19.4</b>	<b>8.9</b>	<b>9.8</b>	<b>10.9</b>	<b>1.8</b>
Raw foods	18.6	1.2	23.5	0.8	1.6	2.4	0.9
Administered prices and tariffs	18.5	34.6	16.1	13.5	14.6	17.3	3.2
Fuels	4.0	19.5	20.0	22.7	24.5	19.0	-1.3

**CPI (State Statistics Service of Ukraine classification)**

<b>Food and non-alcohol</b>	<b>42.6</b>	<b>3.3</b>	<b>17.7</b>	<b>6.7</b>	<b>7.0</b>	<b>7.5</b>	<b>1.3</b>
<b>Alcohol, tobacco</b>	<b>8.3</b>	<b>22.5</b>	<b>20.7</b>	<b>15.7</b>	<b>16.9</b>	<b>17.4</b>	<b>1.1</b>
<b>Clothing and footwear</b>	<b>5.6</b>	<b>5.5</b>	<b>0.9</b>	<b>1.8</b>	<b>2.0</b>	<b>2.1</b>	<b>-0.6</b>
<b>Housing, water, electricity, gas and other fuels incl.:</b>	<b>6.1</b>	<b>47.2</b>	<b>10.6</b>	<b>4.6</b>	<b>4.7</b>	<b>10.2</b>	<b>6.1</b>
Dwelling maintenance	0.3	11.5	47.5	22.2	23.4	23.1	1.0
Water supply	0.2	42.1	20.2	12.7	15.7	17.9	2.1
Hot water	0.2	82.9	0.9	1.0	0.9	2.3	1.7
Natural gas	1.7	42.0	1.2	0.0	0.0	22.9	22.9
Central heating	1.1	89.3	3.8	3.8	4.0	3.8	2.3
Electricity	1.0	60.0	28.1	0.0	0.0	0.0	0.0
<b>Transport</b>	<b>11.8</b>	<b>11.4</b>	<b>16.7</b>	<b>17.7</b>	<b>18.5</b>	<b>16.8</b>	<b>0.5</b>
<b>Communication</b>	<b>3.1</b>	<b>4.0</b>	<b>9.1</b>	<b>10.9</b>	<b>13.6</b>	<b>14.5</b>	<b>1.7</b>
<b>Education</b>	<b>1.5</b>	<b>13.7</b>	<b>14.9</b>	<b>13.3</b>	<b>13.2</b>	<b>13.3</b>	<b>0.1</b>

**PPI**

	Share in PPI for 2018, %**	% yoy					
		2016	2017	Sep	2018 Oct	Nov	% mom Nov
<b>Producer Price Index</b>	<b>100.0</b>	<b>35.7</b>	<b>16.5</b>	<b>18.9</b>	<b>16.6</b>	<b>16.5</b>	<b>1.7</b>
<b>Mining and quarrying</b>	<b>14.7</b>	<b>85.1</b>	<b>30.4</b>	<b>17.7</b>	<b>17.5</b>	<b>13.7</b>	<b>5.3</b>
Manufacturing of coal	2.5	40.4	47.8	15.6	14.6	5.3	-0.1
Extraction of crude petroleum and natural gas	5.1	76.5	16.1	16.0	17.0	28.9	13.8
Mining of metal ores	6.0	107.2	29.3	17.5	17.0	4.6	2.1
<b>Manufacturing</b>	<b>65.7</b>	<b>22.6</b>	<b>18.5</b>	<b>13.5</b>	<b>11.3</b>	<b>9.8</b>	<b>-0.3</b>
Manufacture of foods, beverages and tobacco products	21.2	16.2	12.5	9.2	9.6	8.6	0.2
Manufacture of coke, and refined petroleum products	3.9	61.7	43.0	22.4	9.5	4.6	-2.7
Manufacture of chemicals and chemical products	2.8	-1.4	21.9	13.6	11.8	9.3	0.0
Manufacture of basic pharmaceutical products and pharmaceutical preparations	1.4	8.5	11.0	12.1	14.2	14.1	0.7
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.1	9.5	12.5	12.6	13.0	13.1	0.8
Manufacture of basic metals and fabricated metal products, except machinery and equipment	18.4	41.8	26.9	16.8	10.8	8.9	-1.0
Manufacture of transport equipment	2.8	11.4	17.9	19.5	19.0	18.1	0.0
<b>Electricity, gas, steam and air-conditioning supply</b>	<b>19.6</b>	<b>51.5</b>	<b>4.0</b>	<b>33.9</b>	<b>30.1</b>	<b>34.4</b>	<b>4.1</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 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  
HPP – Hydroelectric Power Plants, respectively  
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  
yoy – in annual terms; year-on-year change  
mom – in monthly terms; month-on-month change