



# NATIONAL BANK OF UKRAINE

## June 2015

## Inflation Review

In June, headline inflation slowed down to 0.4% mom and to 57.5% yoy. Core inflation moderated to 0.4% mom (to 45.1% yoy).

The major factors behind the decelerating inflation were seasonal increase in fruit and vegetable supply, further weakening of hryvnia devaluation effects, low consumer demand and completion of the main stage of utility tariffs adjustment.

Owing to higher supply of fruit and vegetable products, prices for foods decreased for the first time since September 2014 (by 0.2% mom, the annual growth eased to 50.0%).

Among non-core inflation components, administered prices for goods and services grew the most (by 1.7% mom). Meanwhile, fuel prices showed zero growth and raw food prices decreased by 0.7% mom.

In June, Producer Price Index (PPI) growth was 0.6% mom (falling further in annual terms to 37.9%). The turnaround in the monthly index dynamics was primarily attributed to price growth in manufacturing sector.

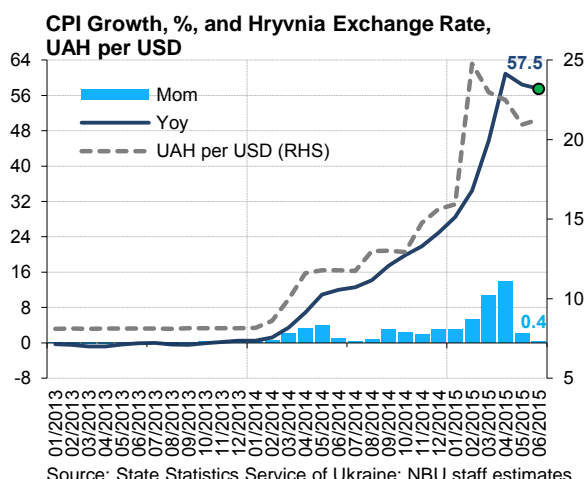
In June, CPI growth rate fell to 0.4% mom from 2.2% mom in May. Annual inflation slowed to 57.5% from 58.4%, respectively.

Core inflation moderated to 0.4% mom (contributing 0.2 p.p. to monthly CPI growth-) and to 45.1% yoy and, adjusted for seasonal effects, was the lowest for the last sixteen months – 0.6% mom.

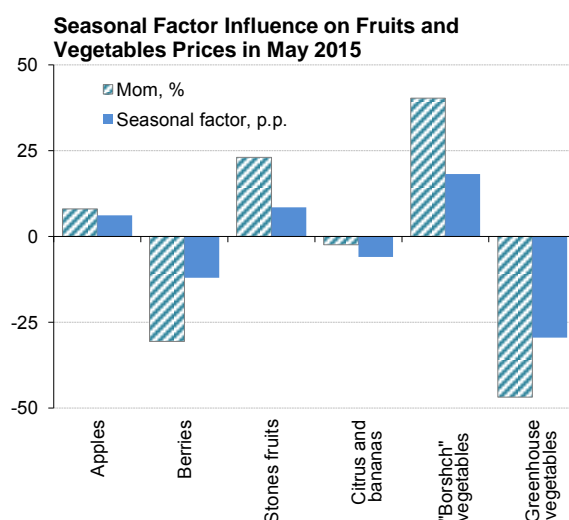
Disinflation trend was underpinned by:

A seasonal increase in fruit and vegetable supply. Thus, in June prices for vegetables and fruits fell by 2.3% mom and 2.6% mom, respectively. As these items are important components of *Raw foods* and *All foods* sub-indices (accounting for 24.9% and 16% of the respective sub-index totals)<sup>1</sup>, the decrease in their prices made a significant contribution to the decline in sub-index aggregates by 0.7% mom and 0.2% mom, respectively. Within these groups, prices decreased for cucumbers (by 57.3% mom), tomatoes (by 46.0% mom), white cabbage (by 49% mom), pepper (by 23.9% mom), which more than offset the growth in prices for other “borshch<sup>2</sup>” vegetables by 40.3% mom (prices for potatoes, carrots and beets grew by 77.8%, 64.7% and 2.3 times mom, respectively). Also, sugar prices dropped (by 2.1% mom), which, in addition to other factors, was attributed to the ongoing adjustment process after their significant rise in March and to large sugar inventories;

The diminishing impact of the lagged effects of a sharp Hryvnia depreciation at the beginning of 2015 manifested through reductions in goods prices, mostly imported ones and thus sensitive to exchange rate fluctuations. In June, price decreases were registered for fish and fish products (by 1.2% mom), household appliances (by 0.9% mom), pharmaceuticals (by 0.7% mom), audio,



Source: State Statistics Service of Ukraine; NBU staff estimates



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<sup>1</sup> For more item weights in the consumer basket see Annex 1.

<sup>2</sup> Borshch is a traditional soup in Ukrainian cuisine. While the recipes of borshch vary, vegetables are the main ingredients: beet, potato, carrot, cabbage and onion.

photographic and information processing equipment (by 1.9% mom), as well as clothes and footwear (by 1.8% mom);

**Falling consumer purchasing power.** In particular, real wages dropped by 27.6% yoy in May 2015.

**Non-core inflation softened to 0.4% mom (contributing 0.2 p.p. to monthly CPI growth) and to 69.3% yoy.**

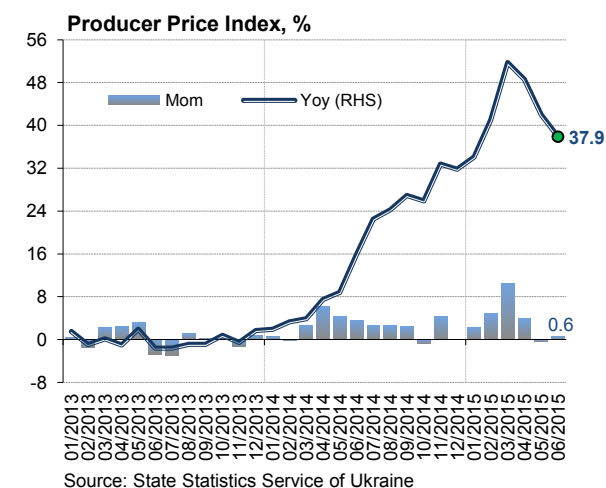
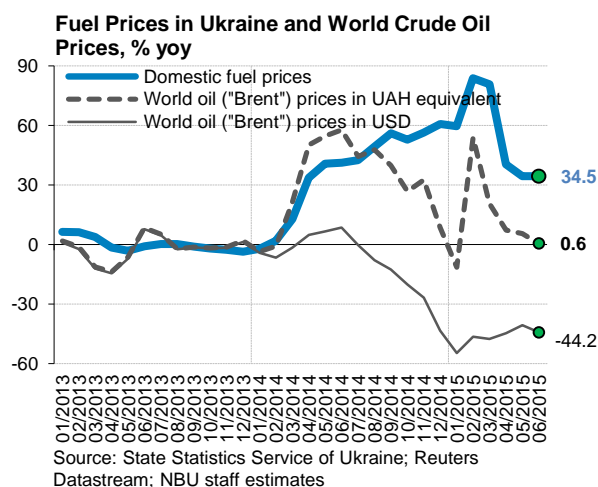
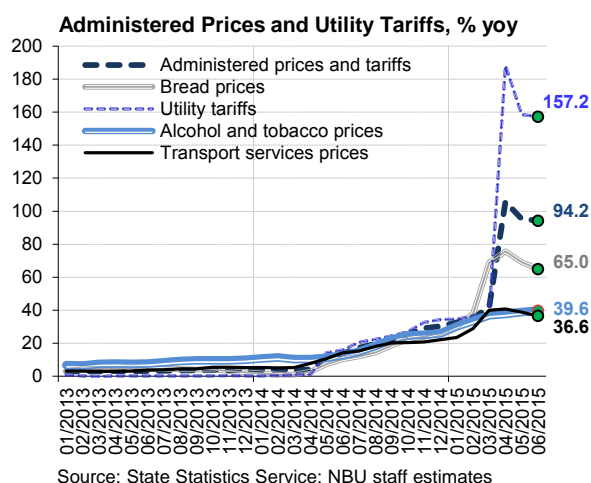
Non-core inflation was driven by a rise in **administered prices for goods and services (by 1.7% mom and by 94.2% yoy)**. In the month, prices for alcoholic beverages and tobacco products grew by 2.5% mom, for transport services added 2.8% mom. After the completion of the main stage of household utility tariffs adjustments, the rate of tariff increase was relatively low in May and June - 1.2% mom per each month (compared with a monthly surge of 109.7% in April). In particular, prices were increased for sewerage (by 7.9% mom), water supply (by 7.8% mom) and hot water (7.5% mom).

**Prices for fuels and lubricants showed zero growth on a monthly basis in June (slowed to 34.5% yoy)** amid stabilization of world oil prices.

**In June, PPI growth was 0.6% mom (-0.4% mom in May).** Its annual growth moderated to 37.9% from 42.0% in May.

The turnaround in the monthly index dynamics was the result of a pickup in **prices in the manufacturing sector** (by 0.6% mom). In particular, producer price inflation for foods increased to 1.2% mom on account of a 4.0% mom rise in sugar production costs. Thanks to a revival in activity in the world commodity markets in April-May (which led to a 5.3% growth in the CRB index<sup>3</sup> within this period), deflation in metallurgy slowed to 0.9% mom (from 1.5% mom in May). At the same time, price increases in the manufacturing sector were contained by a decline in marginal gas prices for industrial enterprises by 3.1% mom in June and by 25.8% from April to June.

**In contrast, prices in the mining sector remained virtually unchanged** (decreased by 0.1% mom; in annual terms, the growth slowed to 40.0%), though price developments were mixed across various commodities. In particular, prices in the extraction of crude oil and natural gas fell by 1.2% mom. This was partially offset by a rise in prices in the mining of iron ores (by 1.2% mom) associated with the growth of world iron ore prices in May-June (up by 20.3% in total for the respective two months) after their decline for a prolonged period.



<sup>3</sup>The CRB Index, Jefferies/Reuters futures prices index, is calculated by the US-based Commodity Research Bureau and is an indicator of the situation in the global commodity markets.

**Update in the Consumer Basket Weights**

The State Statistics Service of Ukraine (SSSU) has updated the weights used to compile the all items CPI and its sub-indices in June 2015.

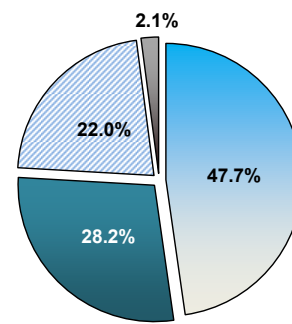
Within the new structure of weights, the share of core CPI kept on shrinking – from previous 47.7%<sup>4</sup> to current 46.8%, the share of *Raw foods*, *Administered goods and services* and *Fuels* sub-indices grew from 28.2% to 28.3% from 22.0% to 22.5%, and from 2.1% to 2.4%, respectively.

The share of *Non-foods* in headline CPI grew from 23.3% to 23.6% as the share of *Services* and *Foods and non-alcoholic beverages* declined from 23.3% to 23.1% and from 53.4% to 53.3%, respectively.

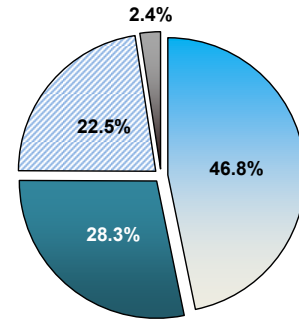
Changes in the core inflation structure point to a higher share of the *Processed foods* and *Non-foods* aggregates (42.1% and 34.2% compared with previous 41.5% and 34.0%, respectively) at the expense of lower share of the *Services* sub-index (from 24.5% to 23.7%).

*The full list of goods and services used to compile CPI and their weights are published on the website of the [State Statistics Service of Ukraine](#).*

CPI structure (2014/2015)

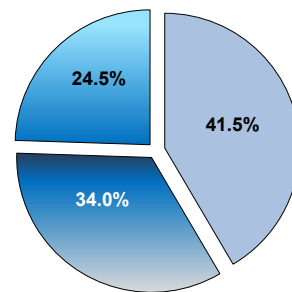


CPI structure (2015/2016)

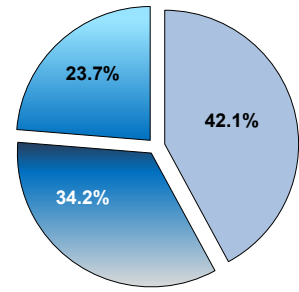


■ Core CPI ■ Raw foods ■ Administered prices ■ Fuels

Core CPI structure (2014/2015)



Core CPI structure (2015/2016)



■ Processed foods ■ Non-foods ■ Services

<sup>4</sup> Weights have been calculated by the Department based on detailed CPI items weights, provided by the SSSU.

CPI and PPI growth by components*					
CPI (NBU classification)					
	share in CPI, %	monthly change		annual change	
		change, %	contribution to CPI change, p. p.	change, %	contribution to CPI change, p. p.
<b>Consumer Price Index</b>	<b>100.0</b>	<b>0.4</b>	<b>0.4</b>	<b>57.5</b>	<b>57.5</b>
<b>Core inflation</b>	<b>46.8</b>	<b>0.4</b>	<b>0.2</b>	<b>45.1</b>	<b>21.6</b>
<b>Non-core inflation</b>	<b>53.2</b>	<b>0.4</b>	<b>0.2</b>	<b>69.3</b>	<b>35.9</b>
Raw foods	28.3	-0.7	-0.2	50.0	14.2
Administered prices and tariffs	22.5	1.7	0.4	94.2	20.9
Fuels	2.4	0.0	0.0	34.5	0.7
CPI (SSSU classification)					
<b>Food and non-alcoholic beverages incl.:</b>	<b>50.8</b>	<b>0.0</b>	<b>0.0</b>	<b>51.9</b>	<b>26.4</b>
Bread and cereals	8.1	-0.7	-0.1	69.5	5.6
Bread	3.0	0.3	0.0	65.0	2.0
Wheat	0.5	-6.3	0.0	73.2	0.4
Meat	11.6	1.2	0.1	35.1	4.1
Fish	3.5	-1.2	0.0	64.4	2.3
Milk	1.9	-0.9	0.0	24.2	0.5
Eggs	1.1	3.6	0.0	99.3	1.1
Oil and fats	4.7	0.2	0.0	53.2	2.5
Edible animal fats	1.1	-0.1	0.0	40.7	0.4
Fruits	3.4	-2.6	-0.1	91.3	3.1
Vegetables	4.2	-2.3	-0.1	25.2	1.1
Potatoes	1.2	77.8	0.9	-8.0	-0.1
Sugar	1.6	-2.1	0.0	19.5	0.3
<b>Alcoholic beverages, tobacco</b>	<b>6.9</b>	<b>2.5</b>	<b>0.2</b>	<b>39.6</b>	<b>2.7</b>
<b>Clothing and footwear</b>	<b>7.1</b>	<b>-1.8</b>	<b>-0.1</b>	<b>34.5</b>	<b>2.5</b>
<b>Housing, water, electricity, gas and other fuels incl.:</b>	<b>11.3</b>	<b>1.2</b>	<b>0.1</b>	<b>157.2</b>	<b>17.8</b>
Imputed rentals for housing	1.3	1.3	0.0	5.7	0.1
Hot water	0.4	7.5	0.0	132.5	0.5
Natural gas	2.3	0.0	0.0	453.4	10.4
Central heating	1.8	0.0	0.0	47.9	0.9
<b>Transport</b>	<b>5.1</b>	<b>1.1</b>	<b>0.1</b>	<b>38.0</b>	<b>1.9</b>
Fuels and lubricants	2.4	0.0	0.0	34.5	0.8
Passenger transport by railway	0.2	5.8	0.0	26.1	0.1
Passenger transport by road	1.6	2.4	0.0	38.5	0.6
<b>Communication</b>	<b>3.3</b>	<b>0.1</b>	<b>0.0</b>	<b>6.4</b>	<b>0.2</b>
<b>Education</b>	<b>1.3</b>	<b>1.5</b>	<b>0.0</b>	<b>17.6</b>	<b>0.2</b>
<i>Others</i>	14.2	-	0.1	-	5.8
PPI					
	share in PPI, %**	monthly change		annual change	
		change, %	contribution to PPI change, p. p.	change, %	contribution to PPI change, p. p.
<b>Producer Price Index</b>	<b>100.0</b>	<b>0.6</b>	<b>0.6</b>	<b>37.9</b>	<b>37.9</b>
<b>Mining and quarrying</b>	<b>13.0</b>	<b>-0.1</b>	<b>0.0</b>	<b>40.0</b>	<b>5.2</b>
Manufacturing of coal	3.2	-0.1	0.0	33.4	1.1
Extraction of crude petroleum and natural gas	2.6	-1.2	0.0	166.9	4.4
Mining of metal ores	6.1	1.2	0.1	-0.3	0.0
<b>Manufacturing</b>	<b>68.2</b>	<b>0.6</b>	<b>0.4</b>	<b>38.4</b>	<b>26.2</b>
Manufacture of food products, beverages and tobacco	21.5	1.2	0.3	44.1	9.5
Manufacture of coke, and refined petroleum products	3.7	0.2	0.0	35.6	1.3
Manufacture of chemicals and chemical products	3.9	1.6	0.1	54.8	2.2
Manufacture of rubber and plastics products, and other non-metallic mineral products	4.8	0.0	0.0	39.7	1.9
Manufacture of basic metals and fabricated metal products, except machinery and equipment	19.2	-0.9	-0.2	36.1	6.9
Manufacture of transport equipment	3.2	2.3	0.1	11.6	0.4
<b>Electricity, gas, steam and air-conditioning supply</b>	<b>18.8</b>	<b>0.8</b>	<b>0.2</b>	<b>34.8</b>	<b>6.5</b>

\* NBU estimates based on SSSU data. The sum of contributions, given in the tables, may not equal the total growth rate due to data rounding.

\*\* The shares of PPI components are NBU estimates based on SSSU data on volume of industrial production by type of activity for 2014.