

In May 2019, consumer price inflation accelerated in annual terms, as expected, to 9.6% - up from 8.8% in April. In monthly terms, prices grew by 0.7%. Actual inflation exceeded the projections the NBU published in its [April 2019 Inflation Report](#). This was mainly the result of faster-than-expected growth in the prices of raw foods due to their insufficient supply. In addition, fuel prices also rose faster than expected, owing to difficulties in importing energy resources from Belarus and Russia. As in previous months, core inflation came in slightly below the forecast.

Core Inflation

Core CPI, at 7.4% yoy, remained unchanged in annual terms, up by 0.2% in monthly terms.

The growth in non-foods prices decelerated, to 2.2% yoy, amid favorable conditions on the FX market. Specifically, prices for clothing and footwear, furniture, pharmaceuticals, transport vehicles, and personal care products increased at a slower pace. The prices of audio, video, and computer equipment remained lower than last year.

In contrast, the growth in the prices of processed foods sped up, to 8.7% yoy. In particular, the prices of meat products increased at a faster clip, to 8.5% yoy, driven by dwindling supply and higher global meat prices. The prices of dairy products continued to rise, to 9.0% yoy, due to higher global prices and a more pronounced decline in milk production. Meanwhile, a year-on-year drop in global prices deepened the fall in rice prices.

The growth in the prices of services sped up slightly, to 14.1% yoy, fueled by ongoing wage increases and sustained consumer demand. More specifically, prices of housing rental, catering and hotel services, as well as those for health resorts and dry-cleaning increased at a faster clip. This was partly offset by slower growth in the prices of telecommunications and outpatient services and in housing maintenance fees.

Raw Food Prices

The growth in raw food prices continued to accelerate, to 9.3% yoy. This was mainly the result of a rise in the prices of borsch vegetables, to 98.3% yoy, driven by a marked increase in the prices of onions, potatoes, carrots, and beetroot. Milk and meat prices also grew at a faster pace. The decline in fruit prices slowed, to 12.3% yoy, owing to a month-on-month rise in apple prices and a year-on-year increase in strawberry prices. A deepening of the drop in egg prices, to 30.1% yoy, due to a significant increase in poultry output,

restrained the growth in raw food prices somewhat.

Administered Prices

The growth in administered prices slowed to 17.6% yoy. More specifically, the growth in gas prices decelerated, to 17.7% yoy, on the back of respective trends on the global markets and changes in the rules for calculating gas prices.¹ The prices of alcoholic beverages, tobacco products, and transportation services also rose at a slower pace (9.6% yoy, 22.8% yoy, and 24.9% yoy, respectively).

Fuel Prices

Fuel prices returned to growth in annual terms (3.1%). This was caused by temporary disruptions in imports of oil products from Belarus, due to contaminated oil found in a major Russian pipeline, and the increases in global oil prices seen in previous months.

Producer Price Inflation

PPI also grew more rapidly in May 2019, to 8.5% yoy, up from 7.3% yoy in April. In monthly terms, producer prices grew by 1.6%.

A spike in prices in metal ore production (by 31.6% yoy) was one of the main contributors to the faster growth in producer price inflation. The spike resulted from stronger demand from domestic metallurgical plants and from ongoing sharp increases in global ore prices due to the limited supply of ore. This slowed the decline in prices in the manufacture of metal products, to 4.0% yoy.

In contrast to recent months, May saw faster price growth in the supply of electricity, gas, steam, and air conditioning, to 15.3% yoy. May also witnessed an increase in gas prices for industrial users. This was due to the lagged effects from the temporary spike in global prices seen in the first half of April. In addition, there was a dramatic increase in the share of electric power generated from renewables in total electricity production, after new facilities were put into operation. On the one hand, this deepened the fall in prices for renewable

¹May saw changes in the rules for determining gas prices for households, as introduced under Governmental Decree No. 380, [dated 8 May 2019](#). Starting from 1 May 2019, the price is calculated as the arithmetic mean of the previous month's price of the gas supplied by Naftogaz of Ukraine

NJSC to industrial users, provided this price does not exceed the price calculated according to the formula outlined in paragraph 12 of Governmental Decree No. 867, dated [19 October 2018](#).

energy. On the other hand, since prices for renewable energy are still significantly higher than those for conventional electricity, this pushed up the average price on the wholesale electricity market.

Although speeding up somewhat, price growth in the production of food, beverages, and tobacco products remained moderate, at 5.0% yoy. More specifically, May witnessed faster price growth in the manufacture of meat products (by 3.2% yoy) on the back of declining raw meat supply. In addition, prices grew more rapidly in the manufacture of dairy products (to 11.7% yoy) and baked goods (to 15.0% yoy). In contrast, the price growth in beverage production decelerated, to 14.1% yoy.

Most prices in other industrial branches rose at a slower clip.

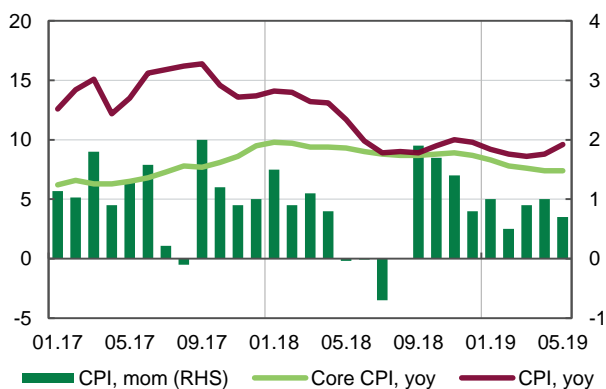
More specifically, year-on-year drops in global gas and oil prices slowed the growth in prices for crude oil and natural gas production, to 13.7% yoy. These same factors contributed to a sharp slowdown in price growth in the production of coke and petroleum products, to 0.3% yoy.

Price growth in the chemical industry slowed, to 1.4% yoy, amid relatively stable global fertilizer prices, and the waning effects from the forced halt of operations at Karpatnaftokhim Plant early this year.

Prices in mechanical engineering grew at a slower pace (4.3% yoy). The prices of electrical equipment even decreased compared to last year (by 0.9%) on the back of weaker external demand.

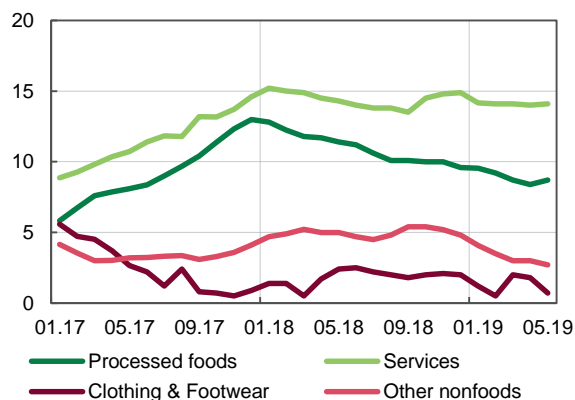
Consumer price inflation accelerated somewhat in May 2019, driven by temporary supply factors. Meanwhile, core inflation remained at the previous month's level, due to, among other things, benign FX market conditions

Chart 1. Consumer Price Indices, %



Source: SSSU.

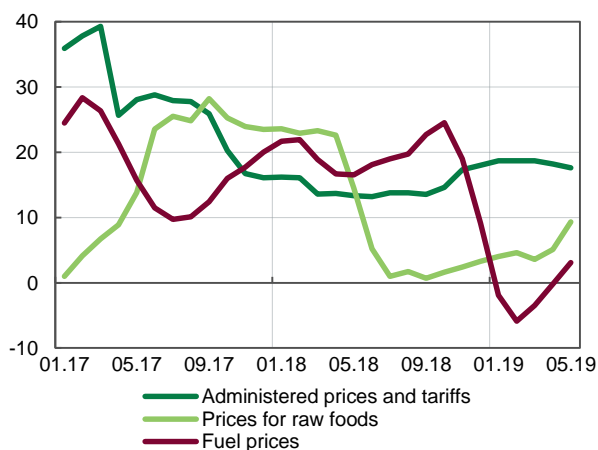
Chart 2. Main Core CPI Components, % yoy



Source: SSSU, NBU staff estimates.

Acceleration in non-core inflation was fueled by a rise in the prices of raw foods and fuel

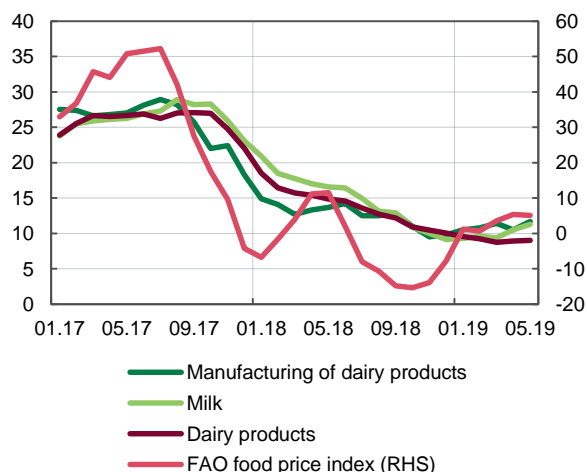
Chart 3. Main Components of Non-Core CPI, % yoy



Source: SSSU.

Higher global prices and a decline in cattle numbers caused domestic prices of milk and dairy products to accelerate

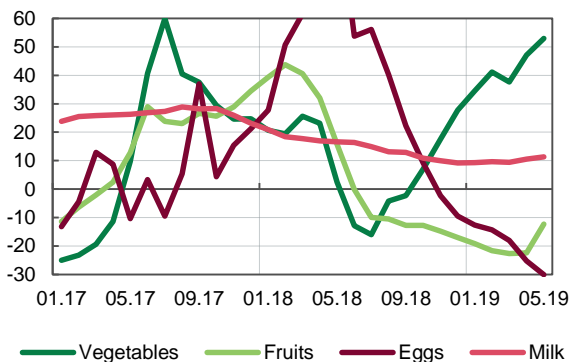
Chart 4. Prices for Dairy Products, % yoy



Source: SSSU, NBU staff estimates, FAO.

Raw foods grew at a faster clip mainly due to the insufficient supply of vegetables and fruit in May

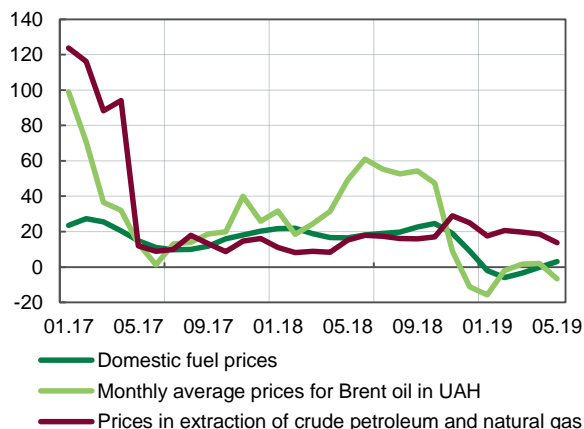
Chart 5. Prices for Selected Raw Food, % yoy



Source: SSSU.

Fuel prices rose at a faster pace, owing to the difficulties in importing energy resources from Belarus and Russia

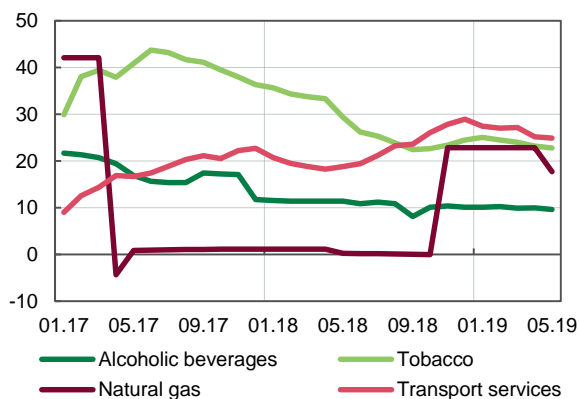
Chart 6. Fuel Price Indices, % yoy



Source: SSSU, Thomson Reuters.

Administered prices grew at a slower pace thanks to weaker growth in prices for gas, alcoholic beverages, tobacco products, and transportation services

Chart 7. Administered Prices, % yoy



Source: SSSU.

In May, producer price inflation edged up somewhat, driven mainly by faster price growth in the production of metal ores and in the supply of energy resources

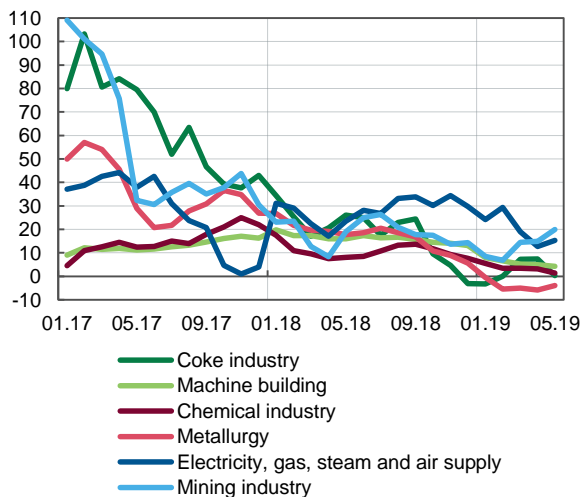
Chart 8. Producer Price Index, %



Source: SSSU.

Price growth in other industrial branches mostly decelerated moderately, driven by, among other things, respective trends on the global markets

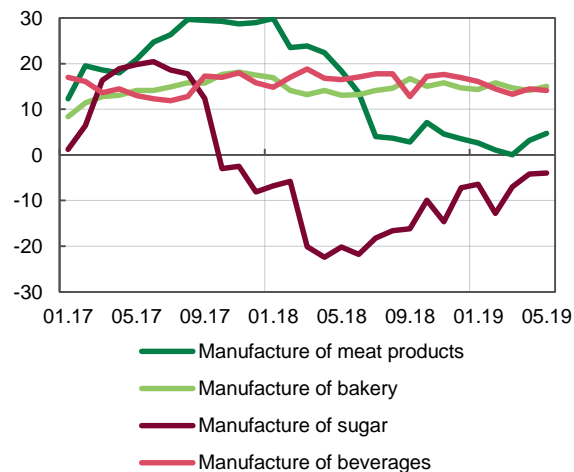
Chart 9. Producer Price Indices in Selected Industries, % yoy



Source: SSSU.

Although accelerating, price growth in the food industry remained moderate

Chart 10. Prices in the Food Industry Subsectors, % yoy



Source: SSSU.

CPI and PPI Growth by Components in 2017–2019

	Share in CPI		% yoy				%mom May 2019
	for 2019, %	2017	2018	2019			
				Mar	Apr	May	
CPI (NBU classification)							
Consumer Price Index	100.0	13.7	9.8	8.6	8.8	9.6	0.7
Core inflation	59.3	9.5	8.7	7.6	7.4	7.4	0.2
Non-core inflation*	40.7	19.4	10.7	10.0	10.8	12.9	1.5
Raw foods	20.0	23.5	3.3	3.6	5.1	9.3	1.8
Administered prices and tariffs	16.8	16.1	18.0	18.7	18.2	17.6	0.6
Fuels	3.9	20.0	9.1	-3.5	-0.2	3.1	4.1
CPI (State Statistics Service of Ukraine classification)							
Food and non-alcohol	45.4	17.7	7.8	7.0	7.4	9.2	1.0
Alcohol, tobacco	8.3	20.7	17.9	17.3	17.0	16.4	1.3
Clothing and footwear	5.3	0.9	2.0	2.0	1.8	0.7	-1.5
Housing, water, electricity, gas and other fuels incl.	4.9	10.6	10.6	13.2	13.2	12.3	-0.7
Dwelling maintenance	0.2	47.5	23.7	15.2	15.2	14.6	0.7
Water supply	0.1	20.2	19.9	22.2	21.5	19.8	0.8
Hot water	0.2	0.9	3.2	15.1	15.2	16.6	0.1
Natural gas	1.2	1.2	22.9	22.9	22.9	17.7	-4.2
Central heating	0.8	3.8	5.2	19.2	19.5	19.5	0.0
Electricity	0.9	28.1	0.0	0.0	0.0	0.0	0.0
Transport	11.4	16.7	12.9	7.3	8.1	9.0	1.5
Communication	3.1	9.1	15.1	17.5	17.3	16.6	-0.2
Education	1.3	14.9	13.4	13.3	13.3	13.3	0.0

PPI

	Share in PPI		% yoy				%mom May 2019
	for 2019, %**	2017	2018	2019			
				Mar	Apr	May	
Producer Price Index	100.0	16.5	14.2	8.9	7.3	8.5	2.1
Mining and quarrying	15.2	30.4	14.3	14.4	14.3	19.9	3.4
Manufacturing of coal	2.9	47.8	5.4	11.1	12.3	7.6	0.0
Extraction of crude petroleum and natural gas	5.3	16.1	24.9	19.7	18.7	13.7	-1.0
Mining of metal ores	5.8	29.3	8.2	10.0	11.6	31.6	9.6
Manufacturing	65.3	18.5	7.4	2.8	2.6	2.5	0.1
Manufacture of foods, beverages and tobacco products	20.2	12.5	7.0	4.4	4.7	5.0	0.4
Manufacture of coke, and refined petroleum products	3.9	43.0	-3.1	7.3	7.4	0.3	-3.2
Manufacture of chemicals and chemical products	2.7	21.9	7.7	3.4	3.2	1.4	-1.5
Manufacture of basic pharmaceutical products and pharmaceutical preparation	1.4	11.0	16.7	15.2	15.1	14.8	0.5
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.2	12.5	12.6	9.5	9.9	8.9	-0.3
Manufacture of basic metals and fabricated metal products, except machinery and equipment	18.5	26.9	5.6	-5.0	-5.8	-4.0	1.2
Manufacture of transport equipment	2.9	17.9	17.3	9.2	8.5	7.2	-0.1
Electricity, gas, steam and air-conditioning supply	18.5	4.0	29.8	19.0	12.7	15.3	5.5

* 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 2018.

Terms and abbreviations:

CPI	consumer price index	yoy	in annual terms; year-on-year
PPI	producer price index		change
SSSU	State Statistics Service of Ukraine	mom	in monthly terms; month-on-month
FAO	Food and Agriculture Organization		change
		RHS	right-hand scale