

In June 2019, consumer price inflation slowed in annual terms to 9.0% from 9.6% in May. In monthly terms, prices fell 0.5%. Actual annual inflation remained above the NBU's projection published in its [April 2019 Inflation Report](#). At the same time, the deviation from the NBU's projections was significantly smaller than in May, as the impact of adverse supply factors waned as expected. Core CPI grew in line with the April projections and remained relatively high due to pressure from consumer demand and production costs.

### Core Inflation

Core inflation remained at 7.4% yoy in June. Tight monetary conditions remained a strong factor that held back fundamental pressures on prices, in particular through the exchange rate channel.

Specifically, due to the strengthening of the hryvnia in H1 2019, both against the US dollar and the basket of currencies of Ukraine's main trading partners, the growth in nonfood prices continued to slow (to 2.0% yoy). Prices for clothing and footwear, furniture, home appliances, and motor vehicles grew at a slower pace, while prices for TV sets declined more quickly.

The growth in prices for services (14.0% yoy) have remained almost unchanged since the beginning of the year. The slowdown of the growth in prices for services is constrained by solid wage increases and sustained consumer demand. In June, prices for recreation services, repair services, manicure services, and financial services increased at a faster pace. This was offset by slower growth in prices for dry-cleaning services, healthcare services, cinemas, and housing rentals, which may also partially reflect exchange rate effects.

In contrast, the growth in the prices of processed foods sped up, to 8.9% yoy. In particular, prices for meat products increased a faster 9.2% yoy, driven by tighter supply and higher global prices.

### Changes in Raw Food Prices

The growth in raw food prices decelerated substantially (to 7.8% yoy), primarily due to the expansion of the supply of newly harvested vegetables, especially vegetables used to make borsch. Prices for onions and beets increased less rapidly, while cabbage and carrots were cheaper than last year. In addition, egg prices declined at a faster pace (to 43.2% yoy) due to a large increase in poultry farming output.

Meanwhile, due to unfavorable weather conditions ([an unusually strong heat wave and low precipitation](#)), the seasonal decrease in prices for field vegetables in monthly

terms was lower than last year, leaving their prices higher in annual terms. The same factor affected strawberry prices, which remained higher than last year, and apple prices, which significantly increased in monthly terms for the second month running. With global prices up and negative expectations for Ukraine's sugar beet harvest this year having increased, sugar prices also began to grow.

Milk prices increased an accelerated 11.9% yoy, driven by growth in global prices in previous periods, as well as by stronger demand for quality products and by tighter milk supply due to a further reduction in the cattle population.

### Changes in Administered Prices

The growth in administered prices slowed to 17.0% yoy. The increase in prices for natural gas slowed to 10.2% yoy (with prices falling in monthly terms) as a result of significantly lower global prices and the adoption by the government of a new methodology for setting household gas prices<sup>1</sup>. Prices for tobacco products and railway transport services also increased at a slower pace. At the same time, the growth in the cost of alcoholic beverages and water supply and sewage collection accelerated.

### Changes in Fuel Prices

The rate of growth in fuel prices continued to slow (to 2.6% yoy). Renewed oil product shipments from Belarus and Russia, a partial switch to suppliers from Europe and the domestic market, and an acceleration in the decrease in global oil prices in annual terms helped reduce the pace of domestic fuel price growth.

### Producer Price Inflation

PPI growth decelerated significantly in June 2019 to a new five-year low of 4.5% yoy. In monthly terms, prices fell 2.7%.

The further decline in global natural gas prices, which contributed to a reduction in tariffs for gas supplies to industrial companies, was the key factor in slowing down producer price inflation. This factor also contributed to a drop in the price of electricity generated by thermal power plants.

<sup>1</sup> Since 1 June 2019, the price of natural gas has been determined according to Cabinet of Ministers Resolution [No. 485 from 5 June 2019](#).

As a result, the growth in prices for the supply of electricity, gas, steam, and air conditioning slowed noticeably, to 0.8% yoy. Prices for crude oil and natural gas grew more slowly (13.1% yoy) on the back of lower global gas prices. This caused price growth in the chemical industry to slow to 0.1% yoy. Prices in the manufacture of coke and petroleum products also declined in monthly terms in June, but their annual growth accelerated somewhat (to 2.5% yoy), due to a low comparison base.

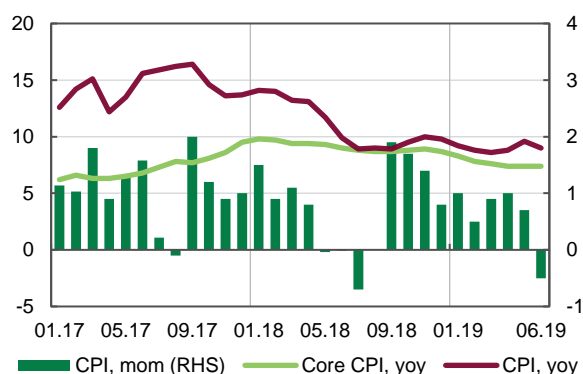
Growth in prices for metal ores slowed somewhat (29.3% yoy) but remained high as a result of continued growth in global ore prices. However, this did not affect prices in the

manufacture of metal products, which deepened their decline (5.6% yoy), in line with current trends in global steel markets.

Prices in the manufacture of foods, beverages, and tobacco products increased a faster 6.2% yoy. With global prices up, the growth in prices for meat products accelerated (to 6.5% yoy), while sugar prices returned to growth (5.0% yoy). The lower wheat harvest of the previous year continued to accelerate price growth in the production of bread (to 15.5% yoy). Producer price inflation in the food industry was somewhat constrained by slower price growth in the production of dairy products (10.5% yoy).

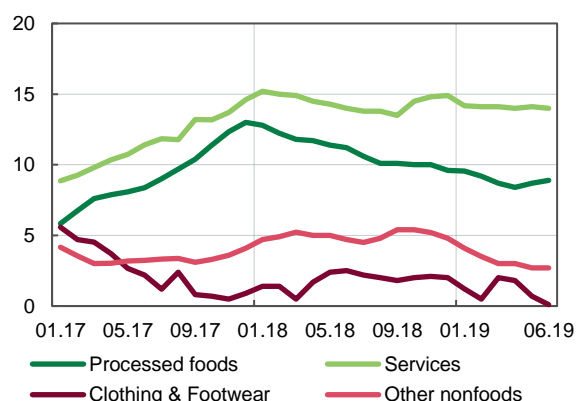
**Consumer price inflation declined in June 2019, as the impact of adverse supply factors waned as expected. Underlying price pressures were held back by the NBU's tight monetary policy, evidenced by a strengthening of the hryvnia against the currencies of Ukraine's main trading partners**

Chart 1. Consumer Price Indices, %



Source: SSSU.

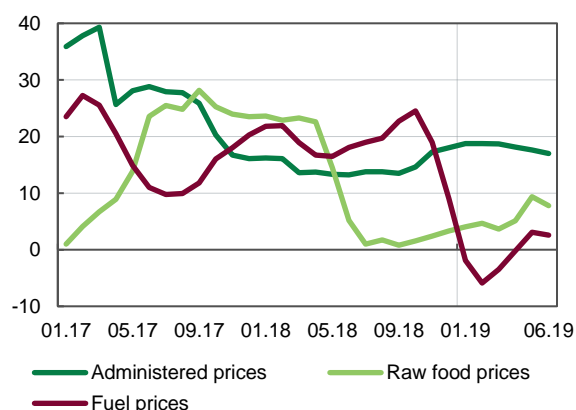
Chart 2. Main Core CPI Components, % yoy



Source: SSSU, NBU staff estimates.

**Noncore inflation decelerated, as growth slowed in all of its components**

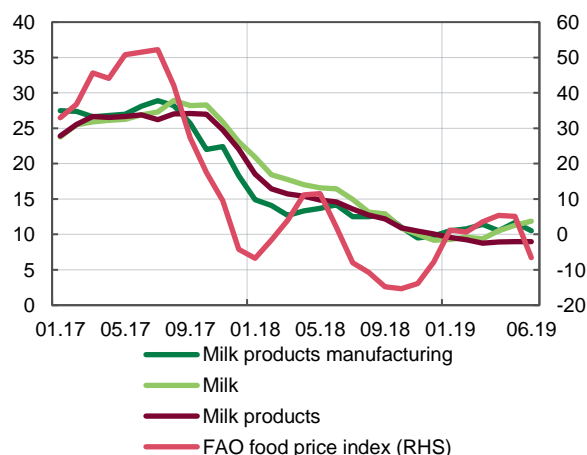
Chart 3. Main Components of Non-Core CPI, % yoy



Source: SSSU.

**Higher global prices in previous periods, a decline in the cattle population, and robust demand for raw materials restrained the deceleration in the growth in prices for milk and dairy products in Ukraine**

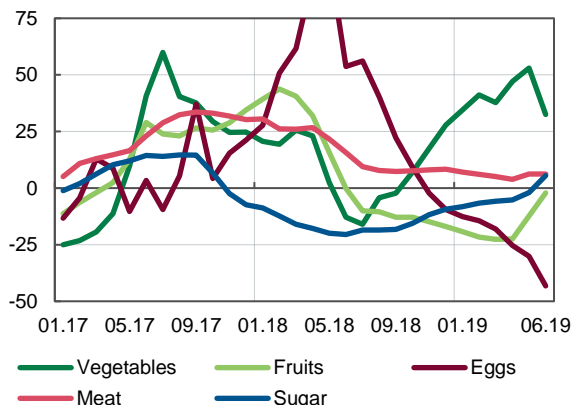
Chart 4. Prices for Dairy Products, % yoy



Source: SSSU, NBU staff estimates, FAO.

**A slowdown in vegetable price growth and a faster decrease in egg prices offset a resumption in growth in sugar prices and a slower pace of decline in fruit prices**

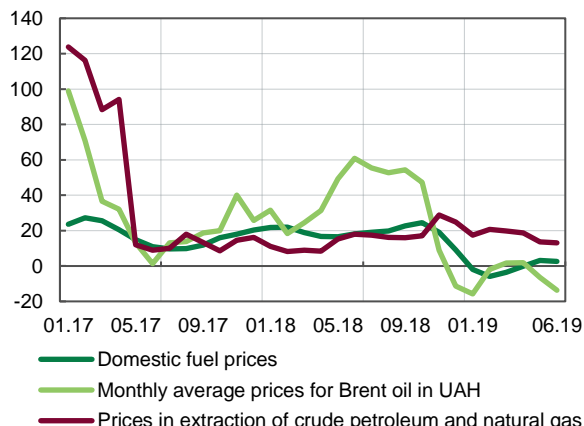
Chart 5. Prices for Selected Raw Food, % yoy



Source: SSSU.

**Growth in fuel prices slowed as hurdles with shipments of petroleum products from Belarus and Russia were resolved and oil prices fell at a faster pace**

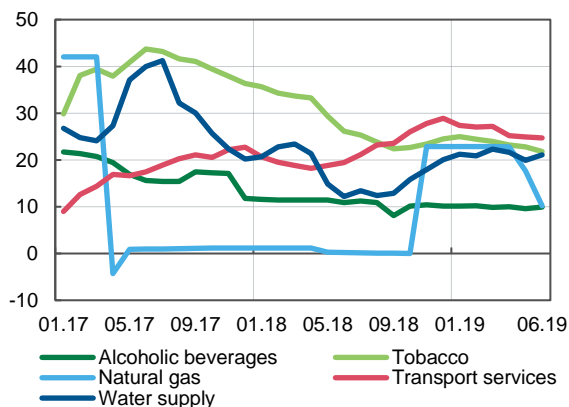
Chart 6. Fuel Price Indices, % yoy



Source: SSSU, Refinitiv.

**Administered prices grew at a slower pace, primarily due to weaker growth in gas prices**

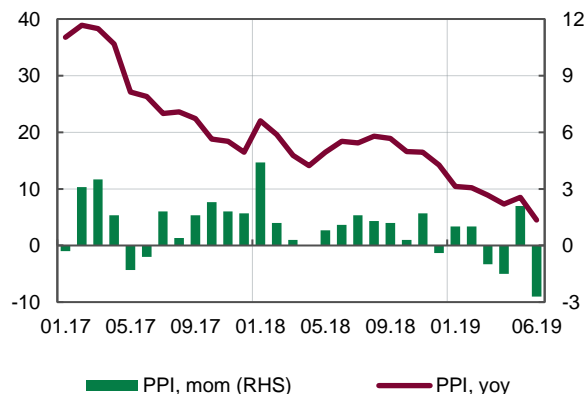
Chart 7. Administered Prices, % yoy



Source: SSSU.

**A decrease in natural gas prices also contributed to the slower producer price inflation, which reached a five-year low**

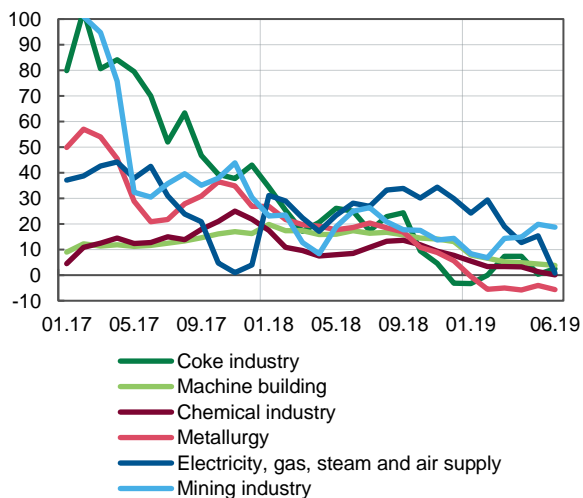
Chart 8. Producer Price Index, %



Source: SSSU.

**This factor also influenced prices in other sectors, with price growth in the mining and chemical industries decelerating**

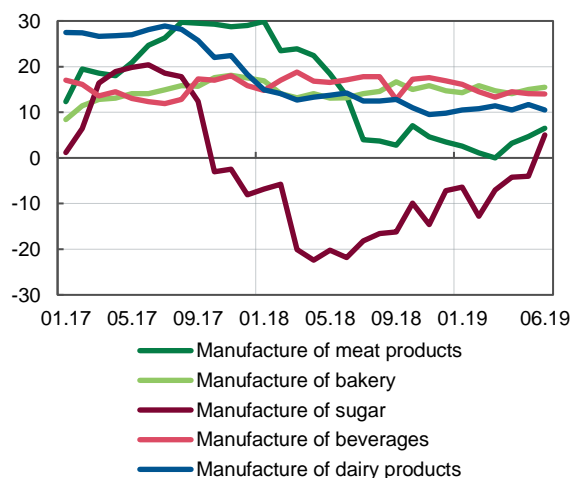
Chart 9. Producer Price Indices in Selected Industries, % yoy



Source: SSSU.

**Price growth in the food industry sped up, including due to rising global prices for meat and sugar**

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



Source: SSSU.

## CPI and PPI Growth by Components in 2017–2019

	Share in CPI for 2019, %	% yoy						%mom Jun 2019
		2017	2018	2019				
				Apr	May	Jun		
<b>CPI (NBU classification)</b>								
<b>Consumer Price Index</b>	<b>100.0</b>	<b>13.7</b>	<b>9.8</b>	<b>8.8</b>	<b>9.6</b>	<b>9.0</b>	<b>-0.5</b>	
<b>Core inflation</b>	<b>59.3</b>	<b>9.5</b>	<b>8.7</b>	<b>7.4</b>	<b>7.4</b>	<b>7.4</b>	<b>0.0</b>	
<b>Non-core inflation*</b>	<b>40.7</b>	<b>19.4</b>	<b>10.7</b>	<b>10.8</b>	<b>12.9</b>	<b>11.7</b>	<b>-1.2</b>	
Raw foods	20.0	23.5	3.3	5.1	9.3	7.8	-3.0	
Administered prices and tariffs	16.8	16.1	18.0	18.2	17.6	17.0	0.7	
Fuels	3.9	20.0	9.1	-0.2	3.1	2.6	-0.2	

<b>CPI (State Statistics Service of Ukraine classification)</b>							
<b>Food and non-alcohol</b>	<b>45.4</b>	<b>17.7</b>	<b>7.8</b>	<b>7.4</b>	<b>9.2</b>	<b>8.5</b>	<b>-1.1</b>
<b>Alcohol, tobacco</b>	<b>8.3</b>	<b>20.7</b>	<b>17.9</b>	<b>17.0</b>	<b>16.4</b>	<b>15.9</b>	<b>1.2</b>
<b>Clothing and footwear</b>	<b>5.3</b>	<b>0.9</b>	<b>2.0</b>	<b>1.8</b>	<b>0.7</b>	<b>0.1</b>	<b>-3.0</b>
<b>Housing, water, electricity, gas and other fuels incl.</b>	<b>4.9</b>	<b>10.6</b>	<b>10.6</b>	<b>13.2</b>	<b>12.3</b>	<b>10.4</b>	<b>-1.4</b>
Dwelling maintenance	0.2	47.5	23.7	15.2	14.6	13.2	0.8
Water supply	0.1	20.2	19.9	21.5	19.8	21.1	1.2
Hot water	0.2	0.9	3.2	15.2	16.6	16.6	0.0
Natural gas	1.2	1.2	22.9	22.9	17.7	10.2	-6.4
Central heating	0.8	3.8	5.2	19.5	19.5	19.5	0.0
Electricity	0.9	28.1	0.0	0.0	0.0	0.0	0.0
<b>Transport</b>	<b>11.4</b>	<b>16.7</b>	<b>12.9</b>	<b>8.1</b>	<b>9.0</b>	<b>8.7</b>	<b>0.3</b>
<b>Communication</b>	<b>3.1</b>	<b>9.1</b>	<b>15.1</b>	<b>17.3</b>	<b>16.6</b>	<b>16.0</b>	<b>-0.2</b>
<b>Education</b>	<b>1.3</b>	<b>14.9</b>	<b>13.4</b>	<b>13.3</b>	<b>13.3</b>	<b>13.2</b>	<b>0.4</b>

## PPI

	Share in PPI for 2019, %**	% yoy						%mom Jun 2019
		2017	2018	2019				
				Apr	May	Jun		
<b>Producer Price Index</b>	<b>100.0</b>	<b>16.5</b>	<b>14.2</b>	<b>7.3</b>	<b>8.5</b>	<b>4.5</b>	<b>-2.7</b>	
<b>Mining and quarrying</b>	<b>15.2</b>	<b>30.4</b>	<b>14.3</b>	<b>14.3</b>	<b>19.9</b>	<b>18.7</b>	<b>0.6</b>	
Manufacturing of coal	2.9	47.8	5.4	12.3	7.6	7.3	-0.2	
Extraction of crude petroleum and natural gas	5.3	16.1	24.9	18.7	13.7	13.1	0.2	
Mining of metal ores	5.8	29.3	8.2	11.6	31.6	29.3	1.3	
<b>Manufacturing</b>	<b>65.3</b>	<b>18.5</b>	<b>7.4</b>	<b>2.6</b>	<b>2.5</b>	<b>2.5</b>	<b>-0.4</b>	
Manufacture of foods, beverages and tobacco products	20.2	12.5	7.0	4.7	5.0	6.2	0.7	
Manufacture of coke, and refined petroleum products	3.9	43.0	-3.1	7.4	0.3	2.5	-1.6	
Manufacture of chemicals and chemical products	2.7	21.9	7.7	3.2	1.4	0.1	-1.3	
Manufacture of basic pharmaceutical products and pharmaceutical preparation	1.4	11.0	16.7	15.1	14.8	13.6	0.4	
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.2	12.5	12.6	9.9	8.9	8.4	0.4	
Manufacture of basic metals and fabricated metal products, except machinery and equipment	18.5	26.9	5.6	-5.8	-4.0	-5.6	-2.3	
Manufacture of transport equipment	2.9	17.9	17.3	8.5	7.2	6.9	1.1	
<b>Electricity, gas, steam and air-conditioning supply</b>	<b>18.5</b>	<b>4.0</b>	<b>29.8</b>	<b>12.7</b>	<b>15.3</b>	<b>0.8</b>	<b>-8.9</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 2018.

## Terms and abbreviations:

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