

In July 2019, consumer inflation sped up slightly in annual terms to 9.1%, from 9.0% in June. However, in monthly terms, prices fell 0.6%. The actual inflation figure exceeded the path forecast by the NBU, as published in its July 2019 Inflation Report. This was primarily due to faster-than-expected growth in the prices of some raw foods. Meanwhile, underlying inflation pressures were generally in line with the forecast. Prices in most industrial sectors increased at a slower rate, among other things due to a drop in global oil and gas prices.

Core Inflation

Core inflation was 7.4% yoy in July – unchanged compared to previous months. In monthly terms, the core CPI decreased by 0.1%.

A tight monetary policy was a major factor in containing underlying price pressures, in particular through the exchange rate channel. The further strengthening of the hryvnia helped keep non-food inflation low, at 2.0% yoy. In particular, prices for cars, household appliances, and personal care products grew more slowly. The prices of clothes and footwear were little changed in annual terms, while the prices of some equipment and machinery remained lower than a year ago.

The growth in the prices of processed foods remained at the level of June, at 8.9% yoy. Buoyant external demand pushed up the prices of meat products (to 9.3% yoy), while a decline in milk output caused the growth in the prices of dairy products to accelerate (to 9.2% yoy). This was offset by weaker growth in the prices of other foods, such as bread, chocolate, sauces, tinned fish, margarine, and spreads.

The prices of services remained among the fastest-growing in the basket of consumer goods, although they decelerated somewhat, to 13.8% yoy. Sustained consumer demand and relatively strong wage growth prevented services prices from slowing further. In particular, the prices of catering, dry-cleaning, mobile communications, and recreational and cultural establishment services grew more rapidly. Meanwhile, the growth in the prices of housing maintenance services continued to decelerate, mainly due to the comparison base effect. The growth in the prices of rents, and hotel, hair salon, taxi, and dental services also decelerated, driven by, among other things, the exchange rate factor.

Changes in Raw Food Prices

The growth in raw food prices accelerated, to 10.3% yoy. The prices of cucumbers, tomatoes, marrows and eggplants increased more rapidly in the wake of unfavorable weather. Apple prices continued to decline at a slower pace. The growth in prices for all types of raw meat and milk sped up (to

6.9% yoy and 12.8% yoy respectively), driven by robust external demand and a decline in livestock. The decline in egg prices slowed considerably, to 29.2% yoy. In addition, expectations of a poorer sugar beet harvest in Ukraine and rising global prices led to a rise in sugar prices (to 6.5% yoy).

Conversely, the growth in the prices of borsch vegetables slowed, to 36.5% yoy, due to new harvest vegetables coming onto the market. More specifically, the growth in the prices of onions and beetroot decelerated markedly, while carrot prices were even lower than last year.

Changes in Administered Prices

The growth in administered prices slowed to 15.5% yoy. The main reason for this slowdown was a drop in gas prices (by 1.3% yoy) resulting from lower global gas prices and changes to the methodology for calculating gas prices for households (dated [5 June 2019 No. 485](#)). Prices for tobacco and alcoholic beverages, water supply and sewage services, and road transport services also grew less rapidly. Meanwhile, railway transport fares, especially those for commuter transport, rose at a faster rate (to 25.2% yoy).

Changes in Fuel Prices

Fuel prices declined in annual terms (0.4%). This was largely due to a decrease in global oil prices, and the favorable FX market conditions. An additional factor was the fall in liquefied gas prices owing to a large surplus on the market.

Producer Price Inflation

PPI growth sped up to 6.7% yoy in July. In monthly terms prices grew by 3.6%.

The acceleration in producer price inflation in annual terms was caused by a surge in prices for the supply of electricity, gas, steam, and air conditioning (to 10.9% yoy). This was mainly due to higher electricity prices resulting from the changes in the approach to setting electricity prices that occurred after the launch of the new electricity market. At the same time, PPI inflation was restrained by lower prices for gas supply.

Price growth in the mining and manufacturing industries

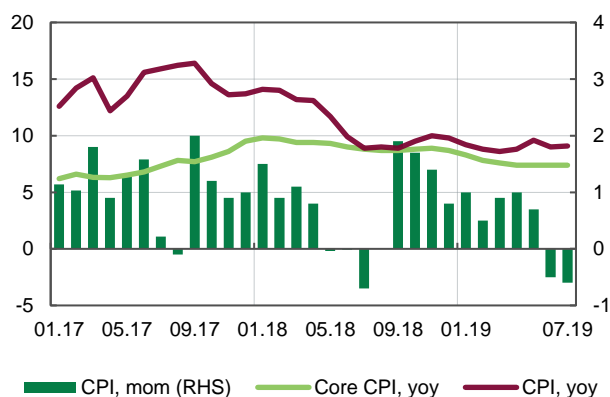
continued to decelerate, to 13.5% yoy and 1.8% yoy respectively. In particular, prices in the extraction of energy resources and in the chemical industry dropped in annual terms, while price growth in the production of coke and petroleum products decelerated amid falling global oil and gas prices.

Despite the accelerating price growth in the extraction of metal ores (37.2% yoy) fueled by robust external demand, prices in the manufacture of metal products continued to decline, reflecting corresponding trends in the global steel markets.

Price growth in the production of food, beverages, and tobacco products also decreased somewhat (to 6.0% yoy), mainly due to falling prices in the production of sugar, and weaker price growth in the production of bread products. The price slowdown resulted from new harvest wheat coming onto the market and a drop in global wheat prices. In contrast, prices in the manufacture of meat products increased at a faster rate, to 12.0% yoy, driven by the dwindling domestic supply of some types of raw meat, stronger external demand, and higher global meat prices.

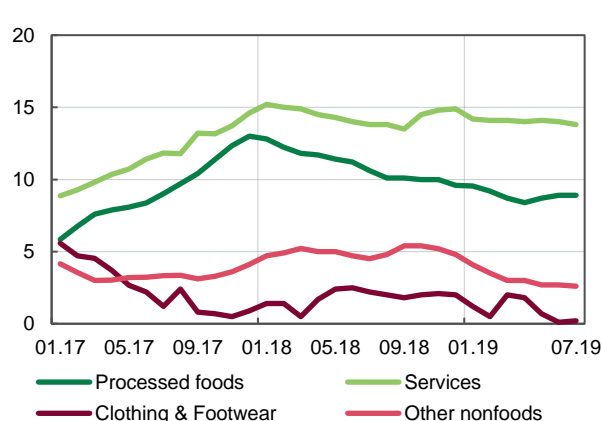
Consumer inflation accelerated somewhat in July 2019, driven by factors related to the supply of raw foods. Core inflation remained at the previous month's level, due to, among other things, a tight monetary policy

Chart 1. Consumer Price Indices, %



Source: SSSU.

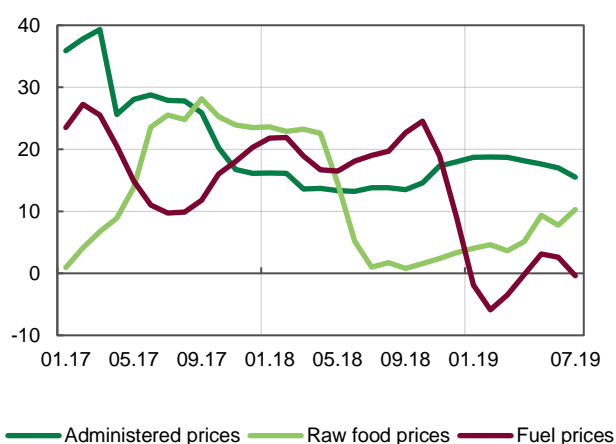
Chart 2. Main Core CPI Components, % yoy



Source: SSSU, NBU staff estimates.

Noncore inflation accelerated led by higher raw food prices

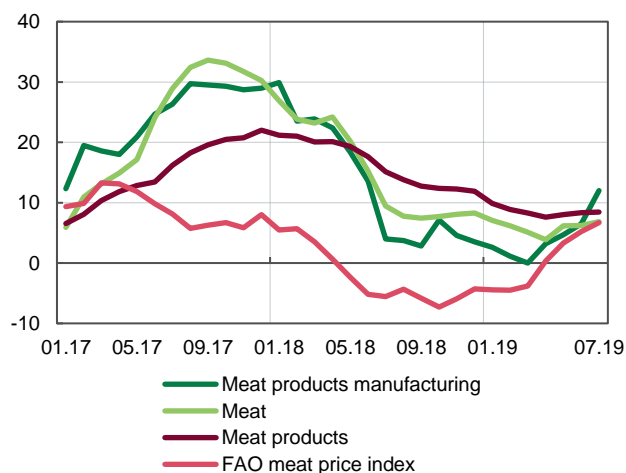
Chart 3. Main Components of Non-Core CPI, % yoy



Source: SSSU.

Robust external demand, together with the dwindling domestic supply of some types of raw meat, caused the prices of meat and meat products to accelerate

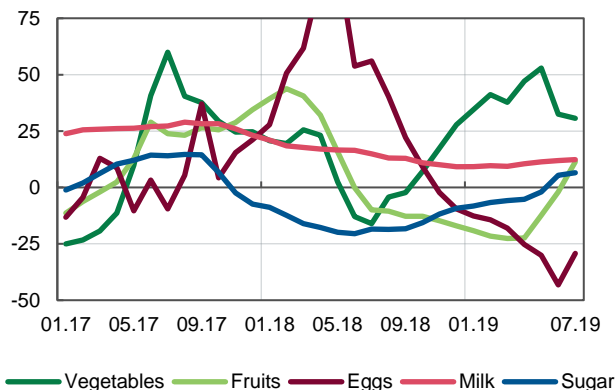
Chart 4. Prices for Meat Products, % yoy



Source: SSSU, NBU staff estimates, FAO.

More rapid growth in the prices of fruit and some vegetables in the wake of unfavorable weather put upward pressures on raw food inflation

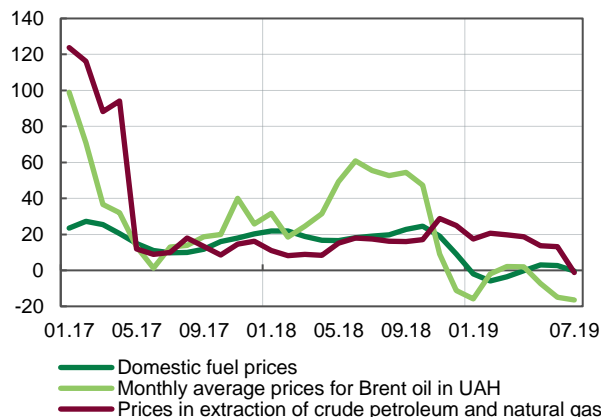
Chart 5. Prices for Selected Raw Food, % yoy



Source: SSSU.

Fuel prices declined in annual terms in July, mainly due to favorable conditions on the FX market and a drop in global oil prices

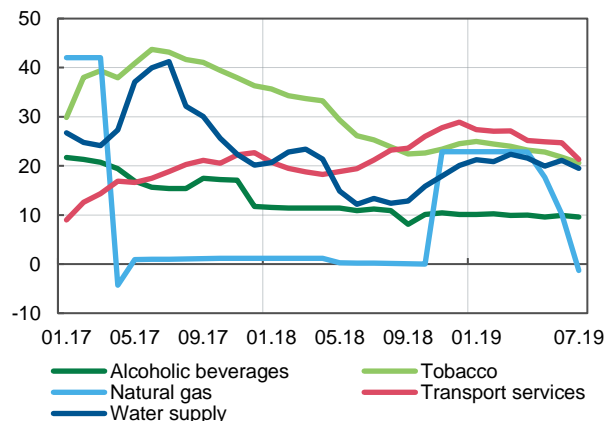
Chart 6. Fuel Price Indices, % yoy



Source: SSSU, Refinitiv.

Administered prices grew at a slower pace, primarily owing to a drop in gas prices

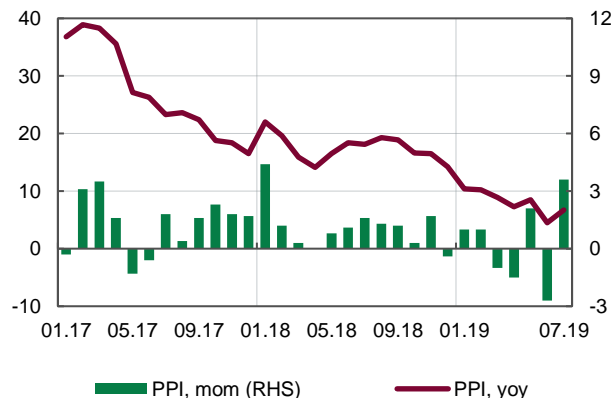
Chart 7. Administered Prices, % yoy



Source: SSSU.

Producer price inflation sped up, driven by higher electricity prices resulting from a change in the approach to price setting

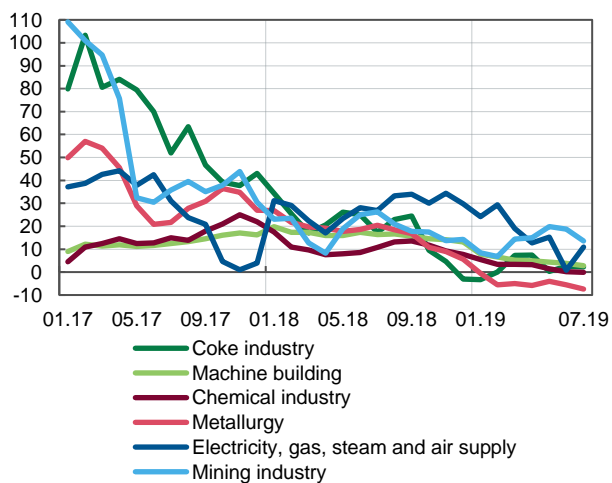
Chart 8. Producer Price Index, %



Source: SSSU.

Falling gas and oil prices helped slow inflation in the mining industry and some branches of the manufacturing industry

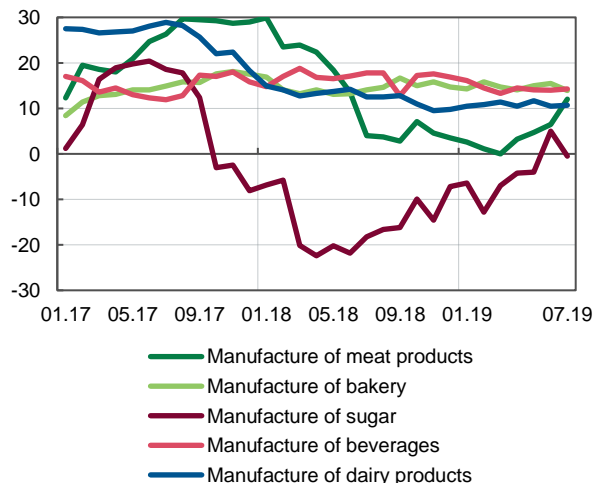
Chart 9. Producer Price Indices in Selected Industries, % yoy



Source: SSSU.

Price growth in the food industry decreased somewhat, mainly due to falling prices in the production of 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, %	2017	2018	% yoy			%mom July 2019
				2019			
				May	June	July	
CPI (NBU classification)							
Consumer Price Index	100.0	13.7	9.8	9.6	9.0	9.1	-0.6
Core inflation	59.3	9.5	8.7	7.4	7.4	7.4	-0.1
Non-core inflation*	40.7	19.4	10.7	12.9	11.7	11.7	-1.1
Raw foods	20.0	23.5	3.3	9.3	7.8	10.3	-1.9
Administered prices and tariffs	16.8	16.1	18.0	17.6	17.0	15.5	0.1
Fuels	3.9	20.0	9.1	3.1	2.6	-0.4	-3.2

CPI (State Statistics Service of Ukraine classification)							
Food and non-alcohol	45.4	17.7	7.8	9.2	8.5	9.9	-0.7
Alcohol, tobacco	8.3	20.7	17.9	16.4	15.9	15.2	1.1
Clothing and footwear	5.3	0.9	2.0	0.7	0.1	0.2	-4.5
Housing, water, electricity, gas and other fuels incl.	4.9	10.6	10.6	12.3	10.4	7.3	-2.3
Dwelling maintenance	0.2	47.5	23.7	14.6	13.2	9.2	0.5
Water supply	0.1	20.2	19.9	19.8	21.1	19.5	0.8
Hot water	0.2	0.9	3.2	16.6	16.6	16.6	0.0
Natural gas	1.2	1.2	22.9	17.7	10.2	-1.3	-10.4
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
Transport	11.4	16.7	12.9	9.0	8.7	6.8	-1.1
Communication	3.1	9.1	15.1	16.6	16.0	16.1	-0.1
Education	1.3	14.9	13.4	13.3	13.2	13.2	0.2

PPI							
	Share in PPI for 2019, %**	2017	2018	% yoy			%mom July 2019
				2019			
				May	June	July	
Producer Price Index	100.0	16.5	14.2	8.5	4.5	6.7	3.6
Mining and quarrying	15.2	30.4	14.3	19.9	18.7	13.5	-3.5
Manufacturing of coal	2.9	47.8	5.4	7.6	7.3	-4.6	-11.3
Extraction of crude petroleum and natural gas	5.3	16.1	24.9	13.7	13.1	-1.2	-12.2
Mining of metal ores	5.8	29.3	8.2	31.6	29.3	37.2	7.3
Manufacturing	65.3	18.5	7.4	2.5	2.5	1.8	-0.8
Manufacture of foods, beverages and tobacco products	20.2	12.5	7.0	5.0	6.2	6.0	-0.2
Manufacture of coke, and refined petroleum products	3.9	43.0	-3.1	0.3	2.5	2.3	-3.0
Manufacture of chemicals and chemical products	2.7	21.9	7.7	1.4	0.1	-0.1	0.3
Manufacture of basic pharmaceutical products and pharmaceutical preparation	1.4	11.0	16.7	14.8	13.6	13.2	0.2
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.2	12.5	12.6	8.9	8.4	7.6	-0.1
Manufacture of basic metals and fabricated metal products, except machinery and equipment	18.5	26.9	5.6	-4.0	-5.6	-7.4	-2.4
Manufacture of transport equipment	2.9	17.9	17.3	7.2	6.9	6.0	-0.1
Electricity, gas, steam and air-conditioning supply	18.5	4.0	29.8	15.3	0.8	10.9	16.4

* 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