

In October 2019, consumer inflation slowed to 6.5% yoy (from 7.5% in September). In monthly terms, prices grew by 0.7%. Actual inflation was in line with the projected trajectory published in the NBU's October 2019 Inflation Report. The steady slowdown in core inflation and administered prices, coupled with a significant drop in fuel prices, outweighed pressure from raw food prices.

Core Inflation

Core inflation slowed to 5.8% yoy in October, compared to 6.5% yoy in September. In monthly terms, core CPI increased by 0.7%.

A tight monetary policy was a strong factor in holding back underlying price pressures. This manifested itself through the exchange rate channel and an improvement in inflation expectations among all groups of respondents. The stronger hryvnia led to a 0.5% decrease, from October of last year, in prices for nonfood products, which are primarily represented by imported goods or have a high import share in their cost. In particular, cars and clothing and footwear became cheaper, prices for computer equipment and home appliances decreased further, and prices for furniture, pharmaceuticals, and personal care products grew more slowly.

The growth in prices for processed foods decelerated (to 7.4% yoy) amid favorable FX market conditions and the bumper harvest of grains and oilseeds. Specifically, prices for pasta, flour, bread, canned food, and chocolate increased at a slower pace, while rice and olive oil prices extended declines. The growth in the prices of dairy products decelerated as well, but only moderately, given the diminished supply of raw milk and robust demand for high-quality milk. Growth in meat product prices also slowed from the previous month.

At the same time, the persistent upward pressure on prices came from the steady growth in consumer demand and production costs, wages in particular. This was reflected, in particular, in the acceleration of prices for services (to 13.4% yoy). Mobile services became significantly more expensive after several operators raised mobile connection rates. Prices for repairs, education, and housing rentals grew at an accelerated pace. By contrast, the prices of services with a high import share in their cost (dry cleaning, manicure, cinema tickets) grew at a slower pace. Prices for tourism services continued to decline as the hryvnia strengthened.

Changes in Raw Food Prices

Growth in raw food prices accelerated to 8.8% yoy. Prices for buckwheat, apples, and potatoes increased due to a poor harvest. In addition, prices for citrus fruits and bananas rose at a faster pace. At the same time, an expansion in supply slowed the growth in the prices of most vegetables (except potatoes), including carrots, onions, tomatoes, peppers, and beets.

Changes in Administered Prices

The growth rates of administered prices decreased in October (to 12.2% yoy). More specifically, natural gas prices for households continued to decline (by 12.5% yoy), driven by a drop in global gas prices. Weaker growth was recorded in the prices of cold water supply, sewage, and postal services. The prices of alcoholic beverages grew more slowly in October (by 6.2% yoy), reflecting the effect of the high comparison base¹. The growth in prices for tobacco products remained strong due to excise taxes, which were raised in the summer, and a tighter supply.

Changes in Fuel Prices

The decline in fuel prices deepened (by 13.5% yoy), driven by a drop in global oil prices and sustained favorable conditions in Ukraine's FX market.

Producer Price Inflation

In October, producer price inflation slowed to 0.2% yoy. Over the month, producer prices declined by 1.2%. The strengthening of the hryvnia and a decline in global prices for Ukraine's export commodities continued to put downward pressure on the prices of industrial products, especially those that Ukraine exports.

With global prices for steel and iron ore declining, prices in the mining of metal ores dropped below the level of 2018 (by 7.2% yoy), while prices for metal products continued to decline (by 16.0% yoy).

As a result of a decline in global energy prices in annual terms, prices in the extraction of crude oil and natural gas continued to fall, as did prices in the chemical industry and the production of coke and petroleum products, which are

¹ Minimum prices for alcoholic beverages were raised in October 2018.

very energy-intensive.

Meanwhile, the growth in prices for the supply of electricity, gas, steam, and air conditioning accelerated to 15.3% yoy, driven in particular by an increase in natural gas prices for industrial producers in October.

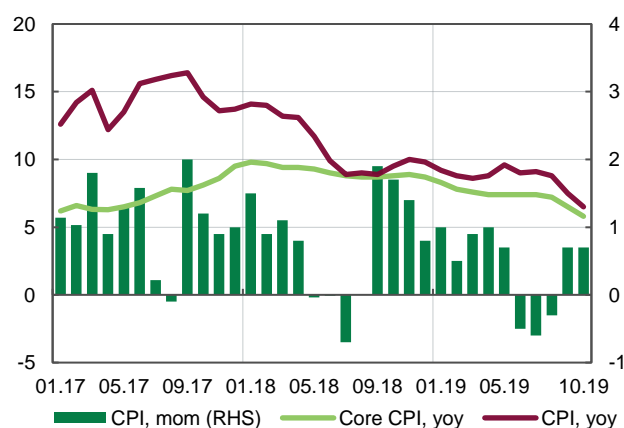
The slowdown in price growth in machinery (to 0.1% yoy) continued as raw materials and spare parts became cheaper, in particular due to the strengthening of the hryvnia. The same factor affected price developments in other sectors: prices in textile production, pharmaceutical production, and the manufacture of plastic products increased more slowly

than in the previous month.

Price growth in the production of foods, beverages, and tobacco products decelerated (to 1.2% yoy). Sugar prices fell more steeply (by 2.4% yoy) after the new harvest hit the market. On top of that, the bumper harvest of grains restrained price growth in bread production. In particular, price growth in meat production slowed (to 1.1% yoy) owing to cheaper raw materials. At the same time, prices in the manufacture of dairy products continued to grow fast (by 10.6% yoy), fueled by strong demand for, and limited supply of high-quality raw materials.

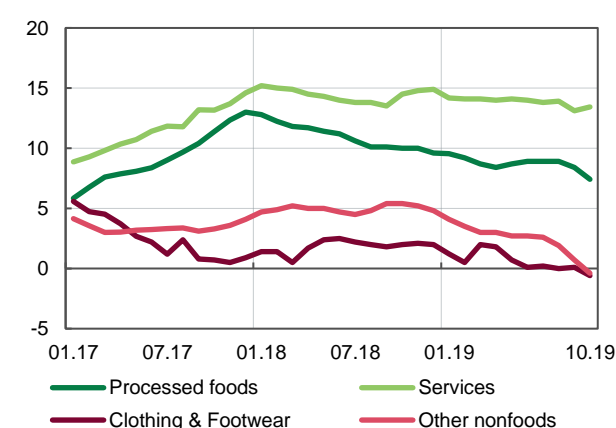
Consumer inflation and core inflation continued to decline in October 2019, in part due to tight monetary policy, which manifested itself through the strengthening of the hryvnia and improved inflation expectations

Chart 1. Consumer Price Indices, %



Source: SSSU.

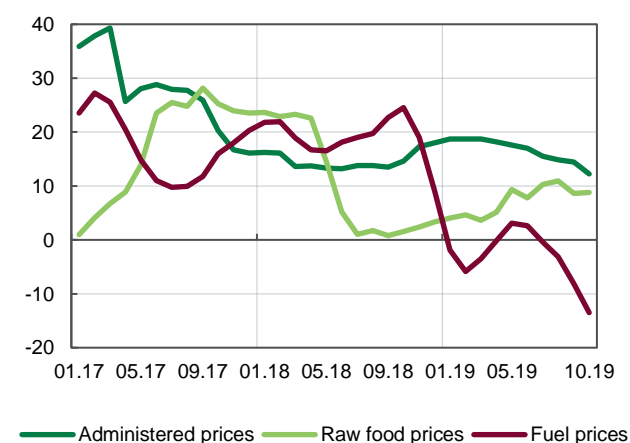
Chart 2. Main Core CPI Components, % yoy



Source: SSSU, NBU staff estimates.

A steep fall in fuel prices and slower growth in administered prices outweighed acceleration in raw food prices

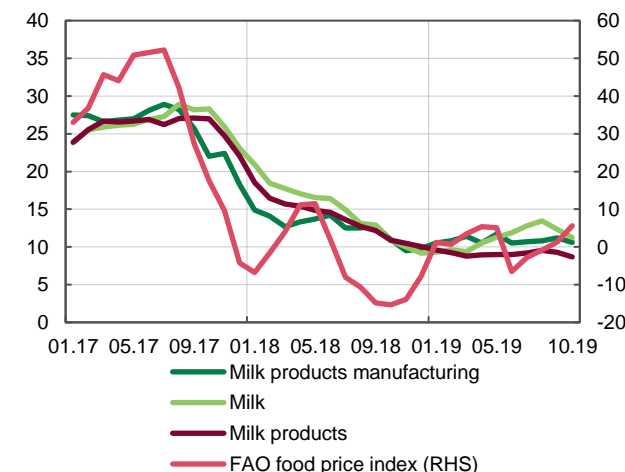
Chart 3. Main Components of Non-core CPI, % yoy



Source: SSSU.

Sustained demand amid supply cuts continued to drive strong growth in dairy prices

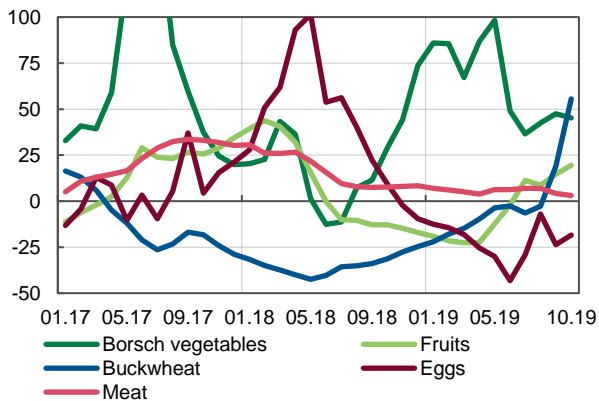
Chart 4. Prices for Milk Products, % yoy



Source: SSSU, NBU staff estimates, FAO.

This year's poorer harvest of certain vegetables accelerated growth in raw food prices

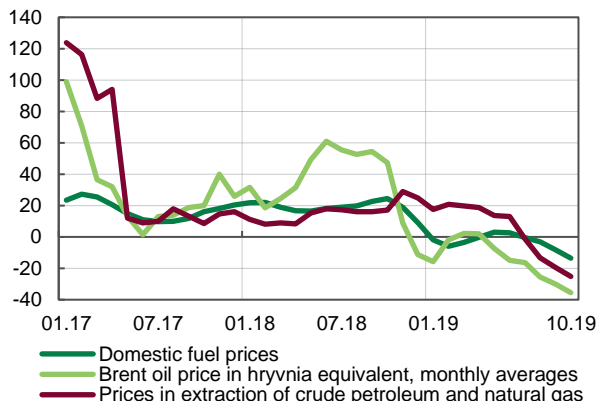
Chart 5. Prices for Selected Raw Food, % yoy



Source: SSSU.

Fuel prices fell, driven by a drop in global oil prices and favorable conditions on Ukraine's FX market

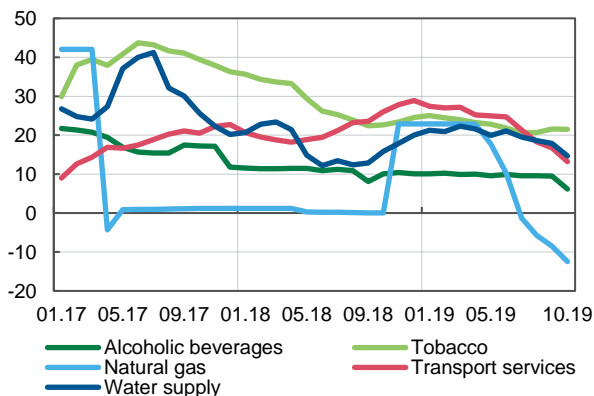
Chart 6. Fuel Price Indices, % yoy



Source: SSSU, Refinitiv.

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

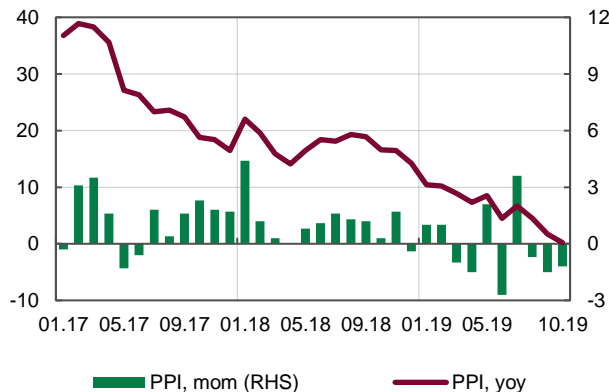
Chart 7. Administered Prices, % yoy



Source: SSSU.

Producer price inflation continued to decline, in part due to the stronger hryvnia...

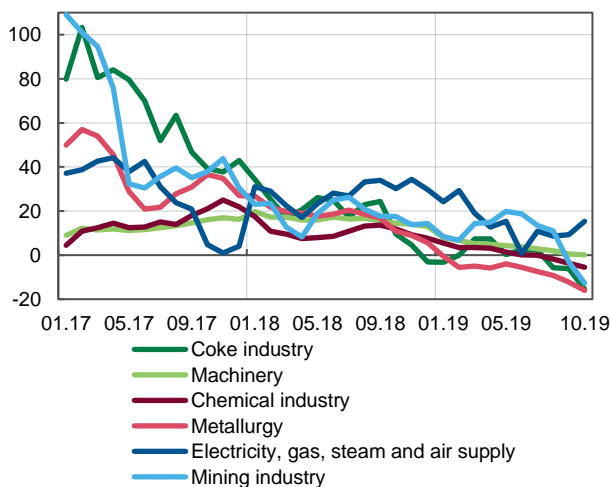
Chart 8. Producer Price Index, %



Source: SSSU.

...which, along with lower prices for Ukraine's export commodities, exerted downward pressure on prices in mining and manufacturing

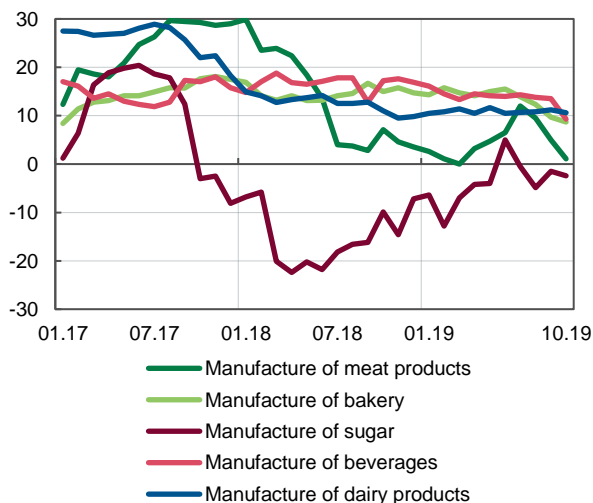
Chart 9. Producer Price Indices in Selected Industries, % yoy



Source: SSSU.

A slowdown in price growth occurred across all branches of the food industry

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 October 2019
				2019			
				Aug	Sep	Oct	
CPI (NBU classification)							
Consumer Price Index	100.0	13.7	9.8	8.8	7.5	6.5	0.7
Core inflation	59.3	9.5	8.7	7.2	6.5	5.8	0.7
Non-core inflation*	40.7	19.4	10.7	11.3	9.4	8.0	0.8
Raw foods	20.0	23.5	3.3	10.9	8.6	8.8	1.5
Administered prices and tariffs	16.8	16.1	18.0	14.8	14.1	12.2	0.2
Fuels	3.9	20.0	9.1	-3.2	-8.2	-13.5	-0.1

CPI (State Statistics Service of Ukraine classification)

Food and non-alcohol	45.4	17.7	7.8	10.2	8.8	8.2	0.9
Alcohol, tobacco	8.3	20.7	17.9	15.0	15.3	13.6	0.8
Clothing and footwear	5.3	0.9	2.0	0.0	0.1	-0.6	1.9
Housing, water, electricity, gas and other fuels incl.	4.9	10.6	10.6	5.8	5.4	4.3	-0.4
Dwelling maintenance	0.2	47.5	23.7	8.9	9.5	8.1	0.1
Water supply	0.1	20.2	19.9	18.6	17.9	14.7	1.9
Hot water	0.2	0.9	3.2	15.4	15.0	14.8	0.1
Natural gas	1.2	1.2	22.9	-5.7	-8.5	-12.5	-4.3
Central heating	0.8	3.8	5.2	19.5	19.5	19.4	0.3
Electricity	0.9	28.1	0.0	0.0	0.0	0.0	0.0
Transport	11.4	16.7	12.9	4.6	1.3	-2.4	-0.7
Communication	3.1	9.1	15.1	17.0	14.5	15.5	4.2
Education	1.3	14.9	13.4	13.4	13.3	13.7	0.4

PPI

	Share in PPI for 2019, %**	2017	2018	% yoy			%mom October 2019
				2019			
				Aug	Sep	Oct	
Producer Price Index	100.0	16.5	14.2	4.5	1.7	0.2	-1.2
Mining and quarrying	15.2	30.4	14.3	11.0	-3.1	-12.7	-7.4
Manufacturing of coal	2.9	47.8	5.4	-1.9	-4.0	-12.5	-9.2
Extraction of crude petroleum and natural gas	5.3	16.1	24.9	-13.3	-19.5	-25.2	-5.4
Mining of metal ores	5.8	29.3	8.2	42.8	8.2	-7.2	-9.7
Manufacturing	65.3	18.5	7.4	-0.1	-1.9	-4.6	-1.6
Manufacture of foods, beverages and tobacco products	20.2	12.5	7.0	4.6	3.1	1.2	-0.7
Manufacture of coke, and refined petroleum products	3.9	43.0	-3.1	-5.7	-6.1	-15.4	-7.7
Manufacture of chemicals and chemical products	2.7	21.9	7.7	-1.8	-3.7	-5.5	-1.7
Manufacture of basic pharmaceutical products and pharmaceutical preparation	1.4	11.0	16.7	13.4	13.9	11.9	0.9
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.2	12.5	12.6	6.7	5.6	4.4	-0.1
Manufacture of basic metals and fabricated metal products, except machinery and equipment	18.5	26.9	5.6	-9.2	-12.3	-16.0	-3.3
Manufacture of transport equipment	2.9	17.9	17.3	5.7	3.2	3.8	0.8
Electricity, gas, steam and air-conditioning supply	18.5	4.0	29.8	8.6	9.3	15.3	2.6

* 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-
PPI	producer price index	mom	in monthly terms; month-on-
SSSU	State Statistics Service of Ukraine	RHS	right-hand scale