

Consumer inflation slowed sharply in November 2019, reaching 5.1% yoy (compared to 6.5% yoy in October). In monthly terms, the Consumer Price Index (CPI) increased by 0.1%. Inflationary pressures weakened year on year across all main CPI components. The hryvnia's strengthening caused core inflation to decelerate further, dampening price growth for noncore goods. That said, prices for mostly imported non-core goods, fuel in particular, continued to drop in annual terms. Upside pressure on raw food prices subsided considerably due to an increase in supply. As a result, inflation met the medium-term target of 5%, which was set in 2015, earlier than expected.

Core Inflation

Core inflation slowed to 4.8% yoy (down from 5.8% yoy in October). In monthly terms, core CPI increased by 0.1%.

The deceleration in core inflation was mostly driven by the continued appreciation of the hryvnia against the currencies of partner countries (the nominal effective exchange rate strengthened by almost 16% yoy, according to preliminary estimates) and an improvement in inflation expectations across all respondent groups. The stronger hryvnia led to a deeper decline in prices for nonfood products – a large share of which are imported or which have a large import component in their cost – to 1.3% yoy from 0.5% yoy in October. In particular, prices of cars, clothing and footwear, computers, and home appliances fell deeper in annual terms. Personal care goods became cheaper. Prices for furniture and pharmaceuticals increased more slowly.

The hryvnia appreciation and a bumper harvest of grain and oil crops resulted in a slower growth in processed food prices (6.1% yoy, compared to 7.4% yoy in October). Prices for bakery and farinaceous products, canned foods, fish and seafood, and chocolate grew at a slower pace. Rice and vegetable oil were cheaper than one year ago. The reason is that a significant portion of these products is strongly dependent on imports. Price growth also slowed for dairy products, partly owing to an increase in import supply.

The prices of services also grew less rapidly (12.4% yoy). Prices for services with a large import component in their cost (dry cleaning, women hair salons, cinemas, etc.) grew at a slower pace. At the same time, the steady growth in consumer demand and an increase in costs, wages in particular, continued to affect prices. In particular, price growth accelerated for restaurant services, package recreation, car maintenance, and financial services, while the growth in prices for personal care, car insurance, and sporting facilities remained stubbornly high.

Changes in Raw Food Prices

Growth in raw food prices slowed to 7.0% yoy (from 8.8% yoy in October). Vegetable prices contributed the most to slower

raw food inflation with growth rates down to 14.5% yoy (from 23.1% in October). Higher supply prompted a decline in prices for cabbage, carrots, onions, tomatoes, eggplants, bell peppers, and beets. The growth rates of potato prices also decreased, though remaining significant (108% yoy). Price growth of flour and cereals decelerated rapidly due to the rich grain harvest. Only buckwheat was an exception, with prices growing at a faster pace (62.5% yoy) due to a smaller harvest. Growth in apple prices continued to accelerate for the same reason.

Changes in Administered Prices

The growth rates of administered prices also declined (to 10.0% yoy). Although natural gas prices for households increased month on month in November, in annual terms they remained substantially lower than one year ago (by almost 20%). Prices for transportation services, primarily for road transport, also grew more slowly (10.1% yoy), on the back of lower fuel prices. Growth in beverage prices decelerated to 5.4% yoy. Meanwhile, prices of tobacco products grew at a faster pace (21.8% yoy), reflecting tighter supply.

Changes in Fuel Prices

Fuel prices continued to fall (by 12.6% yoy) as the hryvnia appreciated and global oil prices dropped in annual terms.

Producer Price Inflation

In October, producer prices dropped by 4.5% yoy. The PPI declined by 3.0% mom. The drop in prices was largely driven by lower global prices for Ukrainian exports. The stronger hryvnia was an additional factor that prompted lower input prices.

Still below last year's levels, global steel prices, and a slower increase in iron ore prices, contributed to further price drops in metal ore mining (to 11.1% yoy) and metallurgy (to 18.8% yoy).

As global energy prices continued to decline in annual terms, prices in the production of crude oil and natural gas dropped further (by 29.3% yoy). This also affected the subsequent stages of the production process. In particular prices in the

production of coke and petroleum products dropped further, as did prices in the chemical industry. The fall in the latter was also driven by declining global prices for fertilizers.

Although Naftogaz of Ukraine NJSC raised natural gas prices for industry in November compared to October, they remained at almost half the levels of a year ago. In addition, the growth in the cost of electricity slowed as prices declined in the day-ahead market and the intraday market by 13.0% monthly, which can be attributed to heightened competition amid growing imports. As a result, price growth in the supply of electricity, natural gas, steam, and air conditioning slowed (to 3.0% yoy).

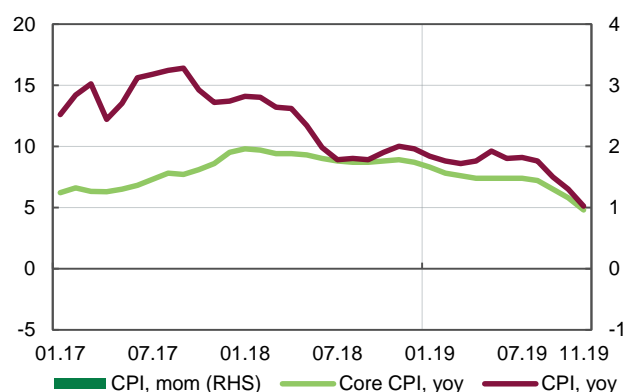
Prices in other sectors of manufacturing increased more

slowly as well. In particular, prices in the manufacturing of textiles, pharmaceuticals, and plastic slowed, while prices in the machinery and timber industries were lower than a year ago. This was in part due to the cooling of input prices, which was driven by the hryvnia strengthening, among other factors.

Price growth in the production of foods, beverages, and tobacco products continued to slow (to 0.7% yoy). Prices in the production of sugar fell more steeply (by 2.6% yoy) as the new harvest hit the market and global demand waned. On top of that, the bumper harvest of grains restrained price growth in bread production. Price growth in the manufacture of dairy products decelerated (to 9.6% yoy).

In November 2019, consumer inflation slowed sharply and reached the medium-term inflation target of 5% declared in 2015. Inflationary pressures weakened across all major components of the CPI as the hryvnia strengthened, energy prices fell, and the supply of some foods expanded.

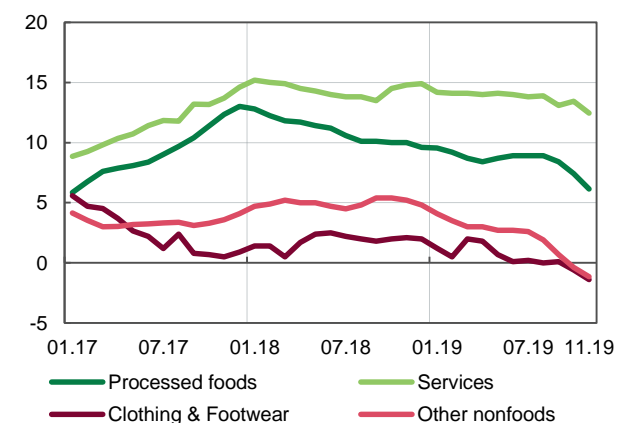
Chart 1. Consumer Price Indices, %



Source: SSSU.

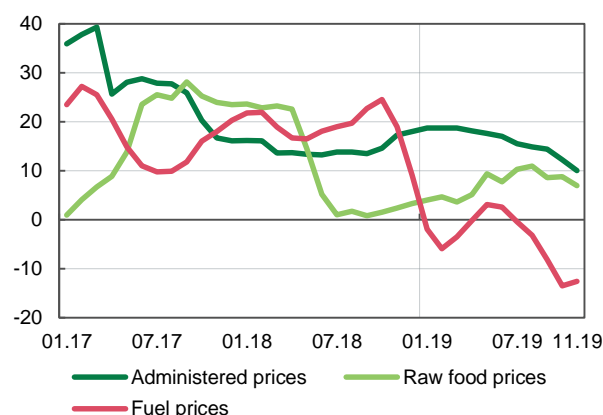
Underlying inflationary pressures eased, but service prices continued to grow rapidly as a result of a steadier increase in consumer demand and a rise in costs.

Chart 3. Main Core CPI Components, % yoy



Source: SSSU, NBU staff estimates.

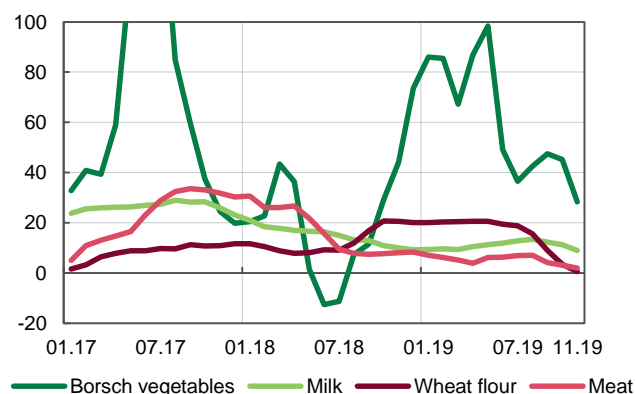
Chart 2. Main Components of Non-core CPI, % yoy



Source: SSSU, NBU staff estimates.

Raw food prices grew more slowly as their supply widened due to the ample harvest and growth in imports ...

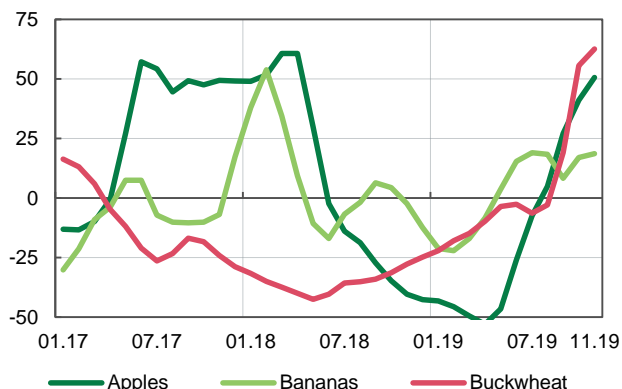
Chart 4. Prices for Selected Raw Food, % yoy



Source: SSSU.

... while the poor harvest of some other crops in Ukraine and elsewhere in the world prompted accelerated price increases

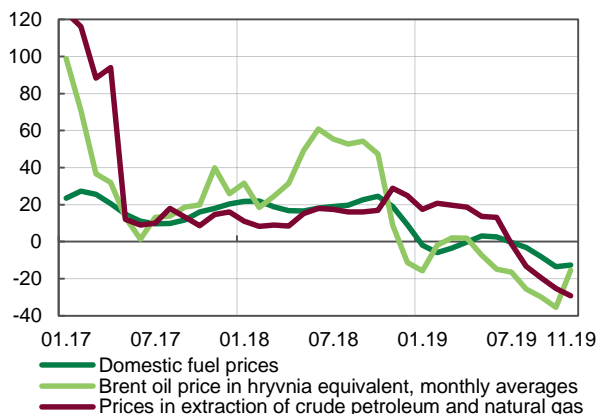
Chart 5. Prices for Selected Raw Food, % yoy



Source: SSSU.

Fuel prices fell, driven by a drop in global oil prices and the strengthening of the hryvnia in previous months

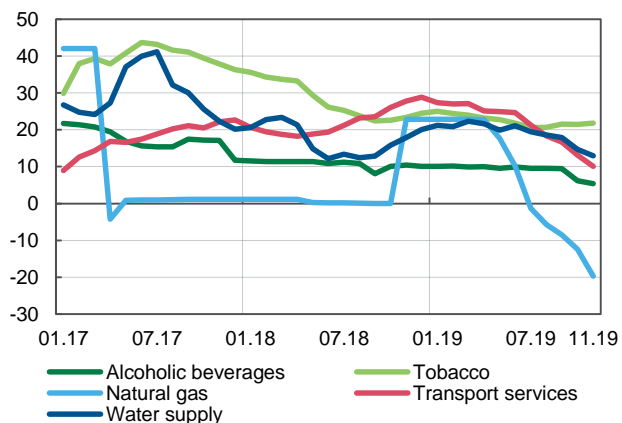
Chart 6. Fuel Price Indices, % yoy



Source: SSSU, Refinitiv.

Administered prices grew at a slower pace, primarily owing to a drop in gas prices for households and a slowdown in price increases for alcoholic beverages and transport

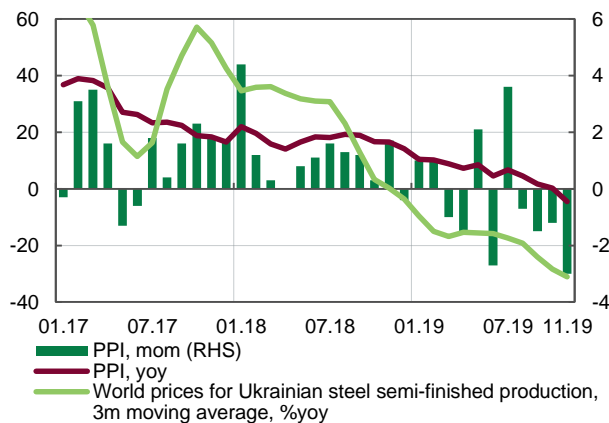
Chart 7. Administered Prices, % yoy



Source: SSSU.

In November, producer prices fell primarily due to lower global prices for Ukrainian exports. The hryvnia's strengthening was another factor

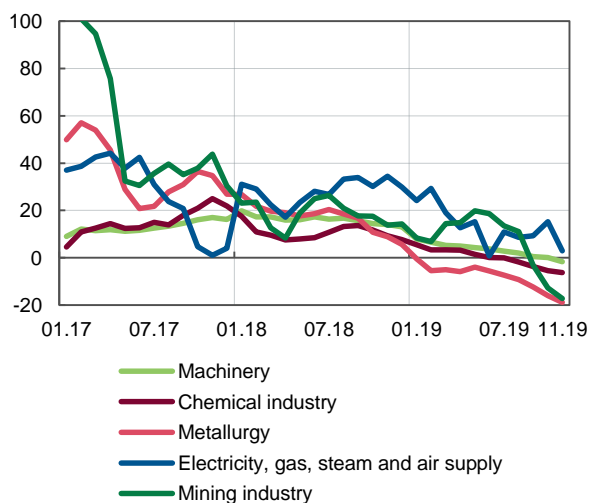
Chart 8. Producer Price Index, %



Source: SSSU.

...in reducing the input costs. All of this affected prices in most sectors of mining and manufacturing

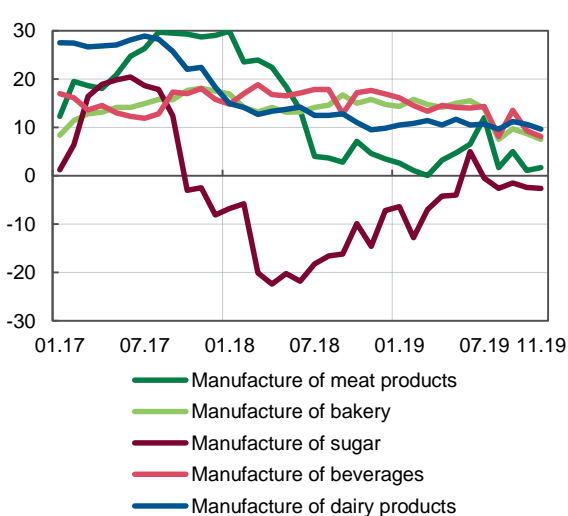
Chart 9. Producer Price Indices in Selected Industries, % yoy



Source: SSSU.

Price growth also decelerated in the majority of food industry sectors

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 November 2019
		2017	2018	2019					
				Sep	Oct	Nov			
CPI (NBU classification)									
Consumer Price Index	100.0	13.7	9.8	7.5	6.5	5.1	0.1		
Core inflation	59.3	9.5	8.7	6.5	5.8	5.8	0.1		
Non-core inflation*	40.7	19.4	10.7	9.4	8.0	6.2	0.1		
Raw foods	20.0	23.5	3.3	8.6	8.8	7.0	-0.8		
Administered prices and tariffs	16.8	16.1	18.0	14.1	12.2	10.0	1.2		
Fuels	3.9	20.0	9.1	-8.2	-13.5	-12.6	-0.3		

CPI (State Statistics Service of Ukraine classification)

Food and non-alcohol	45.4	17.7	7.8	8.8	8.2	6.6	-0.2
Alcohol, tobacco	8.3	20.7	17.9	15.3	13.6	13.2	0.8
Clothing and footwear	5.3	0.9	2.0	0.1	-0.6	-1.4	-1.4
Housing, water, electricity, gas and other fuels incl.	4.9	10.6	10.6	5.4	4.3	1.1	2.8
Dwelling maintenance	0.2	47.5	23.7	9.5	8.1	7.2	0.2
Water supply	0.1	20.2	19.9	17.9	14.7	13.0	0.6
Hot water	0.2	0.9	3.2	15.0	14.8	13.2	0.2
Natural gas	1.2	1.2	22.9	-8.5	-12.5	-19.7	12.7
Central heating	0.8	3.8	5.2	19.5	19.4	17.2	0.4
Electricity	0.9	28.1	0.0	0.0	0.0	0.0	0.0
Transport	11.4	16.7	12.9	1.3	-2.4	-3.1	-0.3
Communication	3.1	9.1	15.1	14.5	15.5	13.4	-0.2
Education	1.3	14.9	13.4	13.3	13.7	13.6	0.0

PPI

	Share in PPI for 2019, %**	2017		2018		% yoy			%mom November 2019
		2017	2018	2019					
				Sep	Oct	Nov			
Producer Price Index	100.0	16.5	14.2	1.7	0.2	-4.5	-3.0		
Mining and quarrying	15.2	30.4	14.3	-3.1	-12.7	-14.2	-0.1		
Manufacturing of coal	2.9	47.8	5.4	-4.0	-12.5	-21.7	-10.6		
Extraction of crude petroleum and natural gas	5.3	16.1	24.9	-19.5	-25.2	-29.3	7.6		
Mining of metal ores	5.8	29.3	8.2	8.2	-7.2	-11.1	-2.2		
Manufacturing	65.3	18.5	7.4	-1.9	-4.6	-6.0	-1.7		
Manufacture of foods, beverages and tobacco products	20.2	12.5	7.0	3.1	1.2	0.7	-0.3		
Manufacture of coke, and refined petroleum products	3.9	43.0	-3.1	-6.1	-15.4	-17.5	-5.1		
Manufacture of chemicals and chemical products	2.7	21.9	7.7	-3.7	-5.5	-6.2	-0.9		
Manufacture of basic pharmaceutical products and pharmaceutical preparation	1.4	11.0	16.7	13.9	11.9	11.3	0.2		
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.2	12.5	12.6	5.6	4.4	3.1	-0.4		
Manufacture of basic metals and fabricated metal products, except machinery and equipment	18.5	26.9	5.6	-12.3	-16.0	-18.8	-4.3		
Manufacture of transport equipment	2.9	17.9	17.3	3.2	3.8	2.8	-1.0		
Electricity, gas, steam and air-conditioning supply	18.5	4.0	29.8	9.3	15.3	3.0	-7.0		

* 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	year-over-year
PPI	producer price index	mom	month-over-month
SSSU	State Statistics Service of Ukraine		