

In January 2020, consumer inflation slowed to 3.2% yoy (down from 4.1% in December). In monthly terms, prices grew by 0.2%. Also in January, the SSSU revised the CPI weights in a scheduled review to reflect an update of national accounts, and changed the regional structure. The revision had little to no effect on the annual CPI readings, which the NBU estimates changed by less than 0.1 pp. At the start of 2020, inflation as expected breached the lower bound of the $5\% \pm 1$ pp target range. The slowdown in inflation was primarily caused by the ongoing impact of last year's hryvnia strengthening on consumer prices. This effect was amplified by lower global energy prices and a higher supply of raw food products. These factors outweighed the impact of rapid growth in consumer demand and wages. The slowdown in inflation in January was in line with the projected trajectory published in the NBU's January 2020 Inflation Report.

Changes to CPI weights

The SSSU carried out a scheduled revision of CPI weights in January 2020. The update was primarily due to the release of the final national accounts data (the 2020 CPI is based on 2018 national account data). Overall, the changes were minor, amounting to no more than 0.7 pp for major categories. The weights of foods and nonalcoholic beverages, alcohol, and tobacco products were decreased, while the weights of utility services, restaurant services, and hotel services were increased. In addition to adjusting the CPI weights to reflect the national accounts update, the SSSU altered the sample of regions from which it collects the price data it uses to compile the CPI. Overall, the methodological changes had no significant effect on inflation indicators. The impact of the CPI weighting changes on the January CPI did not exceed 0.1 pp, the NBU estimates.

Core Inflation

Core inflation slowed to 3.3% yoy (down from 3.9% yoy in December). The hryvnia's appreciation continued to be reflected in lower prices for imported goods and products with a large share of imported inputs. Apart from that, an improvement in inflationary expectations across all groups of respondents supported an easing in underlying inflationary pressures.

Driven by the exchange rate factor, nonfood prices continued to fall (by 3.0% yoy). Prices for clothing and footwear, cars, home appliances, and electronic devices declined on last year's levels. Prices for some goods in these categories fell by 5%–12%. The growth in prices for furniture, dishware, flowers, cleaning products, and pharmaceuticals decelerated (to 1%–2% yoy).

The price growth of processed foods – especially those that rely heavily on imported inputs – continued to slow (to 4.6% yoy). Specifically, prices for pasta, fish, seafood, and tea increased more slowly, while prices for rice and olive oil declined. In addition, the rich grain harvest prompted a

deceleration in the growth in prices of bread and bakery products.

As expected, the growth in services prices decelerated slightly (to 11.5% yoy), but remained the highest among the major components of inflation. This was due to sustained growth in consumer demand and higher business costs, particularly employee wages. Prices grew rapidly for education, mobile communications, cable TV, hairdressing, and healthcare. Prices for financial, notary, funeral, and hotel services rose even faster. At the same time, the hryvnia's strengthening continued to put downward pressure on the prices of services with a large share of imported inputs (cinema tickets, the internet, dry cleaning services) or those closely correlating with exchange rate movements (housing rentals and travel services).

Changes in Raw Food Prices

The growth in raw food prices decelerated significantly (to 1.1% yoy). An ample harvest of most vegetables and relatively warm weather in November through January intensified the drop in prices for cabbage, carrots, onions, beets, tomatoes, cucumbers, eggplants, and bell peppers. The increase in potato prices also slowed (to 42.9% yoy). A decline in feed prices, strengthened competition in external markets, and growth in domestic production resulted in lower prices for poultry products. The hryvnia's strengthening and a sufficient supply of imports helped reduce the rate of increase in prices for fruit, especially bananas and citrus fruits. Meanwhile, buckwheat and apple prices continued to grow quickly due to a poor harvest of these foods.

Changes in Administered Prices

The growth in administered prices slowed to 8.0% yoy. In particular, the prices of alcoholic beverages and tobacco products rose at a slower pace. Prices for water supply and sewage services increased more slowly. Prices for heating and hot water supply have practically returned to last year's levels. Despite a month-on-month increase in natural gas

rates for households (taking into account changes in the approach to calculating these rates, and a separate transportation charge¹), they remained significantly lower than a year ago (down 21.1% yoy).

Changes in Fuel Prices

The fall in fuel prices decelerated (to 6.1% yoy). While global oil prices stabilized for some time in previous months (the NBU estimates that global oil prices pass through to local fuel prices with a time lag of one month), the decline in fuel prices was driven by the lasting pass-through effect of the hryvnia's appreciation in 2019,² and by a drop in the contribution of retail markups.

Producer Price Inflation

The growth in the prices of industrial products decelerated in January (to 5.9% yoy). The Producer Price Index (PPI) increased during the month by 2.5%, reflecting an improved external price environment for Ukrainian exports and higher electricity prices.

More specifically, a slight recovery of the growth in global iron ore prices contributed to a rapid slowdown of the fall in prices in the mining of metal ores, especially those sold outside of Ukraine (to 4.7% yoy from 20.5% yoy in December). As a result, the decline in prices in metallurgy slowed somewhat (to 17.9% yoy).

As oil prices stabilized temporarily between late 2019 and early 2020, the fall in prices in the manufacture of crude oil and natural gas decelerated (to 20.5% yoy). This also

affected the adjacent stages in the production process, in particular by slowing price declines in the chemicals industry (by 6.3% yoy) and in the manufacture of coke and petroleum products (by 12.2% yoy).

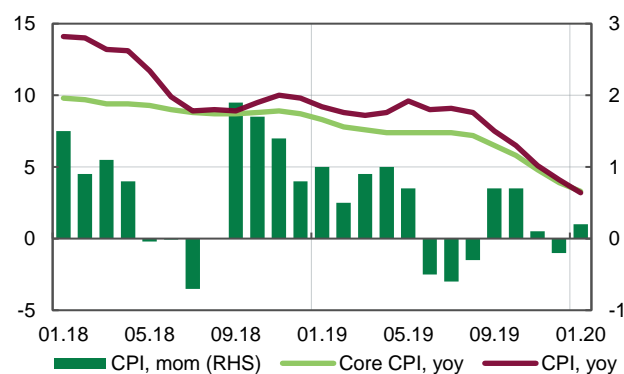
Electricity prices for industrial producers increased in January due to a decline in the share of cheaper nuclear power generation, which was primarily reflected in price movements in the day-ahead market. This outweighed the effect of lower natural gas prices for industrial producers. As a result, the pace of the fall in prices for the supply of electricity, gas, steam, and air conditioning slowed (to 3.2% yoy).

At the same time, prices in other manufacturing sectors increased more slowly. In particular, price growth slowed in the manufacture of rubber and plastic products. In the machinery and timber industries, the fall in prices accelerated. This was partly due to a decrease in input prices, which was driven, among other things, by the appreciation of the hryvnia in previous periods.

Price growth in the production of food, beverages, and tobacco products decelerated (to 0.9% yoy). In particular, the large harvest of grains restrained price growth in the production of bread. The price increase in the production of dairy products continued to slow (to 7.3% yoy), while prices in the manufacturing of meat products declined (by 0.4% yoy), among other factors due to a significant supply on the domestic market amid a [temporary ban](#) by the EU on poultry imports from Ukraine.

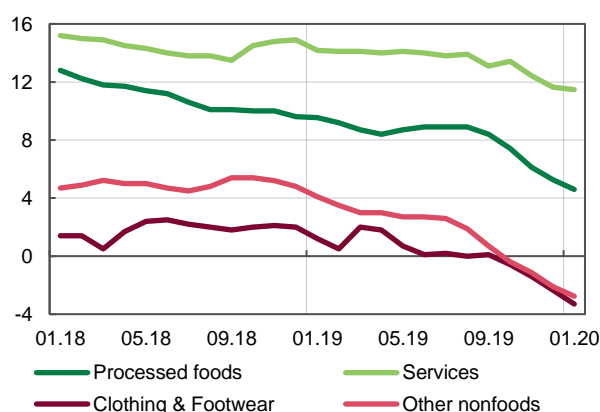
In January 2020, consumer inflation slowed to 3.2% yoy, as expected exiting the 5% ± 1 target range through its lower bound. This was primarily driven by the continued effect of the strengthening of the hryvnia last year. Lower global energy prices and a greater supply of raw food products added to the slowdown. These factors outweighed the impact of the growth in consumer demand and wages

Figure 1. Consumer price indices, %



Source: SSSU.

Figure 2. Main core CPI components, % yoy



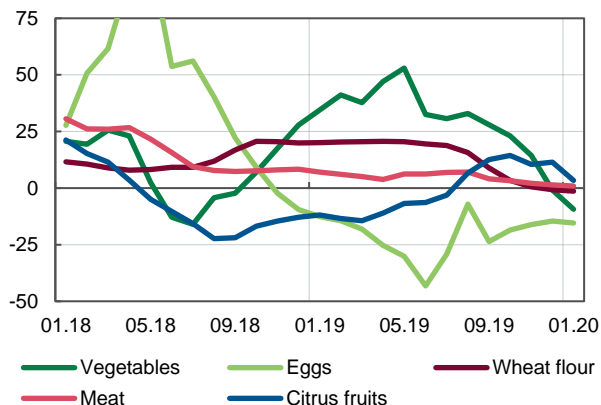
Source: SSSU, NBU staff estimates.

¹ Despite the separation of these functions, the SSSU will continue to include the transportation charge in the gas prices.

² In particular, this came through a reduction in the hryvnia equivalent of indirect taxes that are calculated in euros and set in the hryvnia equivalent at the beginning of a reporting quarter.

Raw food prices grew more slowly due to the ample harvest and the increased production and imports of some of these foods

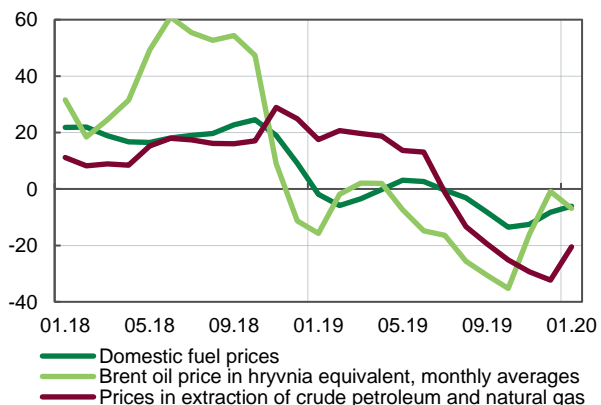
Figure 3. Prices for selected raw foods, % yoy



Source: SSSU.

The decline in fuel prices was driven by the lasting pass-through effect of the hryvnia's appreciation in 2019, and by a drop in the contribution of retail markups

Figure 5. Fuel price indices, % yoy



Source: SSSU, Refinitiv Datastream.

The PPI declined at a slower rate in January, thanks to a slight improvement in the external price environment for Ukrainian exports and a slowdown in the fall in electricity prices

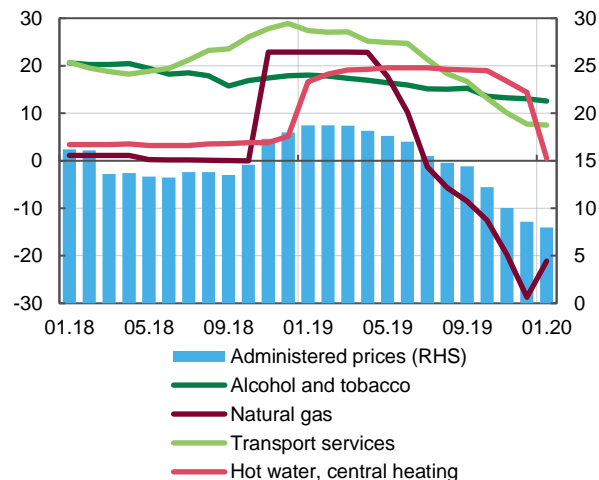
Figure 7. Producer price index, %



Source: SSSU.

Despite the hike in natural gas rates in January, administered prices grew at a slower pace owing to slower growth in prices for the majority of the other components

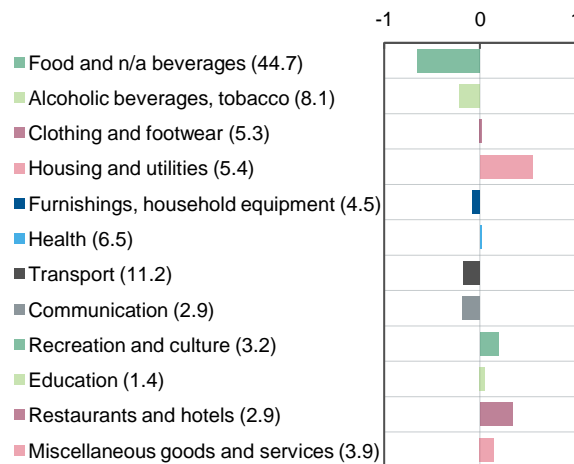
Figure 4. Administered prices, % yoy



Source: SSSU, NBU staff estimates.

Changes to CPI weights made by the SSSU following a scheduled revision had virtually no effect on the annual CPI readings

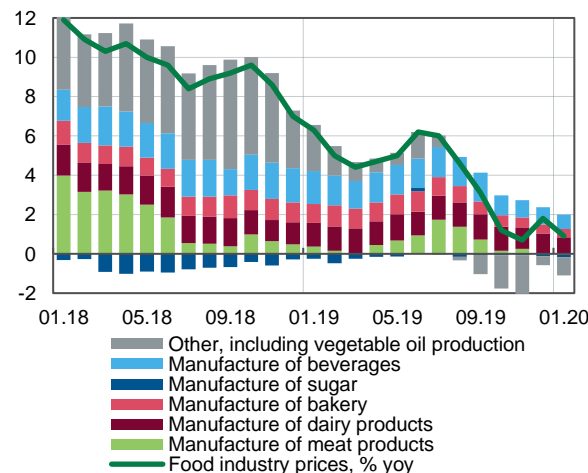
Figure 6. Changes in the CPI weighting structure by major groups, pp (weights for 2020 are shown in parentheses, %)



Source: SSSU.

Price growth also decelerated in most sectors of the food industry, among other things due to the bumper harvest of grains and oilseeds

Figure 8. Main components of annual changes in prices in the manufacture of food, beverages and tobacco, pp



Source: SSSU, NBU staff estimates.

CPI and PPI Growth by Components in 2017–2020

	Share in CPI for 2020, %	2017	2018	% yoy			%mom January 2020
				2019		2020	
				Nov	Dec	Jan	
CPI (NBU classification)							
Consumer Price Index	100.0	13.7	9.8	5.1	4.1	3.2	0.2
Core inflation	59.4	9.5	8.7	4.8	3.9	3.3	-0.2
Non-core inflation*	40.6	19.4	10.7	6.2	4.8	3.2	0.8
Raw foods	19.4	23.5	3.3	7.0	3.9	1.1	1.1
Administered prices and tariffs	18.0	16.1	18.0	10.0	8.6	8.0	1.3
Fuels	3.2	20.0	9.1	-12.6	-8.2	-6.1	-4.0

CPI (State Statistics Service of Ukraine classification)

Food and non-alcohol	44.7	17.7	7.8	6.6	4.8	3.1	0.2
Alcohol, tobacco	8.1	20.7	17.9	13.2	13.0	12.6	0.8
Clothing and footwear	5.3	0.9	2.0	-1.4	-2.3	-3.3	-5.6
Housing, water, electricity, gas and other fuels incl.	5.4	10.6	10.6	1.1	-1.9	-2.8	1.7
Dwelling maintenance	0.3	47.5	23.7	7.2	6.9	6.6	0.4
Water supply	0.2	20.2	19.9	13.0	12.7	11.1	0.0
Hot water	0.2	0.9	3.2	13.2	12.3	2.6	0.0
Natural gas	1.4	1.2	22.9	-19.7	-28.7	-21.1	10.7
Central heating	1.0	3.8	5.2	17.2	14.6	0.3	-2.9
Electricity	1.0	28.1	0.0	0.0	0.0	0.0	0.0
Transport	11.2	16.7	12.9	-3.1	-2.3	-1.4	-0.7
Communication	2.9	9.1	15.1	13.4	11.8	9.9	0.8
Education	1.4	14.9	13.4	13.6	13.5	13.5	1.4

PPI

	Share in PPI for 2020, %**	2017	2018	% yoy			%mom January 2020
				2019		2020	
				Nov	Dec	Jan	
Producer Price Index	100.0	16.5	14.2	-4.5	-7.4	-5.9	2.5
Mining and quarrying	15.9	30.4	14.3	-17.2	-22.8	-16.6	5.2
Manufacturing of coal	3.3	47.8	5.4	-21.7	-23.6	-31.5	-5.2
Extraction of crude petroleum and natural gas	4.8	16.1	24.9	-29.3	-32.3	-20.5	15.0
Mining of metal ores	6.3	29.3	8.2	-11.1	-21.4	-11.8	3.9
Manufacturing	64.4	18.5	7.4	-6.0	-5.7	-5.5	-0.2
Manufacture of foods, beverages and tobacco products	21.4	12.5	7.0	0.7	1.8	0.9	-0.6
Manufacture of coke, and refined petroleum products	2.9	43.0	-3.1	-17.5	-14.2	-12.2	0.4
Manufacture of chemicals and chemical products	2.9	21.9	7.7	-6.2	-8.9	-6.3	2.3
Manufacture of basic pharmaceutical products and pharmaceutical preparation	1.5	11.0	16.7	11.3	9.6	10.0	1.4
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.7	12.5	12.6	3.1	2.6	1.3	0.0
Manufacture of basic metals and fabricated metal products, except machinery and equipment	15.9	26.9	5.6	-18.8	-18.8	-17.9	-1.1
Manufacture of transport equipment	3.2	17.9	17.3	2.8	1.1	1.2	1.2
Electricity, gas, steam and air-conditioning supply	18.5	4.0	29.8	3.0	-5.6	-3.2	8.1

* 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 2019.

Terms and abbreviations:

CPI	Consumer Price Index	NEER	nominal effective exchange rate
PPI	producer price index	RHS	right-hand scale
SSSU	State Statistics Service of Ukraine	mom	month-on-month
NBU	National Bank of Ukraine	yoy	year-on-year