

Consumer inflation decelerated to 2.4% yoy in February 2020 (down from 3.2% yoy in January). The CPI declined by 0.3% over the month. Consumer inflation was below the 5% ± 1 pp target range, as expected. However, inflation continued to decline faster than predicted by the projected trajectory published in the January 2020 Inflation Report. The faster disinflation was driven by lower energy prices, a greater supply of raw foods, and the sustained impact of last year's appreciation of the hryvnia on the prices of goods. These factors outweighed the upward pressure on prices from a steady increase in consumer demand and wages.

Core Inflation

Core inflation slowed to 3.0% yoy (down from 3.3% yoy in January). Last year's strengthening of the hryvnia continued to be reflected in the prices of imported goods and products with a large share of imported inputs. Specifically, the fall in prices for nonfood products deepened slightly (to 3.2% yoy, from 3.0% yoy in January). In particular, the drop in prices for clothing and footwear, and for electronic devices accelerated (to 4.1% yoy and 12.3% yoy, respectively), while the growth in prices for home textiles, cleaning products, personal care products, toys, pharmaceuticals, and medical supplies continued to slow (to 1%–2% yoy). In addition, despite a slightly slower drop in prices for cars and home appliances in February compared to January, they remained below last year's levels.

Processed food prices grew more slowly (by 4.1% yoy, compared to 4.6% yoy in January). In particular, largely imported goods such as pasta, fish and seafood, and coffee increased in price at lower rates. Products like spices, rice, and olive oil were even cheaper than last year. Price growth also slowed for dairy products, limited by an increase in the supply of imports. In addition, the growth in prices of bread and bakery products decelerated due to the high grain harvest.

The growth in services prices decelerated (to 11.0% yoy). At the same time, the hryvnia's strengthening continued to affect the prices of some services – mainly those with import-driven costs (dry cleaning, manicure, hairdresser services, cable TV) or those closely correlated with the exchange rate (such as tourist services). Coupled with the weaker pressure from food prices, the exchange rate factor contributed to slower growth in prices for services provided by restaurants and cafes. The increase in the prices of mobile services decelerated, primarily due to the comparison base effect. At the same time, the growth in services prices remained the highest among the main components of inflation. This was due to sustained steady growth in consumer demand (the growth in retail trade turnover in December and January exceeded 12% yoy) and higher costs, in particular wage costs (the average nominal wage grew by 16.3% yoy). More specifically, prices for

cinemas tickets, sports facilities' services, personal vehicle insurance, financial services, and funeral services grew more rapidly.

Changes in Raw Food Prices

Raw food prices decreased (by 1.3% yoy after increasing by 1.1% yoy in January). Specifically, the fall in vegetable prices deepened (to 14.3% yoy from 9.4% yoy in January), the latter being the largest contributor to deflation. In particular, thanks to a better harvest of most vegetables than last year, and mild winter temperatures, the prices of cabbage, carrots, onions, and beetroot in the winter months were half the level of a year ago. The warm weather and the larger supply of imported products helped push down prices for greenhouse vegetables and slowed the rise in potato prices (to 28.7% yoy from 42.9% yoy in January). A decline in feed prices, stronger competition in external markets, and the growth in domestic production resulted in eggs becoming significantly cheaper (by 27.7% yoy). These factors, along with a [temporary EU ban](#) on imports of chicken meat out of an abundance of caution over the spread of bird flu, accelerated the fall in prices of this product to 5.7% yoy (in 2019, Ukraine sent 28% of its chicken meat exports to the European Union). In addition, high grain yields continued to reduce flour and cereal prices.

Changes in Administered Prices

The growth in administered prices slowed (to 6.7% yoy). Natural gas prices for households, which plunged (by 31.3% yoy) as global natural gas prices fell, were the strongest contributor to the slowdown in the growth of administered prices. The cost of heating and hot water supplies also declined in annual terms (by 2.4% yoy) reflecting different heating discount rates in various regions of Ukraine that went into effect after natural gas prices changed. Prices for alcoholic beverages rose at a more moderate pace (by 4.0% yoy). In contrast, prices for water supply and sewage services increased more quickly, fueled by higher production costs, including wages and input prices.

Changes in Fuel Prices

Fuel prices were still down 6.1% yoy from last year's levels. The fall in fuel prices continued as global oil prices in

January edged lower in annual terms (the NBU estimates that global oil prices are passed through to local fuel prices with a time lag of one month) amid the lagged effects of the hryvnia's appreciation in previous months and a drop in the contribution of retail markups.

Producer Price Inflation

The decline in prices for industrial products deepened in February (to 6.8% yoy). The PPI increased over the month by 0.1%. The acceleration of the year-on-year fall was primarily due to the drop in energy prices, resulting from both falling global energy prices and a decline in domestic demand amid mild weather conditions.

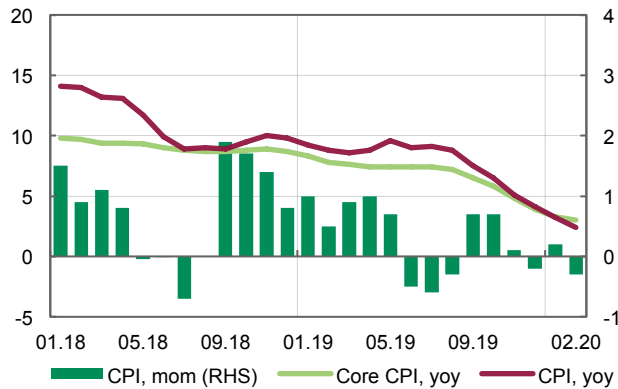
Thus, the decrease in global prices for natural gas accelerated the fall in the prices of this product in industry (to 45%–47% yoy) and in the manufacture of crude oil and natural gas (to 25.4% yoy). Prices fell faster in the coal mining industry as well (by 34.1% yoy). All of this also affected the adjacent sectors of industry. In particular, prices in the chemicals industry continued to drop (by 4.2% yoy),

while price decreases in the manufacture of coke and petroleum products deepened (to 16.8% yoy). Coupled with the surplus of power generation capacity amid warm weather conditions, this also accelerated the fall in prices in the supply of electricity, gas, steam, and air conditioning (to 9.2% yoy).

Meanwhile, the slowdown of the fall in prices in the mining of metal ores, especially those sold outside Ukraine (to 2.1% yoy from 4.7% yoy in December) continued. As a result, the decline in prices in metallurgy, especially export prices, decelerated (to 12.6% yoy). Price inflation in the manufacture of textiles, motor vehicles, foods, beverages, and tobacco products accelerated slightly (to 2.5% yoy). Sugar prices also returned to growth (1.8% yoy) as global prices for this product increased. The price growth in the manufacture of vegetable oil, driven by an increase in export prices, also contributed to inflation in the food industry. Prices in meat production increased (by 0.6% yoy), although still modestly. At the same time, the high grain harvest restrained price growth in bread production (4.6% yoy).

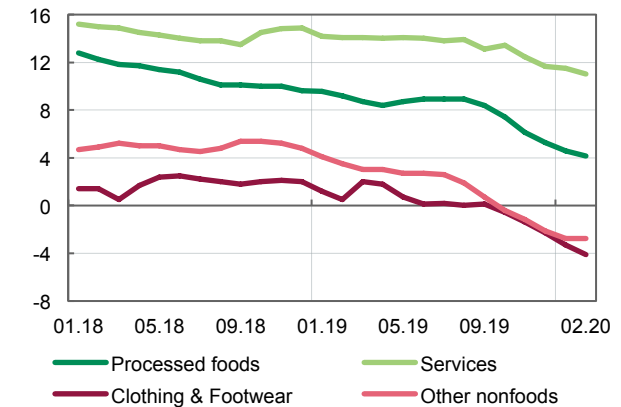
In February 2020, consumer inflation slowed to 2.4% yoy and remained below the 5% ± 1 pp target range. This was driven by the lagged effects of the hryvnia's appreciation in 2019, lower energy prices, and a greater supply of raw food products. These factors outweighed the impact of the growth in consumer demand and wages

Figure 1. Consumer price indices, %



Source: SSSU.

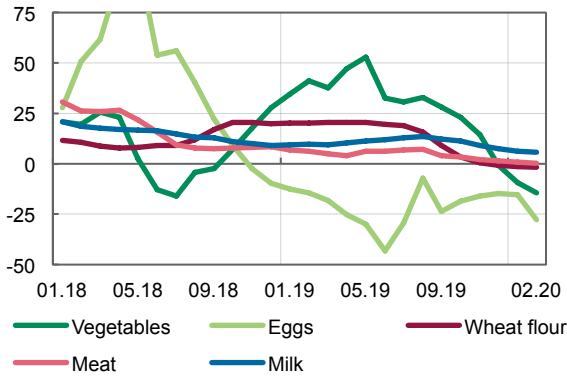
Figure 2. Main core CPI components, % yoy



Source: SSSU, NBU staff estimates.

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

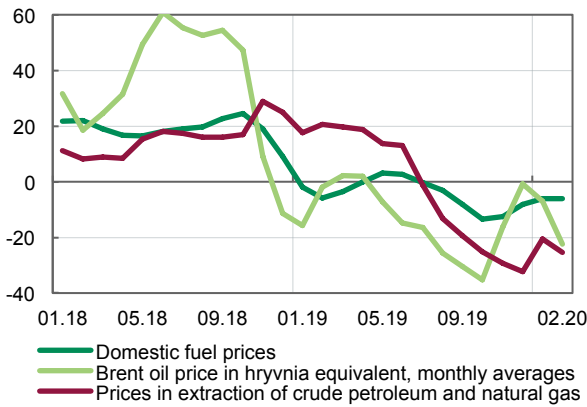
Figure 3. Prices for selected raw foods, % yoy



Source: SSSU.

The decrease in fuel prices was driven by a small decline in global oil prices, the persisting effects of the hryvnia's appreciation in previous months, and a drop in the contribution of retail markups

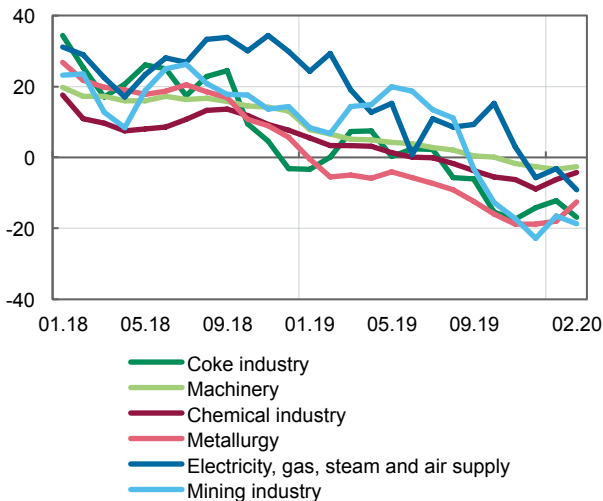
Figure 5. Fuel price indices, % yoy



Source: SSSU, Refinitiv Datastream.

The main factor behind the steeper fall in producer prices was the decrease in prices for energy – natural gas and electricity – which also affected related industries

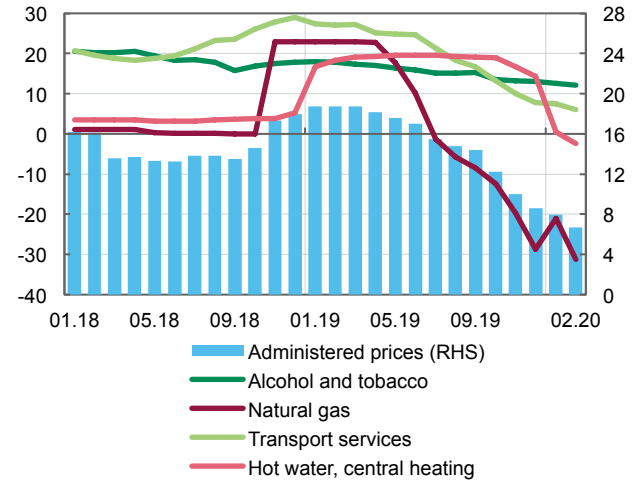
Figure 7. Producer price indices in selected industries, % yoy



Source: SSSU.

Administered prices grew at a slower pace, primarily due to steeper declines in natural gas prices and slower growth in prices for the majority of other components

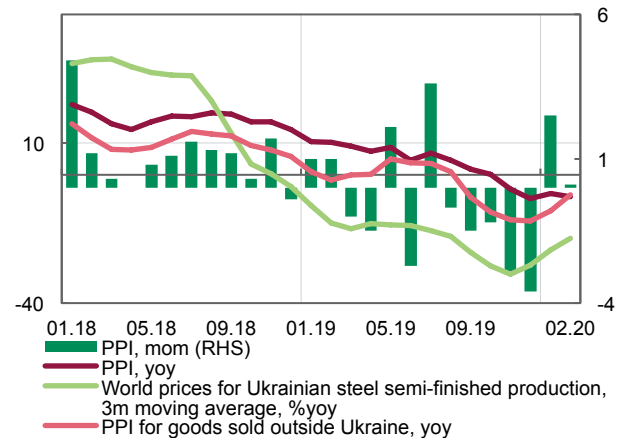
Figure 4. Administered prices, % yoy



Source: SSSU, NBU staff estimates.

Price decreases in industry deepened in February 2020, although pressure from export prices eased

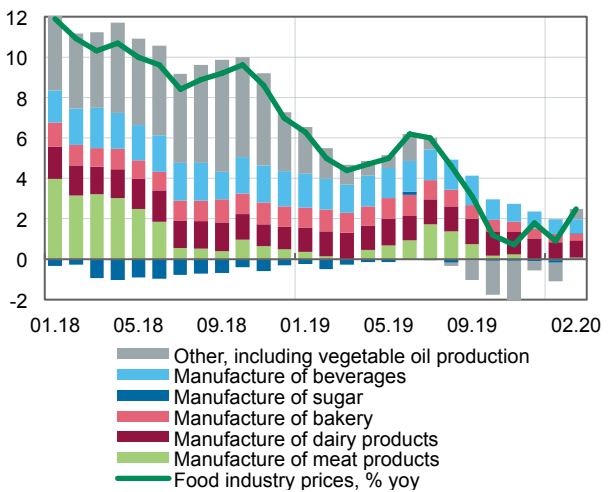
Figure 6. Producer price index, %



Source: SSSU.

Price growth in the food industry accelerated due to higher sugar and vegetable oil prices, amid pressures from external demand

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, %	% yoy						%mom February 2020
		2017	2018	2019	2020			
					Jan	Feb		
CPI (NBU classification)								
Consumer Price Index	100.0	13.7	9.8	4.1	3.2	2.4	-0.3	
Core inflation	59.4	9.5	8.7	3.9	3.3	3.0	-0.1	
Non-core inflation*	40.6	19.4	10.7	4.8	3.2	1.9	-0.7	
Raw foods	19.4	23.5	3.3	3.9	1.1	-1.3	-1.2	
Administered prices and tariffs	18.0	16.1	18.0	8.6	8.0	6.7	0.0	
Fuels	3.2	20.0	9.1	-8.2	-6.1	6.1	-2.0	

CPI (State Statistics Service of Ukraine classification)							
Food and non-alcohol	44.7	17.7	7.8	4.8	3.1	1.8	-0.4
Alcohol, tobacco	8.1	20.7	17.9	13.0	12.6	12.1	0.8
Clothing and footwear	5.3	0.9	2.0	-2.3	-3.3	-4.1	-4.3
Housing, water, electricity, gas and other fuels incl.	5.4	10.6	10.6	-1.9	-2.8	-5.2	-2.0
Dwelling maintenance	0.3	47.5	23.7	6.9	6.6	3.4	0.4
Water supply	0.2	20.2	19.9	12.7	11.1	25.8	15.3
Hot water	0.2	0.9	3.2	12.3	2.6	-1.7	-3.2
Natural gas	1.4	1.2	22.9	-28.7	-21.1	-31.3	-12.9
Central heating	1.0	3.8	5.2	14.6	0.3	-2.4	-1.2
Electricity	1.0	28.1	0.0	0.0	0.0	0.0	0.0
Transport	11.2	16.7	12.9	-2.3	-1.4	-1.2	0.1
Communication	2.9	9.1	15.1	11.8	9.9	8.6	0.3
Education	1.4	14.9	13.4	13.5	13.5	13.3	0.3

PPI								
	Share in PPI for 2020, %**	% yoy						%mom February 2020
		2017	2018	2019	2020			
					Jan	Feb		
Producer Price Index	100.0	16.5	14.2	-7.4	-5.9	-6.8	0.1	
Mining and quarrying	15.9	30.4	14.3	-22.8	-16.6	-18.6	-1.2	
Manufacturing of coal	3.3	47.8	5.4	-23.6	-31.5	-34.1	-3.7	
Extraction of crude petroleum and natural gas	4.8	16.1	24.9	-32.3	-20.5	-25.4	-6.0	
Mining of metal ores	6.3	29.3	8.2	-21.4	-11.8	-11.3	3.1	
Manufacturing	64.4	18.5	7.4	-5.7	-5.5	-3.8	1.2	
Manufacture of foods, beverages and tobacco products	21.4	12.5	7.0	1.8	0.9	2.5	1.3	
Manufacture of coke, and refined petroleum products	2.9	43.0	-3.1	-14.2	-12.2	-16.8	-3.3	
Manufacture of chemicals and chemical products	2.9	21.9	7.7	-8.9	-6.3	-4.2	1.4	
Manufacture of basic pharmaceutical products and pharmaceutical preparation	1.5	11.0	16.7	9.6	10.0	9.7	0.9	
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.7	12.5	12.6	2.6	1.3	1.0	-0.1	
Manufacture of basic metals and fabricated metal products, except machinery and equipment	15.9	26.9	5.6	-18.8	-17.9	-12.6	3.7	
Manufacture of transport equipment	3.2	17.9	17.3	1.1	1.2	2.7	1.6	
Electricity, gas, steam and air-conditioning supply	18.5	4.0	29.8	-5.6	-3.2	-9.2	-2.1	

* 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	mom	month-on-month
SSSU	State Statistics Service of Ukraine	yoy	year-on-year
NBU	National Bank of Ukraine	RHS	Right-hand scale