

In May 2020, consumer inflation declined to 1.7% in annual terms, down from 2.1% in April. In monthly terms, prices grew by 0.3%. As expected, consumer inflation was below the $5\% \pm 1$ pp target range. Price growth was constrained by several factors, including the still benign FX market conditions, low energy prices, and weaker consumer demand for most goods and services.

Core Inflation

Core inflation was little changed from April, at 3.0% yoy. Prices for nonfood products fell at the same rate as in the previous month (1.4% yoy). Weak consumer demand and the favorable FX market situation drove prices for household appliances and electronic devices down further. Prices for cars, clothing and footwear also remained lower than last year. After the rush of panic demand during the quarantine calmed down, the growth in prices for pharmaceuticals halted, and prices for personal care products started growing at a slower pace.

The growth in prices for processed foods also held nearly steady, at 3.8% yoy. As the authorities rolled back quarantine restrictions, the rise in the prices of meat and most dairy products decelerated amid weak demand, as did the price growth for bakery products. Prices for chocolate, canned vegetables, and nonalcoholic beverages also grew more slowly, while olive and sunflower oil remained cheaper than last year. In particular, the decline in sunflower oil prices was due to significant production volumes, driven by last year's record harvest of this crop.

The growth in services prices continued to decelerate (to 8.4% yoy). Against the backdrop of weak demand, the growth in housing rentals, dry cleaning prices, insurance prices, and prices for the services of restaurant and other catering establishments decelerated. Instead, the increase in prices for hairdresser and beauty salon services accelerated. Prices for the services of sectors that remained under lockdown in May (recreation, sports, education) continued to stand at March levels.

Changes in Raw Food Prices

Growth in raw food prices accelerated to 1.5% yoy. Prices for milk and fruits – apples in particular – increased more quickly as supply shrank, while prices for strawberries rose due to there being less favorable weather conditions than last year. Egg prices rose as their production fell. The easing of logistical problems after quarantine measures were relaxed led to lower prices for meat, especially chicken, which fell by up to 17.9% yoy. As panic demand faded, the growth in the prices of lemons and garlic slowed (to 28.3% yoy and 35.2% yoy, respectively). Most vegetables were also much cheaper than last year. A slight increase in the price of zucchini and

cucumbers was offset by further reductions in prices for carrots, beets, and onions. Potato prices grew more slowly as well.

Changes in Administered Prices

The growth in administered prices decelerated (to 3.5% yoy). Natural gas prices for households, which plunged after the drop in global and domestic natural gas prices was factored into the new tariffs, were the strongest contributor to the slowdown in the growth of administered prices. In addition, prices for alcoholic beverages rose more modestly. Due to the effective suspension of suburban and intercity bus services for most of May, fares for these buses did not change.

Changes in Fuel Prices

Fuel prices continued to fall (shedding 28.2% yoy) as global oil prices tumbled in recent months.

Producer Price Inflation

The fall in producer prices deepened in May (to 5.1% yoy from 2.6% yoy in April). The PPI declined during the month by 0.6%.

The fall in prices for products sold outside Ukraine slowed (to 6.3% yoy). Following the decline in global iron ore and steel prices in previous months, prices in metal ore mining decreased more rapidly (by 21.9% yoy), as did prices in metallurgy (by 12.6% yoy).

The acceleration of the fall in oil and natural gas production (to 53.2% yoy) reflected the decrease in global natural gas prices. As a result, the decline in producer prices for natural gas as a commodity accelerated to 43%–46% yoy (from 26%–32% yoy in April). All of this also affected adjacent links in the production process. In particular, prices in the manufacture of coke and petroleum products continued to decline at significant rates (30.5% yoy). Tumbling energy prices accelerated the fall in prices in the chemical industry (to 10.6% yoy).

In contrast, electricity prices rose in May, primarily driven by a decrease in the share of cheaper nuclear power in electricity generation (to 51.4% from 57.7% in April).

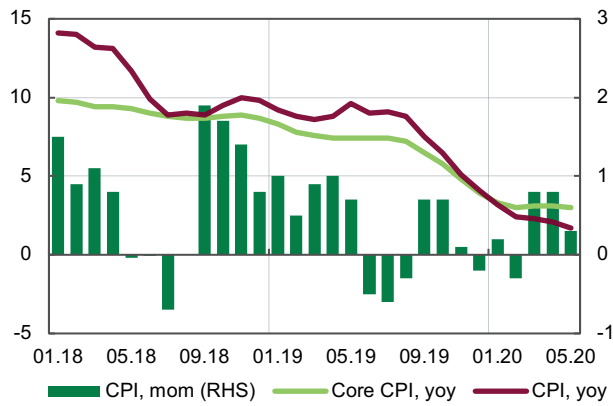
Prices in the manufacture of textiles, computers, and food products rose slightly more quickly (by 6.2% yoy). In

particular, the contribution from rising prices in other industries increased, especially in the manufacture of vegetable oil and animal fats, amid higher external prices for oil meal. Price growth in the manufacture of sugar decelerated (to 7.8%), but this can be explained by the comparison base effect. Month-on-month, prices for this product increased due to global market trends and higher

export prices. However, price pressures in other food industries have eased, reflecting weak domestic demand. More specifically, prices in the manufacture of dairy products increased less rapidly (by 7.4% yoy), as did prices in the production of bread (up 4.4% yoy), while prices in the manufacture of meat products deepened their fall (to 1.5% yoy).

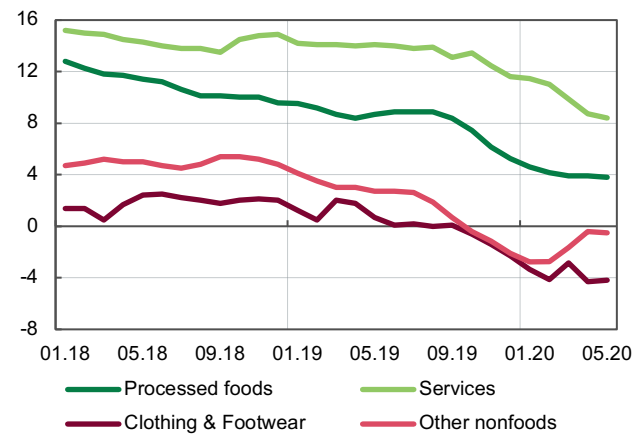
As expected, consumer inflation in May 2020 slowed, and came in below the 5% ± 1 pp target range. This was due to the continued decline in energy prices, and weaker consumer demand for most goods and services. These factors outweighed the impact of the reduced supply of some raw food products

Figure 1. Consumer price indices, %



Source: SSSU.

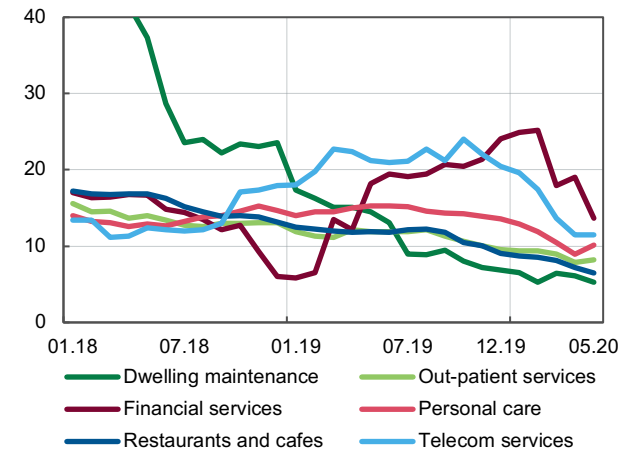
Figure 2. Main core CPI components, % yoy



Source: SSSU, NBU staff estimates.

The growth in services prices decelerated, primarily due to weak demand and the continuation of quarantine restrictions

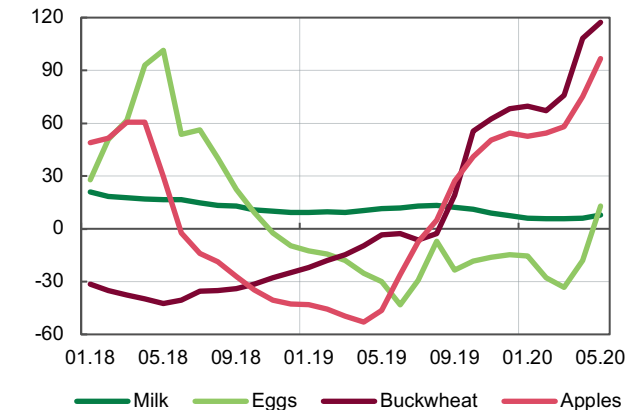
Figure 3. Prices for selected services, % yoy



Source: SSSU, NBU staff estimates.

Limited supply and poorer livestock farming performance led to faster growth in prices for some raw food products...

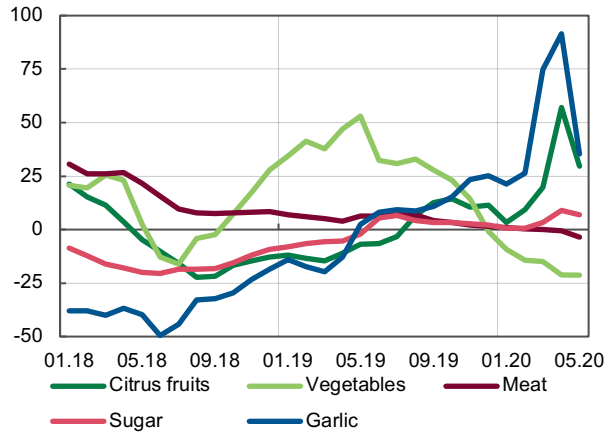
Figure 4. Prices for selected raw foods, % yoy



Source: SSSU.

...while prices for other raw food products decreased amid waning demand as the panic buying triggered by the imposition of quarantine measures faded

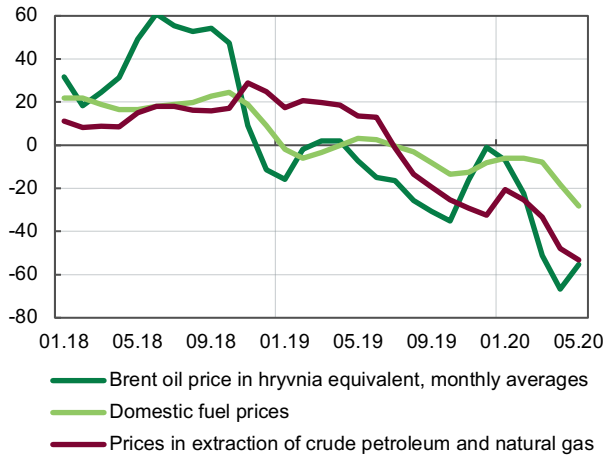
Figure 5. Prices for selected vegetables, % yoy



Source: SSSU.

Fuel prices extended their fall in line with the plunge in global oil prices in recent months

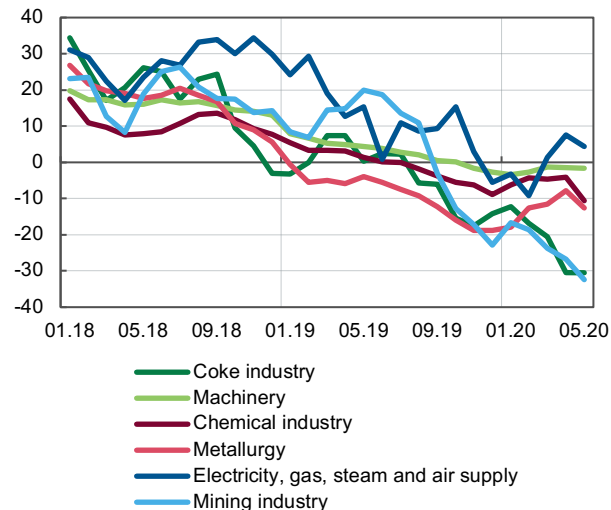
Figure 7. Fuel price indices, % yoy



Source: SSSU, Refinitiv Datastream, NBU staff estimates.

...pulling down prices in the metals and mining industry, the manufacture of coke and petroleum products, and the chemical industry

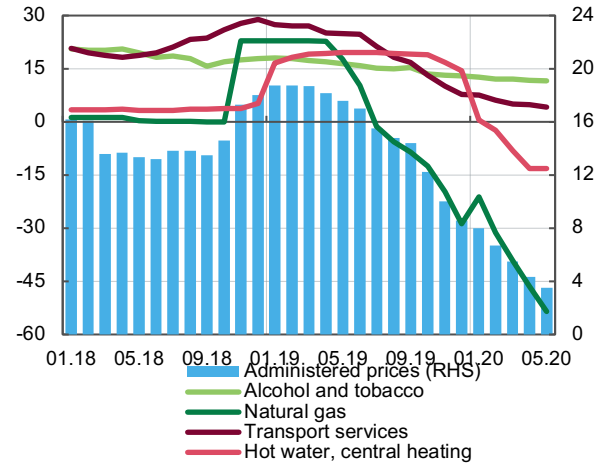
Figure 9. Producer price indices in selected industries, % yoy



Source: SSSU.

The rise in administered prices decelerated due to a deeper fall in natural gas prices

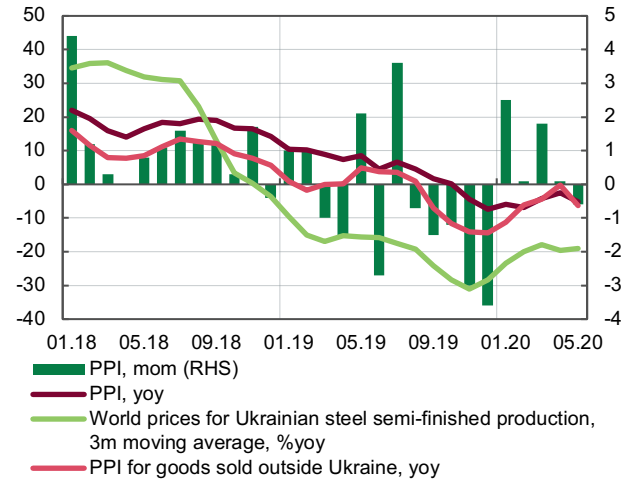
Figure 6. Administered prices, % yoy



Source: SSSU, NBU staff estimates.

In May 2020, the fall in producer prices deepened, driven by lower prices for exported goods and energy...

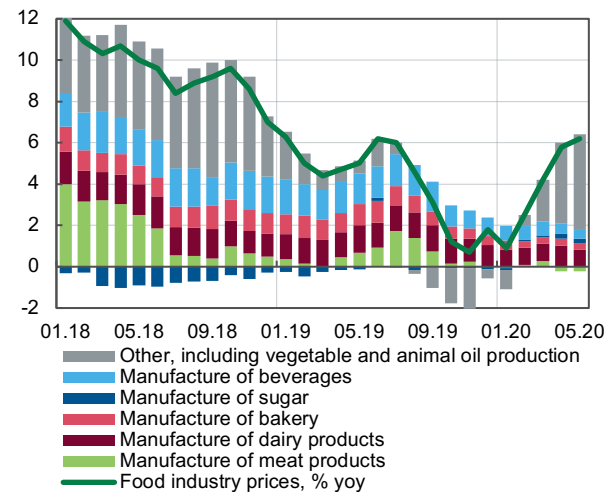
Figure 8. Producer price index, %



Source: SSSU.

Price growth in the food industry accelerated, primarily due to rising external prices for oil meal

Figure 10. 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 2018–2020

	Share in CPI for 2020, %	2018	2019	% yoy			%mom May 2020
				2020			
				Mar	Apr	May	
CPI (NBU classification)							
Consumer Price Index	100.0	9.8	4.1	2.3	2.1	1.7	0.3
Core inflation	59.4	8.7	3.9	3.1	3.1	3.0	0.1
Non-core inflation*	40.6	10.7	4.8	1.5	1.0	0.1	0.6
Raw foods	19.4	3.3	3.9	-1.0	0.8	1.5	2.4
Administered prices and tariffs	18.0	18.0	8.6	5.5	4.3	3.5	-0.2
Fuels	3.2	9.1	-8.2	-7.7	-18.2	-28.2	-8.6

CPI (State Statistics Service of Ukraine classification)

Food and non-alcohol	44.7	17.7	7.8	1.8	2.5	2.7	1.2
Alcohol, tobacco	8.1	20.7	17.9	12.1	11.8	11.6	1.1
Clothing and footwear	5.3	0.9	2.0	-2.8	-4.3	-4.2	-1.4
Housing, water, electricity, gas and other fuels incl.	5.4	10.6	10.6	-8.1	-11.3	-13.1	-2.8
Dwelling maintenance	0.3	47.5	23.7	3.4	6.0	5.2	-0.1
Water supply	0.2	20.2	19.9	26.2	25.6	25.1	0.4
Hot water	0.2	0.9	3.2	-5.0	-7.8	-7.6	0.4
Natural gas	1.4	1.2	22.9	-39.2	-46.5	-53.5	-16.8
Central heating	1.0	3.8	5.2	-8.4	-13.7	-13.7	0.0
Electricity	1.0	28.1	0.0	0.0	0.0	0.0	0.0
Transport	11.2	16.7	12.9	-1.0	-3.3	-6.6	-2.0
Communication	2.9	9.1	15.1	6.9	5.8	5.9	-0.1
Education	1.4	14.9	13.4	13.5	13.5	13.5	0.0

PPI

	Share in PPI for 2020, %**	2018	2019	% yoy			%mom May 2020
				2020			
				Mar	Apr	May	
Producer Price Index	100.0	14.2	-7.4	-4.2	-2.6	-5.1	-0.6
Mining and quarrying	15.9	14.3	-22.8	-23.7	-26.8	-32.4	-4.5
Manufacturing of coal	3.3	5.4	-23.6	-34.5	-34.4	-33.2	1.7
Extraction of crude petroleum and natural gas	4.8	24.9	-32.3	-33.3	-47.9	-53.2	-11.0
Mining of metal ores	6.3	8.2	-21.4	-17.5	-11.4	-21.9	-3.5
Manufacturing	64.4	7.4	-5.7	-3.0	-2.4	-3.6	-1.1
Manufacture of foods, beverages and tobacco products	21.4	7.0	1.8	4.2	5.8	6.2	0.7
Manufacture of coke, and refined petroleum products	2.9	-3.1	-14.2	-20.5	-30.4	-30.4	-3.4
Manufacture of chemicals and chemical products	2.9	7.7	-8.9	-4.7	-4.1	-10.6	-8.1
Manufacture of basic pharmaceutical products and pharmaceutical preparation	1.5	16.7	9.6	9.1	9.0	8.6	0.2
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.7	12.6	2.6	1.6	0.7	0.8	-0.2
Manufacture of basic metals and fabricated metal products, except machinery and equipment	15.9	5.6	-18.8	-11.6	-7.9	-12.6	-4.0
Manufacture of transport equipment	3.2	17.3	1.1	4.6	4.0	3.3	-0.8
Electricity, gas, steam and air-conditioning supply	18.5	29.8	-5.6	1.4	7.5	4.4	2.5

* 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	mom	month-on-month
PPI	producer price index	yoy	year-on-year
SSSU	State Statistics Service of Ukraine	RHS	right-hand scale
NBU	National Bank of Ukraine		