

In June 2020, consumer inflation accelerated to 2.4% yoy, up from 1.7% in May. In monthly terms, prices grew by 0.2%. Despite the acceleration, consumer inflation was below the 5% ± 1 pp target range and remained lower than forecast in the April 2020 Inflation Report. Price growth was contained by weak domestic demand, benign FX market conditions, and low energy prices. At the same time, the growth in raw food prices picked up speed due to unfavorable weather.

Core Inflation

Core inflation did not change compared to May and stood at 3.0% yoy. Underlying inflationary pressures were constrained by weak domestic demand and a stable situation in the FX market.

The prices of nonfood products declined at almost the same rate as in the previous month (1.3% yoy). The fall in prices for electronics, toys, and travel goods deepened. The cost of cars, household appliances, and clothing and footwear also remained lower than last year. The prices of pharmaceuticals and personal care products grew more slowly.

The growth in the prices of processed foods also remained practically unchanged, at 3.7% yoy. The still weak demand and re-starting of supplies after the easing of transport restrictions led to slower growth in the prices of meat and some dairy and flour products. Due to sluggish demand and a stable situation in the FX market, the rise in prices for non-staple goods also slowed, while some products, namely coffee and olive oil, were even cheaper than last year.

The growth in services prices was also stable (at 8.4% yoy). On the one hand, the prices for medical services and personal care services grew faster, due to both increased demand amid the spread of the pandemic and rising production costs. The rise in mobile communication prices also accelerated. On the other hand, weak demand slowed growth in the prices of insurance services, housing rentals, financial and notarial services, and services of catering establishments. Prices for services of sectors where activities were still limited by the quarantine (recreation and education) remained at the level of March.

Changes in Raw Food Prices

Growth rates of raw food prices increased sharply, to 5.0% yoy. The prices of beef and eggs also grew faster. In addition, the decline in prices of chicken meat slowed due to large export volumes. Vegetable prices also decreased more slowly (12.5% yoy), as a result of both a faded comparison base effect and unfavorable weather conditions. Hot weather and weaker supply also affected fruit prices (particularly strawberry prices), which continued to grow rapidly. In contrast, due to sufficient import supplies, prices for lemons dropped by 9.1% yoy.

Changes in Administered Prices

The growth in administered prices slowed to 3.2% yoy. Natural gas prices for households continued to fall after the drop in global and domestic prices was factored into the new tariffs. Prices for alcoholic drinks and tobacco products rose more modestly. Growth rates of rail and road transport fares decreased on the back of a drop in fuel prices in previous periods.

Changes in Fuel Prices

Fuel prices declined somewhat more slowly (26.5% yoy), primarily reflecting the recovery in global crude oil prices in recent months and strong demand for fuel underpinned by the active use of personal transport even after restrictions on public transport were lifted.

Producer Price Inflation

In June, the decline in producer prices slowed to 4.6% yoy, down from 5.1% yoy in May. The Producer Price Index (PPI) decreased during the month by 2.0%.

It was primarily the prices of goods sold outside Ukraine that declined significantly more slowly (4.3% yoy). Export prices of chemicals returned to growth: prices rose by 0.5% yoy after decreasing by 24.8% yoy in May. This may be due to both the recovery in energy prices and an increase in external demand, particularly from India, for Ukrainian carbamide (in June 2020, carbamide exports rose almost threefold compared with last year).

Electricity prices also increased in June. This was primarily due to a further decrease in the share of cheaper nuclear electricity (down to 47.9% from 51.4% in May).

The recovery in global crude oil prices in recent months put the brakes on the decline in prices for coke and petroleum products (21.4% yoy). On the other hand, the decrease in global natural gas prices in previous months, among other things driven by a buildup of large inventories, deepened the price decline in the production of crude oil and natural gas (62.2% yoy). The rate of decline in producer prices of gas as a commodity reached 50%–53% yoy (compared with 43%–46% yoy in May).

The year-on-year decrease in export prices for iron ore and steel accelerated the decline in metal products prices (12.6%

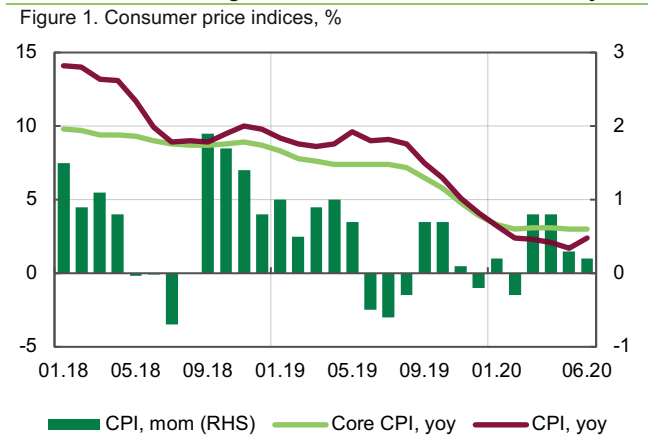
yoy) and kept prices of metal ores low (lower by 20.2% yoy).

The prices of textiles, rubber and plastic products, and computers grew at a slightly slower pace.

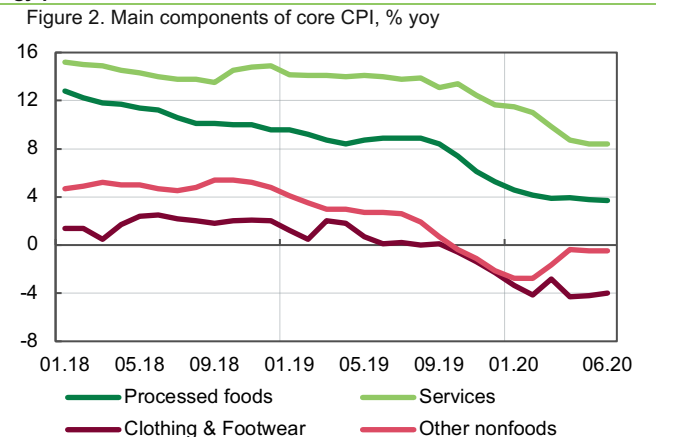
Price growth in the food industry remained practically unchanged (6.1% yoy), although the trends varied by subsectors. In particular, sugar prices grew more slowly (2.9%), which, however, can be explained by comparison

base effects. Sluggish domestic demand led to weaker pressure on the prices of bread, beverages (price growth slowed to 3.8% and 3.4% yoy respectively), and meat products (the decline deepened to 3.0% yoy). This was offset by higher prices in other industries, especially in the production of vegetable oil and animal fats on the back of rising external prices for meal.

Consumer inflation in June 2020 sped up in annual terms, but was below the 5% ± 1 pp target range. Price growth was contained by weak domestic demand, benign FX market conditions, and relatively low energy prices.

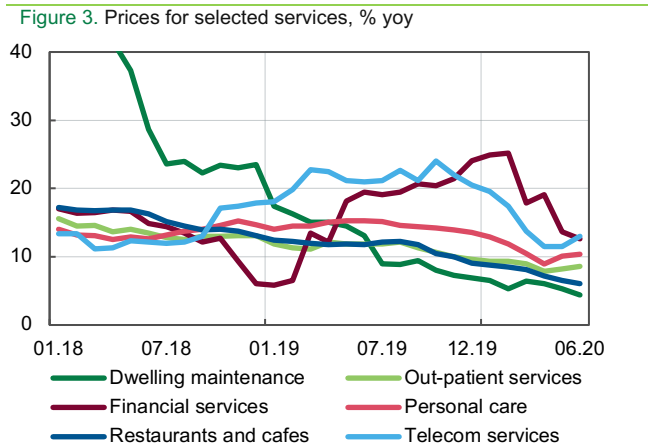


Source: SSSU.



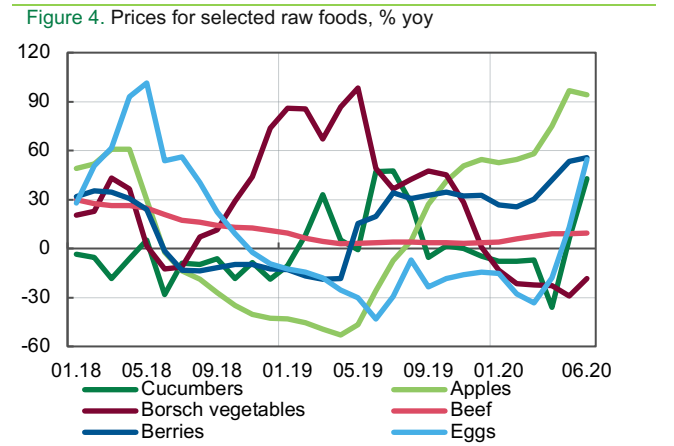
Source: SSSU, NBU staff estimates

The pace of growth in service prices remained unchanged. In particular, the impact on prices from rising production costs was offset by weak demand and quarantine restrictions imposed on some services.



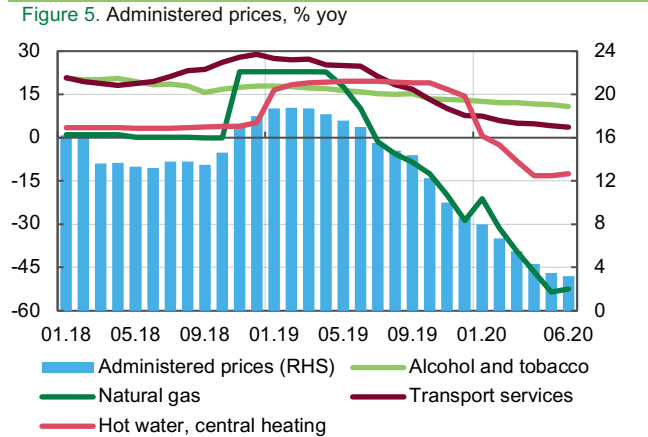
Source: SSSU, NBU staff estimates.

Limited supply and unfavorable weather spurred growth in the prices of some raw products.



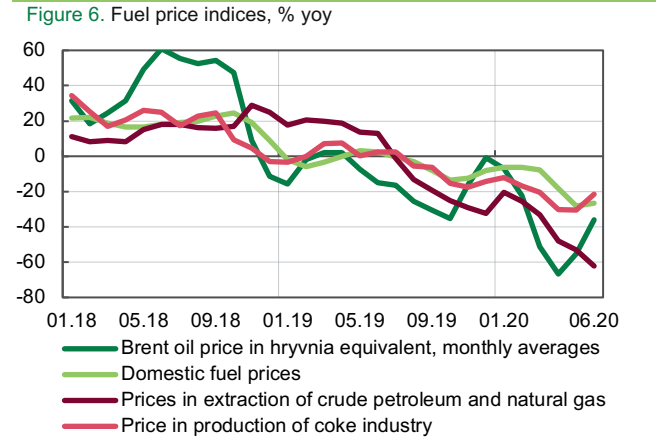
Source: SSSU.

Administered prices grew at a slower pace due to weaker growth in prices for tobacco products, alcoholic drinks, and transportation services, and due to the sustained rapid decline in natural gas prices.



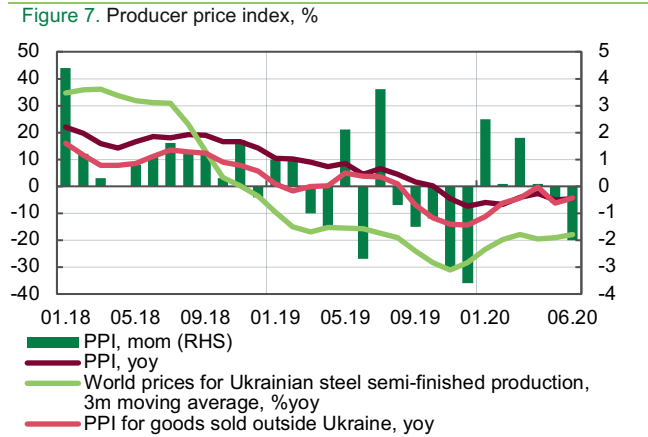
Source: SSSU, NBU staff estimates.

Fuel prices declined somewhat more slowly, reflecting the recovery in global crude oil prices in recent months and strong demand.

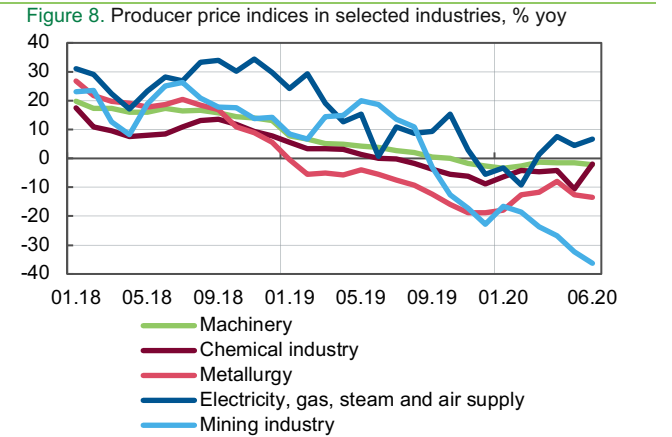


Source: SSSU, Refinitiv Datastream, NBU staff estimates.

Producer prices fell less rapidly in June, due to a slower decline in prices for goods sold outside Ukraine – particularly, chemicals and electricity.



Source: SSSU.



Source: SSSU.

CPI and PPI Growth by Components in 2018–2020

	Share in CPI for 2020, %	% yoy						% mom Jun 2020
		2018	2019	2020				
				Apr	May	Jun		
CPI (NBU classification)								
Consumer Price Index	100.0	9.8	4.1	2.1	1.7	2.4	0.2	
Core inflation	59.4	8.7	3.9	3.1	3.0	3.0	0.0	
Non-core inflation*	40.6	10.7	4.8	1.0	0.1	1.8	0.5	
Raw foods	19.4	3.3	3.9	0.8	1.5	5.0	0.4	
Administered prices and tariffs	18.0	18.0	8.6	4.3	3.5	3.2	0.5	
Fuels	3.2	9.1	-8.2	-18.2	-28.2	-26.5	2.1	
CPI (State Statistics Service of Ukraine classification)								
Food and non-alcohol	44.7	17.7	7.8	2.4	2.7	4.2	0.4	
Alcohol, tobacco	8.1	20.7	17.9	11.8	11.6	10.8	0.5	
Clothing and footwear	5.3	0.9	2.0	-4.3	-4.2	-4.0	-2.8	
Housing, water, electricity, gas and other fuels incl.	5.4	10.6	10.6	-11.3	-13.1	-12.2	-0.4	
Dwelling maintenance	0.3	47.5	23.7	6.0	5.2	4.4	0.0	
Water supply	0.2	20.2	19.9	25.6	25.1	23.6	0.0	
Hot water	0.2	0.9	3.2	-7.8	-7.6	-3.5	4.4	
Natural gas	1.4	1.2	22.9	-46.5	-53.5	-52.5	-4.3	
Central heating	1.0	3.8	5.2	-13.7	-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	-3.3	-6.6	-5.8	1.2	
Communication	2.9	9.1	15.1	5.8	5.9	7.1	1.0	
Education	1.4	14.9	13.4	13.5	13.5	13.3	0.3	

PPI

	Share in PPI for 2020, %**	% yoy						%mom Jun 2020
		2018	2019	2020				
				Apr	May	Jun		
Producer Price Index	100.0	14.2	-7.4	-2.6	-5.1	-4.6	-2.0	
Mining and quarrying	15.9	14.3	-22.8	-26.8	-32.4	-36.3	-5.2	
Manufacture of coal	3.3	5.4	-23.6	-34.4	-33.2	-34.8	-2.5	
Extraction of crude petroleum and natural gas	4.8	24.9	-32.3	-47.9	-53.2	-62.2	-19.1	
Mining of metal ores	6.3	8.2	-21.4	-11.4	-21.9	-20.2	3.4	
Manufacturing	64.4	7.4	-5.7	-2.4	-3.6	-2.6	0.6	
Manufacture of foods, beverages and tobacco products	21.4	7.0	1.8	5.8	6.2	6.1	0.7	
Manufacture of coke, and refined petroleum products	2.9	-3.1	-14.2	-30.4	-30.5	-21.4	11.4	
Manufacture of chemicals and chemical products	2.9	7.7	-8.9	-4.1	-10.6	-1.9	8.4	
Manufacture of basic pharmaceutical products and pharmaceutical preparation	1.5	16.7	9.6	9.0	8.6	8.9	0.6	
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.7	12.6	2.6	0.7	0.8	0.4	0.0	
Manufacture of basic metals and fabricated metal products, except machinery and equipment	15.9	5.6	-18.8	-7.9	-12.6	-13.4	-3.1	
Manufacture of transport equipment	3.2	17.3	1.1	4.0	3.3	1.1	-1.0	
Electricity, gas, steam and air-conditioning supply	18.5	29.8	-5.6	7.5	4.4	6.7	-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 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		