

In July 2020, consumer inflation remained at the level of the previous month in annual terms, at 2.4%. In monthly terms, prices fell by 0.6%. Consumer inflation stayed below its target range of $5\% \pm 1$ pp, as expected, but it was also slightly lower than predicted by the projected trajectory published in the July 2020 Inflation Report. In July, inflation was primarily weighed down by slower growth in food prices amid an increase in the supply of both domestically produced and imported foods.

Core Inflation

Core inflation came in at 3.0% yoy, unchanged from June.

The pace of growth in the prices of processed foods slowed (to 3.5% yoy). Prices for meat and non-staple products, including confectioneries, ice cream, spices, and tea, grew at a slower pace, restrained by sluggish demand for these relatively expensive foods. Higher supply, including the supply of imports, slowed the growth in prices for dairy products. Prices for bakery goods also grew more slowly, while olive and sunflower oil remained cheaper than last year.

Service prices grew at the same rate as in June (8.4% yoy). Prices for healthcare services increased more quickly, probably due to higher morbidity. The increase in prices for financial and insurance services accelerated, as did the growth in prices for mobile services. Against the backdrop of reviving economic activity and increasing spending, including on disinfection, the services sector made an almost full recovery, speeding up the growth in prices for services related to personal care, catering, dry cleaning, and sports facilities. Meanwhile, weak demand and the renewal of quarantine restrictions in some regions held back price increases for cinema tickets, hotels, and tourist services.

The fall in nonfood prices decelerated (to 1.1% yoy), restrained by both the weakening of the hryvnia in July and the realization of pent-up demand from consumers. As a result, the decline in prices for durable goods, including household appliances and electronic devices, decelerated, and car prices began to grow, while medicines continued to increase in price. However, the exchange rate factor did not have a significant impact on prices for medium-term consumer goods, with stores having been well-stocked in previous periods. Prices for clothing, footwear and utensils fell even more, while prices for home textiles, personal care products, and books grew at a slower pace.

Changes in Raw Food Prices

The growth in raw food prices decelerated significantly (to 3.3% yoy), thanks to the new harvest, an increase in the supply of goods produced in small towns as public transportation reopened, and a rise in imports in recent months. More specifically, vegetables became even cheaper (by 13.9% yoy) in July, including potatoes, onions, cabbage,

and tomatoes, while prices for sugar and pork fell. Prices for cucumbers, zucchinis, garlic, eggs, and milk increased more slowly.

Fruit prices grew at the same rate as in the previous month (33.7% yoy), as high growth in prices for domestic fruits (apples, watermelons, and stone fruits) was offset by falling prices for bananas and lemons.

Changes in Administered Prices

The growth in administered prices accelerated somewhat, to 3.8% yoy. In particular, natural gas prices declined more slowly (by 43.0% yoy) as global energy prices and [natural gas distribution tariffs](#) increased (by 0%–43%, depending on the region). Against the backdrop of higher production costs, these services became somewhat more expensive as railroad communications resumed. Meanwhile, prices for alcoholic beverages and tobacco products rose more moderately.

Changes in Fuel Prices

The drop in fuel prices continued to decelerate (to 21.5% yoy), primarily reflecting the recovery in global oil prices in recent months, as well as strong demand for fuel from car owners – even as restrictions on public transit were relaxed.

Producer Price Inflation

The fall in producer prices deepened in July (to 7.5% yoy, from 4.6% yoy in June). The Producer Price Index (PPI) increased during the month by 0.4%.

The deeper fall in the PPI was primarily due to price declines in the supply of electricity, natural gas, steam, and air conditioning (by 9.8% yoy). More specifically, the share of cheaper nuclear electricity rose in July (to 51.6% from 47.9% in June), driven by an [increase in the base load of NPPs](#) compared to the projected balance, against the backdrop of higher consumption.

In contrast, the opposite trends were seen in other sectors. The recovery in global energy prices in recent months slowed the price declines in the production of crude oil and natural gas (to 59.3% yoy) and in the manufacture of coke and petroleum products (to 14.9% yoy).

In addition, the fall in prices for goods sold outside Ukraine slowed significantly (to 2.6% yoy). For instance, the growth in

export prices for chemical products sped up sharply in July (to 19.3% yoy, from 0.5% yoy in June). This acceleration appears to have been driven by the resumption of the growth in energy prices, higher global prices for fertilizers, and strong external demand – in particular from India – for Ukrainian urea.

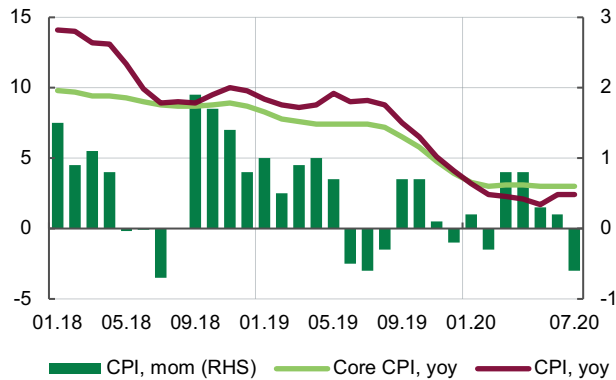
As global steel prices gradually recovered in July amid a weaker hryvnia, prices in metallurgy fell at a slower pace (by 9.9% yoy). Meanwhile, despite there being a similar trend in the global iron ore market, price declines in metal ore mining deepened as cheaper iron ore that is exported to China increased its share in Ukraine's exports.

Prices in the manufacture of textiles and pharmaceuticals, in the woodworking and printing industries, in the production of rubber and plastic products, and in the manufacture of computers grew at a slightly higher pace.

Price growth in the food industry also accelerated (to 7.3% yoy). The rate of decline in prices in the manufacture of meat products decelerated considerably (to 1.8% yoy), primarily due to higher chicken exports. In addition, prices in the manufacture of other food products increased, especially in the production of vegetable oil and animal fats, amid a rise in external prices for meal. In contrast, the growth in producer prices for beverages, sugar, and dairy products decelerated.

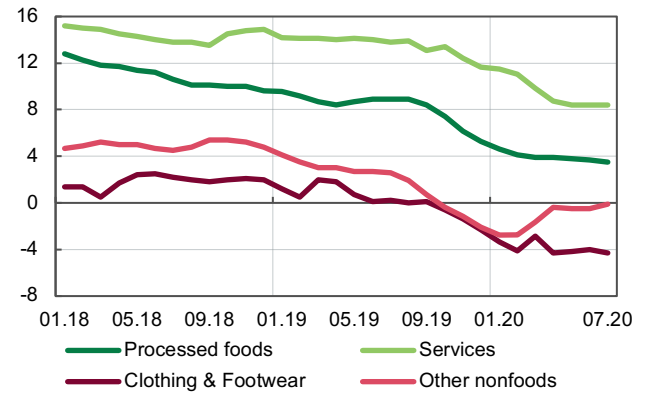
In July 2020, consumer inflation was flat compared to the previous month in annual terms, below the 5% ± 1 pp target range. Inflation was restrained by slower growth in food prices amid an increase in the supply of both domestically produced and imported foods. Core inflation also did not change compared to June

Figure 1. Consumer price indices, %



Source: SSSU.

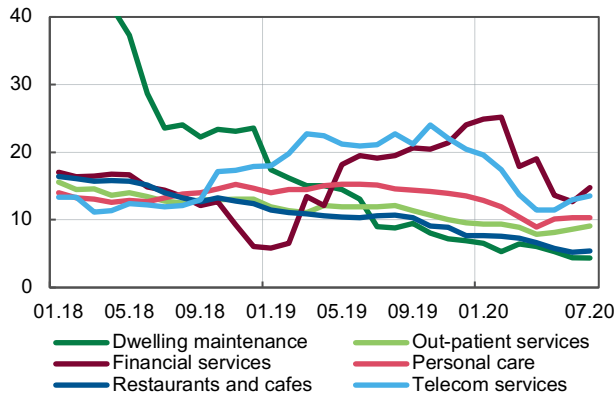
Figure 2. Main components of core CPI, % yoy



Source: SSSU, NBU staff estimates.

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

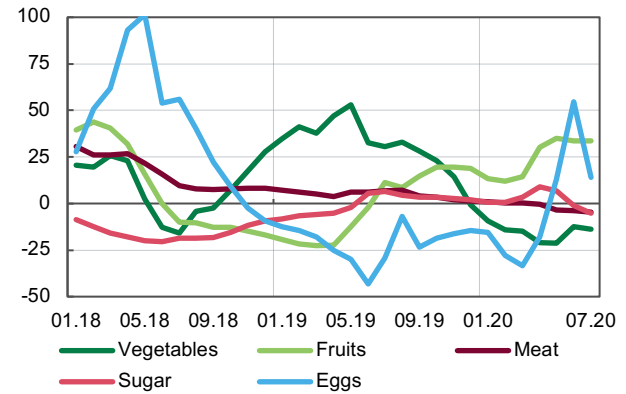
Figure 3. Prices for selected services, % yoy



Source: SSSU, NBU staff estimates.

The growth in raw food prices decelerated, thanks to the new harvest, an increase in the supply of domestically produced goods as public transportation reopened, and a rise in imports in recent months

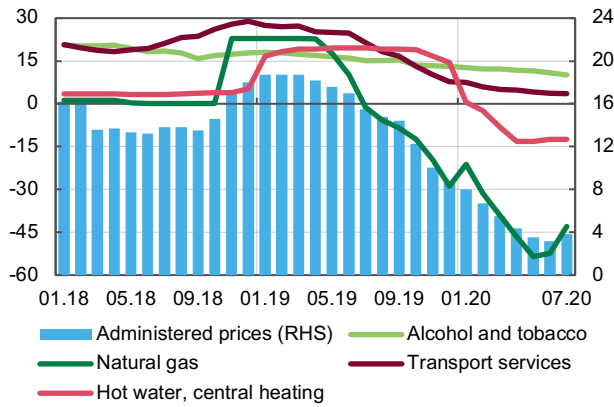
Figure 4. Prices for selected raw foods, % yoy



Source: SSSU.

The growth in administered prices accelerated as prices for natural gas and tariffs for its distribution increased in July

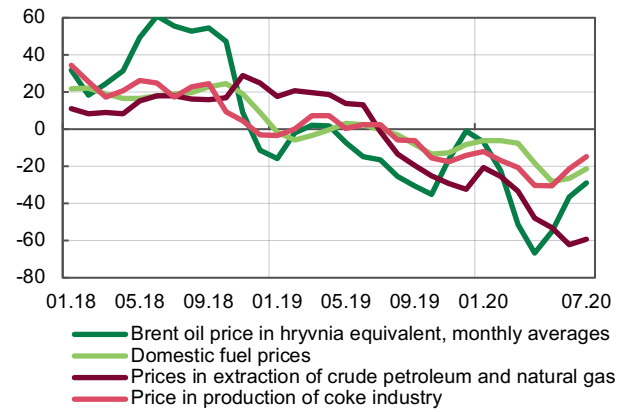
Figure 5. Administered prices, % yoy



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

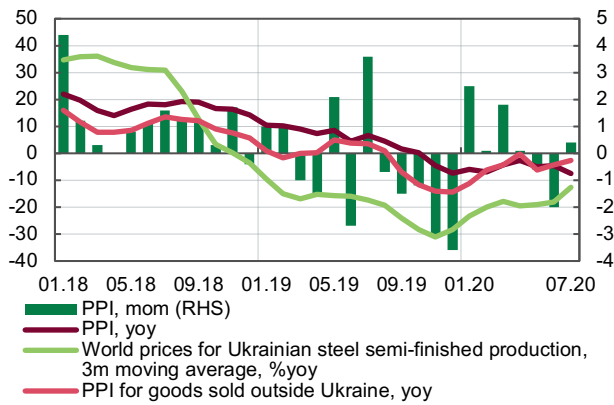
Figure 6. Fuel price indices, % yoy



Source: SSSU, Refinitiv Datastream, NBU staff estimates.

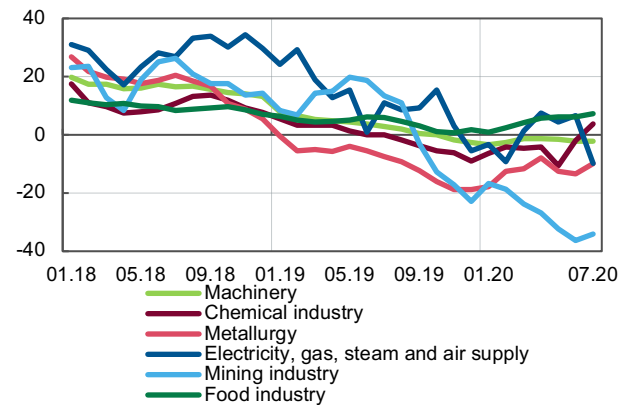
The fall in producer prices deepened in July, primarily driven by lower electricity prices. In contrast, price pressures in other industries intensified, primarily for commodities sold outside Ukraine, in particular chemical and metallurgical products

Figure 7. Producer price index, %



Source: SSSU.

Figure 8. Producer price indices in selected industries, % yoy



Source: SSSU.

CPI and PPI Growth by Components in 2018–2020

	Share in CPI for 2020, %		% yoy				% mom Jul 2020
	2018	2019	2020				
			May	Jun	Jul		
CPI (NBU classification)							
Consumer Price Index	100.0	9.8	4.1	1.7	2.4	2.4	0.2
Core inflation	59.4	8.7	3.9	3.0	3.0	3.0	0.0
Non-core inflation*	40.6	10.7	4.8	0.1	1.8	1.7	0.5
Raw foods	19.4	3.3	3.9	1.5	5.0	3.3	0.4
Administered prices and tariffs	18.0	18.0	8.6	3.5	3.2	3.8	0.5
Fuels	3.2	9.1	-8.2	-28.2	-26.5	-21.5	2.1
CPI (State Statistics Service of Ukraine classification)							
Food and non-alcohol	44.7	17.7	7.8	2.7	4.2	3.5	-1.4
Alcohol, tobacco	8.1	20.7	17.9	11.6	10.8	10.8	0.5
Clothing and footwear	5.3	0.9	2.0	-4.2	-4.0	-4.3	-4.8
Housing, water, electricity, gas and other fuels incl.	5.4	10.6	10.6	-13.1	-12.2	-9.1	1.2
Dwelling maintenance	0.3	47.5	23.7	5.2	4.4	4.4	0.5
Water supply	0.2	20.2	19.9	25.1	23.6	23.6	0.0
Hot water	0.2	0.9	3.2	-7.6	-3.5	-3.6	-0.1
Natural gas	1.4	1.2	22.9	-53.5	-52.5	-43.0	7.5
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	-6.6	-5.8	-3.6	1.2
Communication	2.9	9.1	15.1	5.9	7.1	7.6	0.3
Education	1.4	14.9	13.4	13.5	13.3	13.2	0.1

PPI

	Share in PPI for 2020, %**		% yoy				% mom Jul 2020
	2018	2019	2020				
			May	Jun	Jul		
Producer Price Index	100.0	14.2	-7.4	-5.1	-4.6	-7.5	0.4
Mining and quarrying	15.9	14.3	-22.8	-32.4	-36.3	-34.0	0.0
Manufacturing of coal	3.3	5.4	-23.6	-33.2	-34.8	-27.1	-0.9
Extraction of crude petroleum and natural gas	4.8	24.9	-32.3	-53.2	-62.2	-59.3	-5.4
Mining of metal ores	6.3	8.2	-21.4	-21.9	-20.2	-21.8	5.1
Manufacturing	64.4	7.4	-5.7	-3.6	-2.6	-0.5	1.3
Manufacture of foods, beverages and tobacco products	21.4	7.0	1.8	6.2	6.1	7.3	0.9
Manufacture of coke, and refined petroleum products	2.9	-3.1	-14.2	-30.5	-21.4	-14.9	5.1
Manufacture of chemicals and chemical products	2.9	7.7	-8.9	-10.6	-1.9	3.7	6.1
Manufacture of basic pharmaceutical products and pharmaceutical preparation	1.5	16.7	9.6	8.6	8.9	9.3	0.6
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.7	12.6	2.6	0.8	0.4	0.6	0.1
Manufacture of basic metals and fabricated metal products, except machinery and equipment	15.9	5.6	-18.8	-12.6	-13.4	-9.9	1.5
Manufacture of transport equipment	3.2	17.3	1.1	3.3	1.1	0.3	-0.8
Electricity, gas, steam and air-conditioning supply	18.5	29.8	-5.6	4.4	6.7	-9.8	-1.6

* 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		