

In September 2020 consumer inflation slowed to 2.3% yoy (down from 2.5% in August). In monthly terms, prices increased by 0.5%. Consumer inflation was below the 5% ± 1 pp target range and remained lower than had been forecast in the July 2020 Inflation Report. The decline in consumer inflation was primarily due to a slowdown in food price growth due to lower production costs, lower-quality vegetables from the new harvest, and weak demand for relatively more expensive products. Excluding food prices, inflation accelerated, driven by higher natural gas tariffs, a weakening of the hryvnia, and a recovery in economic activity and consumer demand.

Core Inflation

Core inflation edged down to 3.1% yoy.

Food prices rose slightly more slowly (by 3.0% yoy). Price growth for most dairy and meat products, fish products, and confectionery products decelerated. This was due to both a significant supply, including imports (e.g., physical volumes of dairy product imports were almost twice as high as a year ago), and a general weakening of demand for goods in the higher price categories (meat, cheese, fish).

The growth in services prices also decelerated (to 7.8% yoy). The tightening of quarantine restrictions in some regions held back price increases for catering services, hotel rooms, sport facility services, beauty salon services, foreign language lessons, and housing rent. However, the same factor spurred growth in prices for healthcare services. Telecommunication services and higher education also became more expensive. This was probably driven by the introduction of [indicative costs of educational services](#) in certain fields of study.

Prices for nonfood products returned to growth (0.1% yoy). Growth accelerated in prices of cars, as well as medicines and medical goods, fueled by stronger demand and a weaker hryvnia. Also, the rate of decline in prices for durable goods – household appliances and electronic devices – decreased. Meanwhile, prices for clothing and footwear actually decreased at a quicker pace (5.2% yoy). This can be attributed to the availability of previously accumulated stocks of these products and relatively weak demand for them as people continued to self-quarantine by [working and studying remotely](#).

Changes in Raw Food Prices

Raw food prices renewed their decline (down 1.1% yoy). Specifically, vegetable prices fell more steeply (by 19.8% yoy). Potato prices continued to fall thanks to a larger harvest of that crop. Other newly harvested vegetables were in shorter supply than last year, but because of their poorer quality and thus lower shelf life, farmers rushed to sell them. With buyers unwilling to store large quantities of these perishable products, this led to a temporary glut of these foods in the market. Higher supply and warm weather in September also significantly slowed the rise in prices of fruit (to 19.0% yoy), including apples and watermelons.

Increased imports of bananas contributed to a further decline in their price.

With the impact of production costs fading and global prices falling, an expanding supply of certain livestock products, in particular through imports, held back the growth in prices for milk and beef and deepened the decline in pork prices.

Changes in Administered Prices

The increase in administered prices accelerated (to 6.0% yoy). As global energy prices rose, domestic natural gas prices also returned to year-on-year growth. Tobacco products also continued to grow in price.

Changes in Fuel Prices

The fall in fuel prices decelerated somewhat (to 17.4% yoy). The September drop in global oil prices was wiped out by strong demand for fuel, as individuals increasingly chose driving over other types of transport in pandemic conditions, and by a weaker hryvnia.

Producer Price Inflation

In September the drop in producer prices continued to slow (to 1.7% yoy), primarily due to the rapid acceleration in prices of goods sold outside Ukraine (to 13.0% yoy). The Producer Price Index (PPI) increased during the month by 1.7%.

Influenced by price trends in the global commodity markets and the weakening of the hryvnia, prices in the mining of metal ores (up 5.8% yoy) and metallurgy (up 0.6% yoy) in August–September returned to growth, while the fall in prices in crude oil and natural gas production slowed significantly (to 19.7% yoy). This had a slightly lagged effect on the dynamics of prices in the production of coke and petroleum products (price declines decelerated to 1.9% yoy). The growth in energy prices and global fertilizer prices led to an acceleration of price growth in the chemicals industry (to 9.3% yoy).

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

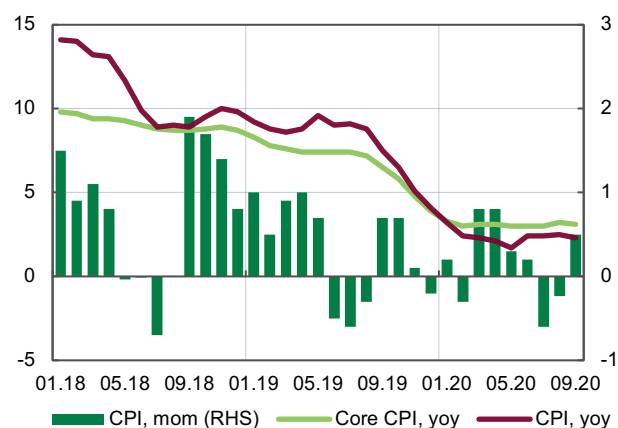
Price growth in the food industry accelerated to 11.3% yoy. The largest contribution to this acceleration came from price increases in the production of oils and fats. In particular, sunflower oil and meal became more expensive amid a

spike in sunflower oil prices in the global commodity markets (due to lower expected sunflower yields, high demand from China, and soybean losses in the United States). Prices in the manufacture of meat, bread, and sugar also increased, while price increases in the production of dairy products decelerated amid higher imports.

The fall in prices in the supply of electricity, gas, steam, and air conditioning sped up (to 12.3% yoy from 9.4% yoy in August). In particular, prices declined faster in electricity generation. This was due to the decrease in the share of RES in the structure of electricity generation, and the lasting effect of the August reduction in tariffs for electricity generated from RES.

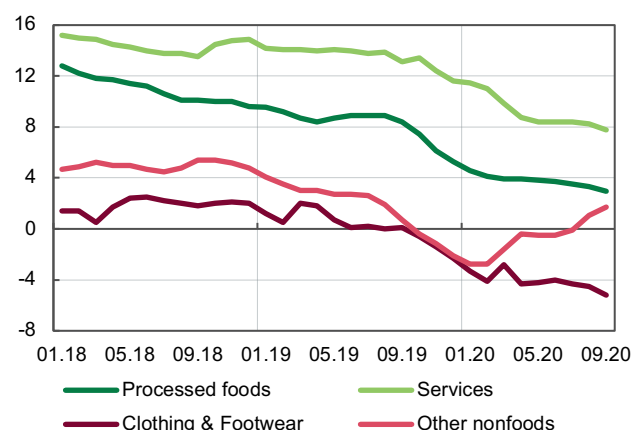
Consumer inflation in September 2020 slowed in annual terms and was below the 5% ± 1 pp target range. This was due to a slowdown in food price growth due to lower production costs, lower-quality vegetables from the new harvest, and weak demand for relatively more expensive products. As expected, core inflation also decelerated

Figure 1. Consumer price indices, %



Source: SSSU.

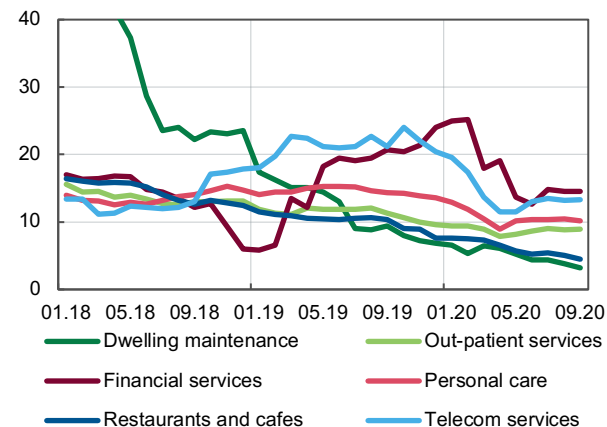
Figure 2. Main components of core CPI, % yoy



Source: SSSU, NBU estimates.

Prices for services continued to grow at a high pace. In particular, the impact on prices from rising production costs was offset by extended quarantine restrictions in some regions

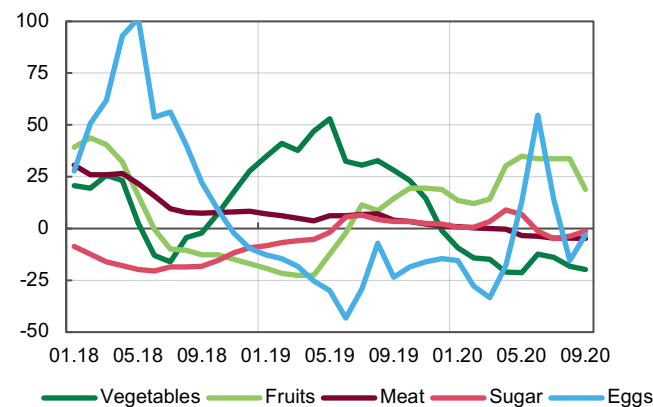
Figure 3. Prices for some market services, % yoy



Source: SSSU.

The growth in raw food prices decelerated thanks to the new harvest, an ample supply of low-quality vegetables, and a rise in imports in recent months

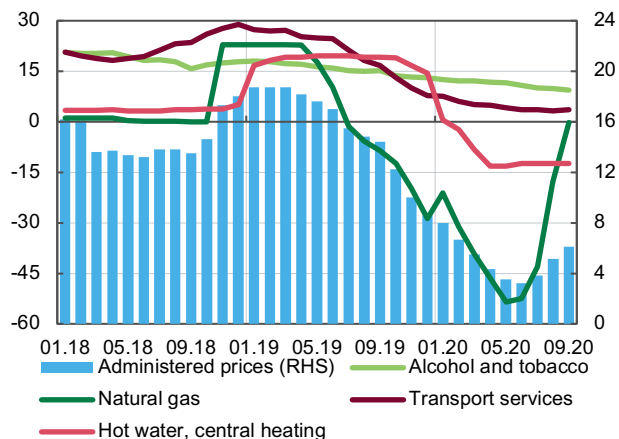
Figure 4. Prices for some raw foods, % yoy



Source: SSSU.

The growth in administered prices accelerated as prices for natural gas increased. Tobacco products also continued to grow in price

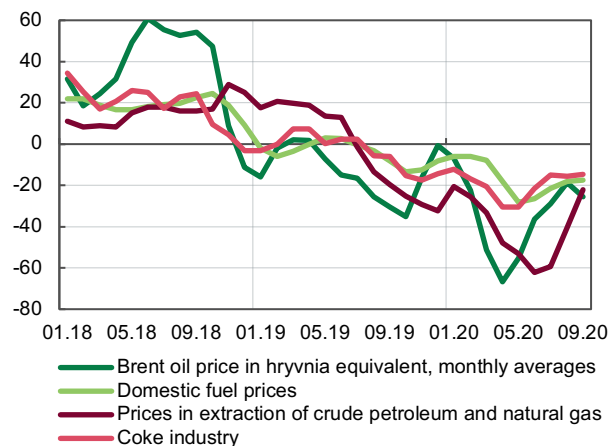
Figure 5. Components of administered prices, % yoy



Source: SSSU.

The fall in fuel prices decelerated somewhat. The September drop in global oil prices was offset by strong demand for fuel and by a weaker hryvnia

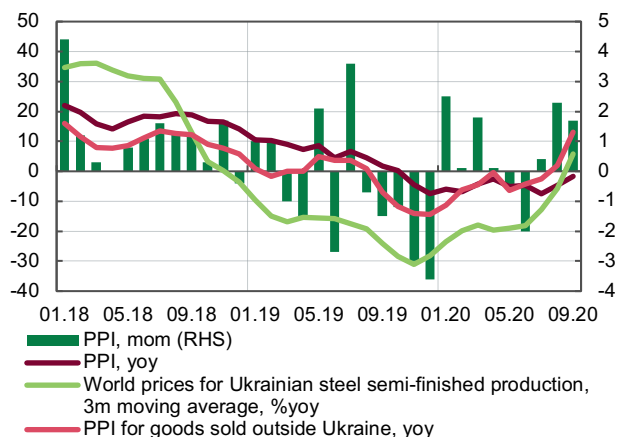
Figure 6. Fuel price indices, % yoy



Source: SSSU, Refinitiv Datastream, NBU estimates.

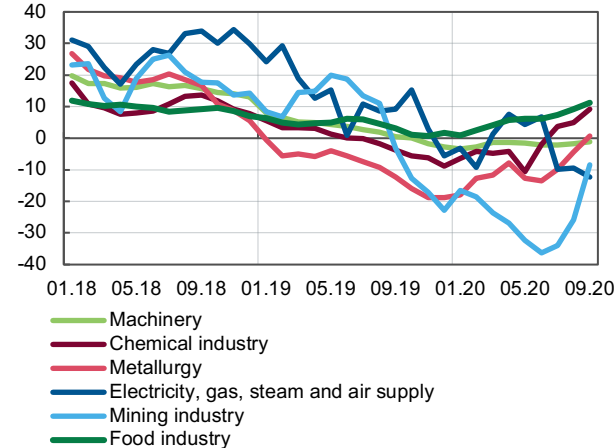
In September the fall in producer prices continued to slow, primarily due to the rise in global prices for Ukraine's core exports (ores, metals, sunflower oil). At the same time, the fall in prices for electricity, natural gas, steam, and air conditioning deepened. This was due to the decrease in the share of RES in the structure of power generation, and the effect of the August reduction in RES-based electricity generation tariffs.

Figure 7. Producer price index, %



Source: SSSU, Refinitiv Datastream.

Figure 8. Prices in some industrial sectors, % yoy



Source: SSSU.

CPI and PPI Growth by Components in 2018–2020

	Share in CPI for 2020, %	2018	2019	% yoy			% mom Sep 2020
				Jul	Aug	Sep	
CPI (NBU classification)							
Consumer Price Index	100.0	9.8	4.1	2.4	2.5	2.3	0.5
Core inflation	59.4	8.7	3.9	3.0	3.2	3.1	1.1
Non-core inflation*	40.6	10.7	4.8	1.7	1.6	1.1	-0.4
Raw foods	19.4	3.3	3.9	3.3	0.9	-1.1	-2.2
Administered prices and tariffs	18.0	18.0	8.6	3.8	5.2	6.0	1.2
Fuels	3.2	9.1	-8.2	-21.5	-17.9	-17.5	0.6
CPI (State Statistics Service of Ukraine classification)							
Food and non-alcohol	44.7	17.7	7.8	3.5	2.3	1.3	-0.6
Alcohol, tobacco	8.1	20.7	17.9	10.8	9.8	9.4	0.6
Clothing and footwear	5.3	0.9	2.0	-4.3	-4.5	-5.2	7.9
Housing, water, electricity, gas and other fuels incl.	5.4	10.6	10.6	-9.1	-3.1	0.6	3.6
Dwelling maintenance	0.3	47.5	23.7	4.4	3.8	3.2	0.0
Water supply	0.2	20.2	19.9	23.6	22.5	21.9	0.0
Hot water	0.2	0.9	3.2	-3.6	-3.6	-3.4	0.2
Natural gas	1.4	1.2	22.9	-43.0	-17.8	0.4	18.4
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	-3.6	-1.8	-1	0.5
Communication	2.9	9.1	15.1	7.6	7.6	7.7	0.0
Education	1.4	14.9	13.4	13.2	13.0	14.1	11.0

PPI

	Share in PPI for 2020, %**	2018	2019	% yoy			% mom Sep 2020
				Jul	Aug	Sep	
Producer Price Index	100.0	14.2	-7.4	-7.5	-4.7	-1.7	1.7
Mining and quarrying	15.9	14.3	-22.8	-34.0	-25.9	-8.4	10.1
Manufacturing of coal	3.3	5.4	-23.6	-27.1	-31.1	-30.1	-0.6
Extraction of crude petroleum and natural gas	4.8	24.9	-32.3	-59.3	-40.5	-22	25.6
Mining of metal ores	6.3	8.2	-21.4	-21.8	-22.4	5.8	5.1
Manufacturing	64.4	7.4	-5.7	-0.5	1.7	4.0	2.1
Manufacture of foods, beverages and tobacco products	21.4	7.0	1.8	7.3	9.2	11.3	2.6
Manufacture of coke, and refined petroleum products	2.9	-3.1	-14.2	-14.9	-15.7	-14.8	3.9
Manufacture of chemicals and chemical products	2.9	7.7	-8.9	3.7	4.9	9.3	3.1
Manufacture of basic pharmaceutical products and pharmaceutical preparation	1.5	16.7	9.6	9.3	9.8	9.0	0.3
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.7	12.6	2.6	0.6	1.3	2.3	0.9
Manufacture of basic metals and fabricated metal products, except machinery and equipment	15.9	5.6	-18.8	-9.9	-4.4	0.6	3.2
Manufacture of transport equipment	3.2	17.3	1.1	0.3	-0.8	-0.4	0.7
Electricity, gas, steam and air-conditioning supply	18.5	29.8	-5.6	-9.8	-9.4	-12.3	-3.2

* 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	RHS	Right-hand scale
NBU	National Bank of Ukraine		
RES	Renewable energy sources		