

As expected, core inflation accelerated to 2.6% yoy (up from 2.3% in September), which was in line with the forecast published in the October 2020 Inflation Report. In monthly terms, prices grew by 1.0%. Pro-inflationary pressures came from the weaker hryvnia, higher energy prices, and smaller harvests of some crops. On the other hand, inflation was restrained by an increase in the supply of other food products (the increase in supply was temporary for some foods) and weak consumer demand for certain goods. As a result, consumer inflation remained below its 5% ± 1 pp target range.

### Core Inflation

As expected, core inflation accelerated to 3.2% yoy.

Food prices grew more rapidly (3.4% yoy). Sunflower oil prices went up sharply owing to a smaller harvest of sunflower seeds and higher export prices. This, in turn, was reflected in the prices of mayonnaise and margarine. Moreover, bread and pasta prices grew faster, fueled by higher prices of inputs (grain) and energy. An increase in production costs led to an increase in prices for meat products. In contrast, prices of cheese and butter grew more slowly on the back of larger supply, which was, among other things, driven by imports (import volumes of dairy products rose by 67% yoy in September–October).

Nonfood prices also grew at a faster pace (0.8% yoy), primarily driven by a weakening of the hryvnia exchange rate. Prices for home appliances returned to growth, prices for electronic devices declined more slowly, and the growth in prices of furniture and cars accelerated. At the same time, prices for clothing and footwear continued to drop (by 5.1% yoy), in particular due to lower demand as Ukrainians continued to study and [work remotely](#).

The growth in services prices decelerated (to 6.4% yoy). On the one hand, the deceleration was expected, as comparison-base effects waned for some services, particularly for telecommunication services (some operators raised prices for mobile communication services last year on the back of higher costs, in particular investment expenditures and wages). On the other hand, growth in the number of COVID-19 cases and the tightening of quarantine restrictions in some oblasts were likely to create an additional impact. In particular, slower price growth was seen for the services provided by restaurants, hotels, cinemas, beauty salons, language schools, and for housing rent. At the same time, hospital service prices grew more rapidly as the epidemic worsened.

### Changes in Raw Food Prices

The decline in raw food prices deepened somewhat, to 1.3% yoy. In particular, vegetable prices continued to decrease. Potatoes, tomatoes, and cucumbers were cheaper than last year thanks to a larger supply. Prices of other vegetables (mostly borschch vegetables) went down because of a lower-quality harvest. Apple prices grew more slowly as the new harvest came to market. An increase in import volumes pulled

prices for bananas further down. All of the above outweighed increases in prices for other products, such as flour, sugar, and eggs.

### Changes in Administered Prices

The growth in administered prices accelerated, to 7.5% yoy. Natural gas prices grew at a faster pace, which, in turn, slowed the decline in hot water and heating rates. The growth in tobacco product prices sped up slightly.

### Changes in Fuel Prices

Fuel prices declined a little more slowly (by 16.6% yoy). Lower global crude oil prices were offset by high demand for fuel, driven by the active use of cars during the pandemic (in particular, in Q3 2020 gas stations sold 17.5% more petroleum products than last year), and by the weakening of the hryvnia.

### Producer Price Inflation

After 11 months of decline, in October industrial prices started to rise in annual terms. This was primarily driven by the rapid growth in prices for products sold outside Ukraine (22.4% yoy). The Producer Price Index (PPI) increased by 3.8% over the month.

Rising global commodity prices and the weaker hryvnia led to a sharp increase in prices for metal ores (28.3% yoy) and metals (9.5% yoy). Price growth in the production of crude oil and gas resumed (9.8% yoy), which in turn had an impact (albeit slightly lagged) on prices of coke and petroleum products (their decline slowed to 4.4% yoy). Further growth in natural gas prices and sustained high global prices for fertilizers spurred growth in chemicals prices (to 13.5% yoy).

Prices 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, which was probably a result of the weaker hryvnia.

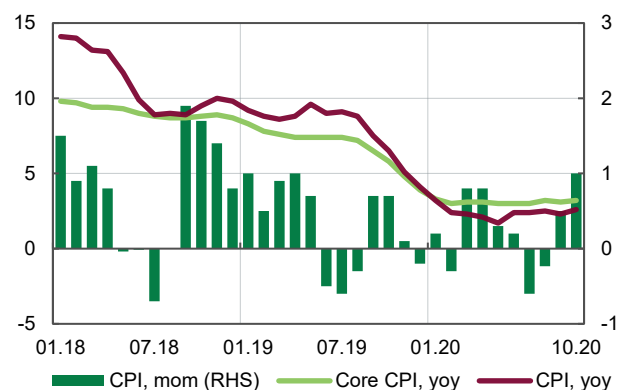
Price growth in the food industry accelerated (to 15.3% yoy), with prices in the fats and oils industry making the largest contribution. In particular, sunflower oil and meal grew more expensive on the back of a surge in prices for sunflower oil on the global commodity markets (due to a poor harvest of sunflower in the United States, among other things) and a smaller sunflower harvest than last year. Sugar prices grew sharply due to the harvest of sugar beet being lower than last year, and global prices rose amid decreased supply from

world's largest sugar producers (Brazil, India, and Thailand). Meat and bread prices grew as well. The pace of growth in dairy prices remained the same as in the previous month. Growth in production costs, driven by a rise in raw milk prices and lower volumes of milk processing, was restrained by an increase in competition from imports.

The decline in prices for the supply of electricity, gas, steam, and air conditioning deepened, to 13.3% yoy. In particular, the decrease in electricity prices is probably related to a change in approaches to selling electricity to household<sup>1</sup> amid higher consumption (up by 1.8% yoy).

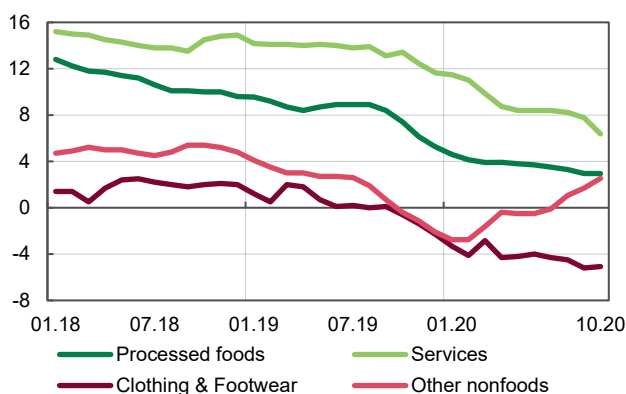
**Consumer inflation in October 2020 sped up in annual terms, but still was below the 5% ± 1 pp target range. Pro-inflationary pressures came from the weaker hryvnia, higher energy prices, and smaller harvests of some crops. Core inflation also accelerated, as expected**

Figure 1. Consumer price indices, %



Source: SSSU.

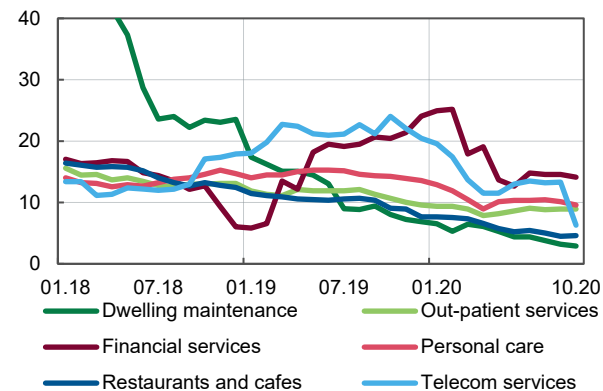
Figure 2. Main components of core CPI, % yoy



Source: SSSU, NBU staff estimates.

**Services prices grew more slowly as the comparison base effect for telecommunication services faded and quarantine restrictions were tightened amid larger numbers of COVID-19 cases**

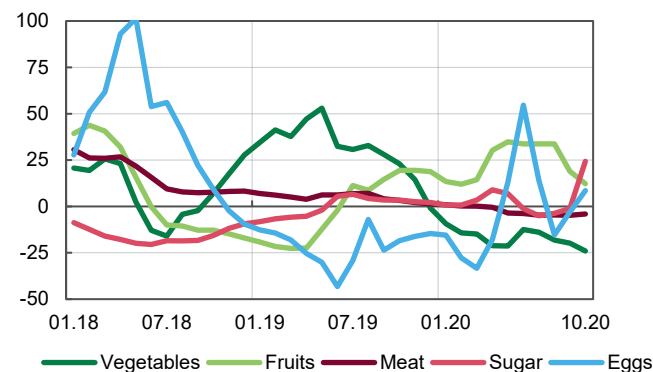
Figure 3. Prices for selected services, % yoy



Source: SSSU, NBU staff estimates.

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

Figure 4. Prices for selected raw foods, % yoy

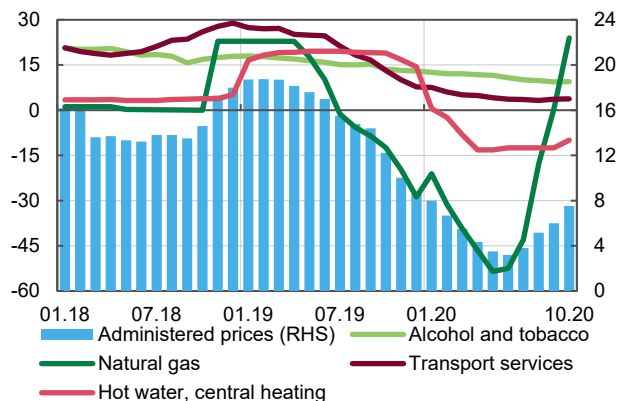


Source: SSSU.

<sup>1</sup> Starting in mid-August, nuclear and hydro power plants were obliged to sell electricity to the Guaranteed Buyer state enterprise at the minimum price, while volumes of such electricity were limited to the level actually consumed by households. Producers can sell the remaining electricity to industrial consumers at market prices. Moreover, prices on the day-ahead and intraday markets declined, which was likely driven by lower demand on these markets, reflected in decreased trade volumes.

**Growth rates of administered prices increased as prices for natural gas, hot water, and heating grew. Prices of tobacco products continued to rise as well**

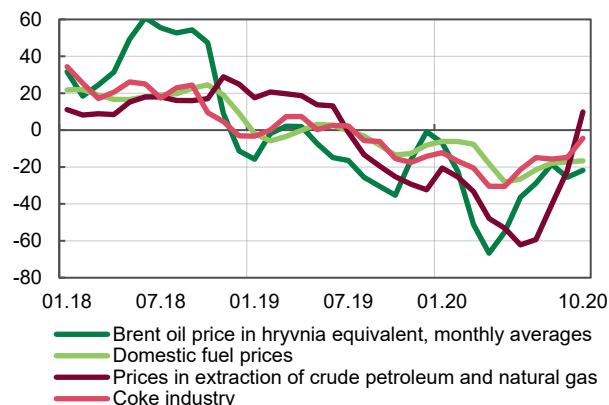
Figure 5. Administered prices, % yoy



Source: SSSU, NBU staff estimates.

**The decline in fuel prices slowed somewhat. Lower global prices for crude oil were offset by robust demand for fuel and the weakening of the hryvnia exchange rate**

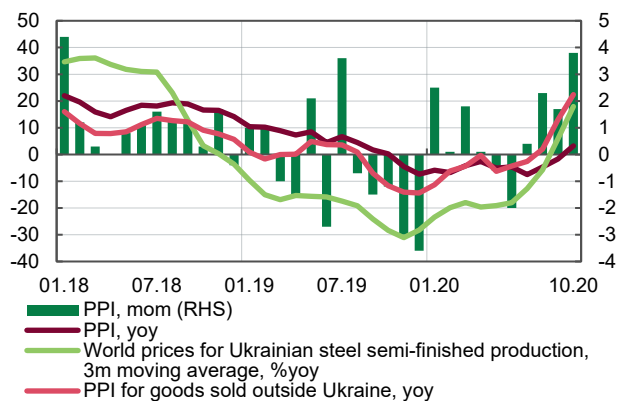
Figure 6. Fuel price indices, % yoy



Source: SSSU, Refinitiv Datastream, NBU staff estimates.

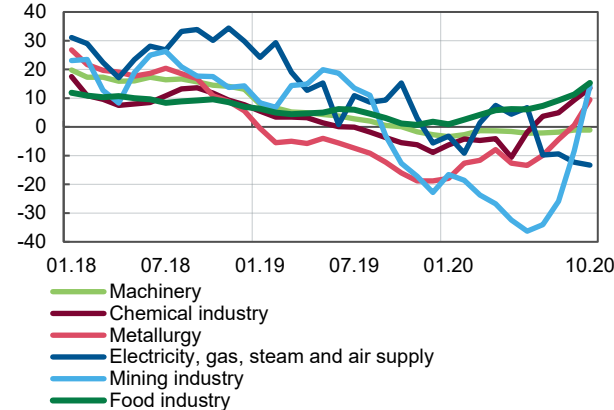
**After 11 months of decline, in October industrial prices returned to growth in annual terms, primarily owing to an increase in the global prices of goods exported by Ukraine (sugar, metals, sunflower oil) and energy prices. At the same time, prices for the supply of electricity, gas, steam, and air conditioning continued to drop because of a change in the approaches to setting prices for households amid higher consumption**

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 Oct 2020
		2018	2019	2020			
				Aug	Sep	Oct	
<b>CPI (NBU classification)</b>							
<b>Consumer Price Index</b>	<b>100.0</b>	<b>9.8</b>	<b>4.1</b>	<b>2.5</b>	<b>2.3</b>	<b>2.6</b>	<b>1.0</b>
<b>Core inflation</b>	<b>59.4</b>	<b>8.7</b>	<b>3.9</b>	<b>3.2</b>	<b>3.1</b>	<b>3.2</b>	<b>0.8</b>
<b>Non-core inflation*</b>	<b>40.6</b>	<b>10.7</b>	<b>4.8</b>	<b>1.6</b>	<b>1.1</b>	<b>1.7</b>	<b>1.4</b>
Raw foods	19.4	3.3	3.9	0.9	-1.1	-1.3	1.2
Administered prices and tariffs	18.0	18.0	8.6	5.2	6.0	7.5	1.6
Fuels	3.2	9.1	-8.2	-17.9	-17.4	-16.6	0.8
<b>CPI (State Statistics Service of Ukraine classification)</b>							
<b>Food and non-alcohol</b>	<b>44.7</b>	<b>17.7</b>	<b>7.8</b>	<b>2.3</b>	<b>1.3</b>	<b>1.6</b>	<b>1.1</b>
<b>Alcohol, tobacco</b>	<b>8.1</b>	<b>20.7</b>	<b>17.9</b>	<b>9.8</b>	<b>9.4</b>	<b>9.5</b>	<b>0.9</b>
<b>Clothing and footwear</b>	<b>5.3</b>	<b>0.9</b>	<b>2.0</b>	<b>-4.5</b>	<b>-5.2</b>	<b>-5.1</b>	<b>2.0</b>
<b>Housing, water, electricity, gas and other fuels incl.</b>	<b>5.4</b>	<b>10.6</b>	<b>10.6</b>	<b>-3.1</b>	<b>0.6</b>	<b>5.5</b>	<b>4.4</b>
Dwelling maintenance	0.3	47.5	23.7	3.8	3.2	3.2	0.1
Water supply	0.2	20.2	19.9	22.5	21.9	19.6	0.0
Hot water	0.2	0.9	3.2	-3.6	-3.4	-2.9	0.6
Natural gas	1.4	1.2	22.9	-17.8	0.4	24	18.2
Central heating	1.0	3.8	5.2	-13.7	-13.7	-10.9	3.5
Electricity	1.0	28.1	0.0	0.0	0.0	0.0	0.0
<b>Transport</b>	<b>11.2</b>	<b>16.7</b>	<b>12.9</b>	<b>-1.8</b>	<b>-1.0</b>	<b>-0.1</b>	<b>0.2</b>
<b>Communication</b>	<b>2.9</b>	<b>9.1</b>	<b>15.1</b>	<b>7.6</b>	<b>7.7</b>	<b>3.3</b>	<b>0.0</b>
<b>Education</b>	<b>1.4</b>	<b>14.9</b>	<b>13.4</b>	<b>13.0</b>	<b>14.1</b>	<b>13.8</b>	<b>0.1</b>

## PPI

	Share in PPI for 2020, %**			% yoy			% mom Oct 2020
		2018	2019	2020			
				Aug	Sep	Oct	
<b>Producer Price Index</b>	<b>100.0</b>	<b>14.2</b>	<b>-7.4</b>	<b>-4.7</b>	<b>-1.7</b>	<b>3.2</b>	<b>3.8</b>
<b>Mining and quarrying</b>	<b>15.9</b>	<b>14.3</b>	<b>-22.8</b>	<b>-25.9</b>	<b>-8.4</b>	<b>14.2</b>	<b>15.5</b>
Manufacturing of coal	3.3	5.4	-23.6	-31.1	-30.1	-18.9	5.4
Extraction of crude petroleum and natural gas	4.8	24.9	-32.3	-40.5	-22.0	9.8	33.3
Mining of metal ores	6.3	8.2	-21.4	-22.4	5.8	28.3	9.5
<b>Manufacturing</b>	<b>64.4</b>	<b>7.4</b>	<b>-5.7</b>	<b>1.7</b>	<b>4.0</b>	<b>8.4</b>	<b>2.6</b>
Manufacture of foods, beverages and tobacco products	21.4	7.0	1.8	9.2	11.3	15.3	2.9
Manufacture of coke, and refined petroleum products	2.9	-3.1	-14.2	-15.7	-14.8	-4.4	3.7
Manufacture of chemicals and chemical products	2.9	7.7	-8.9	4.9	9.3	13.5	2.1
Manufacture of basic pharmaceutical products and pharmaceutical preparation	1.5	16.7	9.6	9.8	9.0	8.7	0.7
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.7	12.6	2.6	1.3	2.3	2.6	0.2
Manufacture of basic metals and fabricated metal products, except machinery and equipment	15.9	5.6	-18.8	-4.4	0.6	9.5	5.3
Manufacture of transport equipment	3.2	17.3	1.1	-0.8	-0.4	-2.1	-1.0
<b>Electricity, gas, steam and air-conditioning supply</b>	<b>18.5</b>	<b>29.8</b>	<b>-5.6</b>	<b>-9.4</b>	<b>-12.3</b>	<b>-13.3</b>	<b>1.4</b>

\*The NBU's estimates based on the data provided by the State Statistics Service of Ukraine (SSSU). The sum of CPI components may deviate from the overall CPI due to the use of dynamic weights in line with SSSU methodology, and to the rounding effect.

\*\* The proportion of PPI components is based on the SSSU data on sales volumes of industrial products by sector in 2019.

## Terms and abbreviations:

CPI	Consumer price index	mom	month-on-month
PPI	Producer price index	yoy	year-on-year
SSSU	State Statistics Service	RHS	Right-hand scale
NBU	National Bank of Ukraine		