

In July 2021, consumer inflation accelerated slightly in annual terms to 10.2%, up from 9.5% in June. In monthly terms, prices grew by 0.1%. Consumer inflation was in line with the projected trajectory published in the NBU's [July 2021 Inflation Report](#), although the dynamics of some of its components were slightly different. Inflation accelerated primarily due to food price growth. Among the main drivers of this acceleration were higher pressure from production costs and consumer demand. Adverse weather (heat and heavy rain) affecting some foods made an additional contribution.

Core inflation

Core inflation in July remained at the previous month's level (7.3%)

Coupled with an increase in production costs, including wages and expenses on raw materials and energy, solid consumer demand further accelerated the growth in prices for processed foods (to 12.3% yoy). More specifically, prices for pasta, meat products, confectioneries, and dairy products continued to grow. The price increase was somewhat restrained by the weaker growth of sunflower oil prices in annual terms. However, this has not yet affected the prices of sunflower-oil-based products (margarine and mayonnaise), which have kept growing at a faster pace.

The growth in the prices of services accelerated (to 8.2% yoy). Prices for cafe and restaurant meals, museum and theater tickets, hospital services, housing repairs, personal vehicle insurance, housing rentals, and taxi rides increased more quickly, driven by sustained consumer demand and higher production costs. Price growth in this group was somewhat curtailed by tourist services, the prices of which grew more slowly as more options for vacationing abroad became available.

The growth in nonfood prices slowed to 1.2% yoy, thanks to favorable FX market conditions and a sharp drop in COVID-19 cases. In particular, prices for pharmaceutical products, medical goods, detergents, and cars grew at a slower pace, while clothing, footwear, and home textiles became even cheaper. The prices of electronics, personal care products, furniture and utensils grew faster, propelled by steady consumer demand.

Changes in Raw Food Prices

Growth in raw food prices accelerated to 8.2% yoy.

The faster growth in egg prices was primarily driven by higher fodder prices. Hot weather may have been an additional factor contributing to the increase in egg prices. Prices for milk and meat also increased because of the higher cost of fodder and energy, as well as shrinking supply amid a decline in animal farming. Sugar prices continued to rise due to high

global prices and last year's poorer sugar beet harvests. Prices for borsch vegetables also returned to growth in annual terms due to this year's poorer weather conditions. On the other hand, some other vegetables (tomatoes, cucumbers, and zucchini) and fruit (grapes and apples) continued to decline in price as their supply widened.

Changes in Administered Prices

The increase in administered prices accelerated further (to 18.5% yoy).

On the one hand, the prices of alcoholic beverages rose more quickly, driven mainly by higher prices for beer and sparkling wines. Prices for transport services continued to rise due to higher costs for fuel and wages. As air travel services continued to recover amid strong demand, airlines hiked the prices of their services, making up for the significant losses they incurred during downtime. Local landline phone rates also grew at a faster pace.¹

On the other hand, the growth in the price of natural gas slowed somewhat (to 164.5% yoy), primarily due to the comparison base effect. Specifically, although natural gas prices in Europe grew rapidly, in Ukraine the natural gas price for households increased by a mere 3.3% mom in July due to the annual contract option.

Changes in Fuel Prices

The growth in fuel prices continued to gradually decelerate (to 33.8% yoy). This is primarily attributed to the comparison base effect. Price regulation, in particular in the form of caps on the trade margins for A-95 petrol and diesel fuel, also had a certain effect.

Producer Price Inflation

Producer prices continued to grow (by up to 42.2% yoy) in July, primarily due to high global prices for energy and metals, and higher production costs. The PPI increased by 2.6% mom.

Price growth in metal ore mining was little changed in July relative to June (196.7% yoy). This was primarily due to the slowdown in the growth of global metal ore prices as demand from China weakened and Vale BHP stepped up ore mining.

¹Starting 1 July, the [National Commission for the State Regulation of Communications and Informatization raised the price ceiling for currently provided telecommunications services](#). This decision reflected bigger wage increases and the growth in the cost of energy, fuel, and other inputs.

At the same time, steel prices continued to rise against the backdrop of tighter production restrictions in China and supply chain disruptions in flood-hit Germany. The increase in production costs accelerated price growth in metallurgy and in subsequent stages of the production process (machinery production, including the manufacture of machinery and equipment not included in other groups, and the manufacture of motor vehicles).

Faster growth in natural gas prices in the EU and high global oil prices further pushed up prices in crude oil and natural gas extraction (in July, these prices were up by 246% yoy). This contributed to a further increase in prices in the manufacture of rubber and plastic products. Price growth in coal mining also sped up (to 26.5% yoy in July from 12.5% yoy in June) due [price increases in the EU](#) and a [deficit in Ukraine](#). High oil prices, along with the rapid rise in global [coking coal](#) prices, fueled an acceleration in price growth in the production of coke and petroleum products (to 99.4% yoy from 76.6% yoy in June).

Prices in the supply of electricity, natural gas, steam, and air conditioning continued to rise. One of the main contributors

was the hot weather, which led to an increase in electricity consumption. Electricity consumption by producers (especially in metallurgy and machinery production) also continued to grow as they ramped up output. At the same time, a [significant number of power units were shut down](#) as coal reserves dwindled.

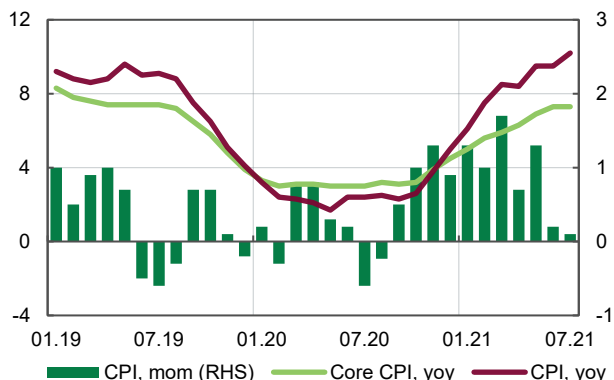
Further price increases in the production of wood products, paper, and printing were underpinned by robust demand for wood, both external and domestic. An additional factor could be the new rules in the timber market, which have contributed to a certain de-shadowing of this market.²

Prices in the food industry have remained virtually unchanged for the third month running. Global sunflower oil prices continued to adjust, which was also reflected in domestic prices. At the same time, sugar prices rose sharply.

In contrast, price growth in the chemical industry continued to slow, primarily due to lower fertilizer exports amid repairs at the Azot plant (in the city of Cherkasy).

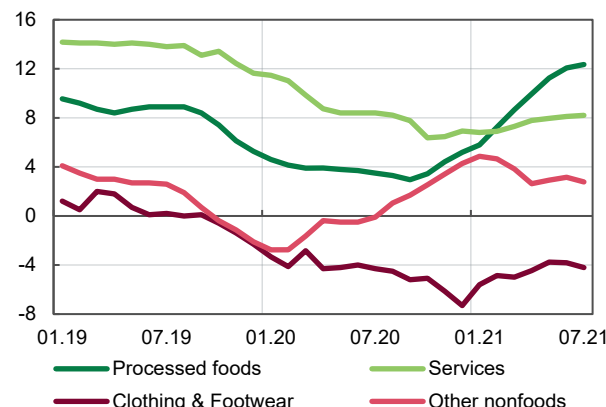
In July 2021, consumer inflation accelerated to 10.2% yoy, primarily due to growth in food prices. The main factors that drove this acceleration included both stronger pressure from production costs and increased consumer demand. The core inflation index remained unchanged compared to June

Figure 1. Consumer price indices, %



Source: SSSU.

Figure 2. Main components of core CPI, % yoy

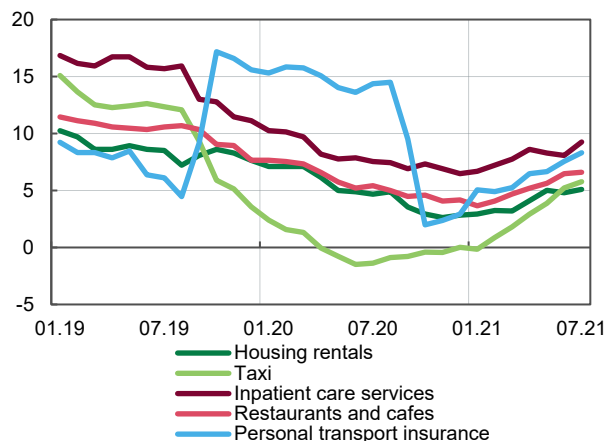


Source: SSSU, NBU staff estimates.

²The government introduced experimental auctions to sell wood, which were in effect 1 February 2020 through 1 April 2021. This helped [de-shadow this industry](#), encouraging forestry businesses to continue to use this tool [after the pilot period was over](#).

The growth in services prices accelerated due to sustained robust consumer demand and increases in production costs

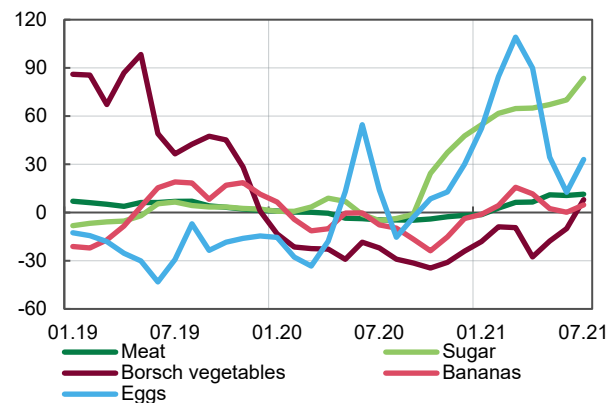
Figure 3. Prices for selected services, % yoy



Source: SSSU, NBU staff estimates.

Raw food prices surged amid mounting pressure from costs in livestock farming, high sugar prices, and weather conditions that were unfavorable for the growth of certain vegetables

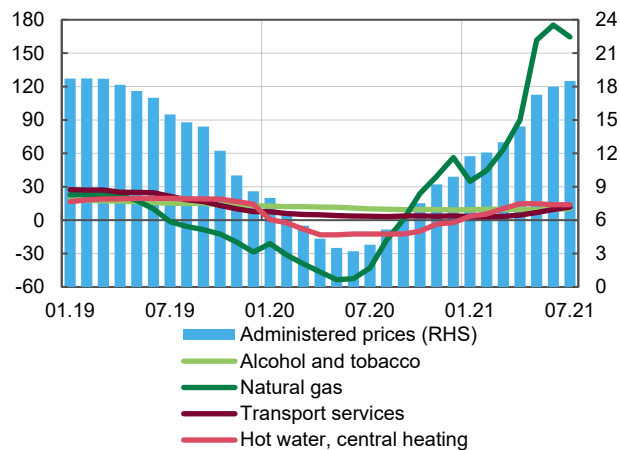
Figure 4. Prices for selected raw foods, % yoy



Source: SSSU.

Administered prices continued to rise, fueled by higher prices for transport and alcohol. However, higher prices restrained the slowdown in natural gas prices

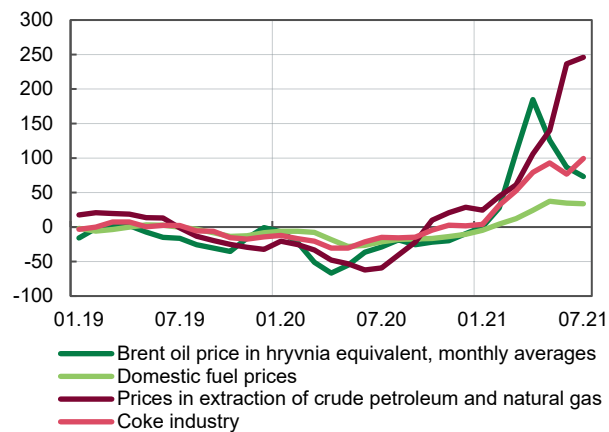
Figure 5. Administered prices, % yoy



Source: SSSU, NBU staff estimates.

Fuel prices increased more slowly, primarily due to comparison base effects, while regulatory measures also had a certain restraining effect

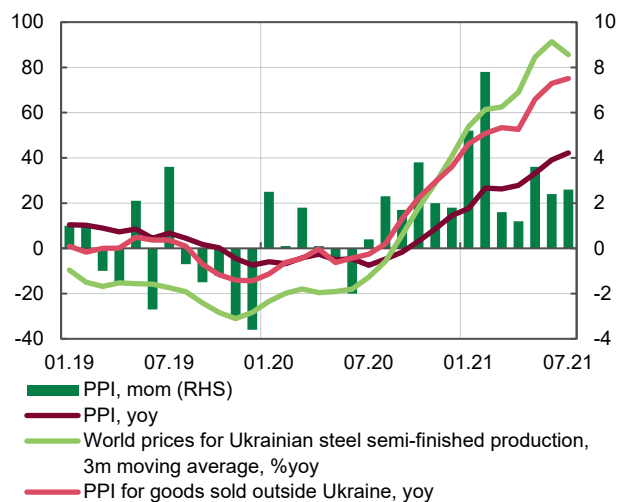
Figure 6. Fuel price indices, % yoy



Source: SSSU, Refinitiv Datastream, NBU staff estimates.

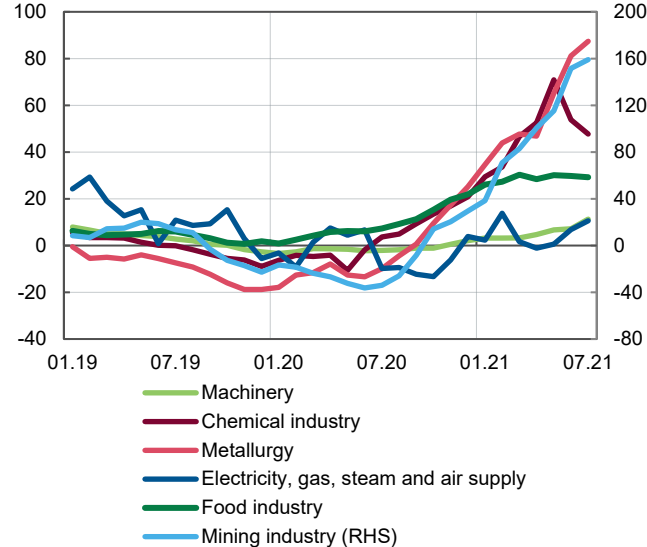
Producer price growth continued to accelerate in July, primarily due to persistently high global prices for energy and metals and upward pressure from production costs

Figure 7. Producer price index, %



Source: SSSU.

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



Source: SSSU.

Table 1. Change in CPI

	Share in 2021 CPI, %			%, y-o-y			July 2021, % mom
		2019	2020	2021			
				May	June	July	
CPI components (NBU methodology)							
Consumer Price Index	100.0	4.1	5.0	9.5	9.5	10.2	0.1
Core inflation	59.0	3.9	4.5	6.9	7.3	7.3	-0.1
Noncore inflation*	41.0	4.8	5.9	13.3	12.6	14.5	0.4
raw foods	19.0	3.9	4.1	7.1	5.1	8.2	-0.6
Administered prices	19.2	8.6	9.9	17.3	18.0	18.5	1.1
Fuel	2.8	-8.2	-10.5	37.9	35.1	34.1	2.7
Some components of the consumer basket (SSSU methodology)							
Foods and nonalcoholic beverages	43.3	7.8	4.9	9.9	9.4	10.8	-0.1
Alcoholic beverages, tobacco products	7.9	17.9	9.2	9.3	9.8	10.1	0.8
Clothing and footwear	5.2	2.0	-7.3	-3.8	-3.8	-4.2	-5.2
Housing, water, electricity, natural gas and other fuels, including:	7.8	10.6	13.6	35.3	36.4	35.5	0.6
Housing maintenance fees	0.6	23.7	2.7	2.6	3.7	3.2	0.1
Water supply	0.3	19.9	18.5	11.0	11.0	11.0	0.0
Hot water	0.2	3.2	-1.5	7.9	3.4	3.4	0.0
Natural gas	2.2	22.9	56.3	161.6	175.3	164.5	3.3
Central heating	1.3	5.2	-2.4	15.2	15.2	15.2	0.0
Electricity	1.3	0.0	0.0	36.6	36.6	36.6	0.0
Transport	10.6	12.9	2.7	12.2	12.0	11.9	1.1
Telecommunications	2.9	15.1	4.1	6.0	5.0	4.8	0.1
Education	1.4	13.4	13.9	14.7	14.7	14.6	0.0

Table 2. Some PPI components

	Share in 2021 PPI, %**			%, yoy			July 2021, % mom
		2019	2020	2021			
				May	June	July	
Producer Price Index	100.0	-7.4	14.5	33.1	39.1	42.2	2.6
Mining and quarrying	14.3	-22.8	29.5	115.3	151.6	159.1	3.0
Coal mining	2.3	-23.6	-7.3	10.3	12.5	26.5	11.5
Crude oil and natural gas production	3.4	-32.3	28.6	139.9	236.6	246.0	-2.9
Metal ore mining	7.1	-21.4	44.6	168.8	198.7	196.7	4.4
Manufacturing	64.7	-5.7	15.7	34.1	35.8	37.8	2.8
Production of foods, beverages, and tobacco products	23.0	1.8	21.9	30.1	29.8	29.2	0.4
Production of coke and petroleum products	2.9	-14.2	1.8	92.9	76.6	99.4	18.7
Production of chemicals and chemical products	2.8	-8.9	20.9	70.9	53.8	47.7	1.9
Production of basic pharmaceutical products and pharmaceuticals	1.7	9.6	10.4	14.6	14.9	15.4	1.0
Manufacture of rubber and plastic products, nonmetal mineral products	6.3	2.6	4.1	8.5	10.8	12.6	1.7
Metallurgical production, manufacture of finished metal products, excluding machinery and equipment	15.0	-18.8	25.2	65.2	81.1	87.4	5
Manufacture of motor vehicles, trailers, semi-trailers, and other vehicles	2.8	1.1	1.2	3.0	2.9	8.9	4.8
Supplies of electricity, natural gas, steam, and air conditioning	19.6	-5.6	3.9	0.6	6.8	10.6	1.9

*NBU estimates based on the data provided by the State Statistics Service of Ukraine (SSSU). The sum of the 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 SSSU data on sales volumes of industrial products by sector in 2020.

Terms and abbreviations:

CPI	Consumer Price Index	NCCIR	National Commission for the State Regulation of Communications and Informatization
PPI	producer price index	mom	month-on-month
SSSU	State Statistics Service of	yoy	year-on-year
NBU	National Bank of Ukraine	RHS	Right-hand scale