

In January 2019, consumer price inflation declined to 9.2% from 9.8% in December 2018. In monthly terms, prices grew by 1.0%. Falling fuel prices and lower rates of growth in prices for goods and services included in core inflation explained the slowdown in annual inflation. Actual inflation in January matched closely the projected trajectory published in January 2019 Inflation Report. Minor deviations can largely be attributed to a planned review in the weight structure of the consumer basket of goods and services, conducted every year in January, according to the SSSU methodology. The review of the weight structure in general did not affect the trajectory of the inflation forecast.

### Core Inflation

In January, core inflation decelerated to 8.3% yoy from 8.7% yoy in December 2018. In monthly terms, core CPI grew by 0.3%.

The rate of growth in the prices of services slowed to 14.2% yoy. In particular, prices grew slower for catering, tourism, healthcare, insurance and financial services. In addition, slowdown in the growth of the cost of services for the dwelling maintenance (to 17.5% yoy) was expected, given a high comparison base (since the beginning of last year, most cities of Ukraine saw the tariffs for these services rise). Meanwhile, prices for entertainment and sports, dry cleaning and Internet grew faster, pushed by consumer demand and further growth in production costs, including the cost of labor.

Growth in the prices of non-food products continued to slow as well (to 3.4% yoy), primarily due to the strengthening of the hryvnia. Specifically, prices for home appliances rose a weaker 4.6% yoy, as did prices for furniture, pharmaceuticals, clothing and footwear (8.6% yoy, 7.0 % yoy, and 1.2% yoy, respectively). Meanwhile, prices for TVs and computer equipment even decreased.

The growth in the prices of processed foods (9.5% yoy) remained practically unchanged from December. Specifically, the price growth for meat products slowed (to 10.7% yoy), balancing out the acceleration of growth in the prices of cheese and fermented milk products (to 9.9% yoy and 10.2% yoy, respectively) – a reflection of similar trends in external markets.

### Raw Food Prices

Raw food prices accelerated in January (to 4.0% yoy from 3.3% yoy in December 2018). On one hand, the prices of borsch vegetables continued to increase rapidly (by 86.0% yoy). The acceleration reflected the scarce supply of these vegetables due to unfavorable weather conditions, the poor harvest of these vegetables in Europe, as well as lower

harvest of some domestically grown vegetables. Flour prices continued to grow fast, driven by price developments in external markets and low supply of high-quality grains.

On the other hand, fruit continued to decline in price (by 19.2% yoy), thanks to the bumper apple harvest and lower prices for imported bananas and citrus fruits. Egg prices were down substantially (by 12.6% yoy). The prices for meat grew at a slower pace (7.0% yoy), due to the continued drop in global prices and the weaker-than-usual domestic demand for it.

### Administered Prices

The growth in administered prices sped up (to 18.7% yoy from 18.0% yoy in December 2018). In January, tariffs for heating, hot and cold water supply, sewage, and telephony increased. Higher excise taxes were levied on tobacco products. The cost of passenger transport by railway grew at a faster pace (20.8% yoy) after related services became more expensive. The prices of bread and alcoholic drinks held steady at 4.1% yoy and 10.1% yoy, respectively.

### Fuel Prices

Fuel prices declined (by 1.9% yoy), thanks to a fall in global oil prices in earlier months and the strengthening of the hryvnia.

### Producer Price Inflation

In January 2019, producer price inflation also decelerated – to 10.4% yoy, compared to 14.2% yoy in December 2018.

The slowdown in annual producer price inflation was primarily driven by slower price growth in the mining industry and manufacturing in line with global trends. Indeed, the decline in global iron ore and steel prices drove prices in domestic metal ores production and metallurgy lower (by 2.9% yoy and 0.5% yoy, respectively).

The continuing plunge in global oil prices in annual terms led to a price slowdown in the crude oil and natural gas extraction

sector and chemical industry (to 17.5% yoy and 5.5% yoy respectively), while prices in manufacture of coke and refined products dipped further (by 3.3% yoy).

The strengthening of the hryvnia to the currencies of partner countries was yet another factor for the slowdown of producer price inflation. In particular, prices for manufacturing products, sold outside Ukraine, decreased by 1.2% yoy in January after a 3.4% year-on-year increase in December 2018.

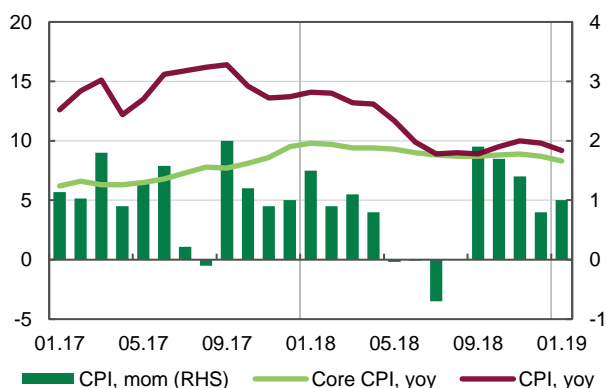
Inflation in machine building kept slowing (to 7.9% yoy, compared to 13.1% yoy in December). In particular, prices in electrical equipment production grew slower (by 4.4% yoy, compared to 13.5% yoy in December 2018).

The growth rates of prices in electricity, gas, steam and air conditioning also declined (to 24.2% yoy), which was largely the result of a high comparison base – in January 2018, NERC significantly raised electricity tariffs for non-household consumers.

Price increases in food, beverage and tobacco production also decelerated (to 6.3% yoy). This reflected a slowdown in prices for meat products (to 2.6% yoy) due to lower input prices and a drop in world prices for these food products. In addition, prices in sugar production declined by 6.4% yoy amid a fall in global sugar prices, as well as due to a supply glut. Meanwhile, the price growth in manufacture of dairy products accelerated to 10.5% yoy.

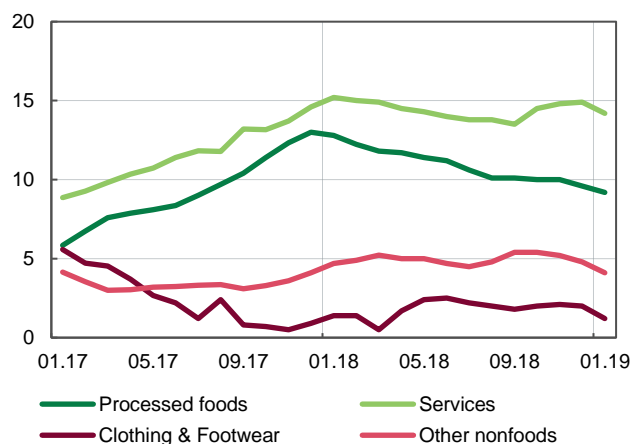
**January 2019 saw a continued slowdown in headline and core inflation, driven, inter alia, by lower global prices for selected raw food products. Tight monetary policy was yet another contributor to decelerating core inflation**

Chart 1. Consumer price indices, %



Source: SSSU.

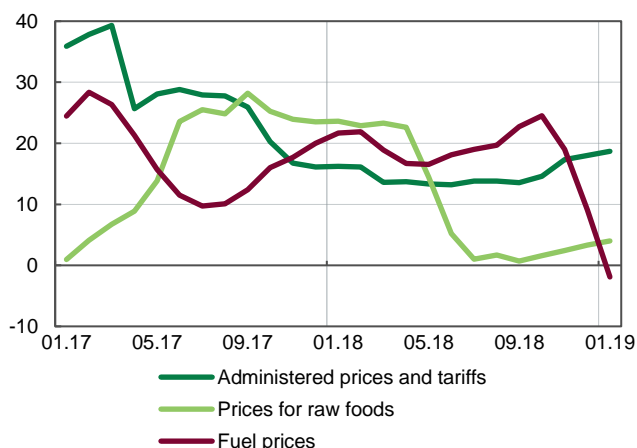
Chart 2. Main Core CPI Components, % yoy



Source: SSSU, NBU staff estimates.

**Slowdown in non-core inflation was led primarily by lower fuel prices, which offset the acceleration in price growth for raw foods and higher administered tariffs**

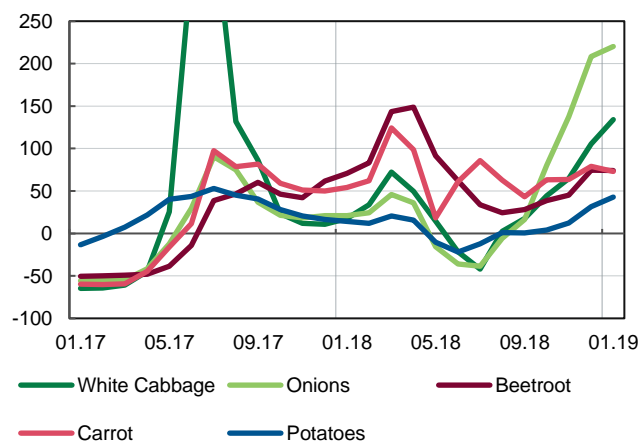
Chart 3. Main Components of Non-Core CPI, % yoy



Source: SSSU, NBU staff estimates.

**Narrowing supply of borschch vegetables due to adverse weather conditions and poor vegetable harvest caused vegetable prices to accelerate**

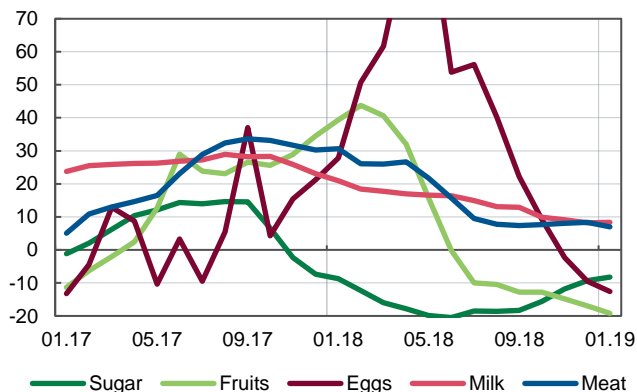
Chart 4. Borschch Vegetable Prices, % yoy



Source: SSSU.

Fruit prices dropped further, amid ample supply, primarily due to a bountiful harvest of apples, as well as due to low world prices. Growth in egg and sugar prices continued to slow

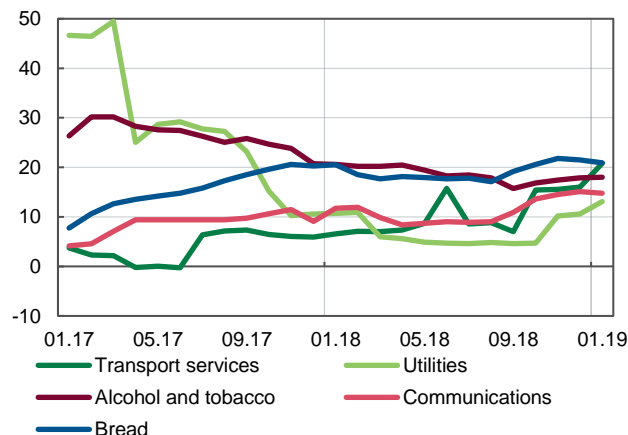
Chart 5. Prices for Selected Raw Food, % yoy



Source: SSSU.

In January, prices for utilities and railway transport services rose significantly reflecting January's increase in the respective tariffs

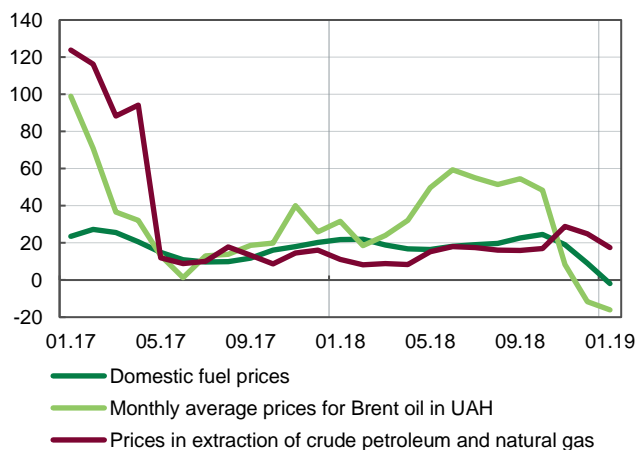
Chart 6. Administered Prices and Utility Tariffs, % yoy



Source: SSSU.

A drop in global oil prices along with the strengthening of the hryvnia were responsible for a fall in fuel prices below last year's levels

Chart 7. Fuel Price Indexes, % yoy



Source: SSSU, Thomson Reuters Datastream.

In January, annual producer price inflation continued to decelerate on the back of similar global market trends and the hryvnia strengthening

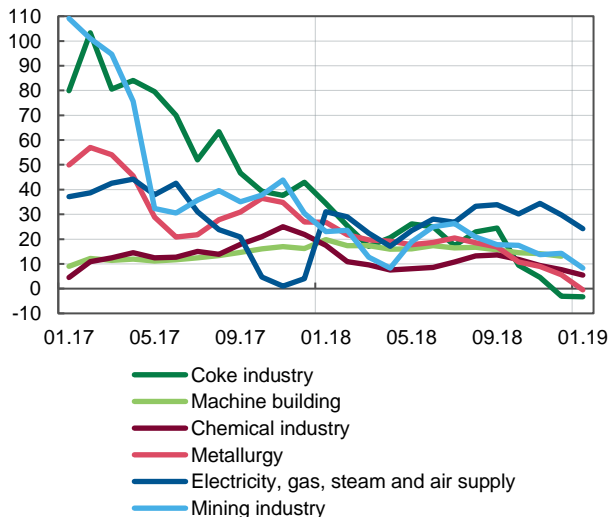
Chart 8. Producer Price Index, % yoy



Source: SSSU.

Slower pace of price growth in the energy sector due to a favorable base effect was a major contributor to a deceleration in producer price inflation

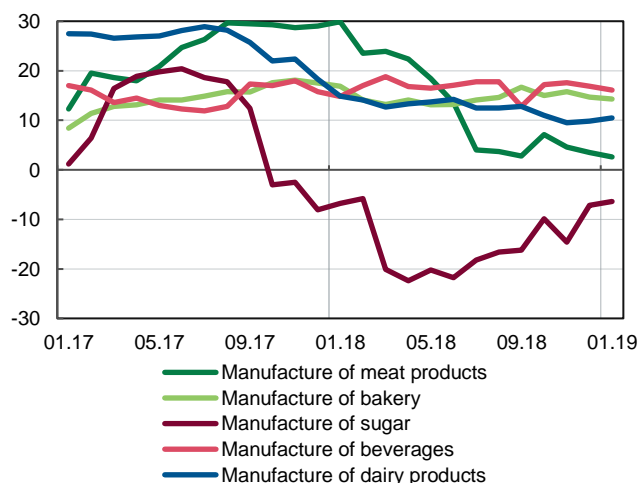
Chart 9. Producer Price Indexes in Select Industries, % yoy



Source: SSSU.

Within the food industry, price growth slowed in the manufacture of meat, bread and beverages

Chart 10. Prices in the Food Industry Subsectors, % yoy



Source: SSSU.

## CPI and PPI growth by components in 2016 - 2019

	Share in CPI for 2019, %	% yoy						%mom Jan 2019
		2016	2017	2018		2019 Jan		
				Nov	Dec			
<b>CPI (NBU classification)</b>								
<b>Consumer Price Index</b>	<b>100.0</b>	<b>12.4</b>	<b>13.7</b>	<b>10.0</b>	<b>9.8</b>	<b>9.2</b>	<b>1.0</b>	
<b>Core inflation</b>	<b>59.3</b>	<b>5.8</b>	<b>9.5</b>	<b>8.9</b>	<b>8.7</b>	<b>8.3</b>	<b>0.3</b>	
<b>Non-core inflation*</b>	<b>40.7</b>	<b>17.5</b>	<b>19.4</b>	<b>10.9</b>	<b>10.7</b>	<b>10.3</b>	<b>2.1</b>	
Raw foods	20.0	1.2	23.5	2.4	3.3	4.0	4.0	
Administered prices and tariffs	16.8	34.6	16.1	17.3	18.0	18.7	1.9	
Fuels	3.9	19.5	20.0	19.0	9.1	-1.9	-6.1	

<b>CPI (State Statistics Service of Ukraine classification)</b>							
<b>Food and non-alcohol</b>	<b>45.4</b>	<b>3.3</b>	<b>17.7</b>	<b>7.5</b>	<b>7.8</b>	<b>7.9</b>	<b>2.1</b>
<b>Alcohol, tobacco</b>	<b>8.3</b>	<b>22.5</b>	<b>20.7</b>	<b>17.4</b>	<b>17.9</b>	<b>18.0</b>	<b>1.2</b>
<b>Clothing and footwear</b>	<b>5.3</b>	<b>5.5</b>	<b>0.9</b>	<b>2.1</b>	<b>2.0</b>	<b>1.2</b>	<b>-4.6</b>
<b>Housing, water, electricity, gas and other fuels incl.</b>	<b>4.9</b>	<b>47.2</b>	<b>10.6</b>	<b>10.2</b>	<b>10.6</b>	<b>13.1</b>	<b>2.6</b>
Dwelling maintenance	0.2	11.5	47.5	23.1	23.7	17.5	0.7
Water supply	0.1	42.1	20.2	17.9	19.9	21.2	1.4
Hot water	0.2	82.9	0.9	2.3	3.2	12.9	9.4
Natural gas	1.2	42.0	1.2	22.9	22.9	22.9	0.0
Central heating	0.8	89.3	3.8	3.8	5.2	16.6	11.0
Electricity	0.9	60.0	28.1	0.0	0.0	0.0	0.0
<b>Transport</b>	<b>11.4</b>	<b>11.4</b>	<b>16.7</b>	<b>16.8</b>	<b>12.9</b>	<b>7.7</b>	<b>-1.7</b>
<b>Communication</b>	<b>3.1</b>	<b>4.0</b>	<b>9.1</b>	<b>14.5</b>	<b>15.1</b>	<b>14.8</b>	<b>2.5</b>
<b>Education</b>	<b>1.3</b>	<b>13.7</b>	<b>14.9</b>	<b>13.3</b>	<b>13.4</b>	<b>13.4</b>	<b>1.4</b>

## PPI

	Share in PPI for 2019, %**	% yoy						%mom Jan 2019
		2016	2017	2018		2019 Jan		
				Oct	Nov			
<b>Producer Price Index</b>	<b>100.0</b>	<b>35.7</b>	<b>16.5</b>	<b>16.5</b>	<b>14.2</b>	<b>10.4</b>	<b>1.0</b>	
<b>Mining and quarrying</b>	<b>15.2</b>	<b>85.1</b>	<b>30.4</b>	<b>13.7</b>	<b>14.3</b>	<b>8.4</b>	<b>-2.6</b>	
Manufacturing of coal	2.9	40.4	47.8	5.3	5.4	11.4	5.6	
Extraction of crude petroleum and natural gas	5.3	76.5	16.1	28.9	24.9	17.5	-2.1	
Mining of metal ores	5.8	107.2	29.3	4.6	8.2	-2.9	-7.5	
<b>Manufacturing</b>	<b>65.3</b>	<b>22.6</b>	<b>18.5</b>	<b>9.8</b>	<b>7.4</b>	<b>4.6</b>	<b>-0.4</b>	
Manufacture of foods, beverages and tobacco products	20.2	16.2	12.5	8.6	7.0	6.3	0.2	
Manufacture of coke, and refined petroleum products	3.9	61.7	43.0	4.6	-3.1	-3.3	-1.8	
Manufacture of chemicals and chemical products	2.7	-1.4	21.9	9.3	7.7	5.5	-0.4	
Manufacture of basic pharmaceutical products and pharmaceutical preparation	1.4	8.5	11.0	14.1	16.7	14.8	1.1	
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.2	9.5	12.5	13.1	12.6	11.3	1.4	
Manufacture of basic metals and fabricated metal products, except machinery and equipment	18.5	41.8	26.9	8.9	5.6	-0.5	-2.2	
Manufacture of transport equipment	2.9	11.4	17.9	18.1	17.3	11.1	0.7	
<b>Electricity, gas, steam and air-conditioning supply</b>	<b>18.5</b>	<b>51.5</b>	<b>4.0</b>	<b>34.4</b>	<b>29.8</b>	<b>24.2</b>	<b>5.5</b>	

\* 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 2018.

## Terms and abbreviations

CPI	Consumer Price Index	SSSU	State Statistics Service of Ukraine
NBU	National Bank of Ukraine	yoy	in annual terms; year-on-year change
NERC	The National Commission for State Regulation in the Energy and Utilities	mom	in monthly terms; month-on-month change
PPI	Producer Price Index		
RHS	Right hand scale		

The Review is a translation of the original text in Ukrainian. In case of any discrepancies between the original document and its English translation, readers should consider the Ukrainian version of the Review as correct.