



NATIONAL BANK OF UKRAINE

June 2017 Inflation Review

As expected, headline inflation accelerated to 15.6% yoy in June 2017 from 13.5% in May. In monthly terms, the CPI increased by 1.6%.

Actual inflation came in above the NBU's projections, primarily reflecting a faster-than-expected growth in raw food prices and a continuing strong impact of administered factors. Meanwhile, underlying inflation pressures remained moderate, broadly in line with expectations.

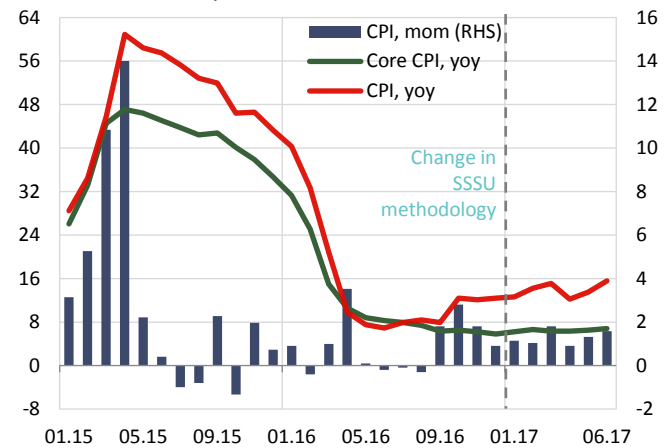
Core inflation slightly accelerated to 6.8% yoy in June (stood at 0.2% mom). The acceleration was driven by a further increase in housing maintenance tariffs at a fast pace (by 39.9% yoy), as well as by secondary effects from rising raw food prices. The latter pushed up prices for processed foods (to 8.4% yoy). Selected service prices included in the core CPI (prices for health care, recreational and cultural services, as well as prices for restaurants and hotels, hairdressing salons) also accelerated. Meanwhile, a decline in inflation expectations amid the strengthening of the hryvnia against the US dollar kept prices for imported goods virtually flat and contributed to a slowdown in the annual growth of prices for clothes and footwear (to 2.1%).

As expected, raw food prices accelerated further. However, the pace of increase (23.6% yoy and 7.2% mom) outperformed the NBU's projections. Prices for fruit and vegetables accelerated to 40.7% yoy and 29.0% yoy, respectively. Apart from a partial crop loss (in particular, strawberries) due to unfavorable weather conditions, the movements of prices for fruit and vegetables continued to reflect changes in the SSSU methodology for calculating the CPI, which were introduced in early 2017. In particular, previously the method of weighted average prices was used as one of the main methods for calculating prices for these products (when prices for early- and late-harvested fruit and vegetables were weighted by the share of their sales). From now on, prices are recorded for those products that prevail on the market in different seasons of the year. As a result, seasonal patterns for fruit and vegetable prices have changed. Prices will increase stronger than before in those months when early harvest products (in particular, in May-June) or imported fruit and vegetables come to the market. Conversely, prices will decline more substantially with the increased supply of domestically produced fruit and vegetables.

In addition, prices for meat and raw milk accelerated further in annual terms (to 20.5% and 26.9% respectively), driven by high global prices and robust exports. As expected, prices for eggs rebounded in June (were up by 3.3% yoy) as export restrictions on poultry-related products to some countries were gradually lifted. Meanwhile, the decline of buckwheat prices accelerated amid abundant supply.

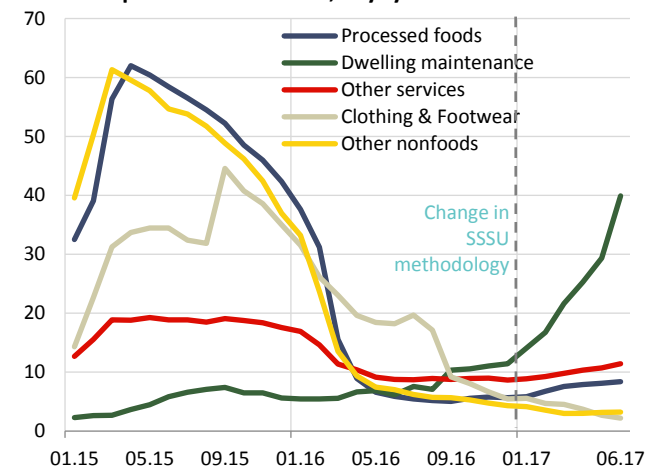
Growth of administered prices and tariffs accelerated to 28.8% yoy (stood at 1.3% mom), primarily reflecting lagged increase in tariffs for cold water and sewerage effective from May. In June, the growth of prices for transport services accelerated to 17.5% yoy (from 16.6% yoy in May). In particular, the urban transport

Inflation Indicators, %



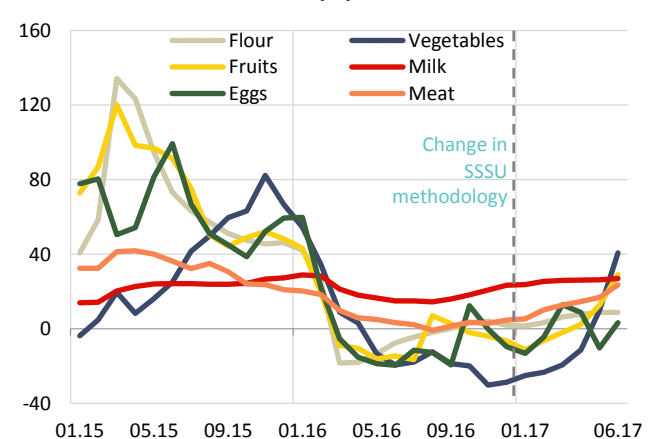
Source: SSSU

Main Components of Core CPI, % yoy



Source: SSSU; NBU staff estimates

Selected Raw Food Prices, % yoy



Source: State Statistics Service of Ukraine

fares increased due to their upward adjustment in some cities as costs have rose from the beginning of the year. Besides, the growth of prices for air transportation accelerated amid increasing demand for these services. In addition, prices for tobacco products accelerated further (to 43.7% yoy from 43.7% yoy in May) due to ongoing distribution difficulties. Meanwhile, the growth of prices for alcoholic beverages slowed down further.

As expected, fuel prices decelerated to 11.5% yoy (were down by 1.0% mom) amid a decrease in global oil prices in the previous months and favorable FX market conditions.

In June 2017, the producer price index continued to decelerate to 26.3% yoy (from 27.1% yoy in May). Producer prices fell by 0.6% mom. As in previous months, the PPI movements were mainly driven by global commodity price developments. In particular, a significant deceleration in prices for domestic iron ore production (to 27.7% yoy) continued on the back of lower global iron ore prices while lower world oil prices contributed to a slowdown in prices in the extraction of crude oil and natural gas (to 8.9% yoy). As a result, the price growth in the mining industry decelerated further to 30.5% yoy (from 32.4% yoy in May).

These developments pushed down the prices in the next stages of production, particularly in metallurgy (decelerated to 20.8% yoy from 28.9% yoy in May), production of coke and refined products (price growth slowed to 70.0% yoy from 79.5% yoy in May).

Producer price growth in the food processing industry remained almost unchanged (producer price inflation stood at 16.5% yoy compared to 16.9% yoy in May), although price developments varies across various industries. In particular, prices in production of beverages decelerated, including due to slower growth of ethanol prices. At the same time, prices in manufacturing of meat and dairy products accelerated significantly (respectively, to 24.7% yoy and 28.1% yoy) on the back of robust exports and high global prices. Prices in the production of bakery and farinaceous products remained unchanged.

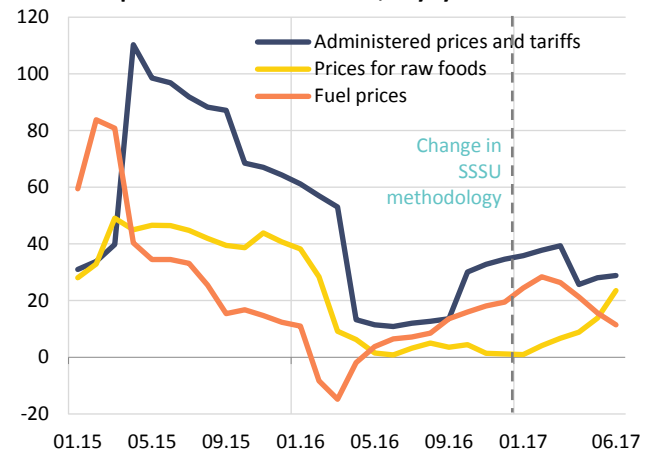
Despite declining global prices for fertilizers and fuels, prices in the chemical industry of Ukraine accelerated to 12.7% yoy due to a restoration of anti-dumping duties on nitrogen-release fertilizers from the Russian Federation.

Prices in the manufacture of wood products and paper production, as well as in the textile production accelerated amid increased production costs, including labor costs.

Prices in the supply of electric power, natural gas, steam, and conditioned air accelerated to 42.5% yoy in May (from 37.9% yoy in May). This was primarily due to an increased share of thermal power in electricity generation, including due to a resumption of functioning of some thermal power stations after the forced downtime.

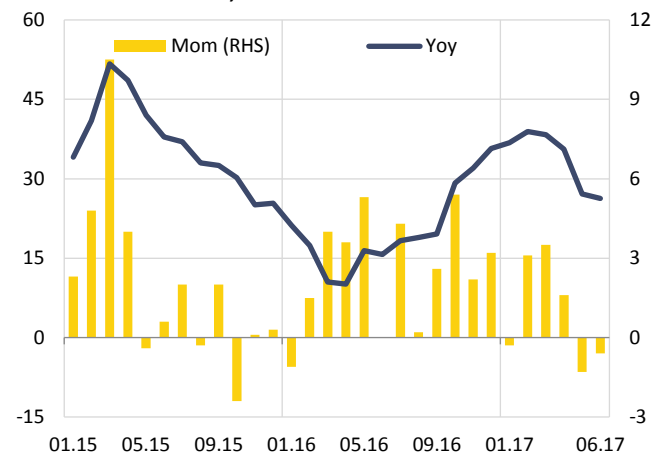
The Review is a translation of the original text in Ukrainian. In case of any discrepancies between the original document and its English translation, readers should consider the Ukrainian version of the Review as correct.

Main Components of Non-Core CPI, % yoy



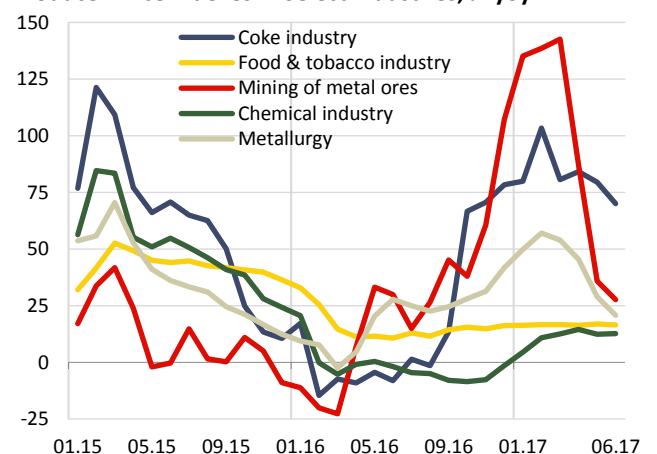
Source: State Statistics Service of Ukraine; NBU staff estimates

Producer Price Index, %



Source: State Statistics Service of Ukraine

Producer Price Indexes in Select Industries, % yoy



Source: State Statistics Service of Ukraine

CPI and PPI growth by components in 2015 - 2017										
CPI (NBU classification)										
	Share in CPI for 2017, %	yoy, %								June, mom %
		2015	2016	2017** †						
				January	February	March	April	May	June	
Consumer Price Index	100.0	43.3	12.4	12.6	14.2	15.1	12.2	13.5	15.6	1.6
Core inflation	57.4	34.7	5.8	6.2	6.6	6.3	6.3	6.5	6.8	0.2
Non-core inflation *	42.6	49.7	17.5	17.9	20.8	22.8	17.7	20.7	25.0	3.4
Raw foods	19.0	40.7	1.2	1.0	4.1	6.7	8.9	13.8	23.6	7.2
Administered prices and tariffs	18.6	64.4	34.6	35.9	37.8	39.3	25.6	28.1	28.8	1.3
Fuels	5.0	12.5	19.5	24.5	28.4	26.3	21.3	15.7	11.5	-1.0
CPI (State Statistics Service of Ukraine classification)										
Food and non-alcohol	41.8	41.5	3.3	3.0	5.3	7.2	8.3	10.6	15.0	3.3
Alcohol, tobacco	7.9	22.7	22.5	26.3	30.2	30.2	28.3	27.5	27.4	2.6
Clothing and footwear	5.4	35.0	5.5	5.6	4.7	4.5	3.7	2.7	2.1	-2.5
Housing, water, electricity, gas and other fuels incl.:	7.5	103.0	47.2	46.6	46.5	49.5	25.1	28.6	29.2	0.5
Imputed rentals for housing	0.5	5.4	11.5	14.1	16.8	21.7	25.3	29.3	39.9	8.9
Water supply	0.3	23.0	42.1	26.7	24.7	24.1	27.3	37.1	40.0	2.6
Hot water	0.2	55.8	82.9	82.9	83.2	83.3	83.3	83.0	82.9	0.0
Natural gas	2.1	273.0	42.0	42.0	42.0	42.0	-4.3	0.9	1.0	0.1
Central heating	1.2	78.7	89.3	89.7	90.1	90.2	90.2	90.2	90.2	0.0
Electricity	1.0	66.9	60.0	60.0	60.0	63.7	63.7	63.7	63.7	0.0
Transport	12.1	20.4	11.4	14.9	17.2	16.8	15.7	13.1	11.5	-0.2
Communication	3.2	7.0	4.0	4.1	4.6	7.1	9.4	9.4	9.4	0.0
Education	1.6	24.2	13.7	12.1	11.5	10.7	10.3	9.7	8.9	0.4
PPI										
	Share in PPI for 2017, %***	yoy, %								June, mom %
		2015	2016	2017						
				January	February	March	April	May	June	
Producer Price Index	100.0	25.4	35.7	36.8	38.9	38.3	35.6	27.1	26.3	-0.6
Mining and quarrying	13.2	17.6	85.1	109.1	101.0	94.7	75.7	32.4	30.5	-3.4
Manufacturing of coal	2.4	-0.8	40.4	43.5	21.0	20.5	35.4	37.1	49.8	0.4
Extraction of crude petroleum and natural gas	4.7	120.3	76.5	123.8	116.2	88.3	94.1	12.0	8.9	-1.7
Mining of metal ores	5.1	-8.9	107.2	135.2	138.5	142.6	87.0	35.9	27.7	-7.4
Manufacturing	65.1	23.8	22.6	25.6	28.9	27.5	25.4	21.1	18.7	-0.5
Manufacture of food products, beverages and tobacco products	21.8	36.4	16.2	16.4	16.7	16.6	16.3	16.9	16.5	-0.1
Manufacture of coke, and refined petroleum products	3.4	4.7	61.7	79.9	103.3	80.6	84.1	79.5	70.0	-3.0
Manufacture of chemicals and chemical products	3.2	24.2	-1.4	4.5	10.9	12.5	14.5	12.4	12.7	-0.5
Manufacture of basic pharmaceutical products and pharmaceutical preparations	1.4	31.5	8.5	8.3	9.2	9.0	9.0	9.0	8.7	0.4
Manufacture of rubber and plastics products, and other non-metallic mineral products	5.2	29.6	9.5	10.6	11.7	12.2	11.2	11.7	11.5	0.3
Manufacture of basic metals and fabricated metal products, except machinery and equipment	17.3	12.4	41.8	49.9	57.0	54.0	45.5	28.9	20.8	-1.5
Manufacture of transport equipment	2.2	15.5	11.4	9.1	15.4	14.5	16.1	14.2	14.2	-2.2
Electricity, gas, steam and air-conditioning supply	21.8	33.2	51.5	37.1	38.7	42.6	44.2	37.9	42.5	0.3

* 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 through the use of dynamic weights according to the methodology of the SSSU and rounding.

** Since January 2017, the methodology for calculating the CPI was modified. For more information, see the official web-page of the State Statistics Service of Ukraine.

*** The shares of PPI components are NBU staff estimates based on the SSSU data on volume of industrial production by type of activity for 2016.

† Changes in prices for the selected components of the consumer basket according to NBU classification based on SSSU data were revised due to review of the weights calculation methodology.