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Consumer price dynamics: facts, assessments and comments (February 2019)

Annual inflation rose to 5.2% in February 2019. The moderate increase in the consumer price growth rate was caused by a temporary acceleration in the growth of fruit and vegetable prices, in part on the back of base effects. The earlier ruble depreciation and the rising cost-side pressure also made their contribution. The increase in annual growth in prices of non-food goods and services was modest. Monthly growth of seasonally adjusted prices slowed down considerably to 0.4%. Estimates suggest that the VAT hike pass-through to prices has largely materialised; however, certain deferred effects may manifest themselves in the months to come. According to the Bank of Russia forecast, annual inflation is set to reach its local high in March-April. It will then start to decline to return to the near 4% target in the first half of 2020.

Consistent with expectations, annual inflation in February 2019 edged higher to 5.2% (see the Appendix). However, compared with January readings, the rise was moderate (0.2 pp). As in the previous months, prices were affected by the 2018 ruble depreciation and rising cost-side pressure (caused, among other things, by climbing prices of oil and oil products, and agricultural raw materials). Prices were in part affected by the temporary acceleration of growth in prices of volatile food inflation components, which was associated with the low base effect, among other things. Estimates suggest that the VAT hike pass-through to prices in February decreased tangibly after the January highs. Overall, it largely translated to prices. Nevertheless, certain deferred effects may manifest themselves in the months to come.

Annual indicators specific to the steadiest component of price dynamics rose moderately. Core inflation increased less than in January, by 0.3 pp to 4.4%. Estimates suggest that the median values of price growth distributions rose by 0.2 pp to 4.0%.

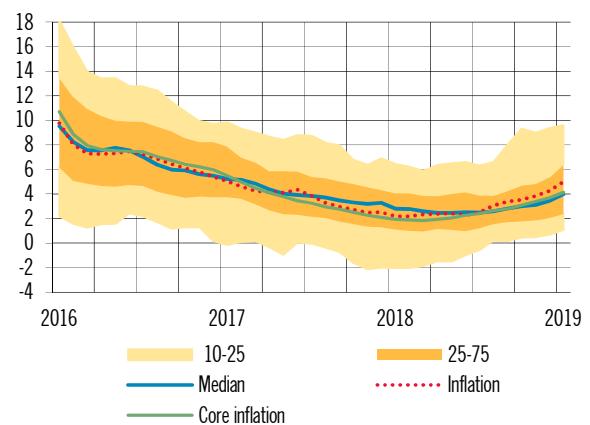
Seasonally adjusted monthly consumer price growth slowed by 0.4 pp to 0.4%, the level seen in September-November 2018 (Chart 1).

Food products

In February 2019, annual food inflation rose by 0.4 pp to 5.9% (Chart 2). As in the previous two months, its increase was largely driven by the further acceleration of fruit and vegetable

Price growth breakdown by goods and services, inflation and core inflation Chart 1

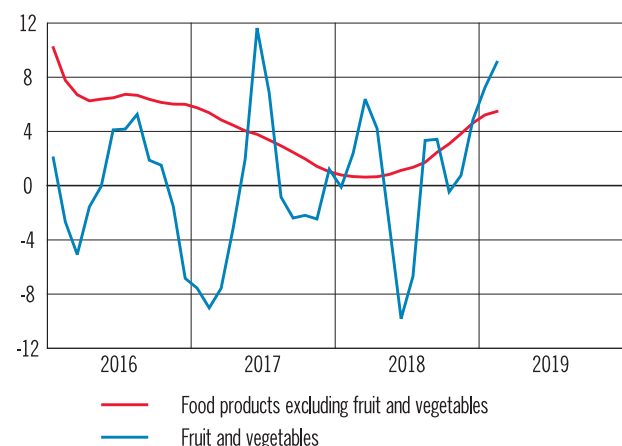
Per cent change on corresponding month of previous year



Sources: Rosstat, Bank of Russia calculations.

Food prices Chart 2

Per cent change on corresponding month of previous year

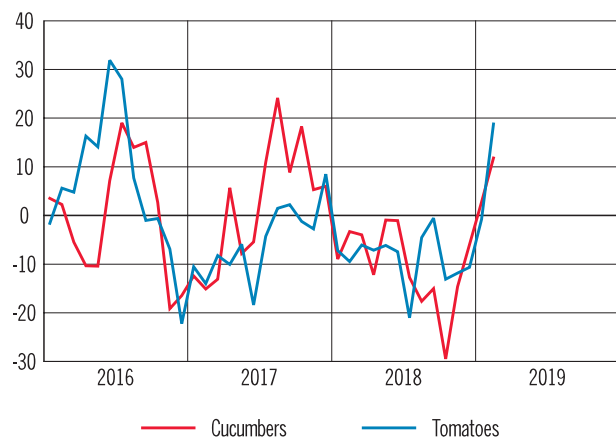


Sources: Rosstat, Bank of Russia calculations.

Prices for tomatoes and cucumbers

Chart 3

Per cent change on corresponding month of previous year

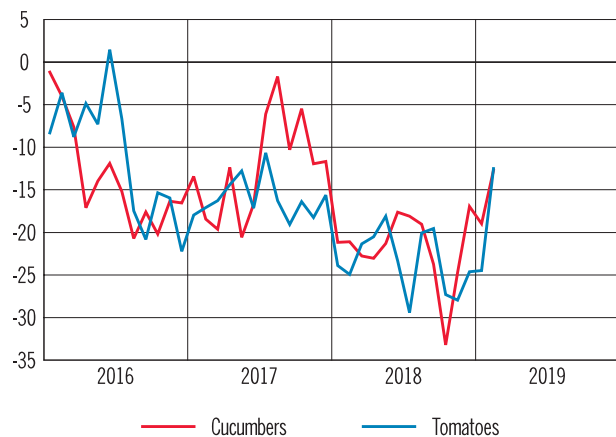


Sources: Rosstat, Bank of Russia calculations.

Prices for tomatoes and cucumbers

Chart 4

Growth as % on December 2015, seasonally adjusted

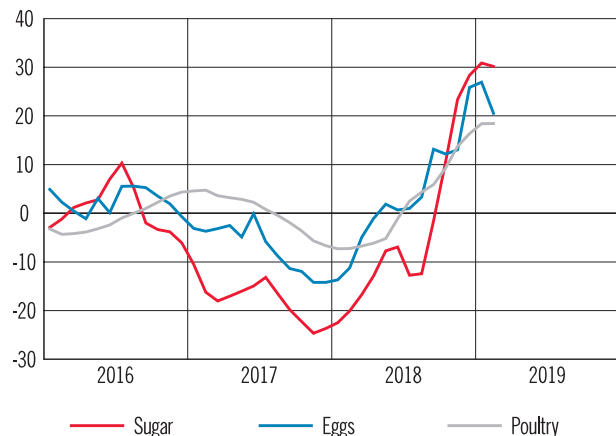


Sources: Rosstat, Bank of Russia calculations.

Prices for sugar, eggs and poultry

Chart 5

Per cent change on corresponding month of previous year



Source: Rosstat.

price growth. As in January, it was in part caused by the base effect – last year the rise in fruit and vegetable prices was atypically low. The prices of tomatoes and cucumbers showed the fastest growth compared with February 2018, adding 18.8% and 11.8% respectively (Chart 3). Nevertheless, these prices remain at the level corresponding to the readings registered in 2016 H2 – early 2017 (Chart 4).

Prices in other food categories showed mixed dynamics in February due to specific factors. The prices of eggs and sugar declined. This may reflect the market correction after five months of accelerated growth that accompanied the adjustment in supply to meet demand. Annual growth of egg and sugar prices slowed down (Chart 5).

At the same time, annual growth rates of other food prices continued to increase; these markets, primarily those of meat and dairy products, were also highly saturated. Nevertheless, it is of note that poultry price growth stabilised after a considerable acceleration in 2018 H2.

The trend towards annual growth in the prices of bread, bakery products, pastry, pasta and cereal products (to 4.6-6.7%) persisted as a result of the rise in cereal prices in 2018 H2. That said, in January-February of this year, the domestic and export prices of main cereal crops stabilised or decreased. The global market was also overall stable. This points to a limited potential for further growth in cereal product prices. This is also supported by positive crop prospects, given the good condition of winter crops.¹

Fruit taxed at the standard VAT rate demonstrated a decline in annual price growth rates in February. As in January, they were mainly affected by the ruble exchange rate and specific supply-side factors.

Overall price growth rates of core consumer basket components in February 2019 continued to be led by food prices.

Nevertheless, monthly growth in seasonally adjusted food prices slowed in February by 0.1 pp to 0.5% compared with January. Growth in

¹ The current cereal crop forecast of the Ministry of Agriculture stands at 118 billion tonnes, which exceeds the 2018 figure by 5%. Market experts and analysts also expect larger crops.

seasonally adjusted prices of food products, bar fruit and vegetables, came in at 0.3%, which is the lowest value since June 2018. The above factors may point to the weakening of proinflationary effect of temporary factors, including supply-side factors in several food products.

Non-food goods

Annual growth rates of non-food prices increased by 0.1 pp to 4.6% in February 2019 (Chart 6). Consumer prices of oil products (petrol, diesel and gas motor fuel) fell in monthly terms and slowed their growth in annual terms (to 9.9%). Annual growth rates of non-food prices other than oil products increased moderately by 0.2 pp to 3.9%.

That said, prices in different product groups showed mixed dynamics, as in January. The most considerable was the contribution of growth in the prices of medical goods seen since April 2018 after a decline since 2015. Market experts believe that this is largely associated with the effect of last year's ruble depreciation on production costs, among other things. A 0.3-0.8 pp acceleration was registered in the growth of prices for cleaners and detergents, perfume and cosmetics, furniture, tools and equipment. At the same time, the decline in the prices of TV and radio goods and communication devices accelerated.

After a temporary hike in January, the monthly price growth of non-food goods (seasonally adjusted) returned to the level typical of September-December 2018 (0.3%). This may point to the fact that the January VAT hike pass-through to prices has mostly completed thanks to the ruble appreciation early in the year.

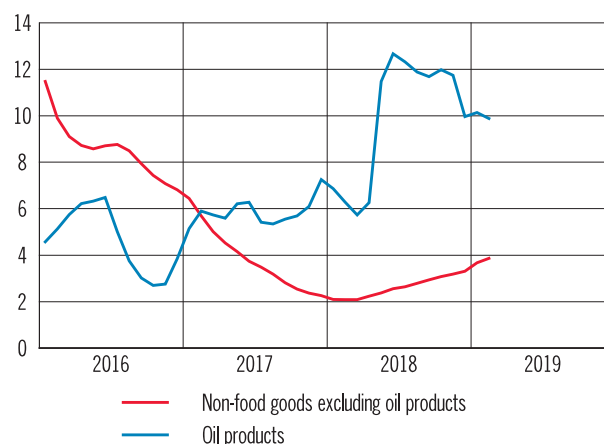
Services

Annual growth rates of services prices increased, as of non-food prices, by 0.1 pp to 5.1% in February 2019. Utility price growth, which was the main contributor to the acceleration of the services price increase in the previous month, stabilised (Chart 7). In February, growth in services prices was caused by the dynamics of urban automobile and air transport fares influenced by the rise in fuel prices in 2018.

Non-food prices

Chart 6

Per cent change on corresponding month of previous year

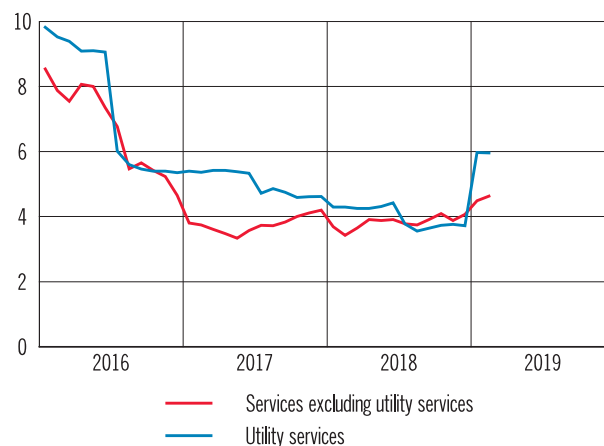


Source: Rosstat.

Services prices

Chart 7

Per cent change on corresponding month of previous year



Source: Rosstat.

Inflation in federal districts

Table 1

Per cent change on corresponding month of previous year

	February 2018	January 2019	February 2019	Price growth, February on February 2018
Russia	2.2	5.0	5.2	3.0
Central FD	2.7	5.4	5.7	3.0
North-Western FD	2.3	4.8	5.1	2.8
Southern FD	1.9	5.1	5.3	3.4
North Caucasian FD	1.8	4.4	4.6	2.8
Volga FD	1.8	4.9	5.1	3.3
Urals FD	2.3	3.9	4.1	1.8
Siberian FD	1.9	5.1	5.5	3.6
Far Eastern FD	1.8	4.6	4.9	3.1

Sources: Rosstat, Bank of Russia calculations.

Inflation across regions

Table 2

Per cent change on corresponding month of previous year

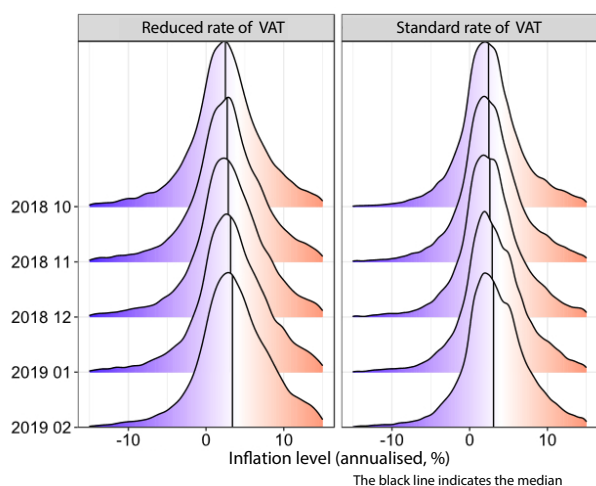
No.*		February 2018	January 2019	February 2019
Top 5 highest inflation regions, February 2019				
1(2)	Yaroslavl Region	1.5	6.6	7.1
2(1)	Ryazan Region	2.8	6.9	7.0
3(38)	Chukotka Autonomous Area	2.4	5.2	6.8
4(3)	Federal city of Sevastopol	2.1	6.5	6.6
5(6)	Republic of Crimea	0.7	6.3	6.5
Top 5 lowest inflation regions, February 2019				
78(78)	Republic of Dagestan	1.0	3.5	3.8
79(79)	Sakhalin Region	1.2	3.2	3.7
80(80)	Altai Republic	1.7	2.9	3.4
81(81)	Tyumen Region	2.6	2.8	3.0
82(82)	Republic of Ingushetia	4.4	1.9	2.0

* Brackets are used to show the region's position in January 2019.

Sources: Rosstat, Bank of Russia calculations.

Regional breakdown of inflation by product / service group

Chart 8



Sources: Rosstat, Bank of Russia calculations.

Furthermore, annual growth in prices of communication and personal services continued to reflect, among other things, the effect of the VAT hike. They added 1.0% and 0.9% respectively over two months. Nevertheless, year-on-year growth in prices of these services was modest at 3.2%.

Seasonally adjusted monthly services price growth slowed considerably, and, according to estimates, stood at 0.3%. This is 0.1 pp below the average level registered in the period from September till December 2018. As do the non-food price dynamics, this may suggest that the pass-through of the VAT hike on prices is completed.

Inflation across regions

In February 2019, annual inflation rose in most Russian regions. As in Russia as a whole, this was largely caused by the further rebalancing of certain food markets and supplemented with the base effect (Tables 1 and 2). Furthermore, air transport fares and regulated services prices continued to contribute to inflation acceleration (including solid waste management rates).

Food inflation was the main contributor to inflation in most Russian regions. Its acceleration was the most tangible in Siberia and Far East due to the catch-up growth in fruit and vegetable prices. In remote regions, food prices are determined by the specifics of food supplies, availability of food stocks and conditions of long-term contracts.

The increase in annual price growth of non-food goods and services in most regions was modest and overall uniform. The Far East has retained the lowest pace of non-food price growth. This is largely associated with the prices of light vehicles: prices in these regions are overall less volatile due to the specifics of the market structure associated, among other things, with the closeness to Asia Pacific countries.

It appears that the VAT hike had a modest effect on prices (Chart 8).

Overall, the spread of regional inflation readings remained virtually unchanged in

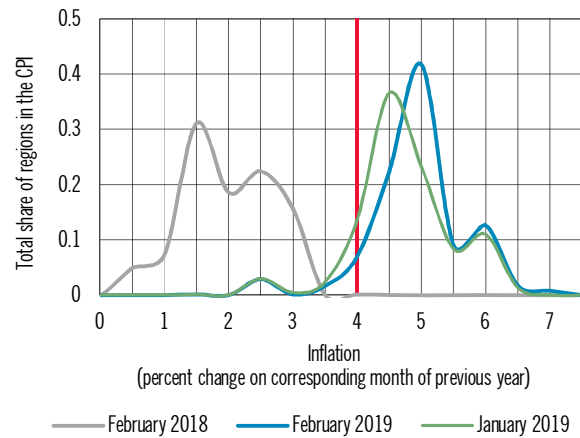
February 2019 ranging from 2.0% to 7.1% (Charts 9 and 10). The largest contribution to regional heterogeneity comes from fruit and vegetable prices and air transportation fares in remote regions.

Inflation forecast

According to the Bank of Russia forecast, annual inflation is set to reach its local high in March-April. It will then start to decline to return to the near 4% target in the first half of 2020. The updated medium-term Bank of Russia forecast will be released in the follow-up to the Board of Directors meeting of 22 March 2019.

Change in regional breakdown of inflation

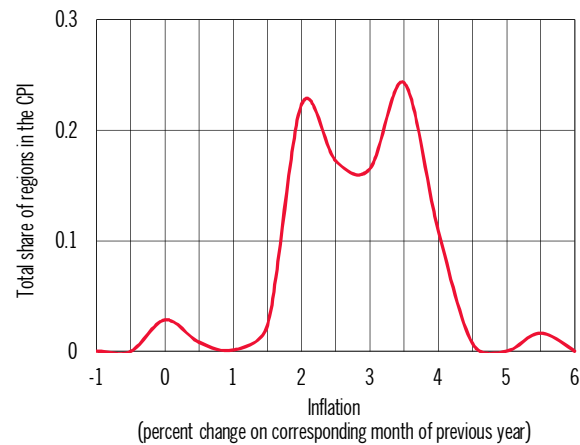
Chart 9



Sources: Rosstat, Bank of Russia calculations.

Regional breakdown by change in inflation growth, February 2019

Chart 10



Sources: Rosstat, Bank of Russia calculations.

Appendix

Consumer price dynamics (%)

	02.2018	03.2018	04.2018	05.2018	06.2018	07.2018	08.2018	09.2018	10.2018	11.2018	12.2018	01.2019	02.2019
Inflation													
– month on corresponding month of previous year	2.2	2.4	2.4	2.4	2.3	2.5	3.1	3.4	3.5	3.8	4.3	5.0	5.2
– month on month	0.2	0.3	0.4	0.4	0.5	0.3	0.0	0.2	0.4	0.5	0.8	1.0	0.4
– month on month, seasonally adjusted	0.1	0.3	0.4	0.4	0.5	0.2	0.5	0.4	0.4	0.4	0.6	0.8	0.4
Price growth on corresponding month of previous year													
– food products	0.9	1.3	1.1	0.4	-0.2	0.5	1.9	2.5	2.7	3.5	4.7	5.5	5.9
of which: fruit and vegetables	2.4	6.4	4.2	-2.8	-9.8	-6.7	3.3	3.4	-0.5	0.8	4.9	7.3	9.1
– non-food goods	2.5	2.4	2.7	3.4	3.7	3.8	3.8	4.0	4.1	4.2	4.1	4.5	4.6
– services	3.7	3.9	4.0	4.0	4.1	3.8	3.7	3.8	4.0	3.8	3.9	5.0	5.1
Month-on-month price growth													
– food products	0.4	0.5	0.4	-0.1	0.4	-0.3	-0.4	-0.1	0.6	1.0	1.7	1.3	0.8
of which: fruit and vegetables	3.1	4.2	2.6	-1.3	0.6	-5.1	-6.4	-6.8	-1.1	3.4	8.9	6.3	4.9
– non-food goods	0.1	0.2	0.4	0.9	0.4	0.1	0.2	0.4	0.5	0.4	0.2	0.6	0.3
– services	0.1	0.1	0.3	0.4	0.7	1.3	0.3	0.2	-0.1	0.0	0.4	1.1	0.2
Month-on-month price growth, seasonally adjusted:													
– food products	0.0	0.3	0.3	-0.1	0.4	0.3	0.9	0.5	0.3	0.6	1.0	0.6	0.5
of which: fruit and vegetables	-0.2	2.2	1.4	-3.1	-0.9	-0.1	5.3	-0.4	-1.6	0.6	3.6	0.4	1.5
– non-food goods	0.2	0.1	0.4	0.9	0.5	0.2	0.2	0.3	0.3	0.3	0.3	0.7	0.3
– services	0.2	0.4	0.5	0.3	0.5	-0.1	0.4	0.4	0.4	0.3	0.4	1.2	0.3
Core inflation, month on corresponding month of previous year	1.9	1.8	1.9	2.0	2.3	2.4	2.6	2.8	3.1	3.4	3.7	4.1	4.4
Median price growth, month on corresponding month of previous year	2.8	2.8	2.6	2.5	2.5	2.5	2.5	2.6	2.8	3.0	3.1	3.5	3.9
Average annual inflation	3.3	3.1	3.0	2.8	2.6	2.5	2.5	2.5	2.6	2.7	2.9	3.1	3.4

Sources: Rosstat, Bank of Russia calculations.

Cut-off date – 6 March 2019.

A soft copy of the information and analytical commentary is available on the Bank of Russia website (<http://www.cbr.ru/DKP/>).

Please send your comments and suggestions to svc_analysis@cbr.ru.

This commentary is prepared by the Monetary Policy Department.

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