



Bank of Russia



CONSUMER PRICE DYNAMICS

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Information and analytical commentary

17 June 2019

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

In May 2019, annual inflation dropped by another 0.1 pp, to 5.1%. Inflation slowed on the back of a tangible slowdown in non-food goods price growth, primarily attributed to the statistical high base effect in the market of motor fuel. The annual growth rate in services prices rose somewhat to return to the level seen in February and March. However, the monthly increase in prices of non-food goods and services (seasonally adjusted) has remained at the level corresponding to 4% annual inflation. Supply-side factors associated with certain food products (grain and dairy products) accelerated monthly growth of food prices. The statistical low base effect in the fruit and vegetable market also had a tangible impact on the rise in annual food inflation. Market saturation, an expected good harvest, and the completing adjustment of supply to demand for certain food products limit further growth in food prices. According to the Bank of Russia forecast, annual inflation will stand at 4.2-4.7% in 2019 and hold near 4% thereafter.

In May 2019, annual inflation continued to decline and came in at 5.1% (Chart 1, Appendix 1). A significant slowdown was registered in annual growth of non-food prices, mostly due to lower growth in prices of petroleum products amid last year's high base. Annual growth in services prices rose somewhat to return to the level seen in February and March. Food inflation was sped up by supply-side factors associated with certain food products and the statistical low base effect in the fruit and vegetable market.

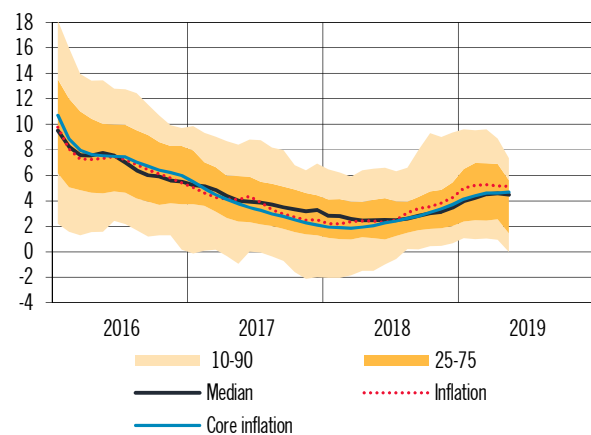
Sustainable price indicators showed mixed dynamics in annual terms. On the one hand, core inflation continued to rise (by 1 pp, to 4.7%) driven primarily by food components. On the other hand, median annual growth of consumer prices declined for the first time since last August (by 1 pp, to 4.5%). The share of goods and services whose prices rise at the fastest pace continued to shrink, suggesting that prerequisites emerged for a further slowdown in inflation.

Seasonally adjusted monthly growth of consumer prices accelerated in May by 0.1 pp, to 0.4%, on the back of a faster increase in food prices. Growth rates of services prices declined while those of non-food goods remained at the lowest level since last August.

Distribution of goods and services price growth, inflation and core inflation

Chart 1

Per cent change on corresponding month of previous year

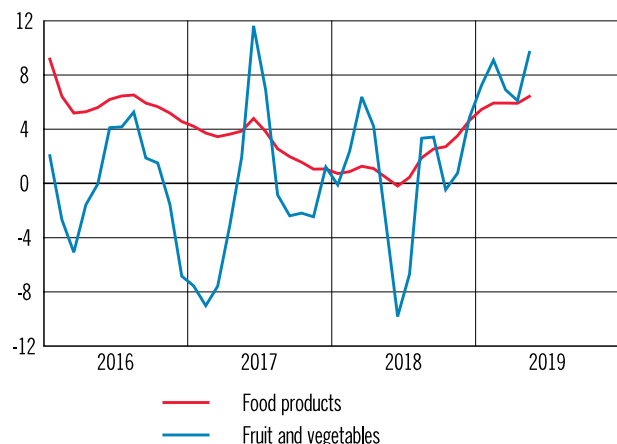


Sources: Rosstat, Bank of Russia calculations.

Food prices

Chart 2

Per cent change on corresponding month of previous year



Source: Rosstat.

Food products

Estimates suggest that seasonally adjusted monthly growth in food prices rose by 0.1 pp, to 0.5%, driven by prices of grain and dairy products. Growth in prices of fruit and vegetables slowed down (seasonally adjusted).

Annual food inflation increased in May 2019 by 0.5 pp, to 6.4%. This is largely associated with faster growth in fruit and vegetable prices (by 3.6 pp, to 9.7%) on the back of the statistical low base effect: last May, one-off factors caused a price downturn atypical of this month (Chart 2). In particular, the annual growth rate of prices for essential Russian vegetables rose by 11.8 pp compared with April. However, we do not expect the growth rate of fruit and vegetable prices to rise sustainably, given the forecast vegetable harvest.¹ At the same time, we do not rule out that changes in fruit and vegetable prices may fluctuate due to specific supply-side factors.

In May 2019, annual growth rate in prices of food products other than fruit and vegetables rose by 0.1 pp, to 5.9%. Similar to the previous months, it was largely driven by the rate of increase in prices of grain products (cereals and beans, bread, bakery products and pasta, Chart 3). However, the year-to-date decline in domestic and global grain prices, and the forecast of good harvest in Russia² and main exporters pave the way to an overall slowdown in growth of grain product prices.

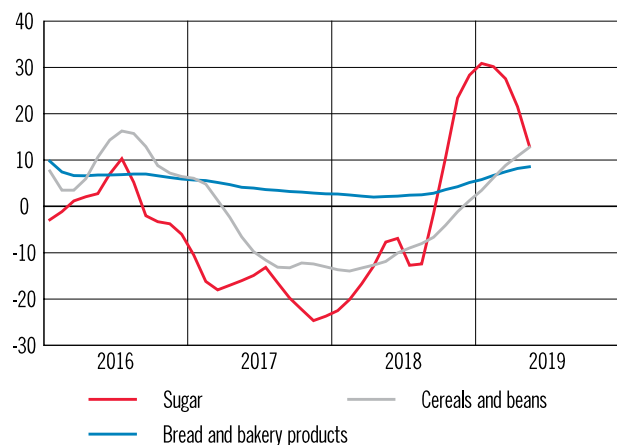
In May, both monthly (seasonally adjusted) and annual growth in prices of dairy products and cheese seen since the second half of 2018 continued. It was driven by, among other things, the rise in global prices (amid the expected fall in supply from New Zealand and Australia due to droughts). However, the market of dairy products remains saturated and their price growth is moderate.

At the same time, some markets register a completion in adjustment of supply to demand. Thus, annual growth in prices of eggs and sugar,

Prices of sugar and grain products

Chart 3

Per cent change on corresponding month of previous year



Source: Rosstat.

¹ Russia's Ministry of Agriculture forecasts that the harvest of ground vegetables will equal that of last year, while the harvest of greenhouse vegetables will increase.

² The current grain crop forecast of the Ministry of Agriculture stands at 118 billion tonnes, which exceeds the 2018 figure by 5%. Market experts and analysts expect larger crops.

main types of meat (pork and poultry) have been down after price growth in the second half of last year (Chart 4). The rate of lamb price growth continued to rise; however, it accounts for an intangible share of the consumer basket.

Non-food goods

In May 2019, monthly growth in non-food prices (seasonally adjusted) remained at the level seen in the previous two months, the lowest since last August (0.2%, according to estimates). Low rise was registered in consumer prices for motor fuel amid the effective agreements between the Russian Government and oil majors. Oil products factored out, monthly growth in non-food prices held at the April level (0.2%). It was formed amid a fading effect of the VAT hike, moderate demand, and a strengthening ruble.

Annual growth in non-food prices fell by 0.7 pp, to 3.8%, largely due to the base effect in the oil product market (Chart 5). Petrol was more expensive in May than a year earlier by 2.8% (in April, by 8.3%), while diesel fuel was 6.1% (12.0%) more expensive.

The annual growth rate of non-food prices (oil products factored out) held at the April level (3.9%). Prices in certain product groups showed mixed dynamics which was shaped by factors typical of individual markets.

Services

In May, the monthly rate of services price growth (seasonally adjusted) was estimated at 0.3% (0.1 pp lower than in April).

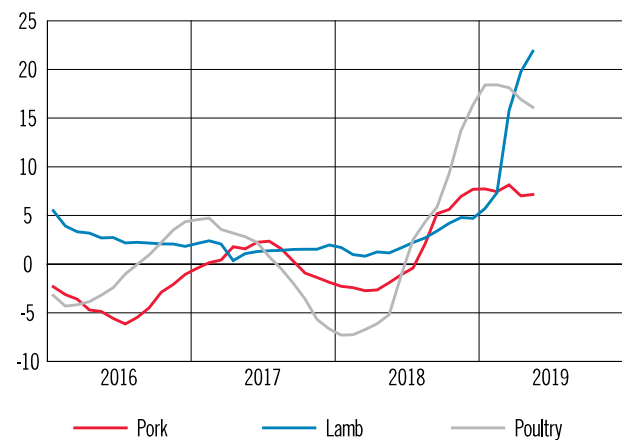
Annual growth in services prices came in at 5.1% and held within the range of fluctuations which emerged in the opening months of 2019 (5.0-5.1%).

The annual growth rate of outbound travel prices increased somewhat compared with April figures. Nevertheless, they remained considerably lower than in the period between February 2018 and March 2019 due to the ruble's strengthening. Annual growth rates of railway fares rose, too (as a result of differences in fare revisions in the current and past year). In contrast, annual growth in communication rates

Meat product prices

Chart 4

Per cent change on corresponding month of previous year

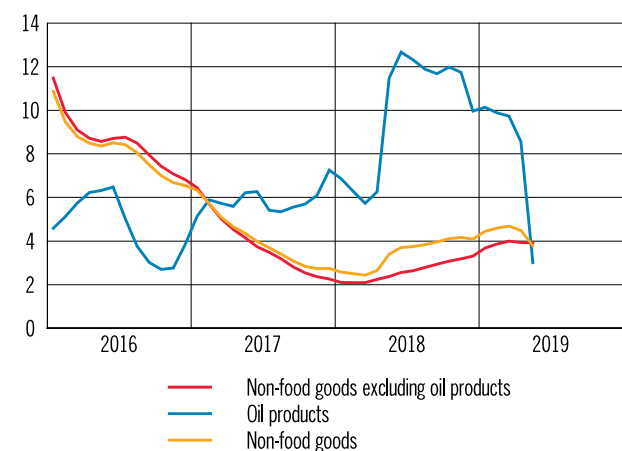


Source: Rosstat.

Non-food prices

Chart 5

Per cent change on corresponding month of previous year

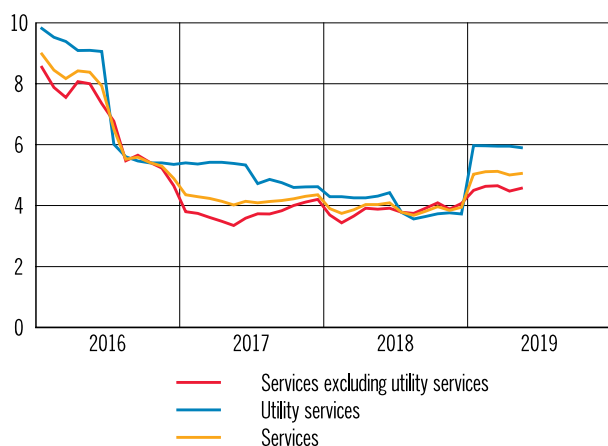


Sources: Rosstat, Bank of Russia calculations.

Services prices

Chart 6

Per cent change on corresponding month of previous year



Sources: Rosstat, Bank of Russia calculations.

Inflation in federal districts

Table 1

Per cent change on corresponding month of previous year

	April 2019	May 2019	Change in price growth rates (May vs April 2019)
Russia	5.2	5.1	-0.1
Central FD	5.4	5.3	-0.1
North-Western FD	4.9	4.9	0.0
Southern FD	5.4	5.6	0.2
North Caucasian FD	5.3	5.4	0.1
Volga FD	5.0	5.0	0.0
Urals FD	4.2	4.3	0.1
Siberian FD	5.6	5.4	-0.2
Far Eastern FD	4.9	5.0	0.1

Sources: Rosstat, Bank of Russia calculations.

Inflation across regions

Table 2

Per cent change on corresponding month of previous year

No.*		May 2018	April 2019	May 2019
Top 5 highest inflation regions, May 2019				
1(2)	Sevastopol	1.6	6.9	7.0
2(3)	Kemerovo Region	3.0	6.4	6.6
3(4)	Republic of Komi	2.4	6.4	6.5
4(7)	Republic of Buryatia	2.7	6.4	6.5
5(1)	Yaroslavl Region	2.6	6.9	6.5
Top 5 lowest inflation regions, May 2019				
78(78)	Sakhalin Region	1.7	3.8	3.8
79(77)	Udmurt Republic	1.6	4.1	3.8
80(80)	Republic of Ingushetia	3.6	3.3	3.6
81(81)	Tyumen Region	2.6	3.3	3.1
82(82)	Altai Republic	2.2	3.1	3.1

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

Sources: Rosstat, Bank of Russia calculations.

slowed down. Overall, changes in key service rates were intangible.

Inflation across regions

In May 2019, annual inflation slowed down in the majority of Russian regions compared with previous months (43 regions, representing roughly 64% of the CPI). Inflation in May ranged between 4.3% and 5.6% across federal districts (Table 1).

Food price dynamics remained the main contributor to regional heterogeneity of inflation. Food inflation accelerated the most pronouncedly in southern regions of the European Russia, largely on the back of fruit and vegetable price movements. The decrease in food inflation registered in certain regions of the European Russia and Far East was caused by the completing adjustment of supply of certain products to demand, supply specifics and available stocks.

The slowdown in growth of non-food prices seen in 79 out of 82 regions was homogeneous enough and largely shaped by countrywide factors.

Regional heterogeneity of services price growth in May compared with the previous month increased considerably, which was traditionally associated with different local factors in the markets of passenger transportation and communication services.

The distribution of regional inflation in May remained largely unchanged compared with the previous month (Chart 7). A small rotation of regions was registered in the group of regions with high price growth rate mostly due to varying dynamics of prices of food products and services (Table 2).

Inflation readings across regions remain at the level close to that in the same period of last year (regional inflation in May 2019 varied between 3.1% and 7%; in May 2018, between 0.3% and 4.1%). The division of regions into several groups by inflation rate that remained throughout 2017-2018, levelled out gradually in spring 2019 as inflation slowed down in the regions with the highest readings. At the same time, there is a group of regions where inflation is considerably lower than the Russian average

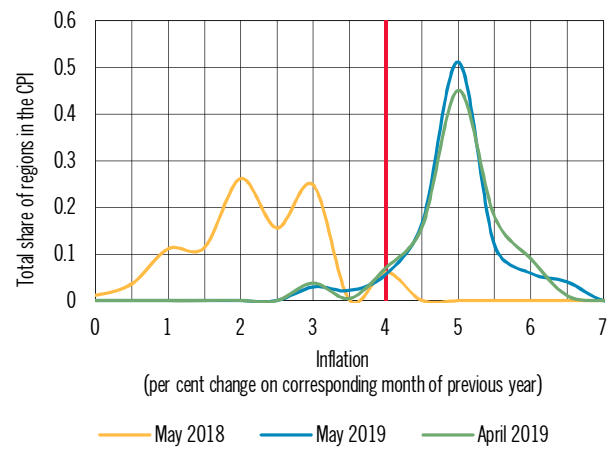
rate. Inflation in this group continues to be affected by local factors, including those of a non-monetary nature.

Inflation forecast

According to the Bank of Russia forecast, annual inflation will stand at 4.2-4.7% in 2019. It will further hold near 4%.

Change in regional distribution of inflation

Chart 7



Sources: Rosstat, Bank of Russia calculations.

Appendix 1

Consumer price dynamics (%)

	05.2018	06.2018	07.2018	08.2018	09.2018	10.2018	11.2018	12.2018	01.2019	02.2019	03.2019	04.2019	05.2019
Consumer price growth on corresponding month of previous year													
– all goods and services	2.4	2.3	2.5	3.1	3.4	3.5	3.8	4.3	5.0	5.2	5.3	5.2	5.1
– food products	0.4	-0.2	0.5	1.9	2.5	2.7	3.5	4.7	5.5	5.9	5.9	5.9	6.4
of which: fruit and vegetables	-2.8	-9.8	-6.7	3.3	3.4	-0.5	0.8	4.9	7.3	9.1	6.9	6.1	9.7
– non-food goods	3.4	3.7	3.8	3.8	4.0	4.1	4.2	4.1	4.5	4.6	4.7	4.5	3.8
– services	4.0	4.1	3.8	3.7	3.8	4.0	3.8	3.9	5.0	5.1	5.1	5.0	5.1
Core inflation, month on corresponding month of previous year	2.0	2.3	2.4	2.6	2.8	3.1	3.4	3.7	4.1	4.4	4.6	4.6	4.7
Median of price growth distribution, month on corresponding month of previous year	2.5	2.5	2.5	2.6	2.8	3.0	3.1	3.5	4.0	4.2	4.5	4.6	4.5
Average annual inflation	2.8	2.6	2.5	2.5	2.5	2.6	2.7	2.9	3.1	3.4	3.6	3.8	4.1
Consumer price growth month on month													
– all goods and services	0.4	0.5	0.3	0.0	0.2	0.4	0.5	0.8	1.0	0.4	0.3	0.3	0.3
– food products	-0.1	0.4	-0.3	-0.4	-0.1	0.6	1.0	1.7	1.3	0.8	0.5	0.4	0.4
of which: fruit and vegetables	-1.3	0.6	-5.1	-6.4	-6.8	-1.1	3.4	8.9	6.3	4.9	2.1	1.8	2.0
– non-food goods	0.9	0.4	0.1	0.2	0.4	0.5	0.4	0.2	0.6	0.3	0.3	0.2	0.2
– services	0.4	0.7	1.3	0.3	0.2	-0.1	0.0	0.4	1.1	0.2	0.1	0.2	0.4
Consumer price growth month on month, seasonally adjusted													
– all goods and services	0.4	0.5	0.2	0.5	0.4	0.4	0.4	0.6	0.8	0.3	0.3	0.3	0.4
– food products	0.0	0.4	0.3	0.9	0.5	0.3	0.5	1.0	0.6	0.4	0.3	0.4	0.5
of which: fruit and vegetables	-3.1	-0.8	-0.1	5.2	-0.4	-1.7	0.6	3.6	0.3	1.5	0.4	0.6	0.2
– non-food goods	0.9	0.5	0.2	0.2	0.3	0.3	0.3	0.3	0.7	0.3	0.2	0.2	0.2
– services	0.3	0.5	-0.1	0.4	0.4	0.4	0.3	0.4	1.2	0.3	0.4	0.4	0.3
Consumer price growth on December of previous year													
– all goods and services	1.6	2.1	2.4	2.4	2.5	2.9	3.4	4.3	1.0	1.5	1.8	2.1	2.4
– food products	1.8	2.2	1.8	1.4	1.3	1.9	2.9	4.7	1.3	2.1	2.6	3.1	3.5
of which: fruit and vegetables	13.1	13.7	7.9	1.0	-5.9	-6.9	-3.7	4.9	6.3	11.5	13.9	16.0	18.3
– non-food goods	1.9	2.3	2.4	2.6	3.0	3.5	3.9	4.1	0.6	0.9	1.2	1.3	1.6
– services	1.0	1.7	3.0	3.3	3.6	3.5	3.5	3.9	1.1	1.3	1.5	1.7	2.1

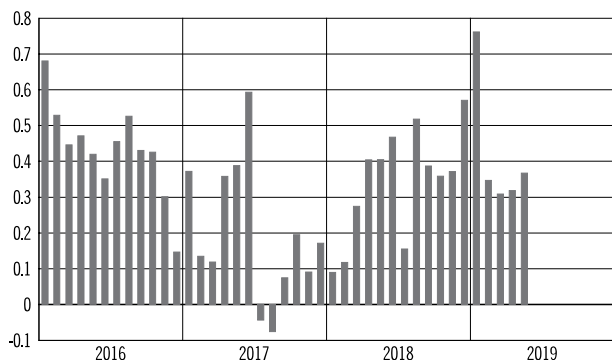
Sources: Rosstat, Bank of Russia calculations.

Appendix 2

Monthly price growth (% , seasonally adjusted)

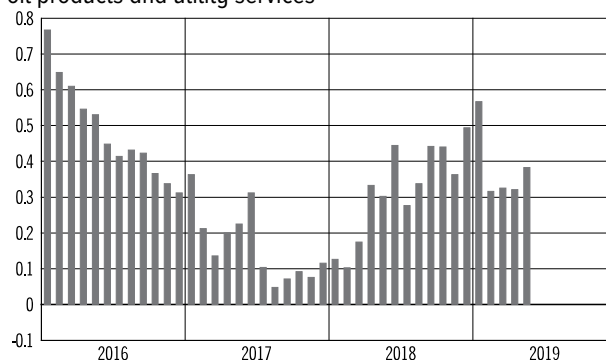
All goods and services

Chart 1



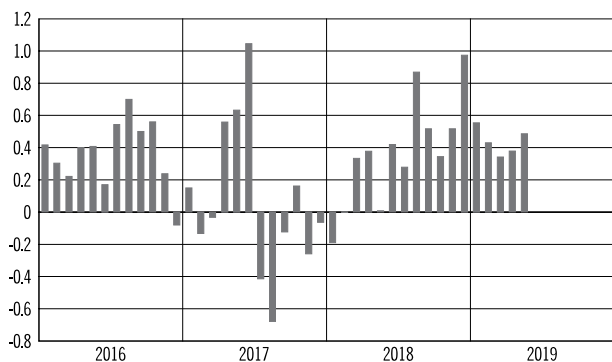
All goods and services excluding fruit and vegetables, oil products and utility services

Chart 5



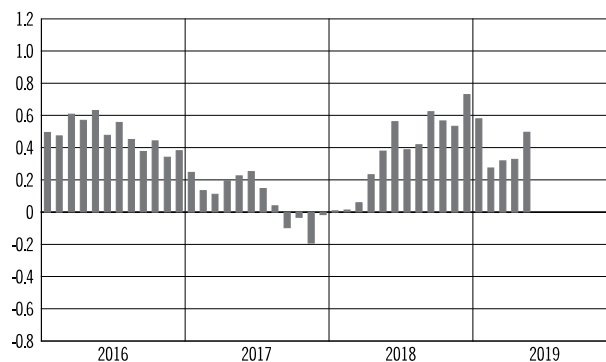
Food products

Chart 2



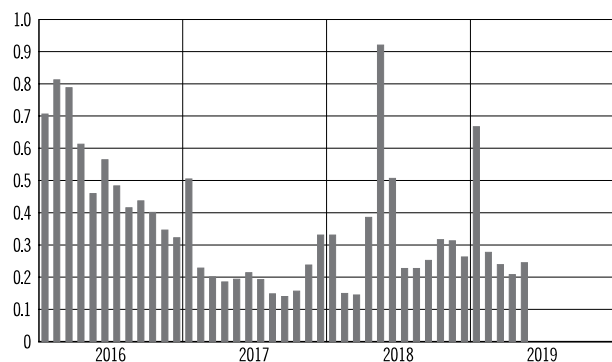
Food products excluding fruit and vegetables

Chart 6



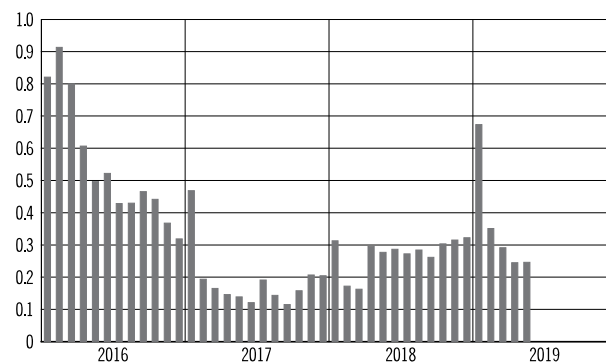
Non-food goods

Chart 3



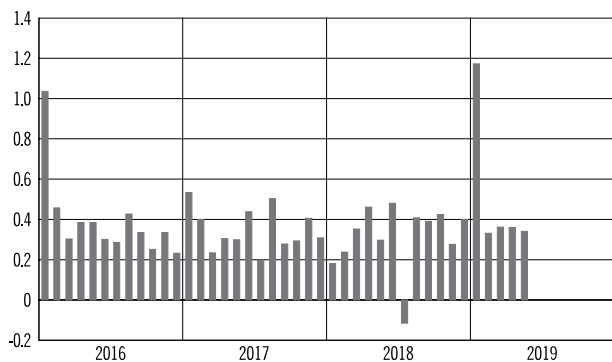
Non-food goods excluding petroleum products

Chart 7



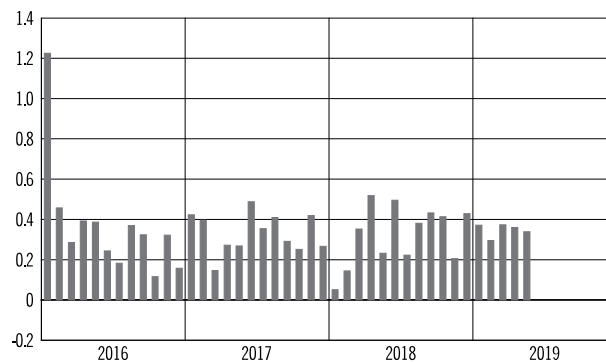
Services

Chart 4



Services excluding utility services

Chart 8



Cut-off date – 10 June 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 has been prepared by the Monetary Policy Department.

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