



Bank of Russia



CONSUMER PRICE DYNAMICS

No. 5 (53) • May 2020

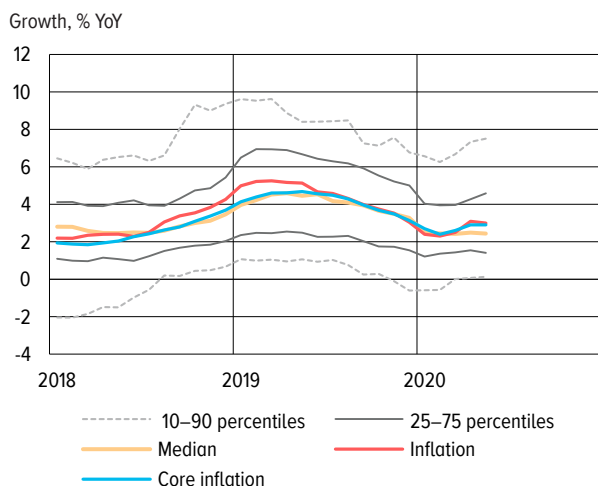
Information and analytical commentary

22 June 2020

Consumer Price Dynamics: Facts, Assessments and Comments (May 2020)

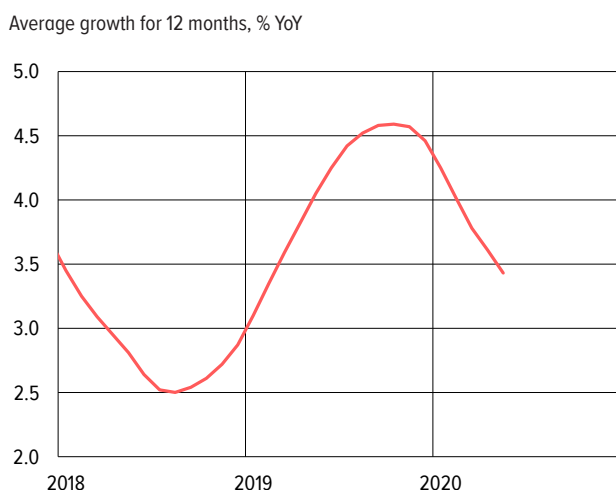
In May 2020, annual inflation was 3.0%, which is 0.1 pp less than in April. This slowdown resulted from a decrease in food inflation after its April's surge caused by households' preparations for the self-isolation period. The annual growth rate of non-food prices remained unchanged, while the annual growth of service prices slightly sped up. The effect of short-term proinflationary factors has been mostly exhausted. In the near future, the monthly growth rates of consumer prices will continue to decline, being dragged down by weak demand, which will contribute to a further deceleration of inflation. Concurrently, annual inflation may increase over the remainder of the year since the low readings recorded in 2019 H2 will be excluded from the inflation calculation. Given the current trends, annual inflation as of the year-end 2020 is more likely to move towards the lower bound of the 3.8–4.8% forecast range.

DISTRIBUTION OF GOODS AND SERVICE PRICE GROWTH, INFLATION AND CORE INFLATION *Chart 1*



Sources: Rosstat, Bank of Russia calculations.

MOVING AVERAGE ANNUAL INFLATION *Chart 2*



Sources: Rosstat, Bank of Russia calculations.

In May 2020, the monthly and annual growth rates of consumer prices dropped primarily owing to the slowing rise in food prices, after their leap in March–April when households were buying in products for the lockdown period.

Annual inflation decelerated by 0.1 pp to 3.0% (Chart 1). The annual growth rate of food prices trended down, while that of non-food prices remained the same on average, as compared to April. The growth rate of service prices slightly rose, with various market segments showing diverse trends and increased volatility of prices (Annex 1).

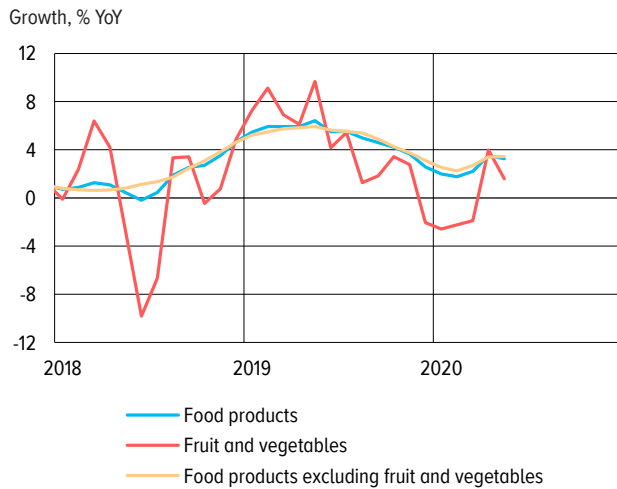
Annual inflation indicators reflecting the main price trends demonstrate that the effect of one-off factors and the extent of their impact are varying across individual goods and service segments. Core inflation remained at its April's level (2.9%). The annual growth of goods and service prices, excluding the main volatile and regulated components,¹ accelerated by 0.1 pp, to equal 3.2%. After April's rise by 0.1 pp, the median of annual price growth rates returned to 2.4% recorded in February–March. Average annual inflation characterised by a high inertia continued to go down, reaching 3.4% (Chart 2).

As assessed by the Bank of Russia, the monthly growth of consumer prices (seasonally adjusted; hereinafter, SA) considerably decreased to 0.3% (vs 0.8% in April). The growth

¹ Fruit and vegetables, petroleum products, and utility services.

FOOD PRICES

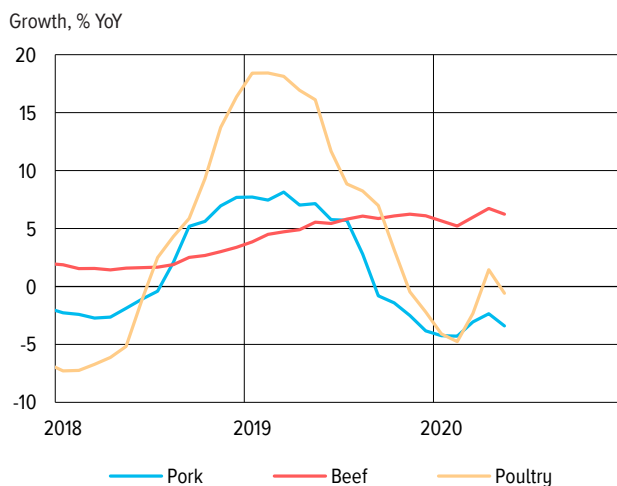
Chart 3



Source: Rosstat.

PRICES FOR MEAT PRODUCTS

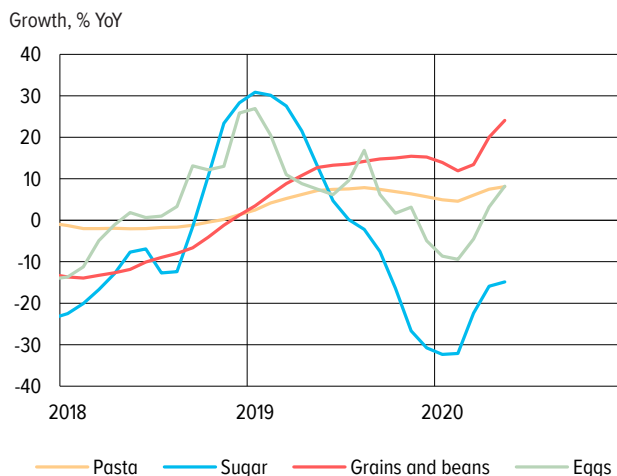
Chart 4



Source: Rosstat.

PRICES FOR SUGAR, EGGS, GRAIN AND BEAN PRODUCTS

Chart 5



Source: Rosstat.

of goods and service prices, excluding the main volatile and regulated components, slowed down by 0.3 pp, to 0.4% (SA; refer to Annex 2).²

Food products

As was expected,³ the growth of food prices decelerated in May 2020 (according to the assessment, down to 0.2% (SA) against 1.4% (SA) in April) as a range of Russian regions were easing their self-isolation restrictions. Food prices demonstrated the most notable growth slowdown or reduction, after their surge in March–April pushed by households' preparations for the lockdown and by the weakening of the ruble in 2020 Q1.

Specifically, fruit and vegetable prices dropped by 1.7% (SA), after the 5.3% leap in April. Prices (SA) for cabbage, red beet, carrot and onion lowered. The rise in potato prices considerably decelerated to 0.9% (SA) against 8.1% (SA) in April. The growth rate of prices for fruit, including citrus, also decreased significantly (SA) (to 1.4% against 11.1% in the previous month). In particular, lemons (a popular remedy to prevent virus infections) became cheaper nearly twice (SA), while in April lemon prices soared 2.5 times (SA).

The monthly growth of prices for food products, excluding fruit and vegetables, which is typically less volatile, slowed down by 0.4 pp, to equal 0.5% (SA). May 2019 recorded the same growth rate in this product group.

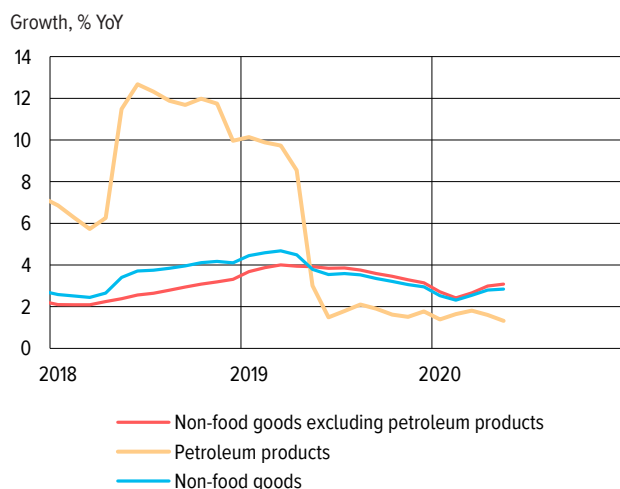
After the acceleration in March–April, annual food inflation lowered by 0.2 pp, to 3.3% (Chart 3). This was mainly the result of dropping fruit and vegetable prices (their substantial rise in April was the main driver of the increase in annual food price growth rates). Another important contributor was the slowing growth of meat and poultry prices (Chart 4). Conversely, the annual pace of changes in prices for pasta, cereals, legumes, sugar and eggs continued to go up, although more slowly than in April

² Refer also to the charts showing current trends in prices for individual goods and service groups in 2020 as compared to 2017–2019 (not seasonally adjusted): the information bulletin *Consumer Price Indices* (hereinafter, the Bulletin).

³ Refer to the information and analytical commentary *Consumer Price Dynamics*, No. 4 (52), April 2020.

NON-FOOD PRICES

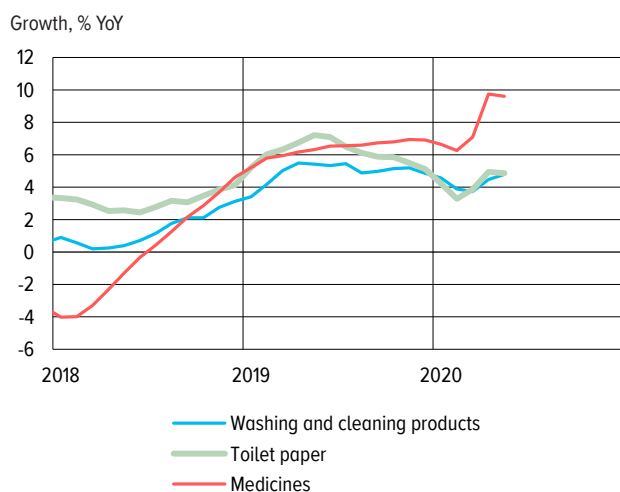
Chart 6



Sources: Rosstat, Bank of Russia calculations.

PRICES FOR BASIC GOODS

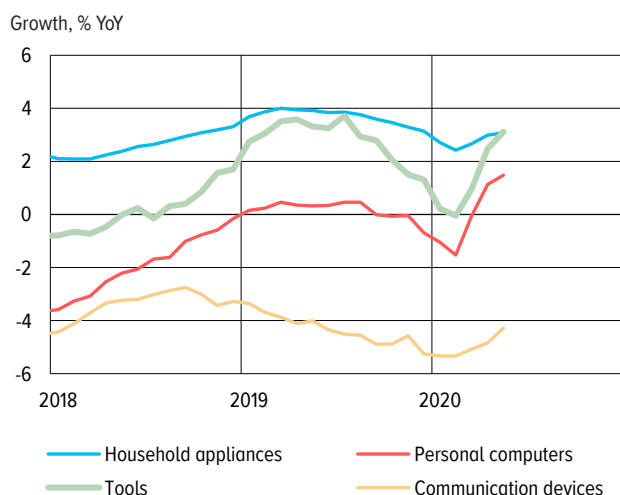
Chart 7



Source: Rosstat.

PRICES FOR DURABLE GOODS

Chart 8



Source: Rosstat.

(Chart 5). Sugar prices remained at a notably lower level than in the previous year.

The growth of prices for non-perishable food products that were in high demand in March–April may be expected to slow down in the near future. Overall, the rise in food prices will be hindered by a high supply of food products and expected good harvest of a range of crops. However, the annual growth of food prices may increase in the next few months due to the statistical effects when the low readings of the same periods in 2019 resulting from a complex of disinflationary factors are excluded from the inflation calculation.

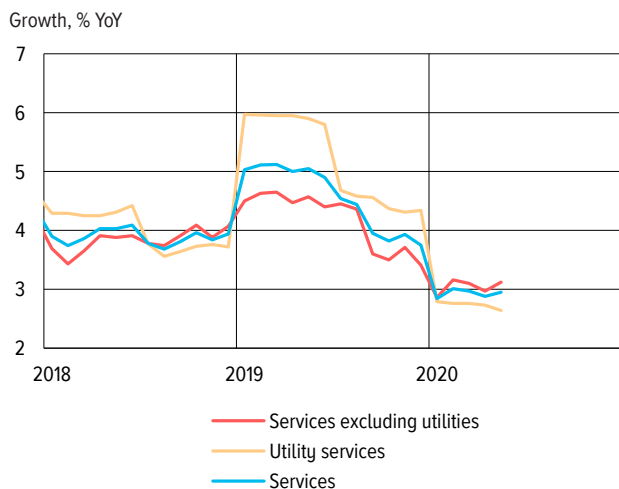
Non-food goods

According to the assessment, the monthly growth of non-food prices slowed down by 0.2 pp in May, to equal 0.3% (SA). The major contributor was the growth rate of basic goods prices which trended downwards as the effects of elevated demand recorded in March–April tapered off. Specifically, the growth rate of prices for medical goods decreased from 3.0% to 0.6%, and the rise in prices for washing and cleaning products slowed down from 1.3% to 0.6% (SA). Conversely, the gradual cancellation of the restrictions affecting sales of non-food products, other than basic goods, pushed the price growth rate in this category upwards. In particular, clothing and underwear prices rose by 0.2% (SA) (in April, their prices remained unchanged, SA), and footwear prices increased by 0.1% (SA) (in April, footwear became cheaper by 0.1% (SA)). It should be noted that, amid generally weak demand, price growth rates are not high and do not exceed the levels typical of 2018–2019.

The annual growth of non-food prices remained the same on average (2.8%; Chart 6), with individual market segments demonstrating diverse price trends. Specifically, the group of basic goods recorded a decrease in the annual growth of prices for medical products and hygiene items, after its significant acceleration in the previous two months. The growth of prices for washing and cleaning products continued to speed up, although considerably

SERVICE PRICES

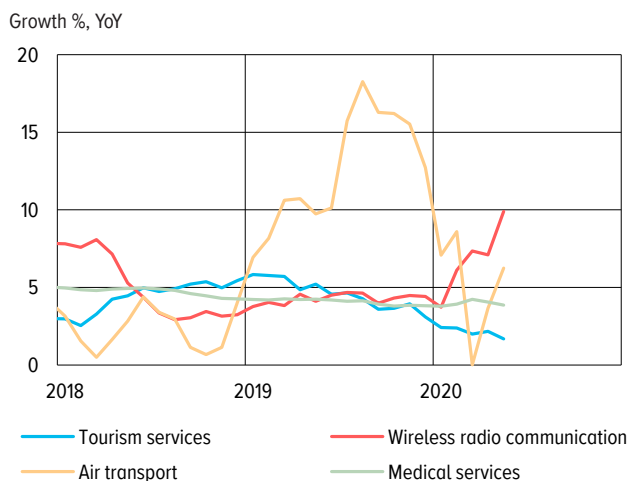
Chart 9



Sources: Rosstat, Bank of Russia calculations.

PRICES FOR CERTAIN SERVICES

Chart 10



Source: Rosstat.

more slowly than in March–April (Chart 7). The annual growth rates of clothing and footwear prices maintained the downward trend. Prices for durable goods were rising faster, which resulted from the weakening of the ruble in the first quarter (Chart 8).

As retail trade is bouncing back owing to the easing of the self-isolation regime, the growth of prices for individual goods may temporarily speed up in the near future, being driven by the effect of deferred demand and the time-lagged impact of the ruble depreciation. Nonetheless, relatively weak consumer activity will be the main factor influencing non-food prices this year.

Services

According to the Bank of Russia's assessment, the growth rate of service prices in May 2020 increased by 0.1 pp, equalling 0.4% (SA). Moreover, prices in this segment of the consumer market became more volatile. This is largely the result of statistical issues since the suspension of multiple services due to the restrictions makes it difficult to measure prices for respective consumer basket components.

Specifically, the increase in prices for passenger transportation services sped up by 0.5 pp to 1.2% (SA), while the growth rate of prices for paid medical services dropped by 0.1 pp to 0.2% (SA). Tourism services became cheaper by 0.5% (SA). The growth rate of prices for communication services rose by 0.9 pp, to equal 1.3% (SA). Apparently, this was driven by a decline in mobile communication operators' revenues coupled with increased infrastructure development costs against the background of steady demand, including among employees who had switched to remote work.

The annual growth of service prices rose by 0.1 pp to 3.0%, returning to its February–March level. Prices for mobile communication services were the major contributor to this increase. Another important, while a less notable driver was the accelerated growth of air fares. The rise in prices for medical and tourism services slowed down (Chart 10).

INFLATION IN FEDERAL DISTRICTS

Table 1

% YoY

	April 2020	May 2020	Price growth, May on April 2020
Russia	3.1	3.0	-0.1
Central FD	2.8	2.8	0.0
North-Western FD	3.3	3.1	-0.2
Southern FD	2.9	2.7	-0.2
North Caucasian FD	3.6	3.3	-0.3
Volga FD	3.2	3.1	-0.1
Urals FD	3.0	2.9	-0.1
Siberian FD	3.4	3.4	0.0
Far Eastern FD	3.9	3.8	-0.1

Sources: Rosstat, Bank of Russia calculations.

INFLATION IN RUSSIAN REGIONS

Table 2

% YoY

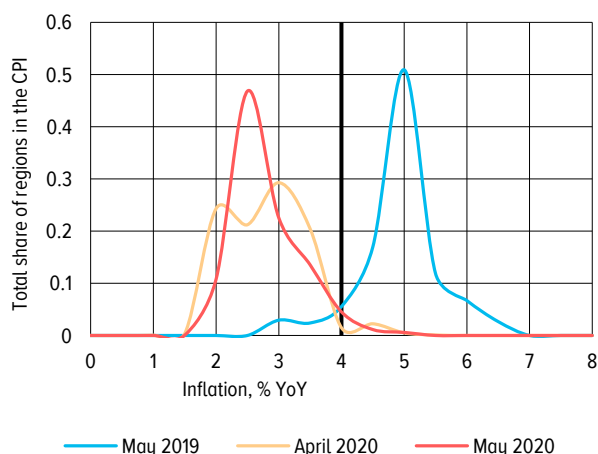
No.*		April 2019	March 2020	April 2020
TOP-5 regions with highest inflation in May 2020				
1(2)	Amur Region	5.6	5.1	5.4
2(1)	Jewish Autonomous Region	5.5	5.5	5.3
3(5)	Komi Republic	6.5	4.3	4.6
4(17)	Zabaikalye Territory	5.0	3.8	4.6
5(9)	Irkutsk Region	6.0	3.9	4.3
TOP-5 regions with lowest inflation in May 2020				
78(69)	Chechen Republic	5.3	2.6	2.3
79(77)	Chuvash Republic	5.7	2.4	2.3
80(81)	Kamchatka Territory	4.0	1.9	2.1
81(79)	Republic of North Ossetia–Alania	4.9	2.3	2.0
82(82)	Chukotka Autonomous Area	5.0	1.1	1.6

* The values in brackets indicate the regions' positions in April 2020.

Sources: Rosstat, Bank of Russia calculations.

CHANGES IN THE REGIONAL DISTRIBUTION OF INFLATION

Chart 11



Sources: Rosstat, Bank of Russia calculations.

As the service sector resumes its normal operation, service prices may be expected to become less volatile amid the prevailing disinflationary impact of subdued demand which is especially strong in the sector of paid services.

Inflation in Russian regions

Annual inflation in a large part of Russian regions slowed down in May 2020 against the previous month (53 regions accounting for approximately 57% in the CPI; Tables 1 and 2). The growth rates of food prices mostly decreased, while non-food goods primarily showed an acceleration in price growth. Service prices were changing in the most diverse manner. The annual growth of service prices went down in the majority of Russian regions, compared to April (price growth slowed in 47 regions and accelerated in 35 regions).

As compared to the previous period, the regional heterogeneity of inflation decreased (Chart 11). The distribution of regional inflation in May changed against that in April. Moreover, in contrast to previous periods, the group of regions where price growth rates were beneath Russian averages recorded a slowdown of inflation. The inflation-based distribution of the Russian regions into two groups over the last several months largely petered out in May. As compared to the same period last year, the regional heterogeneity of inflation remains at a lower level.

Inflation trends in the majority of Russian regions were mostly determined by country-wide factors, specifically changes in the demand level and structure and the weakening of the ruble in the first quarter. However, these factors behaved differently across regions. Furthermore, local factors continued to materially impact inflation in a range of Russian regions.

Specifically, annual inflation in the Central Federal District remained unchanged in May as compared to April. The reduction in food inflation was offset by a more significant rise in the annual growth rate of service prices driven by both country-wide and local factors. For instance, in addition to the accelerated

growth of prices for communication services and railway transportation recorded across Russia in general, the Voronezh Region was also experiencing a rise in rates for municipal solid waste management services.

Forecast

The effect of short-term proinflationary factors has been mostly exhausted. Inflation in 2020 and 2021 H1 will be largely influenced by the slump in domestic and external demand that occurred in the second quarter. The disinflationary

pressure of weak demand has intensified, which is associated with the current and time-lagged economic effects of the restrictions. In the near future, the monthly growth rates of consumer prices (SA) will maintain the downward trend. Concurrently, annual inflation may increase over the remainder of this year since the low readings recorded in 2019 H2 will be excluded from the inflation calculation. Given the current trends, annual inflation as of the year-end 2020 is more likely to move towards the lower bound of the 3.8–4.8% forecast range.

Annex 1

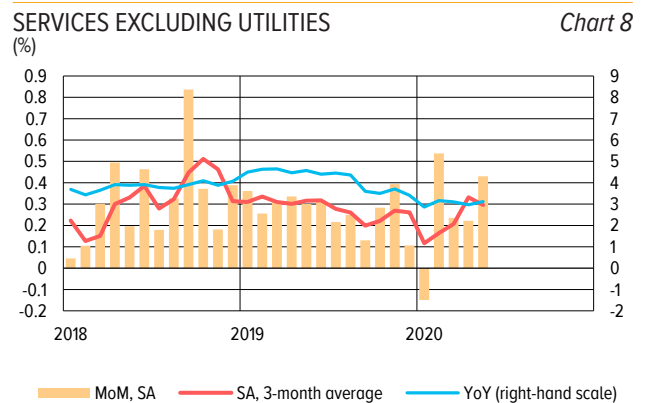
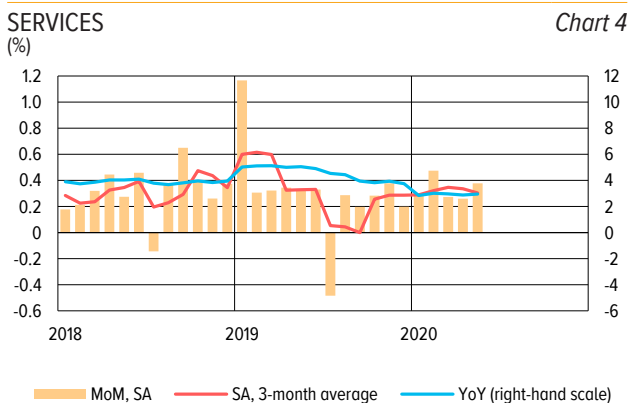
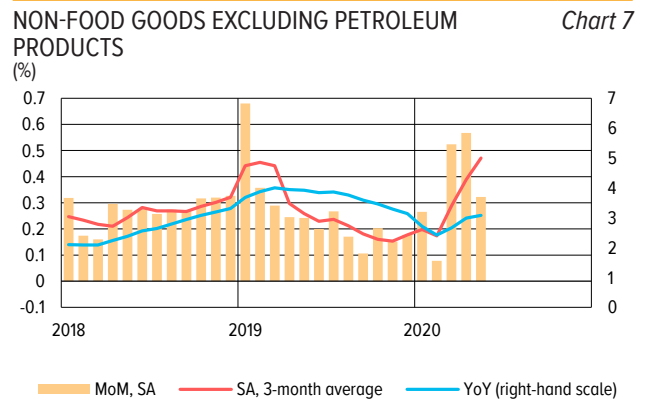
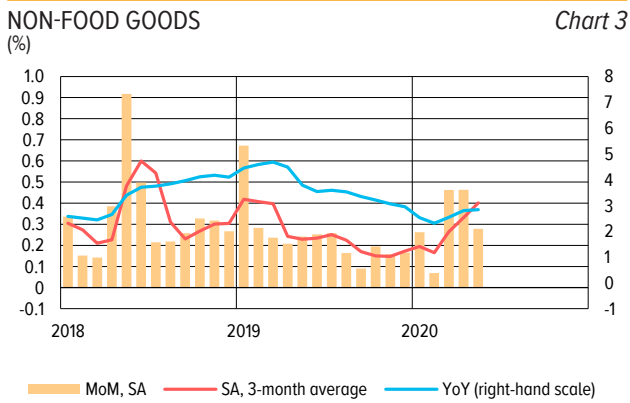
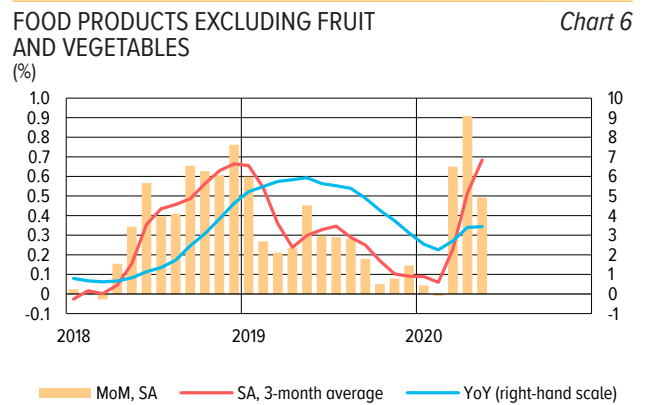
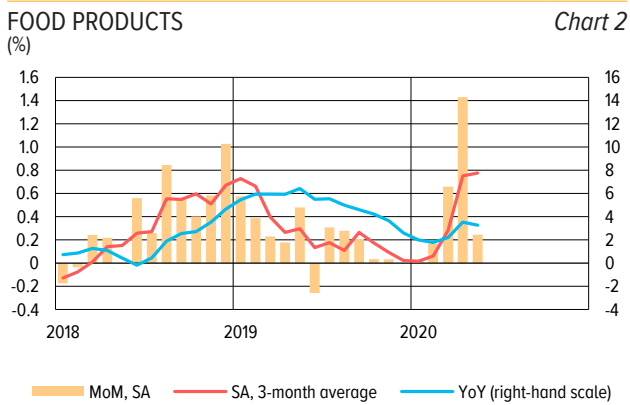
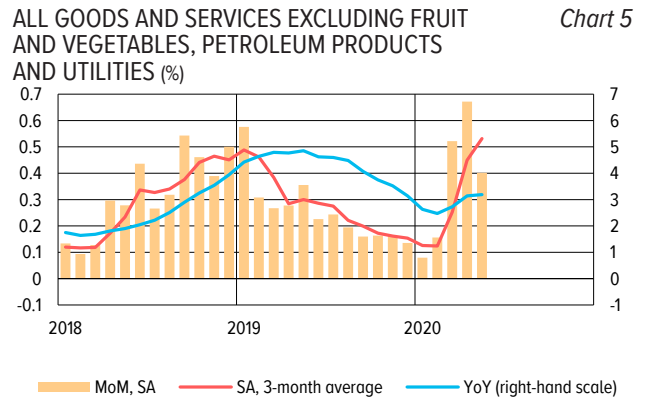
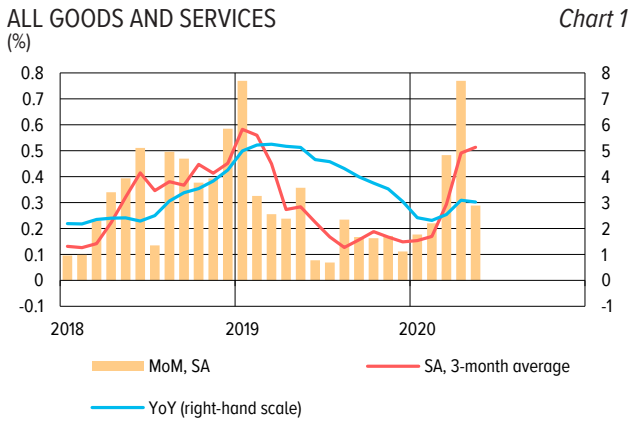
CONSUMER PRICE DYNAMICS

(%)

	05.2019	06.2019	07.2019	08.2019	09.2019	10.2019	11.2019	12.2019	01.2020	02.2020	03.2020	04.2020	05.2020
Price growth, YoY:													
– all goods and services	5.1	4.7	4.6	4.3	4.0	3.8	3.5	3.0	2.4	2.3	2.5	3.1	3.0
– food products	6.4	5.5	5.5	5.0	4.6	4.2	3.7	2.6	2.0	1.8	2.2	3.5	3.3
of which: fruit and vegetables	9.7	4.2	5.4	1.3	1.8	3.4	2.8	-2.1	-2.6	-2.2	-1.9	4.0	1.6
– non-food goods	3.8	3.5	3.6	3.5	3.4	3.2	3.1	3.0	2.5	2.3	2.5	2.8	2.8
– services	5.1	4.9	4.5	4.4	4.0	3.8	3.9	3.8	2.8	3.0	3.0	2.9	3.0
Core inflation, YoY	4.7	4.6	4.5	4.3	4.0	3.7	3.5	3.1	2.7	2.4	2.6	2.9	2.9
Median of price growth distribution, YoY	4.5	4.5	4.2	4.1	3.9	3.6	3.5	3.3	2.5	2.4	2.4	2.5	2.4
Average annual inflation	4.0	4.2	4.4	4.5	4.6	4.6	4.6	4.5	4.3	4.0	3.8	3.6	3.4
Price growth, MoM:													
– all goods and services	0.3	0.0	0.2	-0.2	-0.2	0.1	0.3	0.4	0.4	0.3	0.6	0.8	0.3
– food products	0.4	-0.5	-0.3	-0.9	-0.4	0.2	0.5	0.7	0.7	0.6	1.0	1.7	0.2
of which: fruit and vegetables	2.0	-4.5	-3.9	-10.1	-6.3	0.4	2.7	3.8	5.7	5.3	2.5	7.9	-0.4
– non-food goods	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.1	0.2	0.0	0.5	0.4	0.3
– services	0.4	0.6	0.9	0.2	-0.2	-0.2	0.1	0.2	0.2	0.4	0.1	0.1	0.5
Price growth, MoM (SA)													
– all goods and services	0.4	0.1	0.1	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.5	0.8	0.3
– food products	0.5	-0.3	0.3	0.3	0.2	0.0	0.0	0.0	0.0	0.2	0.7	1.4	0.2
of which: fruit and vegetables	0.5	-4.2	0.9	0.8	0.1	-0.1	-0.1	-1.0	-0.2	1.4	0.5	5.2	-1.7
– non-food goods	0.2	0.3	0.3	0.2	0.1	0.2	0.2	0.2	0.3	0.1	0.5	0.5	0.3
– services	0.3	0.3	-0.5	0.3	0.2	0.3	0.4	0.2	0.3	0.5	0.3	0.3	0.4

Sources: Rosstat, Bank of Russia calculations.

Annex 2



Data cut-off date – 08.06.2020.

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

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

This commentary was prepared by the Monetary Policy Department.

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