



Bank of Russia

A photograph of a city at night, showing illuminated apartment buildings and streets with snow. The image is partially obscured by a dark red gradient on the left and a dark grey gradient at the bottom.

No. 12

DECEMBER 2018

CONSUMER PRICE DYNAMICS

Information and analytical commentary

Consumer price dynamics: facts, assessments and comments (December 2018)

In December 2018, annual inflation came in at 4.3%, which is close to the Bank of Russia's target and the upper bound of last year's forecast. Inflation remained on an uptrend due to the ruble's weakening, rising costs, and the adjustment in supply to meet demand in certain food markets. Highly volatile fruit and vegetable prices made a considerable contribution to inflation. Prices of non-food goods and services are more stable. Inflation is expected to temporarily accelerate in early 2019, primarily on the back of the VAT rate hike and the 2018 weakening of the ruble. Inflation data for the first two weeks of January 2019 are in line with the Bank of Russia's baseline forecast. According to the Bank of Russia's forecast, annual inflation will turn to decline in 2019 H2 to reach 5-5.5% as of the year-end and return to the Bank of Russia's near 4% target in early 2020.

Table 1

Consumer price dynamics (%)

	December 2016	December 2017	October 2018	November 2018	December 2018
Inflation					
month on corresponding month of previous year	5.4	2.5	3.5	3.8	4.3
month on month / seasonally adjusted	0.4/0.1	0.4/0.2	0.4/0.4	0.5/0.4	0.8/0.5
Price growth on corresponding month of previous year					
Food products	4.6	1.1	2.7	3.5	4.7
of which: fruit and vegetables	-6.8	1.2	-0.5	0.8	4.9
Non-food goods	6.5	2.8	4.1	4.2	4.1
Services	4.9	4.4	4.0	3.8	3.9
Price growth month on month / seasonally adjusted, %					
Food products	0.6/-0.1	0.6/0.0	0.6/0.4	1.0/0.6	1.7/1.0
of which: fruit and vegetables	0.9/-3.8	4.7/-0.3	-1.1/-1.6	3.4/0.6	8.9/3.6
Non-food goods	0.3/0.3	0.3/0.3	0.5/0.3	0.4/0.3	0.2/0.3
Services	0.3/0.1	0.3/0.2	-0.1/0.4	0.0/0.3	0.4/0.3
Core inflation, month on corresponding month of previous year	6.0	2.1	3.1	3.4	3.7
Average annual inflation	7.1	3.7	2.6	2.7	2.9

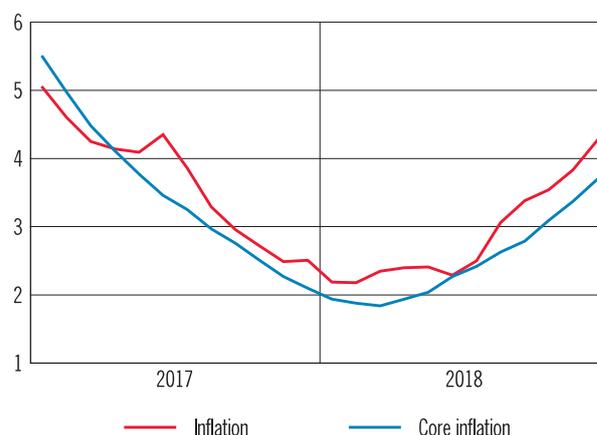
Sources: Rosstat, Bank of Russia calculations.

In December 2018, consumer price growth was close to the upper bound of the Bank of Russia's forecast. Annual inflation stood at 4.3% (3.8% in November 2018; Chart 1), while the Bank of Russia forecasted between 3.9-4.2% range.¹ Estimates suggest that seasonally adjusted month-on-month growth came in at 0.5%, or 0.1 pp higher than in the previous three months (Table 1).

As in the previous months, the trend persisted towards price growth on the back of the ruble weakening (including a previous instance) and a further adjustment in supply of a number of food products to account for demand after overproduction in previous

Chart 1
Inflation and core inflation
continued to accelerate

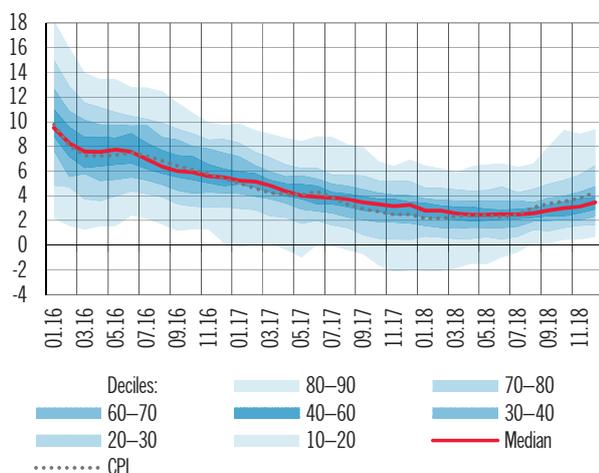
Growth as % on corresponding month of previous year



Source: Rosstat.

¹ Monetary Policy Report, No. 4 (24), December 2018.

Chart 2
Median values of price growth distributions rose again in December



Sources: Rosstat, Bank of Russia calculations.

periods. Highly volatile fruit and vegetable prices made a considerable contribution to inflation. The increase in annual services price growth was intangible, while growth in non-food prices slowed.

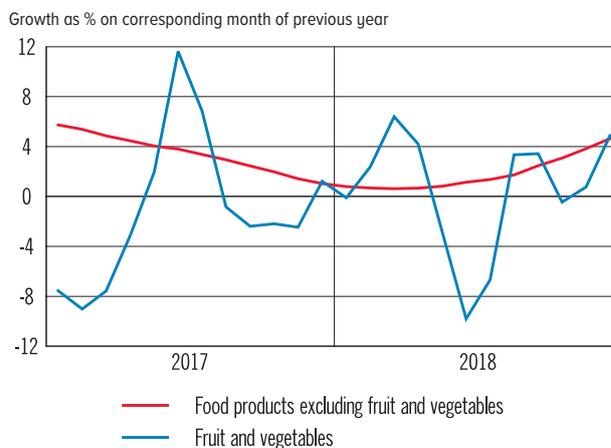
Indicators outlining the most stable components of price dynamics suggest that inflation growth pace has been modest and hold below 4%. Annual core inflation rose by 0.3 pp to 3.7% in December. Estimates suggest that its seasonally adjusted monthly value will hold at the level recorded in the two previous months of 0.4%. The median distribution of annual price growth² increased to 3.5% vs 3.1% in November (Chart 2).

Food products

The rise in food inflation was largely associated with a faster increase in fruit and vegetable prices (Chart 3). It was in part affected by the weakening of the ruble seen in December 2018. As the share of imports expanded because of the seasonality, the increase in import prices translated into growth in prices of essential vegetables. The most tangible rise was registered in cabbage prices. Experts estimate that this is also associated with a shrinking supply of domestic produce, which has resulted

² This is the middle of the distribution where prices of one half of goods and services increase at a faster pace than the median value and prices of another half rise at a slower pace.

Chart 3
Growth in fruit and vegetable prices contributed the most to the food inflation hike in December



Source: Rosstat.

from a reduction of crop areas for cabbage in previous years. The increase in cucumber prices made a significant contribution to the rise in annual food inflation. It is of note that, despite considerable seasonal growth, cucumber prices fell by 6.0% and tomato prices dropped by 10.6% as of the end of 2018.

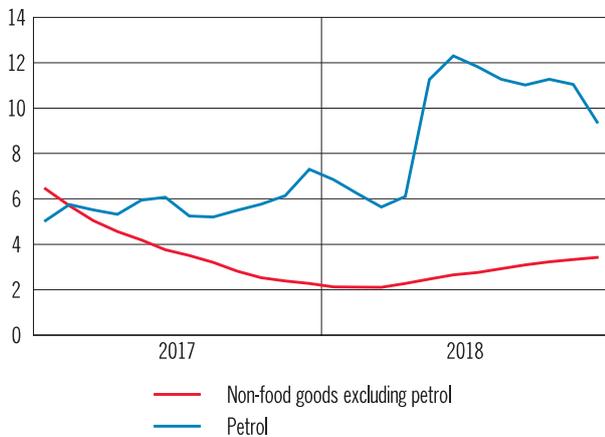
The increase in prices of food products, other than fruit and vegetables, was overall in line with expectations. Estimates suggest that its seasonally adjusted monthly growth pace increased in December to 0.7% (vs 0.6% in the previous three months), while annual growth accelerated to 4.6% (3.8% in November). As in the previous months, a faster growth pace of meat (primarily poultry) prices led to a considerable increase in prices of these food products.³ The rise in prices of meat, dairy products, and eggs is associated with climbing costs and producers' efforts to underpin economic efficiency, which posted a significant decline in 2016-2018 H1.

Sugar prices also saw accelerated growth on the back of a poorer crop and the base effect. In this case, prices are bouncing back after a considerable drop in 2017. As of the end of 2018, sugar prices returned to the readings of late 2016.

³ The Bank of Russia looked at the reasons behind faster growth in prices of these food products in the Consumer Price Dynamics, informational and analytical commentary, No. 11 (35), November 2018.

Chart 4
Annual growth of non-food prices slowed on the back of petrol price movements

Growth as % on corresponding month of previous year



Sources: Rosstat, Bank of Russia calculations.

Prices of cereal derivatives have been rising at a modest pace despite a tangible increase in crop prices.

However, the supply of cereals, sugar, other food products and agricultural raw materials remains high, while markets are saturated. This is a tangible factor that holds back price growth. Demand-side restrictions are also in place.

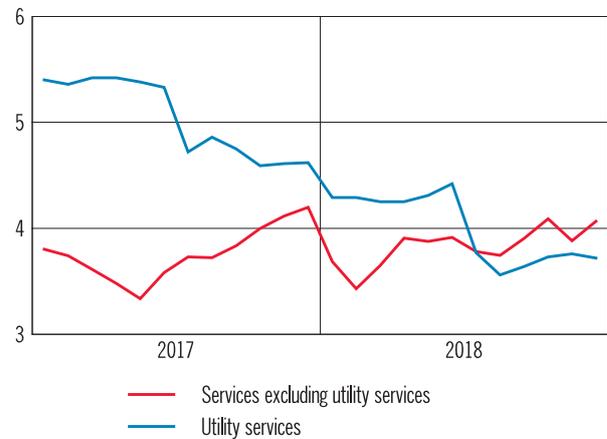
Non-food goods

In December 2018, seasonally adjusted growth in non-food prices dropped by 0.1 pp both year-on-year and month-on-month (Chart 4). This was associated with petrochemical product prices which formed against the backdrop of the agreement between the Government and the oil majors. Thus, annual petrol price growth declined by 1.7 pp (to 9.4%).

Annual growth in other non-food prices increased by 0.1 pp (3.4%). That said, estimates suggest that seasonally adjusted monthly growth rates remained at the level typical of April-November 2018 (0.3%). This may suggest that the expected increase of the VAT rate from 1 January 2019 failed to exert a strong effect on prices in December (though it might have translated into an increase in purchases during November sales⁴).

Chart 5
Services price movements remained moderate

Growth as % on corresponding month of previous year



Sources: Rosstat, Bank of Russia calculations.

Services

Annual growth in services prices increased in December by 0.1% to 3.9%, while seasonally adjusted monthly growth held at the November reading of 0.3% (Chart 5). The main impact came from the rise in prices of transportation services (mainly air transport) triggered by more expensive fuel and a weaker ruble. The increase in prices of motor fuel triggered a rise in public transport fares in a number of regions (in some of which they remained unchanged for several years).

Price dynamics across regions

Consumer price growth in most federal districts expectedly increased in December 2018. Inflation varied greatly across regions with annual readings ranging between 1.9% and 6.0%. That said, its structure remained virtually unchanged across regions. Regions where inflation was considerably below the Russian average rate were influenced by such local factors as high supply of domestically produced greenhouse produce, the ongoing decline in real money income, low indexation of regulated service rates, and the high base effects of the previous year. The group of regions where the

⁴ *Economy: Facts, Assessments and Comments, information and analytical commentary, No. 11 (35), November 2018.*

Table 2

Annual inflation in federal districts continued to rise in December

Growth, % YoY

	November 2018	December 2018	Change
Russia	3.8	4.3	+0.5
Central FD	4.3	4.7	+0.4
North-Western FD	3.6	4.1	+0.5
Southern FD	3.8	4.5	+0.7
North Caucasian FD	3.3	3.7	+0.4
Volga FD	3.7	4.2	+0.5
Urals FD	2.8	3.3	+0.5
Siberian FD	3.9	4.3	+0.4
Far Eastern FD	3.7	3.8	+0.1

Source: Rosstat.

inflation rate is considerably higher than the Russian average rate expanded somewhat. This was caused by, among other things, the specifics of the ruble depreciation pass-through and the shift in the balance of supply and demand in certain food markets (Table 2, Chart 6).

Inflation forecast

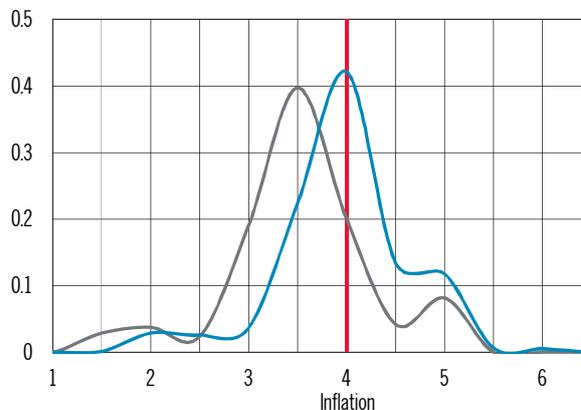
The Bank of Russia expects that inflation will temporarily accelerate in early 2019, largely on the back of the VAT rate increase and the 2018 weakening of the ruble. It also expects that prices will vary more considerably across regions. This is associated with regional differences in the structure of the consumer basket (in terms of the share of imports and product groups taxed at the base and discounted VAT rate), and local specifics of the pass-through.

Chart 6

Inflation persistently varied across regions in December

Growth as % on corresponding month of previous year

Total share of regions in the CPI



Sources: Rosstat, Bank of Russia calculations.

The inflation data for 1-14 January 2019 (0.7%; 4.7% YoY) are in line with the Bank of Russia's baseline scenario. Inflation will peak to its year-high in spring due to the base effect (in February 2018, annual inflation dropped to its all-time low (2.2%)). According to the Bank of Russia's forecast, annual inflation will turn to decline in 2019 H2 to reach 5-5.5% as of the year-end and return to the Bank of Russia's near 4% target in early 2020.

However, uncertainty persists over the effect of the VAT rate hike on prices of goods and services, and the response of inflation expectations to the temporary rise in inflation in early 2019. The Bank of Russia will update its inflation risk estimates and forecast as new statistics are released.

Cut-off date – 16 January 2019.

A soft copy of the information and analytical material is published on the Bank of Russia website (<http://www.cbr.ru/DKP/>).Please send your comments and suggestions to svc_analysis@cbr.ru.

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