



Bank of Russia



JANUARY 2019

CONSUMER PRICE DYNAMICS

Information and analytical commentary

MOSCOW
2019

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

Consistent with expectations, annual inflation in January 2019 edged higher to 5.0%. This acceleration was driven by the increased VAT and a number of impactful supply-side factors in several food products, as well as the final stages of price adjustment to the weakening of the ruble in the second half of 2018 alongside the base effect. That said, the VAT change-induced growth acceleration in market prices for goods and services proved weaker than expected. A completely accurate assessment of the VAT revision effect on inflation is not expected until this April. The Bank of Russia forecasts that the VAT hike and the 2018 weakening of the ruble will temporarily accelerate annual inflation, which will peak in the first half of 2019 and run at 5.0-5.5% by the end of 2019. Annual inflation is set to return to 4% in the first half of 2020.

Annual inflation edged higher in January 2019 by 0.7 pp and stood at 5.0% (Chart 1, the Appendix). Its acceleration was expected, coming as a result of the VAT rise from 1 January as the previously impactful supply-side factors in several food products held and prices completed their adjustment to the weakening of the ruble in the second half of 2018. Also, a certain contribution to the rise in annual price movements came from the base effect: in January 2018, consumer price growth was atypically low – under the impact of temporary factors from the food supply side.

Having said that, the VAT rise contribution to inflation turned out smaller than expected (its full

effect is not expected to be captured until this April). Monthly price growth, seasonally adjusted, is estimated to have added 0.2 pp. This is equal to the December reading. Annual indicators specific to the steadiest component of price dynamics rose moderately. Core inflation went up 0.4 pp to 4.1%; its monthly estimate totalled 0.5%, which is only 0.1 pp higher than in the second half of last year. The median value of annual price growth totalled 3.9%.

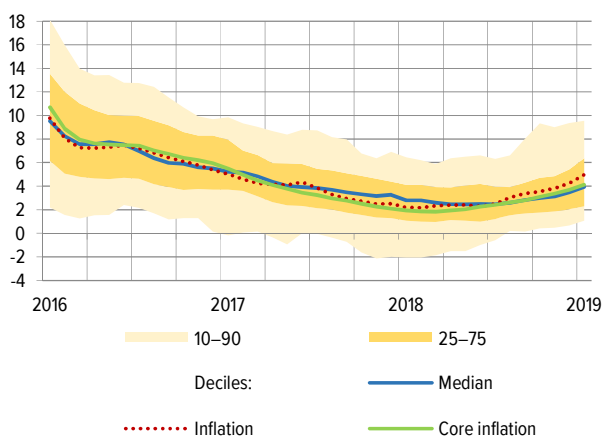
Food products

Annual core inflation rose by 0.8 pp to 5.5% (Chart 2). As in previous years, supply-side factors and exchange rate movements emerged

PRICE GROWTH BREAKDOWN BY GOODS AND SERVICES, INFLATION AND CORE INFLATION

Chart 1

Per cent change on corresponding month of previous year

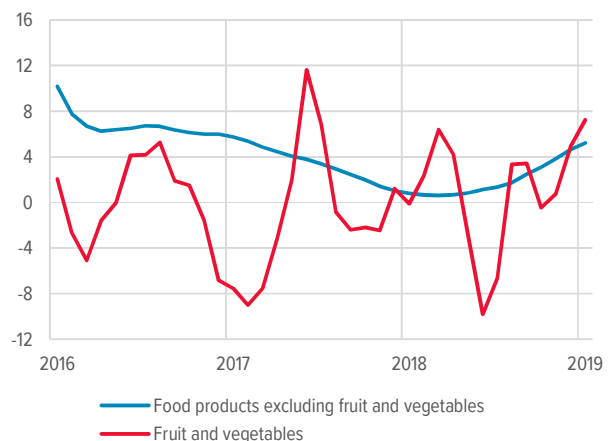


Sources: Rosstat, Bank of Russia calculations.

FOOD PRICES

Chart 2

Per cent change on corresponding month of previous year



Source: Rosstat.

as key inflation drivers. The base effect also contributed to the accelerated annual reading: in January 2018, a whole host of products showed price growth paces atypically low for this month – which was driven by abundant supply. The VAT rise could have made a slight – mainly indirect – impact, considering that most food products are taxed at discounted VAT rates that are not subject to review.

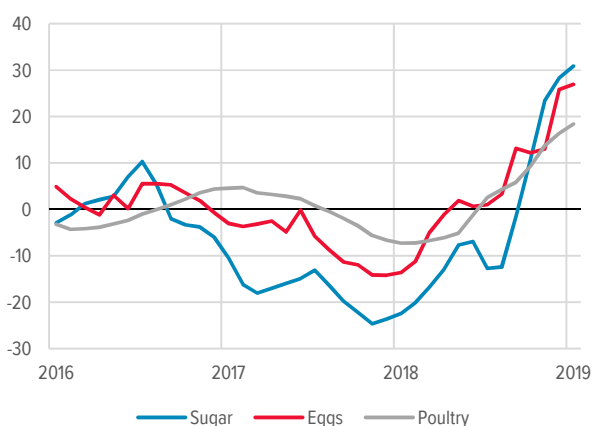
In January 2019, a marked contribution to accelerated food inflation came from rising paces of prices for poultry and eggs (Chart 3). These developments came as a continued upward trend that took shape in 2018 after a long run of low or negative growth in prices for meat products and eggs, amid abundant supply in the market (Chart 4). Prices for these products this January, as in previous months, were affected by increasing cost pressures, as a result of a weaker ruble and costlier feed supplies (forage grain and oil crops).

Among other impactful supply-side factors was a continued upward trend in sugar prices. This development came as a result of shrinking cropped land and reduced sugarbeet yields following the 2017 decline in prices. Importantly, consumer prices for sugar have defied the upward trend and are still lower than in late 2015.

PRICES FOR SUGAR, EGGS AND POULTRY

Chart 3

Per cent change on corresponding month of previous year

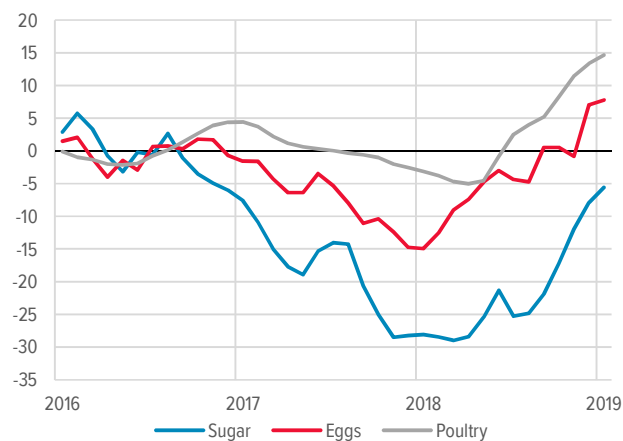


Source: Rosstat.

PRICES FOR SUGAR, EGGS AND POULTRY

Chart 4

Growth as % on December 2015, seasonally adjusted



Sources: Rosstat, Bank of Russia calculations.

The developments in grain prices triggered a rise in the annual growth paces of prices for processed grain products.

Prices for food taxed at the standard VAT rate turned in a mixed performance, driven by multiple factors. In this way, there was an acceleration in annual price indexes for chocolate and confectionary products, while those for salmon caviar saw a slowing.

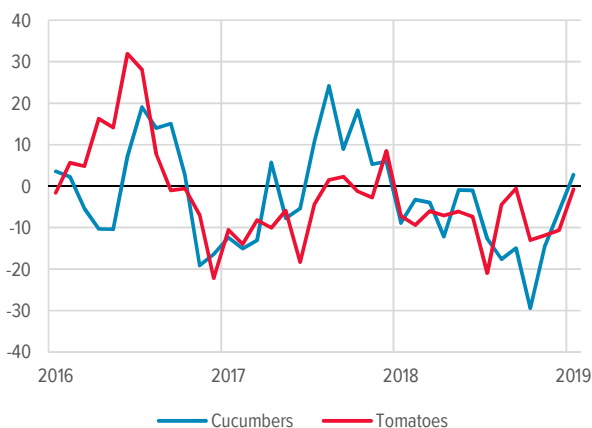
Overall, food products excluding fruit and vegetables registered price growth paces in January 2019 which were 0.6 pp above their December 2018 level. Monthly price growth paces (seasonally adjusted), despite the slight deceleration vs December, remained elevated (0.6%).

The December 2018 surge was followed by a marked reduction in monthly (seasonally adjusted) growth paces of prices for fruit and vegetables, which are notable for high volatility. Their annual price growth rates nevertheless gained 2.4 pp to a great extent on the back of the base effect: January 2018 recorded unusually weak growth in fruit and vegetable prices; seasonally adjusted calculations even show a decrease. Growth in fruit and vegetable prices in January 2019 was mainly determined by price trends seen in tomatoes and cucumbers (Chart 5). At the same time, prices sustained at notably lower levels than two years ago (Chart 6).

PRICES FOR TOMATOES AND CUCUMBERS

Chart 5

Per cent change on corresponding month of previous year

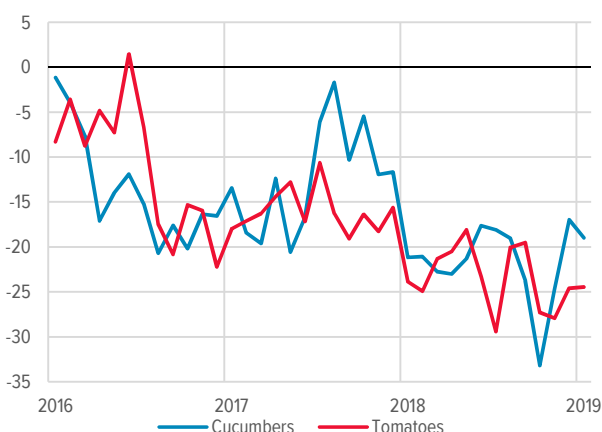


Source: Rosstat.

PRICES FOR TOMATOES AND CUCUMBERS

Chart 6

Growth as % on December 2015, seasonally adjusted



Sources: Rosstat, Bank of Russia calculations.

Fruit taxed at the standard VAT rate turned in a moderate rise in annual price growth rates (0.3 pp). Prices for individual food products meanwhile showed a mixed performance (e.g. price indexes for oranges rose, while those for bananas, pears and grapes registered a decline). This suggests that the tax decisions were not a key driver for price trends.

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

Non-food goods

Non-food goods price rates added 0.4 pp in January 2019, both year-on-year and month-on-month (seasonally adjusted).

Petrol prices gained 0.8% in the month, which was within the confines of the Russian Government's arrangements with oil majors. This rise nevertheless exceeded the January 2018 mark, resulting in higher annual price change (Chart 7).

Monthly price growth rates of non-food goods stripping out petrol (seasonally adjusted) are estimated to increase to 0.7%, following their stabilisation in April-December 2018 at levels close to 0.3%.

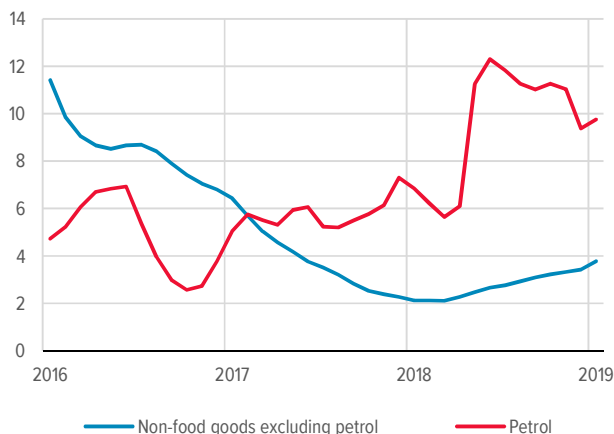
Annual price growth rates in this product category also moved up 0.4 pp to total 3.8%. The range of price change from product to product proved wide. In this manner, cars, instruments and printed matter recorded a sizeable rise in annual growth rates (1.0-1.2 pp), whereas growth rates of prices for mobile phones, audio visual goods and footwear decelerated (by 0.2-0.5 pp). These data points to the presence of other factors, beyond the tax decisions, driving price developments in non-food products.

The total acceleration in non-food goods prices proved slower than forecast. Notably, this shows that the tax changes are taking longer to translate into prices in the context of

ЦЕНЫ НА НЕПРОДОВОЛЬСТВЕННЫЕ ТОВАРЫ

Chart 7

Per cent change on corresponding month of previous year



Sources: Rosstat, Bank of Russia calculations.

conservatively minded households, given that January saw no impactful secondary effects of the VAT rise.

Services

Services prices saw their annual growth paces add 5.0% in January 2019 – twice those of goods (1.1 pp). Utility prices proved the major contributor. Their increase (of 1.5-1.9%), atypical for a January, was caused by the VAT rate change (Chart 8). However, the January increase will be offset by lower indexation of households' total utility payments, due in July (2.4%). Hence, the total 2019 rise is poised to hold close to the target rate of inflation. Furthermore, many regions are seeing accelerated growth in household waste disposal prices in connection with a large-scale overhaul of the solid waste management system.

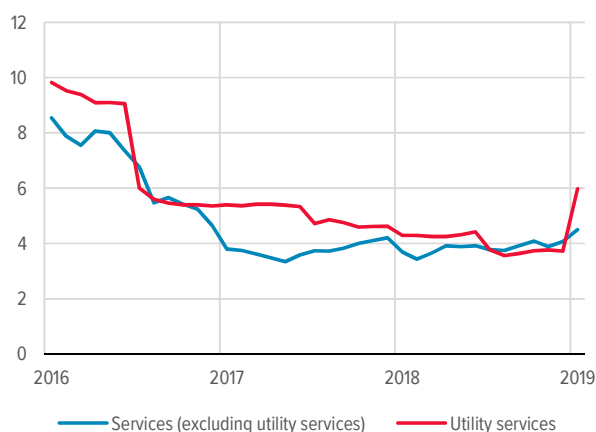
Passenger fares also recorded a noticeable rise in annual growth paces, which has been ongoing since December 2018. The upward trend here was led by urban surface and air transport fares, which must have been to a great degree linked to the delayed impact of the past year's fuel price hikes.

Movements in prices and rates across other groups were mixed. Similar to non-food goods prices, this exposed a multitude of factors including the VAT hike.

SERVICES PRICES

Chart 8

Per cent change on corresponding month of previous year



Sources: Rosstat, Bank of Russia calculations.

Inflation across regions

Annual inflation in January 2019 increased across all federal districts (Table 1).

A widening of the spread of regional inflation readings (ranging from 1.9 to 6.9%) was reported (Table 2, Chart 9). The regional differentiation in inflation holds, with the same three groups. The above-average inflation group became somewhat more numerous. Most such regions record a large share of food in consumer spending, to the effect that their contribution to accelerated food inflation proved stronger (22 regions; the share is approx. 21% of the CPI). The significantly-below-average inflation

INFLATION IN FEDERAL DISTRICTS

Table 1

Per cent change on corresponding month of previous year

	January 2018	December 2018	January 2019	Change in price growth rates: January 2019 vs January 2018, pp
Russia	2.2	4.3	5.0	2.8
Central FD	2.8	4.7	5.4	2.6
North-Western FD	2.4	4.1	4.8	2.4
Southern FD	1.9	4.5	5.1	3.2
North Caucasian FD	1.8	3.7	4.4	2.7
Volga FD	1.8	4.2	4.9	3.2
Urals FD	2.1	3.3	3.9	1.8
Siberian FD	1.7	4.3	5.1	3.4

Source: Rosstat.

INFLATION ACROSS REGIONS

Table 2

Per cent change on corresponding month of previous year

No.*		Январь 2018 г.	Декабрь 2018 г.	Январь 2019 г.
Top 5 highest inflation regions, January 2019				
1(1)	Ryazan Region	3.0	6.0	6.9
2(12)	Yaroslavl Region	1.4	5.1	6.6
3(11)	Sevastopol	1.8	5.1	6.5
4(20)	Bryansk Region	2.3	4.8	6.4
5(2)	Kursk Region	2.2	5.7	6.3
Top 5 lowest inflation regions, January 2019				
78(79)	Republic of Dagestan	3.5	2.8	0.7
79(78)	Sakhalin Region	3.2	2.8	1.3
80(77)	Altai Republic	2.9	2.9	1.7
81(81)	Tyumen Region	2.8	2.4	2.4
82(82)	Republic of Ingushetia	1.9	1.9	4.4

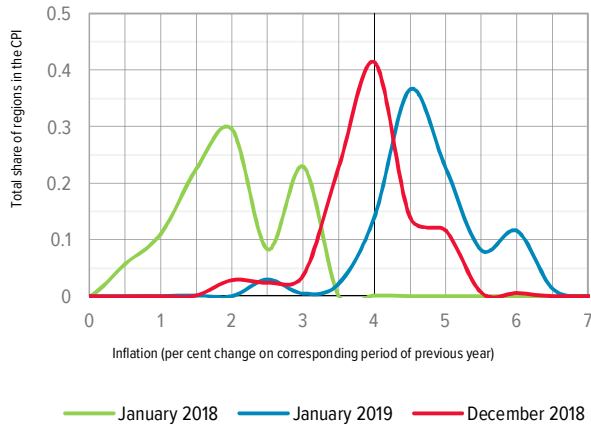
* - brackets are used to show the region's position in December 2018.

Source: Rosstat, Bank of Russia calculations.

CHANGE IN REGIONAL BREAKDOWN
OF INFLATION

Chart 9

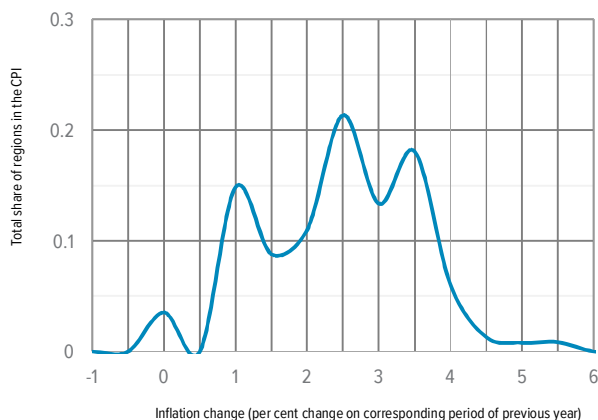
Per cent change on corresponding month of previous year



Sources: Rosstat, Bank of Russia calculations.

REGIONAL BREAKDOWN BY CHANGE IN INFLATION
GROWTH, JANUARY 2019

Chart 10



Sources: Rosstat, Bank of Russia calculations.

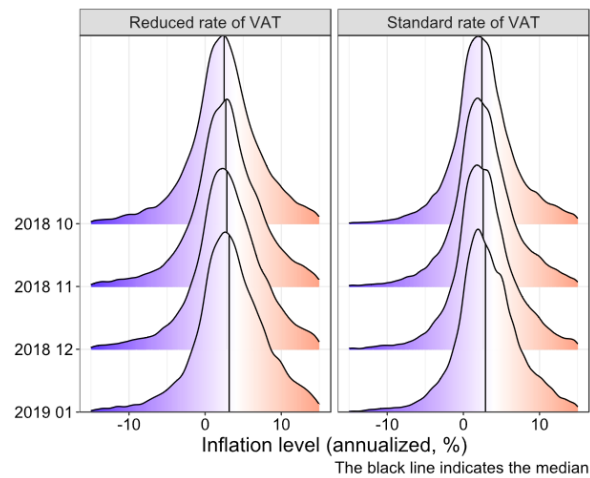
group was virtually unchanged, with inflation movements there still being shaped by local factors including non-monetary ones.

Inflation trends saw a stronger regional differentiation in January 2019 vs January 2018, on the back of differences in the consumer basket structure, uneven price adjustment and various specific factors (Chart 10).

Food inflation across regions was growing at fairly even paces and emerged as the key contributor to annual inflation change in most of them. Compared to January 2018, prices grew highest largely in small regions with a high share of food products in consumer spending.

REGIONAL BREAKDOWN OF INFLATION
BY PRODUCT / SERVICE GROUP

Chart 11



Sources: Rosstat, Bank of Russia calculations.

Growth in prices for non-food goods and services was modest. Unlike elsewhere in the country, non-food inflation grew markedly in the Central Federal District, triggered by an acceleration in car price growth in the Moscow Region. Consistent with previous years, the indexation of utility services prices was mixed: all Russian regions had their utility rates indexed in early 2019. A comparison of price trends in differently taxed goods and services suggests that the fallout of the VAT revision was muted (Chart 11).

Inflation forecast

Overall annual inflation in January 2019 held at the lower bound of the Bank of Russia forecast. The VAT rate hike contribution to annual consumer price growth proved moderate. A fully accurate assessment of the VAT revision effect on inflation is not expected until this April. The Bank of Russia forecasts that the VAT hike and the 2018 weakening of the ruble will temporarily accelerate annual inflation, which will peak in the first half of 2019 to run at 5.0-5.5% by the end of 2019. Quarterly year-on-year consumer price growth is set to decelerate to 4% as early as the second half of 2019. Annual inflation is set to return to 4% in the first half of 2020 when the effects of the ruble weakening and the VAT rise have run their course.

Appendix

CONSUMER PRICE DYNAMICS (%)

	01.2018	02.2018	03.2018	04.2018	05.2018	06.2018	07.2018	08.2018	09.2018	10.2018	11.2018	12.2018	01.2019
Inflation													
– month on corresponding month of previous year	2.2	2.2	2.4	2.4	2.4	2.3	2.5	3.1	3.4	3.5	3.8	4.3	5.0
– month on month	0.3	0.2	0.3	0.4	0.4	0.5	0.3	0.0	0.2	0.4	0.5	0.8	1.0
– month on month, seasonally adjusted	0.1	0.1	0.3	0.4	0.4	0.5	0.2	0.5	0.4	0.4	0.4	0.6	0.8
Price growth on corresponding month of previous year:													
– food products	0.7	0.9	1.3	1.1	0.4	-0.2	0.5	1.9	2.5	2.7	3.5	4.7	5.5
including: fruit and vegetables	-0.1	2.4	6.4	4.2	-2.8	-9.8	-6.7	3.3	3.4	-0.5	0.8	4.9	7.3
– non-food goods	2.6	2.5	2.4	2.7	3.4	3.7	3.8	3.8	4.0	4.1	4.2	4.1	4.5
– services	3.9	3.7	3.9	4.0	4.0	4.1	3.8	3.7	3.8	4.0	3.8	3.9	5.0
Month-on-month price growth:													
– food products	0.5	0.4	0.5	0.4	-0.1	0.4	-0.3	-0.4	-0.1	0.6	1.0	1.7	1.3
including: fruit and vegetables	4.0	3.1	4.2	2.6	-1.3	0.6	-5.1	-6.4	-6.8	-1.1	3.4	8.9	6.3
– non-food goods	0.3	0.1	0.2	0.4	0.9	0.4	0.1	0.2	0.4	0.5	0.4	0.2	0.6
– services	0.1	0.1	0.1	0.3	0.4	0.7	1.3	0.3	0.2	-0.1	0.0	0.4	1.1
Month-on-month price growth, seasonally adjusted:													
– food products	11.2	0.0	0.3	0.3	0.0	0.4	0.3	0.9	0.5	0.3	0.6	1.0	0.6
including: fruit and vegetables	-2.0	0.3	2.4	1.4	-3.2	-0.9	-0.1	5.2	-0.5	-1.7	0.5	3.5	0.3
– non-food goods	0.3	0.2	0.1	0.4	0.9	0.5	0.2	0.2	0.3	0.3	0.3	0.3	0.7
– services	0.2	0.2	0.4	0.5	0.3	0.5	-0.1	0.4	0.4	0.4	0.3	0.4	1.2
Core inflation, month on corresponding month of previous year	1.9	1.9	1.8	1.9	2.0	2.3	2.4	2.6	2.8	3.1	3.4	3.7	4.1
Median price growth, 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	3.5	3.3	3.1	3.0	2.8	2.6	2.5	2.5	2.5	2.6	2.7	2.9	3.1

* The difference between the average price level for the last 12 months and the average price level for the previous 12 months.

Source: Rosstat, Bank of Russia calculations.

Cut-off date – 8 February 2019.

The information and analytical material 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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