



Bank of Russia



CONSUMER PRICE DYNAMICS

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Information and analytical commentary

17 May 2019

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

In April 2019, annual inflation dropped by 0.1 pp to 5.2%. Thus, inflation passed its local peak in March. The VAT increase pass-through to prices has been largely completed. Annual growth rates of non-food goods and services prices slowed down under the influence of motor fuel price regulation, the strengthening of the ruble observed since the beginning of the year, and the base effect. Annual food inflation remained unchanged amid the slowdown of fruit and vegetable price growth and its acceleration for several other food products. Sustainable price dynamics readings YoY (core inflation, median) remained above 4%. Monthly growth of consumer prices remained at the level seen in March (0.3% seasonally adjusted) which is in line with annual inflation near 4%. According to the Bank of Russia's forecast, annual inflation is set to return to near 4% in the first half of 2020.

In April 2019, annual inflation dropped by 0.1 pp and stood at 5.2% (Appendix 1). Thus, the local peak, largely linked to the VAT hike, was passed in March, which corresponds to the Bank of Russia's forecast.¹

Price growth for non-food goods and services slowed down, whereas food inflation was unchanged.

Sustainable price dynamics readings YoY remained above 4%. Core inflation was at the level seen in March (4.6%). Median values of price growth distributions rose by 0.1 pp to 4.6% (Chart 1), suggesting that the drop in annual inflation was largely shaped by the dynamics of one-off factors. These include capped growth of petrol and diesel prices, the ruble's appreciation and the base effect.

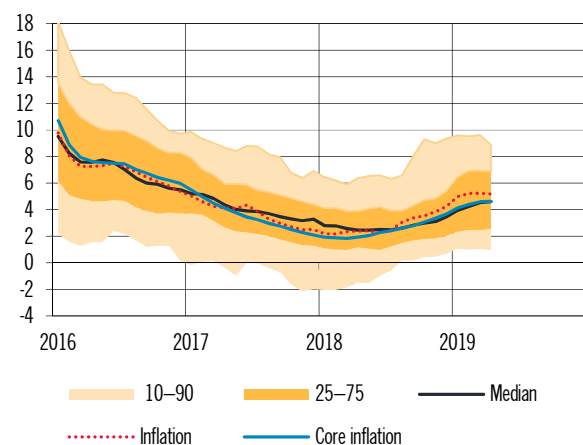
At the same time, the share of goods and services whose prices rose at the fastest pace contracted, while the share of items with the lowest price growth expanded. This implies a further slowdown in inflation.

In April, seasonally adjusted consumer price growth remained at the March level (estimated at 0.3%), a minimal level since last July. It corresponds to the current annual inflation close to the Bank of Russia target (4%).

Deceleration of current non-food goods price growth to low levels, and services price growth stabilisation suggest in part that the VAT hike pass-through to prices has been mainly completed.

Distribution of goods and services price growth, inflation and core inflation Chart 1

Per cent change on corresponding month of previous year



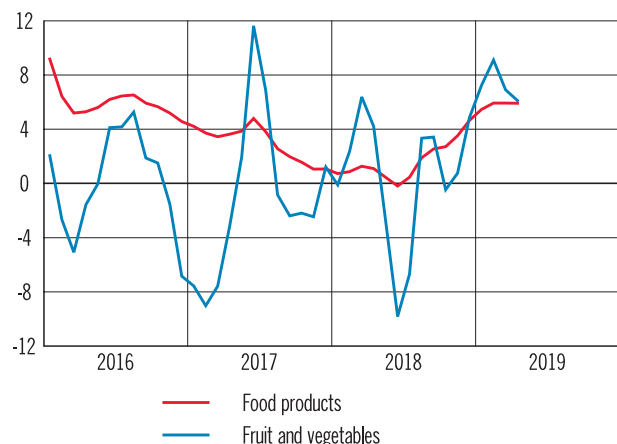
Sources: Rosstat, Bank of Russia calculations.

¹ See Monetary Policy Report, No. 1 (25), March 2019, http://www.cbr.ru/Collection/Collection/File/18969/2019_01_ddcp.pdf.

Food prices

Chart 2

Per cent change on corresponding month of previous year



Source: Rosstat.

Food products

In April 2019, monthly growth in food prices (seasonally adjusted) did not change and came in at 0.4%, according to estimates. In April, seasonally adjusted food price growth (excluding fruit and vegetables) was at the level seen in the previous two months (0.3%, according to estimates), a minimum level since June 2018.

Similar to February and March, annual food inflation was 5.9% amid the slowdown of fruit and vegetable price growth and a pick-up in price growth for several other food products (Chart 2).

In April, annual fruit and vegetable price growth fell by 0.8 pp to 6.1%. Price growth for beetroot soup ingredients slowed down: the pick-up of price growth for cabbage and onions was mainly off-set by the drop in potato prices year on year. Acceleration in the reduction of fruit prices was in part caused by the ruble strengthening.

At the same time, annual growth rates of food prices (excluding fruit and vegetables) continued to increase (by 0.1 pp to 5.8%). A perceptible contribution continued to be made by the price dynamics of grain products (cereals and beans, bread, bakery products and pasta) under the impact of the grain price increase that occurred in the second part of the past year (Chart 3). Millet products posted the biggest price increase as a result of shrinking millet crop areas. That said, good grain crop forecasts and falling prices in the global market lay the groundwork for slower price growth in this consumer market segment.

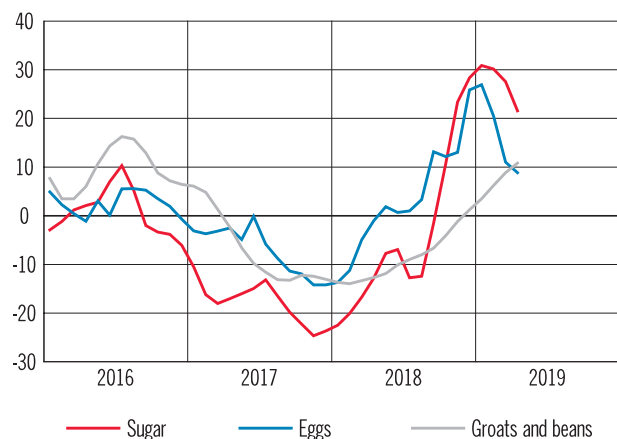
The annual price growth of milk and dairy products continued to accelerate from the lows of mid-2018.

At the same time, the annual price growth of meat and poultry (roughly 70% of this subgroup is made up by pork and poultry) dropped for the first time since last March, thereby pointing to the completion of the adjustment of supply to demand (Chart 4). Egg and sugar price growth slowed down once again.

Prices of sugar, eggs and cereals

Chart 3

Per cent change on corresponding month of previous year



Source: Rosstat.

Non-food goods

In April 2019, the rate of monthly price growth for non-food goods (seasonally adjusted) remained at the level observed in March (0.2%). A similar increase was posted by non-food goods (excluding oil products) which is 0.1 pp lower than in March.

The annual price growth of non-food goods dropped by 0.2 pp to 4.5% on the back of a slowdown in the appreciation of oil products given a pick-up in the price growth for other product groups (Chart 5).

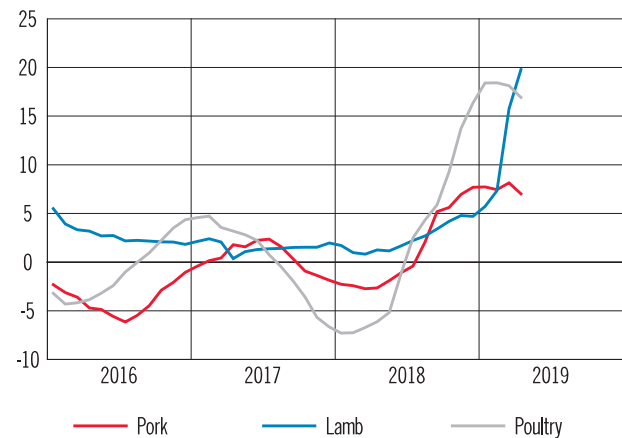
In April, the movements of prices for key oil products were influenced by the agreements between the Russian Federation Government and major oil companies. In the given period, petrol prices remained unchanged, and diesel fuel prices dropped by 1.1% (in part as a result of a switch to the summer fuel). Their annual growth rates slowed down noticeably (by 1.2 and 2.6 pp respectively) due to the base effect: the April of 2018 marked the start of a faster growth in motor fuel prices. In April, prices in the gas motor fuel market (not restricted by agreements) were up by 2.2% or by 15.4% compared to April 2018. Overall, annual price growth for motor fuel fell by 1.2 pp to 8.6%.

The annual growth of non-food prices (excluding oil products) came in at 3.9%, posting a reduction for the first time since March 2018 (by 0.1 pp). The most noticeable contribution to this reduction was made by a slowdown in the price growth of passenger cars (by 0.5 pp to 5.5%). This trend was supported by the dynamics of prices for several household appliances and electronics which became cheaper compared to the previous year in part under the influence of the ruble appreciation starting the beginning of this year. Annual price growth for household chemicals and clothes also continued. Mixed price dynamics for individual groups of commodities suggest a dominant role of factors specific for certain markets given the overall exhaustion of the VAT hike pass-through.

Meat product prices

Chart 4

Per cent change on corresponding month of previous year

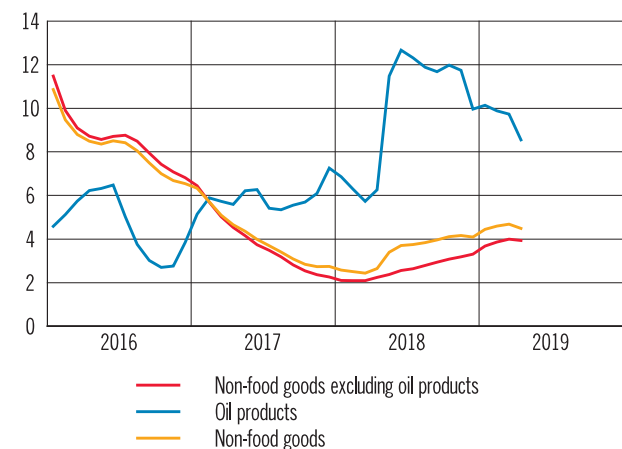


Source: Rosstat.

Non-food prices

Chart 5

Per cent change on corresponding month of previous year

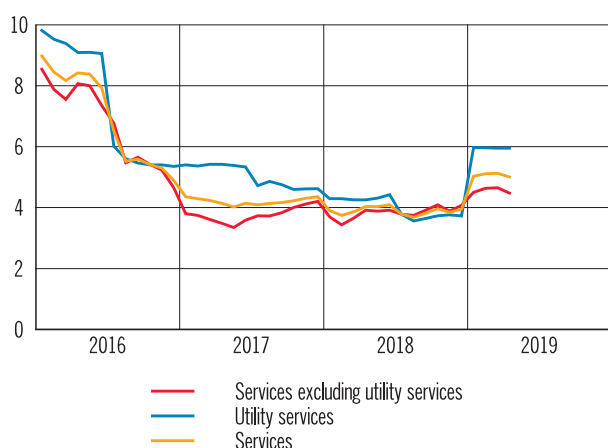


Sources: Rosstat, Bank of Russia calculations.

Services prices

Chart 6

Per cent change on corresponding month of previous year



Sources: Rosstat, Bank of Russia calculations.

Services

In April, the monthly rate of services price growth (seasonally adjusted) was estimated at 0.4%, which is in line with the March level.

The annual rate of services price growth fell by 0.1 pp to 5.0% (Chart 6). A decrease in the rate of foreign tourism services price growth, linked to the ruble appreciation, made the biggest contribution. Growth in passenger transportation services dropped mainly on account of public transport tariffs. Growth in the annual air transportation prices also slowed down.

The biggest increase in the annual price growth was registered by communications prices (by 0.2 pp to 3.4%) which may be explained by a forthcoming change in tariff rates in the run up to the cancellation of the national roaming fees (from 1 June).

Inflation in federal districts

Table 1

Per cent change on corresponding month of previous year

	April 2018	March 2019	April 2019	Change in price growth rates (April 2019 vs April 2018)
Russia	2.4	5.3	5.2	2.8
Central FD	3.1	5.7	5.4	2.3
North-Western FD	2.5	5.0	4.9	2.4
Southern FD	2.0	5.3	5.4	3.4
North Caucasian FD	1.7	5.2	5.3	3.6
Volga FD	2.0	5.1	5.0	3.0
Urals FD	2.3	4.2	4.2	1.9
Siberian FD	2.0	5.7	5.6	3.6
Far Eastern FD	2.1	5.0	4.9	2.8

Sources: Rosstat, Bank of Russia calculations.

Inflation across regions

In April 2019, annual inflation slowed down in the majority of Russian regions (44 regions, representing roughly 64% of the CPI, Table 1). The biggest price acceleration was observed in southern regions (specifically, in several republics in the Northern Caucasus).

Food prices (mainly fruit and vegetable prices) remain the main contributors to the regional heterogeneity of inflation. Food inflation demonstrated the biggest growth in several regions in the North Caucasus and Siberia. At the same time, some regions in the European part of Russia and in the Far East saw an inflation slowdown prompted by the base effects, specifics of product delivery organisation, and available product inventories.

The growth of non-food prices demonstrated a rather consistent slowdown across most regions. In the Far East, non-food inflation rates remain lower than in Russia as a whole. This is largely associated with the prices of light vehicles: prices in the Far-Eastern regions are less volatile on average because of the market structure specifics linked in part to the proximity of the Asian-Pacific countries.

In April, services price growth remained rather mixed. In some regions, they accelerated

Inflation across regions

Table 2

Per cent change on corresponding month of previous year

No.		April 2018	March 2019	April 2019
Top 5 highest inflation regions, April 2019				
1(3)	Yaroslavl Region	2.1	7.0	6.9
2(2)	Sevastopol	1.7	7.2	6.9
3(6)	Kemerovo Region	2.6	6.5	6.4
4(10)	Republic of Komi	2.5	6.3	6.4
5(4)	Republic of Khakassia	2.6	6.6	6.4
Top 5 lowest inflation regions, April 2019				
78(79)	Sakhalin Region	1.5	3.7	3.8
79(73)	Republic of Sakha (Yakutia)	3.1	4.4	3.4
80(82)	Republic of Ingushetia	3.6	2.9	3.3
81(81)	Tyumen Region	2.3	3.2	3.3
82(80)	Altai Republic	2.2	3.4	3.1

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

Sources: Rosstat, Bank of Russia calculations.

considerably on the back of the faster growth of transportation fees and insurance prices.

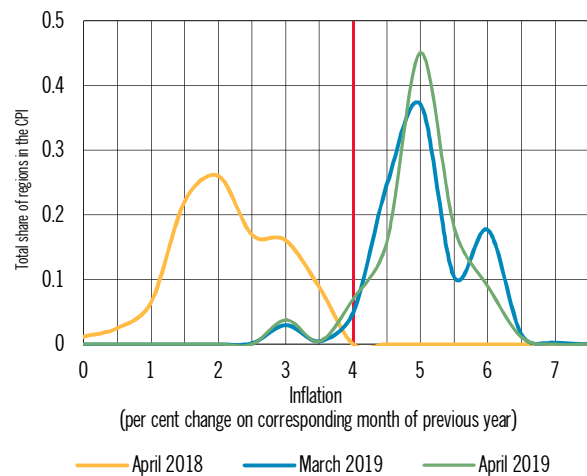
In April, the distribution of regional annual inflation changed mainly because of its slowdown in the regions featuring high price growth rates (Charts 7 and 8). The spread of regional inflation narrowed (in April, inflation across regions was 3.1–6.9% vs 2.9–7.6% in March). The distribution of regions into three groups by inflation level, which has been in place over the last several months, was virtually levelled off in April. However, there is still a group of regions where inflation is by far below the average Russian level. Inflation dynamics in this group continues to be shaped by punctuated local factors, including non-monetary ones.

Inflation forecast

The Bank of Russia's pre-emptive key rate hikes in September and December 2018 helped return annualised monthly consumer price growth rates to levels close to 4%. The risks of secondary effects associated with the VAT hike are assessed as negligible. According to the Bank of Russia's forecast, annual inflation is set to return to 4% in the first half of 2020.

Change in regional distribution of inflation

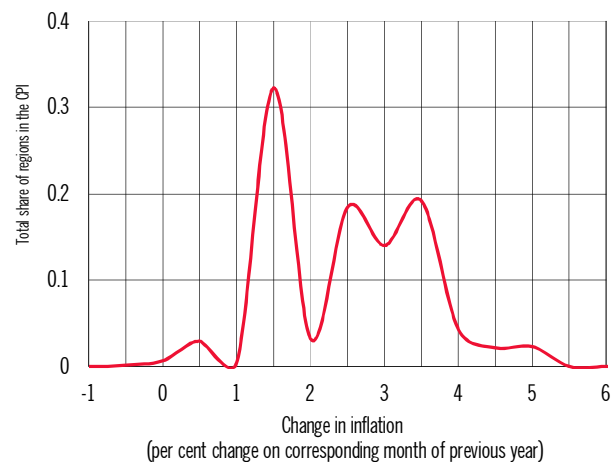
Chart 7



Sources: Rosstat, Bank of Russia calculations.

Distribution of regions by change in inflation growth, April 2019 vs April 2018

Chart 8



Sources: Rosstat, Bank of Russia calculations.

Appendix 1

Consumer price dynamics (%)

	04.2018	05.2018	06.2018	07.2018	08.2018	09.2018	10.2018	11.2018	12.2018	01.2019	02.2019	03.2019	04.2019
Price growth on corresponding month of previous year:													
– all goods and services	2.4	2.4	2.3	2.5	3.1	3.4	3.5	3.8	4.3	5.0	5.2	5.3	5.2
– food products	1.1	0.4	-0.2	0.5	1.9	2.5	2.7	3.5	4.7	5.5	5.9	5.9	5.9
of which: fruit and vegetables	4.2	-2.8	-9.8	-6.7	3.3	3.4	-0.5	0.8	4.9	7.3	9.1	6.9	6.1
– non-food goods	2.7	3.4	3.7	3.8	3.8	4.0	4.1	4.2	4.1	4.5	4.6	4.7	4.5
– services	4.0	4.0	4.1	3.8	3.7	3.8	4.0	3.8	3.9	5.0	5.1	5.1	5.0
Month-on-month price growth													
– all goods and services	0.4	0.4	0.5	0.3	0.0	0.2	0.4	0.5	0.8	1.0	0.4	0.3	0.3
– food products	0.4	-0.1	0.4	-0.3	-0.4	-0.1	0.6	1.0	1.7	1.3	0.8	0.5	0.4
of which: fruit and vegetables	2.6	-1.3	0.6	-5.1	-6.4	-6.8	-1.1	3.4	8.9	6.3	4.9	2.1	1.8
– non-food goods	0.4	0.9	0.4	0.1	0.2	0.4	0.5	0.4	0.2	0.6	0.3	0.3	0.2
– services	0.3	0.4	0.7	1.3	0.3	0.2	-0.1	0.0	0.4	1.1	0.2	0.1	0.2
Month-on-month price growth, seasonally adjusted:													
– all goods and services	0.4	0.4	0.5	0.2	0.5	0.4	0.3	0.4	0.6	0.8	0.4	0.3	0.3
– food products	0.4	0.0	0.4	0.3	0.9	0.6	0.3	0.6	1.0	0.6	0.5	0.4	0.4
of which: fruit and vegetables	1.4	-3.2	-0.9	-0.1	5.3	-0.4	-1.6	0.6	3.6	0.4	1.5	0.4	0.6
– non-food goods	0.4	0.9	0.5	0.2	0.2	0.3	0.3	0.3	0.3	0.7	0.3	0.2	0.2
– services	0.5	0.3	0.5	-0.1	0.4	0.4	0.4	0.3	0.4	1.2	0.3	0.4	0.4
Price growth on December of previous year:													
– all goods and services	1.2	1.6	2.1	2.4	2.4	2.5	2.9	3.4	4.3	1.0	1.5	1.8	2.1
– food products	1.8	1.8	2.2	1.8	1.4	1.3	1.9	2.9	4.7	1.3	2.1	2.6	3.1
of which: fruit and vegetables	14.6	13.1	13.7	7.9	1.0	-5.9	-6.9	-3.7	4.9	6.3	11.5	13.9	16.0
– non-food goods	1.0	1.9	2.3	2.4	2.6	3.0	3.5	3.9	4.1	0.6	0.9	1.2	1.3
– services	0.6	1.0	1.7	3.0	3.3	3.6	3.5	3.5	3.9	1.1	1.3	1.5	1.7
Core inflation, month on corresponding month of previous year	1.9	2.0	2.3	2.4	2.6	2.8	3.1	3.4	3.7	4.1	4.4	4.6	4.6
Median of price growth distribution, month on corresponding month of previous year	2.5	2.5	2.5	2.5	2.6	2.8	3.0	3.1	3.5	4.0	4.2	4.5	4.6
Average annual inflation	3.0	2.8	2.6	2.5	2.5	2.5	2.6	2.7	2.9	3.1	3.4	3.6	3.8

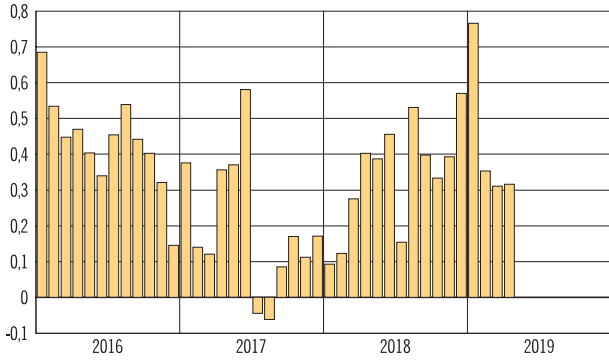
Sources: Rosstat, Bank of Russia calculations.

Appendix 2

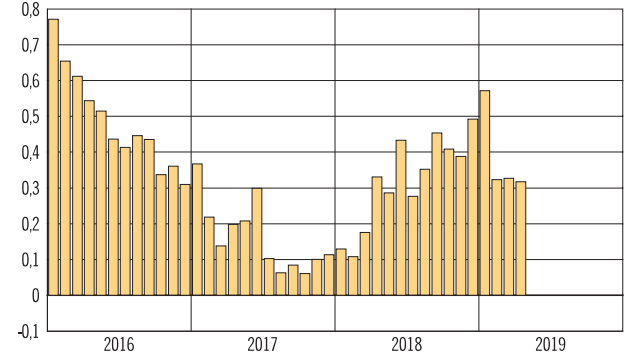
Monthly price growth (% , seasonally adjusted)

All goods and services

Chart 1

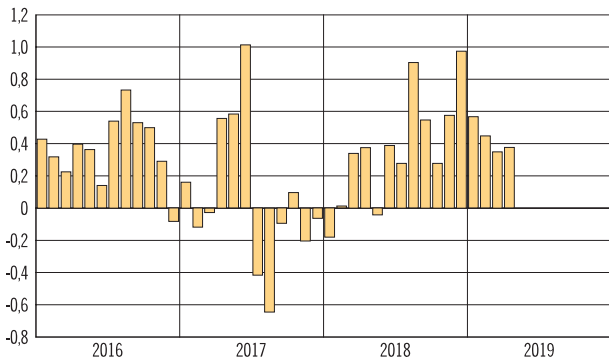


All goods and services excluding fruit and vegetables, petroleum products and utility services



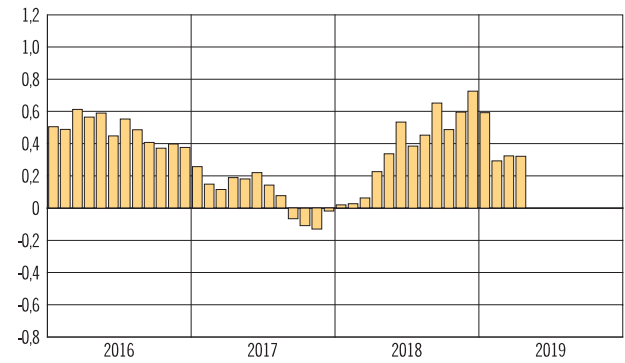
Food products

Chart 2



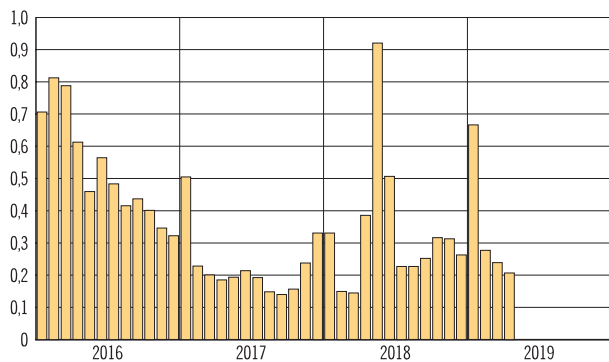
Food products excluding fruit and vegetables

Chart 6



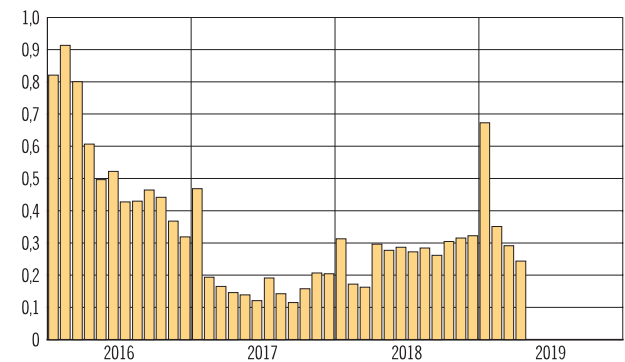
Non-food goods

Chart 3



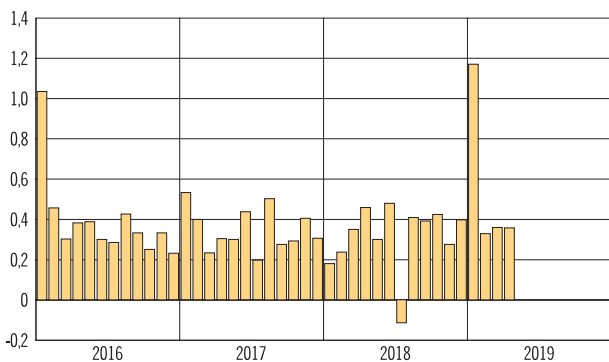
Non-food goods excluding petroleum products

Chart 7



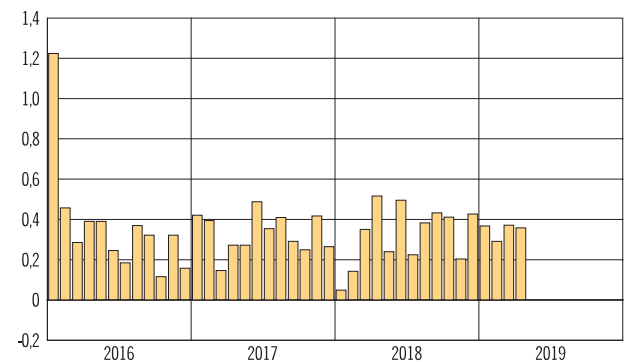
Services

Chart 4



Services excluding utility services

Chart 8



The data cut-off date is 15.05.2019.

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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