



Bank of Russia



CONSUMER PRICE DYNAMICS

No. 3 (51) • March 2020

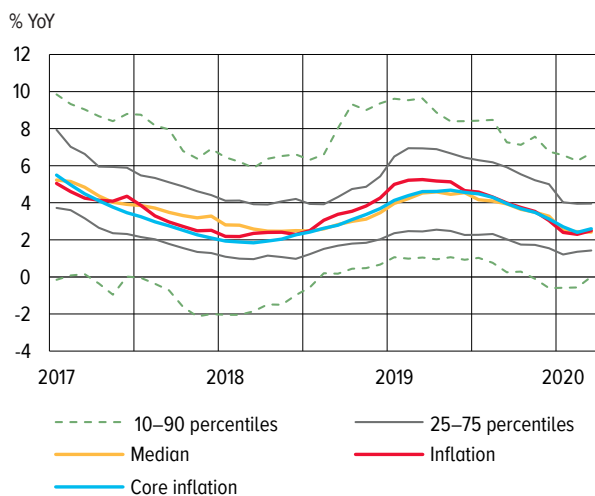
Information and analytical commentary

14 April 2020

Consumer price dynamics: facts, assessments and comments (March 2020)

In March 2020, the price growth rate sped up, driven by one-off factors. Annual inflation reached 2.5%, which is 0.2 pp higher than in February. The acceleration of price growth was associated with the weakening of the ruble and the rise in demand for a range of food products and other basic goods caused by people's preparations for the self-isolation regime introduced because of the COVID-19 pandemic. The annual growth rate of service prices remained unchanged. Following the developments in the external environment, inflation will return from the low level of the recent months to the Bank of Russia's target faster than it was earlier forecast. However, the restrictions being implemented both in Russia and abroad, a drastic and long-lasting decline in the global economy, as well as the impact of increased uncertainty and the tightening of monetary conditions on domestic demand trends will become significant disinflationary factors in the mid run. The Bank of Russia will comprehensively analyse the influence of the current developments on the medium-term forecast of inflation, inflation expectations, and economic prospects.

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



Sources: Rosstat, Bank of Russia calculations.

After hitting its minimum in February 2020, annual inflation rose by 0.2 pp in March, to total 2.5% (Chart 1). A major driver behind the accelerated growth of consumer prices was the weakening of the ruble, which largely resulted from the adverse impact of the coronavirus pandemic on the global economy and the termination of the OPEC+ agreement. Another factor was the increased demand for a range of basic goods induced by the spread of the coronavirus pandemic in Russia. The annual inflation rates of food and non-food goods went up. The annual growth of service prices remained unchanged (Annex 1).

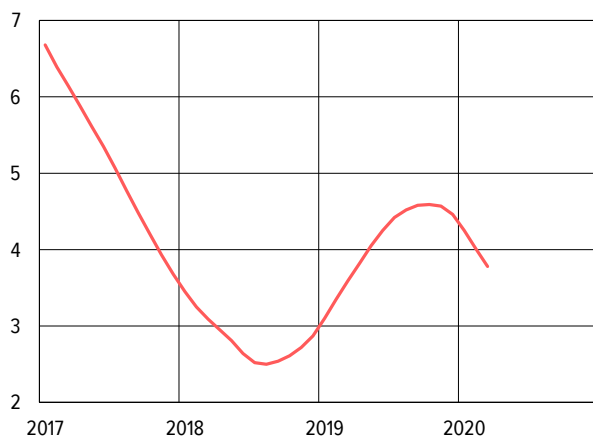
Annual inflation indicators reflecting the main trends in price dynamics increased. Core inflation was up by 0.2 pp, to 2.6%. The annual growth rate of goods and service prices, excluding the main volatile and regulated components,¹ rose by 0.3 pp, to 2.7%. However, the median value of consumer price growth stayed almost unchanged: despite the increase, the growth rates of prices for a range of food products accounting for a notable percentage in households' cost structure remained in the negative zone. Average annual inflation characterised by a high inertia continued to go down, reaching 3.8% (Chart 2).

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

MOVING AVERAGE ANNUAL INFLATION

Chart 2

Average growth, % YoY

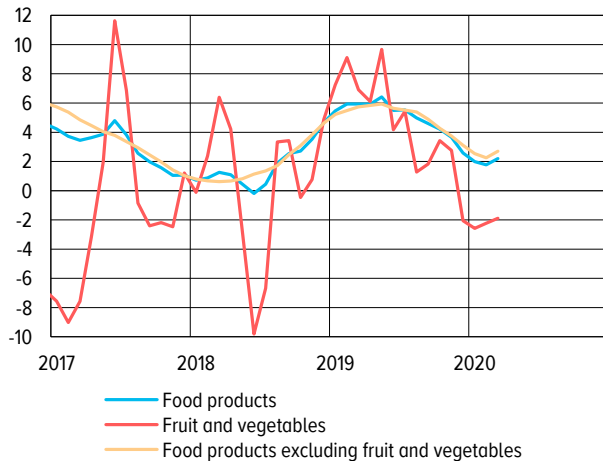


Sources: Rosstat, Bank of Russia calculations.

FOOD PRICES

Chart 3

% YoY

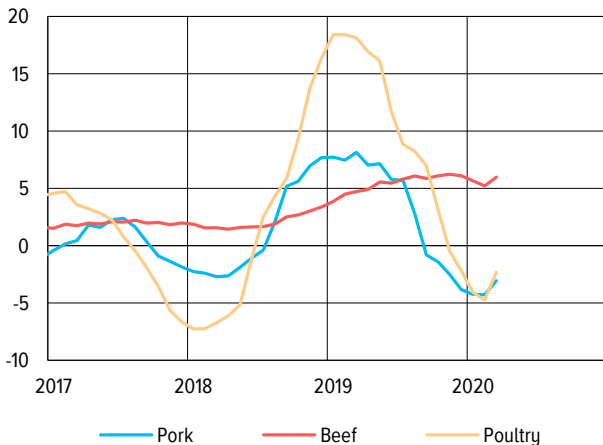


Source: Rosstat.

PRICES FOR MEAT PRODUCTS

Chart 4

% YoY



Source: Rosstat.

As assessed, the monthly growth rate of consumer prices (seasonally adjusted annual rate;² hereinafter, SAAR) increased to 6.2% in March (vs 2.6% in February). According to the assessment, prices for goods and services, excluding the main volatile and regulated components, rose by 6.8% (SAAR) compared to 1.9% (SAAR) in February, which is close to the readings observed in December 2018 – January 2019 (Annex 2).³

Food products

As assessed, the growth rate (SAAR) of food prices equalled 8.7%. The growth of prices for those products that households were buying in for the self-isolation period (cereals, pasta, poultry, eggs, sugar, and potatoes) sped up the most. Conversely, the rise in prices for fruit and vegetables characterised by a high volatility slowed down (primarily due to the reduction in cucumber prices).

Annual food inflation rose by 0.4 pp in March, to reach 2.2% (Chart 3). Poultry price dynamics were the major contributor to this increase (among the main food categories). As a result of a significant rise in prices after their sustainable decline beginning from October 2019, the gap between their current level and the year-over-year readings shrank (Chart 4). Nonetheless, poultry prices in March still remained lower than in the previous year.

After a notable rise in March, sugar prices also reduced the gap with the year-over-year level. The contribution of sugar price movements to the growth of food prices was just a little less than that of the poultry price increase. Fruit and vegetable prices demonstrated a similar trend: they remained below the last year's readings, with the gap significantly shrinking. Potato price dynamics were the major contributor in this group of products.

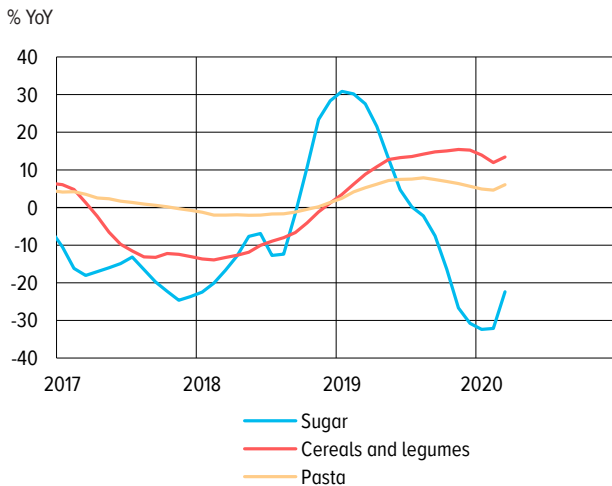
A rise in demand was also a driver behind the increased growth rates of prices for such

² Through annualisation, data on monthly price growth rates become comparable with information on annual inflation.

³ 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).

PRICES FOR SUGAR AND GRAIN PRODUCTS

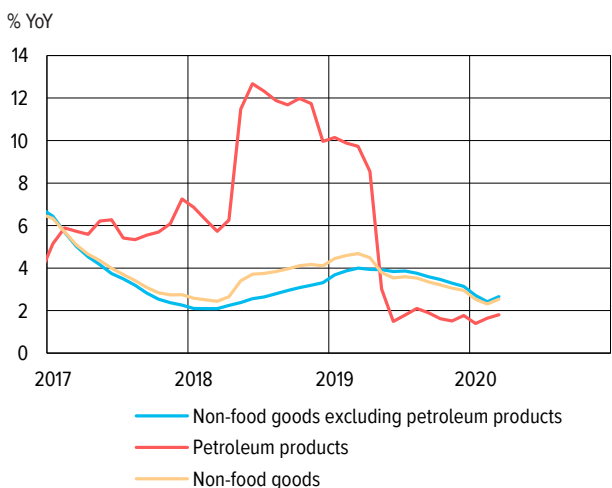
Chart 5



Source: Rosstat.

NON-FOOD PRICES

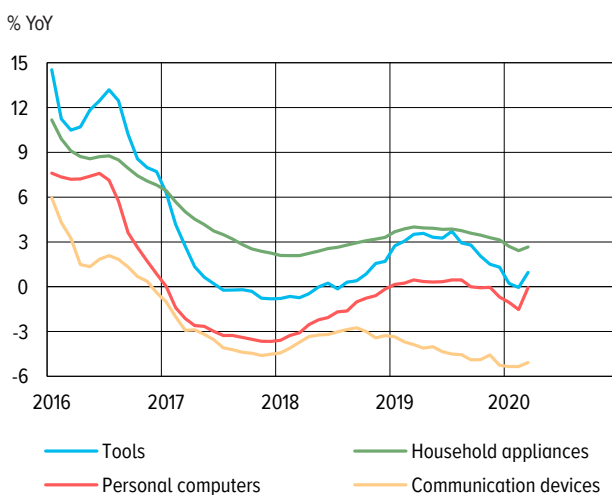
Chart 6



Sources: Rosstat, Bank of Russia calculations.

PRICES FOR HOUSEHOLD APPLIANCES, ELECTRONICS, AND TOOLS

Chart 7



Source: Rosstat.

non-perishable food products as cereals and pasta (Chart 5).

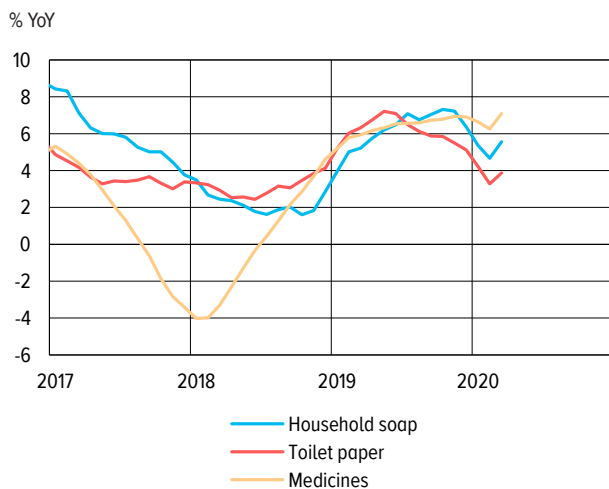
In the near future, food prices may be driven up by local cases of elevated demand for individual food categories, primarily non-perishable products, and by supply-side factors, specifically, higher export parity prices for food exports from Russia, the growth of prices for imported goods, and potential supply limitations coming from disturbances in global supply chains. However, the saturation of the Russian food market that remains generally high will contain price growth.

Non-food goods

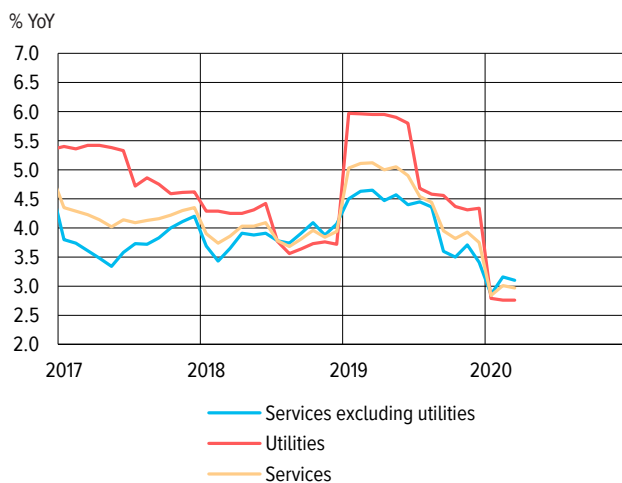
According to the assessment, the growth rate of non-food prices equalled 5.7% (SAAR) in March. As assessed, the most notable acceleration in price growth was demonstrated by basic goods (the preparations for the self-isolation regime) and household appliances and electronics (increased expectations of households regarding the impact of the ruble depreciation on inflation). Contrastingly, as assessed, the growth rates of clothing and footwear prices (SAAR) remained almost unchanged. Motor fuel prices stayed stable owing to the damping mechanism smoothing out the effect of the fluctuations of global crude and petroleum product prices on the dynamics of domestic prices.

The annual growth rate of non-food prices was up by 0.2 pp in March, reaching 2.5% (Chart 6). The major contributor (given the percentage in consumer expenses) was the acceleration of the annual growth of prices for household appliances and electronics associated with the weakening of the ruble (Chart 7). There was a considerable rise in the growth rate of prices for cleaning products and medicines that households were buying in (Chart 8).

Taking into account the spread of the coronavirus infection across Russian regions, demand for basic goods will most likely remain elevated in April. However, demand for durable goods will be limited due to the quarantine measures and the decline in consumer activity.

PRICES FOR CLEANING PRODUCTS AND MEDICINES *Chart 8*

Source: Rosstat.

SERVICE PRICES *Chart 9*

Sources: Rosstat, Bank of Russia calculations.

Services

According to the assessment, the growth rate of service prices came in at 3.4% (SAAR) in March 2020, which was the same as in January (vs 5.9% in February, SAAR). The annual growth of service prices remained unchanged in March, totalling 3.0% (Chart 9). However, prices for various service types demonstrated diverse dynamics, both seasonally adjusted month-over-month and year-over-year.

Thus, the suspension of flights to a whole range of destinations because of the coronavirus outbreak entailed a decline in air fares and, consequently, in prices for transportation services in general. The levels of air fares returned to the March 2019 readings, while in February they were 8.6% higher year-over-year.

However, despite the plummeting demand, the growth of prices for overseas tourism services sped up, both month-over-month (SAAR) and year-over-year, which was associated with the depreciation of the ruble. The growth rates of prices for paid medical services increased to their October 2017 highs (according to the assessment, 6.6% SAAR). Their annual growth rates were also up.

The growth of prices for personal services, sanatorium and health services, and cultural institutions' services remained almost unchanged, both month-over-month (SAAR) and year-over-year.

In the near future, the growth of service prices will be dragged down by demand since its structure may temporarily shift towards basic goods. Moreover, price growth will be limited due to the suspension of operations of a large number of organisations in the service area associated with the start of the non-work period declared until the end of April as a measure to combat the spread of the coronavirus, as well as due to fewer possibilities to use transport. Demand for individual service groups, primarily in healthcare, will probably remain elevated and may put pressure on prices for these services.

INFLATION IN THE FEDERAL DISTRICTS

Table 1

% YoY

	February 2020	March 2020	Price growth, March on February 2020
Russia	2.3	2.5	0.2
Central FD	2.2	2.3	0.1
North-Western FD	2.5	2.8	0.3
Southern FD	1.9	2.1	0.3
North Caucasian FD	2.7	3.0	0.3
Volga FD	2.1	2.5	0.4
Urals FD	2.2	2.5	0.3
Siberian FD	2.7	2.7	0.0
Far Eastern FD	3.4	3.3	-0.1

Sources: Rosstat, Bank of Russia calculations.

INFLATION IN RUSSIAN REGIONS

Table 2

% YoY

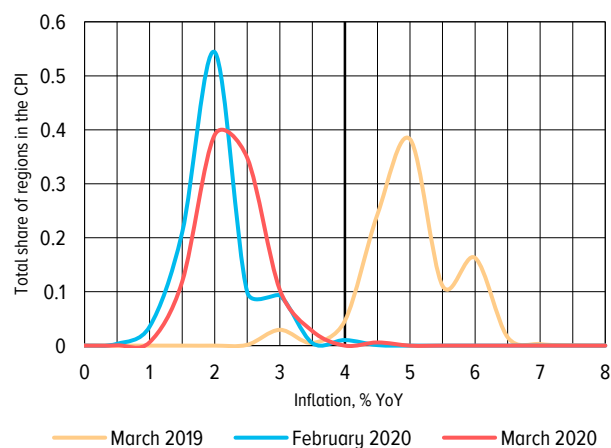
No.*		March 2019	February 2020	March 2020
TOP-5 regions with highest inflation in March 2020				
1 (1)	Jewish Autonomous Region	5.3	4.5	4.6
2 (2)	Amur Region	5.3	4.5	4.6
3 (5)	Republic of Sakha (Yakutia)	4.4	3.5	4.0
4 (3)	Komi Republic	6.3	4.2	4.0
5 (4)	Republic of Buryatia	6.2	3.6	3.7
TOP-5 regions with lowest inflation in March 2020				
78 (77)	Chuvash Republic	5.4	1.3	1.5
79 (72)	Altai Republic	3.4	1.6	1.5
80 (82)	Republic of North Ossetia–Alania	4.6	0.9	1.3
81 (80)	Sevastopol	7.2	1.2	1.1
82 (78)	Chukotka Autonomous Area	7.6	1.3	0.9

* Values in brackets indicate the regions' positions in February 2020.

Sources: Rosstat, Bank of Russia calculations.

CHANGES IN THE REGIONAL DISTRIBUTION OF INFLATION

Chart 10



Sources: Rosstat, Bank of Russia calculations.

Inflation in Russian regions

In March 2020, annual inflation sped up in the majority of Russian regions, compared to the previous month (78 regions accounting for approximately 87% in the CPI, Tables 1 and 2). The annual growth rates of food and non-food prices primarily increased, while service prices changed in the most diverse manner. The annual growth of service prices went down in the majority of Russian regions, compared to February (price growth slowed down in 46 regions and accelerated in 36 regions).

Inflation trends in the majority of Russian regions were largely determined by country-wide factors, specifically the weakening of the ruble and the surge in demand for a range of products. However, the scale of their effect varied across regions. Moreover, local factors continued to considerably impact inflation.

Thus, the acceleration of inflation in the North-Western and Volga Federal Districts was more significant than in other federal districts, which was mostly associated with the dynamics of food prices.

Contrastingly, the annual price growth rates in the Far Eastern Federal District decreased. This resulted from the slowdown of food inflation which is highly specific in this region. March saw a reduction in cabbage and cucumber prices. In addition, the growth of service prices decelerated (largely due to the decline in air fares).

The distribution of regional inflation in March changed against February. The regional heterogeneity of inflation slightly increased in March (Chart 10). As before, the most notable differences were observed in service price movements. However, the regional heterogeneity of inflation remains at a lower level compared to the previous year.

Annex 1

CONSUMER PRICE DYNAMICS

(%)

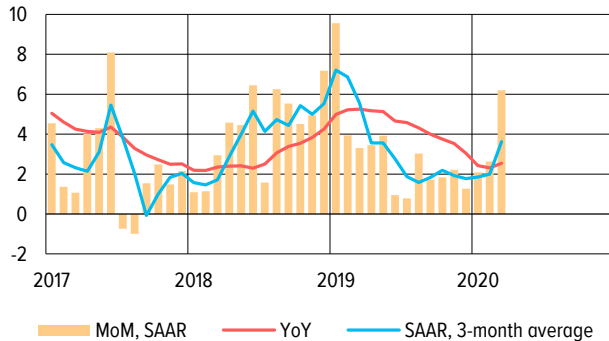
	03.2019	04.2019	05.2019	06.2019	07.2019	08.2019	09.2019	10.2019	11.2019	12.2019	01.2020	02.2020	03.2020
Price growth, YoY:													
– all goods and services	5.3	5.2	5.1	4.7	4.6	4.3	4.0	3.8	3.5	3.0	2.4	2.3	2.5
– food products	5.9	5.9	6.4	5.5	5.5	5.0	4.6	4.2	3.7	2.6	2.0	1.8	2.2
of which: fruit and vegetables	6.9	6.1	9.7	4.2	5.4	1.3	1.8	3.4	2.8	-2.1	-2.6	-2.2	-1.9
– non-food goods	4.7	4.5	3.8	3.5	3.6	3.5	3.4	3.2	3.1	3.0	2.5	2.3	2.5
– services	5.1	5.0	5.1	4.9	4.5	4.4	4.0	3.8	3.9	3.8	2.8	3.0	3.0
Core inflation, YoY	4.6	4.6	4.7	4.6	4.5	4.3	4.0	3.7	3.5	3.1	2.7	2.4	2.6
Median of price growth distribution, YoY	4.5	4.6	4.5	4.5	4.2	4.1	3.9	3.6	3.5	3.3	2.5	2.4	2.4
Average annual inflation	3.6	3.8	4.0	4.2	4.4	4.5	4.6	4.6	4.6	4.5	4.3	4.0	3.8
Price growth, MoM:													
– all goods and services	0.3	0.3	0.3	0.0	0.2	-0.2	-0.2	0.1	0.3	0.4	0.4	0.3	0.6
– food products	0.5	0.4	0.4	-0.5	-0.3	-0.9	-0.4	0.2	0.5	0.7	0.7	0.6	1.0
of which: fruit and vegetables	2.1	1.8	2.0	-4.5	-3.9	-10.1	-6.3	0.4	2.7	3.8	5.7	5.3	2.5
– non-food goods	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.1	0.2	0.0	0.5
– services	0.1	0.2	0.4	0.6	0.9	0.2	-0.2	-0.2	0.1	0.2	0.2	0.4	0.1
Price growth, MoM (SAAR)													
– all goods and services	3.3	3.4	3.9	0.9	0.8	3.0	1.7	1.8	2.2	1.3	2.1	2.6	6.2
– food products	3.3	3.8	4.7	-3.0	3.6	3.8	1.7	0.0	0.7	-0.3	0.0	1.9	8.7
of which: fruit and vegetables	1.4	6.1	-1.5	-37.8	7.9	10.6	1.4	-1.5	-1.9	-11.9	-3.9	17.2	5.5
– non-food goods	2.9	2.5	2.9	3.1	3.1	2.0	1.1	2.4	1.9	2.0	3.2	0.8	5.7
– services	4.0	4.1	3.9	4.0	-5.6	3.5	2.4	3.4	4.6	2.4	3.6	5.9	3.4

Sources: Rosstat, Bank of Russia calculations.

Annex 2

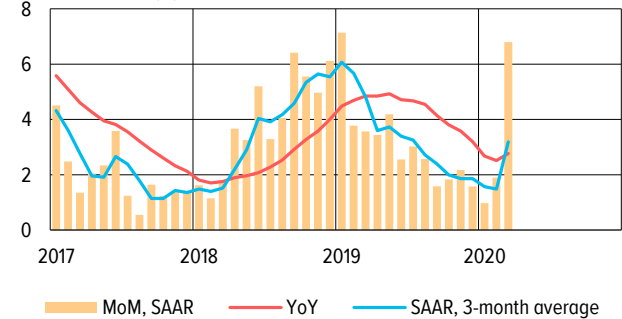
ALL GOODS AND SERVICES (%)

Chart 1



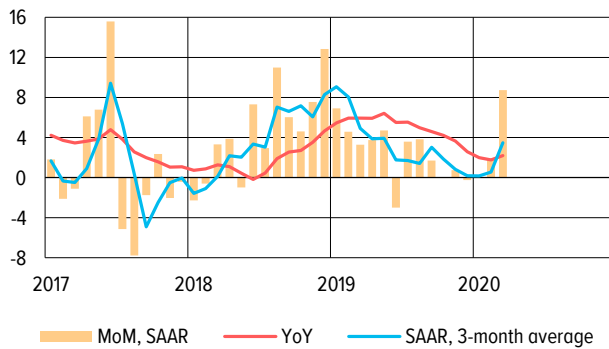
ALL GOODS AND SERVICES EXCLUDING FRUIT AND VEGETABLES, PETROLEUM PRODUCTS AND UTILITIES (%)

Chart 5



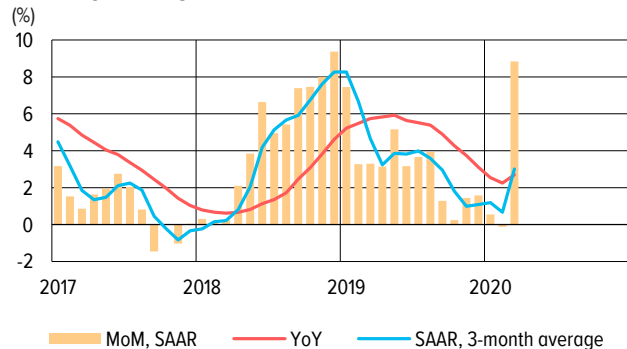
FOOD PRODUCTS (%)

Chart 2



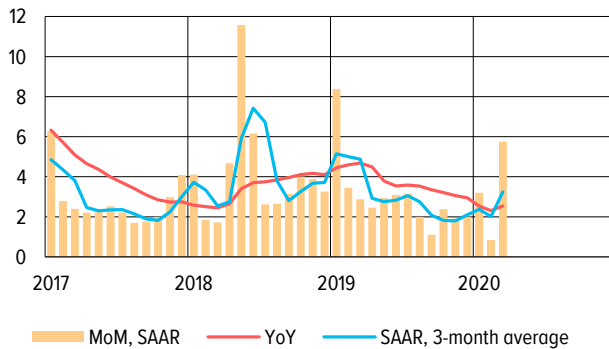
FOOD PRODUCTS EXCLUDING FRUIT AND VEGETABLES (%)

Chart 6



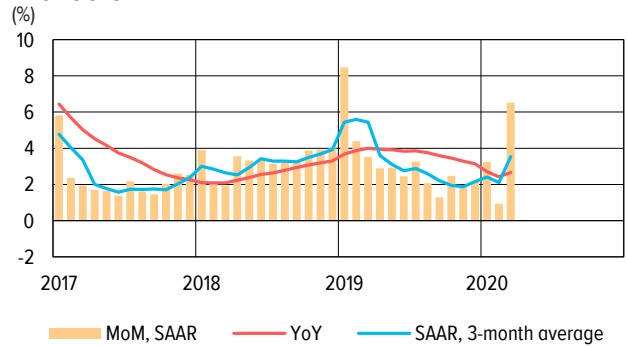
NON-FOOD GOODS (%)

Chart 3



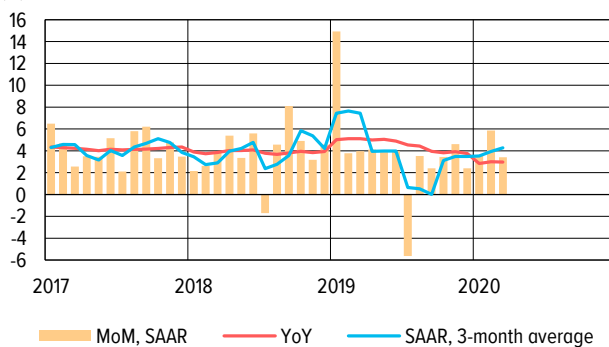
NON-FOOD GOODS EXCLUDING PETROLEUM PRODUCTS (%)

Chart 7



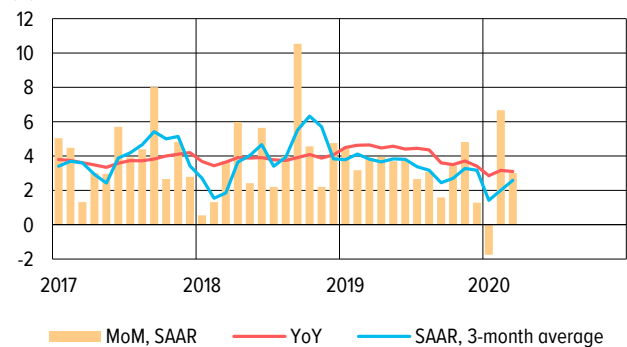
SERVICES (%)

Chart 4



SERVICES EXCLUDING UTILITIES (%)

Chart 8



Data cut-off date – 08.04.2020.

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 was prepared by the Monetary Policy Department.

Cover photo: S. Glazunov, Bank of Russia

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