



Bank of Russia

The Central Bank of the Russian Federation



No. 9–10

SEPTEMBER-OCTOBER 2018

Information
and analytical
materials

**CONSUMER
PRICE
DYNAMICS**

Moscow

Consumer price dynamics: facts, assessments and comments (August-September 2018)

Annual inflation rose from 3.1% in August to 3.4% in September 2018, which is broadly in line with the path of the Bank of Russia's baseline forecast. Acceleration in annual price growth was mainly supported by the increase in food inflation associated with the normalisation of demand-supply trade-off across several markets and the ruble's weakening. Exchange rate dynamics, together with other factors, led to a slight increase in annual growth of non-food good and service prices. At end-2018, annual inflation is expected to reach 3.8–4.2%. The Bank of Russia forecasts an increase in annual price growth to 5–5.5% in 2019, which will be in part due to the planned VAT rise at the beginning of next year. Annual inflation will return to 4% in the first half of 2020.

Table 1

Consumer price dynamics (%)

	Sep-16	Sep-17	Jul-18	Aug-18	Sep-18
Inflation					
– month on corresponding month of previous year	6.4	3.0	2.5	3.1	3.4
– month on month/seasonally adjusted	0.2/0.4	-0.2/0.1	0.3/0.2	0.0/0.5	0.2/0.4
Price growth on corresponding month of previous year					
– food products	5.9	2.0	0.5	1.9	2.5
– non-food goods	7.5	3.1	3.8	3.8	4.0
– services	5.6	4.2	3.8	3.7	3.8
Price growth month on month/seasonally adjusted					
– food products	-0.1/0.5	-0.7/-0.1	-0.3/0.3	-0.4/0.9	-0.1/0.5
including: fruit and vegetables	-5.4/0.9	-6.9/-0.6	-5.1/-0.2	-6.4/5.1	-6.8/-0.5
– non-food goods	0.6/0.4	0.3/0.1	0.1/0.2	0.2/0.2	0.4/0.3
– services	0.1/0.3	0.1/0.3	1.3/0.0	0.3/0.4	0.2/0.4
Core inflation, month on corresponding month of previous year	6.7	2.8	2.4	2.6	2.8
Average annual inflation	9.2	4.5	2.5	2.5	2.5

Sources: Rosstat, Bank of Russia calculations.

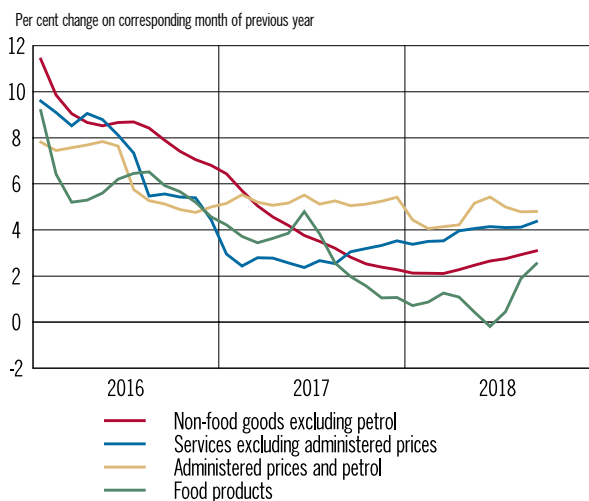
In August-September 2018, annual inflation continued its steady upward movement. **In September 2018, the annual price growth rate stood at 3.4% after 3.1% in August. These dynamics are broadly in line with the Bank of Russia's baseline scenario** that was published in the September Monetary Policy Report and assumed an increase in inflation to 3.8–4.2% by late 2018¹. **Change in food prices made a main contribution to the rise in inflation** (Charts 1, 2). **Nonetheless, their annual growth rate is still relatively subdued: 1.9% in August and 2.5% in September. Annual inflation in the non-food**

good and service markets has also grown slightly.

The acceleration in food price growth (by 0.9% MoM in August and by 0.5% MoM in September, seasonally adjusted) is also linked to a number of factors. First, **the rebalancing of demand and supply continues across individual markets, mainly in the meat product market:** growth in the production of meat is dropping after a considerable increase registered in the past years, given the saturation of demand. Second, **rising costs produce an upward pressure on livestock production prices,** which is associated with the observed ruble depreciation and fodder grain

¹ Monetary Policy Report, No. 3 (23), September 2018.

Chart 1
Change in food prices made the main contribution to the increase in inflation



Sources: Rosstat, Bank of Russia calculations.

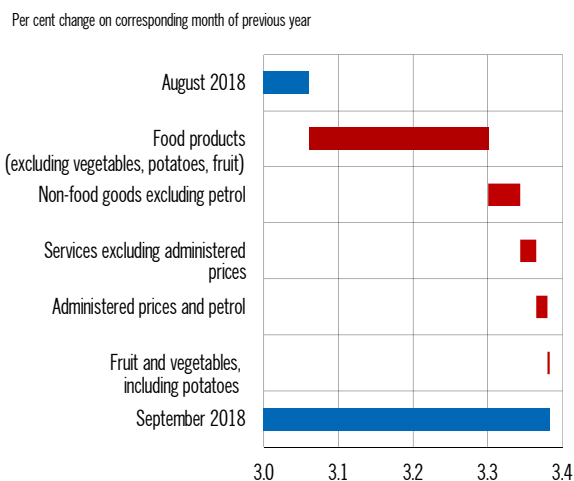
price growth². Besides, the unfavourable epizootic situation in several Russian regions fed through to pork and poultry prices.

Third, **growth in annual food inflation is conditioned on fruit and vegetable price dynamics**. In August-September, annual price growth rates for this group of goods moved out of negative territory, where they had stayed for several months, and stood at 3.3–3.4%. They are expected to rise further till the end of this year, in part due to the base effect. Fruit and vegetable price dynamics will be moderated by further growth in the supply of greenhouse vegetables.

No considerable changes have been registered in the cereal and cereal product market. Growth of domestic and global cereal prices remains moderate. Harvest volumes staying at their five-year average and high cereal stocks cover both domestic consumption and relatively high exports (amid poor harvest in Europe, persistently elevated global exchange prices and exchange rate dynamics). In the context of the high saturation of the domestic cereal market, **both annual and monthly growth of consumer prices on cereal-based products remain low**, given in part their relatively low sensitivity to producer price movements.

² Rising costs were most meaningful for meat processors operating without own raw materials, given the ban introduced earlier on the imports of meat and meat products from Brazil (from December 2017).

Chart 2
Contribution of components to change in annual inflation in September 2018



Sources: Rosstat, Bank of Russia calculations.

The ruble's weakening that has occurred this year exerts a marked effect on the prices of both food products and non-food goods and services. Specifically, August and September saw an increase in the annual price growth rates of medical goods, furniture, electrics, home appliances and outbound travel services. Besides, demand growth exerted an upward pressure on non-food prices, which translated into a noticeable increase in retail sales of these goods in August. This is broadly linked to persistently elevated inflation expectations amid the ruble's weakening. According to surveys, respondents tend to mention increasingly often exchange rate dynamics as the cause of potential price growth³.

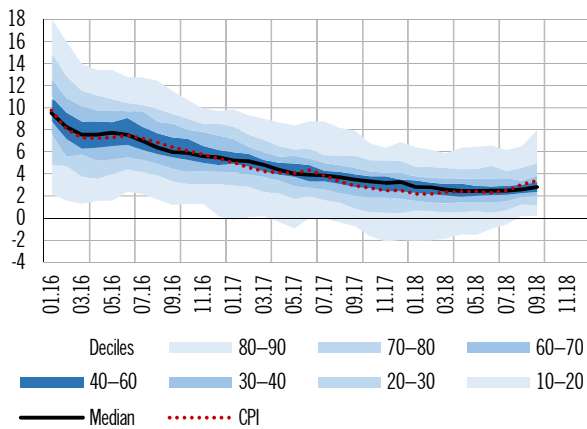
In September, an additional contribution to the increase in the prices of non-food goods and services was in part made by local factors. For example, an increase was registered in the annual growth of higher education prices. This is explained by the more significant, compared to the previous year, financing of education provided as part of government programmes for human capital development, which eventually makes paid-for university education more expensive.

A broad range of indicators reflect the trend of annual inflation's steady return to 4%. Indicators characterising the most stable part of price dynamics are mainly rising. Annual core inflation, as well as median values of price growth

³ 'Inflation Expectations and Household Consumer Sentiment', No. 9 (21), September 2018.

Chart 3
Median values of price growth distributions rose

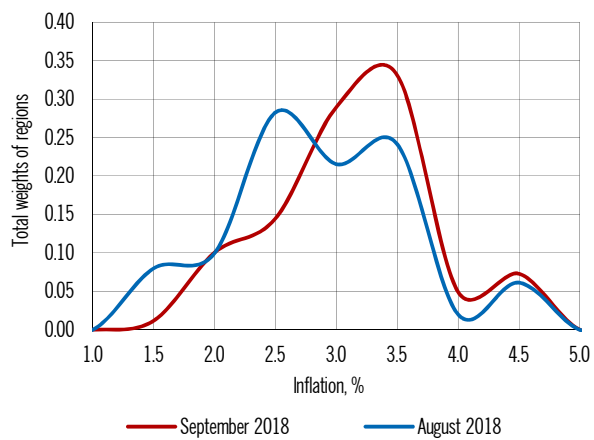
Per cent change on corresponding period of previous year



Sources: Rosstat, Bank of Russia calculations.

Chart 4
Inflation became more uniform across regions

Per cent change on corresponding period of previous year



Sources: Rosstat, Bank of Russia calculations.

Increase in inflation was registered across all federal districts

Table 2

Inflation, per cent change on corresponding period of previous year	Russia	Central FD	North-Western FD	Southern FD	North Caucasus FD	Volga FD	Urals FD	Siberian FD	Far Eastern FD
August 2018	3.06	3.67	2.97	2.75	3.03	2.81	2.31	2.81	2.63
September 2018	3.38	3.90	3.18	3.32	3.27	3.12	2.60	3.11	3.39
District's contribution to CPI, September	3.38	1.32	0.32	0.35	0.18	0.53	0.22	0.30	0.17

Sources: Rosstat, Bank of Russia calculations.

distributions rose to 2.8% in September (Chart 3). **The increase in annual inflation was observed in the majority of Russian regions**, price growth rates across federal districts ranged from 2.6% to 3.9% in September (Table 2). Price growth rates have been converging across regions since June 2018 (Chart 4) and the number of regions with relatively low inflation has been falling.

By the end of the year, consumer price growth is forecast to reach 3.8–4.2% mainly on the back of the ruble's weakening and the

situation in the food markets. An upward pressure on prices may also come from household and business inflation expectations, given that the most perceptible increase in business price expectations is observed in retail trade⁴. In early 2019, inflation will experience a one-time hike due to the planned VAT rise. This effect will remain till the beginning of 2020.

The Bank of Russia forecasts annual inflation to be 5–5.5% in 2019 and return to 4% in 2020.

⁴ Monitoring of enterprises by the Bank of Russia.

Cut-off date – 16 October 2018.

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.