



Bank of Russia



CONSUMER PRICE DYNAMICS

No. 10 (46) • October 2019

Information and analytical commentary

14 November 2019

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

In October 2019, annual inflation continued to slow down and came in at 3.8%. Food prices (seasonally adjusted) remained the same as in September. Prices for non-food goods and services stayed at the levels recorded in the previous months of the year. As before, disinflationary factors dominate. In view of the current price dynamics, by the end of 2019 inflation will probably come close to the lower bound of the range forecast by the Bank of Russia (3.2–3.7%). In early 2020, after the impact of the VAT rate increase in 2019 is factored out from the calculation, annual inflation may temporarily drop below 3%. Given the influence of the earlier decisions on the key rate cut, the Bank of Russia forecasts that inflation will range from 3.5% to 4.0% by the end of 2020 and will stay close to 4% going forward.

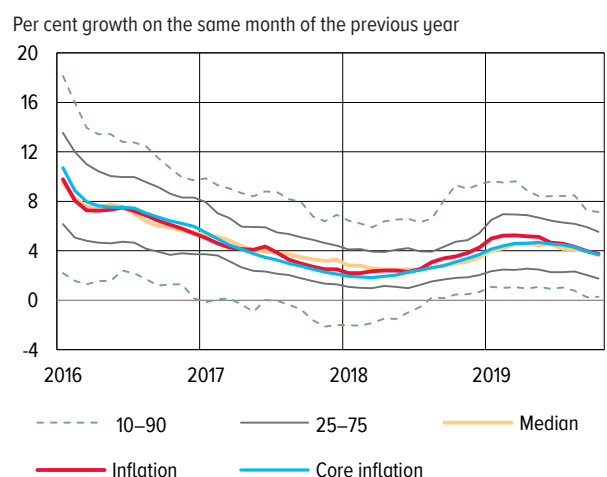
In October 2019, consumer prices increased by 0.1%. Annual inflation slowed down to 3.8% (-0.2 pp as compared to September, Chart 1). The indicators showing stable price trends also dropped. Core inflation and the median value of consumer price growth equalled 3.7% and 3.6% respectively (-0.3 pp for both indicators). Annual growth of prices for all core consumer basket components decelerated (Annex 1), most significantly for food products (by 0.4 pp to 4.2%).

The monthly (seasonally adjusted) growth rate of consumer prices, as well as of consumer prices excluding the main volatile and regulated components (fruit and vegetables, petroleum products and utility services), is assessed at 0.2% in October, which corresponds to the readings recorded in the previous two months (see Annex 2). Moreover, the monthly growth rate of food prices dropped almost to zero (0.3% on average over 2019 Q3), while that of service prices, on the contrary, increased to 0.3% (close to zero in 2019 Q3 due to the partial transfer of the indexation of administered tariffs to January because of the VAT rate hike). Seasonally adjusted growth of non-food prices equalled 0.2%, staying close to the average observed since this February.¹

Disinflationary factors continue to prevail. Thus, higher supply in some food market segments, as before, have a rather considerable

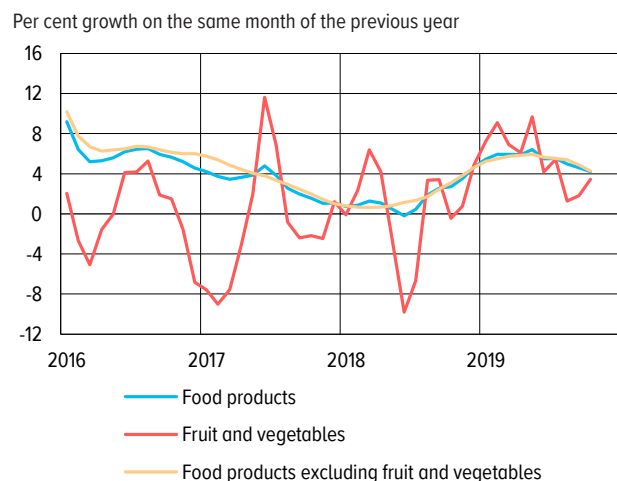
¹ Refer also to the charts showing the current dynamics of prices for individual goods and service groups in 2019 as compared to 2016–2018 (not seasonally adjusted): information bulletin 'Consumer Price Indices' (hereinafter the Bulletin).

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



Sources: Rosstat, Bank of Russia calculations.

FOOD PRICES Chart 2



Source: Rosstat.

impact on price dynamics. The ruble appreciation and inflation slowdown in countries that are Russia's trade partners also remain major contributors. In addition, the deceleration of annual inflation is also driven by a lower than expected growth rate of consumer demand and the exhaustion of the base effect with time.

Food products

In October 2019, annual inflation was 4.2% (-0.4 pp, Chart 2). The growth rate of prices for food products, except fruit and vegetables, dropped even more (-0.6 pp to 4.3%).

As assessed, seasonally adjusted food prices generally remained unchanged in October, while fruit and vegetables became cheaper (-0.1%).

Food inflation decreased primarily because growth of meat, poultry and egg prices continued to decline and sugar prices also dropped as before, amid higher supply (Chart 3).

Growth of prices for grain products is slowing down because of a good harvest (Chart 4). The annual indices of prices for bread, bakery products, pasta, a range of cereals and legumes also dropped. A significant exception was a rise in buckwheat prices due to a reduced harvest of this crop.

The annual growth rate of prices for milk and many dairy products slowed for the first time since July 2018, which suggests that the pass-through of production costs to consumer prices had ended (Chart 5). In contrast, annual growth of cheese and dairy butter prices continued to speed up.

The annual growth rate of prices in catering, which is the least volatile sub-index in the food group, dropped to 3.3% (-0.4 pp), returning to its average observed since this January.

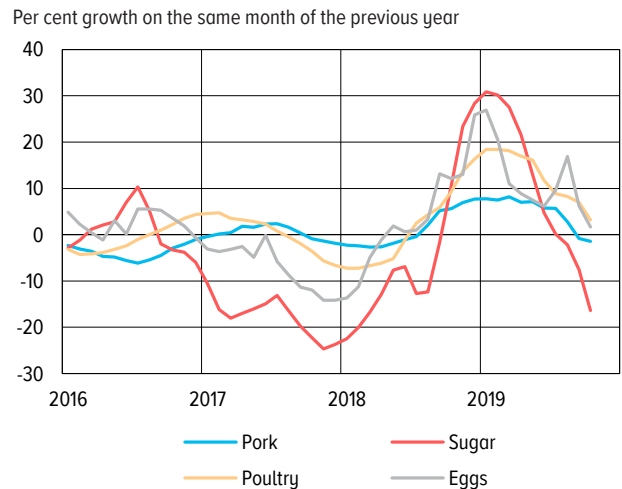
Non-food goods

In October 2019, annual growth of non-food prices continued to slow down (Chart 6). The growth rate of prices for non-food goods, excluding petroleum products, equalled 3.5% (-0.1 pp). The monthly (seasonally adjusted) growth rate of non-food prices is assessed at 0.2%, which corresponds to the average monthly increase over the previous eight months.²

² For monthly dynamics, refer to Charts 17 – 25 in the Bulletin.

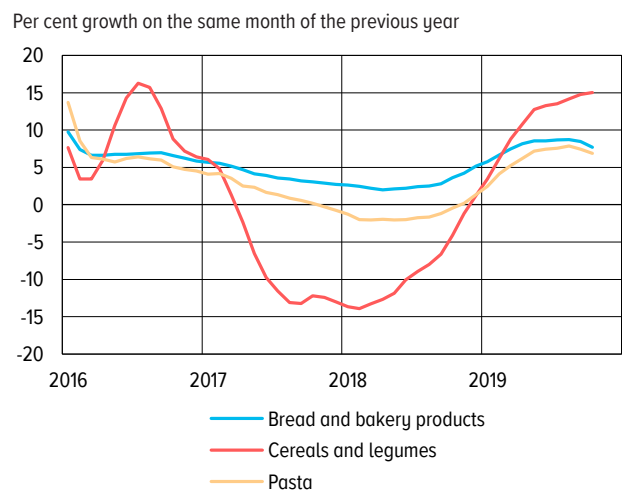
MEAT, SUGAR AND EGG PRICES

Chart 3



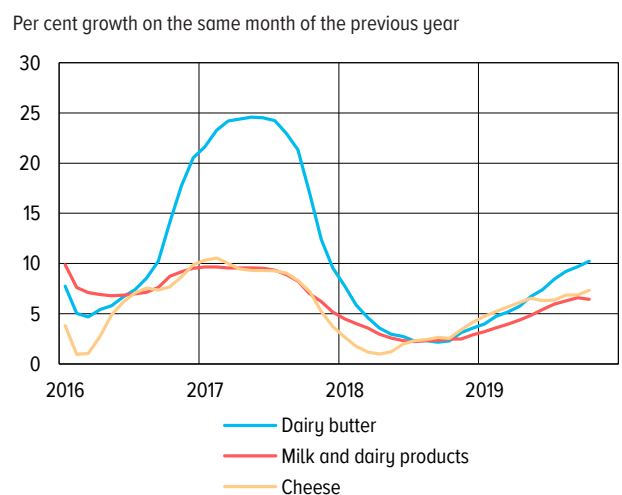
PRICES FOR GRAIN PRODUCTS

Chart 4



PRICES FOR MILK, DAIRY PRODUCTS, DAIRY BUTTER AND CHEESE

Chart 5



Growth of prices in such categories as household appliances, furniture and cars continued to decline, which became the major contributor to the slowdown of growth of non-food prices (Chart 7). This was caused by a slower-than-forecast rise in consumer demand and a high basis for the last-year calculation, which formed driven by expectations for a VAT rate increase, among other factors.

Annual growth of motor fuel prices equalled 1.6% (-0.3 pp). Motor fuel prices stabilised in Q3 owing to the effect of the damping mechanism that was smoothing out the impact of global oil price movements.

Services

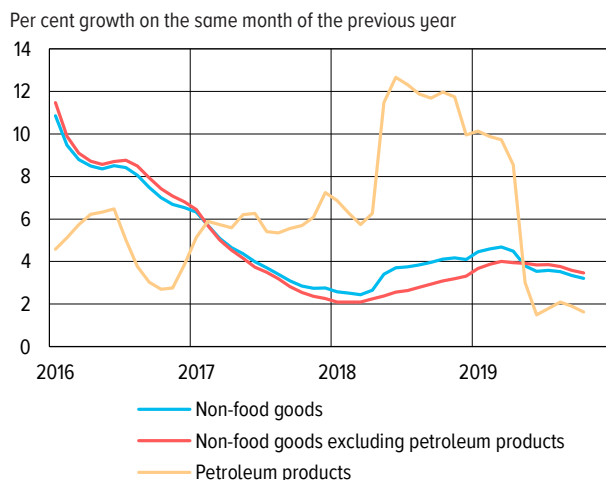
Annual growth of service prices slowed to 3.8% in October (-0.2 pp, Chart 8). Seasonally adjusted service prices increased by 0.3% during the month. This is in line with the trend observed since February 2019 (except July when price growth was driven by the partial transfer of the indexation of utility rates to January, as well as September).

The deceleration of the annual growth rate of service prices in October was largely caused by a drop in the growth rate of prices for housing services, primarily of overhaul contributions. To a great extent, this was associated with the base effect: the overhaul contribution rates reduced by 0.6% in October 2019, while last year they were up by 1.3% (primarily as a result of a substantial rise (by 38%) in the Rostov Region). Overall, annual growth of utility rates slowed down to 4.4% (-0.2 pp).

Annual growth of prices for services, excluding utilities, equalled 3.5% (-0.1 pp). The growth rate of prices for personal services (which is the least volatile component) came in at 3.2% (-0.1 pp), remaining in the narrow range of 3.1–3.4% since the beginning of this year. Growth of prices for healthcare services (another stable component) decelerated to 3.8%, reaching its lowest level over the period of observations (-0.1 pp). Another major contributor was a decrease in interest rates (in value terms) on consumer loans as a direct effect of the monetary easing in the economy.

NON-FOOD PRICES

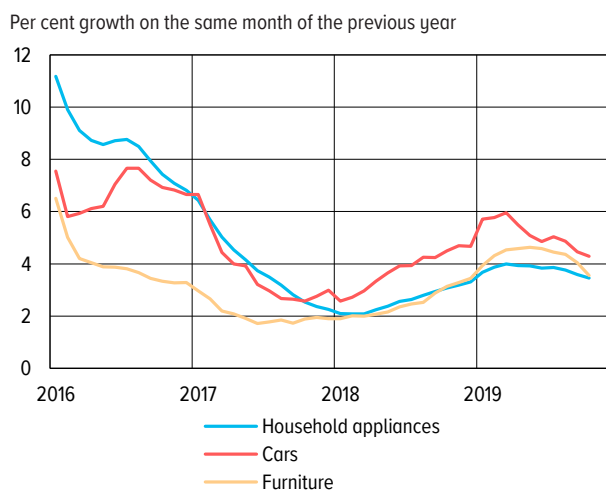
Chart 6



Sources: Rosstat, Bank of Russia calculations.

PRICES FOR DURABLE GOODS

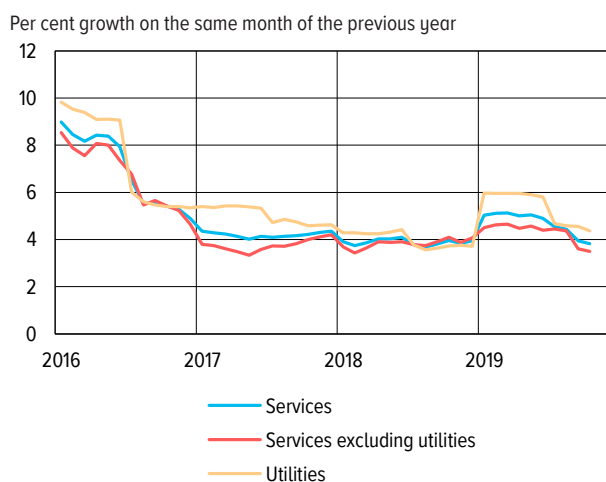
Chart 7



Sources: Rosstat, Bank of Russia calculations.

SERVICE PRICES

Chart 8



Sources: Rosstat, Bank of Russia calculations.

Inflation in Russian regions

Annual inflation in most regions slowed down in October 2019 as compared to the previous month (71 regions accounting for approximately 91% in the CPI; Tables 1 and 2). Growth of prices for the core consumer basket components (food products, non-food goods, services) decelerated.

The impact of local factors on countrywide inflation has been decreasing in 2019. However, they continued to considerably influence price movements in some regions, e.g. the North Caucasian Federal District. Thus, annual inflation in this region rose primarily because of dynamics of prices for passenger transportation services and individual food products.

Inflation decelerated most noticeably in the southern regions of the European part of Russia and in remote regions. As to the latter, the slowdown there was driven by local factors in the market segments of tourism services and certain food products.

The distribution of regional inflation in October changed against that in September (Chart 9). The group of regions where price growth rates were considerably below or above Russian averages recorded a faster drop in inflation. As compared to the previous period, the regional heterogeneity of inflation reduced and remains below the 2018 level. As before, the regional heterogeneity is most significant in service price dynamics (in October, growth of service prices sped up in 33 of 82 regions and slowed in all others).

Inflation forecast

In view of the current price dynamics, by the end of 2019 inflation will probably come close to the lower bound of the range forecast by the Bank of Russia (3.2–3.7%). In early 2020, after the impact of the VAT rate increase at the beginning of 2019 is factored out from the calculation, annual inflation may temporarily drop below 3%. Given the influence of the earlier decisions on the key rate cut, the Bank of Russia forecasts that inflation will range from 3.5% to 4.0% by the end of 2020 and will stay close to 4% going forward.

INFLATION IN THE FEDERAL DISTRICTS

Table 1

Per cent growth on the same month of the previous year

	September 2019	October 2019	Price dynamics. October vs September 2019
Russia	4.0	3.8	-0.2
Central FD	4.1	3.8	-0.3
North-Western FD	3.9	3.7	-0.2
Southern FD	4.0	3.6	-0.4
North Caucasian FD	3.8	4.0	0.2
Volga FD	3.7	3.5	-0.2
Urals FD	3.7	3.5	-0.2
Siberian FD	4.5	4.3	-0.2
Far Eastern FD	4.3	4.0	-0.3

Sources: Rosstat, Bank of Russia calculations.

INFLATION ACROSS REGIONS

Table 2

Per cent growth on the same month of the previous year

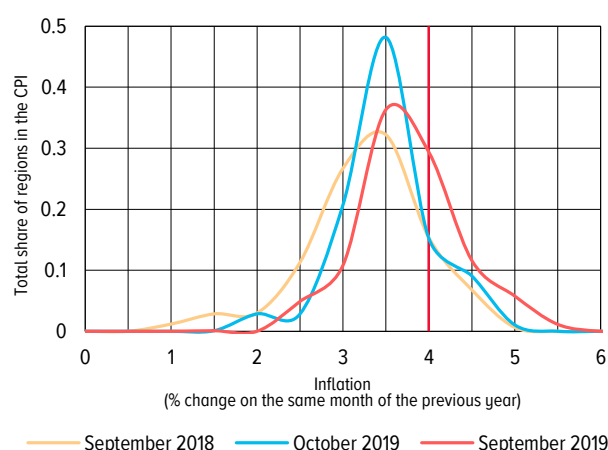
No.*		October 2018	September 2019	October 2019
TOP-5 regions with highest inflation in October 2019				
1 (2)	Jewish Autonomous Region	3.7	5.5	5.3
2 (4)	Tambov Region	3.5	5.3	5.2
3 (7)	Amur Region	3.4	5.2	5.0
4 (17)	Kabardino-Balkar Republic	2.2	4.7	4.9
5 (1)	Republic of Buryatia	3.8	5.6	4.9
TOP-5 regions with lowest inflation in October 2019				
78 (78)	Republic of North Ossetia–Alania	2.3	3.0	2.7
79 (35)	Magadan Region	3.5	4.1	2.6
80 (77)	Tula Region	4.2	3.0	2.5
81 (81)	Tyumen Region	2.1	2.6	2.5
82 (82)	Altai Republic	3.1	1.7	1.6

* Values in brackets indicate the regions' positions in September 2019.

Sources: Rosstat, Bank of Russia calculations.

CHANGES IN THE REGIONAL DISTRIBUTION OF INFLATION

Chart 9



Sources: Rosstat, Bank of Russia calculations.

Annex 1

CONSUMER PRICE DYNAMICS

(%)

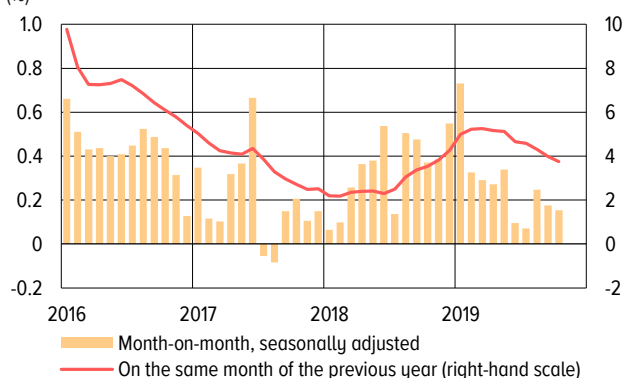
	10.18	11.18	12.18	01.19	02.19	03.19	04.19	05.19	06.19	07.19	08.19	09.19	10.19
Price growth rates on the same month of the previous year													
– all goods and services	3.5	3.8	4.3	5.0	5.2	5.3	5.2	5.1	4.7	4.6	4.3	4.0	3.8
– food products	2.7	3.5	4.7	5.5	5.9	5.9	5.9	6.4	5.5	5.5	5.0	4.6	4.2
of which: fruit and vegetables	-0.5	0.8	4.9	7.3	9.1	6.9	6.1	9.7	4.2	5.4	1.3	1.8	3.4
– non-food goods	4.1	4.2	4.1	4.5	4.6	4.7	4.5	3.8	3.5	3.6	3.5	3.4	3.2
– services	4.0	3.8	3.9	5.0	5.1	5.1	5.0	5.1	4.9	4.5	4.4	4.0	3.8
Core inflation, on the same month of the previous year	3.1	3.4	3.7	4.1	4.4	4.6	4.6	4.7	4.6	4.5	4.3	4.0	3.7
Median of price growth distribution, on the same month of the previous year	3.0	3.1	3.5	4.0	4.2	4.5	4.6	4.5	4.5	4.2	4.1	3.9	3.6
Average annual inflation	2.6	2.7	2.9	3.1	3.3	3.6	3.8	4.0	4.2	4.4	4.5	4.6	4.6
Price growth on the previous month:													
– all goods and services	0.4	0.5	0.8	1.0	0.4	0.3	0.3	0.3	0.0	0.2	-0.2	-0.2	0.1
– food products	0.6	1.0	1.7	1.3	0.8	0.5	0.4	0.4	-0.5	-0.3	-0.9	-0.4	0.2
of which: fruit and vegetables	-1.1	3.4	8.9	6.3	4.9	2.1	1.8	2.0	-4.5	-3.9	-10.1	-6.3	0.4
– non-food goods	0.5	0.4	0.2	0.6	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.3
– services	-0.1	0.0	0.4	1.1	0.2	0.1	0.2	0.4	0.6	0.9	0.2	-0.2	-0.2
Seasonally adjusted price growth on the previous month:													
– all goods and services	0.4	0.4	0.5	0.7	0.3	0.3	0.3	0.3	0.1	0.1	0.2	0.2	0.2
– food products	0.4	0.6	0.9	0.5	0.4	0.3	0.3	0.4	-0.2	0.3	0.3	0.2	0.0
of which: fruit and vegetables	-1.7	0.5	3.5	0.1	1.3	0.2	0.4	-0.1	-3.8	0.7	0.8	0.1	-0.1
– non-food goods	0.3	0.3	0.3	0.7	0.3	0.2	0.2	0.2	0.3	0.3	0.2	0.1	0.2
– services	0.4	0.3	0.4	1.1	0.3	0.3	0.3	0.3	0.3	-0.5	0.3	0.2	0.3
Price growth on December 2018:													
– all goods and services	2.9	3.4	4.3	1.0	1.5	1.8	2.1	2.4	2.5	2.7	2.4	2.3	2.4
– food products	1.9	2.9	4.7	1.3	2.1	2.6	3.1	3.5	3.0	2.7	1.7	1.3	1.5
of which: fruit and vegetables	-6.9	-3.7	4.9	6.3	11.5	13.9	16.0	18.3	13.0	8.5	-2.4	-8.6	-8.2
– non-food goods	3.5	3.9	4.1	0.6	0.9	1.2	1.3	1.6	1.7	1.9	2.1	2.3	2.6
– services	3.5	3.5	3.9	1.1	1.3	1.5	1.7	2.1	2.7	3.6	3.8	3.6	3.4

Sources: Rosstat, Bank of Russia calculations.

Annex 2

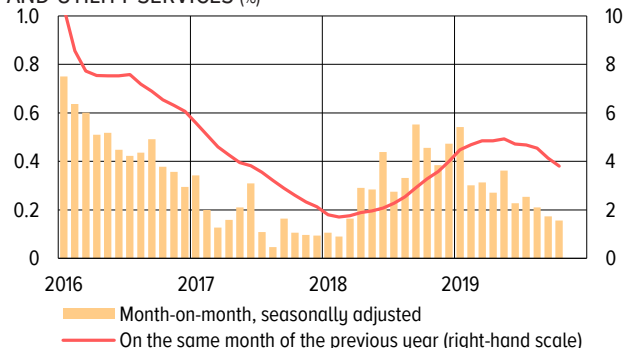
ALL GOODS AND SERVICES (%)

Chart 1



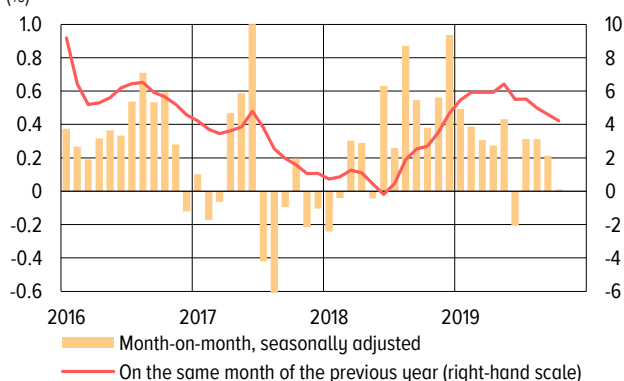
ALL GOODS AND SERVICES EXCLUDING FRUIT AND VEGETABLES, PETROLEUM PRODUCTS AND UTILITY SERVICES (%)

Chart 5



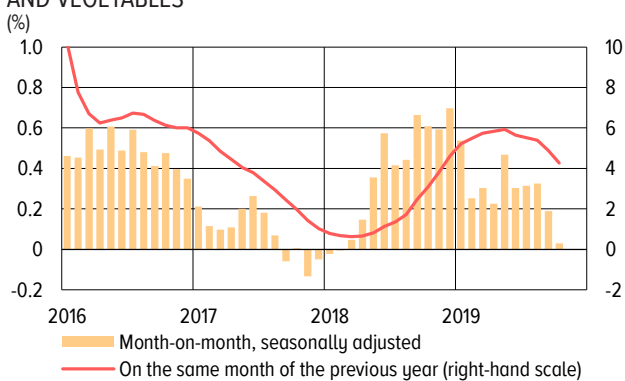
FOOD PRODUCTS (%)

Chart 2



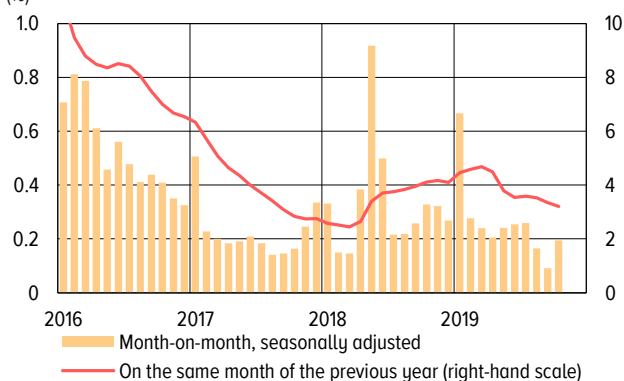
FOOD PRODUCTS EXCLUDING FRUIT AND VEGETABLES (%)

Chart 6



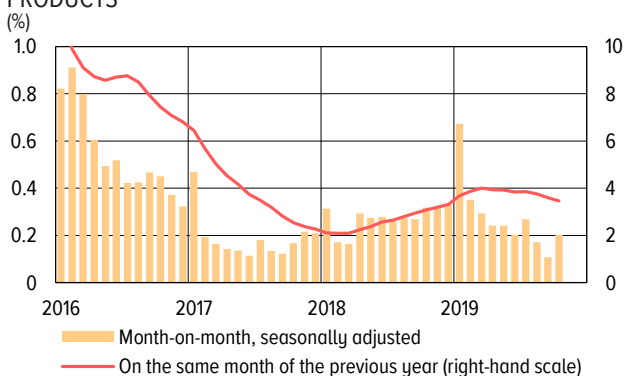
NON-FOOD GOODS (%)

Chart 3



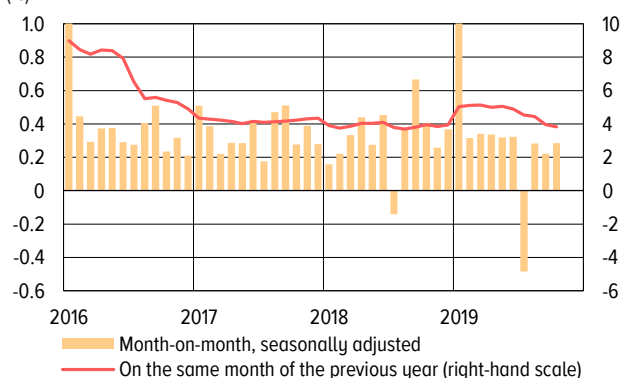
NON-FOOD GOODS EXCLUDING PETROLEUM PRODUCTS (%)

Chart 7



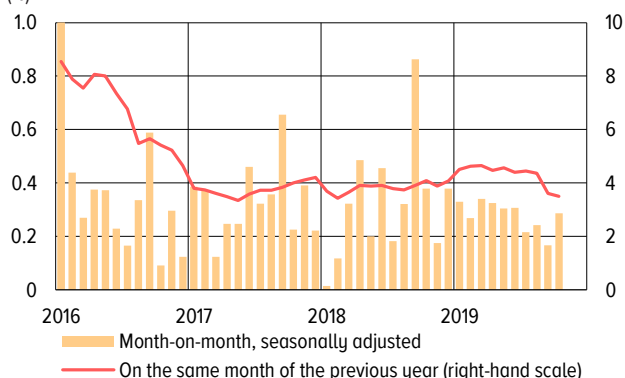
SERVICES (%)

Chart 4



SERVICES EXCLUDING UTILITIES (%)

Chart 8



Sources: Rosstat, Bank of Russia calculations.

Data cut-off date – 11.11.2019.

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 was prepared by the Monetary Policy Department.

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