



Bank of Russia



CONSUMER PRICE DYNAMICS

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Information and analytical commentary

14 October 2019

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

In September 2019, consumer prices decreased by 0.2% on average. Annual inflation slowed down by 0.3 pp to 4.0%. This is considerably below the Bank of Russia's forecast. Price dynamics were largely impacted by a combination of restraining factors, including limited demand, advanced growth of supply of some food products, effects of the ruble appreciation, and inflation slowdown in countries that are Russia's trade partners. Both monthly (seasonally adjusted) and annual growth rates of prices for the main goods and service groups reduced in September. Amid the current price dynamics, the Bank of Russia Board of Directors may lower the 2019 inflation forecast at its next key rate meeting.

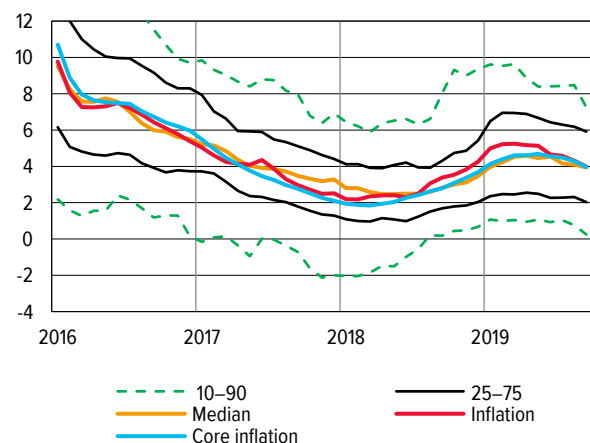
In September 2019, consumer prices decreased by 0.2% on average. Annual inflation slowed down by 0.3 pp to 4.0%, and annual price growth rates were down in all main goods and service groups (Chart 1, Annex 1). Price dynamics were below the Bank of Russia's expectations, which reflected the dominant influence of a range of disinflationary factors, while proinflationary risks did not materialise. In particular, moderate demand had a more significant impact on prices. Its dynamics are adversely affected by the persisting lag in financing budget expenditure, including the costs of national projects, as well as weak external demand. The strengthening of the ruble continued to influence prices, and supply factors restrained inflation in individual segments of the food market. A slowdown of inflation in countries that are Russia's trade partners limited growth of prices for imports.

According to the estimate, seasonally adjusted (SA) monthly growth of consumer prices equalled 0.2% in September (0.1 pp below the August reading) (Annex 2). Monthly (SA) growth of goods and service prices, excluding the main volatile and regulated components (fruit and vegetables, petroleum products and utility services), remained the same as in August – 0.2%, which is the lowest level since April 2018.¹

The indicators characterising stable price trends dropped. Annual core inflation came

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

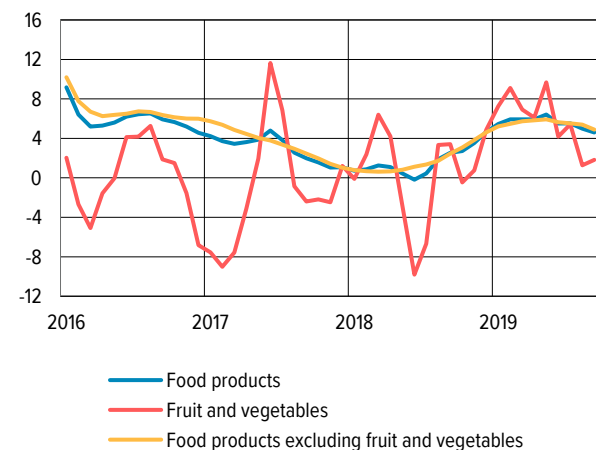
Per cent growth on the same month of the previous year



Sources: Rosstat, Bank of Russia calculations.

FOOD PRICES Chart 2

Per cent growth on the same month of the previous year



Source: Rosstat.

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'. www.cbr.ru/Collection/Collection/File/23937/Infl_2019-09.pdf.

in at 4.0% (0.3 pp lower than in August), and the median value of consumer price growth equalled 3.9% (-0.2 pp). The proportion of goods and services demonstrating the highest price growth rates considerably shrank: the top decile of the distribution of annual price growth reduced.

Food products

In September 2019, food inflation was below expectations. Monthly (SA) food price growth slowed down to 0.2% (-0.1 pp). As seasonality had shifted to the earlier months, the dynamics of fruit and vegetable prices were below expectations: prices rose by 0.1%, which is significantly below the July–August readings (largely due to the dynamics of tomato prices). Monthly (SA) growth of prices for food products, other than fruit and vegetables, is also estimated at 0.2%, which is lower than in the previous five months.

Annualised food inflation decreased in August by 0.4 pp to 4.6% (Chart 2). The annual growth rate of fruit and vegetable prices rose to 1.8% after its drop in August. Annual growth of prices for food products, other than fruit and vegetables, continued its slowdown observed since June and came in at 4.9% (which is 0.5 pp lower than in August).

The decrease in food inflation was largely driven by the dynamics of sugar, meat and poultry prices (Chart 3) that formed in the context of a greater-than-expected growth of supply versus demand. Another contributor was a lower growth of prices for eggs: its rate returned to the June level.

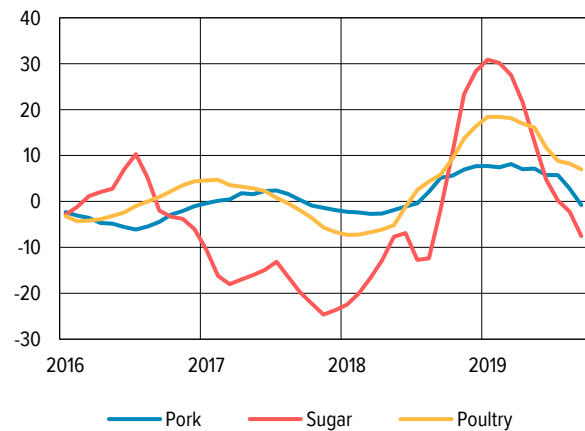
The annual indices of prices for bread, baked good and pasta dropped for the first time since April–May 2018, reflecting the effects of the downward trend in the grain price. Yet, annual growth of prices for cereals and legumes continued to speed up against the backdrop of expectations for a decline in the harvest of some cereals (Chart 4).

The upward trend of the annual growth rate of prices for milk and dairy products (including dairy butter) (Chart 5) persisted, primarily due to the pressure of costs supported by higher world prices for milk powder and reduced supplies of raw products from Belarus.

PRICES FOR MEAT PRODUCTS AND SUGAR

Chart 3

Per cent growth on the same month of the previous year

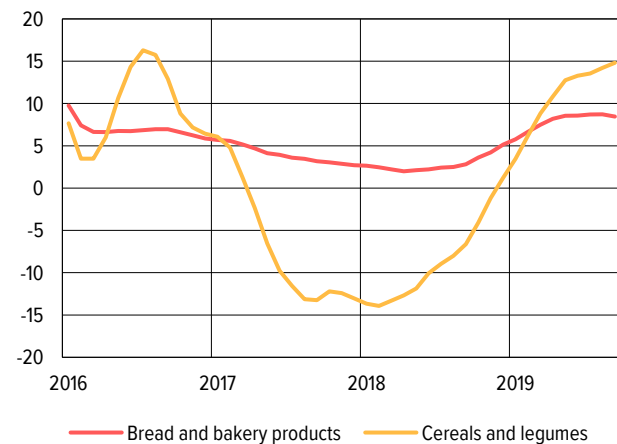


Source: Rosstat.

PRICES FOR GRAIN PRODUCTS

Chart 4

Per cent growth on the same month of the previous year



Source: Rosstat.

Non-food goods

In September 2019, monthly (SA) growth of non-food prices was 0.1%, which is the lowest reading since March 2018. Growth of prices for a wide range of non-food goods slowed down, which may suggest an intensification of demand constraints amid the continuing influence of the ruble appreciation.²

Driven by a slower rise in prices for the main groups of non-food goods, the annual growth rate of non-food prices continued to go down to equal 3.4% (Chart 6). The reduction in the growth rate of car prices was the most significant contributor.

Services

According to the estimate, seasonally adjusted service prices and rates increased by 0.2%, which is 0.1 pp lower than in the previous three months. As estimated, this was largely driven by a decrease in transport service prices (SA).

The annual rise in service prices slowed down by 0.4 pp to 4.0% against the backdrop of decelerating annual growth of prices for various types of commercial services, which was affected, among other factors, by weak demand (Chart 7). The major contributor was a slower rise in air fares. This trend was observed despite the fact that the industry needs to reduce losses – they had been increasing since last year (among other things due to higher fuel costs).

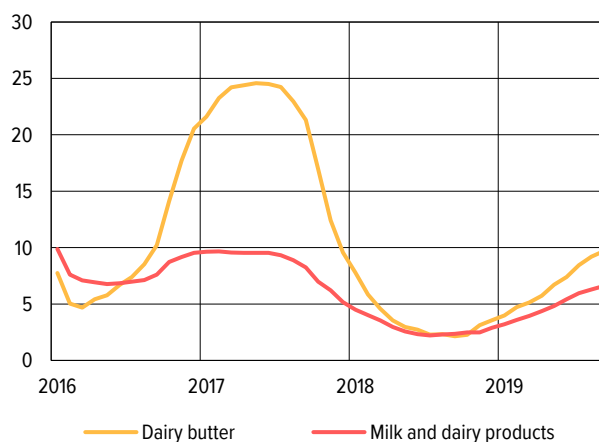
At the beginning of the new academic year, prices for higher education services increased to a lesser extent than in 2018. This was associated with, among other factors, the parameters of changes in financing ratios for students' education established by Russia's Ministry of Education and Science. It should be noted that this effect may be considered mostly exhausted this year.

As in August, utility services were 4.6% more expensive than in the previous year.

PRICES FOR MILK, DAIRY PRODUCTS,
AND DAIRY BUTTER

Chart 5

Per cent growth on the same month of the previous year

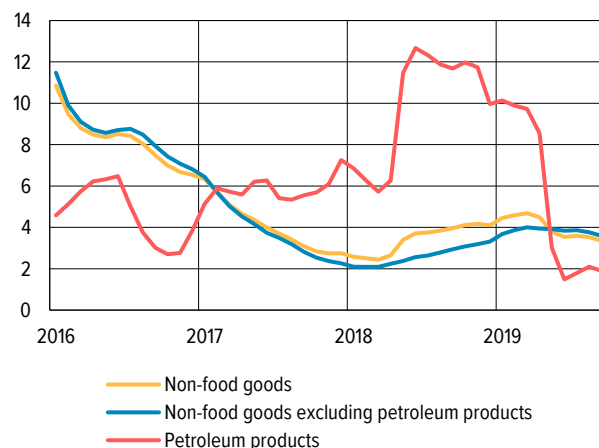


Source: Rosstat.

NON-FOOD PRICES

Chart 6

Per cent growth on the same month of the previous year

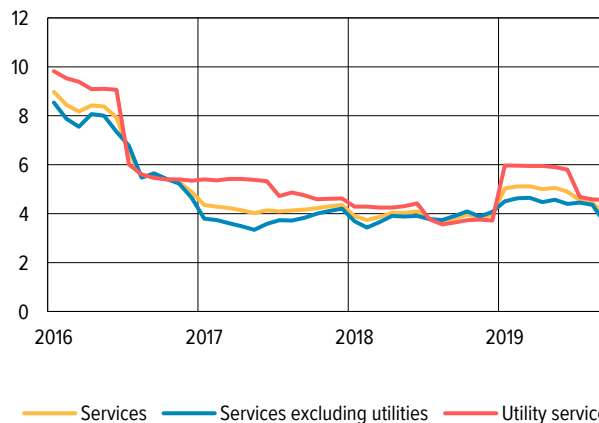


Sources: Rosstat, Bank of Russia calculations.

SERVICE PRICES

Chart 7

Per cent growth on the same month of the previous year



Sources: Rosstat, Bank of Russia calculations.

² Refer also to the information bulletin 'Consumer Price Indices', Charts 17–25. www.cbr.ru/Collection/Collection/File/23937/Infl_2019-09.pdf.

Inflation in Russian regions

Annual inflation in the vast majority of regions slowed down in September 2019 as compared to the previous month (77 regions accounting for approximately 97% in the CPI, Table 1). Growth of prices for the core consumer basket components (food products, non-food goods, services) decelerated. It is worth emphasising that the influence of countrywide factors, such as demand constraints, on price dynamics continued to get more significant. In contrast, the impact of local factors on countrywide inflation has been decreasing: in 2019, the aggregate annual price growth rate, exclusive of regions with the most volatile inflation, is almost the same as countrywide annual inflation.

In September, the most considerable slowdown was recorded in the southern regions of the European part of Russia (the dynamics of public transport and food prices were the major contributor) and in remote regions, which was caused by local factors in the tourism market. In the Urals Federal District, inflation decreased only slightly, primarily owing to lower growth rates of food and service prices as compared to the countrywide readings.

The distribution of regional inflation in September changed against August (Chart 8). In contrast to the previous periods, the group of regions with low price growth rates demonstrated a less notable inflation deceleration in September. As compared to the previous period, the regional heterogeneity of inflation slightly increased, but it remains at a lower level than in 2018. As before, the regional heterogeneity is most significant in service prices (growth of service prices sped up in 22 of 82 regions and slowed in all others).

Inflation forecast

Given the current price dynamics, the Bank of Russia Board of Directors may revise the 2019 inflation forecast downwards at its next meeting.

INFLATION IN THE FEDERAL DISTRICTS

Table 1

Per cent growth on the same month of the previous year

| | August 2019 | September 2019 | Price dynamics, September vs August 2019 |
|--------------------|-------------|----------------|--|
| Russia | 4.3 | 4.0 | -0.3 |
| Central FD | 4.4 | 4.1 | -0.3 |
| North-Western FD | 4.2 | 3.9 | -0.3 |
| Southern FD | 4.5 | 4.0 | -0.5 |
| North Caucasian FD | 4.1 | 3.8 | -0.3 |
| Volga FD | 4.1 | 3.7 | -0.4 |
| Urals FD | 3.8 | 3.7 | -0.1 |
| Siberian FD | 4.8 | 4.5 | -0.3 |
| Far Eastern FD | 4.9 | 4.3 | -0.6 |

Sources: Rosstat, Bank of Russia calculations.

INFLATION ACROSS REGIONS

Table 2

Per cent growth on the same month of the previous year

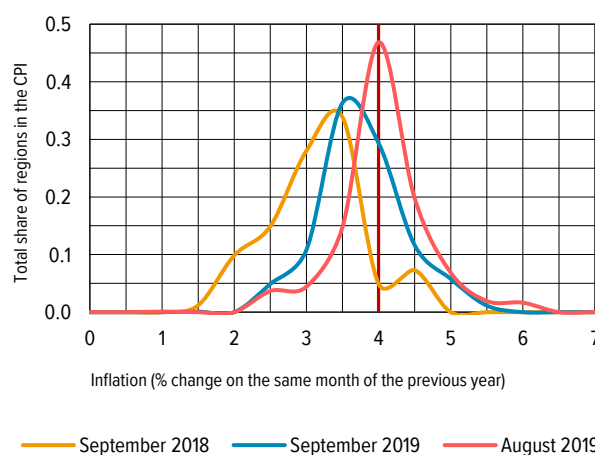
| No. * | | September 2018 | August 2019 | September 2019 |
|---|----------------------------------|----------------|-------------|----------------|
| TOP-5 regions with highest inflation in September 2019 | | | | |
| 1(2) | Republic of Buryatia | 3.8 | 6.2 | 5.6 |
| 2(5) | Jewish Autonomous Region | 3.7 | 5.7 | 5.5 |
| 3(1) | Irkutsk Region | 3.7 | 6.5 | 5.4 |
| 4(5) | Tambov Region | 3.5 | 5.8 | 5.3 |
| 5(6) | Yaroslavl Region | 3.6 | 5.5 | 5.3 |
| TOP-5 regions with lowest inflation in September 2019 | | | | |
| 78(79) | Republic of North Ossetia–Alania | 2.3 | 3.1 | 3.0 |
| 79(78) | Republic of Ingushetia | 3.0 | 3.2 | 2.9 |
| 80(74) | Chechen Republic | 3.9 | 3.4 | 2.7 |
| 81(81) | Tyumen Region | 2.1 | 2.6 | 2.6 |
| 82(82) | Altai Republic | 3.1 | 1.4 | 1.7 |

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

Sources: Rosstat, Bank of Russia calculations.

CHANGES IN THE REGIONAL DISTRIBUTION OF INFLATION

Chart 8



Sources: Rosstat, Bank of Russia calculations.

Annex 1

CONSUMER PRICE DYNAMICS

(%)

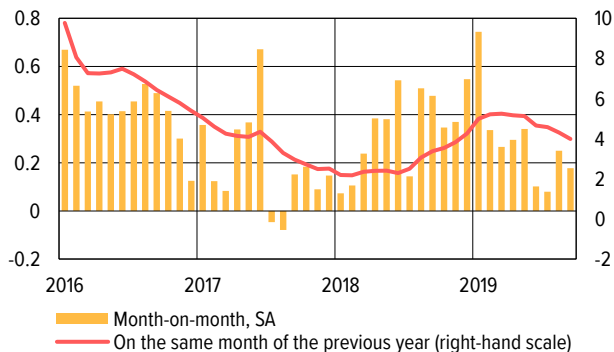
| | 09.18 | 10.18 | 11.18 | 12.18 | 01.19 | 02.19 | 03.19 | 04.19 | 05.19 | 06.19 | 07.19 | 08.19 | 09.19 |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Price growth rates on the same month of the previous year | | | | | | | | | | | | | |
| – all goods and services | 3.4 | 3.5 | 3.8 | 4.3 | 5.0 | 5.2 | 5.3 | 5.2 | 5.1 | 4.7 | 4.6 | 4.3 | 4.0 |
| – food products | 2.5 | 2.7 | 3.5 | 4.7 | 5.5 | 5.9 | 5.9 | 5.9 | 6.4 | 5.5 | 5.5 | 5.0 | 4.6 |
| of which: fruit and vegetables | 3.4 | -0.5 | 0.8 | 4.9 | 7.3 | 9.1 | 6.9 | 6.1 | 9.7 | 4.2 | 5.4 | 1.3 | 1.8 |
| – non-food goods | 4.0 | 4.1 | 4.2 | 4.1 | 4.5 | 4.6 | 4.7 | 4.5 | 3.8 | 3.5 | 3.6 | 3.5 | 3.4 |
| – services | 3.8 | 4.0 | 3.8 | 3.9 | 5.0 | 5.1 | 5.1 | 5.0 | 5.1 | 4.9 | 4.5 | 4.4 | 4.0 |
| Core inflation, on the same month of the previous year | 2.8 | 3.1 | 3.4 | 3.7 | 4.1 | 4.4 | 4.6 | 4.6 | 4.7 | 4.6 | 4.5 | 4.3 | 4.0 |
| Median of price growth distribution, on the same month of the previous year | 2.8 | 3.0 | 3.1 | 3.5 | 4.0 | 4.2 | 4.5 | 4.6 | 4.5 | 4.5 | 4.2 | 4.1 | 3.9 |
| Average annual inflation | 2.5 | 2.6 | 2.7 | 2.9 | 3.1 | 3.3 | 3.6 | 3.8 | 4.0 | 4.2 | 4.4 | 4.5 | 4.6 |
| Month-on-month price growth: | | | | | | | | | | | | | |
| – all goods and services | 0.2 | 0.4 | 0.5 | 0.8 | 1.0 | 0.4 | 0.3 | 0.3 | 0.3 | 0.0 | 0.2 | -0.2 | -0.2 |
| – food products | -0.1 | 0.6 | 1.0 | 1.7 | 1.3 | 0.8 | 0.5 | 0.4 | 0.4 | -0.5 | -0.3 | -0.9 | -0.4 |
| of which: fruit and vegetables | -6.8 | -1.1 | 3.4 | 8.9 | 6.3 | 4.9 | 2.1 | 1.8 | 2.0 | -4.5 | -3.9 | -10.1 | -6.3 |
| – non-food goods | 0.4 | 0.5 | 0.4 | 0.2 | 0.6 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| – services | 0.2 | -0.1 | 0.0 | 0.4 | 1.1 | 0.2 | 0.1 | 0.2 | 0.4 | 0.6 | 0.9 | 0.2 | -0.2 |
| Month-on-month price growth, seasonally adjusted: | | | | | | | | | | | | | |
| – all goods and services | 0.5 | 0.3 | 0.4 | 0.5 | 0.7 | 0.3 | 0.3 | 0.3 | 0.3 | 0.1 | 0.1 | 0.3 | 0.2 |
| – food products | 0.6 | 0.3 | 0.5 | 0.9 | 0.5 | 0.4 | 0.2 | 0.3 | 0.4 | -0.2 | 0.3 | 0.3 | 0.2 |
| of which: fruit and vegetables | -0.5 | -1.8 | 0.4 | 3.5 | 0.1 | 1.3 | 0.2 | 0.5 | -0.1 | -3.8 | 0.7 | 0.8 | 0.1 |
| – non-food goods | 0.3 | 0.3 | 0.3 | 0.3 | 0.7 | 0.3 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.2 | 0.1 |
| – services | 0.7 | 0.4 | 0.3 | 0.4 | 1.2 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | -0.5 | 0.3 | 0.2 |
| Price growth on December 2018: | | | | | | | | | | | | | |
| – all goods and services | 2.5 | 2.9 | 3.4 | 4.3 | 1.0 | 1.5 | 1.8 | 2.1 | 2.4 | 2.5 | 2.7 | 2.4 | 2.3 |
| – food products | 1.3 | 1.9 | 2.9 | 4.7 | 1.3 | 2.1 | 2.6 | 3.1 | 3.5 | 3.0 | 2.7 | 1.7 | 1.3 |
| of which: fruit and vegetables | -5.9 | -6.9 | -3.7 | 4.9 | 6.3 | 11.5 | 13.9 | 16.0 | 18.3 | 13.0 | 8.5 | -2.4 | -8.6 |
| – non-food goods | 3.0 | 3.5 | 3.9 | 4.1 | 0.6 | 0.9 | 1.2 | 1.3 | 1.6 | 1.7 | 1.9 | 2.1 | 2.3 |
| – services | 3.6 | 3.5 | 3.5 | 3.9 | 1.1 | 1.3 | 1.5 | 1.7 | 2.1 | 2.7 | 3.6 | 3.8 | 3.6 |

Sources: Rosstat, Bank of Russia calculations.

Annex 2

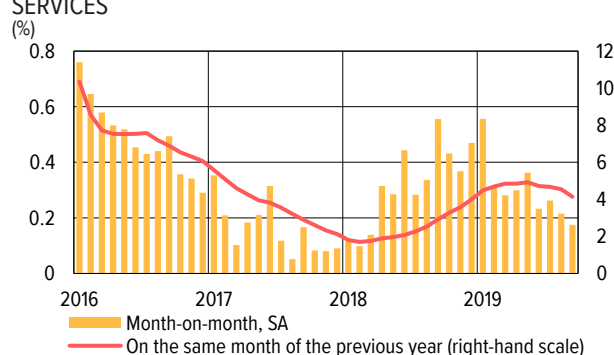
ALL GOODS AND SERVICES (%)

Chart 1



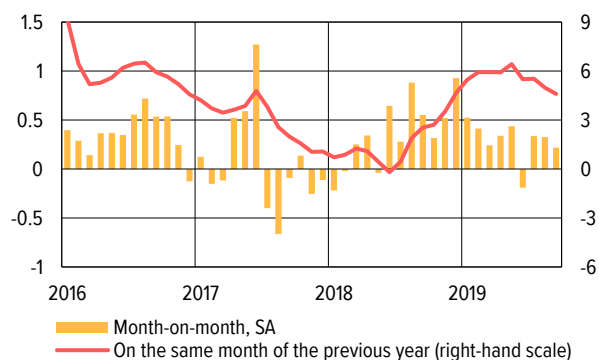
ALL GOODS AND SERVICES EXCLUDING FRUIT AND VEGETABLES, PETROLEUM PRODUCTS AND UTILITY SERVICES (%)

Chart 5



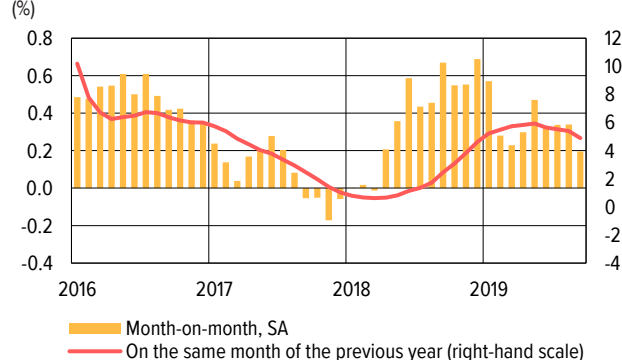
FOOD PRODUCTS (%)

Chart 2



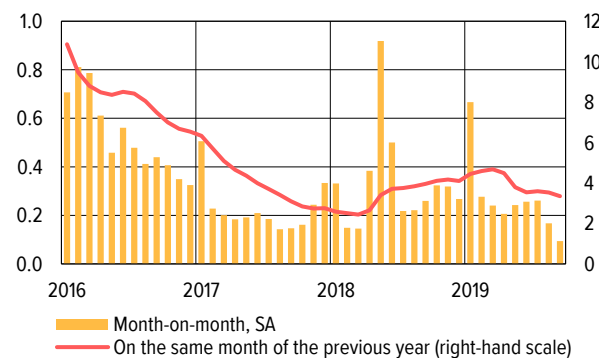
FOOD PRODUCTS EXCLUDING FRUIT AND VEGETABLES (%)

Chart 6



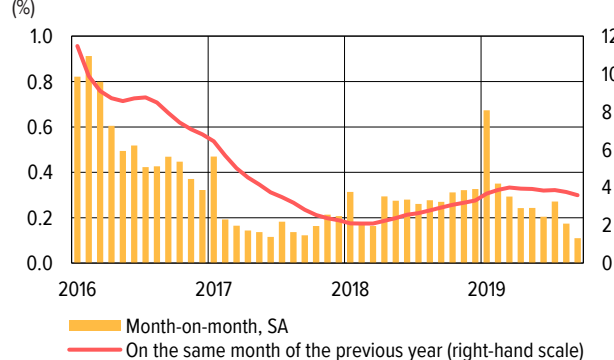
NON-FOOD GOODS (%)

Chart 3



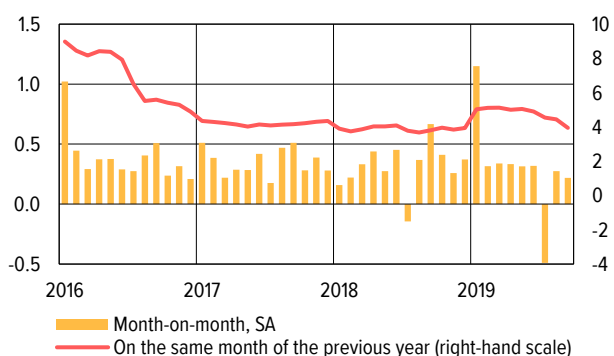
NON-FOOD GOODS EXCLUDING PETROLEUM PRODUCTS (%)

Chart 7



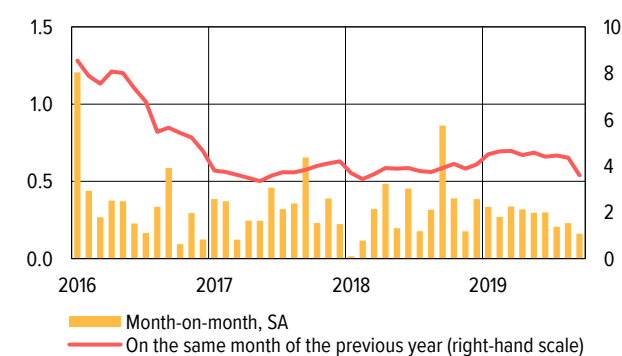
SERVICES (%)

Chart 4



SERVICES (EXCLUDING UTILITIES) (%)

Chart 8



Data cut-off date – 08.10.2019.

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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