



Bank of Russia



# CONSUMER PRICE DYNAMICS

No. 12 (48) • December 2019

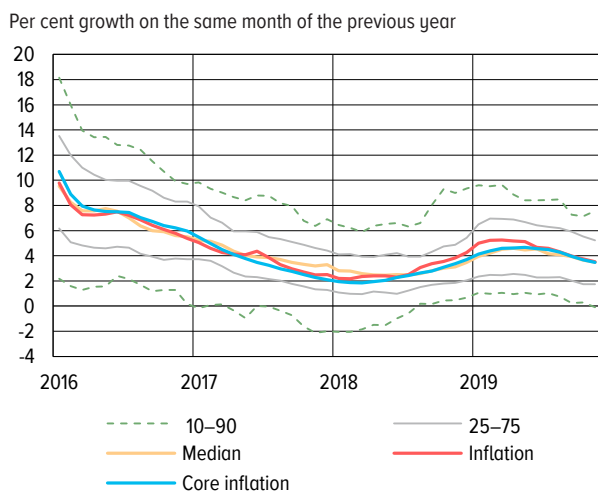
Information and analytical commentary

22 January 2020

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

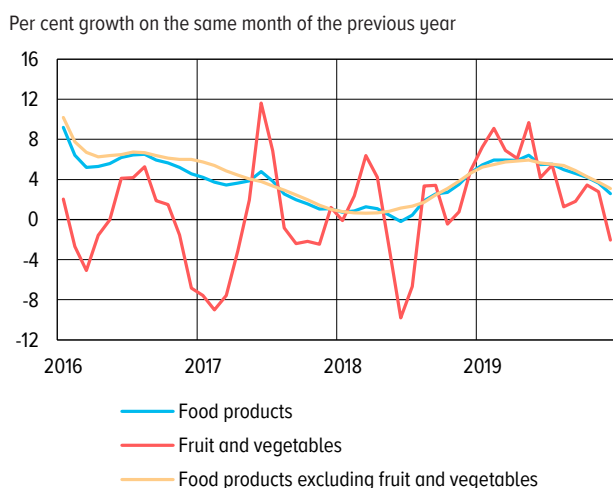
In December 2019, annual inflation was 3.0%, which is 0.5 pp lower than in November. As before, it was subdued by the expansion of food supply, strengthening of the ruble, weak demand growth and one-off factors, including base effects. There was a persisting decline both in the annual rise of prices for main groups of goods and services, and most notably for food, and in annual indicators which reflect sustainable price movements. At the beginning of 2020, annual inflation will continue to go down. Among other things, this is a result of factoring out the effect of the VAT rate increase in early 2019 from the inflation calculation. Given the monetary policy pursued, annual inflation will come in at 3.5–4.0% by the end of 2020 and will stay close to 4% further on.

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.

In December 2019, annual inflation retained its downward trend to equal 3.0% (0.5 pp lower than in November, Chart 1). The price growth continued to be dragged down by disinflationary trends, including the expanding food supply, ruble appreciation, weak demand, as well as one-time factors, namely the base effect, that were primarily associated with a temporary rise in demand and prices for individual products at the end of 2018 ahead of the VAT rate increase.

December recorded a fall in the annual growth rate of prices for all main goods and service groups, and most notably for food products (Annex 1).

Seasonally adjusted (SA) monthly growth of consumer prices is assessed at 0.1%, which is 0.1 pp below the August–November readings.<sup>1</sup> The monthly growth of goods and service prices, excluding the main volatile and regulated components (fruit and vegetables, petroleum products and utility services) also decelerated (Annex 2).

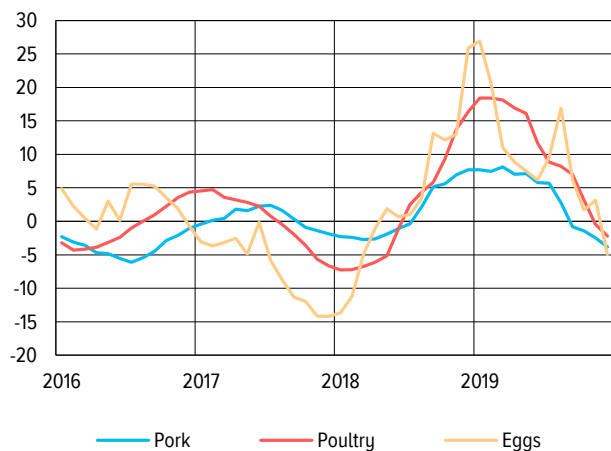
A sufficiently prolonged effect of disinflationary factors resulted in the further drop in indicators reflecting sustainable price trends. Core inflation came in at 3.1% (0.4 pp lower than in November), and the median value of consumer price growth equalled 3.3% (-0.2 pp). The annual growth of goods and

<sup>1</sup> Refer also to the charts showing the current trends in 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).

## MEAT AND EGG PRICES

Chart 3

Per cent growth on the same month of the previous year



Source: Rosstat.

service prices, excluding the main volatile and regulated components, decelerated by 0.4 pp to 3.2%.

## Food products

According to assessments, food prices (SA) in December 2019 remained almost the same as in November. As in the previous months, they were largely influenced by a high market supply of animal products, grain products and oil plant products along with the strengthening of the ruble and one-off factors.

Prices (SA) for fruit and vegetables went down more significantly than in October–November. This downward trend was driven by a high supply of Russian fruit and vegetables and a restraining influence of the ruble appreciation on prices for imports (first of all, fruit). The rise in prices for food, excluding fruit and vegetables, was generally the same as in November. Their growth rate was 0.1% (SA), which is its 2019 low, except October when prices (SA) remained unchanged on average.

The annual food inflation slowed down by 1.1 pp to 2.6% (Chart 2). This was primarily the result of the decrease in fruit and vegetable prices (by 2.0% compared to December 2018, after the 2.8% rise YoY in the previous month) which was caused by, among other factors, a diverse impact of the exchange rate movements in 2018 and 2019.

The second major contributor was the further deceleration in the annual growth rate of meat prices accompanied by the rapid expansion of supply in the Russian market (Chart 3). In particular, pork and poultry were 3.8% and 2.2% cheaper, respectively, in December 2019 compared to December 2018.

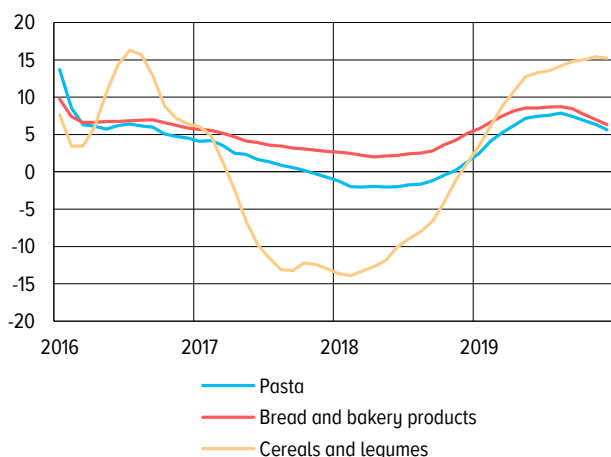
Although eggs account for a minor percentage in the consumer basket (0.5%), egg price movements largely contributed to the downward trend of food inflation. Eggs were 5.0% cheaper in December 2019 YoY (3.2% more expensive in November), which was explained by the base effect (December 2018 recorded a one-time surge in egg prices).

The market of grain products was positively influenced by the rich harvest of major grain crops. The annual index of prices for cereals and legumes dropped in December 2019, for the

## PRICES FOR GRAIN PRODUCTS

Chart 4

Per cent growth on the same month of the previous year

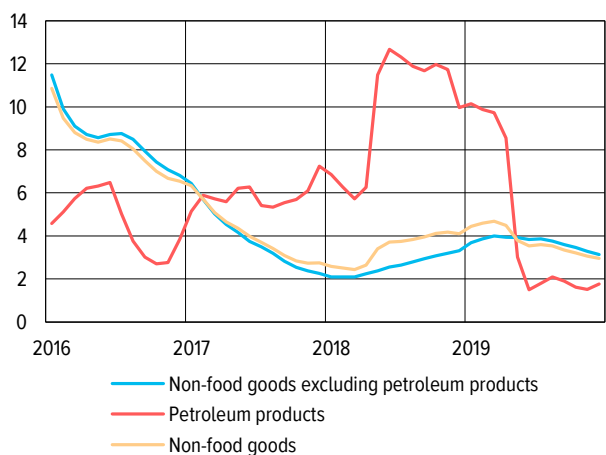


Source: Rosstat.

## NON-FOOD PRICES

Chart 5

Per cent growth on the same month of the previous year



Sources: Rosstat, Bank of Russia calculations.

first time since February 2018. The rise in prices for all products slowed in this category, except buckwheat. The growth rates of prices for bread, baked goods and pasta retained the downward trend observed since September 2019 (Chart 4).

Overall, annual growth rates declined in almost all main food categories. The situation in domestic markets of agricultural products and processed goods is expected to limit the increase in consumer food prices. There are potential risks associated with trends in global prices for individual food products, e.g., vegetable oils.

## Non-food goods

As in the previous months of 2019, non-food goods prices were affected by moderate demand and the appreciation of the ruble.

In December 2019, the monthly growth rate of non-food prices (SA) was 0.2%, which is close to the reading recorded in February–November 2019. Monthly movements of prices for major product groups were generally common for December.<sup>2</sup>

The annual non-food price inflation rate slowed by 0.1 pp to 3.0% (Chart 5). The growth rate of prices for petroleum products increased by 0.3 pp, while remaining low (1.8%). The annual growth rate of prices for non-food goods, excluding petroleum products, dropped by 0.2 pp to 3.1%.

The decline in the annual growth rate of prices for durable goods, namely cars, household appliances and furniture, was the major contributor to the slowdown in the rise of non-food prices. This was not only caused by demand constraints and the appreciation of the ruble, but also resulted from the base effect: the rise in prices for the above groups of goods considerably sped up at the end of 2018, driven by a temporary increase in demand ahead of the VAT rate hike.

## Services

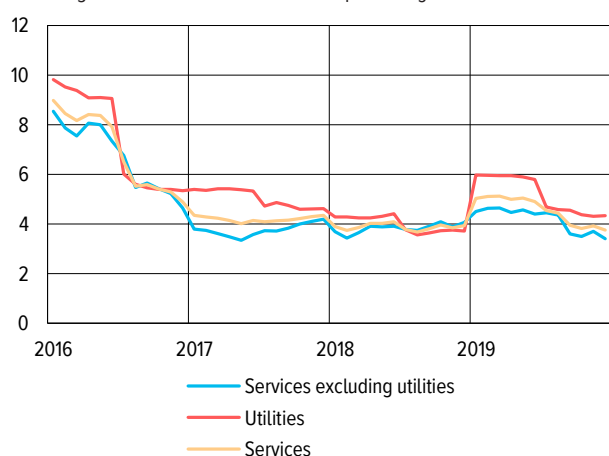
The rise in service prices (SA) in December 2019 is assessed at 0.2%, which is 0.2 pp lower than in November when the prices temporarily

<sup>2</sup> See the charts showing monthly dynamics in the Bulletin (Charts 17–25).

## SERVICE PRICES

Chart 6

Per cent growth on the same month of the previous year



Sources: Rosstat, Bank of Russia calculations.

## INFLATION IN THE FEDERAL DISTRICTS

Table 1

Per cent growth on the same month of the previous year

	November 2019	December 2019	Price growth, December vs November 2019
<b>Russia</b>	<b>3.5</b>	<b>3.0</b>	<b>-0.5</b>
Central FD	3.6	3.0	-0.5
North-Western FD	3.4	3.0	-0.5
Southern FD	3.3	2.7	-0.6
North Caucasian FD	3.9	3.2	-0.7
Volga FD	3.2	2.7	-0.5
Urals FD	3.5	3.1	-0.4
Siberian FD	4.0	3.6	-0.4
Far Eastern FD	4.0	3.9	-0.1

Sources: Rosstat, Bank of Russia calculations.

## INFLATION IN RUSSIAN REGIONS

Table 2

Per cent growth on the same month of the previous year

No.*		December 2018	November 2019	December 2019
<b>Top-5 regions with highest inflation in December 2019</b>				
1 (4)	Amur Region	4.6	4.8	4.8
2 (1)	Jewish Autonomous Region	4.6	5.0	4.7
3 (11)	Khabarovsk Territory	4.0	4.3	4.2
4 (13)	Republic of Sakha (Yakutia)	2.7	4.3	4.2
5 (3)	Republic of Buryatia	5.0	4.8	4.1
<b>Top-5 regions with lowest inflation in December 2019</b>				
78 (79)	Tula Region	4.7	2.6	2.1
79 (78)	Chuvash Republic	4.7	2.6	2.0
80 (81)	Republic of Mordovia	3.4	2.4	2.0
81 (82)	Altai Republic	2.9	1.7	2.0
82 (76)	Republic of North Ossetia–Alania	3.4	2.7	1.9

\* Values in brackets indicate the regions' positions in November 2019.

Sources: Rosstat, Bank of Russia calculations.

increased, driven, among other things, by one-off events. The growth rate of prices for services, excluding the main components with administered prices (utilities and railway transportation), was 0.1% (SA), which is its 2019 low. In particular, after the surge in November, prices in overseas tourism went down. There was recorded a slower rise in prices for healthcare and recreation services and in the industry of culture.

The annual growth rate of service prices dropped by 0.1 pp, returning to its October level (3.8%, Chart 6). The growth rate of utility prices was up by 0.1 pp, to 5.1%. Utility rates rose by 4.2% in 2019, without account for solid waste management services that demonstrated the highest growth rate after their increase at the beginning of the year. Prices for railway transport subject to regulation were up by 4.0% over the year.

The annual growth of prices for services, excluding utilities and railway transportation, was 3.4% in December, declining by 0.3 pp versus November. After the upsurge in November,<sup>3</sup> prices in the overseas tourism industry adjusted. The annual rise in air fares significantly slowed (by 2.8 pp), while remaining a major contributor (12.7%) to the price growth in the segment of services offered to households.

## Inflation in Russian regions

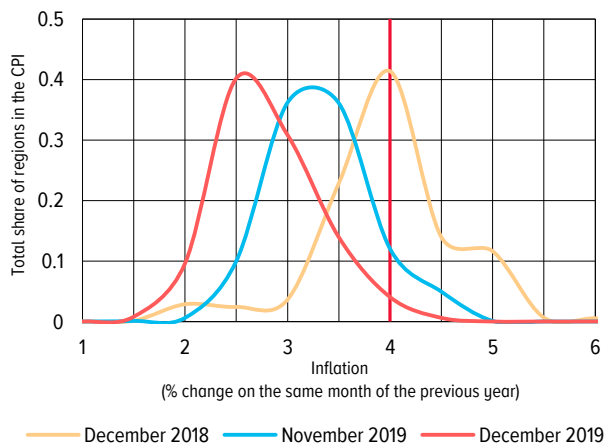
Annual inflation in almost all regions declined in December 2019 as compared to the previous month (79 regions accounting for approximately 98% in the CPI, Tables 1 and 2). The majority of regions demonstrated slower growth rates of food and non-food prices.

The pace of inflation was primarily affected by country-wide factors, which include a favourable market environment, the appreciation of the ruble and demand constraints. Local factors had a notable influence in individual federal districts (Southern, North Caucasian and Far Eastern Federal Districts).

<sup>3</sup> A notable rise in prices for Thailand tours was the main driver of the accelerated increase in prices for overseas tourism service prices. This was probably the result of the price revision carried out by travel agencies ahead of the high tourist season in that country amid the strengthening of the Thai baht. In December, the rise in prices for Thailand tours considerably decelerated.

CHANGE IN REGIONAL DISTRIBUTION  
OF INFLATION

Chart 7



Sources: Rosstat, Bank of Russia calculations.

In particular, annual inflation declined in the Southern and North Caucasian Federal Districts more significantly compared to other federal districts. This was mostly driven by movements of highly volatile prices, namely for tomatoes, cucumbers and millet. In general, food products account for a larger percentage in the consumer basket in the Southern and North Caucasian Federal Districts than on average in Russia. In this regard, food price shocks affect inflation in these regions more considerably.

Annual inflation in the Far East slowed down the least compared to other federal districts. This was primarily driven by the following: the deceleration of food inflation<sup>4</sup> was lower than generally across Russia, and there were also some specific factors impacting prices for certain services (e.g., railway transportation and overseas tourism).

The distribution of regional inflation in December changed against November: more regions recorded a lower inflation compared to the average rate in Russia (Chart 7). The regional heterogeneity of inflation increased, but it remains at a level comparable with 2018. As before, the most notable regional heterogeneity is observed in service price movements. However, the range of service price growth rates in different regions reduced compared to the previous month.

## Inflation forecast

According to the Bank of Russia's forecast, annual inflation will continue to go down in early 2020. Among other things, this will be driven by factoring out the effect of the VAT rate increase in early 2019 from the inflation calculation. Given the monetary policy pursued, annual inflation will come in at 3.5–4.0% by the end of 2020 and will stay close to 4% further on.

<sup>4</sup> Remote regions are characterised by a later response of food inflation to agricultural shocks than on average across Russia, which is mostly associated with the formation of larger product stocks and conclusion of long-term contracts.



## Annex 1

## CONSUMER PRICE DYNAMICS

(%)

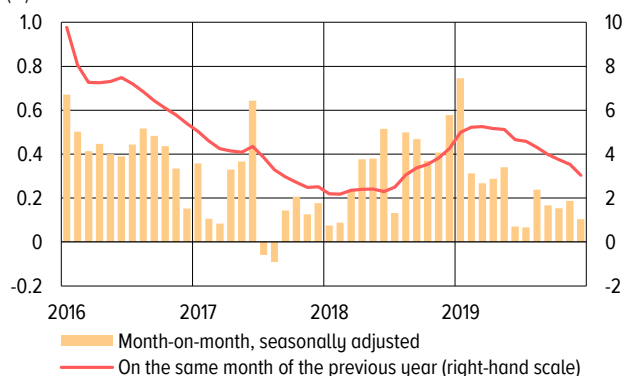
	12.2018	01.2019	02.2019	03.2019	04.2019	05.2019	06.2019	07.2019	08.2019	09.2019	10.2019	11.2019	12.2019
Price growth on the same month of the previous year													
– all goods and services	4.3	5.0	5.2	5.3	5.2	5.1	4.7	4.6	4.3	4.0	3.8	3.5	3.0
– food products	4.7	5.5	5.9	5.9	5.9	6.4	5.5	5.5	5.0	4.6	4.2	3.7	2.6
of which: fruit and vegetables	4.9	7.3	9.1	6.9	6.1	9.7	4.2	5.4	1.3	1.8	3.4	2.8	-2.1
– non-food goods	4.1	4.5	4.6	4.7	4.5	3.8	3.5	3.6	3.5	3.4	3.2	3.1	3.0
– services	3.9	5.0	5.1	5.1	5.0	5.1	4.9	4.5	4.4	4.0	3.8	3.9	3.8
Core inflation, on the same month of the previous year	3.7	4.1	4.4	4.6	4.6	4.7	4.6	4.5	4.3	4.0	3.7	3.5	3.1
Median of price growth distribution, on the same month of the previous year	3.5	4.0	4.2	4.5	4.6	4.5	4.5	4.2	4.1	3.9	3.6	3.5	3.3
Average annual inflation	2.9	3.1	3.3	3.6	3.8	4.0	4.2	4.4	4.5	4.6	4.6	4.6	4.5
Price growth on the previous month:													
– all goods and services	0.8	1.0	0.4	0.3	0.3	0.3	0.0	0.2	-0.2	-0.2	0.1	0.3	0.4
– food products	1.7	1.3	0.8	0.5	0.4	0.4	-0.5	-0.3	-0.9	-0.4	0.2	0.5	0.7
of which: fruit and vegetables	8.9	6.3	4.9	2.1	1.8	2.0	-4.5	-3.9	-10.1	-6.3	0.4	2.7	3.8
– non-food goods	0.2	0.6	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.1
– services	0.4	1.1	0.2	0.1	0.2	0.4	0.6	0.9	0.2	-0.2	-0.2	0.1	0.2
Seasonally adjusted price growth on the previous month:													
– all goods and services	0.6	0.7	0.3	0.3	0.3	0.3	0.1	0.1	0.2	0.2	0.2	0.2	0.1
– food products	1.0	0.5	0.4	0.2	0.3	0.4	-0.3	0.3	0.3	0.2	0.0	0.1	0.0
of which: fruit and vegetables	3.7	0.2	1.2	0.1	0.4	-0.1	-3.9	0.6	0.8	0.1	-0.2	-0.2	-1.1
– non-food goods	0.3	0.7	0.3	0.2	0.2	0.2	0.3	0.3	0.2	0.1	0.2	0.2	0.2
– services	0.4	1.2	0.3	0.3	0.3	0.3	0.3	-0.5	0.3	0.2	0.3	0.4	0.2
Price growth on December 2018:													
– all goods and services	4.3	1.0	1.5	1.8	2.1	2.4	2.5	2.7	2.4	2.3	2.4	2.7	3.0
– food products	4.7	1.3	2.1	2.6	3.1	3.5	3.0	2.7	1.7	1.3	1.5	1.9	2.6
of which: fruit and vegetables	4.9	6.3	11.5	13.9	16.0	18.3	13.0	8.5	-2.4	-8.6	-8.2	-5.7	-2.1
– non-food goods	4.1	0.6	0.9	1.2	1.3	1.6	1.7	1.9	2.1	2.3	2.6	2.8	3.0
– services	3.9	1.1	1.3	1.5	1.7	2.1	2.7	3.6	3.8	3.6	3.4	3.5	3.8

Sources: Rosstat, Bank of Russia calculations.

## Annex 2

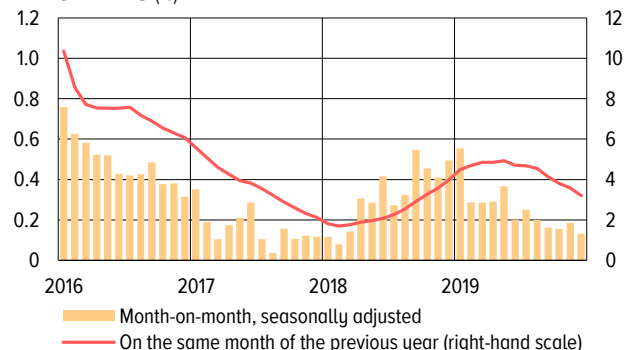
ALL GOODS AND SERVICES (%)

Chart 1



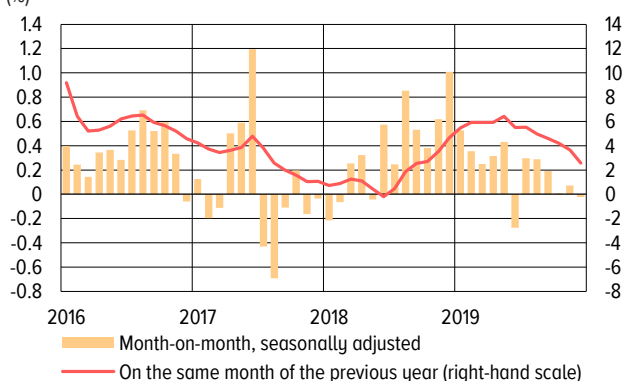
ALL GOODS AND SERVICES EXCLUDING FRUIT AND VEGETABLES, PETROLEUM PRODUCTS AND UTILITIES (%)

Chart 5



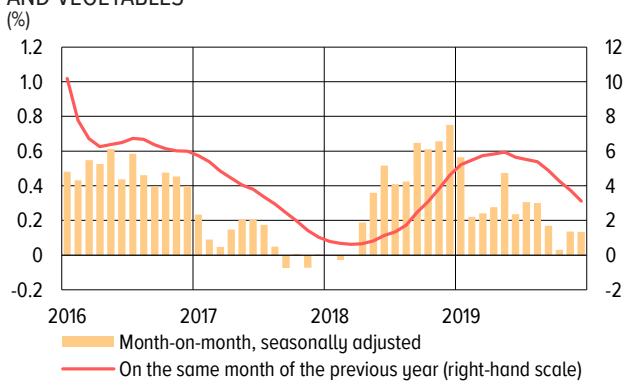
FOOD PRODUCTS (%)

Chart 2



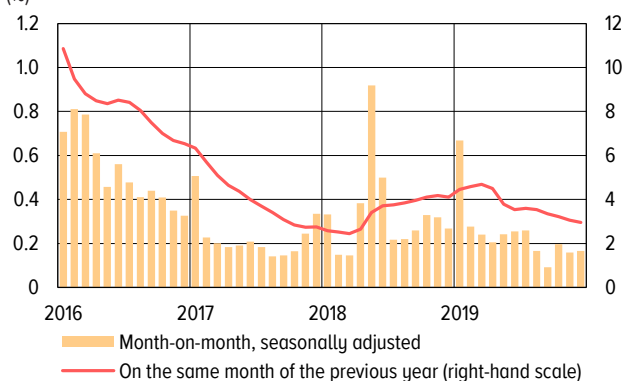
FOOD PRODUCTS EXCLUDING FRUIT AND VEGETABLES (%)

Chart 6



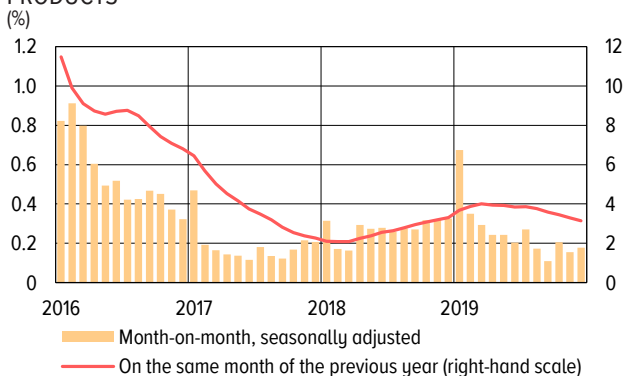
NON-FOOD GOODS (%)

Chart 3



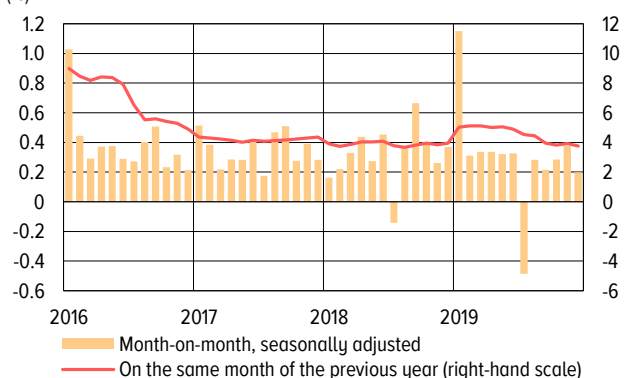
NON-FOOD GOODS EXCLUDING PETROLEUM PRODUCTS (%)

Chart 7



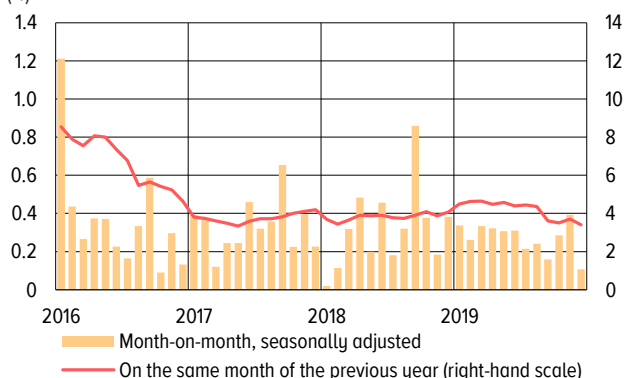
SERVICES (%)

Chart 4



SERVICES EXCLUDING UTILITIES (%)

Chart 8



Sources: Rosstat, Bank of Russia calculations.



Data cut-off date – 16.01.2020.

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](mailto:svc_analysis@cbr.ru).

This commentary was prepared by the Monetary Policy Department.

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