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No. 3

MARCH 2019

CONSUMER PRICE DYNAMICS

Information and analytical commentary

MOSCOW
2019

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

In March 2019, annual inflation came in at 5.3%. The observed rate of annual inflation reflects the effect of the VAT hike, alongside the 2018 ruble depreciation and the petroleum product price increase. Indicators that characterise inflation of goods with the most stable prices exceeded 4%. That said, current monthly price growth (0.3%, seasonally adjusted) proved the lowest since July 2018 and was in line with annual inflation near 4%. This came as a result of fruit and vegetable price movements, a slight downturn in petroleum product prices, and the ongoing ruble strengthening seen since the year-start. Estimates suggest that the VAT hike pass-through to prices has largely materialised; however, certain deferred effects may still manifest themselves in the months to come. According to the Bank of Russia's forecast, annual inflation is set to pass its local high in March-April 2019. Annual inflation will return to 4% in the first half of 2020 when the effects of the 2018 ruble weakening, the petroleum product price increase, and the VAT rise peter out.

In March 2019, annual inflation came in at 5.3% (Chart 1, Appendix 1). The 0.1 pp hike from 5.2% in February was largely associated with non-food goods and food products excluding fruit and vegetables which had posted low price growth rates a year earlier (the base effect). Annual growth in services prices held at the February level, whereas that of fruit and vegetables declined.

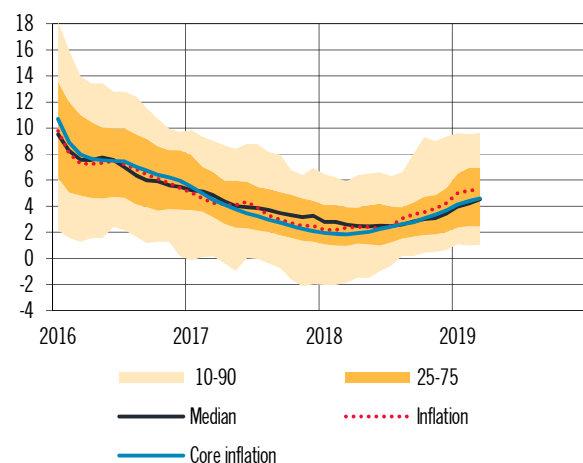
Annual indicators characterising the most stable part of price dynamics rose somewhat, too. Core inflation increased by 0.2 pp to 4.6%. The median values of price growth distributions rose by 0.3 pp to an estimated 4.5% (Chart 1), though holding considerably below the current rate of inflation. The price growth range for most goods and services (bar outliers) has remained broad (Chart 1). However, its upward movement against the median value is gradually becoming less pronounced. This means that growth in the prices of goods and services which posted the most significant increase in the second half of 2018 and early 2019 (in particular, food products) is no longer contributing to headline inflation.

The observed rate of annual inflation reflects the effect of the VAT hike, alongside the 2018 ruble depreciation and the petroleum product price increase.

That said, seasonally adjusted growth in consumer prices slowed down by 0.1 pp over the month to total 0.3%, according to estimates, which is the lowest reading since

Price growth breakdown by goods and services, inflation and core inflation Chart 1

Per cent change on corresponding month of previous year

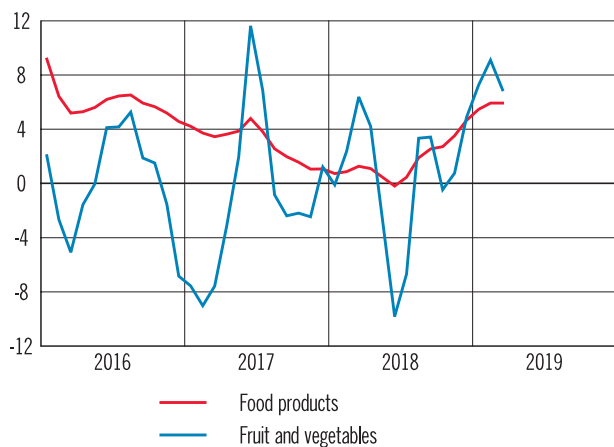


Sources: Rosstat, Bank of Russia calculations.

Food prices

Chart 2

Per cent change on corresponding month of previous year



Source: Rosstat.

last July (Appendix 2). This rate is in line with current annual inflation close to the Bank of Russia target (4%). However, it is of note that the ruble's appreciation since the beginning of the year is making a disinflationary contribution to current price growth. Current price growth is further constrained by the agreements between the Russian Government and oil companies to cap growth of petrol and diesel prices.

Food products

In March, annual food inflation stopped to accelerate for the first time since July 2018 after stabilising at the previous month's level of 5.9% (Chart 2). That said, prices of the main components of the food basket showed mixed dynamics.

The rise in fruit and vegetable prices slowed considerably (by 2.2 pp to 6.9%) after accelerating in the previous two months. Fruit prices dropped year on year, prices of tomatoes posted slower growth, growth in cucumber prices accelerated; prices of essential Russian vegetables grew at virtually the same rate (18.3%).

That said, a further increase was registered in annual growth of other food prices seen since last March. The most tangible contribution was made by growth in prices of meat products (Chart 3) which had been ongoing since the middle of last year. Growth in lamb prices accelerated the most significantly (by 8.5 pp to 15.8%), presumably on the back of rising lamb exports.

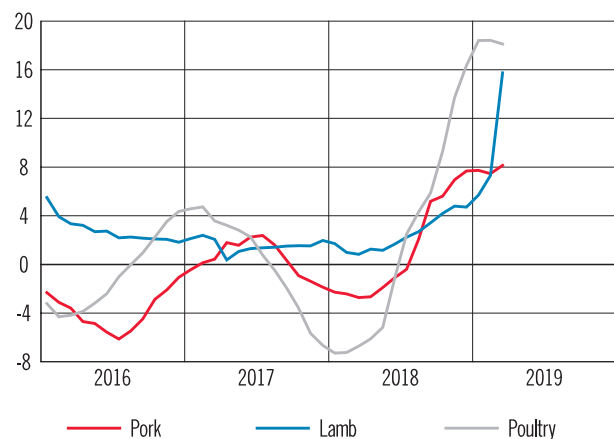
At the same time, prices of pork and poultry posted a further month-on-month decline. Prices of eggs and sugar fell for the second month in a row after a considerable hike in September-December last year.

Growth in prices of grain derivatives (bread, bakery products, pasta, and cereals) continued to go up, reflecting the deferred effect of grain price growth of the second half of 2018. However, global and domestic prices of wheat have been falling since February 2019, curbing further growth in the prices of its derivatives. Preliminary grain crop forecasts, which take into account the good condition of winter crops, are

Meat product prices

Chart 3

Per cent change on corresponding month of previous year



Source: Rosstat.

favourable. The current grain crop forecast of the Ministry of Agriculture stands at 118 million tonnes, which exceeds the 2018 figure by 5%. Market experts and analysts expect even larger crops.

Monthly growth in food prices (seasonally adjusted) came in at 0.3% in March, according to estimates. It had been falling for three consecutive months and reached the lowest reading since October 2018. Growth in prices of food products excluding fruit and vegetables remained at the February level (0.3%, seasonally adjusted), which is the lowest reading since June 2018. Moderate monthly price growth points to a normalisation of price dynamics after accelerated price growth in the second half of 2018 (Appendix 2).

Non-food goods

Annual growth rates of non-food prices increased by 0.1 pp to 4.7% in March 2019.

Prices of petroleum products (petrol, diesel and gas motor fuel) dropped by 0.1% over the month, with their annual price growth rate slowing to 9.7% (Chart 5). The extension of agreements between the Russian Government and oil majors aimed at stabilisation of the petroleum product market for the second quarter of 2019 will cap petrol and diesel price growth in upcoming months.

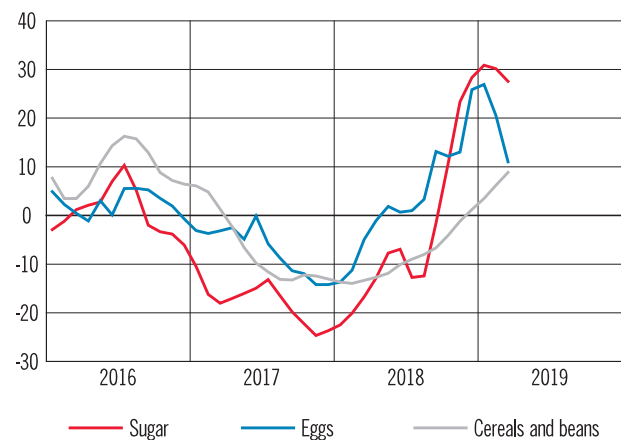
Annual growth rates of non-food prices other than petroleum products increased moderately by 0.1 pp to 4.0%. That said, the acceleration of annual price growth was uniform across most product categories. This points to the ongoing effect of common proinflationary factors, including the VAT rate hike and rising input costs on the back of the 2018 weakening of the ruble and increased fuel prices.

Monthly growth in non-food prices (seasonally adjusted) slowed somewhat compared with February readings, and is estimated at 0.2%, which is in line with the readings of July-August 2018. Prices of non-food goods excluding petroleum products added 0.3%. This price growth rate has been sustainably registered since last April, bar January 2019.

Prices of sugar, eggs and cereals

Chart 4

Per cent change on corresponding month of previous year

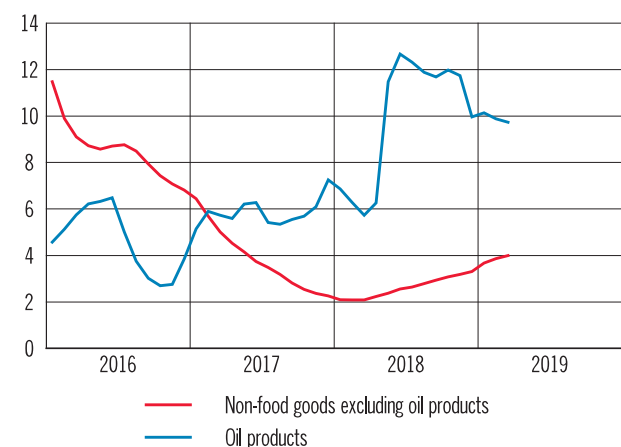


Source: Rosstat.

Non-food prices

Chart 5

Per cent change on corresponding month of previous year

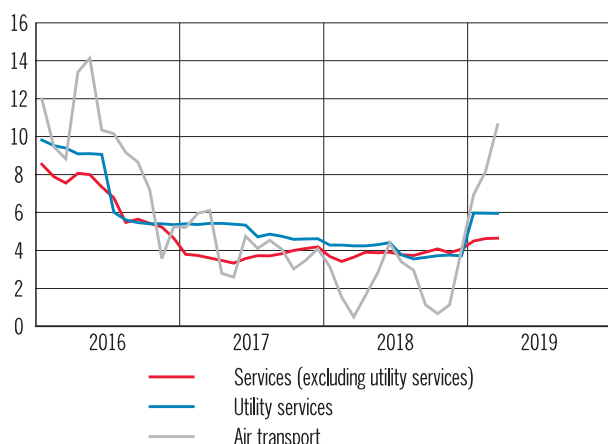


Sources: Rosstat, Bank of Russia calculations.

Services prices

Chart 6

Per cent change on corresponding month of previous year



Sources: Rosstat, Bank of Russia calculations.

Thereby, we may suggest that monthly movements of non-food prices have stabilised at a level which corresponds to the near 4% annual inflation after a one-time acceleration in price growth in January – on the back of the VAT hike. However, as noted above, there is a certain contribution of the ruble's strengthening seen since the beginning of the year. Moreover, the possibility that the deferred effects of the VAT hike may manifest themselves in the months to come cannot be ruled out (Appendix 2).

Services

Annual growth in services prices remained in March 2019 at the February level with mixed dynamics across different types of services (5.1%).

Prices of transportation services continued to go up largely on the back of air (rising fuel prices) and railway transportation fare movements (Chart 6).

In contrast, growth in prices of communications services slowed after the acceleration in December 2018 - February 2019. This may in part be attributed to the fading effect of the VAT rate hike.

Annual inflation of utility prices remained steady after its January growth associated with, among other things, the partial shift of indexation from July due to the VAT increase. The total indexation scheduled for this year stands at 4%, the same as in 2018. Thereby, annual inflation of utility prices will lower as early as July on the back of the base effect.

Seasonally adjusted monthly growth in services prices increased in March, according to estimates, by 0.1 pp to 0.4%, which is in keeping with the readings registered in August-December 2018 (Appendix 2).

Inflation across regions

In March 2019, inflation varied across regions compared with the previous month (Tables 1 and 2). The strongest acceleration was registered in southern regions (especially in certain North Caucasian republics). That said, annual inflation slowed in 36 regions, mainly in Central European Russia (these regions account for approx. 54%

Inflation in federal districts

Table 1

Per cent change on corresponding month of previous year

	March 2018	February 2019	March 2019	Change in price growth rates (March 2019 vs March 2018)
Russia	2.3	5.2	5.3	2.9
Central FD	2.9	5.7	5.7	2.8
North-Western FD	2.5	5.1	5.0	2.5
Southern FD	2.1	5.3	5.3	3.2
North Caucasian FD	1.9	4.6	5.2	3.2
Volga FD	2.0	5.1	5.1	3.1
Urals FD	2.2	4.1	4.2	1.9
Siberian FD	1.9	5.5	5.7	3.8
Far Eastern FD	1.9	4.9	5.0	3.1

Sources: Rosstat, Bank of Russia calculations.

Inflation across regions

Table 2

Per cent change on corresponding month of previous year

No.*		March 2018	February 2019	March 2019
Top 5 highest inflation regions, March 2019				
1(3)	Chukotka Autonomous Area	1.3	6.8	7.6
2(4)	Sevastopol	2.2	6.6	7.2
3(1)	Yaroslavl Region	2.0	7.1	7.0
4(8)	Republic of Khakassia	2.5	6.4	6.6
5(2)	Ryazan Region	3.3	7.0	6.6
Top 5 lowest inflation regions, March 2019				
78(73)	Udmurt Republic	1.8	4.3	4.0
79(79)	Sakhalin Region	1.3	3.7	3.7
80(80)	Altai Republic	2.0	3.4	3.4
81(81)	Tyumen Region	2.2	3.0	3.2
82(82)	Republic of Ingushetia	3.8	2.0	2.9

* Brackets are used to show the region's position in February 2019.

Sources: Rosstat, Bank of Russia calculations.

of the CPI) (Charts 7 and 8). Prices of fruit and vegetables and transportation services remain the main contributors to the regional heterogeneity of inflation. Food inflation rose the most considerably in the North Caucasian and Siberian Federal Districts due to the faster increase in prices of meat products and passenger transportation services. The slowdown of annual food inflation seen in certain regions was mainly caused by the base effect.

At the same time, most regions registered slight and homogeneous growth of non-food prices. In the Far East, non-food inflation rates remain lower than in Russia as a whole. This is largely associated with the prices of light vehicles: prices in these regions are overall less volatile due to the specific market structure, among other things, the closeness to Asia-Pacific countries. Services prices also continued to show uniform dynamics across regions; however, certain remote regions posted accelerated price growth largely associated with transport fares.

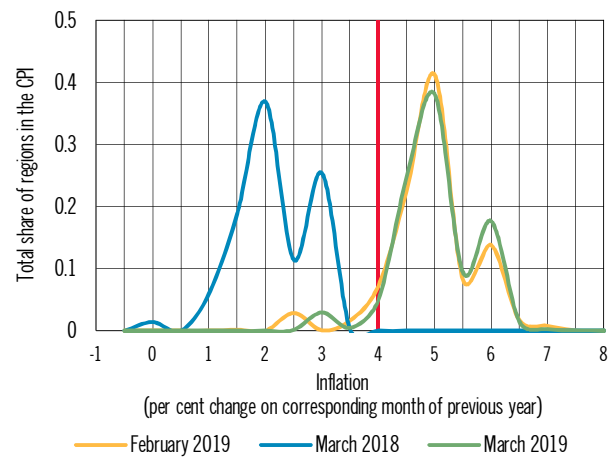
The regional distribution of annual inflation remained virtually unchanged in March 2019 (Chart 7). The dispersion of regional inflation declined slightly on the back of faster price growth in low inflation regions (regional inflation ranged between 2.9% and 7.6% in March compared with 2.0-7.1% in February, Charts 7 and 8). The regional differentiation in inflation held, with the group composition remaining virtually unchanged in March. In individual regions, inflation remains considerably below the Russian average: inflation dynamics in this group continue to be affected by one-off factors, including those of a non-monetary nature.

Inflation forecast

According to the Bank of Russia's forecast, annual inflation is set to pass its local high in March-April 2019. At the end of 2019, it will come in at 4.7-5.2%. Quarterly year-on-year consumer price growth is set to decelerate to 4% as early as the second half of 2019. Annual inflation is set to return to 4% in the first half of 2020, when the effects of the 2018 ruble weakening and the VAT rise have run their course.

Change in regional breakdown of inflation

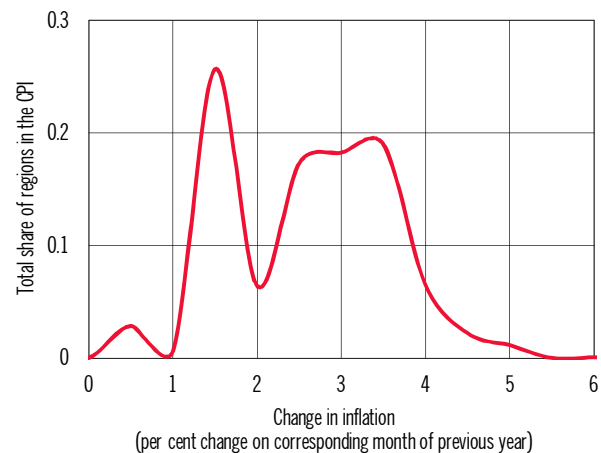
Chart 7



Sources: Rosstat, Bank of Russia calculations.

Regional breakdown by change in inflation growth (March 2019 vs March 2018)

Chart 8



Sources: Rosstat, Bank of Russia calculations.

Appendix 1

Consumer price dynamics (%)

	03.2018	04.2018	05.2018	06.2018	07.2018	08.2018	09.2018	10.2018	11.2018	12.2018	01.2019	02.2019	03.2019
Price growth on corresponding month of previous year													
– all goods and services	2.4	2.4	2.4	2.3	2.5	3.1	3.4	3.5	3.8	4.3	5.0	5.2	5.3
– food products	1.3	1.1	0.4	-0.2	0.5	1.9	2.5	2.7	3.5	4.7	5.5	5.9	5.9
including: fruit and vegetables	6.4	4.2	-2.8	-9.8	-6.7	3.3	3.4	-0.5	0.8	4.9	7.3	9.1	6.9
– non-food goods	2.4	2.7	3.4	3.7	3.8	3.8	4.0	4.1	4.2	4.1	4.5	4.6	4.7
– services	3.9	4.0	4.0	4.1	3.8	3.7	3.8	4.0	3.8	3.9	5.0	5.1	5.1
Month-on-month price growth													
– all goods and services	0.3	0.4	0.4	0.5	0.3	0.0	0.2	0.4	0.5	0.8	1.0	0.4	0.3
– food products	0.5	0.4	-0.1	0.4	-0.3	-0.4	-0.1	0.6	1.0	1.7	1.3	0.8	0.5
including: fruit and vegetables	4.2	2.6	-1.3	0.6	-5.1	-6.4	-6.8	-1.1	3.4	8.9	6.3	4.9	2.1
– non-food goods	0.2	0.4	0.9	0.4	0.1	0.2	0.4	0.5	0.4	0.2	0.6	0.3	0.3
– services	0.1	0.3	0.4	0.7	1.3	0.3	0.2	-0.1	0.0	0.4	1.1	0.2	0.1
Month-on-month price growth, seasonally adjusted													
– all goods and services	0.3	0.4	0.4	0.5	0.2	0.5	0.4	0.4	0.4	0.6	0.8	0.4	0.3
– food products	0.3	0.4	-0.1	0.4	0.3	0.9	0.5	0.3	0.6	1.0	0.6	0.5	0.3
including: fruit and vegetables	2.4	1.5	-3.2	-0.9	-0.1	5.2	-0.4	-1.7	0.6	3.6	0.3	1.5	0.4
– non-food goods	0.1	0.4	0.9	0.5	0.2	0.2	0.3	0.3	0.3	0.3	0.7	0.3	0.2
– services	0.4	0.5	0.3	0.5	-0.1	0.4	0.4	0.4	0.3	0.4	1.2	0.3	0.4
Price growth on December of previous year													
– all goods and services	0.8	1.2	1.6	2.1	2.4	2.4	2.5	2.9	3.4	4.3	1.0	1.5	1.8
– food products	1.4	1.8	1.8	2.2	1.8	1.4	1.3	1.9	2.9	4.7	1.3	2.1	2.6
including: fruit and vegetables	11.8	14.6	13.1	13.7	7.9	1.0	-5.9	-6.9	-3.7	4.9	6.3	11.5	13.9
– non-food goods	0.6	1.0	1.9	2.3	2.4	2.6	3.0	3.5	3.9	4.1	0.6	0.9	1.2
– services	0.3	0.6	1.0	1.7	3.0	3.3	3.6	3.5	3.5	3.9	1.1	1.3	1.5
Core inflation, month on corresponding month of previous year	1.8	1.9	2.0	2.3	2.4	2.6	2.8	3.1	3.4	3.7	4.1	4.4	4.6
Median price growth, month on corresponding month of previous year	2.6	2.5	2.5	2.5	2.5	2.6	2.8	3.0	3.1	3.5	4.0	4.2	4.5
Average annual inflation	3.1	3.0	2.8	2.6	2.5	2.5	2.5	2.6	2.7	2.9	3.1	3.4	3.6

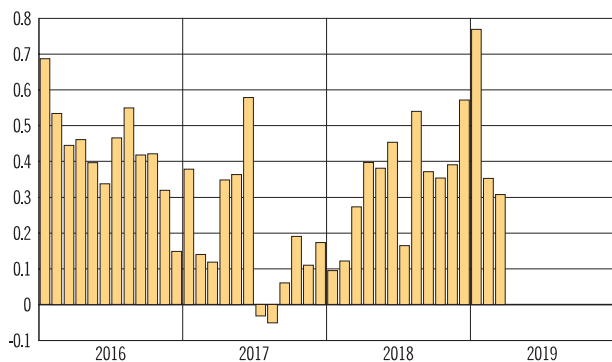
Source: Rosstat, Bank of Russia calculations.

Appendix 2

Monthly price growth (% , seasonally adjusted)

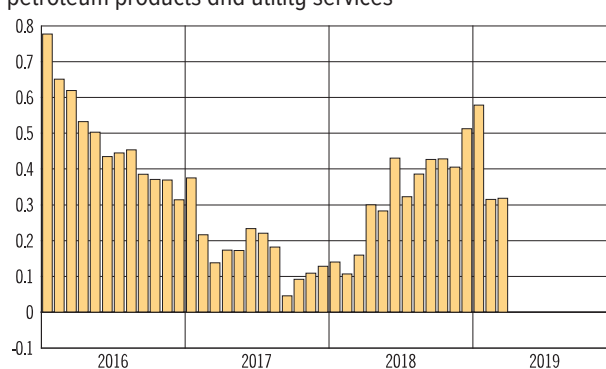
All goods and services

Chart 1



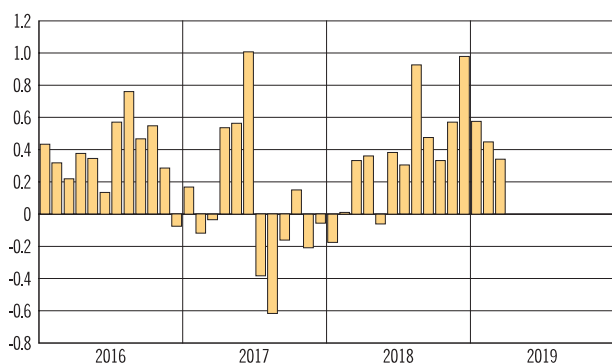
All goods and services excluding fruit and vegetables, petroleum products and utility services

Chart 5



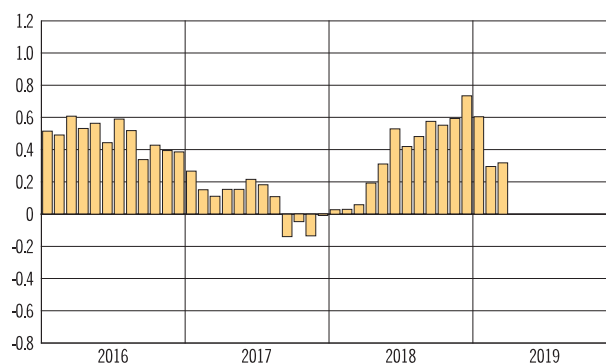
Food products

Chart 2



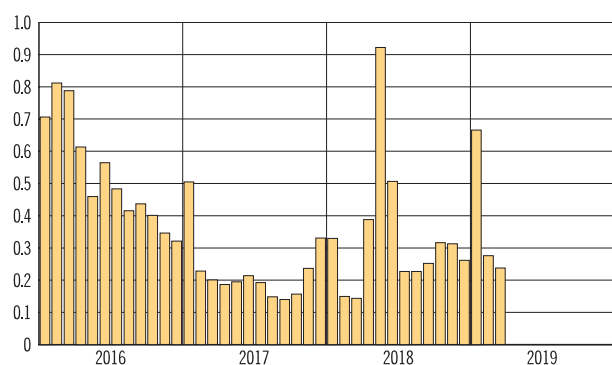
Food products excluding fruit and vegetables

Chart 6



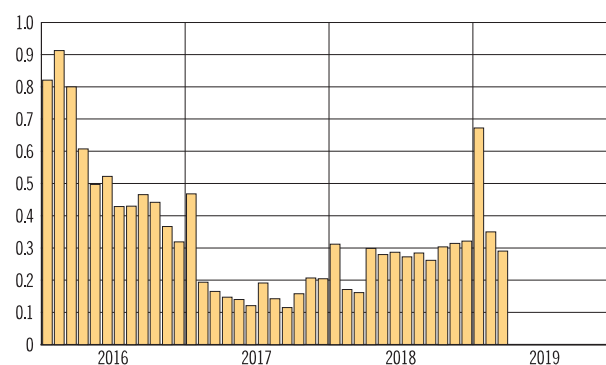
Non-food goods

Chart 3



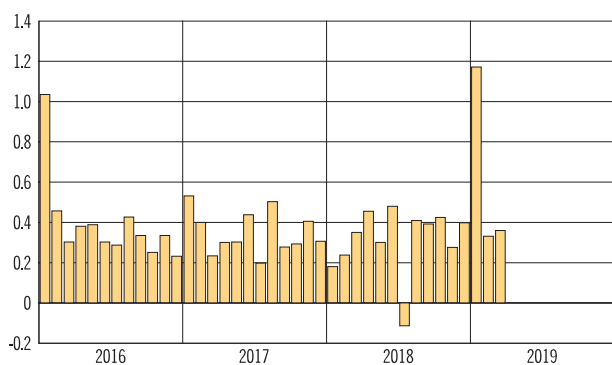
Non-food goods excluding petroleum products

Chart 7



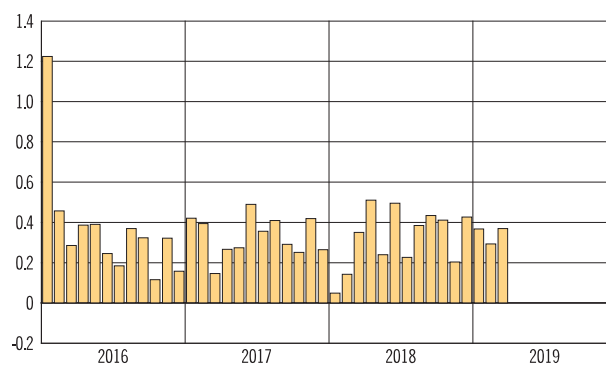
Services

Chart 4



Services (excluding utility services)

Chart 8



Cut-off date – 8 April 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 is prepared by the Monetary Policy Department.

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