



Bank of Russia



# CONSUMER PRICE DYNAMICS

No. 7 (43) • July 2019

Information and analytical commentary

12 August 2019

## Consumer price dynamics: facts, estimates and comments (July 2019)

In July 2019, inflation continued to slow down. The annual growth of consumer prices was 4.6%, which is 0.1 pp lower vs June. The slowdown was mostly caused by the expected fall in the annual growth of utility rates. The latter was due to a lower indexation of utility rates as compared to the previous year. The first stage of the indexation was carried out in January. That resulted in a significant deceleration of the annual growth rates of service prices. Annual food price inflation remained at the June level, while fruit and vegetable prices rose quicker and the growth of prices for other food groups slowed down. The annual non-food price inflation rate increased, largely because of the base effect in petroleum product price trends. The seasonally adjusted monthly growth rate of consumer prices rose after its deceleration in June. Monthly inflation fluctuations are mostly due to the volatility of fruit and vegetable prices. According to the Bank of Russia's forecast, inflation will go back to 4% in early 2020 driven by the current monetary policy.

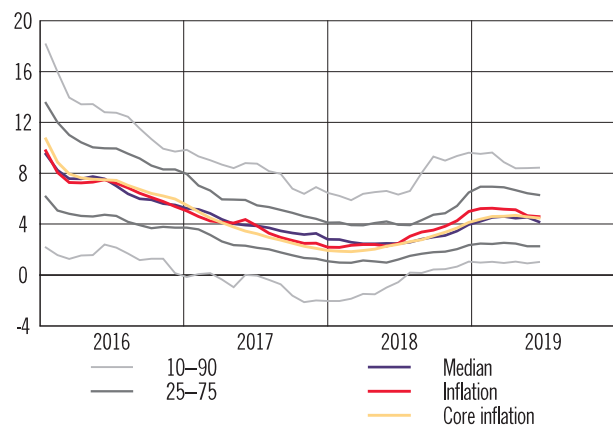
In July 2019, the annual inflation rate slowed down by 0.1 pp to 4.6%. That was largely the result of a lower indexation of utility rates (Chart 1, Annex 1). The annual growth rates of service prices decreased for the same reason. Annual food price inflation remained at the June level. A higher growth rate of fruit and vegetable price inflation was set off by a slower increase in prices for other food groups. Non-food price inflation accelerated mainly due to the base effect in motor fuel price trends.

Core inflation decreased again by 0.1 pp to 4.5%. The median of annual consumer price growth came in at 4.2%, which is 0.3 pp below the level recorded in May–June.

The seasonally adjusted monthly growth of consumer prices in July went up by 0.1 pp to 0.2%, driven by higher fruit and vegetable prices after their considerable downturn in June. Seasonally adjusted non-food price inflation did not change. On average, service prices remained at the June level, while utility rates reduced and the inflation rate of prices for other service groups stayed at the level of the previous month. The estimated growth of goods and service prices without taking into account the main volatile and regulated components (fruit and vegetables, petroleum products and utility services) totalled 0.3% (as in February–June, except May).

Distribution of goods and service price growth, inflation and core inflation Chart 1

Per cent change vs the same month of the previous year

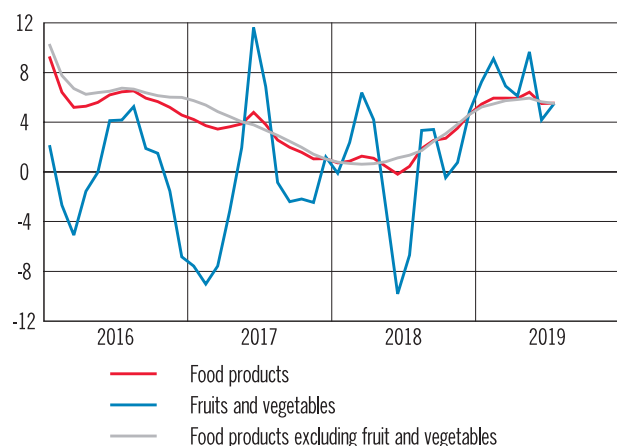


Sources: Rosstat, Bank of Russia calculations.

## Food prices

Chart 2

Per cent change vs the same month of the previous year



Source: Rosstat.

## Food products

After the decrease in June, the estimated growth of seasonally adjusted food prices in July 2019 came in at 0.3%. As was expected, the non-food price inflation rate fluctuated mainly due to volatility of fruit and vegetable prices.<sup>1</sup> In July, seasonally adjusted fruit and vegetable prices increased by 0.8%, driven by the cool weather. That happened after their fast drop in June caused by the early harvest. Tomato and cucumber prices that tend to vary widely showed a significant increase. According to the estimate, cabbage, potato, carrot, beetroot and onion became cheaper (seasonally adjusted prices).

The monthly growth rate of prices for food products, other than fruit and vegetables, was 0.3% (as in February–June 2019, excluding May).

The annual food price inflation rate remained unchanged at 5.5% (Chart 2). The annual growth rate of fruit and vegetable prices increased by 1.2 pp to 5.4% after the downturn in June caused by the early harvest. It should be noted that this level is considerably lower than in January–May.

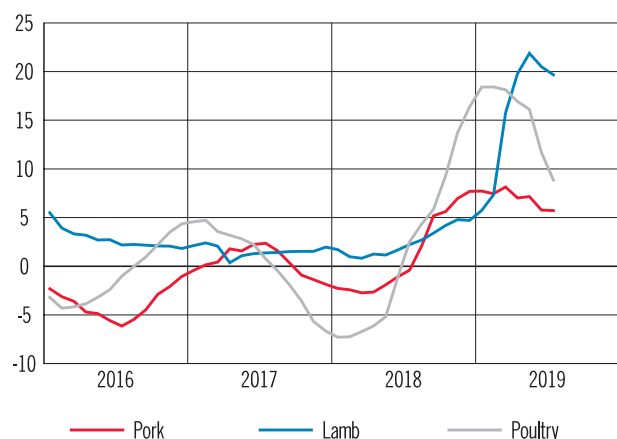
The annual growth rate of prices for food products, other than fruit and vegetables, had been decelerating for five consecutive months and came in at 5.5% (0.1 pp lower vs June). As in June, the annual growth rate of meat and poultry prices declined. This can suggest that the supply and demand adjustment has completed (Chart 3). The growth rate of lamb meat prices slowed down after the surge in March–May. The annual sugar price growth rate significantly decelerated. Sugar prices returned to the level recorded in July 2018 (Chart 4).

The annual growth rate of prices for grain products (bread and baked goods, cereals and legumes, pasta) continued to rise, resulting from the low base effect of the previous year. The seasonally smoothed growth of prices for these product groups slowed down in June–July after the acceleration in early 2019 when retail prices had been adjusting to the wholesale price increase at the end of 2018. Price growth in this product category is still excessive, being

## Meat product prices

Chart 3

Per cent change vs the same month of the previous year

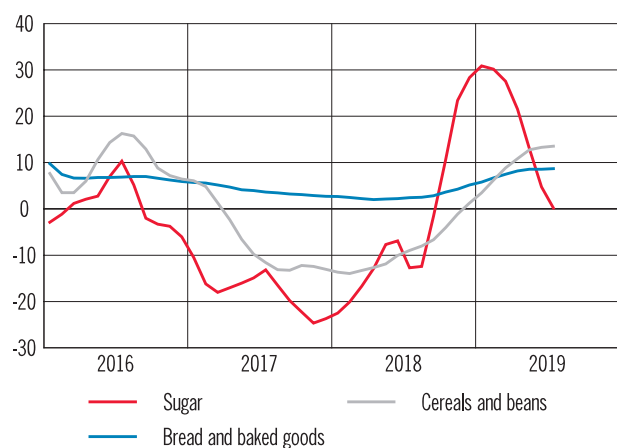


Source: Rosstat.

## Prices for sugar and grain products

Chart 4

Per cent change vs the same month of the previous year



Source: Rosstat.

<sup>1</sup> *Consumer Price Dynamics, informational and analytical commentary. No. 6 (42), June 2019.* [http://www.cbr.ru/Collection/Collection/File/20063/INF\\_2019-06.pdf](http://www.cbr.ru/Collection/Collection/File/20063/INF_2019-06.pdf).

evidently supported by lower forecasts of the country's harvest revised downwards due to the dry weather in June. The annual growth rates of prices for milk and dairy products (including dairy butter) also continued to increase. The supply adjustment process has not completed yet in this market segment (Chart 5). On 1 July 2019, mandatory electronic veterinary certification in the Mercury system became effective for a range of dairy products, which could have had an additional temporary effect on the growth rates.

## Non-food goods

In July 2019, the estimated monthly inflation of non-food prices (seasonally adjusted) was 0.3%, i.e. it remained the same as compared to June. After the increase in June, the growth rate of petroleum product prices decelerated to the level recorded in May (0.2%). The estimated growth rate of prices for other groups of goods averaged 0.3% (0.1 pp higher vs April–June).

The annual non-food price inflation rate rose by 0.1 pp to 3.6% (Chart 6). This primarily resulted from the increased rate of annual petroleum product inflation caused by the base effect (in July 2018, the implemented regulatory measures entailed a 0.1% reduction in petroleum product prices).

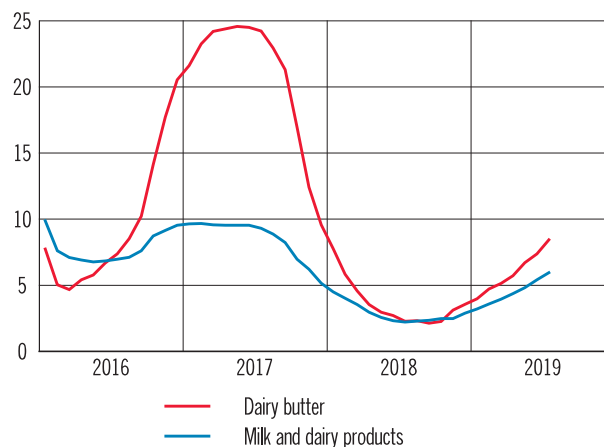
Prices for different non-food categories showed diverse dynamics, driven by local factors. The growth rate of prices for household appliances and electronics, construction materials and furniture continued to decline. The inflation rate in such categories as cars, washing and cleaning products increased.

## Services

According to the estimate, seasonally adjusted service prices and rates remained almost unchanged in July. This is explained by a smaller increase in utility rates than usual. On 1 July, utility rates rose by 2.5%, which was in line with expectations. That was the second stage of the indexation. The first one was complete in January and was associated with the VAT rate increase. The planned growth of utility rates for the year in general (except rates for municipal solid waste management services) will be close to 4% and will not put upward pressure on the

Prices for milk, dairy products, and dairy butter Chart 5

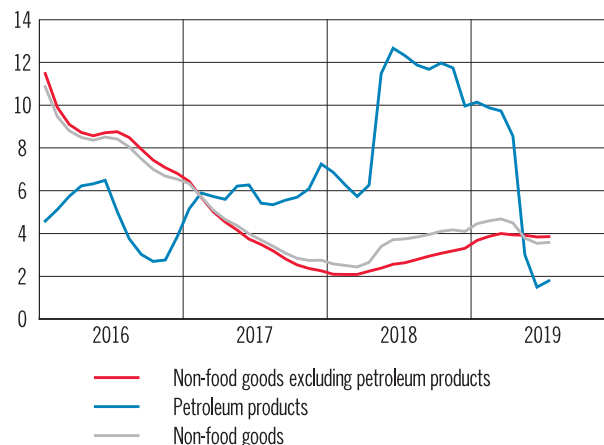
Per cent change vs the same month of the previous year



Source: Rosstat.

Non-food prices Chart 6

Per cent change vs the same month of the previous year

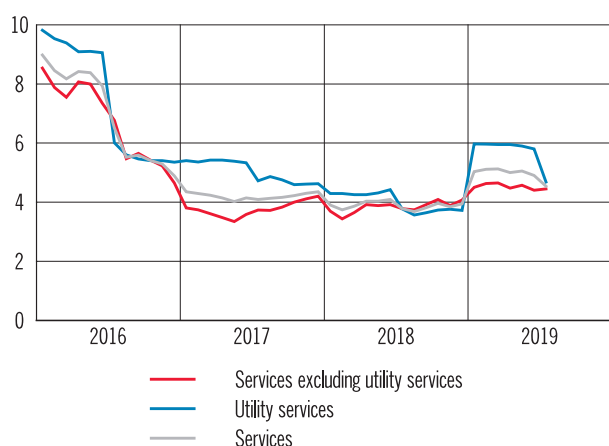


Sources: Rosstat, Bank of Russia calculations.

## Service prices

Chart 7

Per cent change vs the same month of the previous year



Sources: Rosstat, Bank of Russia calculations.

## Inflation in federal districts

Table 1

Per cent change vs the same month of the previous year

|                    | June 2019  | July 2019  | Price growth rates, July vs June 2018 |
|--------------------|------------|------------|---------------------------------------|
| <b>Russia</b>      | <b>4.7</b> | <b>4.6</b> | <b>-0.1</b>                           |
| Central FD         | 4.7        | 4.7        | 0.0                                   |
| North-Western FD   | 4.6        | 4.5        | -0.1                                  |
| Southern FD        | 4.9        | 4.8        | -0.1                                  |
| North Caucasian FD | 4.5        | 4.4        | -0.1                                  |
| Volga FD           | 4.4        | 4.3        | -0.1                                  |
| Urals FD           | 4.2        | 4.1        | -0.1                                  |
| Siberian FD        | 5.1        | 5.1        | 0.0                                   |
| Far Eastern FD     | 4.9        | 4.9        | 0.0                                   |

Sources: Rosstat, Bank of Russia calculations.

## Inflation across regions

Table 2

Per cent change vs the same month of the previous year

| No.*   |                        | July 2018 | June 2019 | July 2019 |
|--|------------------------|-----------|-----------|-----------|
| <b>TOP-5 regions with highest inflation in July 2019</b> |                        |           |           |           |
| 1(1)   | Komi Republic          | 2.8       | 6.5       | 6.6       |
| 2(2)   | Yaroslavl Region       | 2.3       | 6.5       | 6.3       |
| 3(3)   | Irkutsk Region         | 3.2       | 6.2       | 6.1       |
| 4(4)   | Republic of Buryatia   | 3.1       | 6.1       | 6.1       |
| 5(7)   | Tambov Region          | 2.5       | 5.8       | 5.9       |
| <b>TOP-5 regions with lowest inflation in July 2019</b>  |                        |           |           |           |
| 78(66)   | Kirov Region           | 2.8       | 4.2       | 3.5       |
| 79(80)   | Udmurt Republic        | 1.8       | 3.2       | 3.3       |
| 80(81)   | Tyumen Region          | 1.9       | 3.1       | 3.1       |
| 81(79)   | Republic of Ingushetia | 2.1       | 3.3       | 3.0       |
| 82(82)   | Altai Republic         | 1.7       | 2.4       | 2.4       |

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

Sources: Rosstat, Bank of Russia calculations.

inflation rate. The estimated monthly growth (seasonally adjusted) of prices for services, other than utility services, was 0.3% as compared to 0.3–0.4% in January–June.

The annual growth rate of service prices decelerated by 0.4 pp to 4.5%, primarily owing to slower utility rate inflation that decreased to 4.7% (vs 5.8% in June 2019; Chart 7). The annual growth of utility rates, excluding rates for municipal solid waste management services, totalled 4.3% (which is 1.5 pp less than in June).

The growth rate of prices for services, other than utility services, was the same on average (4.4%). Price dynamics in individual service groups remained diverse. The growth of transportation rates accelerated, having returned to the level recorded in March–May. Flight tickets went up the most, reflecting a delayed response to the fuel price increase. The annual growth of prices for cultural institutions' services accelerated, while the growth rate of prices for tourism services slowed down, supported, among other factors, by the stronger ruble.

## Inflation across regions

The annual inflation rate in most regions slowed down in July 2019 as compared to the previous month (49 regions accounting for approximately 72% in the CPI; Table 1). The indexation of utility rates and the food price trends were the major drivers of the diverse inflation dynamics across the regions. The highest deceleration of the annual inflation rate was recorded in the European part of Russia. This was mostly associated with the base effect in food price inflation and the dynamics of prices for tourism and utility services. As to non-food categories, prices in various regions also became more diverse. Namely, 35 out of 82 regions recorded a slowdown in inflation, while 57 regions – its acceleration. This was primarily the result of diverse dynamics in prices for medical goods. The expected heterogeneity of service price growth rates across regions in July was caused by both the differences in the scale of the utility rate indexation and local factors impacting the dynamics of prices for tourism and passenger transportation services (mostly

for long-distance train and flight tickets) and communication services.

The distribution of regional inflation in July changed only slightly as compared to June. A minor rotation of regions was recorded in the group where inflation approximated the Russian average. That rotation was primarily the result of differences in the utility rate indexation. As compared to July 2018, the regional heterogeneity of inflation stays at a lower level (inflation rates across regions varied from 2.4% to 6.6%; Chart 8).

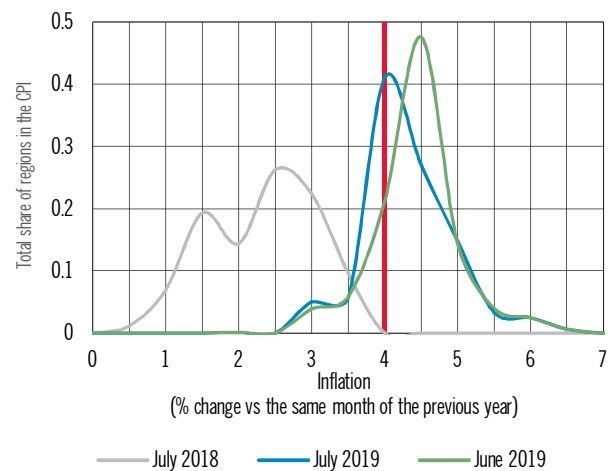
The distribution of the regions into three groups based on the inflation rates, which had remained in 2017–2018, completely smoothed in summer 2019. However, annual inflation rates in some regions remain sustainably higher (about 6%) and lower (about 3%) than the average Russian reading. Inflation dynamics in these regions are still driven by local factors, including those of a non-monetary nature.

## Inflation forecast

According to the Bank of Russia's forecast, inflation will go back to 4% in early 2020 driven by the current monetary policy<sup>2</sup>.

Change in regional distribution of inflation

Chart 8



Sources: Rosstat, Bank of Russia calculations.

<sup>2</sup> See *Monetary Policy Report, No. 2 (26), June 2019*, [http://www.cbr.ru / Collection / Collection / File / 19993 / 2019\\_02\\_ddcp.pdf](http://www.cbr.ru / Collection / Collection / File / 19993 / 2019_02_ddcp.pdf).

## Appendix 1

### Consumer price dynamics (%)

|   | 07.2018 | 08.2018 | 09.2018 | 10.2018 | 11.2018 | 12.2018 | 01.2019 | 02.2019 | 03.2019 | 04.2019 | 05.2019 | 06.2019 | 07.2019 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Price growth rates vs the same month of the previous year:                  |         |         |         |         |         |         |         |         |         |         |         |         |         |
| – all goods and services  | 2.5     | 3.1     | 3.4     | 3.5     | 3.8     | 4.3     | 5.0     | 5.2     | 5.3     | 5.2     | 5.1     | 4.7     | 4.6     |
| – food products   | 0.5     | 1.9     | 2.5     | 2.7     | 3.5     | 4.7     | 5.5     | 5.9     | 5.9     | 5.9     | 6.4     | 5.5     | 5.5     |
| of which: fruit and vegetables  | -6.7    | 3.3     | 3.4     | -0.5    | 0.8     | 4.9     | 7.3     | 9.1     | 6.9     | 6.1     | 9.7     | 4.2     | 5.4     |
| – non-food goods  | 3.8     | 3.8     | 4.0     | 4.1     | 4.2     | 4.1     | 4.5     | 4.6     | 4.7     | 4.5     | 3.8     | 3.5     | 3.6     |
| – services  | 3.8     | 3.7     | 3.8     | 4.0     | 3.8     | 3.9     | 5.0     | 5.1     | 5.1     | 5.0     | 5.1     | 4.9     | 4.5     |
| Core inflation, vs the same month of the previous year                      | 2.4     | 2.6     | 2.8     | 3.1     | 3.4     | 3.7     | 4.1     | 4.4     | 4.6     | 4.6     | 4.7     | 4.6     | 4.5     |
| Median of price growth distribution, vs the same month of the previous year | 2.5     | 2.6     | 2.8     | 3.0     | 3.1     | 3.5     | 4.0     | 4.2     | 4.5     | 4.6     | 4.5     | 4.5     | 4.2     |
| Average annual inflation  | 2.5     | 2.5     | 2.5     | 2.6     | 2.7     | 2.9     | 3.1     | 3.4     | 3.6     | 3.8     | 4.1     | 4.3     | 4.4     |
| Month-on-month price growth:  |         |         |         |         |         |         |         |         |         |         |         |         |         |
| – all goods and services  | 0.3     | 0.0     | 0.2     | 0.4     | 0.5     | 0.8     | 1.0     | 0.4     | 0.3     | 0.3     | 0.3     | 0.0     | 0.2     |
| – food products   | -0.3    | -0.4    | -0.1    | 0.6     | 1.0     | 1.7     | 1.3     | 0.8     | 0.5     | 0.4     | 0.4     | -0.5    | -0.3    |
| of which: fruit and vegetables  | -5.1    | -6.4    | -6.8    | -1.1    | 3.4     | 8.9     | 6.3     | 4.9     | 2.1     | 1.8     | 2.0     | -4.5    | -3.9    |
| – non-food goods  | 0.1     | 0.2     | 0.4     | 0.5     | 0.4     | 0.2     | 0.6     | 0.3     | 0.3     | 0.2     | 0.2     | 0.2     | 0.2     |
| – services  | 1.3     | 0.3     | 0.2     | -0.1    | 0.0     | 0.4     | 1.1     | 0.2     | 0.1     | 0.2     | 0.4     | 0.6     | 0.9     |
| Month-on-month price growth, seasonally adjusted:                           |         |         |         |         |         |         |         |         |         |         |         |         |         |
| – all goods and services  | 0.2     | 0.5     | 0.4     | 0.3     | 0.4     | 0.6     | 0.7     | 0.3     | 0.3     | 0.3     | 0.4     | 0.1     | 0.2     |
| – food products   | 0.3     | 0.9     | 0.5     | 0.3     | 0.5     | 1.0     | 0.5     | 0.4     | 0.3     | 0.3     | 0.5     | -0.2    | 0.3     |
| of which: fruit and vegetables  | -0.4    | 4.8     | -0.5    | -1.8    | 0.4     | 3.5     | 0.2     | 1.3     | 0.2     | 0.5     | 0.0     | -3.7    | 0.8     |
| – non-food goods  | 0.2     | 0.2     | 0.3     | 0.3     | 0.3     | 0.3     | 0.7     | 0.3     | 0.2     | 0.2     | 0.2     | 0.3     | 0.3     |
| – services  | -0.1    | 0.4     | 0.4     | 0.4     | 0.3     | 0.4     | 1.2     | 0.3     | 0.4     | 0.4     | 0.3     | 0.4     | 0.0     |
| Price growth vs December 2018:  |         |         |         |         |         |         |         |         |         |         |         |         |         |
| – all goods and services  | 2.4     | 2.4     | 2.5     | 2.9     | 3.4     | 4.3     | 1.0     | 1.5     | 1.8     | 2.1     | 2.4     | 2.5     | 2.7     |
| – food products   | 1.8     | 1.4     | 1.3     | 1.9     | 2.9     | 4.7     | 1.3     | 2.1     | 2.6     | 3.1     | 3.5     | 3.0     | 2.7     |
| of which: fruit and vegetables  | 7.9     | 1.0     | -5.9    | -6.9    | -3.7    | 4.9     | 6.3     | 11.5    | 13.9    | 16.0    | 18.3    | 13.0    | 8.5     |
| – non-food goods  | 2.4     | 2.6     | 3.0     | 3.5     | 3.9     | 4.1     | 0.6     | 0.9     | 1.2     | 1.3     | 1.6     | 1.7     | 1.9     |
| – services  | 3.0     | 3.3     | 3.6     | 3.5     | 3.5     | 3.9     | 1.1     | 1.3     | 1.5     | 1.7     | 2.1     | 2.7     | 3.6     |

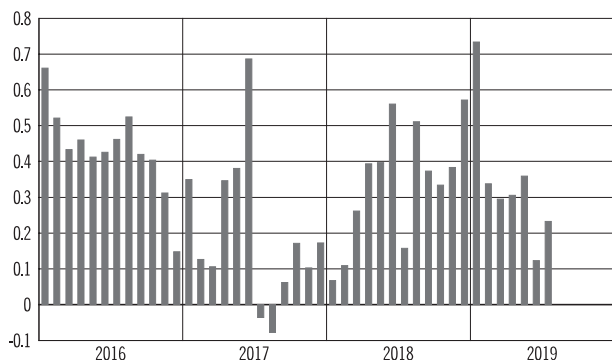
Sources: Rosstat, Bank of Russia calculations.

## Appendix 2

## Monthly price growth (% , seasonally adjusted)

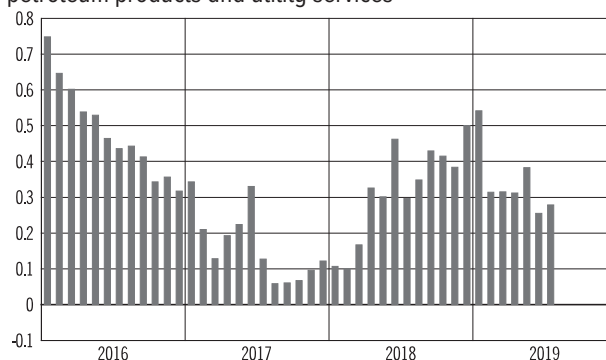
All goods and services

Chart 1



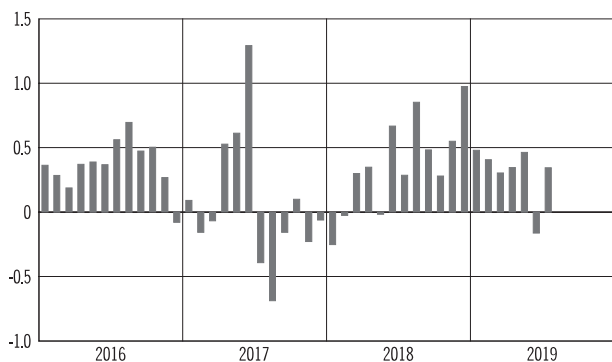
All goods and services excluding fruit and vegetables, petroleum products and utility services

Chart 5



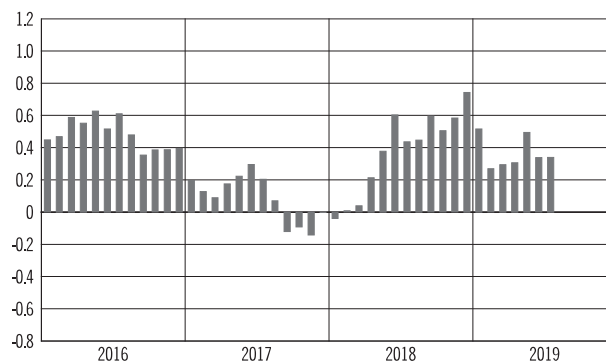
Food products

Chart 2



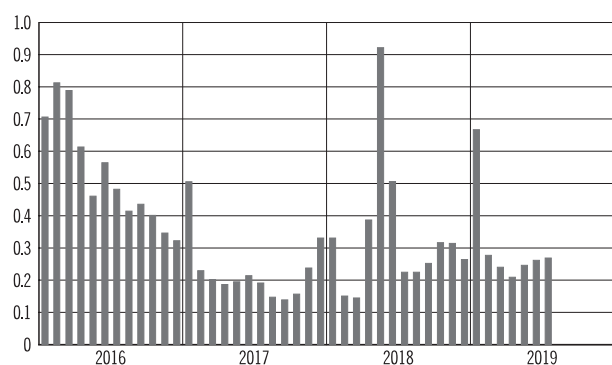
Food products excluding fruit and vegetables

Chart 6



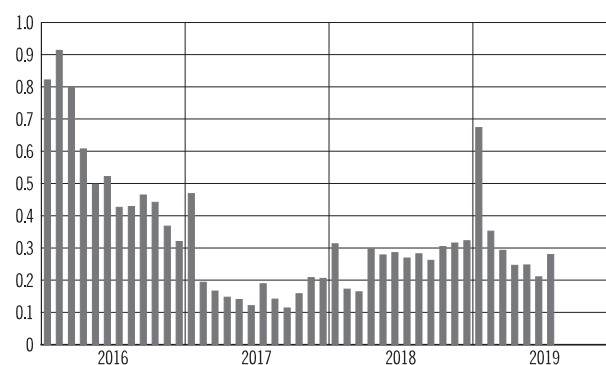
Non-food goods

Chart 3



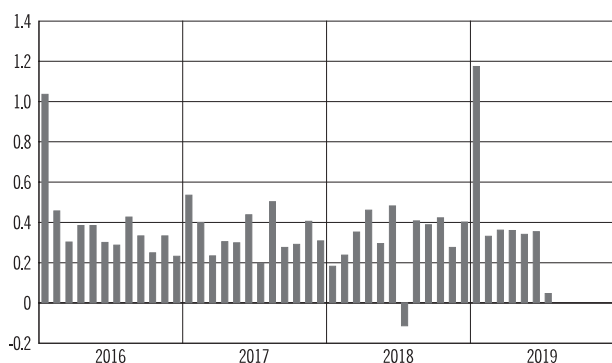
Non-food goods excluding petroleum products

Chart 7



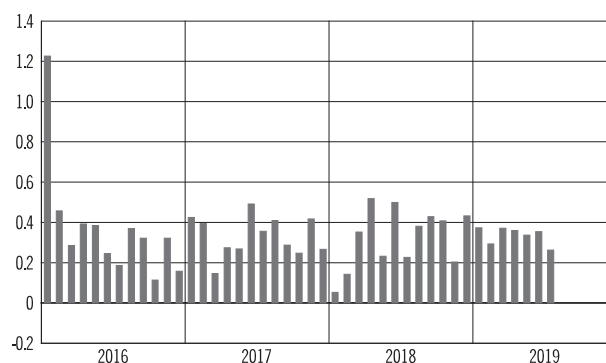
Services

Chart 4



Services excluding utility services

Chart 8





Cut-off date – 08.08.2019.

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