



Bank of Russia



CONSUMER PRICE DYNAMICS

No. 1 (49) • January 2020

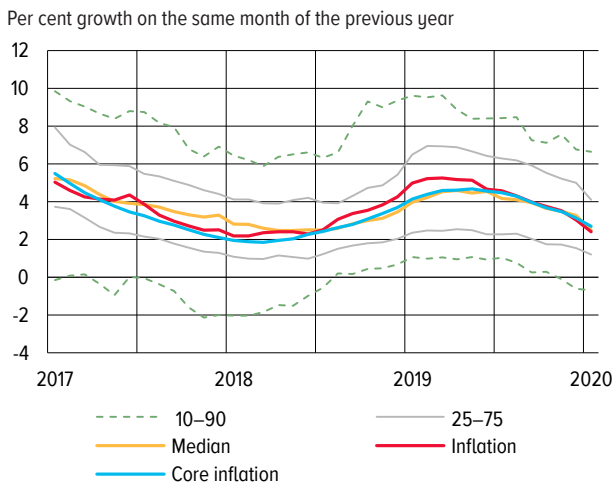
Information and analytical commentary

14 February 2020

Consumer price dynamics: facts, assessments and comments (January 2020)

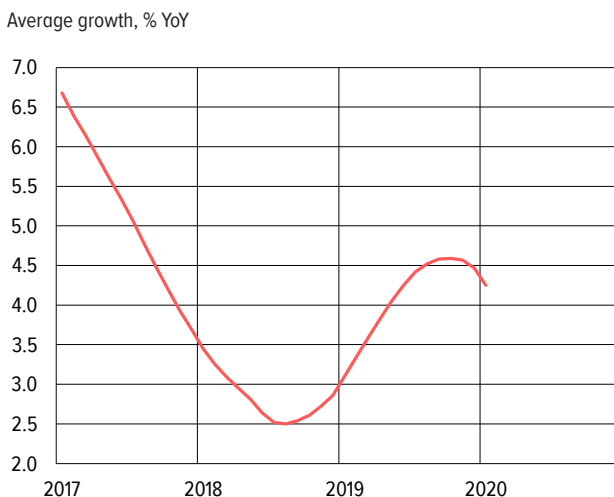
In January 2020, annual inflation came in at 2.4%, which is 0.6 pp lower than in December 2019. The decline was largely attributed to a statistical effect—the exclusion of price growth in January 2019 associated the VAT increase from the calculation. The slowdown in the annual growth of food prices, coupled with stable low monthly price increase (seasonally adjusted), was caused by the further expansion of supply in certain food markets. The appreciation of the ruble in 2019 contained growth in prices for goods with a high import component and import competitors. Subdued demand continued to impact inflation. According to the Bank of Russia's estimate, disinflationary risks still exceed pro-inflationary risks over the short-term horizon. In this context, given the pursued monetary policy, annual inflation will come in at 3.5–4.0% in 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.

MOVING AVERAGE ANNUAL INFLATION Chart 2



Sources: Rosstat, Bank of Russia calculations.

In January 2020, annual inflation stood at 2.4%, which is 0.6 pp lower than in December 2019 (Chart 1). The decline in annual inflation was expected due to a statistical effect—the exclusion of price growth in January 2019 associated the VAT increase from the calculation. Price growth was also curbed by the high saturation in a number of food markets, the 2019 appreciation of the ruble and subdued demand.

In January, the rate of annual growth in prices for a wide range of goods and services decreased (Annex 1). The largest contribution to the slowdown in inflation came from the decline in the annual increase of utility rates due to the statistical high base effect of the last year.

Core inflation fell by 0.4 pp to 2.7%. According to estimates, the annual growth of goods and service prices, excluding the main volatile and regulated components,¹ decelerated by 0.5 pp to 2.6%. The median of annual consumer price growth came in at 2.5% (a 0.8 pp drop). Average annual inflation continued to go down, coming in at 4.3% in January (Chart 2).

According to the estimate, the rate of monthly growth in consumer prices (seasonally adjusted, annualised,² SAAR), came in at 2.1%, holding within the range typical of the previous five months (1.2–2.9%). The prices for goods

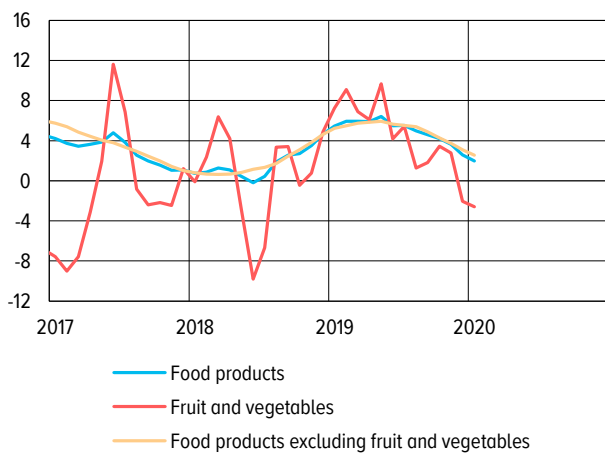
¹ Fruit and vegetables, petrochemicals and utility services.

² Annualisation makes data on monthly price growth comparable with data on annual inflation.

FOOD PRICES

Chart 3

Per cent growth on the same month of the previous year

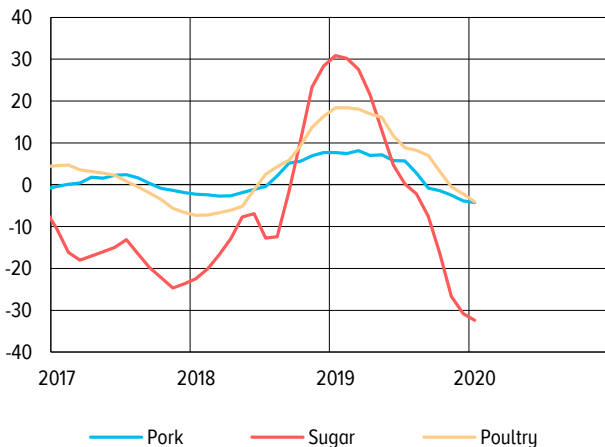


Source: Rosstat.

MEAT AND SUGAR PRICES

Chart 4

Per cent growth on the same month of the previous year

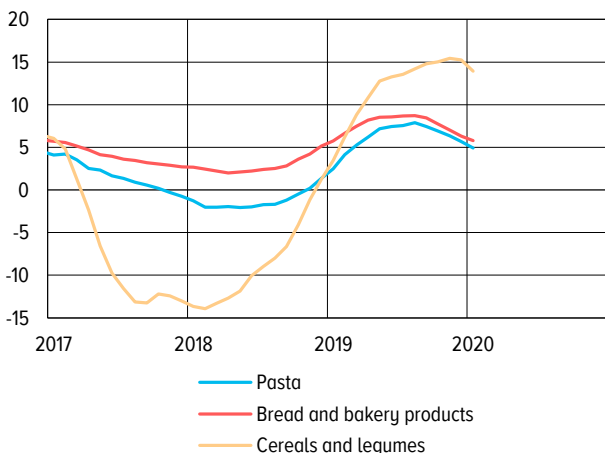


Source: Rosstat.

PRICES FOR GRAIN PRODUCTS

Chart 5

Per cent growth on the same month of the previous year



Source: Rosstat.

and services without main volatile and regulated components rose in January by 1.1%, according to the estimate, which is close to the reading registered in December 2019 (refer to Annex 2).³

Food products

According to estimates, prices of food products remained overall unchanged on average in January and in the previous month (SAAR). Over the past four months, their change was also negligible (SAAR). The situation in the food market was influenced by high supply of processed animal and plant-based agricultural products (grain, meat and dairy products, eggs, sugar), good harvest of ground and greenhouse vegetables, and the appreciation of the ruble in 2019 Q4.

The prices of fruit and vegetables have fallen for the fourth month in a row (SAAR). The reduction (SAAR) was registered for nearly all such products, including cabbage, potato, carrot, beetroot, onion, cucumbers, fruit and citrus. According to estimates, the prices of food products other than fruit and vegetables remained at the level of the previous month in January. Since October, their monthly price growth has failed to exceed 0.1%.

Annual food inflation slowed down by 0.6 pp to 2.0% (Chart 3). The greatest contribution came from the drop (by 0.9%) in prices for meat and poultry compared with last January (in December 2019, growth totalled 0.2%) (Chart 4). A tangible contribution was made by egg prices, which fell by 8.6% compared with the previous year (in December 2019, they dropped by 5.0%). Prices for sugar, which dropped by almost one third compared with January 2019, continued to go down.

The fall in fruit and vegetable prices accelerated. Annual growth continued in prices for grain processing products, except for buckwheat (Chart 5).

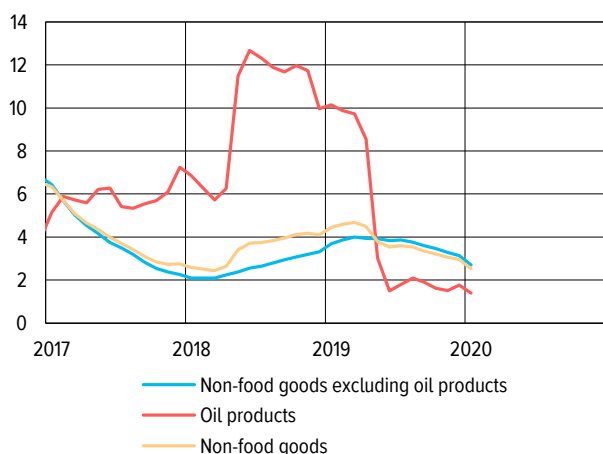
The overall favourable situation in the markets for food products and agricultural raw materials in the months to come will be the main factor constraining food inflation. The acceleration of

³ Refer also to the charts showing the current dynamics of prices for individual goods and service groups in 2020 as compared to 2017–2019 (not seasonally adjusted): information bulletin 'Consumer Price Indices'.

NON-FOOD GOODS PRICES

Chart 6

Per cent growth on the same month of the previous year

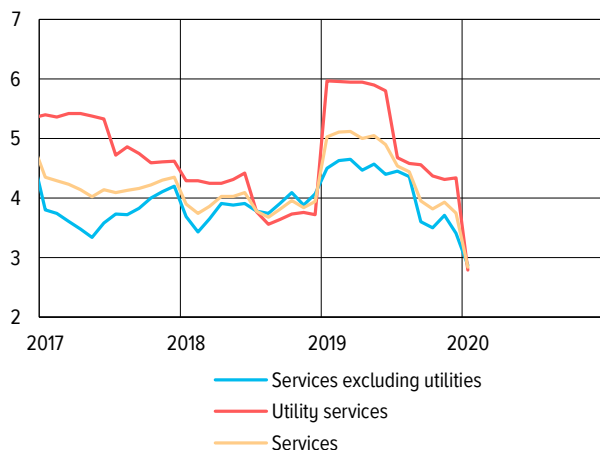


Sources: Rosstat, Bank of Russia calculations.

SERVICE PRICES

Chart 7

Per cent growth on the same month of the previous year



Sources: Rosstat, Bank of Russia calculations.

global prices for grain, vegetable oils and dairy products cause certain pro-inflationary risks.

Non-food goods

According to estimates, monthly growth of non-food goods prices (SAAR) came in at 3.2%. This is higher than in the previous five months, when monthly growth was in the range of 1.1–2.4% (SAAR). The acceleration is associated with a slower decline or stabilisation of prices for communication facilities, household appliances, TV and radio goods, and PCs, as well as with faster growth of prices for cars and petrochemicals, including due to the increase in excise taxes and disposal fees from 1 January 2020.

The decline in the annual growth rate of non-food prices (by 0.5 pp, to 2.5%) was largely associated with the exclusion of the increase in prices in January 2019, when its rate accelerated considerably on the back of the VAT hike (Chart 6). This January, annual growth in the prices of a wide range of products slowed down.

Services

The rise in service prices in January 2020 totalled 4.4% (SAAR), which is 2.3 pp higher than in December 2019. Utility rates rose, according to estimates, by 1.0% (12.8% SAAR), mostly due to the increase in overhaul fees.

According to estimates, the prices for services, excluding core regulated components (utility rates and railway fares) remained unchanged on average (SAAR) for the first time over a long period (since May 2015). This points to the ongoing constraining effect of demand and the appreciation of the ruble on prices.

Annual growth of service prices also decreased by 1.0 pp, to 2.8% (Chart 7). The greatest contribution came from the slowdown in utility rate growth (to 2.3% vs 5.1% in December). This happened as the effect of the VAT rise-related additional indexation of utility rates in January 2019 abated. This year, the indexation will take place in July in accordance with the traditional schedule, and the base effect will explain the low annual growth of utility rates in the first half of the year.

The second largest contribution came from transport fare movements. The main role was

INFLATION IN THE FEDERAL DISTRICTS

Table 1

Per cent growth on the same month of the previous year

	December 2019	January 2020	Price growth, January on December 2019
Russia	3.0	2.4	-0.6
Central FD	3.0	2.3	-0.7
North-Western FD	3.0	2.6	-0.4
Southern FD	2.7	1.9	-0.8
North Caucasian FD	3.2	2.8	-0.4
Volga FD	2.7	2.1	-0.6
Urals FD	3.1	2.4	-0.7
Siberian FD	3.6	2.9	-0.7
Far Eastern FD	3.9	3.4	-0.5

Sources: Rosstat, Bank of Russia calculations.

INFLATION IN RUSSIAN REGIONS

Table 2

Per cent growth on the same month of the previous year

No.*		January 2019	December 2019	January 2020
Top 5 highest inflation regions, January 2020				
1 (2)	Jewish Autonomous Region	4.7	4.7	4.8
2 (1)	Amur Region	5.1	4.8	4.6
3 (5)	Republic of Buryatia	6.1	4.1	4.0
4 (9)	Trans-Baikal Territory	4.4	3.8	3.8
5 (36)	Republic of Komi	6.1	3.0	3.6
Top 5 lowest inflation regions, January 2020				
78 (78)	Tula Region	5.6	2.1	1.5
79 (82)	Republic of North Ossetia–Alania	4.4	1.9	1.5
80 (61)	Magadan Region	5.4	2.6	1.4
81 (76)	Smolensk Region	6.0	2.2	1.3
82 (80)	Republic of Mordovia	4.2	2.0	1.1

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

Sources: Rosstat, Bank of Russia calculations.

played by a decline in the annual growth of air transportation fares, which nevertheless remained high (7.1%). Reduction was also registered in the annual growth of public transport and railway fares (including due to changes in the annual indexation pattern).

Services other than utility services and railway fares were 2.9% more expensive in January than a year earlier (a decrease by 0.5 pp compared with December 2019).

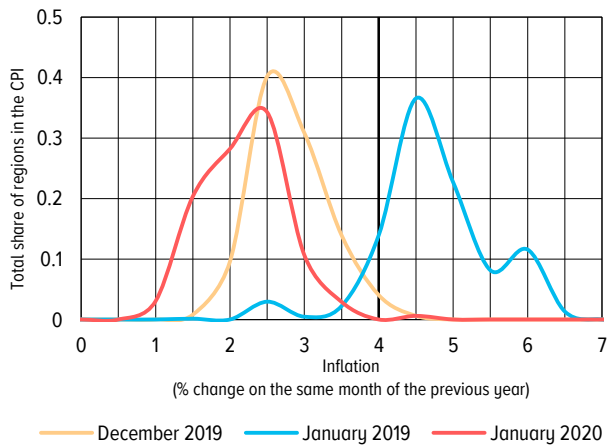
Inflation in Russian regions

Annual inflation in the absolute majority of regions slowed down in January 2020 as compared to the previous month (79 regions accounting for approximately 99% in the CPI, Tables 1 and 2). Growth of prices for the core components of the consumer basket (food products, non-food goods and services) decelerated. In certain regions (Southern, Central and North-Western Federal Districts), local factors continue to exert a considerable effect on price movements. That said, in other regions, inflation dynamics in January were largely determined by the factors observed at the federal level.

In January, regional heterogeneity of inflation was registered (Chart 8). It decelerated most significantly in the Southern Federal District and least significantly in the North-Western Federal District. The distribution of regional inflation in January changed against the previous month: more regions registered inflation below the Russian average level.

The largest contribution to raising the heterogeneity of price dynamics came from uneven annual growth in utility rates. It highlighted considerable regional differences in the scale of changes in January 2019 in utility rates associated with the increase in the VAT rate and the rates for solid waste management services.

The dynamics of passenger transportation fares also played a certain role. These were largely associated with local specifics of the annual indexation pattern for railway fares. Thus, certain regions of Siberia (Novosibirsk and Tomsk regions), the Urals (Tyumen region)

CHANGES IN THE REGIONAL DISTRIBUTION OF INFLATION *Chart 8*

Sources: Rosstat, Bank of Russia calculations.

and the North-West (Murmansk and Leningrad regions, and Saint Petersburg) registered a considerable slowdown in their annual growth. In contrast, in certain regions of the North Caucasus, it accelerated (e.g., in the Chechen Republic and the Republic of Ingushetia).

Inflation forecast

According to the Bank of Russia's estimate, disinflationary risks still exceed pro-inflationary risks over the short-term horizon. In this context, given the pursued monetary policy, annual inflation will come in at 3.5–4.0% in 2020 and will stay close to 4% further on.

Annex 1

CONSUMER PRICE DYNAMICS

(%)

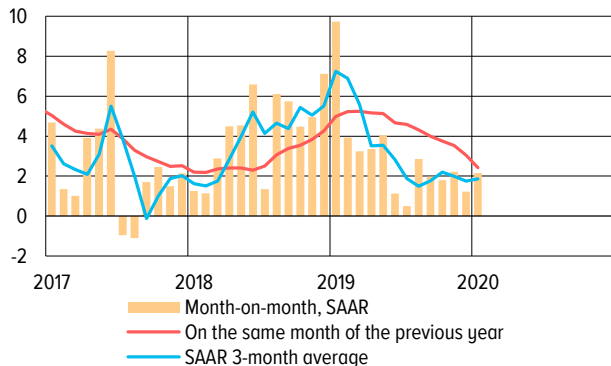
	01.2019	02.2019	03.2019	04.2019	05.2019	06.2019	07.2019	08.2019	09.2019	10.2019	11.2019	12.2019	01.2020
Price growth on the same month of the previous year:													
– all goods and services	5.0	5.2	5.3	5.2	5.1	4.7	4.6	4.3	4.0	3.8	3.5	3.0	2.4
– food products	5.5	5.9	5.9	5.9	6.4	5.5	5.5	5.0	4.6	4.2	3.7	2.6	2.0
of which: fruit and vegetables	7.3	9.1	6.9	6.1	9.7	4.2	5.4	1.3	1.8	3.4	2.8	-2.1	-2.6
– non-food goods	4.5	4.6	4.7	4.5	3.8	3.5	3.6	3.5	3.4	3.2	3.1	3.0	2.5
– services	5.0	5.1	5.1	5.0	5.1	4.9	4.5	4.4	4.0	3.8	3.9	3.8	2.8
Core inflation, on the same month of the previous year	4.1	4.4	4.6	4.6	4.7	4.6	4.5	4.3	4.0	3.7	3.5	3.1	2.7
Median of price growth distribution, on the same month of the previous year	4.0	4.2	4.5	4.6	4.5	4.5	4.2	4.1	3.9	3.6	3.5	3.3	2.5
Average annual inflation	3.1	3.3	3.6	3.8	4.0	4.2	4.4	4.5	4.6	4.6	4.6	4.5	4.3
Month-on-month price growth:													
– all goods and services	1.0	0.4	0.3	0.3	0.3	0.0	0.2	-0.2	-0.2	0.1	0.3	0.4	0.4
– food products	1.3	0.8	0.5	0.4	0.4	-0.5	-0.3	-0.9	-0.4	0.2	0.5	0.7	0.7
of which: fruit and vegetables	6.3	4.9	2.1	1.8	2.0	-4.5	-3.9	-10.1	-6.3	0.4	2.7	3.8	5.7
– non-food goods	0.6	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.1	0.2
– services	1.1	0.2	0.1	0.2	0.4	0.6	0.9	0.2	-0.2	-0.2	0.1	0.2	0.2
Month-on-month price growth (SAAR):													
– all goods and services	9.7	3.9	3.2	3.3	4.0	1.1	0.5	2.9	2.0	1.8	2.2	1.2	2.1
– food products	6.8	4.6	3.0	3.5	5.0	-2.5	2.9	3.6	2.3	0.0	0.8	-0.2	-0.3
of which: fruit and vegetables	2.1	15.6	1.8	5.4	-1.7	-37.8	7.8	10.2	1.0	-1.8	-2.2	-12.2	-4.2
– non-food goods	8.4	3.4	2.9	2.5	2.9	3.1	3.2	2.0	1.1	2.4	1.9	2.0	3.2
– services	15.8	3.9	4.1	4.0	3.8	3.8	-5.8	3.2	2.5	3.4	4.5	2.1	4.4

Sources: Rosstat, Bank of Russia calculations.

Annex 2

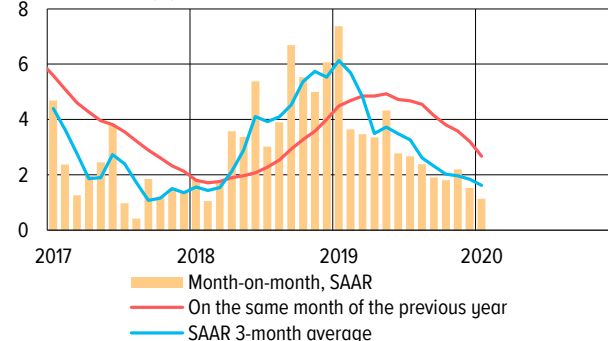
ALL GOODS AND SERVICES (%)

Chart 1



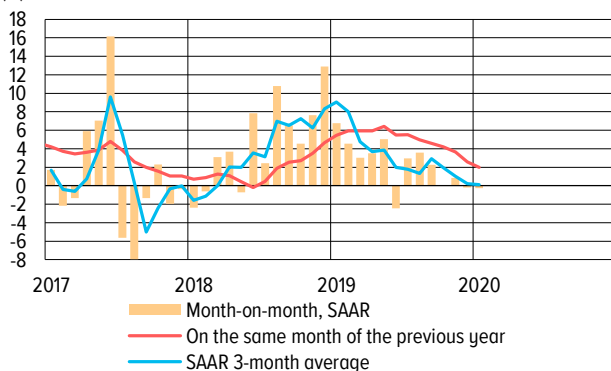
ALL GOODS AND SERVICES EXCLUDING FRUIT AND VEGETABLES, PETROLEUM PRODUCTS AND UTILITIES (%)

Chart 5



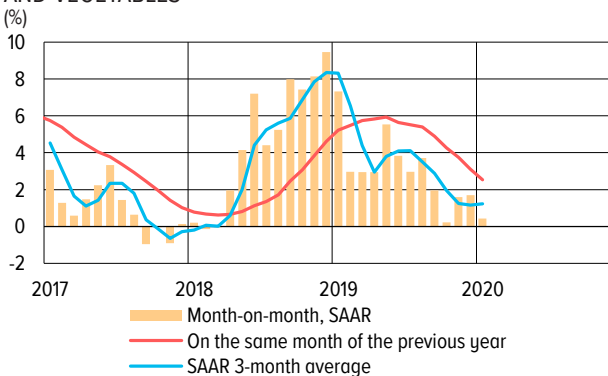
FOOD PRODUCTS (%)

Chart 2



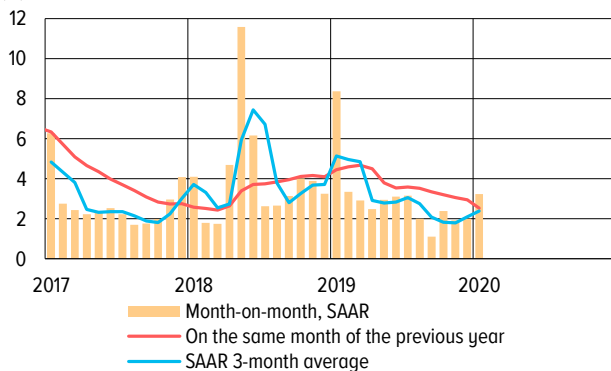
FOOD PRODUCTS EXCLUDING FRUIT AND VEGETABLES (%)

Chart 6



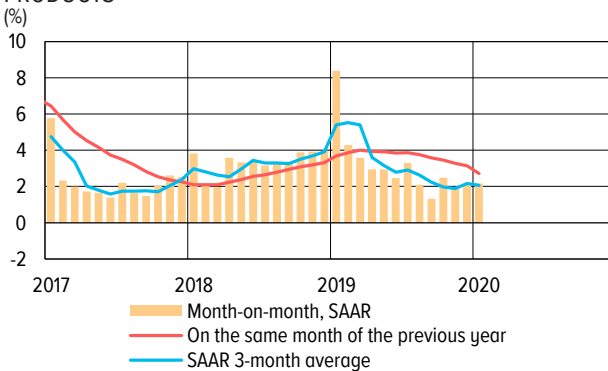
NON-FOOD GOODS (%)

Chart 3



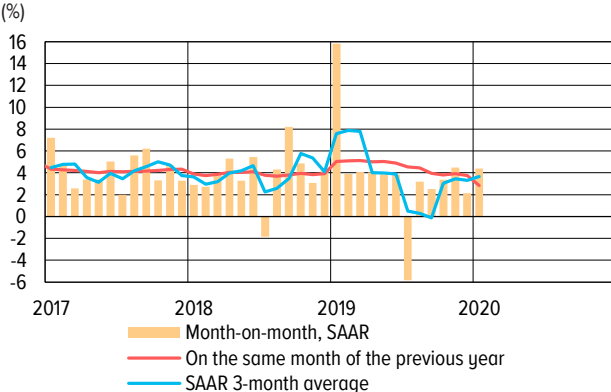
NON-FOOD GOODS EXCLUDING PETROLEUM PRODUCTS (%)

Chart 7



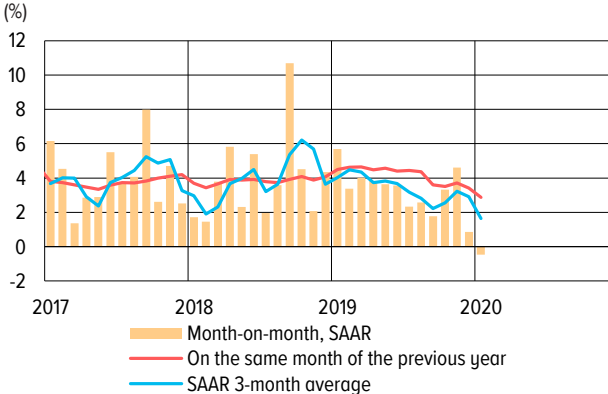
SERVICES (%)

Chart 4



SERVICES EXCLUDING UTILITIES (%)

Chart 8



Data cut-off date – 10.02.2020.

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.

This commentary was prepared by the Monetary Policy Department.

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12 Neglinnaya Street, 107016 Moscow

Bank of Russia website: www.cbr.ru