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**CONSUMER  
PRICE  
DYNAMICS**

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## Consumer price dynamics: facts, assessments and comments (October 2018)

Annual inflation rose from 3.4% in September to 3.5% in October, which is broadly consistent with its path in the Bank of Russia's baseline forecast. Food inflation remains the main driver of consumer price growth. The strongest impact comes from the changing balance of supply and demand in individual food markets, and exchange rate movements. October saw a rise in annual growth in consumer prices of non-food goods and services. Apart from the ruble depreciation earlier this year, the upcoming VAT increase may have already started exerting its effect. The Bank of Russia forecasts that annual inflation will reach 3.8-4.2% by the end of 2018.

Table 1

### Consumer price dynamics (%)

	October 2016	October 2017	August 2018	September 2018	October 2018
<b>Inflation</b>					
month on corresponding month of previous year	6.1	2.7	3.1	3.4	3.5
month on month / seasonally adjusted	0.4/0.4	0.2/0.2	0.0/0.5	0.2/0.4	0.4/0.3
<b>Price growth on corresponding month of previous year</b>					
food products	5.7	1.6	1.9	2.5	2.7
including fruit and vegetables	1.5	-2.2	3.3	3.4	-0.5
non-food goods	7.0	2.8	3.8	4.0	4.1
services	5.4	4.2	3.7	3.8	4.0
<b>Price growth month on month / seasonally adjusted</b>					
food products	0.8/0.5	0.4/0.1	-0.4/0.9	-0.1/0.5	0.6/0.3
including fruit and vegetables	2.5/1.7	2.7/2.0	-6.4/5.1	-6.8/-0.5	-1.1/-1.8
non-food goods	0.5/0.4	0.3/0.2	0.2/0.2	0.4/0.3	0.5/0.3
services	-0.3/0.2	-0.2/0.3	0.3/0.4	0.2/0.4	-0.1/0.4
<b>Core inflation, month on corresponding month of previous year</b>	<b>6.4</b>	<b>2.5</b>	<b>2.6</b>	<b>2.8</b>	<b>3.1</b>
<b>Average annual inflation</b>	<b>8.4</b>	<b>4.2</b>	<b>2.5</b>	<b>2.5</b>	<b>2.6</b>

Sources: Rosstat, Bank of Russia calculations.

Inflation dynamics in October 2018 were largely consistent with the Bank of Russia's baseline forecast. Its annualised figure rose by 0.1 pp to 3.5%, suggesting that inflation is poised to near the target by end-2018. Annual price growth rates went up across all key product groups. At the same time, estimates suggest that monthly seasonally adjusted price growth continued to decline for the second month in a row, standing at 0.3% in October. This is associated with lower fruit and vegetable prices.

### Food prices

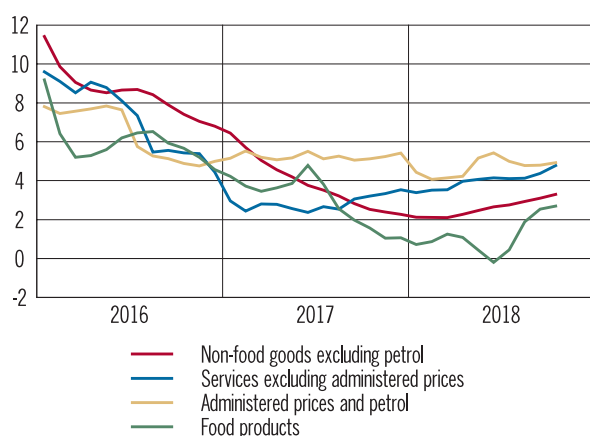
Annual food inflation rose as forecast to reach 2.7% in October vs 2.5% in September. The increase in annual food price growth rates was largely triggered by supply-side factors and ruble depreciation.

As crops dropped in Russia and other major suppliers compared to previous year readings, global and domestic prices of grain (including fodder grain) rose. At the same time, given large

Chart 1

### Annual growth in prices of the main components of consumer basket increased

Per cent change on corresponding month of previous year



Sources: Rosstat, Bank of Russia calculations.

accumulated stocks, the domestic grain market remains saturated. It is also supported by sales from the federal intervention fund. In this environment, consumer prices of grain products show moderate dynamics. In October, bread and bakery products were 3.6% more expensive than a year earlier, whereas pasta and staple cereals were cheaper. Millet was the only exception; its annual price growth rates continued an upward trend driven by, among other things, poor crops. However, its contribution to inflation remains insignificant, given the small share of the cereal in the consumer basket (0.028%).

Furthermore, after a long period of decline, sugar prices exceeded the readings registered in the same month a year earlier. Along with growth in ruble prices of imported sugar and a shrinking crop of sugar beet in Russia, prices were also affected by the abolition, effective from 1 August, of duty free raw sugar imports from the EAEU.

The trend towards an increase in annual growth of consumer prices persisted in the market of meat products; growth rates of egg prices remained high. This primarily reflects changes in the balance of supply and demand in these markets, where production has outpaced demand for a long period of time. Additional pressure on prices in stock-breeding and the food industry was exerted by rising costs associated with, among other things, the increase in fodder prices and ruble depreciation. Unfavourable epizootic conditions proved another

driver of the rise in wholesale and retail prices in the pork and poultry markets. Nevertheless, the meat and meat product market remains saturated, and this will contain price growth in the months to come. Market supply will also be supported by the lifting of the ban on meat imports from Brazil from 1 November.

Food inflation was also limited by falling prices of fruit and vegetables against October 2017 and the previous month (seasonally adjusted). The main contributors were tomato and cucumber prices.

### Non-food prices

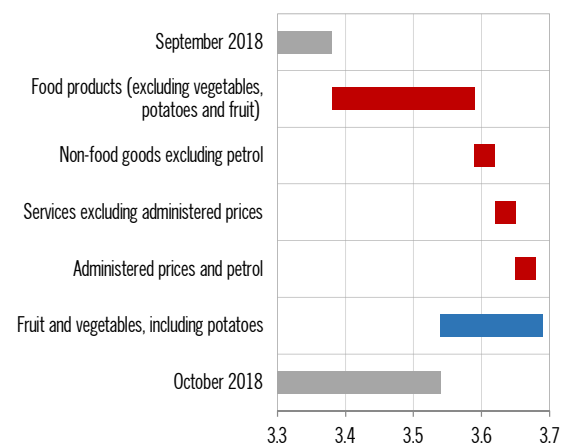
Annual growth rates of non-food prices increased in October by 0.1 pp to 4.1%. These dynamics are associated with this year's ruble depreciation and an outpacing price adjustment due to the VAT hike. The most tangible annual growth rates were registered in prices of consumer electronics (3.1% vs 2.4% in September) and medicines (2.9% vs 2.2%).

Annual petrol price growth rates changed insignificantly (11.3% in October vs 11.0% a month earlier). The Government reached an agreement on oil product price regulation with oil majors. The agreements will help stabilise prices of motor fuel in the forthcoming months.

Seasonally adjusted monthly growth in non-food prices is estimated at 0.3%.

Chart 2

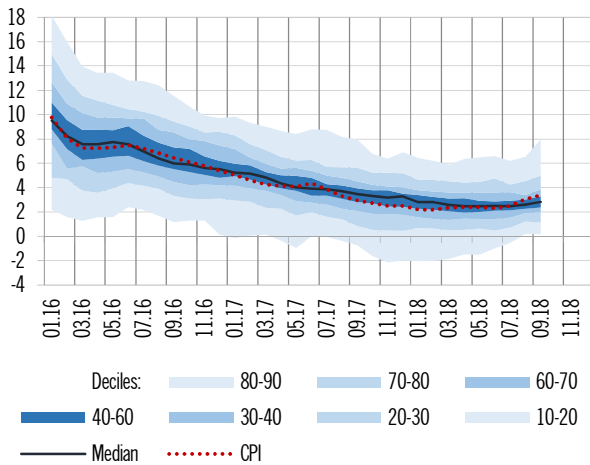
### Food prices were the main contributors to annual inflation in October 2018



Sources: Rosstat, Bank of Russia calculations.

Chart 3

### Median values of price growth distributions rose in October



Sources: Rosstat, Bank of Russia calculations.

### Services prices

October registered an increase in the annual service price growth rates to 4% (vs 3.8% in September). This was largely associated with revised costs of financial services. Household spending on interest payments on bank loans and the cost of voluntary motor insurance in October remained below last year readings; however, the difference between them shrank, as well as a negative contribution to service price inflation. Furthermore, the growth rate of utility prices increased on the back of indexation of capital repair charges in individual regions.

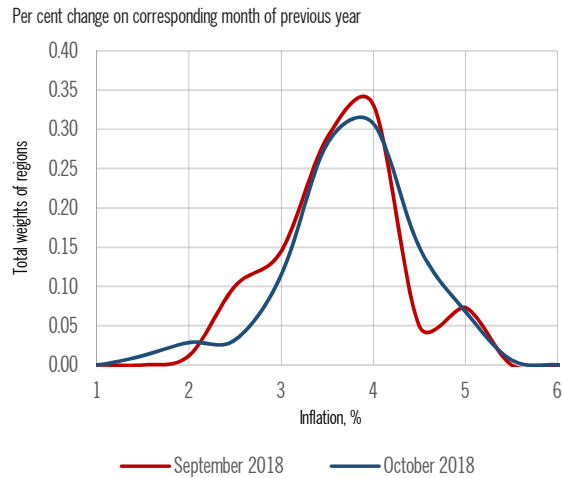
Estimates suggest that seasonally adjusted monthly services prices rose by 0.4% – the same reading registered in August-September.

### Core inflation indicators

A broad range of indicators reflects the trend of annual inflation's return to 4% by end-2018.

Chart 4

### Regional heterogeneity of inflation increased somewhat in October



Sources: Rosstat, Bank of Russia calculations.

Indicators characterising the most stable part of price dynamics are mainly rising.

Annual core inflation continued to go up to reach 3.1% (vs 2.8% in September). The median distribution of annual price growth increased from 2.8% to 3.0%.

### Price dynamics across regions

Price growth rate across federal districts remained moderate in October, holding within the 2.6-4% range (Table 2). However, the regional heterogeneity of inflation increased somewhat (Chart 4). Inflation in the Siberian, Volga and Far Eastern federal districts was mostly affected by a changing balance of supply and demand in food markets, whereas in the North Caucasian Federal District it was driven by heavy crops of fruit and vegetables entering the market.

Table 2

**Annual inflation by federal district continued to grow in October**  
(per cent change on corresponding period of previous year)

	Russia	Central FD	North-Western FD	Southern FD	North Caucasus FD	Volga FD	Urals FD	Siberian FD	Far Eastern FD
September 2018	3.38	3.9	3.18	3.32	3.27	3.12	2.6	3.11	3.39
October 2018	3.54	4.01	3.32	3.45	2.96	3.41	2.61	3.51	3.58
District's contribution to CPI, October 2018	3.54	1.37	0.33	0.36	0.16	0.57	0.22	0.34	0.17

Sources: Rosstat, Bank of Russia calculations.

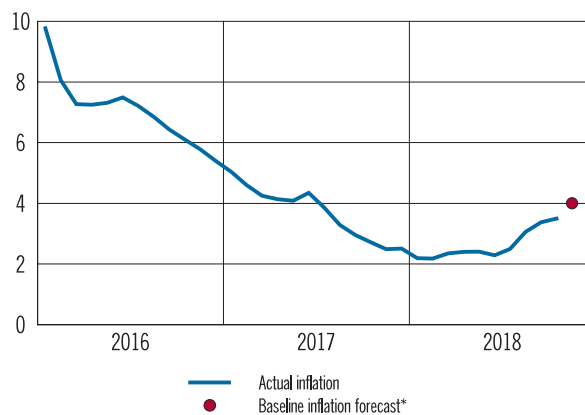
### *Inflation forecast*

Inflation is expected to rise to 3.8-4.2% by the year-end. In the first half of 2019, one-off factors will accelerate annual inflation, which will turn to a sustainable decline afterwards. The Bank of Russia forecasts annual inflation to be 5.0-5.5% in 2019 and return to 4% in the first half of 2020.

Chart 5

### **Inflation is forecast to rise to 3.8-4.2% by end-2018**

Per cent change on corresponding month of previous year



\* Published in the Monetary Policy Report (No. 3 (23), September 2018).

Sources: Rosstat, Bank of Russia calculations.

Cut-off date – 6 November 2018.

A soft copy of the information and analytical material is published 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).