



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No.8 (32) • August 2019

Information and analytical commentary

29 August 2019

Inflation expectations and consumer sentiment (August 2019)

In August 2019, the median estimate of the inflation rates observed by the general public changed only slightly, having remained close to the readings recorded in recent months. The estimate of expected inflation came down to its lowest point since early 2019. Companies' price expectations for shorter periods continued to decline. Professional analysts slightly lowered their forecasts: they estimate that annual inflation will continue to slow down and will come in at 4.1–4.3% at the end of the year with its subsequent stabilisation close to 4% beginning from 2020 Q1. Four-year imputed inflation for inflation-indexed federal government bonds (OFZ-IN) continued to decrease. Financial market participants' long-term inflation expectations remained stable close to 4%. According to the Bank of Russia's forecast, annual inflation will return to 4% in early 2020.

Inflation expectation indicators

Table 1

	Expectation horizon	August 2017	August 2018	June 2019	July 2019	August 2019
Inflation, %		3.3	3.1	4.7	4.6	...
Households' inflation expectations, %						
Public Opinion Foundation (median, observed inflation)	past 12 months	11.3	10.4	10.2	9.9	10.0
Public Opinion Foundation (median, expected inflation)	next 12 months	9.5	9.9	9.4	9.4	9.1
Public Opinion Foundation (subgroup with savings)	next 12 months	9.5	8.7	8.3	8.6	8.9
Public Opinion Foundation (subgroup without savings)	next 12 months	9.6	10.4	10.0	9.7	9.3
Public Opinion Foundation (subgroup without savings)	next 12 months	3.2	3.5	4.9	5.2	4.8
Professional analysts, %						
Bloomberg	2019 Q4		4.4	4.5	4.2	4.2
Bloomberg	2020		4.0	4.0	3.9	3.9
Bloomberg	2021			4.0	4.0	4.0
Interfax	December 2019		4.4	4.3	4.1	
Reuters	December 2019		4.5	4.3	4.3	
Imputed inflation for OFZ-IN, %						
OFZ-IN 52001, August 2023	next 4-year average	4.5	5.2	3.9	3.7	3.6
OFZ-IN 52002, February 2028	next 9-year average		5.2	4.1	3.9	3.8
OFZ-IN	2023–2028 average		5.1	4.2	4.1	4.1
Companies' price expectations						
Companies, balance of responses	next 3 months	8.2	11.3	10.0	9.1	9.0
PMI manufacturing input prices, diffusion index	current month	54.8	72.5	54.6	53.6	
PMI manufacturing output prices, diffusion index	current month	52.2	56.6	51.5	50.5	
PMI services input prices, diffusion index	current month	55.5	57.2	56.3	57.8	
PMI services output prices, diffusion index	current month	51.6	52.0	52.5	52.7	

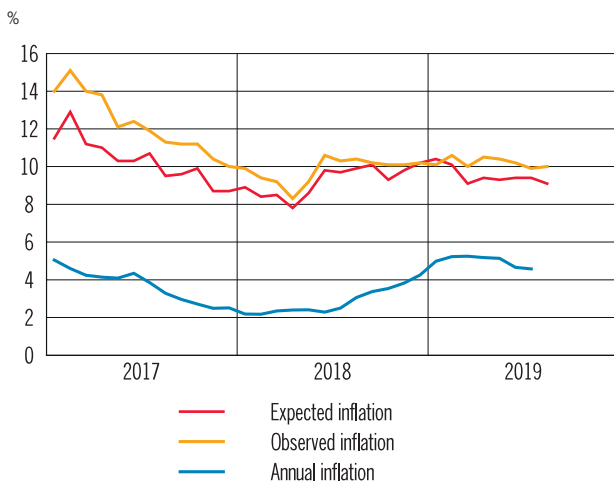
Households' inflation expectations

According to the Bank of Russia-commissioned inFOM survey, the median estimate of inflation observed by the general public over the last 12 months remained almost the same (10.0% compared to 9.9% in the previous month, Table 1, Chart 1).

Beginning from last June, it had stayed within a narrow range (9.9–10.6%). In August, the median estimate of inflation expected in the next 12 months moved down to 9.1% (-0.3 pp compared to the previous month), having returned to its minimum since June 2018 (Chart 1). Thus, expected inflation is still higher than in 2018 H1.

INFLATION OBSERVED AND EXPECTED
BY HOUSEHOLDS (MEDIAN ESTIMATE)

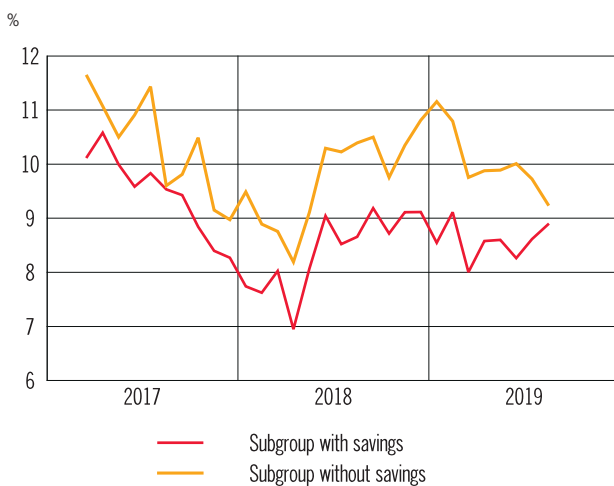
Chart 1



Sources: InFOM, Rosstat.

INFLATION EXPECTATIONS BY SUBGROUPS
OF RESPONDENTS (MEDIAN ESTIMATE)

Chart 2



Sources: inFOM, Bank of Russia calculations.

FACTORS BEHIND HOUSEHOLD INFLATION
EXPECTATIONS

Table 2

(% of respondents)

	April 2019	May 2019	June 2019	July 2019
Current petrol price change	48	47	52	50
Ruble exchange rate fluctuations	39	41	40	38
Current food price change	36	35	35	37
Wage and pension indexation	31	32	32	31

Source: InFOM.

Expectations of respondents with savings had been increasing for two consecutive months and returned to within the range recorded from mid-2018 until February 2019 (Chart 2).¹ At the same time, inflation expectations of respondents with no savings continued to decline and already reached the early 2018 levels.

Changes in responses to other questions about future inflation also signify that inflation expectations had stabilised. For example, the share of respondents expecting inflation growth acceleration in the next 12 months reduced in August (Chart 5 of the [inFOM Analytical Report on the Eighth Survey in 2019](#), further referred to as the Report). The shares of those expecting that inflation in 2019 and in the next three years will exceed 4% also reduced (by 3 pp to 54% and by 4 pp to 50% respectively, Charts 8 and 9 of the Report). Generally, all the above indicators are in the middle of the ranges recorded since the beginning of 2019. The estimate of households' inflation expectations for the next 12 months calculated by the Bank of Russia based on the results of the inFOM surveys adjusted in August after the increase in July, having returned to the May reading (4.8% compared to 5.2% in the previous month).

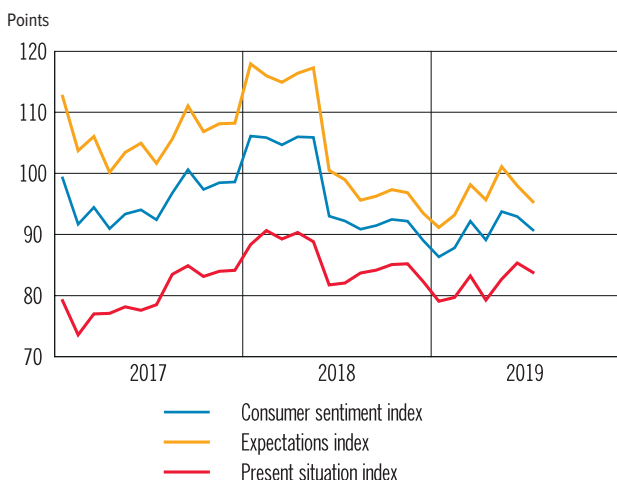
Respondents' perception of the increase in prices for certain products and services remained almost unchanged in August. As expected, a greater number of respondents referred to higher utility rates due to the indexation in July (Chart 3 of the Report), while the growth of fruit and vegetable prices was mentioned more rarely owing to the seasonal increase in supply. The frequency of mentioning other products and services changed only slightly.

Inflation expectations stabilised at a high level despite a lower actual inflation. This implies that they are not anchored to the Bank of Russia's targets and that inflation risks persist.

¹ Monetary Policy Report No. 2 (26), June 2019, box 'Survey microdata-based assessment of the relationship between inflation expectations and household saving behaviour'.

CONSUMER SENTIMENT INDEX

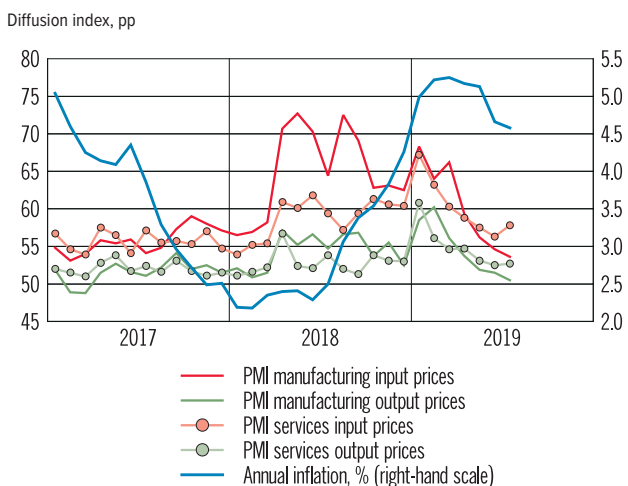
Chart 3



Source: InFOM.

CHANGES IN COMPANIES' PRICES
(MARKIT PMI)

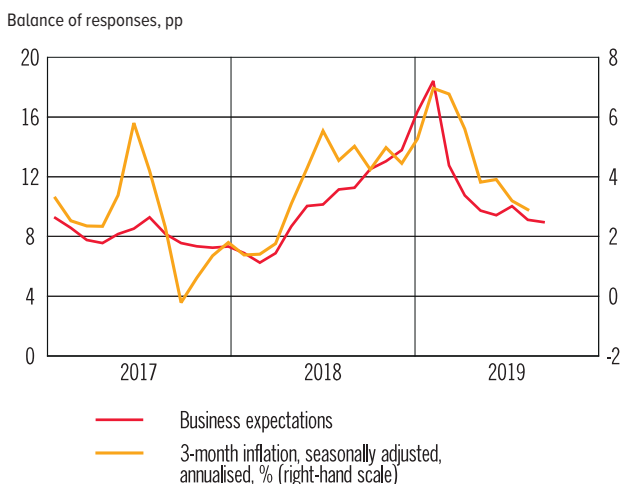
Chart 4



Sources: IHS Markit PMI, Rosstat.

COMPANIES' PRICE EXPECTATIONS
(BANK OF RUSSIA)

Chart 5



Sources: Bank of Russia, Rosstat.

Households' consumer sentiment

The consumer sentiment index continued to decline in August, having lowered to 90 points (as compared to 91 points in the previous month, Chart 3). However, its current reading is in the middle of the range observed since last June, which evidences that consumer sentiment remained almost the same. After the reduction for three consecutive months (to 44%), the share of respondents with loans increased in August (Chart 28 of the Report). Yet, it remained below its maximum level recorded this April.

Companies' price expectations

According to IHS Markit PMI surveys,² the diffusion index of companies' input and output prices in July 2019 remained close to the reading recorded in June (Chart 4). This demonstrates that price dynamics stabilised at the level of early 2018 after a surge driven by the VAT increase and higher fuel prices.

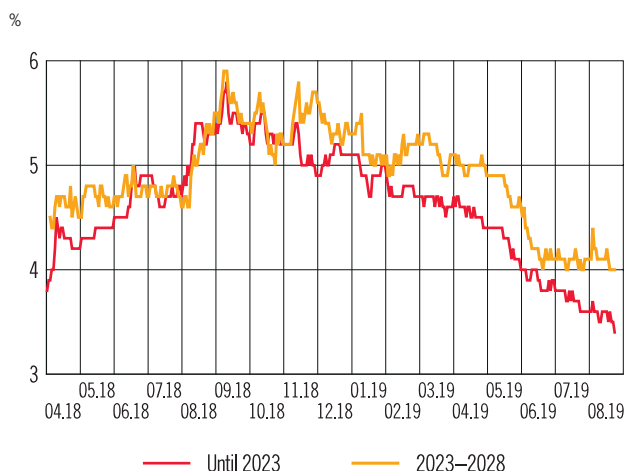
Similar results were also obtained in the course of the survey of enterprises carried out by the Bank of Russia in August 2019³. Companies' price expectations for the next three months remained almost the same as compared to mid-2018 (Chart 5). Expectations varied across industries. Thus, an upward trend was demonstrated by mining enterprises (which reflected the increase in metal ore prices in the global market) and the agricultural sector (due to lower crop expectations). Crop expectations are still higher than in the previous year. Therefore, the said upward trend does not involve additional inflation risks. In the wholesale and retail trade industry, many manufacturing segments and utility companies, price expectations moved down.

² See <https://www.markiteconomics.com/public>.

³ For details of the survey, see http://www.cbr.ru/Content/Document/File/62829/analysis_18-12.pdf.

IMPUTED INFLATION
FOR OFZ-IN

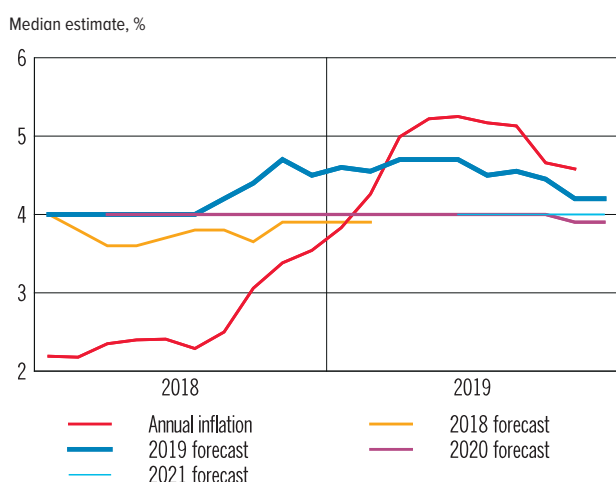
Chart 6



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

ANALYSTS' CONSENSUS FORECAST

Chart 7



Sources: Bloomberg, Rosstat.

Imputed inflation for OFZ-IN

According to the Bank of Russia's estimates,⁴ four-year imputed inflation for OFZ-IN continued to decrease in August and came in at 3.6%, which is a new minimum over the entire history of trading of these bonds (as compared to 4.9–5.1% in January and 3.7% in July, Chart 6). In contrast, beginning from June average imputed future inflation (from August 2023 until February 2028), being less affected by short-term forecast changes, stopped decreasing and stabilised close to 4% (4.0–4.2%).

Analysts' inflation expectations

Professional analysts continued to gradually decrease their inflation forecasts for the end of December 2019.⁵ The expected level in July was 4.1–4.3% (Table 1). According to their forecasts, annual consumer price growth will continue to slow down and will stabilise close to 4% in 2020 Q1 (Chart 7). Contrastingly, annual inflation expectations for 2020 Q2–Q3 slightly increased, probably driven by the base effect – a low price growth this June. Analysts' mid-term inflation expectations remain anchored to the Bank of Russia's targets.

Bank of Russia's forecast

According to the Bank of Russia's forecast, annual inflation will return to 4% in early 2020 and will remain close to 4% further on.

⁴ The estimates are based on the comparison of expected yields on inflation-indexed federal government bonds (OFZ-IN) and nominal OFZ, with account of the lag between the nominal value indexation and seasonally adjusted inflation.

⁵ Surveys by Interfax, Bloomberg, and Thomson Reuters.

The cut-off date is 27.08.2019.

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 was prepared by the Monetary Policy Department.

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