



Bank of Russia

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# INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

Information and analytical commentary

Moscow  
2019

## Inflation expectations and consumer sentiment (February 2019)

*In February 2019, inflation expectations in the economy declined somewhat after an increase in December 2018 and January 2019, which was largely associated with the VAT hike. Inflation expected by households on a one-year horizon dropped and once again stood well below the observed figures. In February, businesses' price expectations for the three months ahead showed a considerable decline after growth in the previous several months. Analysts' inflation expectations remain anchored; they forecast that annual inflation will fall to approx. 4% in 2020 Q1. Inflation expectation movements allow us to conclude that economic agents consider the inflation hike of early 2019 to be temporary. However, long-term inflation risk estimates by financial market participants remain elevated. According to the Bank of Russia forecast, annual inflation is set to peak to its local high in 2019 H1 to drift down to the Bank of Russia's near 4% target.*

INFLATION EXPECTATION INDICATORS

Table 1

	Expectation horizon	February 2017	February 2018	December 2018	January 2019	February 2019
<b>Households' inflation expectations, %</b>						
Public Opinion Foundation (median, expected inflation)	next 12 months	12.9	8.4	10.2	10.4	10.1
Public Opinion Foundation (median, observed inflation)	past 12 months	15.1	9.4	10.2	10.1	10.6
Public Opinion Foundation (Bank of Russia calculations)	next 12 months	4.4	2.1	5.4	6.2	5.9
<b>Professional analysts, %</b>						
Bloomberg	2019 Q4			4.5	4.6	4.7
Interfax	December 2019		3.7	4.7	4.8	
Reuters	December 2019			5.0	5.1	
<b>Financial markets, %</b>						
OFZ-IN 52001, August 2023	next 4-year average			5.1	5.1	5.0
OFZ-IN 52002, February 2028	next 9-year average			5.1	4.9	4.9
<b>Qualitative estimates of inflation expectations</b>						
Businesses, balance of replies	next 3 months	8.7	6.4	16.7	18.9	13.1
PMI input prices, diffusion index	next month	54.2	55.7	61.0	67.5	
PMI selling price, diffusion index	next month	50.9	51.4	52.8	60.2	

The inflation expectations of economic agents decreased somewhat or remained virtually unchanged in February after growing in December 2018 – January 2019, largely on the back of the VAT rate hike (Table 1). Inflation that households expect in the next 12 months proved lower than their observed price growth. Households' consumer sentiment improved somewhat. Businesses' price expectations for the next three months declined in February after growth in the past months. This may point to a weakening inflation pressure of one-off factors and the fact that businesses consider the pass-through of the VAT hike to prices to be largely completed. Analysts' 2019 forecast

remained virtually unchanged. Long-term inflation expectations of the financial market remain elevated.

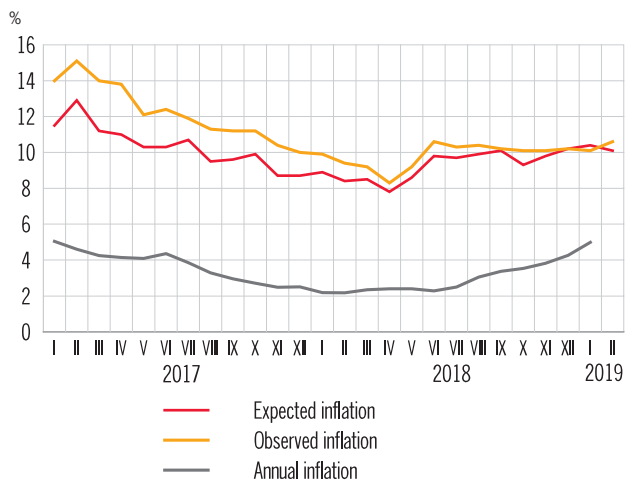
### Inflation expectations of households

According to the Bank of Russia-commissioned inFOM survey, February 2019 saw a rise in the median estimate of annual inflation observed by households (of 0.5 pp to 10.6%). Households made more frequent mention of growth in prices of a number of goods and services they consume (Chart 3 of the inFOM Analytical Report on the Second Survey in 2019,<sup>1</sup>

<sup>1</sup> [http://www.cbr.ru/DKP/surveys/inflation/#q\\_62825](http://www.cbr.ru/DKP/surveys/inflation/#q_62825).

INFLATION OBSERVED AND EXPECTED  
BY HOUSEHOLDS (MEDIAN ESTIMATE)

Chart 1



Sources: InFOM, Rosstat.

further referred to as the Report). Households' perception of price dynamics reflects the statistically-registered acceleration in inflation in early 2019 (Chart 1).

In respondents' opinion the increase in prices of eggs, meat and poultry was the most tangible. In an earlier notice, the Bank of Russia<sup>2</sup> suggested that the accelerated growth in prices of said products in January 2019 on the back of supply-side headwinds had a significant contribution to the inflation hike.

Utility services continued to be more frequently mentioned among consumer items that had demonstrated the most sizeable price increase in the past month. 42% of respondents mentioned the increase in their prices compared with 25% in December 2018. Apparently, this is associated with the indexation of utility rates from 1 January in connection with the VAT hike and a tangible increase in household waste disposal prices. As the acceleration in utility price growth is one-off in nature, households will become less concerned about the price dynamics in this segment of the consumer market in the months to come.

Overall, households consider the acceleration of price growth to be temporary; in February 2019, household inflation expectations for the 12 months ahead<sup>3</sup> declined by 0.3 pp against the January readings to 10.1%. In their estimates of future inflation, households are primarily guided by changes in prices of important items, such as food and petrol (Table 2).

It is of note, that inflation expected by households has fallen below the observed inflation readings, which may suggest improvements in inflation outlook.

## Consumer sentiment of households

At the same time the index of anticipation of change in relation to personal financial situation for the year ahead rose (Chart 12 of the Report). Certain improvement was registered in the estimates of the country's economic outlook, including the estimates related to production,

FACTORS BEHIND HOUSEHOLD INFLATION  
EXPECTATIONS  
(as % of respondents)

Table 2

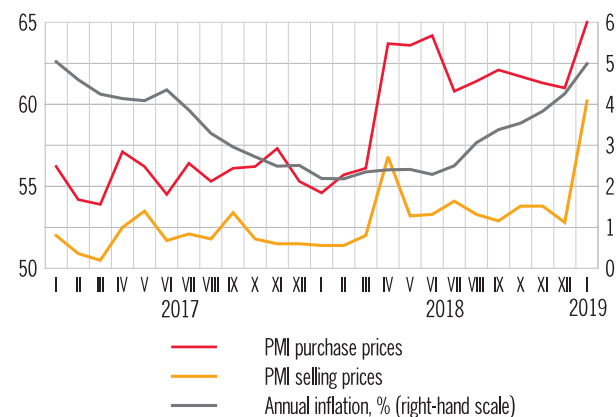
	October 2018	January 2019	February 2019
Current change in petrol prices	43	50	53
Current change in food prices	30	33	35
Ruble exchange rate fluctuations	33	37	38
Wage and pension indexation	28	31	37

Source: InFOM.

BUSINESS INFLATION EXPECTATIONS  
(MARKIT PMI)

Chart 2

Diffusion index, pp



Sources: IHS Markit PMI, Rosstat.

<sup>2</sup> Consumer Price Dynamics, informational and analytical commentary, No. 1 (37), January 2019.

<sup>3</sup> inFOM median estimate.

unemployment, and living standards (Chart 13 of the Report).

This raised the index of household consumer sentiment in February 2019. Nevertheless, the assessment of how favourable this time period is for large purchases has remained unchanged and holds at a lower level than a year earlier.

## Business inflation expectations

Markit PMI surveys<sup>4</sup> suggest that in January 2019 companies forecast an increase in both input and output prices in the months to come. Businesses' price expectations were affected by the VAT hike and other one-time factors (Chart 2).

According to the Bank of Russia's survey of businesses,<sup>5</sup> companies' price expectations for three months ahead rose in January 2019. However, the February survey suggests that the upward trend registered since 2018 Q2 has given way to a decline (Chart 3). The balance of replies returned to the October 2018 level. Expectations in the agricultural sector, construction and wholesale trade sectors demonstrated the most considerable drop, whereas retail trade and services saw the least tangible decline.

This may be a result of the weakening of one-off proinflationary factors. Furthermore, businesses may consider the process of the VAT pass-through to prices to be largely completed.

## Inflation expectations of financial markets

According to the Bank of Russia estimates<sup>6</sup> based on the comparison of the expected yield on inflation-indexed OFZ (OFZ-IN) and nominal OFZ, in February 2019 inflation expectations (for four and nine years ahead) declined somewhat remaining elevated, however, relative to the Bank of Russia inflation target (Chart 4). This points to the fact that market participants still consider long-term proinflationary risks to be sufficiently high.

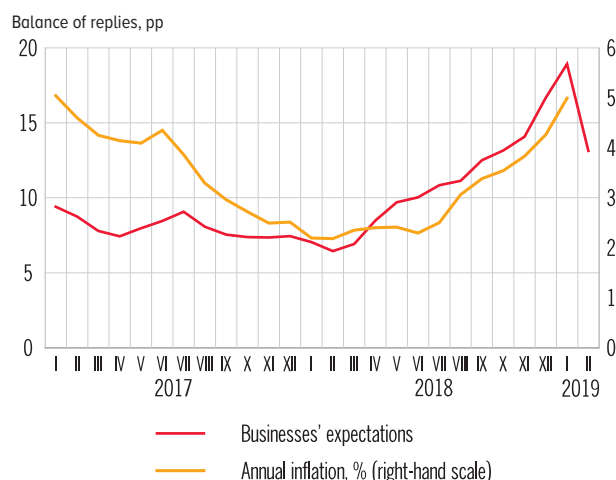
<sup>4</sup> <https://www.markiteconomics.com/public>.

<sup>5</sup> For survey details, refer to [http://www.cbr.ru/Content/Document/File/62\\_829/analysis\\_18-12.pdf](http://www.cbr.ru/Content/Document/File/62_829/analysis_18-12.pdf).

<sup>6</sup> See 'Deriving Expectations of Future Short-term Interest Rates from OFZ Yield' (Bank of Russia Working Paper Series, No. 11, May 2016).

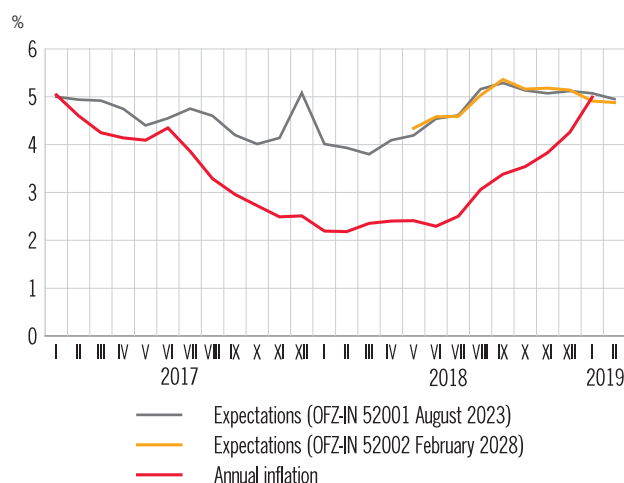
BUSINESS INFLATION EXPECTATIONS  
(BANK OF RUSSIA)

Chart 3



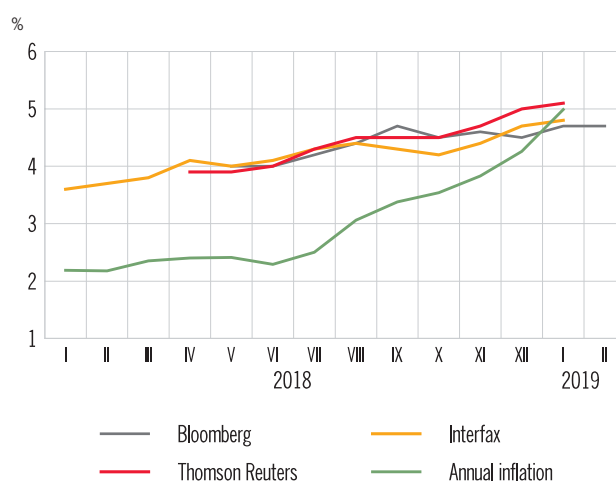
INFLATION EXPECTATIONS  
(FINANCIAL MARKETS)

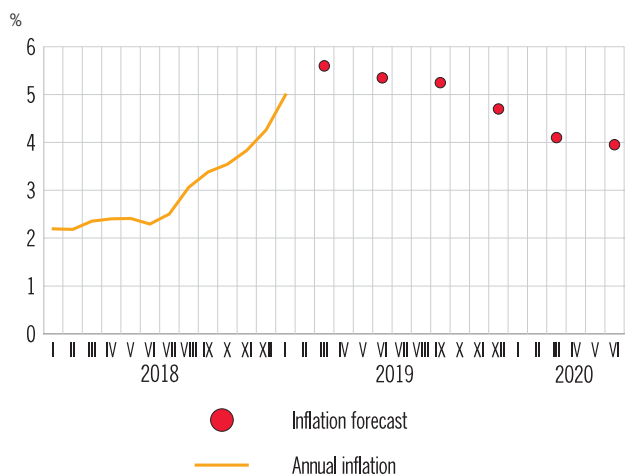
Chart 4



2019 INFLATION FORECASTS

Chart 5



ANALYSTS' FORECAST THROUGHOUT MID-2020 *Chart 6*

Sources: Bloomberg, Rosstat.

## Analysts' inflation expectations

The end-2019 inflation range forecast by experts in January-February 2019 narrowed somewhat to 4.7-5.1% (Chart 5). That said, both analysts and the Bank of Russia believe that inflation acceleration in 2019 is temporary in nature. Their forecasts suggest that annual inflation is set to begin to decline from 2019 Q2 to return to the near 4% level in 2020 Q1.

According to the Bank of Russia forecast, annual inflation is set to peak to its local high in 2019 H1 to then drift down to the Bank of Russia's near 4% target.

Cut-off date – 26 February 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](mailto:svc_analysis@cbr.ru).

This commentary is prepared by the Monetary Policy Department.

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