



Bank of Russia

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# INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

Information and analytical commentary

Moscow  
2019

## Inflation expectations and consumer sentiment (April 2019)

Inflation expectations of economic entities showed mixed dynamics in April 2019. Households' inflation expectations rose somewhat after a drop in February-March pointing to a persistent negative effect of temporary factors. In contrast, business price expectations for the months to come continued to go down on the back of the fading effect of the VAT rate hike, among other things. Long-term inflation expectations of financial market participants continued to display a downward trend. Nevertheless, expectations of economic entities, including long-term ones, remain elevated. Analysts' predictions remained virtually unchanged and suggest that after a temporary hike in early 2019, annual inflation will resume its downward movement in the second quarter to reach 4.6-4.8% as of the year-end and stabilise near 4% in 2020 Q1. According to the Bank of Russia's forecast, annual inflation is set to return to 4% in the first half of 2020.

INFLATION EXPECTATION INDICATORS

Table 1

	Expectation horizon	April 2017	April 2018	February 2019	March 2019	April 2019
<b>Households' inflation expectations, %</b>						
Public Opinion Foundation (median, expected inflation)	next 12 months	11.0	7.8	10.1	9.1	9.4
Public Opinion Foundation (median, observed inflation)	past 12 months	13.8	8.3	10.6	10.0	10.5
Public Opinion Foundation (Bank of Russia calculations)	next 12 months	3.7	2.2	5.9	5.7	5.5
<b>Professional analysts, %</b>						
Bloomberg	2019 Q4			4.6	4.7	4.8
Interfax	December 2019		4.1	4.7	4.6	
Reuters	December 2019			4.8	4.8	
<b>Implied inflation for OFZ-IN, %</b>						
OFZ-IN 52001, August 2023	next 4-year average	4.7	4.1	5.0	4.9	4.7
OFZ-IN 52002, February 2028	next 9-year average			4.9	4.8	4.7
<b>Qualitative estimates of inflation expectations</b>						
Businesses, balance of replies	next 3 months	7.9	7.0	18.1	12.7	11.0
PMI input prices, diffusion index	current month	57.1	63.7	63.4	61.8	
PMI selling price, diffusion index	current month	52.5	56.8	57.2	55.0	

### Households' inflation expectations

According to the Bank of Russia-commissioned inFOM survey, the median estimate of annual inflation observed by households in the past 12 months rose by 0.5 pp to 10.5% in April 2019 (Table 1, Chart 1). The median estimate of inflation expected by households in the next 12 months increased, too (by 0.3 pp to 9.4%). Overall, these indicators remain close to the 2018 H2 levels.

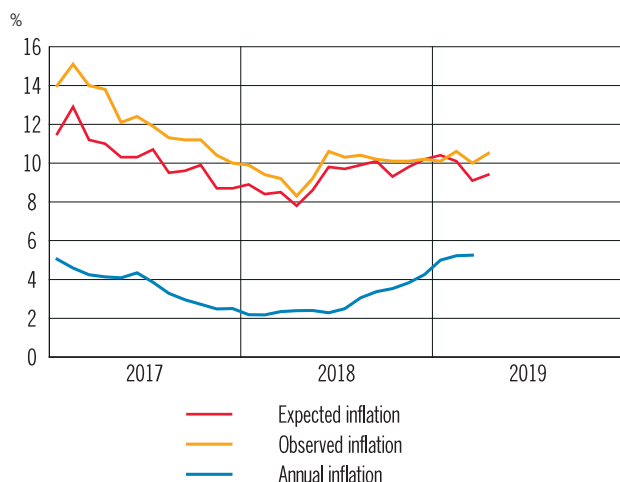
However, the share of respondents who consider that prices grew considerably in the past month has been shrinking since February. In April, this share was 9 pp lower than in January. Though it remains rather high (36%), comparable with the reading registered last June, when

households became more concerned about rising prices as prices of motor fuel soared.

It is of note that the perception of inflation by Russian households is affected by episodes of accelerated growth in prices and rates registered not only in the past month but also in previous, sometimes much earlier, months. It is also possible that respondents consider the price level rather than price movements when estimating inflation. Thus, in April, the most frequently mentioned goods and services the prices of which 'have risen the most significantly over the past month' included utility services (though their rates have been stable since February) and eggs (the price of which dropped in February-March after accelerated growth in September 2018 – January 2019) (Chart 3, [inFOM Analytical Report on the Fourth Survey](#)

INFLATION OBSERVED AND EXPECTED  
BY HOUSEHOLDS (MEDIAN ESTIMATE)

Chart 1



Sources: InFOM, Rosstat.

FACTORS BEHIND HOUSEHOLD INFLATION  
EXPECTATIONS  
(as % of total respondents)

Table 2

	October 2018	February 2019	March 2019	April 2019
Current change in petrol prices	43	53	47	47
Ruble exchange rate fluctuations	33	38	36	39
Current change in food prices	30	35	33	37
Wage and pension indexation	28	37	32	31

Source: InFOM.

in 2019, further referred to as the Report). 30% of respondents noticed an increase in petrol prices in the past month, though they have been almost unchanged since last July. Price movements in this type of motor fuel are one of the key indicators on which households base their expectations (Table 2). The perception of current inflation affects expectations of future price dynamics, which are likely to reflect concerns over new episodes of accelerated price dynamics in the markets of certain goods and services. Furthermore, the ruble's weakening in late March – early April could also affect expectations.<sup>1</sup>

Households' estimates of inflation expectations for the next 12 months, calculated by the Bank of Russia with the use of inFOM survey data, continued their downward movement registered since February 2019. However, they remain high at the level seen in late 2016. Nearly half of respondents believe that inflation will be 'considerably higher than 4% a year' even three years from now. Only a quarter of Russian households expect it to be 'roughly 4% a year' (Chart 9 of the Report). The distribution of replies to this question has varied inconsiderably in recent years. Thus, households' expectations remain unanchored.

## Consumer sentiment of households

After a February-March hike, the consumer sentiment index returned in April to the December 2018 reading, which is a two-year low (Chart 11 of the Report). The movements of the index are mainly associated with a fall in personal financial standing assessment over the past year, the perception of the current time as favourable for large purchases, and the country's development prospects in the next year (Chart 12 of the Report). In particular, Russians have become more concerned about unemployment (Chart 13 of the Report). In February-April of this year, the proportion of respondents who use loans and savings to fund current consumption showed a tangible increase (Chart 10 of the Report).

<sup>1</sup> The survey was conducted from 1 until 11 April.

## Business price expectations

According to Markit PMI surveys,<sup>2</sup> the diffusion index of input and output prices of businesses continued to decline in March 2019 (Chart 2). This was associated with the weakening effect of the VAT rate hike on costs and prices after the January surge. Nevertheless, the index remains higher than in recent years. Respondents to the surveys continued to cite drivers including tax decisions and skilled wage growth which is supposed to attract and hold specialists.

According to the Bank of Russia's survey of businesses,<sup>3</sup> in April 2019, companies' price expectations for three months ahead continued on a downward trend ongoing since February (Chart 3). The decline was registered in all industries and regions, pointing to a fading effect of the general factor – the VAT hike. However, business price expectations for both three months and one month ahead remain elevated.

## Implied inflation for OFZ-IN

In April, the trend towards a decline in inflation expectations of financial market participants for four and nine years ahead continued. According to the Bank of Russia's estimates,<sup>4</sup> annual implied inflation on the said horizons stands at 4.7% (Chart 4). Thus, the process of anchoring market participants' expectations near the target (4%) is still ongoing.

## Analysts' inflation expectations

The range of analysts' inflation forecasts for December 2019<sup>5</sup> has remained almost unchanged since January holding at 4.6-4.8% (Table 1). Analysts consider the inflation acceleration of early 2019 to be temporary. Their predictions suggest that annual consumer price

<sup>2</sup> Refer to <https://www.markiteconomics.com/public>.

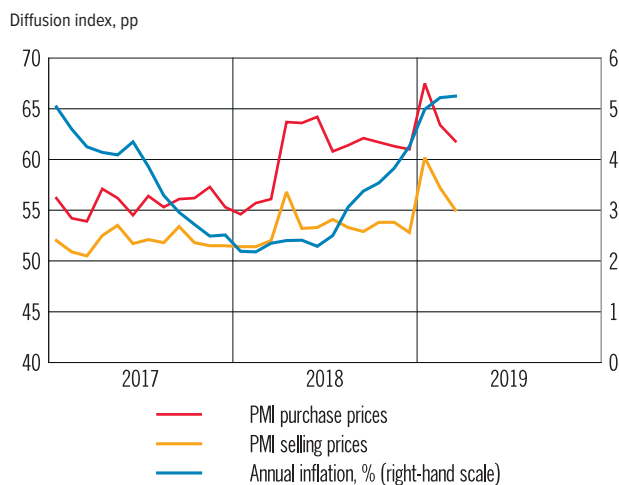
<sup>3</sup> For details of the survey, refer to [https://www.cbr.ru/Content/Document/File/62829/analysis\\_18-12.pdf](https://www.cbr.ru/Content/Document/File/62829/analysis_18-12.pdf).

<sup>4</sup> The estimates are based on the comparison of expected yields on inflation-indexed federal government bonds (OFZ-IN) and nominal OFZ. For details, refer to 'Deriving Expectations of Future Short-term Interest Rates from OFZ Yield' (Bank of Russia Working Paper Series, No. 11, May 2016).

<sup>5</sup> Surveys by Interfax, Bloomberg, and Thomson Reuters.

CHANGES IN COMPANIES' PRICES  
(MARKIT PMI)

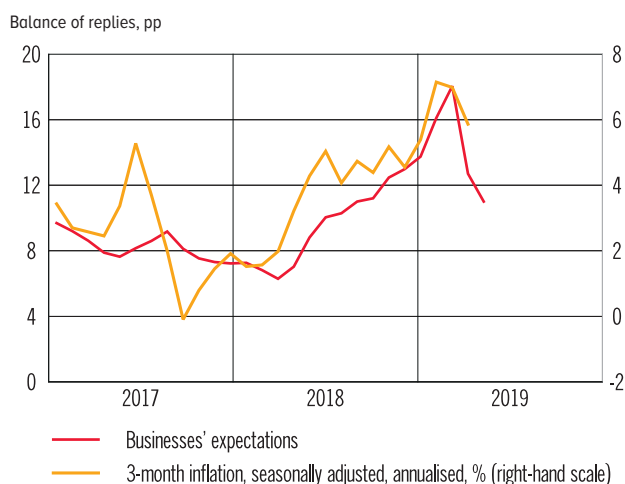
Chart 2



Sources: IHS Markit PMI, Rosstat.

BUSINESS PRICE EXPECTATIONS  
(BANK OF RUSSIA)

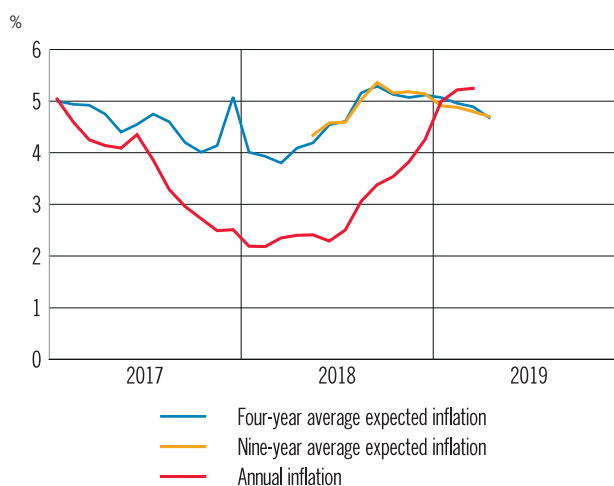
Chart 3



Sources: Bank of Russia, Rosstat.

IMPLIED INFLATION  
FOR OFZ-IN

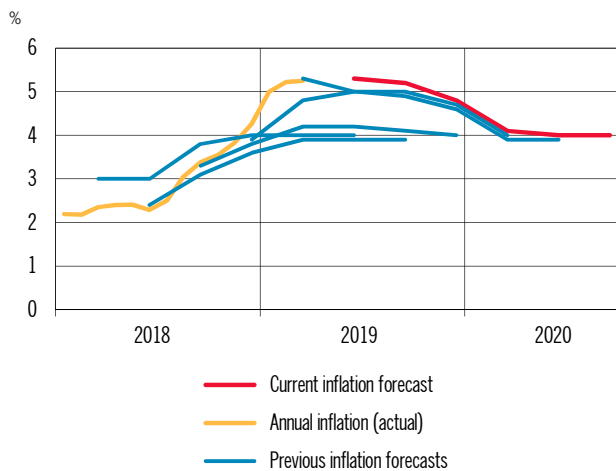
Chart 4



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

ANALYSTS' FORECAST THROUGHOUT  
2020 Q3

Chart 5



Sources: Bloomberg, Rosstat.

growth rates will start to decrease from 2019 Q2 to stabilise near 4% in 2020 Q1 (Chart 5).

According to the Bank of Russia forecast released in the March issue of the Monetary Policy Report,<sup>6</sup> annual inflation will start to decline in 2019 Q2, and is set to return to 4% in the first half of 2020. In its forecasts, the Bank of Russia takes into account the fact that significant risks are posed by elevated and unanchored inflation expectations, as well as by external factors.

<sup>6</sup> Refer to [http://www.cbr.ru/Collection/Collection/File/18969/219\\_01\\_ddcp.pdf](http://www.cbr.ru/Collection/Collection/File/18969/219_01_ddcp.pdf).

Cut-off date – 26 April 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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