



Bank of Russia



# INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No. 10 (34) • October 2019

Information and analytical commentary

29 October 2019

## Inflation expectations and consumer sentiment (October 2019)

In October 2019, inflation expectations declined. Median estimates of inflation observed last year and expected next year by households continued to decrease hitting their lowest readings since June 2018. Short-term price expectations of businesses mainly lowered. Analysts also revised their short-term forecasts downward in September. According to their estimates, annual inflation will continue to slow down to 3.8–4.2% by the year-end. Analysts' medium-term expectations remain anchored at 4%. Four- and nine-year implied inflation priced in inflation-indexed federal government bonds (OFZ-IN) continued to decrease. According to the Bank of Russia's forecast, annual inflation will stand at 3.2–3.7% in 2019. Given the pursued monetary policy, annual inflation will come in at 3.5–4.0% in 2020 and will stay close to 4% going forward.

### INFLATION EXPECTATION INDICATORS

Table 1

	Expectation horizon	October 2017	October 2018	August 2019	September 2019	October 2019
<b>Inflation, %</b>		<b>2.7</b>	<b>3.5</b>	<b>4.3</b>	<b>4.0</b>	...
<b>Households' inflation expectations, %</b>						
Public Opinion Foundation (median, expected inflation)	next 12 months	9.9	9.3	9.1	8.9	8.6
Public Opinion Foundation (subgroup with savings)	next 12 months	8.8	8.7	8.9	8.4	7.6
Public Opinion Foundation (subgroup without savings)	next 12 months	10.5	9.8	9.3	9.2	9.5
Public Opinion Foundation (Bank of Russia calculations)	next 12 months	2.5	3.8	4.7	4.2	4.1
Public Opinion Foundation (median, observed inflation)	past 12 months	11.2	10.1	10.0	9.9	9.4
Public Opinion Foundation (subgroup with savings)	past 12 months	9.7	9.2	9.2	9.4	8.2
Public Opinion Foundation (subgroup without savings)	past 12 months	11.8	10.6	10.3	10.4	10.2
<b>Analysts, %</b>						
Bloomberg	2019		4.5	4.2	3.8	3.8
Reuters	2019		4.5	4.3	4.2	
Interfax	2019		4.2	4.0	3.8	
Bloomberg	2020		4.0	3.9	4.0	4.0
Interfax	2020			3.9	3.9	
Bloomberg	2021			4.0	4.0	4.0
<b>Implied inflation for OFZ-IN, %</b>						
OFZ-IN 52001, August 2023	next 4-year average	4.1	5.3	3.5	3.2	3.1
OFZ-IN 52002, February 2028	next 9-year average		5.3	3.8	3.5	3.4
OFZ-IN	2023–2028 average		5.3	4.0	3.8	3.5
<b>Business price expectations</b>						
Businesses, balance of replies	next 3 months	7.4	13.2	8.8	8.2	8.1
PMI Manufacturing input prices, diffusion index	current month	59.0	62.8	55.2	54.3	
PMI Manufacturing output prices, diffusion index	current month	52.0	53.7	52.4	50.4	
PMI Services input prices, diffusion index	current month	55.3	61.3	55.7	55.3	
PMI Services output prices, diffusion index	current month	51.7	53.8	53.0	52.3	

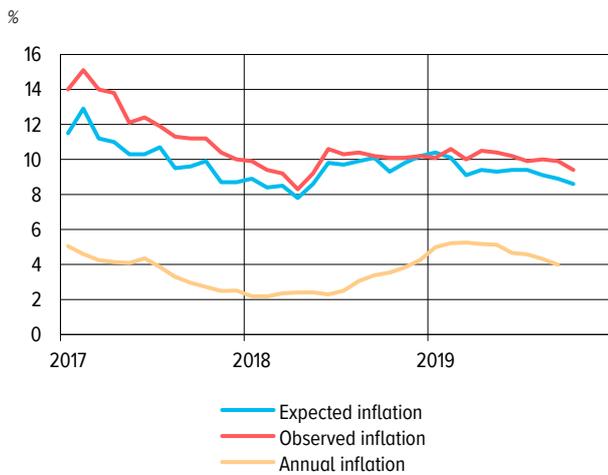
### Households' inflation expectations

According to the Bank of Russia-commissioned inFOM survey, the median estimate of inflation observed by households over the last 12 months continued to decline

in October 2019 (9.4% compared to 9.9% in the previous month, Table 1, Chart 1). The median estimate of inflation expected in the next 12 months decreased for the third straight month (by 0.3 pp compared to the previous month, to 8.6%, Chart 1). Estimates of observed and expected inflation hit fresh

INFLATION OBSERVED AND EXPECTED  
BY HOUSEHOLDS (MEDIAN ESTIMATE)

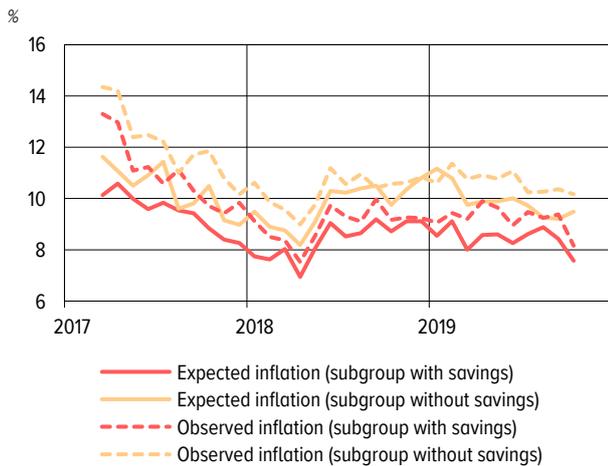
Chart 1



Sources: InFOM, Rosstat.

EXPECTED AND OBSERVED INFLATION  
BY RESPONDENT SUBGROUP  
(MEDIAN ESTIMATE)

Chart 2



Sources: InFOM, Bank of Russia calculations.

lows since the middle of last year; however, they still hold above the readings seen in the first half of 2018.

The dynamics of responses to the questions about the estimates of future inflation point to a largely adaptive nature of inflation expectations. Respondents, primarily, point to the slowdown of current inflation which they also expect in future periods. Respondents noted that the slowdown is characteristic of both current monthly price growth (Chart 1 of the InFOM Analytical Report on the Tenth Survey in 2019, hereinafter, the Report) and annual growth (Chart 4 of the Report). At the same time, the estimates of future inflation relative to the slowdown in current inflation remained virtually unchanged (Charts 2 and 5 of the Report). Thereby, the decrease in the median estimate of expected inflation can be said to be primarily related to the deceleration of current inflation.

Estimates of observed and expected inflation showed a more considerable decline in the group of respondents with savings and reached the level registered in the first half of last year (Chart 2).<sup>1</sup> At the same time, these estimates remained virtually unchanged in the group without savings. Thus, the gap between the estimates of respondents who have savings and who have no savings increased in October.

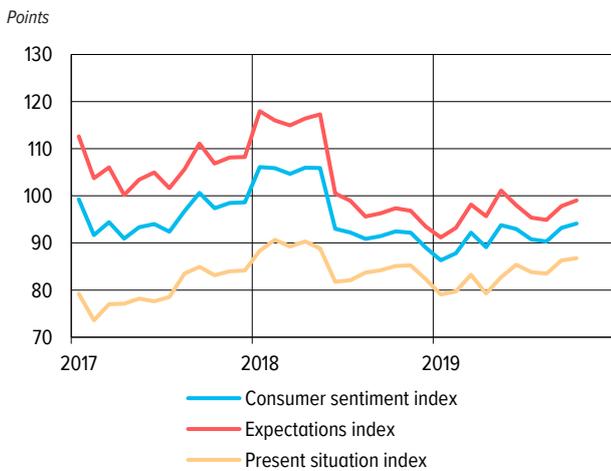
Inflation expectations for 2019 and three years ahead remained virtually unchanged over the month (Charts 8 and 9 of the Report). However, inflation expectations for 2019 are lower than in January-July of this year. The estimate of households' inflation expectations for the next 12 months calculated by the Bank of Russia with the use of InFOM survey data<sup>2</sup> slowed down its downward movement

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

<sup>2</sup> When calculating this indicator, the Bank of Russia takes into account qualitative responses ('inflation will rise / fall') rather than quantitative ones, and compares them with current inflation. For details, refer to [http://www.cbr.ru/Content/Document/File/59815/Inflation\\_expectations\\_guide.pdf](http://www.cbr.ru/Content/Document/File/59815/Inflation_expectations_guide.pdf).

## CONSUMER SENTIMENT INDEX

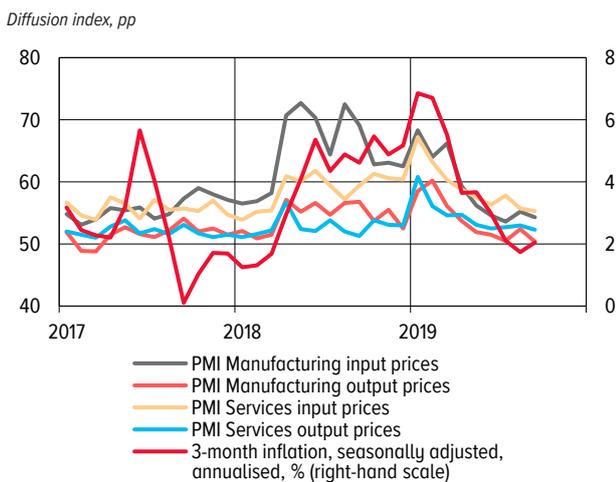
Chart 3



Source: InFOM.

## CHANGES IN COMPANIES' PRICES (MARKIT PMI)

Chart 4



Sources: IHS Markit PMI, Rosstat.

in October and came in at 4.1% (vs 4.2% in September, Table 1).

In October, respondents tended to less frequently mention strong growth in prices for individual goods and services, such as utility services, medicines, petrol, fruit and vegetables. Respondents only mentioned growth in dairy prices more often than in the previous month; Rosstat also notes accelerated growth in these prices<sup>3</sup> (Chart 3 of the Report).

The slow decline in inflation expectations and observed inflation despite a sufficiently fast deceleration of actual price dynamics suggests that they have yet to be anchored to the Bank of Russia's target.

## Households' consumer sentiment

In October, the household consumer sentiment index continued to rise reaching its highest reading since last June (94 points, Chart 3). However, the index showed decelerated growth compared with the previous month: improvements were registered in such components as the country's development outlook in the next year (Chart 12 of the Report) and changes in the current financial standing (Chart 14 of the Report). Respondents' attitude to large purchases hardly changed (Chart 17 of the Report) remaining positive enough. The share of those who think that the current period is unfavourable for large purchases is at its lowest level since the beginning of 2015.

## Business price expectations

According to IHS Markit PMI surveys,<sup>4</sup> the diffusion indices of manufacturing and service companies' input and output prices lowered slightly in September 2019 (Chart 4). They have held close to their lowest readings since the middle of last year. Business representatives note two main causes of slack price growth.

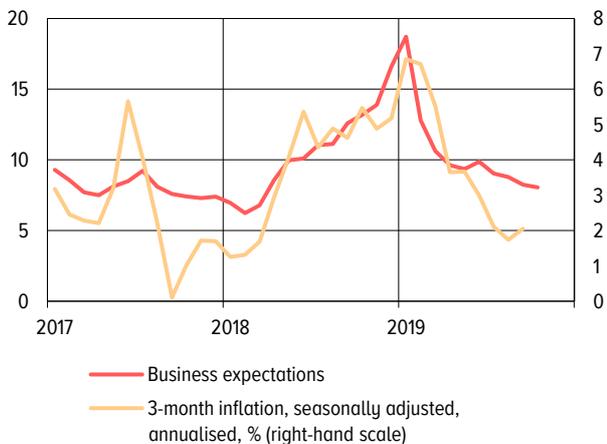
<sup>3</sup> See *Consumer Price Dynamics, informational and analytical commentary*, No. 9(45), September 2019, [http://www.cbr.ru/Collection/Collection/File/23941/INF\\_2019-09.pdf](http://www.cbr.ru/Collection/Collection/File/23941/INF_2019-09.pdf).

<sup>4</sup> For details, refer to <https://www.markiteconomics.com/public>.

**BUSINESS PRICE EXPECTATIONS  
(BANK OF RUSSIA)**

Chart 5

Balance of replies, pp



Sources: Bank of Russia, Rosstat.

**IMPLIED INFLATION  
FOR OFZ-IN**

Chart 6



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

Firstly, favourable exchange rate dynamics had brought about a decrease in expenses for imported components. Secondly, rising competition limited companies' capabilities to raise prices.

Similar results were also obtained in the course of the survey of enterprises carried out by the Bank of Russia<sup>5</sup> in October 2019. The balance of replies regarding business price expectations for the next three months continued to decline slowly for the fourth month in a row, hitting a fresh low since the middle of last year (Chart 5). Expectation dynamics across industries were mixed and determined by local factors. For instance, price expectations showed a decline in agriculture (following a good harvest of most core agricultural crops) and mining and quarrying (because of the dynamics of global metallic ore prices). At the same time, price expectations rose in trade, where companies revised upward their estimate of current and expected demand.

**Implied inflation for OFZ-IN**

According to the Bank of Russia's assessments,<sup>6</sup> four-year annual implied inflation priced in OFZ-IN continued to decrease in October and came in at 3.1% (as compared to 3.5% in August, Chart 6), which is a new low recorded for these bonds. Average implied future inflation (from August 2023 until February 2028) not affected by short-term inflation movements came down to 3.2% by mid-October (it averaged 3.5% in October and 4.0% in August). The drop in implied inflation in September-October may result from considerable growth in the par value of bonds amid a fall in their yields.

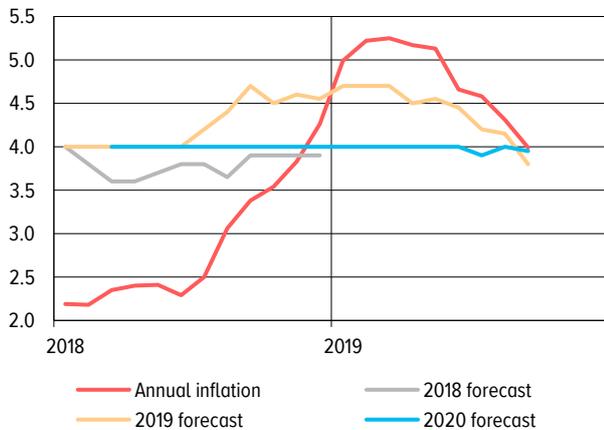
<sup>5</sup> Final indicator – balance of responses (the difference between the proportions of price rise and fall responses). For survey details, refer to [http://www.cbr.ru/Content/Document/File/62829/analysis\\_18-12.pdf](http://www.cbr.ru/Content/Document/File/62829/analysis_18-12.pdf).

<sup>6</sup> 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.

BLOOMBERG ANALYSTS'  
CONSENSUS FORECAST

Chart 7

Median estimate, %



Sources: Bloomberg, Rosstat.

## Analysts' inflation expectations

In September, analysts' inflation forecasts<sup>7</sup> for the end of December 2019 continued to decline, coming in at 3.8–4.2% (Table 1). Analysts' mid-term inflation expectations stay anchored to the Bank of Russia's targets (Chart 7).

## Bank of Russia's forecast

According to the Bank of Russia's forecast, annual inflation will stand at 3.2–3.7% in 2019. 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.

<sup>7</sup> Surveys by Interfax, Bloomberg and Thomson Reuters.

Data cut-off date – 22.10.2019.

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 was prepared by the Monetary Policy Department.

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