



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

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Information and analytical commentary

26 October 2020

Inflation expectations and consumer sentiment (October 2020)

In October, according to an inFOM survey, the median estimate of inflation expected by households continued to grow and reached an all-time high since February 2019. The Bank of Russia's monitoring of enterprises also registered ongoing growth of short-term price expectations, and PMI price indices point to a pick-up in the growth of output prices and a certain slowdown in the growth of input prices. Implied inflation for inflation-indexed federal government bonds (OFZs-IN) declined in October. Analysts' inflation forecast for 2020–2022 was virtually unchanged, remaining close to 4%. According to the Bank of Russia's forecast, given the monetary policy being pursued, annual inflation will stand at 3.9–4.2% in 2020, 3.5–4.0% in 2021 and will remain close to 4% thereafter.

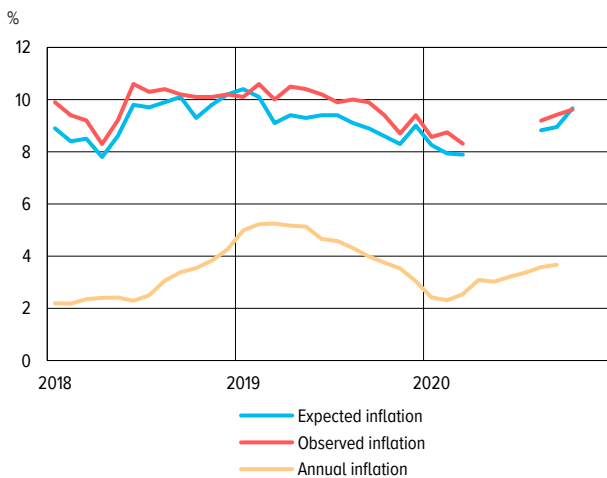
INFLATION EXPECTATION INDICATORS

Table 1

	Expectation horizon	2019 (actual)	October 2019	March 2020	August 2020	September 2020	October 2020
Inflation, %		4,5	3,8	2,5	3,6	3,7	
Inflation observed by households, %							
Public Opinion Foundation (median)	past 12 months	9.9	9.4	8.3	9.2	9.4	9.6
Public Opinion Foundation (subgroup with savings)	past 12 months	9.1	8.2	7.2	8.4	8.5	9.1
Public Opinion Foundation (subgroup without savings)	past 12 months	10.4	10.2	8.6	9.6	9.9	9.8
Households' inflation expectations, %							
Public Opinion Foundation (median)	next 12 months	9.3	8.6	7.9	8.8	8.9	9.7
Public Opinion Foundation (subgroup with savings)	next 12 months	8.3	7.6	6.9	8.4	8.1	9.0
Public Opinion Foundation (subgroup without savings)	next 12 months	9.8	9.5	8.5	9.1	9.6	10.0
Companies' price expectations							
Companies, balance of responses	next 3 months	10.2	8.3	18.1	15.5	17.5	20.3
PMI Manufacturing input prices	current month	57.8	55.1	59.8	64.8	63.3	
PMI Manufacturing output prices	current month	53.1	51.3	55.4	52.0	53.0	
PMI Services input prices	current month	58.0	54.7	61.5	58.6	58.6	
PMI Services output prices	current month	54.0	52.7	54.2	51.9	53.5	
Analysts, %							
2020, Bloomberg	2020	3.9	3.9	3.5	3.7	4.0	4.0
2020, Interfax	2020		3.7	4.7	3.8	3.9	
2020, Reuters	2020		3.8	4.7	3.7	3.9	
2021, Bloomberg	2021		4.0	4.0	3.5	3.8	3.9
2021, Interfax	2021			3.8	3.5	3.6	
2021, Reuters	2021			3.9	3.5	3.5	
2022, Bloomberg	2022			3.9	3.9	3.8	3.7
2022, Reuters	2022			3.9	3.7	3.8	
Implied inflation for OFZ-IN, %							
OFZ-IN 52001, August 2023	next 3-year average	3.9	3.0	3.5	2.5	2.6	2.6
OFZ-IN 52002, February 2028	next 8-year average	4.1	3.2	4.1	3.3	3.5	3.3
OFZ-IN 52003, July 2030	next 10-year average					3.5	3.3
OFZ-IN	2023–2028 average	4.3	3.4	4.5	3.8	4.0	3.8
OFZ-IN	2028–2030 average					3.5	3.4

INFLATION OBSERVED AND EXPECTED
BY HOUSEHOLDS (MEDIAN ESTIMATE)

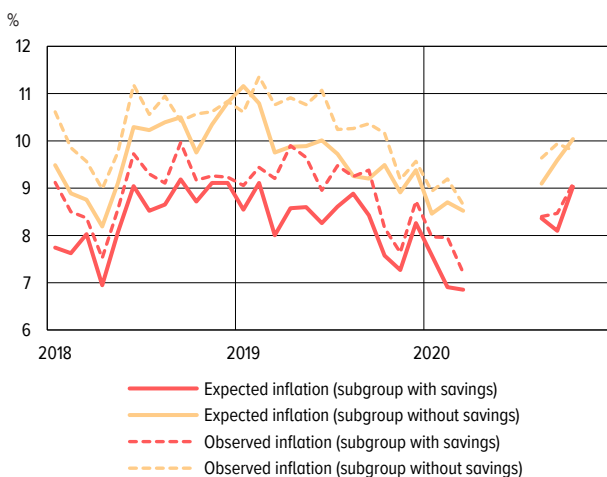
Chart 1



Sources: InFOM, Rosstat.

EXPECTED AND OBSERVED INFLATION
BY RESPONDENT SUBGROUP (MEDIAN ESTIMATE)

Chart 2



Sources: InFOM, Bank of Russia calculations.

Household inflation expectations

According to an inFOM survey commissioned by the Bank of Russia and conducted from 29 September to 9 October 2020, the median estimate of inflation observed by households over the past 12 months equalled 9.6%, which is 0.2 pp higher than in the previous month¹ (Table 1, Chart 1). In October, the median estimate of inflation expected in the next 12 months rose to 9.7%, which is 0.8 pp above its reading in September (Chart 1). The increase in inflation expectations was facilitated by the ruble depreciation and acceleration in prices for certain goods frequently purchased by households.

In October, the estimate of expected inflation overshot the observed inflation for the second time over the past five years. A similar trend was observed in January 2019 amid the ruble's weakening and the VAT rate hike. This ratio between the estimates of expected and observed inflation suggests that current price growth rates are expected to remain unchanged in the coming year.

Over the month, the estimates of inflation expected and observed by respondents with savings improved markedly (Chart 2). It should be noted that inflation expectations by households with savings demonstrate, as a rule, a better correlation with the dynamics of actual inflation;² however, in October, the value of their inflation expectations equalled the value of observed inflation – this phenomenon was not observed in January 2019. Respondents without savings noted an increase in inflation expectations and a decrease in observed inflation, and their inflation expectations eventually exceeded the estimates of observed inflation.

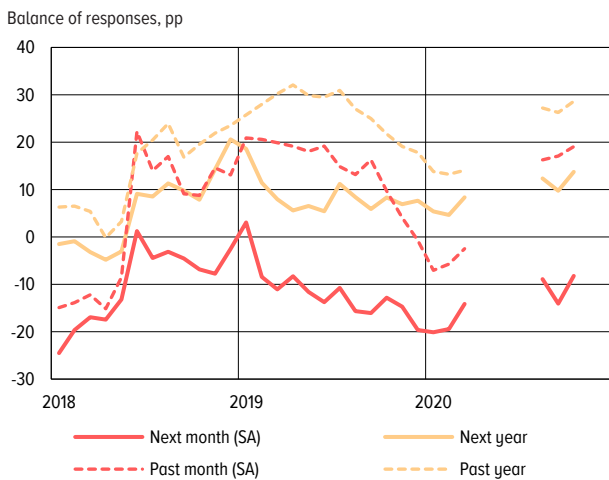
Responses to the question concerning 2020 inflation also demonstrated an increase in expectations (Chart 8 of the [InFOM Analytical Report](#), October 2020; hereinafter, the Report): the percentage of those expecting that inflation would exceed 4.0% rose by 2 pp against

¹ The previous survey was conducted from 28 August until 9 September 2020.

² Monetary Policy Report, No. 2 (26), June 2019.

INDICATORS OF PRICE MOVEMENTS

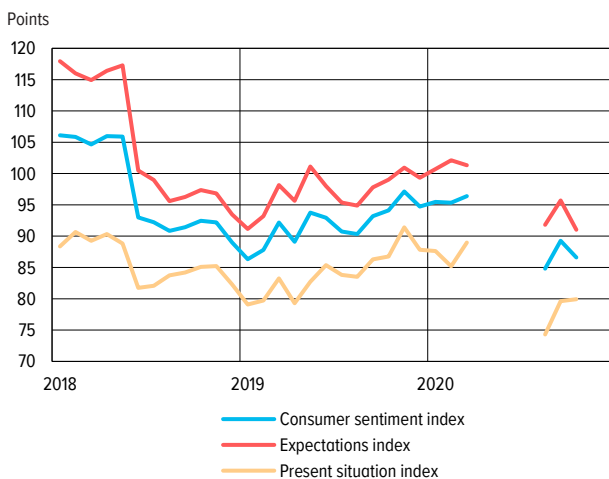
Chart 3



Sources: InFOM, Bank of Russia calculations.

CONSUMER SENTIMENT INDEX

Chart 4



Source: InFOM.

September. The share of those expecting inflation above 4% over a three-year horizon increased even more – from 47% to 52% (Chart 9 of the Report).

The readings of indicators showing the qualitative estimate of relative changes in future inflation³ for a year and a month ahead adjusted upwards in October (Chart 3) after a downward movement in September. A less noticeable worsening was observed for the qualitative estimates of current inflation over the past month and the past year. This correlation points to the growth of the share of respondents expecting a more significant acceleration of inflation in future compared to the acceleration registered in the past month.

When asked about individual goods, respondents more often mentioned significant price growth for such frequently purchased goods as sugar and oil meat in October than in September. Over the month, according to Rosstat, the price growth of these goods accelerated. This was due to a certain contraction in the volume of harvested sugar beet and sunflower this year (Chart 3 of the Report).

Households' consumer sentiment

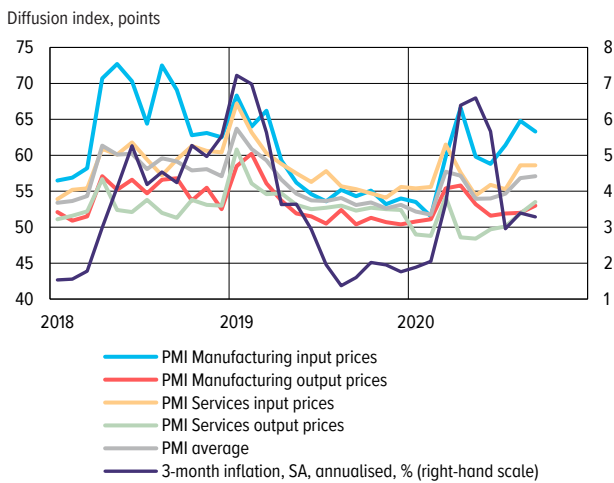
In October, the consumer sentiment index reduced by 3 p compared to September (Chart 4) because of the drop in the expectations index to the level of early 2019. However, the present situation index remained unchanged. Broken down by individual components of the expectations index (Chart 14 of the Report), the most serious deterioration was posted by the estimate of changes in domestic economic conditions for a year ahead (-7 p). Expectations for changes in the domestic economy for next five years deteriorated less markedly (-5 p), and expectations for changes in personal financial standing remained virtually the same (-1 p).

Even though respondents did not mention any changes in their financial standing in October (Chart 16 of the Report), compared

³ Balance of responses to the question about a change in inflation trends in the past and next year (month), seasonally adjusted.

CHANGES IN COMPANIES' PRICES
(MARKIT PMI)

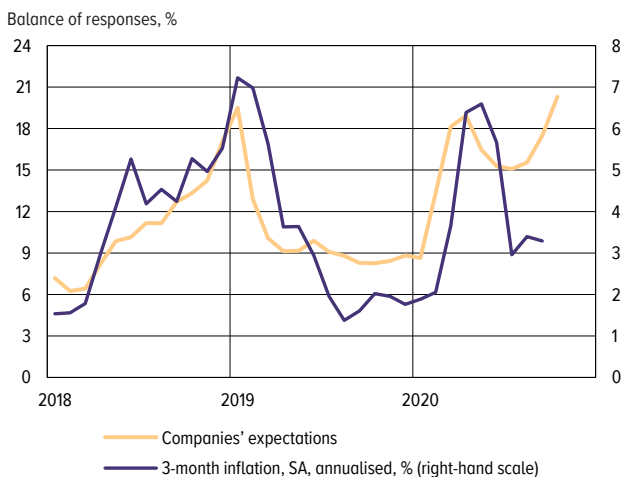
Chart 5



Sources: IHS Markit PMI, Rosstat.

COMPANIES' PRICE EXPECTATIONS
(BANK OF RUSSIA)

Chart 6



Sources: Bank of Russia, Rosstat.

to September, the share of those refusing to purchase certain goods and those spending their previously made savings on every day needs grew (Chart 10 of the Report).

Companies' price expectations

According to *IHS Markit PMI* surveys, the growth of output prices slightly sped up September 2020, compared to August (Chart 5). Growth in input prices in manufacturing industries slowed down, remaining at a high level, and remained unchanged in the services sector. These heterogeneous dynamics are explained by the fast pass-through of the ruble weakening on the costs of businesses amid moderate final demand.

According to the *monitoring of businesses* carried out by Bank of Russia in October 2020, price expectations for three months ahead continued to grow. Values of the balance of responses exceeded the levels of March-April 2020 and January 2019, when previous local highs were observed (Chart 6). A considerable increase in businesses' price expectations implies a significant growth of costs and a possible price growth acceleration in the coming months. However, inflation will be contained by weak demand and aggravation of the epidemiological situation.

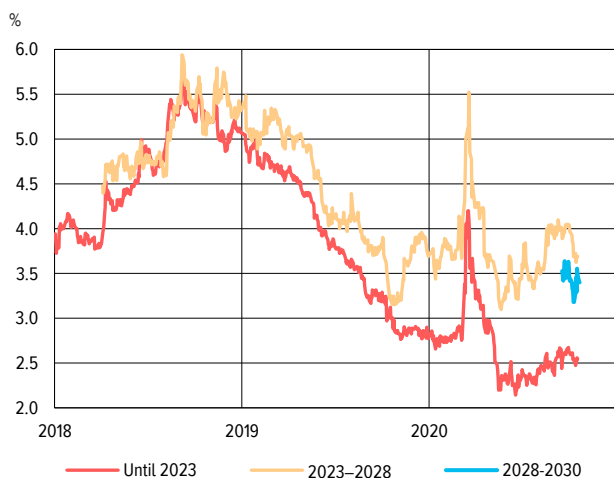
The average price growth rate expected in the next three months equalled 3.1% in annualised terms (vs 2.4% in September).

Responses to the question about the reasons behind price changes revealed that the main factor pushing price expectations upwards was the growth of input prices, driven in part by the ruble weakening.

Price expectations increased in most industries, excluding transportation, storage and construction, where expectations remained almost unchanged. The biggest price expectations were demonstrated by trade companies, both wholesale and retail. Their expectations grew under the influence of increasing input prices associated with the ruble weakening. The average price growth rate of retail trade expected in the next three months equalled 6.6% in annualised terms (vs 5.4% in September).

IMPLIED INFLATION FOR OFZ-IN

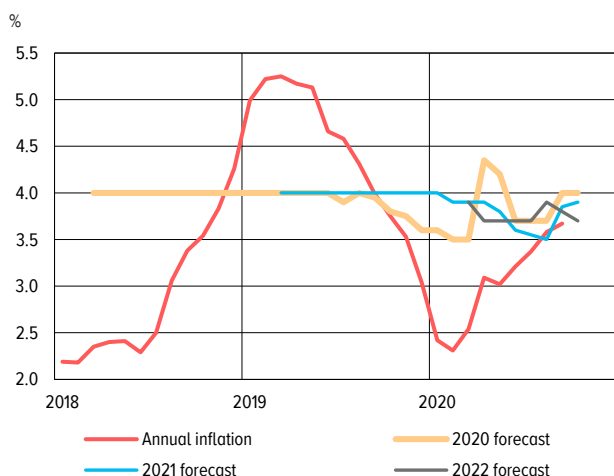
Chart 7



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

BLOOMBERG ANALYSTS' CONSENSUS FORECAST

Chart 8



Sources: Bloomberg, Rosstat.

Implied inflation for OFZ-IN

In the first half of October, implied inflation for OFZs-In went down after the growth posted in August – first half of September. According to Bank of Russia estimates,⁴ implied inflation for the nearest three years will remain close to 2.6% (Chart 7). Average implied future inflation again moved below 4% to 3.8% for 2023–2028, and to 3.4% for 2028–2030.

Analysts' inflation forecast

In September 2020, the range of professional analysts' 2020 inflation forecasts⁵ increased, though not going above 4% (Table 1). In October, Bloomberg analysts' 2020 consensus forecast did not change, remaining at 4%, and their 2021 forecast was raised to 3.9% (Chart 8). That said, the 2022 inflation consensus forecast decreased to 3.7%.

Bank of Russia's forecast

Consumer price dynamics are shaped by diverse factors: on the one side, this is mainly the weakening of the ruble; on the other side, this is the slower, compared to the summer months, recovery of domestic demand. In this setting, the path of inflation corresponds to the Bank of Russia's forecast and is expected in the range 3.9–4.2% by the end of 2020. The Bank of Russia forecasts that inflation will be at 3.5–4.0% at the end of 2021 and will stabilise 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.

Data cut-off date – 21.10.2020.

A soft copy of the [information and analytical commentary](#) is available on the Bank of Russia website.Please send your comments and suggestions to svc_analysis@cbr.ru.

This commentary was prepared by the Monetary Policy Department.

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12 Neglinnaya Street, 107016 Moscow

Bank of Russia website: www.cbr.ru

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