



Bank of Russia



# INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No.6 (30) • June 2019

Information and analytical commentary

28 June 2019

## Inflation expectations and consumer sentiment (June 2019)

In June, households' inflation expectations were mainly unchanged. Business price expectations for the months to come showed mixed dynamics but stayed below the level demonstrated in the first few months of 2019. This reflects the completion of their correction after the one-off surge caused by the VAT hike. Nevertheless, short-term expectations of economic entities still remain elevated. Long-term inflation expectations by financial market participants continued to decline, having reached 3.9-4%. Analysts' predictions remained virtually unchanged and suggest that annual inflation will continue to decline to reach 4.5-4.6% as of the year-end and stabilise near 4% in 2020 Q1. According to the Bank of Russia's forecast, annual inflation will stand at 4.2-4.7% in 2019 and hold near 4% thereafter.

INFLATION EXPECTATION INDICATORS

Table 1

	Expectation horizon	June 2017	June 2018	April 2019	May 2019	June 2019
<b>Households' inflation expectations, %</b>						
Public Opinion Foundation (median, expected inflation)	next 12 months	10.3	9.8	9.4	9.3	9.4
Public Opinion Foundation (median, observed inflation)	past 12 months	12.4	10.6	10.5	10.4	10.3
Public Opinion Foundation (Bank of Russia calculations)	next 12 months	4.0	2.6	5.5	5.5	5.0
<b>Professional analysts, %</b>						
Bloomberg	2019 Q4		4.0	4.5	4.5	
Interfax	December 2019		4.1	4.5	4.5	
Reuters	December 2019		4.0	4.8	4.6	
<b>Implied inflation for OFZ-IN, %</b>						
OFZ-IN 52001, August 2023	next 4-year average	4.6	4.5	4.6	4.2	3.9
OFZ-IN 52002, February 2028	next 9-year average		4.6	4.7	4.3	4.0
<b>Qualitative estimates of inflation expectations</b>						
Businesses, balance of replies	next 3 months	8.6	10.3	9.9	9.5	10.2
PMI input prices, diffusion index	current month	54.5	64.2	58.9	57.1	
PMI output prices, diffusion index	current month	51.7	53.3	54.4	52.8	

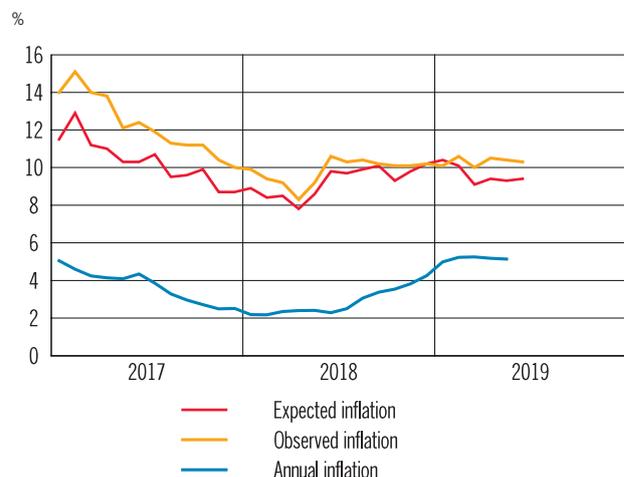
### Households' inflation expectations

According to the Bank of Russia-commissioned inFOM survey, the median estimate of annual inflation observed by households in June 2019 with respect to the past 12 months remained virtually unchanged (10.3% compared to 10.4% a month earlier; Table 1, Chart 1). The median estimate of inflation expected in the next 12 months stood at 9.4% (9.3% a month earlier, Chart 1). Despite the March decline, the median estimate of inflation expectations still remains higher than the level registered in the first half of 2018.

The estimates of households' inflation expectations for the next 12 months, calculated

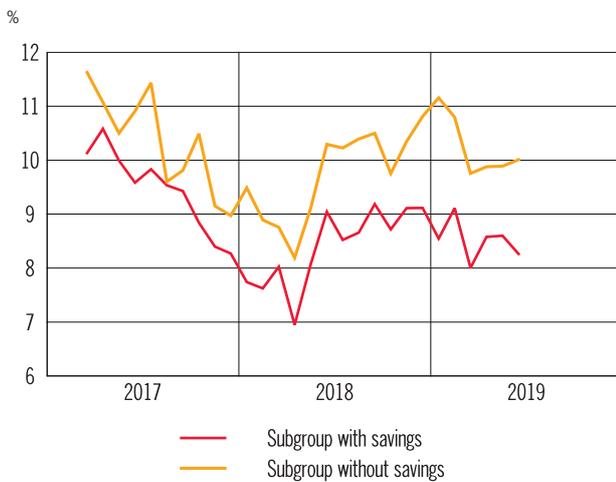
INFLATION OBSERVED AND EXPECTED BY HOUSEHOLDS (MEDIAN ESTIMATE)

Chart 1



Sources: InFOM, Rosstat.

INFLATION EXPECTATIONS BY SUBGROUPS OF RESPONDENTS (MEDIAN ESTIMATE) Chart 2



Sources: inFOM, Bank of Russia calculations.

INDEX OF CONSUMER SENTIMENT Chart 3



Source: InFOM.

FACTORS BEHIND HOUSEHOLD INFLATION EXPECTATIONS Table 2

(% of respondents)	March 2019	April 2019	May 2019	June 2019
Current change in petrol prices	47	48	47	52
Ruble exchange rate fluctuations	36	39	41	40
Current change in food prices	33	36	35	35
Wage and pension indexation	32	31	32	32

Source: InFOM.

by the Bank of Russia with the use of inFOM survey data, stay on a downward trend registered since February 2019. Their values, however, are higher than in 2017-2018.

The analysis conducted by the Bank of Russia showed a strong correlation between the saving behaviour and the inflation expectations of households.<sup>1</sup> Respondents who have savings generate more rational expectations, which leads to a narrower range of their variation and a lower deviation from the Bank of Russia's target. In June, inflation expectations of this category of the population declined and came close to the values registered in early 2018 (Chart 2).

In June, the rise in the prices of such frequently purchased goods as meat, cheese and sausages, dairy, bread and eggs was less frequently perceived as considerable (Chart 3 of the *inFOM Analytical Report on the Sixth Survey in 2019*, further referred to as the 'Report') This is consistent with the statistics, which suggest that the prices of these goods were growing slower or declining.

At the same time, respondents' concern with regard to potential growth of petrol prices should be noted. Although the same number of respondents who said that they observed the price increase was the same as the month before (Chart 3 of the Report), they increasingly mentioned petrol as the main driver of future inflation. This can slow down the decline in inflation expectations as petrol is the most popular indicator of future inflation among households (Chart 37 of the Report, Table 2).

In June, the share of respondents who expect 2019 and 3-year inflation above 4% also increased (by 3 pp to 56% and 51% respectively; Charts 8 and 9 of the Report). This fact indicates that inflation expectations are not anchored to the Bank of Russia's target. Nevertheless, this share is still lower than the maximum level registered in December 2018.

<sup>1</sup> *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 of households

After growth in the previous month, the consumer sentiment index almost did not change in June, having remained roughly at the same level as in the middle of the last year (93 points; Chart 3). At the same time, the estimates of the current situation and expectations showed mixed dynamics (Chart 11 of the Report). The index of current economic conditions reached the highest level since mid-2018. Among the index components, respondents' assessments of changes in personal financial standing over the last year and of favourableness of the current period for large purchases improved the most (Chart 12 of the Report). At the same time, the expectations of changes in financial standing next year and the estimates of the country's development prospects deteriorated.

## 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 May 2019 (Chart 4). This was associated with the exhaustion the VAT rate hike effect on costs and prices after the January surge. Both indexes came within touching distance of early 2018 values.

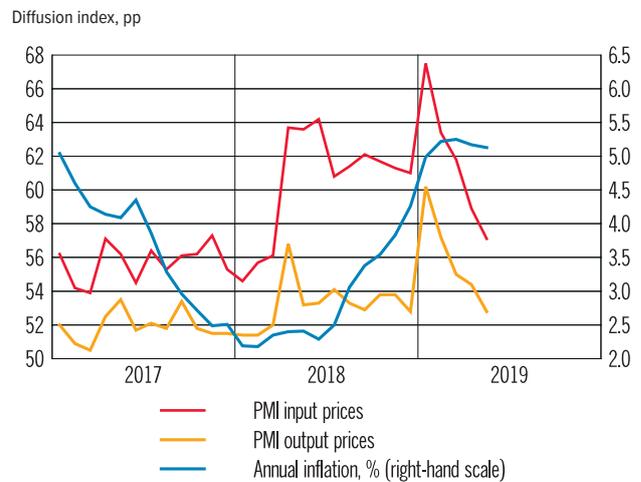
At the same time, according to a survey of businesses conducted by the Bank of Russia,<sup>3</sup> business price expectations for the next three months increased in June 2019 after falling over the previous four months (Chart 5). The highest growth of expectations was observed in companies in the mining and quarrying sector (due to global market conditions) and construction companies (the new project financing mechanism). In turn, agricultural, service and retail trade firms indicated lower inflationary pressure. This kind of sectoral balance of responses indicates that risks for consumer prices in the months to come remain low.

<sup>2</sup> For details, refer to <https://www.markiteconomics.com/public>.

<sup>3</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). The aggregate index is a balanced representation of responses, i.e. the difference in the share of respondents who expect prices will increase and those expecting prices to decrease.

CHANGES IN COMPANIES' PRICES  
(MARKIT PMI)

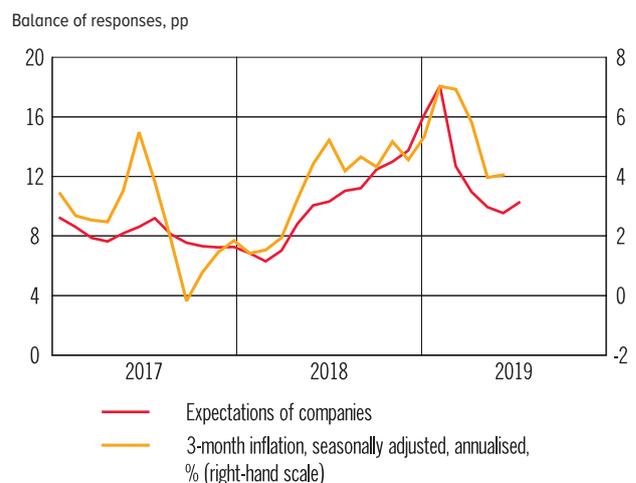
Chart 4



Sources: IHS Markit PMI, Rosstat.

BUSINESS PRICE EXPECTATIONS  
(BANK OF RUSSIA)

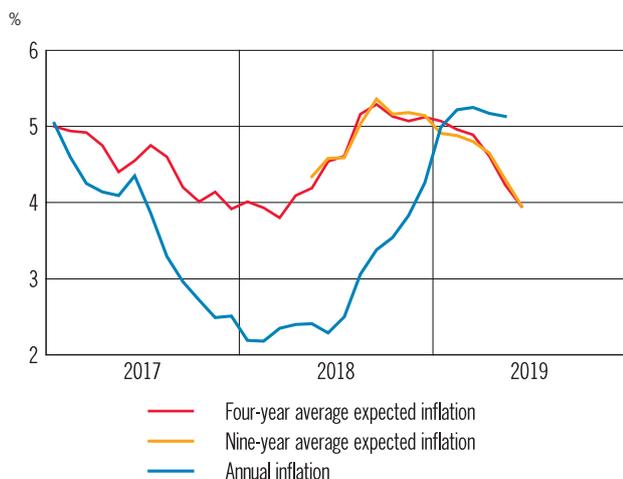
Chart 5



Sources: Bank of Russia, Rosstat.

IMPLIED INFLATION  
FOR OFZ-IN

Chart 6



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

## Implied inflation for OFZ-IN

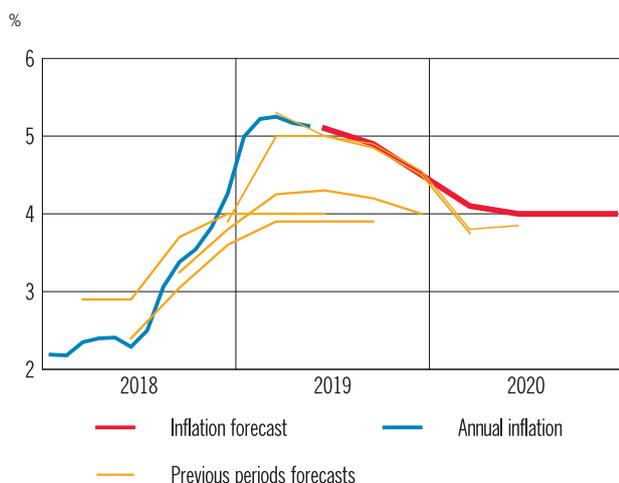
In June, 4- and 9-year implied inflation priced in OFZ-IN, according to the Bank of Russia's estimates,<sup>4</sup> was 3.9% and 4.0% respectively (4.9-5.1% in January, 4.2-4.3% in April; Chart 6). This level of implied inflation was last seen in late 2017 – early 2018. Decreased estimates indicate stronger anchoring of inflation expectations of financial market participants to the Bank of Russia's target.

## Analysts' inflation expectations

The range of analysts' inflation forecasts for December 2019<sup>5</sup> has remained almost unchanged since January, holding at 4.5-4.6% (Table 1). Predictions suggest that annual consumer price growth rates will continue decreasing to stabilise near 4% in 2020 Q1 (Chart 7).

## BLOOMBERG ANALYSTS' CONSENSUS FORECAST

Chart 7



Sources: Bloomberg, Rosstat.

## Bank of Russia forecast

According to the Bank of Russia's forecast, annual inflation will stand at 4.2-4.7% in 2019. The revised forecast takes into account the completion of the VAT increase pass-through to prices, including the impact of secondary effects and the preservation of relatively favourable external conditions and moderate dynamics of domestic demand. Moving on, according to the Bank of Russia's forecast, annual inflation will stay close to 4%.

<sup>4</sup> The estimates are based on the comparison of expected yields on inflation-indexed federal government bonds (OFZ-IN) and nominal federal government bonds.

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

Cut-off date – 21.06.2019.

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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