



Bank of Russia



# INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

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Information and analytical commentary

28 May 2020

## Inflation expectations and consumer sentiment (May 2020)

After the surge in March – early April, inflation expectations are gradually going down. According to InFOM’s telephone survey, short-term inflation expectations decreased in May, while the estimates of observed inflation and long-term expectations remained the same as in the previous month. The findings of the Bank of Russia’s monitoring of businesses also evidence that short-term price expectations trended downwards in May. Implied inflation for inflation-indexed federal government bonds (OFZ-IN) reached its record low over the entire history of trading of these bonds. Analysts forecast that in 2020 and over a medium-term horizon inflation will stay close to 4%. Inflation expectations are stabilising since price growth is slowing down as a result of the weakening effect of temporary pro-inflationary factors. The Bank of Russia forecasts that given the monetary policy pursued, annual inflation will equal 3.8–4.8% as of the end of 2020 and will stabilise close to 4% further on.

LEADING INFLATION INDICATORS AND INFLATION EXPECTATION INDICATORS

Table 1

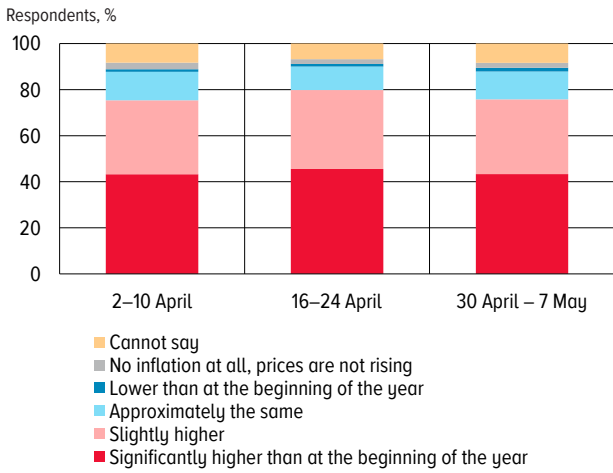
	Expectation horizon	May 2018	May 2019	March 2020	April 2020	May 2020
<b>Inflation, %</b>		<b>2.4</b>	<b>5.1</b>	<b>2.5</b>	<b>3.1</b>	...
<b>Business surveys</b>						
Companies, balance of responses	next 3 months	9.9	9.2	18.2	19.0	16.6
PMI Manufacturing input prices, diffusion index	current month	72.7	56.2	59.8	66.6	
PMI Manufacturing output prices, diffusion index	current month	55.2	51.9	55.4	55.8	
PMI Services input prices, diffusion index	current month	60.1	57.5	61.5	57.6	
PMI Services output prices, diffusion index	current month	52.4	53.1	54.2	48.6	
<b>Analysts, %</b>						
Bloomberg	2020		4.0	3.5	4.4	4.3
Interfax	2020			4.7	4.8	
Reuters	2020			4.7	4.5	
Bloomberg	2021			4.0	4.0	3.9
Interfax	2021			3.8	3.9	
Reuters	2021			3.9	3.7	
<b>Implied inflation for OFZ-IN, %</b>						
OFZ-IN 52001, August 2023	next 4-year average	4.4	4.3	3.5	3.1	2.5
OFZ-IN 52002, February 2028	next 9-year average	4.5	4.5	4.1	3.6	3.0
OFZ-IN	2023–2028 average	4.7	4.8	4.5	4.0	3.4

## Households’ inflation expectations

In May 2020, amid the self-isolation measures implemented because of the spread of the coronavirus infection, InFOM continued the Bank of Russia-commissioned representative telephone surveys of households across Russia. Their findings are not comparable with the results of the surveys conducted before March 2020 because of considerable differences in their methodologies. However, these telephone surveys provide important up-to-date information on Russians’ perception of price trends and consumer behaviour.

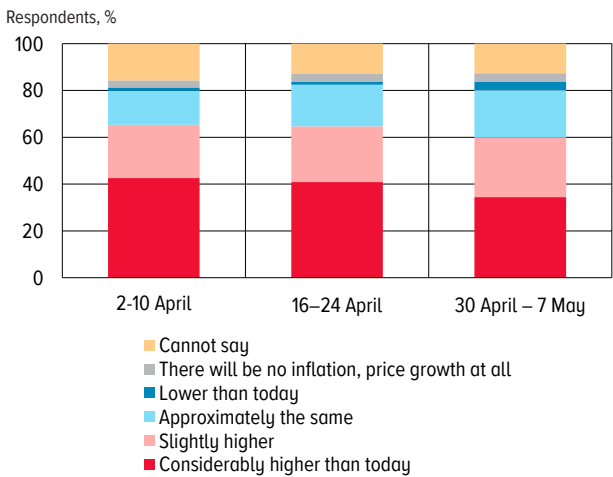
According to the telephone survey carried out from 30 April to 7 May, 76% of respondents believe that the current price growth sped up compared to January–February (Chart 1). This number is 4 pp lower compared to the results of the 16–24 April survey. Moreover, among the replies to the free-answer question about goods and services demonstrating the most significant rise (Annex 1 to the *InFOM Analytical Report on the First April 2020 Survey*; hereinafter, the Report), Russians more rarely mentioned food products that households had been buying in for the self-isolation period. These are primarily non-perishable food products (cereals, sugar, and pasta), as well as fruit and vegetables.

CURRENT PRICE GROWTH VS JANUARY–FEBRUARY *Chart 1*



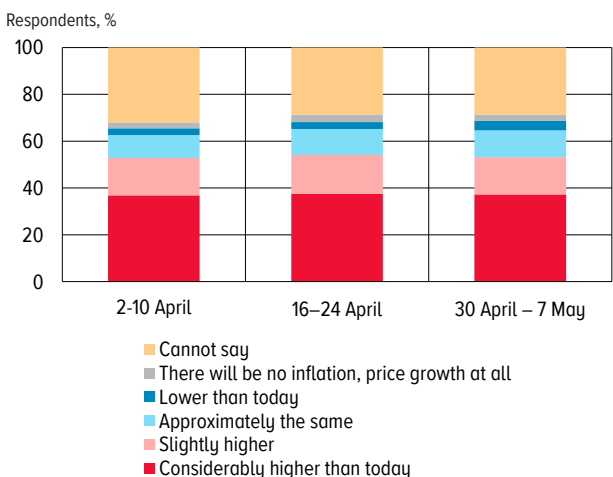
Source: InFOM.

EXPECTATIONS OF PRICE GROWTH IN A MONTH *Chart 2*



Source: InFOM.

EXPECTATIONS OF PRICE GROWTH IN A YEAR *Chart 3*



Source: InFOM.

Rosstat recorded a slowdown in the growth of prices for these product groups in late April – early May. Concurrently, respondents complained about rising prices for meat and milk products as often as in the course of the previous survey. According to Rosstat’s data, the price growth in these product groups decelerated in mid-May, which will probably contribute to a further decrease in households’ estimates of observed inflation.

Stabilising price trends had a positive influence on short-term inflation expectations. Specifically, the percentage of respondents expecting a material rise in price growth in the next month declined by 7 pp compared to the previous survey (Chart 2). However, respondents continued to choose most often the answer that price growth would speed up in a month.

Although short-term inflation expectations trended downwards, respondents’ opinion regarding inflation movements in a year remained almost unchanged (Chart 3). As in the previous month, over one-half of respondents still expect inflation to rise in the next year.

Overall, the findings of the survey confirm that the April surge in inflation expectations was short-term. It was provoked by the exchange rate volatility that had increased in March and the growth of prices for individual basic goods stocked up in advance. Inflation expectations may be assumed to gradually lower in the future amid stabilising external conditions and moderate demand.

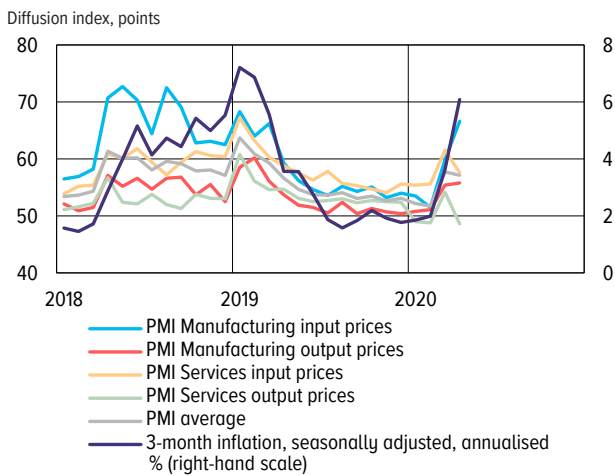
## Households’ consumer sentiment

54% of respondents reported no changes in their financial standing in May, while 43% complained about its deterioration (Chart 4 of the Report). This ratio is similar to the results of the survey carried out in the second half of April. For the majority of respondents, their financial standing worsened because of job loss or income decline (Table 1 of the Report).

Households became more optimistic about their financial standing in a month (Chart 6 of the Report), while their expectations about their finances over a one-year horizon remained

CHANGES IN COMPANIES' PRICES  
(MARKIT PMI)

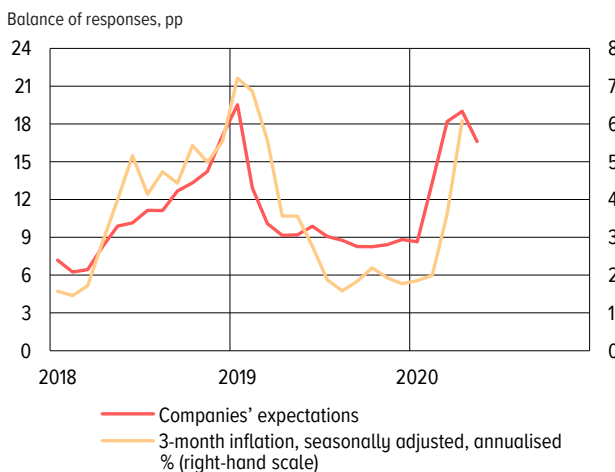
Chart 4



Sources: IHS Markit PMI, Rosstat.

COMPANIES' PRICE EXPECTATIONS  
(BANK OF RUSSIA)

Chart 5



Sources: Bank of Russia, Rosstat.

almost the same (Chart 7 of the Report). Moreover, the percentage of respondents expecting their financial standing to improve in a year is larger than that of people fearing that their finances may decline.

## Companies' price expectations

According to *IHS Markit PMI* surveys, prices were moving diversely in April 2020 as compared to the previous month (Chart 4). Manufacturing industries experienced a faster rise in both input and output prices: the pro-inflationary pressure of the weakened ruble and component supply problems was predominant over the effect of subdued demand. Price growth was most significant in the opinion of consumer product manufacturers. Contrastingly, the service sector recorded a slowdown in the rise of input prices and a decrease in output prices. Despite the deceleration, the growth rate of input prices remained high. Companies' representatives believe that this was caused by the need to work from home and increased logistics costs. Output prices declined primarily due to weak demand.

According to the *monitoring of businesses* carried out by the Bank of Russia in May 2020, price expectations for the next three months lowered, while staying at a high level<sup>1</sup> (Chart 5). Expectations went down in the majority of industries, except mining where the movements of global commodity prices are the prevailing factor.

The question about the reasons behind price changes revealed that the main factors driving price expectations downwards were the strengthening of the ruble and the resulting reduction in costs. The expected average growth of output prices in the next three months (in annual terms) also decreased, reaching 2.3%.

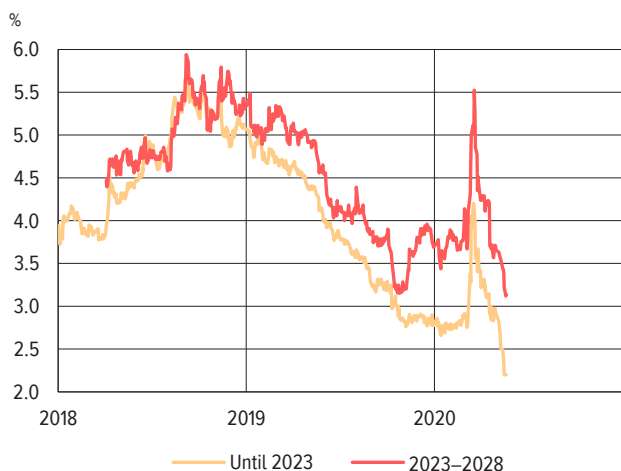
## Implied inflation for OFZ-IN

In May, implied annual inflation for inflation-indexed federal government bonds (OFZ-IN) continued to go down after its surge in mid-March. According to the Bank of Russia's

<sup>1</sup> Final indicator – balance of responses (the difference between the proportions of price rise and fall responses).

IMPLIED INFLATION FOR OFZ-IN

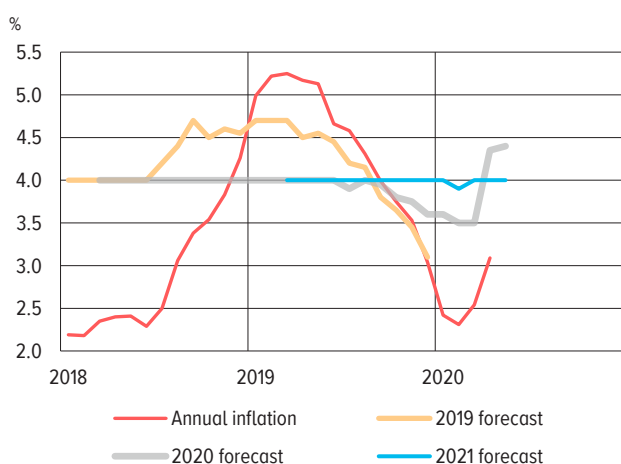
Chart 6



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

BLOOMBERG ANALYSTS' CONSENSUS FORECAST

Chart 7



Sources: Bloomberg, Rosstat.

estimates,<sup>2</sup> the pace of inflation expected in the next four years hit a new record low for these securities, equalling 2.2% on certain days (Chart 6). Average implied future inflation (from August 2023 until February 2028) also decreased to its lowest point in May (3.1%). Such a significant change in implied inflation was probably associated with the low liquidity of OFZ-IN and, accordingly, a slower response of these bonds to shifts in the yield curve of fixed-coupon federal government bonds (OFZ-PD).

### Analysts' inflation forecast

In April 2020, the range of analysts' 2020 inflation forecasts<sup>3</sup> slightly increased to 4.4–4.8% (Table 1). Analysts' mid-term inflation expectations remain anchored to the Bank of Russia's targets, that is, close to 4% (Chart 7).

### Bank of Russia's forecast

As was assumed, stabilising external conditions, coupled with the increasing disinflationary impact of demand decline caused by the current and time-lagged economic effects of the anti-coronavirus measures, slowed down the price growth rate and started to drive inflation expectations downwards. According to the Bank of Russia's baseline forecast and given the monetary policy pursued, annual inflation will equal 3.8–4.8% as of the end of 2020 and will stay close to 4% further on.

<sup>2</sup> The assessments are based on the comparison of expected yields on inflation-indexed federal government bonds (OFZ-IN) and nominal OFZ, with account for the lag between the nominal value indexation and seasonally adjusted inflation.

<sup>3</sup> Surveys by Interfax, Bloomberg and Thomson Reuters.

Data cut-off date – 25.05.2020.

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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