



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No. 6 (42) • June 2020

Information and analytical commentary

25 June 2020

Inflation expectations and consumer sentiment (June 2020)

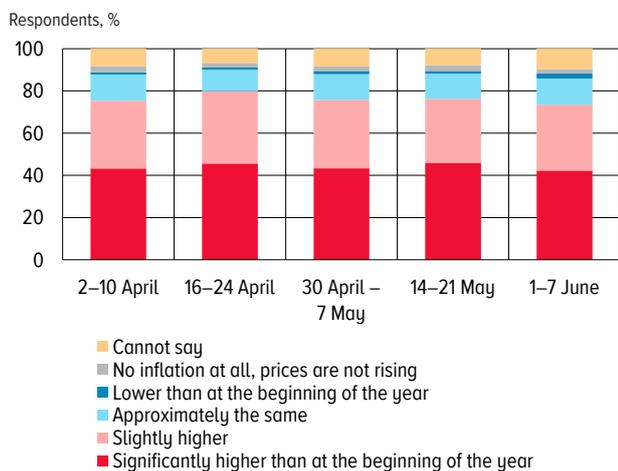
June recorded a decrease in inflation expectations. According to InFOM's telephone survey, households' short-term inflation expectations continued to lower. The findings of the Bank of Russia's monitoring of businesses also evidence that short-term price expectations trended downwards in June. Over the month, implied inflation for inflation-indexed federal government bonds (OFZ-IN) stabilised close to 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%. The observed decrease in inflation expectations is the result of the exhausted effect of temporary proinflationary factors. Concurrently, annual inflation may gradually increase over the remainder of the year since the low readings recorded in 2019 H2 will be excluded from the inflation calculation. Given the current trends, annual inflation as of the year-end 2020 is more likely to move towards the lower bound of the 3.8–4.8% forecast range.

LEADING INFLATION INDICATORS AND INFLATION EXPECTATION INDICATORS

Table 1

	Expectation horizon	June 2018	June 2019	April 2020	May 2020	June 2020
Inflation, %		2.3	4.7	3.1	3.0	...
Business surveys						
Companies, balance of responses	next 3 months	10.2	9.9	18.9	16.5	15.1
PMI Manufacturing input prices, diffusion index	current month	70.3	54.6	66.6	59.8	
PMI Manufacturing output prices, diffusion index	current month	56.6	51.5	55.8	53.2	
PMI Services input prices, diffusion index	current month	61.8	56.3	57.6	54.4	
PMI Services output prices, diffusion index	current month	52.1	52.5	48.6	48.4	
Analysts, %						
Bloomberg	2020		4.0	4.4	4.2	4.1
Interfax	2020			4.8	4.5	
Reuters	2020			4.5	4.2	
Bloomberg	2021			4.0	3.8	3.8
Interfax	2021			3.9	3.9	
Reuters	2021			3.7	3.5	
Implied inflation for OFZ-IN, %						
OFZ-IN 52001, August 2023	next 4-year average	4.7	3.9	3.1	2.4	2.3
OFZ-IN 52002, February 2028	next 9-year average	4.7	4.1	3.6	3.0	3.0
OFZ-IN	2023–2028 average	4.8	4.2	4.0	3.3	3.5

CURRENT PRICE GROWTH VS JANUARY–FEBRUARY Chart 1

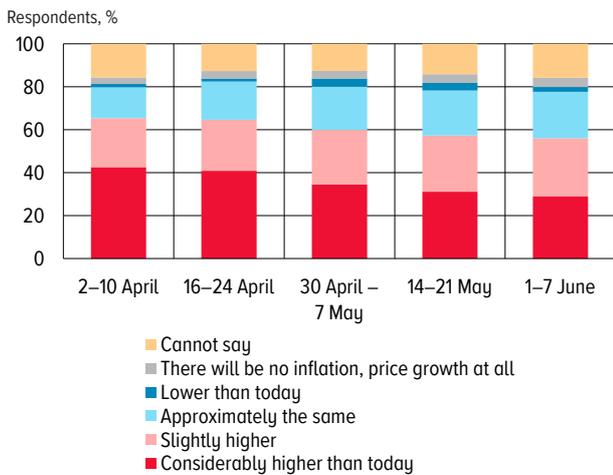


Source: InFOM.

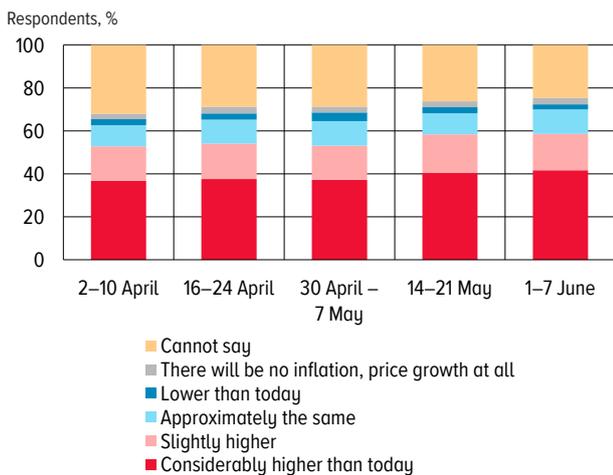
Households' inflation expectations

In June 2020, 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 on 1–7 June, 73% of respondents believe that the current price growth sped up compared

EXPECTATIONS OF PRICE GROWTH IN A MONTH *Chart 2*

Source: InFOM.

EXPECTATIONS OF PRICE GROWTH IN A YEAR *Chart 3*

Source: InFOM.

to January–February (Chart 1). This number is 3 pp lower compared to the results of the 14–21 May survey. Among the replies to the free-answer question about goods and services demonstrating the most considerable rise (Annex 1 to the *InFOM Analytical Report on the First May 2020 Survey*; hereinafter, the Report), Russians increasingly rarely mentioned food products that households had been buying in for the self-isolation period, primarily non-perishable goods (cereals, sugar, buckwheat, and pasta), as well as fruit and vegetables. In June, respondents also more rarely complained about rising prices for medicines. Rosstat recorded a slowdown of price growth in these product groups in May.¹ As before, respondents mentioned higher prices for meat and milk products, although the percentage of such responses dropped. According to Rosstat's data, the price growth in these product groups slowed down in May, which will probably contribute to a further decrease in households' estimates of observed inflation.

Short-term inflation expectations continued to progressively improve owing to the ongoing stabilisation of price movements. Specifically, the percentage of respondents expecting a material acceleration of price growth in the next month declined, yet this answer is still chosen quite often (Chart 2).

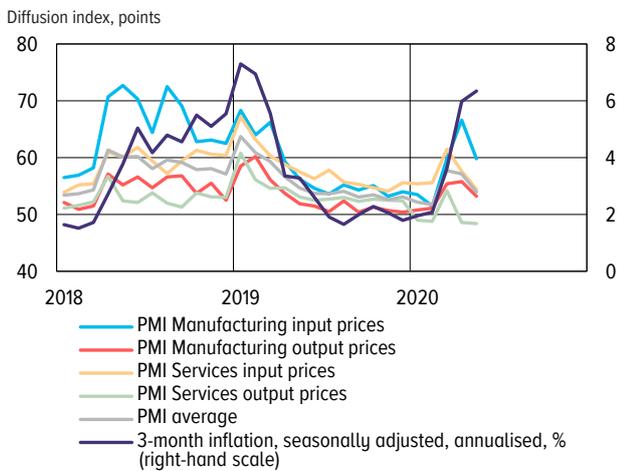
Although short-term inflation expectations trended downwards, respondents' opinion regarding inflation movements in a year remained almost unchanged (Chart 3). As the previous survey, the new findings revealed that over one-half of respondents still expect inflation to speed up in the next 12 months, which may be partially caused by their concerns about potential deferred consequences of the pandemic and the experience of the past crisis periods.

The results of the survey confirm that April's surge in inflation expectations was short-term and that their downward trend formed in the second half of May continues. This decrease may be explained by the strengthening of the ruble during this period, the exhausted effect of

¹ Refer to the information and analytical commentary *Consumer Price Dynamics*, No. 5 (51), May 2020.

CHANGES IN COMPANIES' PRICES
(MARKIT PMI)

Chart 4



Sources: IHS Markit PMI, Rosstat.

elevated demand for basic goods, and demand constraints. Inflation expectations will continue to lower in the future owing to stabilising external conditions and moderate demand.

Households' consumer sentiment

In June, households became more positive about their financial standing. Specifically, the percentage of those whose financial standing deteriorated decreased by 13 pp, to 30% (Chart 5 of the Report). This shift after the generally negative trend in April–May proves that the easing of the self-isolation restrictions by individual regions have had favourable consequences. Nonetheless, it should be emphasised that the percentage of respondents reporting an improvement in their financial standing still remains low.

Households are gradually becoming more optimistic about their financial standing in a month and in a year (Charts 7 and 8 of the Report). This is the first of the five telephone surveys that recorded a larger percentage of respondents expecting their financial standing to improve in the next month, rather than decline.

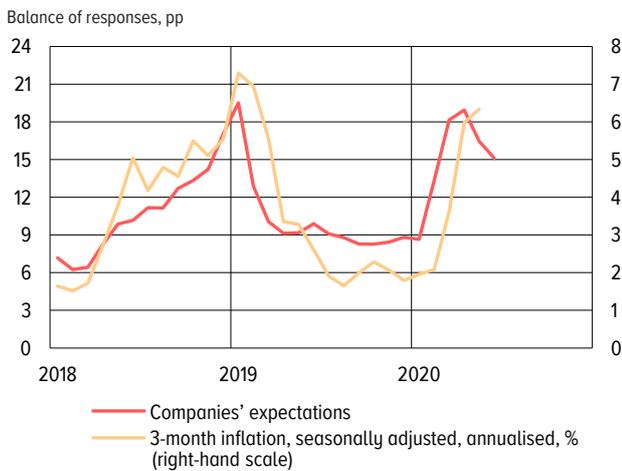
Companies' price expectations

According to IHS Markit PMI surveys,² the price growth slowed down in May 2020 against the previous month (Chart 4). Manufacturing industries recorded a slower rise in both input and output prices compared to April, while its pace stayed above the level of 2019 H2. Business representatives believe that a high price growth rate is driven by the proinflationary pressure of the ruble depreciation that occurred in previous months, and by an increase in suppliers' costs resulting from disturbances in logistics chains, among other things. Price growth accelerated most significantly in the opinion of consumer product manufacturers. In the service sector, the growth of input prices continued to slow down, and output prices maintained the downward trend. As reported by companies'

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

COMPANIES' PRICE EXPECTATIONS
(BANK OF RUSSIA)

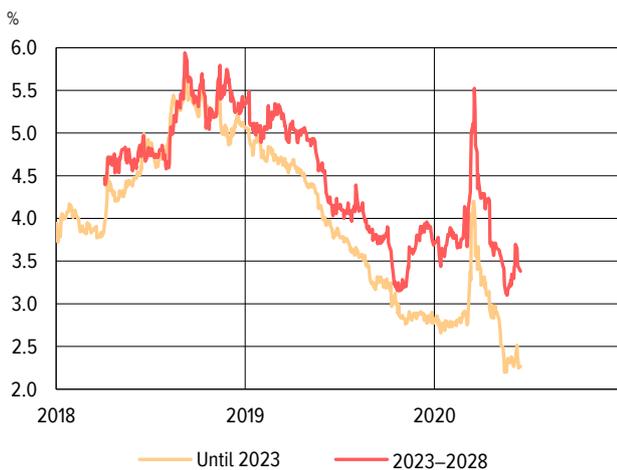
Chart 5



Sources: Bank of Russia, Rosstat.

IMPLIED INFLATION FOR OFZ-IN

Chart 6



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

representatives, this was mostly caused by weak demand.

According to the *monitoring of businesses* carried out by the Bank of Russia in June 2020, price expectations for the next three months were primarily decreasing, while still staying elevated (Chart 5). Representatives of trade, manufacturing and transport enterprises reported the most considerable reduction. Conversely, price expectations in mining where the movements of global commodity prices are the prevailing factor trended upwards, as well as in the service sector and construction.

The question about the reasons behind price changes revealed that the main factor driving price expectations downwards was the strengthening of the ruble and the resulting reduction in costs. As to an increase in price expectations, companies mostly explained it by extra costs needed to ensure compliance with the anti-coronavirus measures. The average price growth rate expected in the next three months continued to go down, equalling 1.9% (in annual terms).

Implied inflation for OFZ-IN

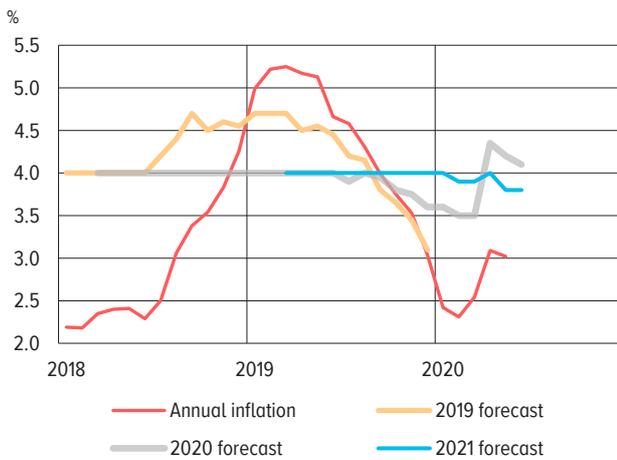
In the second half of May and in June, implied annual inflation for inflation-indexed federal government bonds (OFZ-IN) stabilised. According to the Bank of Russia's estimates,³ the pace of inflation expected in the next four years remained close to its record low for these securities, equalling 2.2% on certain days (Chart 6). Average implied future inflation (from August 2023 until February 2028) was ranging from 3.2% to 3.6% in June, which is close to its October lows.

Analysts' inflation forecast

In May 2020, the range of analysts' 2020 inflation forecasts⁴ decreased to 4.1–4.5% against the background of a deterioration of most macroeconomic indicators and more pessimistic expectations regarding future

³ The assessments are based on the comparison of expected returns 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.

⁴ Surveys by Interfax, Bloomberg and Thomson Reuters.

BLOOMBERG ANALYSTS' CONSENSUS FORECAST *Chart 7*

Sources: Bloomberg, Rosstat.

demand (Table 1). Analysts' mid-term inflation expectations remained 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 drove inflation expectations downwards. Concurrently, annual inflation may gradually increase over the remainder of the year since the low readings recorded in 2019 H2 will be excluded from the inflation calculation. Given the current trends, annual inflation as of the year-end 2020 is more likely to move towards the lower bound of the 3.8–4.8% forecast range.

Data cut-off date – 22.06.2020.

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.

Cover photo: A. Nikitin, Bank of Russia

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