



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

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Information and analytical commentary

26 August 2020

Inflation expectations and consumer sentiment (August 2020)

In August, inflation expectations changed only slightly and in a diverse manner, compared to the previous month. The Bank of Russia's monitoring demonstrated that businesses' short-term price expectations slightly rose, yet price growth was expected to be low. PMI price indices also suggest a stabilisation of prices. Implied inflation for inflation-indexed federal government bonds (OFZ-IN) increased somewhat in August, while staying close to its all-time low. Analysts' inflation forecasts for 2020 and 2021 remained below 4.0%. In August, InFOM resumed representative surveys of households across Russia conducted as personal interviews: inflation expectations rose compared to March, when this survey was last carried out using the same technique. Their current level is close to the average of 2019 Q4. The Bank of Russia forecasts that annual inflation will increase to 3.7–4.2% by the end of the year since the low readings recorded in 2019 H2 will be excluded from the inflation calculation. As of year-end 2021, inflation will equal 3.5–4.0%, subsequently stabilising close to 4.0%.

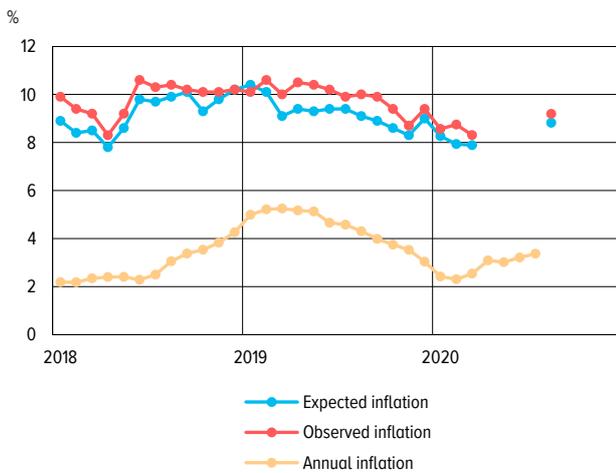
LEADING INFLATION INDICATORS AND INFLATION EXPECTATION INDICATORS

Table 1

	Expectation horizon	August 2019	March 2020	June 2020	July 2020	August 2020
Inflation, %		4.3	2.5	3.2	3.4	...
Inflation observed by households, %						
Public Opinion Foundation (median)	past 12 months	10.0	8.3			9.2
Public Opinion Foundation (subgroup with savings)	past 12 months	9.2	7.2			8.4
Public Opinion Foundation (subgroup without savings)	past 12 months	10.3	8.6			9.6
Households' inflation expectations, %						
Public Opinion Foundation (median)	next 12 months	9.1	7.9			8.8
Public Opinion Foundation (subgroup with savings)	next 12 months	8.9	6.9			8.4
Public Opinion Foundation (subgroup without savings)	next 12 months	9.3	8.5			9.1
Companies' price expectations						
Companies, balance of responses	next 3 months	8.8	18.1	15.3	14.9	15.2
PMI Manufacturing input prices	current month	55.2	59.8	58.8	61.4	
PMI Manufacturing output prices	current month	52.4	55.4	51.6	51.9	
PMI Services input prices	current month	55.7	61.5	55.9	55.3	
PMI Services output prices	current month	53.0	54.2	49.7	50.1	
Analysts, %						
Bloomberg	2020	3.9	3.5	3.7	3.7	3.7
Interfax	2020		4.7	3.9	3.9	
Reuters	2020		4.7	3.7	3.7	
Bloomberg	2021		4.0	3.6	3.6	3.5
Interfax	2021		3.8	3.9	3.7	
Reuters	2021		3.9	3.5	3.4	
Bloomberg	2022		3.9	3.7	3.9	3.9
Reuters	2022		3.9	3.8	3.7	
Implied inflation for OFZ-IN, %						
OFZ-IN 52001, August 2023	next 3-year average	3.5	3.5	2.3	2.3	2.5
OFZ-IN 52002, February 2028	next 8-year average	3.8	4.1	3.0	3.1	3.1
OFZ-IN	2023–2028 average	4.0	4.5	3.4	3.5	3.6

INFLATION OBSERVED AND EXPECTED
BY HOUSEHOLDS (MEDIAN ESTIMATE)

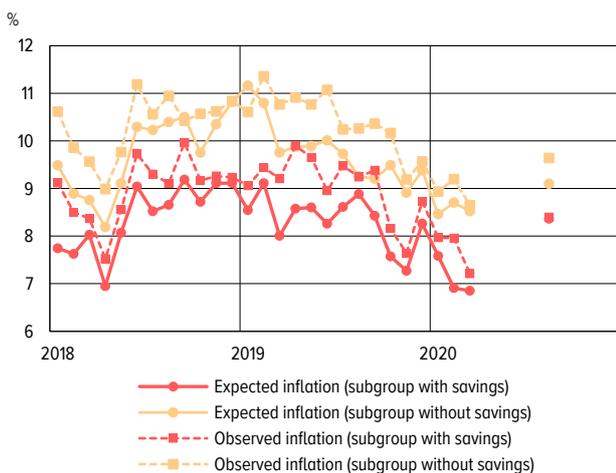
Chart 1



Sources: InFOM, Rosstat.

EXPECTED AND OBSERVED INFLATION
BY RESPONDENT SUBGROUP (MEDIAN ESTIMATE)

Chart 2



Sources: InFOM, Bank of Russia calculations.

Households' inflation expectations

In August 2020, InFOM resumed the Bank of Russia-commissioned representative surveys of households across Russia conducted as personal interviews. Because of significant differences in the methodologies, their findings are not comparable with the results of the telephone surveys carried out in April–July and, therefore, will be compared with those conducted through March 2020.

The survey showed that the median estimate of inflation observed by households over the last 12 months equalled 9.2%, which is 0.9 pp higher than in March 2020 (Table 1, Chart 1). The median estimate of inflation expected in the next 12 months rose to 8.8%, which is also 0.9 pp above its reading in March 2020 (Chart 1). Currently, both observed and expected inflation is close to the average readings of 2019 Q4.

Inflation expectations of respondents with and without savings increased against March (Chart 2).¹ Moreover, the estimates of inflation expected and observed by respondents with savings became equal, while respondents without savings reported that expected inflation was below the observed price growth.

In addition, indicators characterising the estimate of a relative change in current and future annual inflation trends² were significantly higher in August compared to March 2020 (Chart 3). The indicator of future inflation rose more than that of current inflation. This trend suggests that current inflation observed by respondents sped up and that they expect this acceleration to be partially passed through to the next year.

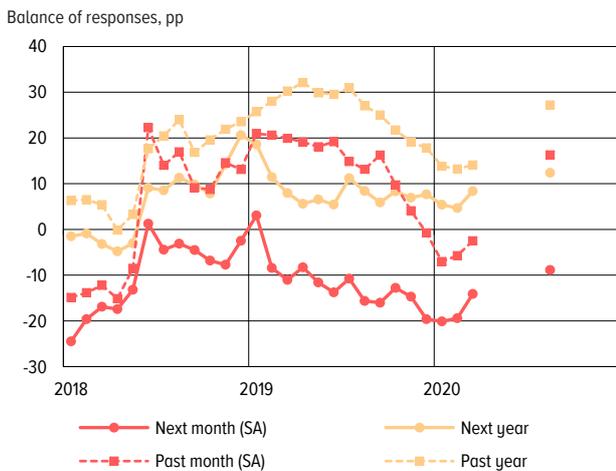
Responses to the question concerning 2020 inflation also demonstrated an increase in expectations (Chart 8 of the *InFOM Analytical Report* (August 2020); hereinafter, the Report): the percentage of those expecting that inflation will exceed 4.0% rose against March. That said, expectations regarding inflation in the next

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

² Balance of responses to the question about a change in inflation trends in the past and next years, seasonally adjusted.

INDICATORS OF PRICE MOVEMENTS

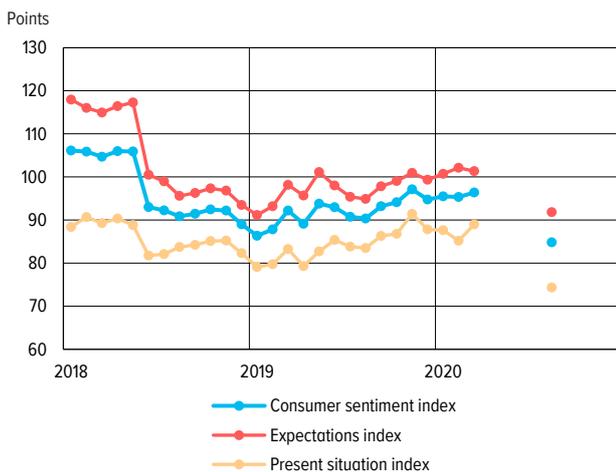
Chart 3



Sources: InFOM, Bank of Russia calculations.

CONSUMER SENTIMENT INDEX

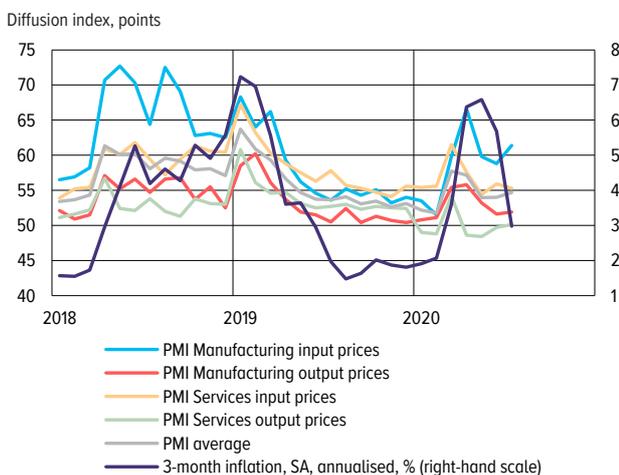
Chart 4



Source: InFOM.

CHANGES IN COMPANIES' PRICES
(MARKIT PMI)

Chart 5



Sources: IHS Markit PMI, Rosstat.

three years (Chart 9 of the Report) remained the same.

The estimates of both expected and current monthly price growth (seasonally adjusted, SA) also increased in August compared to March (Chart 3). A larger percentage (than in Q1) of respondents complained about a rise in prices for the majority of everyday goods and services (Chart 3 of the Report). Conversely, fewer respondents reported a rise in prices for medicines and healthcare services.

Households' consumer sentiment

In August, the consumer price index lowered considerably compared to March 2020 (-11 p, Chart 4). The expectations index decreased less notably (-9 p), staying close to its local minimum recorded in January 2019. The present situation index went down more dramatically (-15 p), reaching its lowest level since 2017. Moreover, all components of the indices, except the country's development expectations for the next five years, declined relatively evenly (the estimate slightly dropped; Chart 12 of the Report).

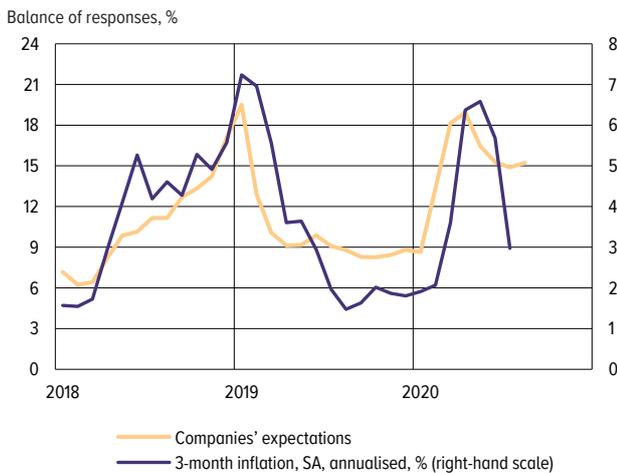
Respondents' estimates and expectations regarding changes in their financial standing materially deteriorated (Charts 14 and 15 of the Report). However, the situation with respondents' savings remained almost unchanged against early 2020: the portions of those having savings (Chart 25 of the Report) and those who managed to save over the past month (Chart 24 of the Report) stayed nearly the same.

Companies' price expectations

According to *IHS Markit PMI surveys*, the price growth slightly sped up in July 2020 (Chart 5). Manufacturing industries experienced a faster rise in input prices, which was caused by higher import expenditures following the weakening of the ruble. Concurrently, the growth of output prices was more moderate because of a low increase in new orders. The service sector recorded a slight rise in output prices (after their decline over the previous three months), owing to the substantial improvement of economic

COMPANIES' PRICE EXPECTATIONS
(BANK OF RUSSIA)

Chart 6



Sources: Bank of Russia, Rosstat.

activity in this industry. The growth of input prices slowed down a little, staying close to the early 2020 rates.

According to the [monitoring of businesses](#) carried out by the Bank of Russia in August 2020, price expectations for the next three months slightly rose against the previous month. Their level remains increased (Chart 6). The average price growth rate expected in the next three months equalled 1.9% in annualised terms (vs 2.5% in July). Businesses' inflation expectations lowered, while their price expectations went up, which implies that companies started to revise their prices more often, but by a lower value. More frequent price revision is probably explained by rapid changes in the economic environment.

The question about the reasons behind price changes revealed that the main factor pushing price expectations upwards was the growth of input prices primarily induced by the weakening of the ruble. Subdued demand was mentioned most frequently as the main reason for the decrease in price expectations.

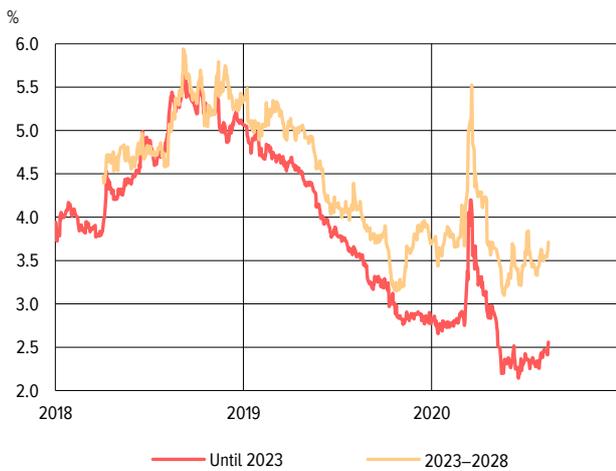
Expectations changed across industries in a diverse manner. The service sector demonstrated the most significant growth of price expectations. It was driven by higher input prices and the persistent rise in costs continuing since February 2020. The percentage of companies that reported increased costs was close to the early 2015 highs. Retail trade recorded the largest decrease in price expectations, however expectations in this industry remained considerably higher relative to recent years. Retail companies' price expectations trended down because they lowered their expectations for demand for their products in the next three months. The average price growth rate expected by retailers in the next three months equalled 4.2% (in annualised terms). In the majority of production industries (manufacturing, agriculture, and construction), price expectations changed only slightly.

Implied inflation for OFZ-IN

The first half of August recorded a slight rise in implied inflation for inflation-indexed federal government bonds (OFZ-IN). Presumably, this

IMPLIED INFLATION FOR OFZ-IN

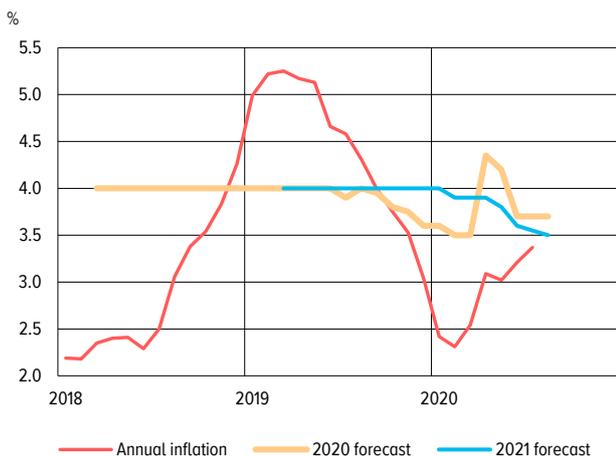
Chart 7



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

BLOOMBERG ANALYSTS' CONSENSUS FORECAST

Chart 8



Sources: Bloomberg, Rosstat.

resulted from an increase in yields on medium- and long-term fixed-coupon federal government bonds (OFZ-PD) provoked by the deterioration in market conditions. Nonetheless, according to the Bank of Russia's estimates,³ the pace of inflation expected in the next three years remained close to its record lows for these securities, ranging from 2.4% to 2.6% (Chart 7). In August, average implied future inflation (from August 2023 to February 2028) was still estimated below 4.0% (ranging from 3.5% to 3.7%).

Analysts' inflation forecast

In July 2020, the range of analysts' 2020 inflation forecasts⁴ remained unchanged, equalling 3.7–3.9% (Table 1). Inflation forecasts for 2021 mostly lowered, ranging from 3.4% to 3.7% (vs 3.5–3.9% in the previous month; Chart 8). Contrastingly, Bloomberg analysts' consensus forecast for 2022 rose closer to the inflation target, reaching 3.9% in August, up from 3.7% in July.

Bank of Russia's forecast

Pursuant to the Bank of Russia's estimate, annual inflation will be rising until the end of 2020 as the low readings recorded in 2019 H2 are excluded from the inflation calculation. By the end of the year, annual inflation will reach 3.7–4.2%. According to the Bank of Russia's forecast, annual inflation will equal 3.5–4.0% by the end of 2021 amid the progressive recovery of aggregate demand, as well as with account of the accommodative monetary policy currently pursued. Further on, inflation will stabilise close to 4.0%.

³ The estimates are based on the comparison of expected yields on OFZ-IN and nominal OFZ, with account of the lag between the nominal value indexation and seasonally adjusted inflation.

⁴ Surveys by Interfax, Bloomberg, and Thomson Reuters.

Data cut-off date – 24.08.2020.

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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