



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

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Information and analytical commentary

24 September 2020

Inflation expectations and consumer sentiment (September 2020)

In September, inflation expectations mostly grew compared to the previous month, indicating that disinflationary risks were declining. According to an inFom survey, the median estimate of inflation expected by households slightly increased, having remained close to the last year's average. The Bank of Russia's monitoring demonstrated that businesses' short-term price expectations rose. PMI price indexes also point to a price growth acceleration, primarily in input prices. Implied inflation for up to 2023, priced in inflation-indexed federal government bonds (OFZ-INs), continued to rise in September, remaining below 3%. Implied inflation for 2023–2028 returned to 4%. Analysts' inflation forecasts for 2020 and 2021 were adjusted upwards, albeit did not exceed 4%. According to the Bank of Russia's forecast, given the current monetary policy stance, annual inflation will reach 3.7–4.2% in 2020, 3.5–4.0% in 2021 and will stabilise around 4% later on.

LEADING INFLATION INDICATORS AND INFLATION EXPECTATION INDICATORS

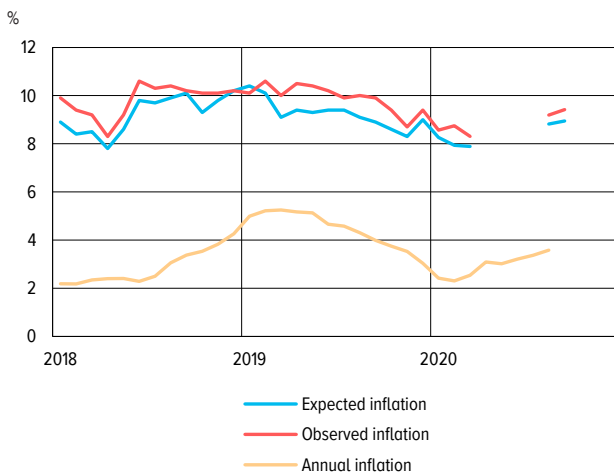
Table 1

	Expectation horizon	2019 average	September 2019	March 2020	July 2020*	August 2020	September 2020
Inflation, %		4.5	4.0	2.5	3.4	3.6	...
Inflation observed by households, %							
Public Opinion Foundation (median)	past 12 months	9.9	9.9	8.3		9.2	9.4
Public Opinion Foundation (subgroup with savings)	past 12 months	9.1	9.4	7.2		8.4	8.5
Public Opinion Foundation (subgroup without savings)	past 12 months	10.4	10.4	8.6		9.6	9.9
Households' inflation expectations, %							
Public Opinion Foundation (median)	next 12 months	9.3	8.9	7.9		8.8	8.9
Public Opinion Foundation (subgroup with savings)	next 12 months	8.3	8.4	6.9		8.4	8.1
Public Opinion Foundation (subgroup without savings)	next 12 months	9.8	9.2	8.5		9.1	9.6
Companies' price expectations							
Companies, balance of responses	next 3 months	10.2	8.3	18.1	14.9	15.3	18.0
PMI Manufacturing input prices	current month	57.8	54.3	59.8	61.4	64.8	
PMI Manufacturing output prices	current month	53.1	50.4	55.4	51.9	52.0	
PMI Services input prices	current month	58.0	55.3	61.5	55.3	58.6	
PMI Services output prices	current month	54.0	52.3	54.2	50.1	51.9	
Analysts, %							
2020, Bloomberg	2020	3.9	3.9	3.5	3.7	3.7	4.0
2020, Interfax	2020			4.7	3.9	3.8	
2020, Reuters	2020			4.7	3.7	3.7	
2021, Bloomberg	2021			4.0	3.6	3.5	3.8
2021, Interfax	2021			3.8	3.7	3.5	
2021, Reuters	2021			3.9	3.4	3.5	
2022, Bloomberg	2022			3.9	3.9	3.9	3.8
2022, Reuters	2022			3.9	3.7	3.7	
Implied inflation for OFZ-IN, %							
OFZ-IN 52001, August 2023	next 3-year average	3.9	3.2	3.5	2.3	2.5	2.6
OFZ-IN 52002, February 2028	next 8-year average	4.1	3.5	4.1	3.1	3.3	3.5
OFZ-IN	2023–2028 average	4.3	3.8	4.5	3.5	3.8	4.0

* In April – July, household surveys were conducted by phone. Their results are not comparable with current results.

INFLATION OBSERVED AND EXPECTED
BY HOUSEHOLDS (MEDIAN ESTIMATE)

Chart 1



Sources: InFOM, Rosstat.

Households' inflation expectations

According to an InFOM survey commissioned by the Bank of Russia and conducted from 28 August to 9 September 2020, the median estimate of inflation observed by households over the last 12 months equalled 9.4%, which is 0.2 pp higher than in the previous month¹ (Table 1, Chart 1). The median estimate of inflation expected in the next 12 months rose to 8.9%, which is 0.1 pp above its August reading (Chart 1).

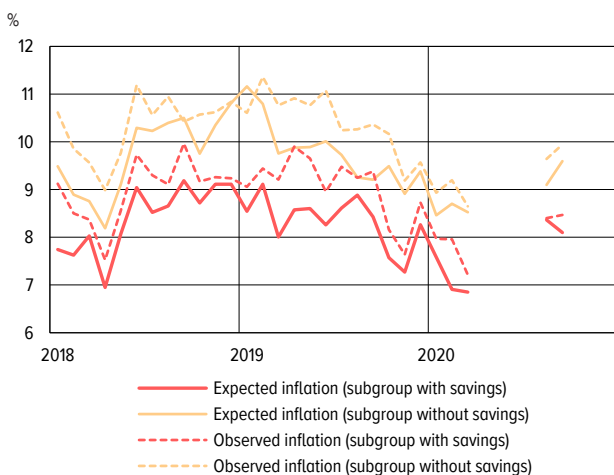
The estimates of inflation expected and observed by respondents without savings notably grew (Chart 2). At the same time, respondents with savings noted a decline in expected inflation with a slight increase in observed inflation.

Responses of all respondents to the question concerning 2020 inflation also demonstrated a slight decrease in expectations (Chart 8 of the *InFOM Analytical Report*) (September 2020); hereinafter, the Report): the percentage of those expecting that inflation would exceed 4.0% declined 1 pp against August. That said, the share of those who expect inflation to exceed 4% over a three-year horizon, did not change (Chart 9 of the Report).

Indicators characterising the estimate of a relative change in current and future annual inflation trends² showed mixed dynamics in September (Chart 3). Estimates of inflation for the past month and year changed little if at all; however, future inflation indicators for one month and one year ahead declined. This balance of current and expected inflation estimates probably indicates that respondents feel that price growth rates have passed their peak. In the September survey, respondents pointed out more often than in early August that prices for clothing, footwear and bread significantly increased. Growth in prices for (especially children's) clothing and footwear on the eve of the new school year was also

EXPECTED AND OBSERVED INFLATION
BY RESPONDENT SUBGROUP (MEDIAN ESTIMATE)

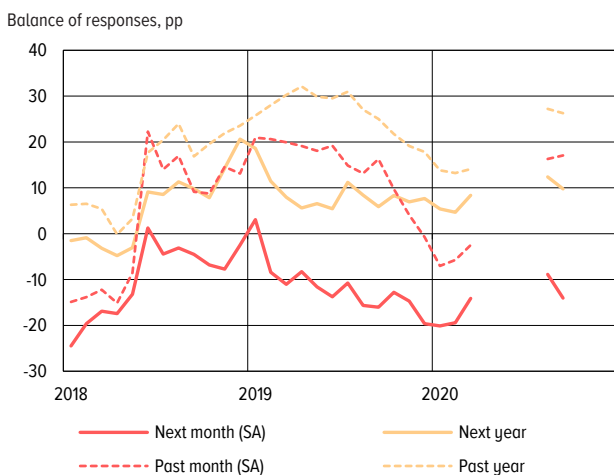
Chart 2



Sources: InFOM, Bank of Russia calculations.

INDICATORS OF PRICE MOVEMENTS

Chart 3



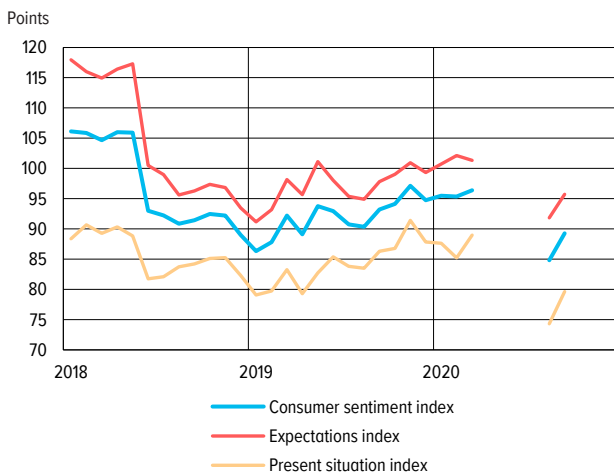
Sources: InFOM, Bank of Russia calculations.

¹ The previous survey was conducted from 30 July to 12 August 2020.

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

CONSUMER SENTIMENT INDEX

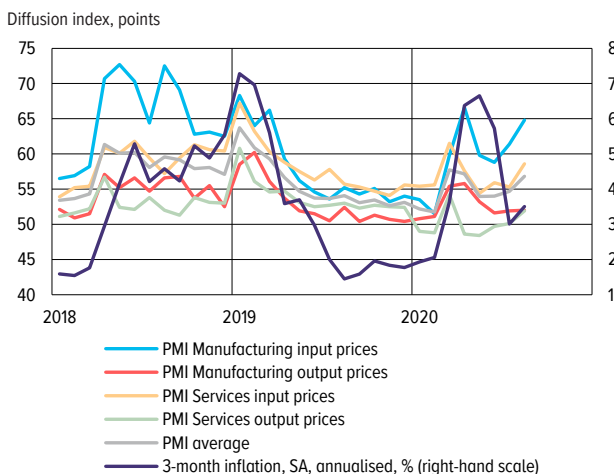
Chart 4



Source: InFOM.

CHANGES IN COMPANIES' PRICES
(MARKIT PMI)

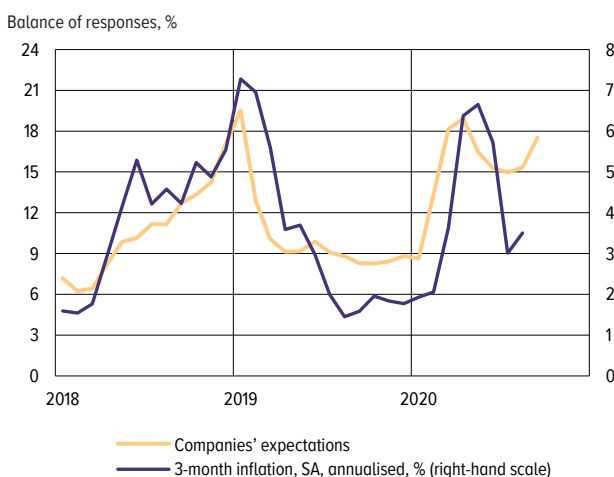
Chart 5



Sources: IHS Markit PMI, Rosstat.

COMPANIES' PRICE EXPECTATIONS
(BANK OF RUSSIA)

Chart 6



Sources: Bank of Russia, Rosstat.

noted by Rosstat. At the same time, against the background of expanding supply, growth of fruit and vegetable prices was indicated considerably less often (Chart 3 of the Report).

Households' consumer sentiment

In September, the consumer price index rose by 4 p compared to August 2020 (Chart 4). Both the present situation index and the expectations index increased (by 5 p and 4 p respectively). The September values of all three indexes were close the early 2019 levels but remained below those observed in early 2020. The improvement was rather homogeneous, broken down by index component (Chart 12 of the Report).

Although in September respondents indicated an improvement in their financial standing (Chart 14 of the Report), the share of both those who have savings and those who managed to save over the past month declined compared to August (Chart 25 and Chart 24 of the Report respectively).

Companies' price expectations

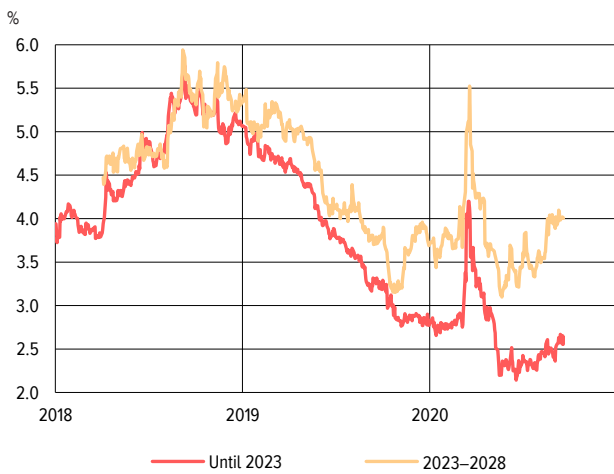
According to the *IHS Markit PMI surveys*, the price growth sped up in August 2020 (Chart 5). This acceleration was mostly related to input price movements. Manufacturing industries experienced a faster rise in input prices, which was driven by growth of import expenditures following the weakening of the ruble. At the same time, output price growth rate remained nearly unchanged. The service sector also saw a significant rise in input prices on the back of higher costs. Input price growth rates were the highest over the last five months. Output price growth slightly accelerated.

According to the *monitoring of businesses* carried out by the Bank of Russia in September 2020, price expectations for the next three months rose against the previous month (Chart 6). The average price growth rate expected in the next three months equalled 2.4% in annualised terms (vs 1.9% in August).

The question about reasons behind price changes revealed that the main factor pushing

IMPLIED INFLATION FOR OFZ-IN

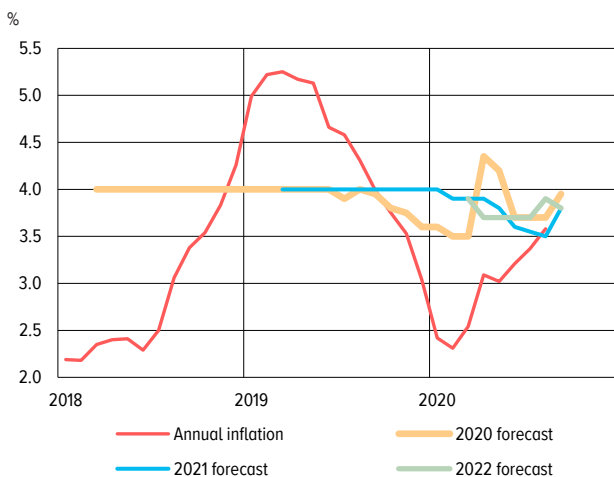
Chart 7



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

BLOOMBERG ANALYSTS' CONSENSUS FORECAST

Chart 8



Sources: Bloomberg, Rosstat.

price expectations upwards was the weakening of the ruble. Growth of price expectations was also supported by persistently high growth rates of costs. However, it was contained by moderate estimates of expected demand for products of enterprises.

Price expectations rose across all sectors. Construction companies noted the most significant growth of price expectations, which was explained by increasing current demand and high growth rates of costs. The average price growth rate expected by retailers in the next three months equalled 5.4% in annualised terms (vs 4.2% in August).

Implied inflation for OFZ-INs

In August and the first half of September, implied inflation for OFZ-INs increased. According to the Bank of Russia's estimates,³ implied inflation for the nearest three years was still registered close to the lowest levels below or equal to 3% (Chart 7). Since mid-August, average implied future inflation (from August 2023 to February 2028) has remained close to 4.0%.

Analysts' inflation forecast

In August 2020, the ranges of analysts' 2020 and 2021 inflation forecasts⁴ remained virtually unchanged compared to July (Table 1). However, already in September, Bloomberg analysts' 2020 and 2021 consensus forecasts were raised (Chart 8) but did not exceed 4%. That said, the 2022 inflation consensus forecast remains close to 4%.

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.

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 calculation. Annual inflation will stay in the 3.7–4.2% range in 2020; and in the 3.5–4.0% range in 2021. Further on, inflation will stabilise close to 4.0%.

Data cut-off date – 22.09.2020.

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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