



Bank of Russia



# INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No. 11 (35) • November 2019

Information and analytical commentary

3 December 2019

## Inflation expectations and consumer sentiment (November 2019)

In November 2019, economic agents' inflation expectations mostly decreased. Median estimates of inflation observed over the past year and expected next year by households continued to drop, hitting new lows since May 2018. Businesses changed their short-term price expectations only slightly. In October, analysts reviewed their 2019 and 2020 forecasts downwards, while their long-term price expectations remain anchored at 4%. Four- and nine-year imputed inflation for inflation-indexed federal government bonds (OFZ-IN) stabilised at a low level. The Bank of Russia expects that by the end of 2019 inflation will probably come close to the lower bound of the range forecast by the Bank of Russia (3.2–3.7%). Given the pursued monetary policy, annual inflation will come in at 3.5–4.0% in 2020 and will stay close to 4% further on.

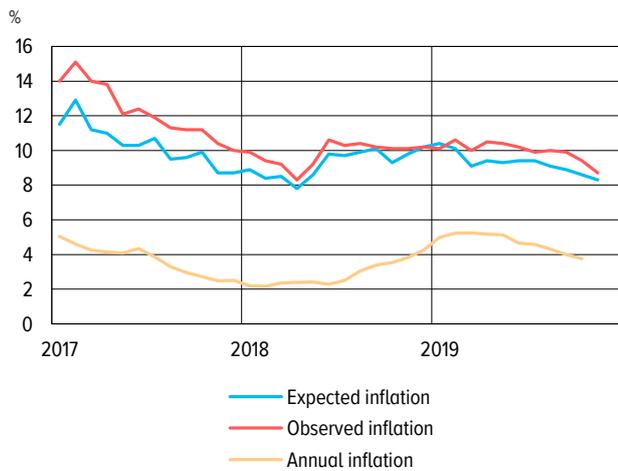
### INFLATION EXPECTATION INDICATORS

Table 1

	Expectation horizon	November 2017	November 2018	September 2019	October 2019	November 2019
<b>Inflation, %</b>		<b>2.5</b>	<b>3.8</b>	<b>4.0</b>	<b>3.8</b>	...
<b>Inflation observed by households, %</b>						
Public Opinion Foundation (median)	past 12 months	10.4	10.1	9.9	9.4	8.7
Public Opinion Foundation (subgroup with savings)	past 12 months	9.4	9.3	9.4	8.2	7.6
Public Opinion Foundation (subgroup without savings)	past 12 months	10.8	10.6	10.4	10.2	9.2
<b>Households' inflation expectations, %</b>						
Public Opinion Foundation (median, expected inflation)	next 12 months	8.7	9.8	8.9	8.6	8.3
Public Opinion Foundation (subgroup with savings)	next 12 months	8.4	9.1	8.4	7.6	7.3
Public Opinion Foundation (subgroup without savings)	next 12 months	9.1	10.3	9.2	9.5	8.9
Public Opinion Foundation (Bank of Russia calculations)	next 12 months	2.3	4.4	4.2	4.1	3.7
<b>Analysts, %</b>						
Bloomberg	2019		4.6	3.8	3.7	3.6
Interfax	2019		4.4	3.8	3.4	
Reuters	2019		4.7	3.7	3.5	
Bloomberg	2020		4.0	4.0	3.8	3.8
Interfax	2020			3.9	3.7	
Reuters	2020			3.9	3.8	
Bloomberg	2021			4.0	4.0	4.0
<b>Imputed inflation for OFZ-IN, %</b>						
OFZ-IN 52001, August 2023	next 4-year average	4.2	5.1	3.2	3.0	2.8
OFZ-IN 52002, February 2028	next 9-year average		5.3	3.5	3.2	3.2
OFZ-IN	2023–2028 average		5.5	3.8	3.4	3.5
<b>Companies' price expectations</b>						
Companies, balance of responses	next 3 months	7.3	13.9	8.3	8.2	8.3
PMI Manufacturing input prices, diffusion index	current month	58.0	63.1	54.3	55.1	
PMI Manufacturing output prices, diffusion index	current month	52.5	55.5	50.4	51.3	
PMI Services input prices, diffusion index	current month	57.0	60.6	55.3	54.7	
PMI Services output prices, diffusion index	current month	51.1	53.1	52.3	52.7	

INFLATION OBSERVED AND EXPECTED  
BY HOUSEHOLDS (MEDIAN ESTIMATE)

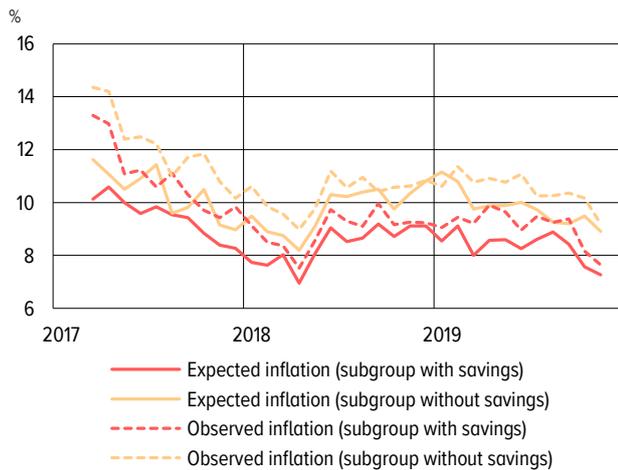
Chart 1



Sources: InFOM, Rosstat.

EXPECTED AND OBSERVED INFLATION BY  
RESPONDENT SUBGROUP (MEDIAN ESTIMATE)

Chart 2



Sources: InFOM, Bank of Russia calculations.

## Households' inflation expectations

According to the Bank of Russia-commissioned InFOM survey, the median estimate of inflation observed by households over the last 12 months significantly dropped, reaching 8.7% (-0.7 pp, Table 1, Chart 1). The median estimate of inflation expected in the next 12 months decreased for the fourth straight month (-0.3 pp to 8.3%, Chart 1). These are the lowest levels on record, except for last April when the observed and expected inflation estimates were below the current figures.

The estimates of observed and expected inflation went down most notably among respondents without savings (by 1 and 0.6 pp respectively, Chart 2),<sup>1</sup> while expectations of respondents with savings remain considerably lower.

In November, short-term estimates of monthly inflation decreased below the level recorded last November for the first time since the beginning of 2019 (Chart 1 of the [InFOM Analytical Report on the Tenth Survey in 2019](#), further referred to as the Report). This may therefore suggest that the short-term impact of accelerated price growth in early 2019 on inflation expectations has exhausted. In addition, responses about annual inflation movements that are more negative as compared to 2018 H1 (Charts 3 and 4 of the Report) rather point to the specifics of inflation perception by households: the price growth acceleration in early 2019 was more important than its current slowdown.

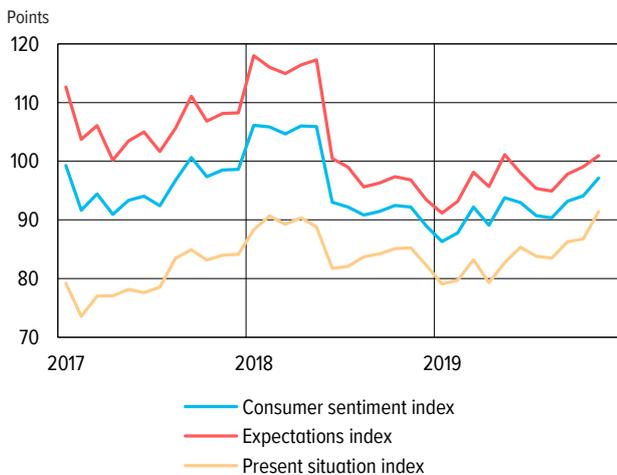
Inflation expectations for 2019 and three years ahead (Charts 8 and 9 of the Report) remained stable for the third month in a row. The estimate of households' inflation expectations for the next 12 months calculated by the Bank of Russia with the use of InFOM survey data<sup>2</sup>

<sup>1</sup> 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'.

<sup>2</sup> When calculating this indicator, the Bank of Russia takes into account qualitative responses ('inflation will rise/fall') rather than quantitative ones, and compares them with current inflation. For details, refer to [http://www.cbr.ru/Content/Document/File/59815/Inflation\\_expectations\\_guide.pdf](http://www.cbr.ru/Content/Document/File/59815/Inflation_expectations_guide.pdf).

## CONSUMER SENTIMENT INDEX

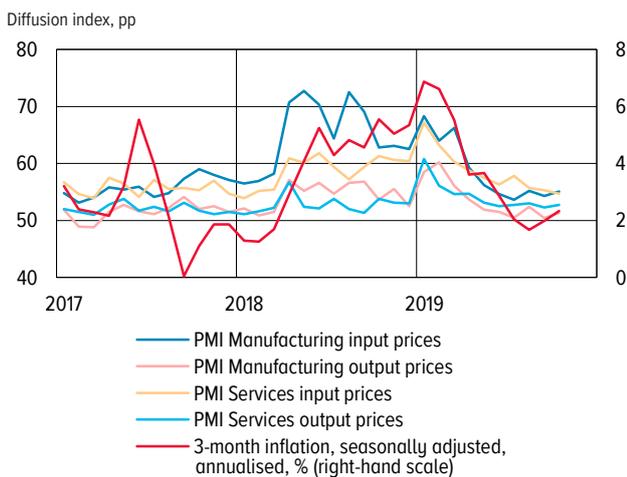
Chart 3



Source: InFOM.

## CHANGES IN COMPANIES' PRICES (MARKIT PMI)

Chart 4



Sources: IHS Markit PMI, Rosstat.

continued to go down and reached 3.7% (vs 4.1% in October, Table 1).

In November fewer respondents mentioned a substantial rise in prices for most goods and service groups as compared to October. The number of respondents referring to utilities, cheese and sausages, fish and seafood, petrol and sugar decreased the most (Chart 3 of the Report). Moreover, respondents did not mention any of the product groups in terms of inflation significantly more often than in the previous month. Such responses are in line with Rosstat's statistics: annual growth rates of prices for all core consumer basket components went down in October.<sup>3</sup>

## Households' consumer sentiment

The consumer sentiment index continued to go up in November, updating its maximum recorded last June (97 points) (Chart 3). Among its components, the estimate of favourableness of the current period for large purchases improved the most (Charts 12 and 18 of the Report). Respondents' attitude to large purchases is the most positive since early 2015. That said, respondents do not report a considerable growth in the number of actual purchases (Chart 19 of the Report) and are even increasing their savings (Charts 23 and 24 of the Report).

## Companies' price expectations

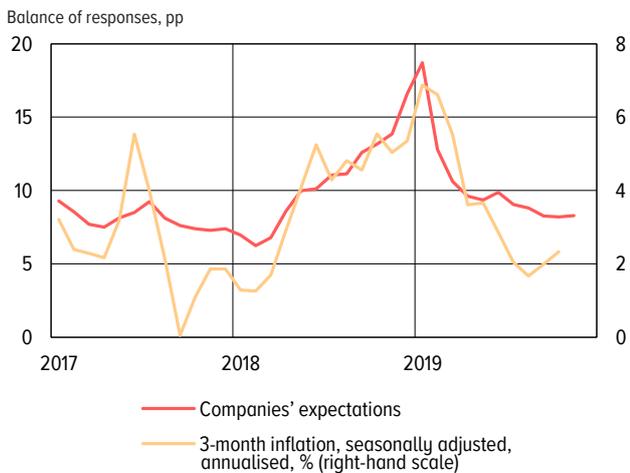
According to IHS Markit PMI surveys,<sup>4</sup> the diffusion indices of manufacturing and service companies' input and output prices in October 2019 changed only slightly and in a diverse way (Chart 4). As in the previous two months, they stay close to their lows recorded in mid-2018. Business representatives noted two major drags on price growth. Firstly, weak demand limited the possibility for companies to raise prices. Secondly, they had to optimise their business

<sup>3</sup> Refer to the information and analytical commentary *Consumer Price Dynamics* (No 9 (46), September 2019), [http://www.cbr.ru/Collection/Collection/File/23941/INF\\_2019-09.pdf](http://www.cbr.ru/Collection/Collection/File/23941/INF_2019-09.pdf).

<sup>4</sup> For details, refer to <https://www.markiteconomics.com/public>.

COMPANIES' PRICE EXPECTATIONS  
(BANK OF RUSSIA)

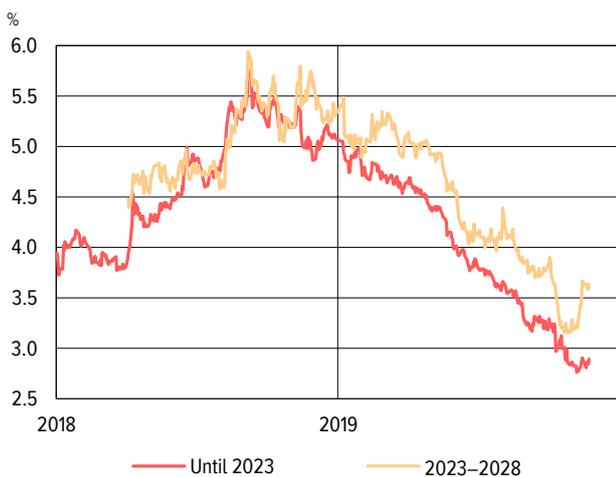
Chart 5



Sources: Bank of Russia, Rosstat.

## IMPUTED INFLATION FOR OFZ-IN

Chart 6



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

processes and reduce costs due to tightening competition.

Similar results were obtained in the course of the survey of enterprises carried out by the Bank of Russia<sup>5</sup> in November 2019. The dynamics of price expectations were diverse across industries. Thus, price expectations rose in agriculture, driven by a poor harvest of buckwheat and rye. Mining companies, namely gas and coal producers, demonstrated the most significant decline in their price expectations, which was associated with a drop in world prices amid weak demand. In retail trade which is most linked to consumer prices in the industry, price expectations remained stable. On average, the balance of responses regarding companies' price expectations for the next three months slightly increased, remaining close to the September–October readings (Chart 5).

## Imputed inflation for OFZ-IN

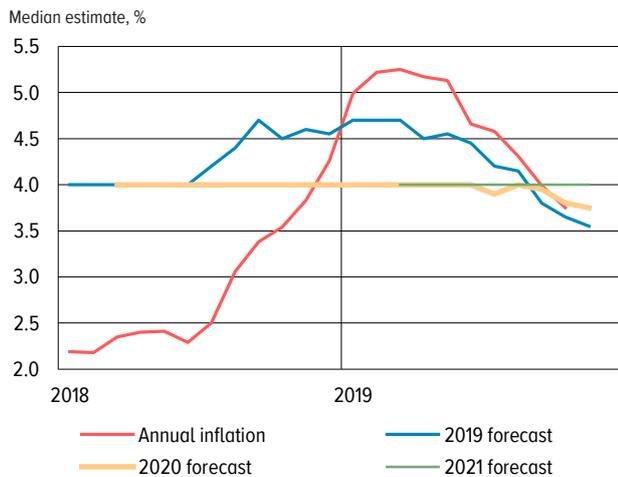
As assessed by the Bank of Russia,<sup>6</sup> four-year annual imputed inflation for inflation-indexed federal government bonds (OFZ-IN) stayed sustainably close to 2.8% in November after its drop in October (3.2% in September) (Chart 6). This is a new low recorded for these bonds. Average imputed inflation for the future (from August 2023 until February 2028) adjusted upwards in the second half of November after its decrease in October. However, it is still slightly below 4% (3.6% in the second half of November; 3.2% in the second half of October – the beginning of November). Imputed inflation was down in September–October due to a substantial decline in returns on nominal federal government bonds (OFZ-PD), which was associated with an inflow of non-resident investors, among other factors. Real federal government bonds (OFZ-IN) are much less liquid than nominal bonds, and their investor structure

<sup>5</sup> Final indicator – balance of responses (the difference between the proportions of price rise and fall responses). For details of the survey, see [http://www.cbr.ru/Content/Document/File/62829/analysis\\_18-12.pdf](http://www.cbr.ru/Content/Document/File/62829/analysis_18-12.pdf).

<sup>6</sup> The assessments are based on the comparison of expected returns on OFZ-IN and nominal OFZ, with account of the lag between the nominal value indexation and seasonally adjusted inflation.

## ANALYSTS' CONSENSUS FORECAST

Chart 7



Sources: Bloomberg, Rosstat.

is significantly different, which is why returns on OFZ-IN tend to fluctuate much less.

## Analysts' inflation expectations

In October, the range of analysts' 2019 inflation forecasts<sup>7</sup> continued to go down, reaching 3.4–3.7% (Table 1). Inflation expectations for 2020 deviated downwards from 4%. Analysts' mid-term inflation expectations stay anchored to the Bank of Russia's targets (Chart 7).

## Bank of Russia forecast

In view of the current price dynamics, by the end of 2019 inflation will probably come close to the lower bound of the range forecast by the Bank of Russia (3.2–3.7%). Given the pursued monetary policy, annual inflation will equal 3.5–4.0% in 2020 and will stay close to 4% further on.

<sup>7</sup> Surveys by Interfax, Bloomberg and Thomson Reuters.

Data cut-off date – 21.11.2019.

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 was prepared by the Monetary Policy Department.

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