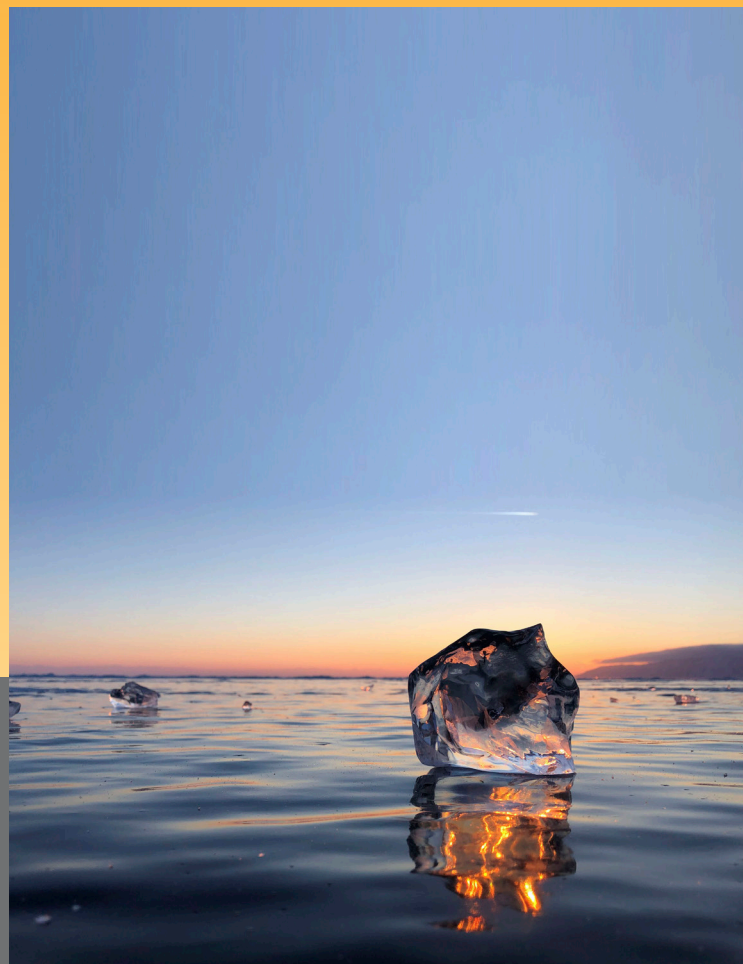




Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No. 1 (37) • January 2020

Information and analytical commentary

30 January 2020

Inflation expectations and consumer sentiment (December 2019)

Inflation expectations mostly decreased in January 2020. The median estimates of inflation observed over the past year and expected next year by households went down, returning to the levels recorded last November. This trend indicates that their rise in the previous month was of a one-off nature. Businesses' short-term price expectations remain close to the readings of 2019 H2. Analysts' forecasts for 2020 continued to lower in December 2019, while their mid-term expectations stay anchored at 4%. Implied inflation for inflation-indexed federal government bonds (OFZ-IN) also decreased in January. In the beginning of 2020, annual inflation will continue to go down, largely a result of factoring out the effect of the VAT rate hike in early 2019 from the inflation calculation. Given the monetary policy pursued, annual inflation will come in at 3.5–4.0% by the end of 2020 and will stay close to 4% further on.

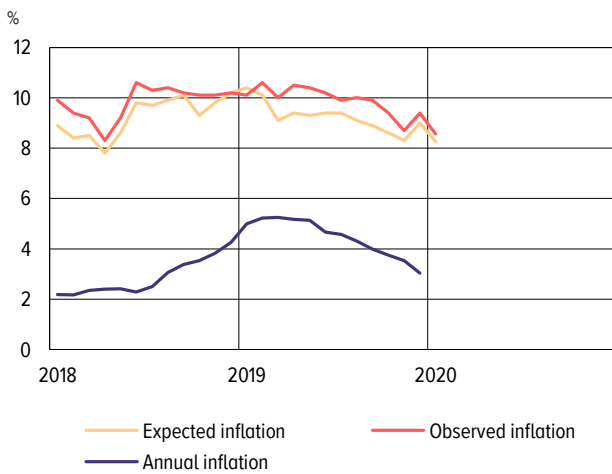
INFLATION EXPECTATION INDICATORS

Table 1

	Expectation horizon	January 2018	January 2019	November 2019	December 2019	January 2020
Inflation, %		2.2	5.0	3.5	3.0	...
Inflation observed by households, %						
Public Opinion Foundation (median)	past 12 months	9.9	10.1	8.7	9.4	8.6
Public Opinion Foundation (subgroup with savings)	past 12 months	9.1	9.1	7.6	8.7	8.0
Public Opinion Foundation (subgroup without savings)	past 12 months	10.6	10.6	9.2	9.6	8.9
Households' inflation expectations, %						
Public Opinion Foundation (median)	next 12 months	8.9	10.4	8.3	9.0	8.3
Public Opinion Foundation (subgroup with savings)	next 12 months	7.7	8.5	7.3	8.3	7.6
Public Opinion Foundation (subgroup without savings)	next 12 months	9.5	11.2	8.9	9.4	8.5
Companies' price expectations						
Companies, balance of responses	next 3 months	7.0	18.7	8.3	8.5	8.3
PMI Manufacturing input prices, diffusion index	current month	56.5	68.3	53.2	54.0	
PMI Manufacturing output prices, diffusion index	current month	52.1	58.5	50.7	50.4	
PMI Services input prices, diffusion index	current month	53.9	67.2	54.1	55.6	
PMI Services output prices, diffusion index	current month	51.1	60.8	52.5	52.4	
Analysts, %						
Bloomberg	2020		4.0	3.8	3.6	3.6
Interfax	2020			3.7	3.6	
Reuters	2020			3.7	3.7	
Bloomberg	2021			4.0	4.0	4.0
Reuters	2021			3.9	4.0	
Implied inflation for OFZ-IN, %						
OFZ-IN 52001, August 2023	next 4-year average	4.0	4.9	2.8	2.8	2.7
OFZ-IN 52002, February 2028	next 9-year average		5.0	3.2	3.4	3.2
OFZ-IN	2023–2028 average		5.1	3.5	3.9	3.6

INFLATION OBSERVED AND EXPECTED
BY HOUSEHOLDS (MEDIAN ESTIMATE)

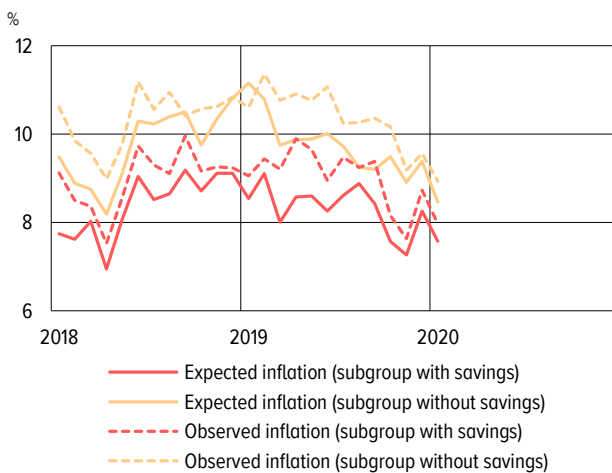
Chart 1



Sources: InFOM, Rosstat.

EXPECTED AND OBSERVED INFLATION
BY RESPONDENT SUBGROUP
(MEDIAN ESTIMATE)

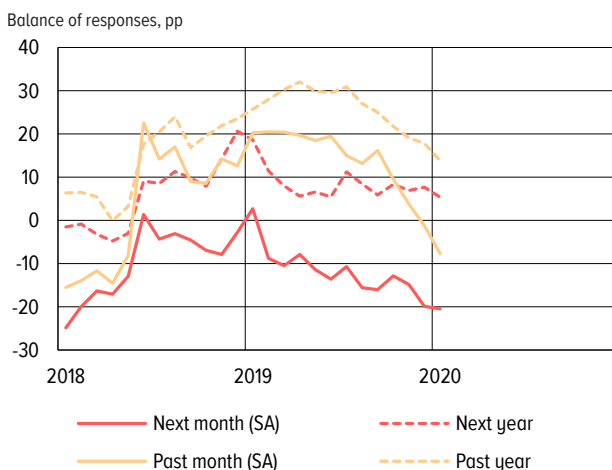
Chart 2



Sources: InFOM, Bank of Russia calculations.

INDICATORS OF PRICE MOVEMENTS

Chart 3



Sources: InFOM, Bank of Russia calculations.

Household inflation expectations

According to the Bank of Russia-commissioned InFOM survey, in January 2020 the median estimate of inflation observed by households over the last 12 months lowered close to the level recorded last November, reaching 8.6% (-0.8 pp; Table 1, Chart 1). The median estimate of inflation expected in the next 12 months also returned to its November reading (-0.7 pp to 8.3%; Chart 1). Accordingly, this decrease in the estimates confirms the assumption that the December rise in expected and observed inflation was of a one-off nature.¹

The estimates of observed and expected inflation went down more markedly for respondents without savings (by -0.9 pp; Chart 2),² hitting new lows for this group since mid-2018.

The qualitative indicators of relative changes in current and future annual inflation went down in January (Chart 3). Moreover, according to the surveys, current price growth decelerated more significantly than expected. The estimate of observed inflation maintains the downward trend that formed last year, which is in line with Rosstat's data on consumer price movements.³ The estimate of expected inflation remains almost unchanged from 2019 Q2.

Inflation expectations for 2020 and the three years ahead (Charts 8 and 9 of the [InFOM Analytical Report](#) on the First Survey in 2020; hereinafter, the Report) improved: the percentage of respondents expecting inflation above 4% reduced by 5 pp to 44%. This was probably largely driven by low inflation in 2019 (3.0%).

The estimates of both expected and current monthly price growth (seasonally adjusted, SA) also decreased in January compared to December 2019. In addition, respondents more

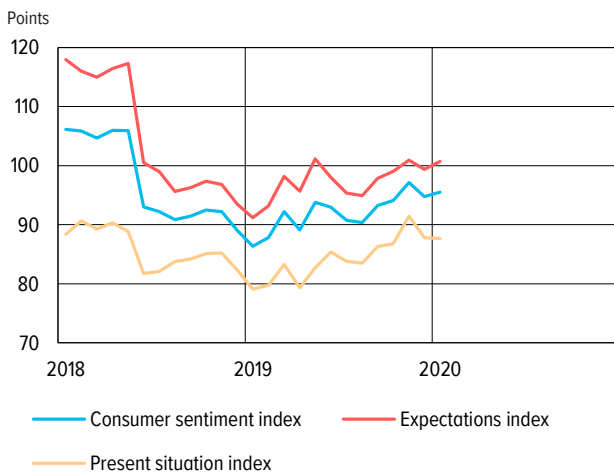
¹ Refer to the information and analytical commentary [Inflation Expectations and Consumer Sentiment](#), No. 12 (36), December 2019.

² 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').

³ Refer to the information and analytical commentary [Consumer Price Dynamics](#), No. 12 (48), December 2019.

CONSUMER SENTIMENT INDEX

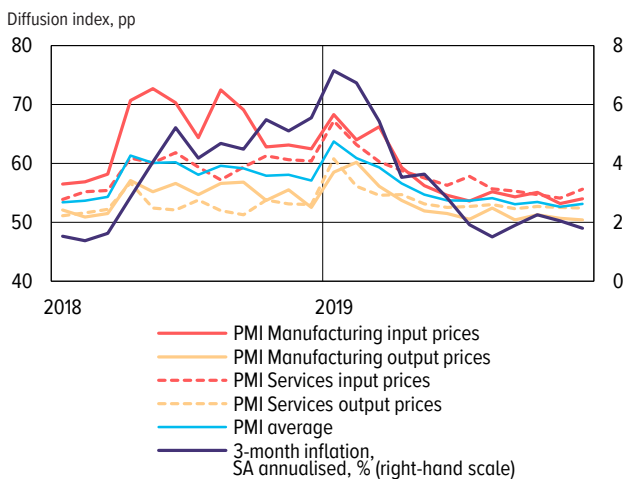
Chart 4



Source: InFOM.

CHANGES IN COMPANIES' PRICES
(MARKIT PMI)

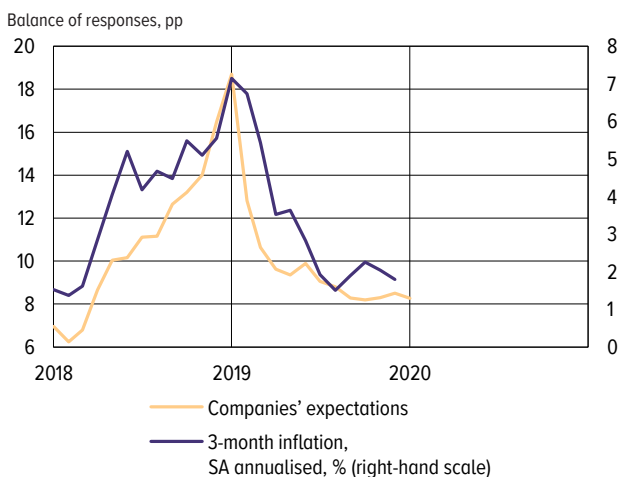
Chart 5



Sources: IHS Markit PMI, Rosstat.

COMPANIES' PRICE EXPECTATIONS
(BANK OF RUSSIA)

Chart 6



Sources: Bank of Russia, Rosstat.

often mentioned a solely seasonal rise in prices for eggs, alcohol, tea and coffee, cheese and sausages, fruit and vegetables, as well as for passenger transport (Chart 3 of the Report).

Household consumer sentiment

The consumer price index slightly rose in January, reaching 95 points (+1 pp; Chart 4). However, this growth was only accounted for by the expectations index (+2 pp) that returned to its June 2018 high, with the present situation index remaining unchanged. Among the components of the consumer price index, the estimates of the country's development prospects improved (Chart 12 of the Report). Respondents' attitude to large purchases was the same as in the previous month, remaining more positive as compared to early 2019 (Chart 18 of the Report).

Business price expectations

According to IHS Markit PMI surveys,⁴ the diffusion indices of manufacturing and service companies' input prices rose in December 2019, while the indices of their output prices slightly dropped (Chart 5). In general, the estimates of price movements evidence steadily low price dynamics over the last 7 months, which is in line with Rosstat's data on the CPI.⁵ As in the previous months, business representatives noted that weak demand and high competition were the major drags on the growth of output prices. Additionally, the rise in input prices was explained by changes in commodity prices and labour remuneration.

According to the survey of businesses carried out by the Bank of Russia⁶ in January 2020, short-term price expectations slightly dropped, remaining close to the 2019 H2 level (Chart 6). Weak demand and moderate dynamics of inputs remain major contributors to the decrease in price expectations. Expectations went down

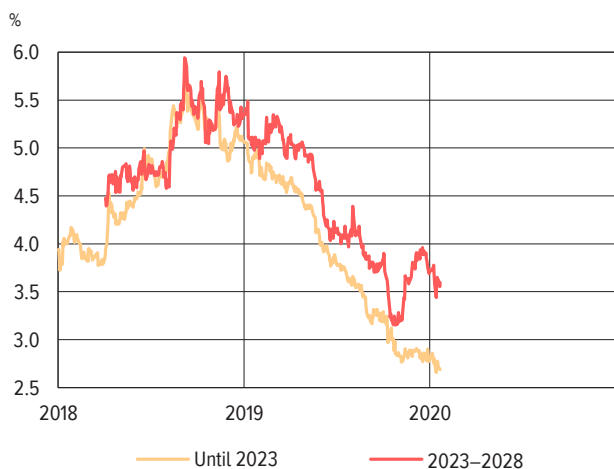
⁴ For more details refer to www.markiteconomics.com/public.

⁵ Refer to the information bulletin *Consumer Price Indices*, No. 12 (198), December 2019.

⁶ Final indicator – balance of responses (the difference between the proportions of price rise and fall responses). For survey details, refer to www.cbr.ru/Content/Document/File/62829/analysis_18-12.pdf.

IMPLIED INFLATION FOR OFZ-IN

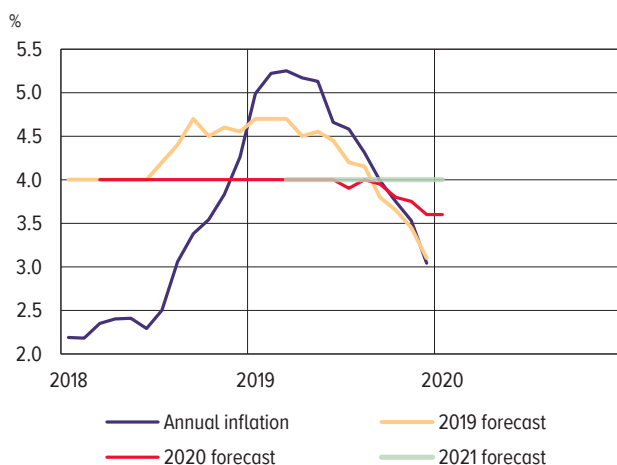
Chart 7



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

ANALYSTS' CONSENSUS FORECAST

Chart 8



Sources: Bloomberg, Rosstat.

most notably in retail trade, construction and agriculture.

Implied inflation for OFZ-IN

According to the Bank of Russia's assessments,⁷ four-year annual implied inflation for OFZ-IN slightly declined against the previous month (2.7% vs 2.8% in November–December; Chart 7), which is a new low recorded for OFZ-IN 52001 bonds. In January, average implied future inflation (from August 2023 to February 2028) again deviated downwards from 4% (to 3.6%; average in December – 3.9%).

Analysts' inflation forecast

In December 2019, the range of analysts' 2020 inflation forecasts⁸ went down by 0.1 pp, reaching 3.6–3.7% (Table 1). Analysts' mid-term inflation expectations remain anchored to the Bank of Russia's targets (Chart 8).

Bank of Russia forecast

According to the Bank of Russia's forecast, annual inflation will continue to go down in early 2020. Among other things, this will be driven by factoring out the effect of the VAT rate increase in early 2019 from the inflation calculation. Given the monetary policy pursued, annual inflation will come in at 3.5–4.0% by the end of 2020 and will stay close to 4% further on.

⁷ 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.

⁸ Surveys by Interfax, Bloomberg and Thomson Reuters.

Data cut-off date – 28.01.2020.

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.

This commentary was prepared by the Monetary Policy Department.

Cover photo: M. Neyasova, Bank of Russia

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