



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No. 3 (39) • March 2020

Information and analytical commentary

25 March 2020

Inflation expectations and consumer sentiment (March 2020)

According to the survey conducted in the first ten days of March 2020, household inflation expectations for a year ahead remained unchanged vs February. Analysts' inflation forecast for 2020 was also virtually unchanged. Their medium-term inflation forecast stayed close to 4%. The February PMI survey suggested that the price pressure continued to be weak. The Bank of Russia's monitoring of enterprises carried out in the first half of March registered an increase in price expectations. Implied inflation for inflation-indexed federal government bonds (OFZ-IN) surged in March. On the back of the ruble weakening, annual inflation may temporarily overshoot the target this year. Taking into account the pursued monetary policy, annual inflation will return to 4% in early 2021.

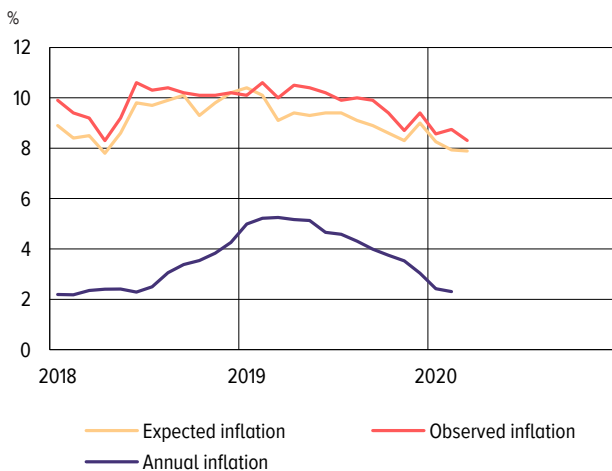
INFLATION EXPECTATION INDICATORS

Table 1

	Expectation horizon	March 2018	March 2019	January 2020	February 2020	March 2020
Inflation, %		2.3	5.3	2.4	2.3	...
Inflation observed by households, %						
Public Opinion Foundation (median)	past 12 months	9.2	10.0	8.6	8.7	8.3
Public Opinion Foundation (subgroup with savings)	past 12 months	8.4	9.2	8.0	8.0	7.2
Public Opinion Foundation (subgroup without savings)	past 12 months	9.6	10.8	8.9	9.2	8.6
Households' inflation expectations, %						
Public Opinion Foundation (median)	next 12 months	8.5	9.1	8.3	7.9	7.9
Public Opinion Foundation (subgroup with savings)	next 12 months	8.0	8.0	7.6	6.9	6.9
Public Opinion Foundation (subgroup without savings)	next 12 months	8.8	9.8	8.5	8.7	8.5
Business price expectations						
Companies, balance of responses	next 3 months	6.8	10.2	8.6	13.4	18.0
PMI Manufacturing input prices, diffusion index	current month	58.2	66.2	53.5	51.5	
PMI Manufacturing output prices, diffusion index	current month	51.5	56.1	50.8	51.1	
PMI Services input prices, diffusion index	current month	55.4	60.3	55.4	55.6	
PMI Services output prices, diffusion index	current month	52.2	54.6	49.0	48.8	
Analysts, %						
Bloomberg	2020		4.0	3.6	3.6	3.5
Interfax	2020			3.5	3.5	3.5
Reuters	2020			3.5	3.5	3.5
Bloomberg	2021			4.0	4.0	3.9
Interfax	2021			3.9	3.9	3.8
Reuters	2021			3.9	3.9	3.9
Reuters	2022			4.0	4.0	
Implied inflation for OFZ-IN, %						
OFZ-IN 52001, August 2023	next 4-year average	3.9	4.6	2.8	2.8	3.5
OFZ-IN 52002, February 2028	next 9-year average		4.9	3.3	3.4	4.1
OFZ-IN	2023–2028 average		5.1	3.7	3.8	4.6

INFLATION OBSERVED AND EXPECTED BY
HOUSEHOLDS (MEDIAN ESTIMATE)

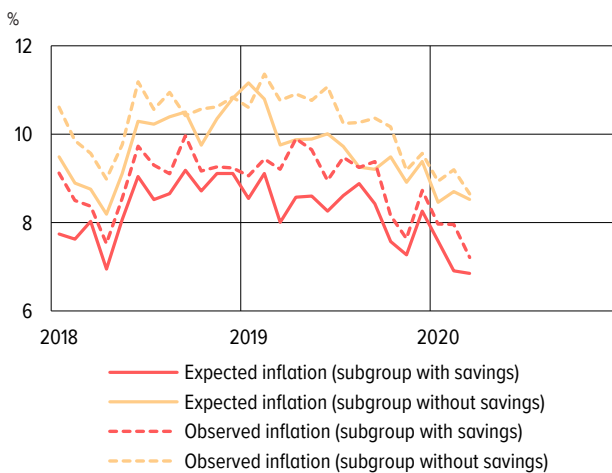
Chart 1



Sources: InFOM, Rosstat.

EXPECTED AND OBSERVED INFLATION BY
RESPONDENT SUBGROUP (MEDIAN ESTIMATE)

Chart 2

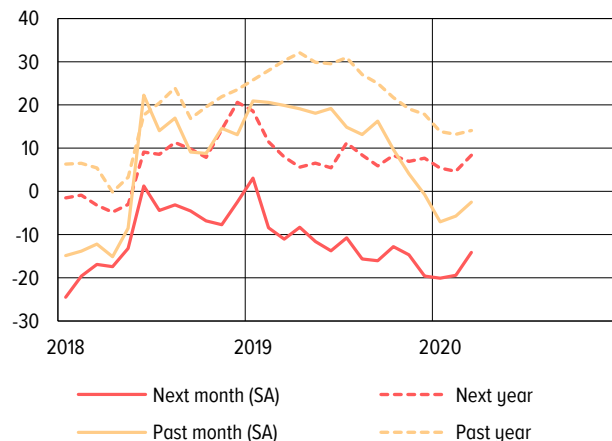


Sources: InFOM, Bank of Russia calculations.

INDICATORS OF PRICE MOVEMENTS

Chart 3

Баланс ответов, п.п.



Sources: InFOM, Bank of Russia calculations.

Households' inflation expectations

The data on households' inflation expectations are based on the Bank of Russia-commissioned inFOM survey which was conducted on 2–11 March 2020. When interpreting and using the survey questionnaires, it should be borne in mind that the majority of them was received prior to the surge of volatility in emerging markets which is likely to intensify inflation expectations in the future.

According to survey findings, the median estimate of inflation observed by households over the last 12 months dropped (to 8.3%, -0.4 pp; Table 1, Chart 1). That said, the median estimate of inflation expected in the next 12 months remained unchanged (7.9%). Its level exceeds by a mere 0.1 pp the all-time low registered in April 2018 (Chart 1).

The dynamics of inflation expectations among households with and without savings were homogeneous (Chart 2).¹ For both groups of respondents, the estimate of expected inflation changed negligibly, whereas the estimate of observed inflation decreased. This decrease was most pronounced for respondents with savings.

The qualitative indicators of relative changes in current and future annual inflation² were up in March (Chart 3). This said, the indicator of current inflation remained around the measures of January–February 2020, and that of expected inflation was in the range observed since last February.

Inflation expectations for 2020 and for the three years ahead (Charts 8 and 9 of [the inFOM Analytical Report on the First Survey in 2020](#); hereinafter, the Report) remained virtually unchanged compared with previous months.

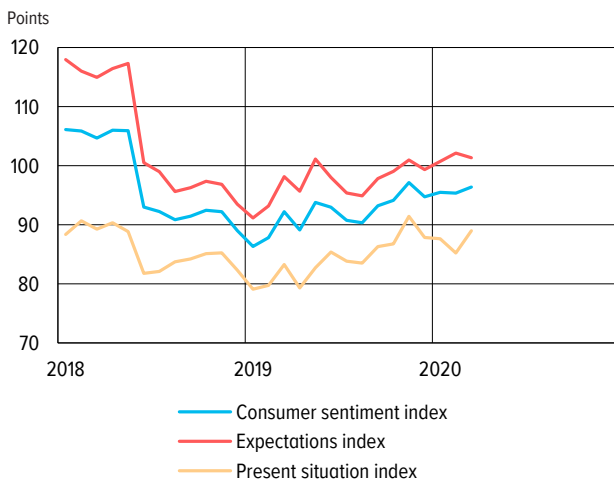
The estimates of both expected and current monthly price growth in March (seasonally adjusted; hereinafter, SA) increased vs February (Chart 3), though remaining below the average level of 2019. Respondents mentioned far more

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 The balance of replies to the question about major changes of prices in the past year and next year, seasonally adjusted.

CONSUMER SENTIMENT INDEX

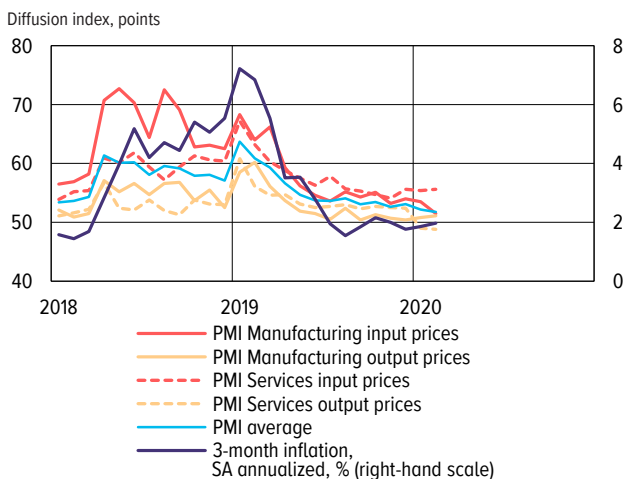
Chart 4



Source: InFOM.

CHANGES IN COMPANIES' PRICES
(MARKIT PMI)

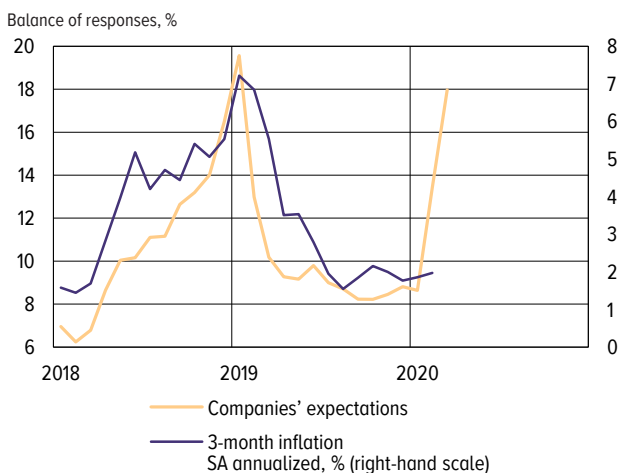
Chart 5



Sources: IHS Markit PMI, Rosstat.

COMPANIES' PRICE EXPECTATIONS
(BANK OF RUSSIA)

Chart 6



Sources: Bank of Russia, Rosstat.

often than in February seasonal rises in prices for fruit and vegetables, and for medical services (Chart 3 of the Report).

Household consumer sentiment

In March, the consumer sentiment index increased (+1 pp; Chart 4). The index of consumer expectations dropped negligibly (-1 pp), while there was a noticeable increase in the present situation index (+4 pp). Overall, over the past two months, all indices gained roughly 1 pp. Among the components of the consumer sentiment index, March saw the most considerable improvement in the estimates of the current financial standing of respondents and their attitude towards large purchases (Chart 14 of the Report).

Business price expectations

According to IHS Markit PMI surveys,³ price dynamics remained moderate in February 2020. Compared to January, the diffusion indices of prices remained generally unchanged (Chart 5). A noticeable drop was registered only for the indices of manufacturing input prices. For the second month in a row, the diffusion index of service companies' output prices held below 50 p, thereby implying that the majority of businesses lowered their prices. As in the previous months, business representatives noted that weak demand, high competition and moderate dynamics of inputs were the major drags on price growth.

According to the data from the business monitoring carried out by the Bank of Russia in March 2020,⁴ price expectations rose considerably⁵ (Chart 6). Most industries, excluding mining and quarrying and transportation, expect that price growth will accelerate in the next three months. The biggest increase in expectations was registered in retail trade amid increased demand.

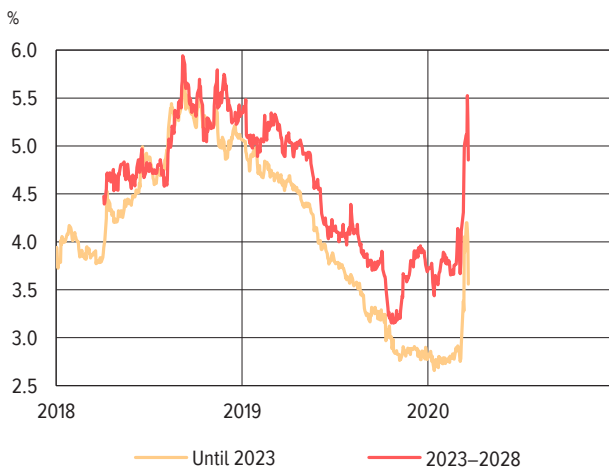
³ For details, refer to <https://www.markiteconomics.com/public>.

⁴ Data for businesses were gathered before 18 March.

⁵ The estimates are based on the comparison of expected yields on inflation-indexed federal government bonds (OFZ-IN) and nominal OFZ, with account of the lag between the nominal value indexation and seasonally adjusted inflation.

IMPLIED INFLATION FOR OFZ-IN

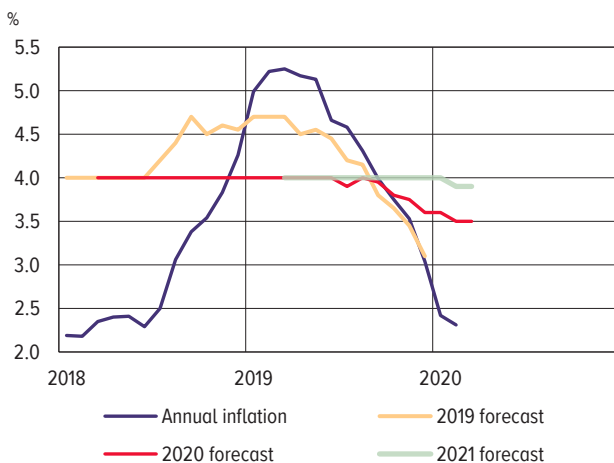
Chart 7



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

BLOOMBERG ANALYSTS' CONSENSUS FORECAST

Chart 8



Sources: Bloomberg, Rosstat.

The additional question about reasons for the price increase showed that the rise in price expectations was primarily caused by the weakening of the ruble, elevated demand (in part prompted by panic-buying), as well as growing production costs. The average value of expected growth in output prices in the next three months (annualised) was up by 0.7 pp, to 2.5%. The biggest increase was recorded in the proportion of respondents (mainly represented by small and micro businesses) expecting a very strong price growth.

Implied inflation for OFZ-IN

In the middle of March, four-year annual implied inflation for IFZ-IN surged. According to the Bank of Russia's estimates,⁶ it exceeded 4% on certain days for the first time since May 2019, whereas it had remained below 3% beginning from last October (Chart 7). In March, average implied future inflation (from August 2023 to February 2028) also increased markedly. These dynamics may be associated with the relatively low liquidity of OFZ-IN and with changes in the opinion of financial market participants about future inflation amid elevated exchange rate volatility.

Analysts' inflation forecast

In February 2020, the range of professional analysts' 2020 inflation forecasts⁷ continued to shrink, reaching 3.5% (Table 1). Analysts' mid-term inflation expectations remained anchored to the Bank of Russia's target (Chart 8).

Bank of Russia forecast

The depreciation of the ruble in February–March on the back of changes in external conditions will lead to a temporary pick-up in annual inflation in the next months. Inflation expectations of households and businesses may also increase temporarily.

⁶ The estimates are based on the comparison of expected yields on inflation-indexed federal government bonds (OFZ-IN) and nominal OFZ, with account of the lag between the nominal value indexation and seasonally adjusted inflation.

⁷ Surveys by Interfax, Bloomberg and Thomson Reuters.

At the same time, a slowdown in the growth of domestic and external demand is a substantial disinflationary factor. This slowdown will have a constraining effect on inflation. In

these settings, taking into account the pursued monetary policy, annual inflation will return to 4% in early 2021.

Data cut-off date – 20.03.2020.

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

12 Neglinnaya Street, 107016 Moscow

Bank of Russia website: www.cbr.ru

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