



Bank of Russia



# INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

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Information and analytical commentary

27 April 2020

## Inflation expectations and consumer sentiment (April 2020)

In March–April, inflation expectations were mostly rising. According to the Bank of Russia-commissioned telephone survey carried out by InFOM instead of usual personal interviews, April recorded an increase in inflation rates both observed and expected by households. According to the findings of the Bank of Russia’s monitoring of businesses, price expectations remained elevated in April. Analysts’ 2020 inflation forecast also significantly rose, while medium-term estimates stayed close to 4%. Implied inflation for inflation-indexed federal government bonds (OFZ-IN) adjusted downwards in April, after having surged in March. The observed growth of inflation expectations is driven by temporary pro-inflationary factors associated, among other things, with the oil price slump. However, this change in inflation expectations will be short-term amid declining demand. The Bank of Russia forecasts that, given the monetary policy pursued, annual inflation will equal 3.8–4.0% as of the end of 2020 and will stabilise close to 4% further on.

LEADING INFLATION INDICATORS AND INFLATION EXPECTATION INDICATORS

Table 1

	Expectation horizon	April 2018	April 2019	February 2020	March 2020	April 2020
<b>Inflation, %</b>		<b>2.4</b>	<b>5.2</b>	<b>2.3</b>	<b>2.5</b>	<b>...</b>
<b>Business surveys</b>						
Companies, balance of responses	next 3 months	8.6	9.6	13.3	19.2	20.0
PMI Manufacturing input prices, diffusion index	current month	70.7	59.3	51.5	59.8	
PMI Manufacturing output prices, diffusion index	current month	57.1	53.7	51.1	55.4	
PMI Services input prices, diffusion index	current month	60.9	58.8	55.6	61.5	
PMI Services output prices, diffusion index	current month	56.7	54.7	48.8	54.2	
<b>Analysts, %</b>						
Bloomberg	2020		4.0	3.6	3.5	4.3
Interfax	2020			3.5	4.7	
Reuters	2020			3.5	4.7	
Bloomberg	2021			3.9	4.0	4.0
Interfax	2021			3.9	3.8	
Reuters	2021			3.9	3.9	
<b>Implied inflation for OFZ-IN, %</b>						
OFZ-IN 52001, August 2023	next 4-year average	4.2	4.6	2.8	3.5	3.2
OFZ-IN 52002, February 2028	next 9-year average		4.8	3.4	4.1	3.8
OFZ-IN	2023–2028 average		5.0	3.8	4.5	4.2

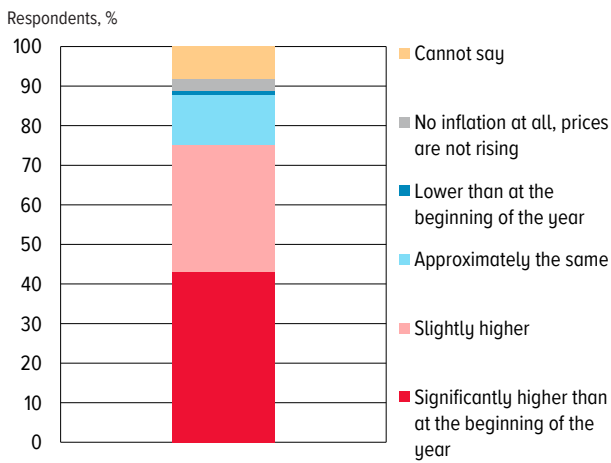
### Households’ inflation expectations

In April 2020, InFOM suspended the Bank of Russia-commissioned regular households’ surveys conducted as personal interviews due to the self-isolation measures implemented because of the spread of the coronavirus infection. In order to monitor inflation

expectations and consumer sentiment, InFOM carried out two nation-wide representative telephone surveys. Their findings are not comparable with results of the previously conducted surveys because of significant differences in their methodologies. However, these telephone surveys provide important up-to-date information on Russians’ perception of price trends and consumer behaviour.

CURRENT PRICE GROWTH  
VS JANUARY–FEBRUARY

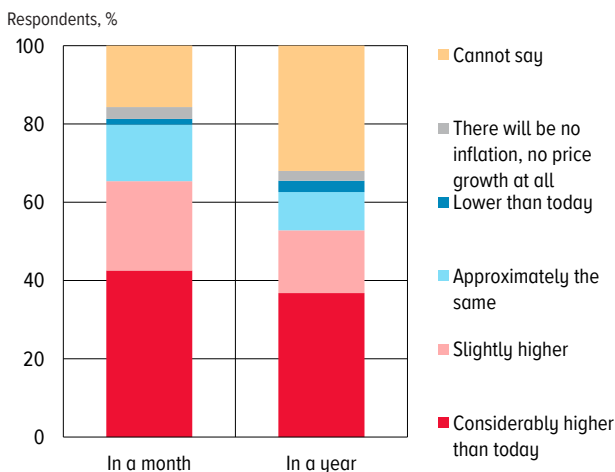
Chart 1



Source: InFOM.

## FUTURE VS CURRENT PRICE GROWTH

Chart 2



Source: InFOM.

According to the telephone survey carried out on 2–10 April, 75% of respondents (82% of those who gave a reply) believe that the current price growth sped up compared to January–February (Chart 1). Moreover, among the replies to the free-answer question about products and services demonstrating the most considerable rise (Annex 1 to the *InFOM Analytical Report on the First April 2020 Survey*; hereinafter, the Report), the majority of respondents mentioned non-perishable food products that households had been buying in for the self-isolation period (cereals, sugar, pasta). Rosstat recorded an accelerated rise in prices for these products as early as in March.<sup>1</sup> Moreover, respondents often complained about the growth of fruit and vegetable prices. This could be associated not only with seasonal price movements, but also with the increase in import prices induced by the weakening of the ruble, as well as with a range of other factors specific to the current situation. They include purchases of ‘essential Russian vegetables’ (cabbage, potato, carrot, beetroot and onion) for the self-isolation period, a rise in demand for individual products traditionally consumed by people to prevent ARVI (lemons, ginger, and garlic), and others. The March rise in exchange rate volatility generally contributed to the deterioration of consumer sentiment and the increase in households’ inflation expectations.<sup>2</sup> Elevated demand for certain product categories and the depreciation of the ruble will have a short-term impact on price trends and inflation expectations. Its scale will be limited by a decline in demand.

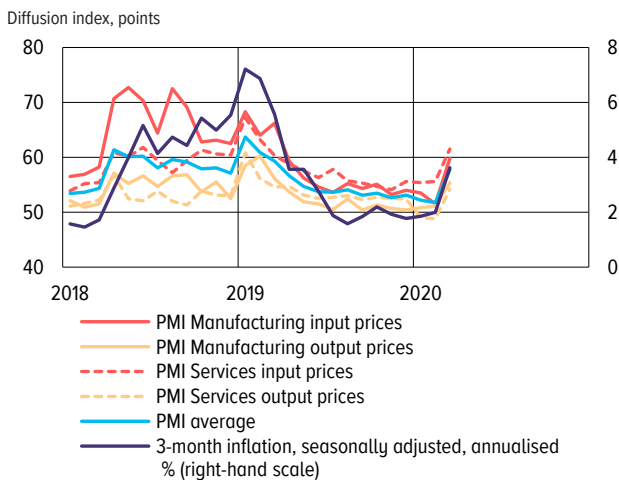
Responses to the question about price growth expected in the next month and in a year evidence that inflation expectations have increased. Specifically, 65% of respondents believe that price growth will speed up in the next month, and 53% consider that this will happen in the next 12 months. Moreover, approximately 2/3 of them consider that the rise in inflation will be significant.

<sup>1</sup> Refer to the information and analytical commentary *Consumer Price Dynamics*, No. 3 (51), March 2020.

<sup>2</sup> Refer to the information and analytical commentary *Inflation Expectations and Consumer Sentiment*, No. 3 (39), March 2020.

CHANGES IN COMPANIES' PRICES  
(MARKIT PMI)

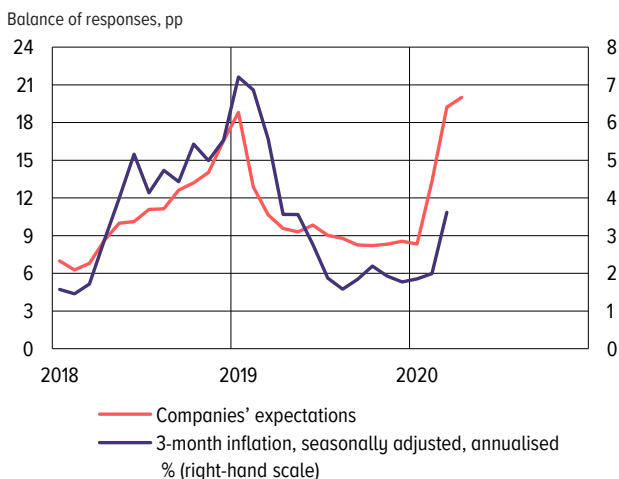
Chart 3



Sources: IHS Markit PMI, Rosstat.

COMPANIES' PRICE EXPECTATIONS  
(BANK OF RUSSIA)

Chart 4



Sources: Bank of Russia, Rosstat.

## Households' consumer sentiment

59% of respondents reported no changes in their financial standing in April, while 36% complained about its deterioration (Table 4 of the Report). Respondents believe that this decline in their financial standing is primarily associated with temporary factors. Expectations for the next month are mostly negative. Contrastingly, more respondents expect that their financial standing will improve, rather than deteriorate in a year (20% against 17%; Table 5 of the Report). The fall in demand caused by the decline in financial standing will be a disinflationary factor limiting secondary effects of the current rise in inflation.

## Companies' price expectations

According to IHS Markit PMI surveys,<sup>3</sup> the price growth sped up in March 2020. Compared to previous months, the diffusion indices of prices substantially increased following the actual price movements (Chart 3). They are now at their 12-month highs. Among the reasons behind the accelerated price growth, companies' representatives mentioned a rise in costs caused by the weakening of the ruble and component supply problems induced by the coronavirus pandemic. Despite weak demand, businesses used the pass-through of their increased costs to consumer prices.

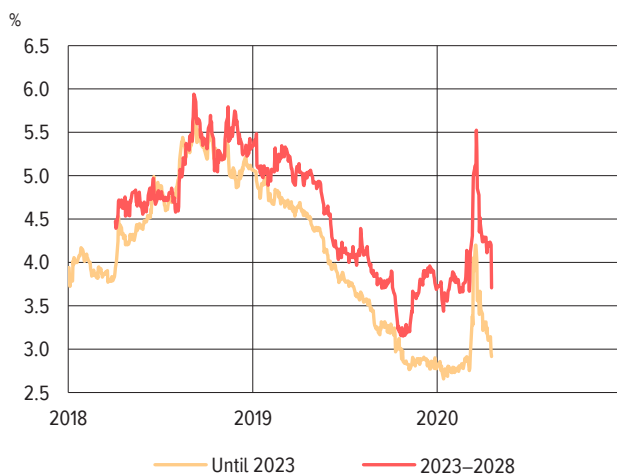
According to the monitoring of businesses carried out by the Bank of Russia in April 2020, price expectations remained almost unchanged, staying at a high level<sup>4</sup> (Chart 4). Expectations changed across industries in a diverse manner. In particular, weak domestic and external demand entailed a decrease in price expectations of mining enterprises, agricultural producers, and companies providing transportation and other services. Conversely, the depreciation of the ruble increased price expectations in

<sup>3</sup> For more details refer to [www.markiteconomics.com/public](http://www.markiteconomics.com/public).

<sup>4</sup> Final indicator – balance of responses (the difference between the proportions of price rise and fall responses). For more details on the survey refer to [www.cbr.ru/statistics/ddkp/price\\_expectations/](http://www.cbr.ru/statistics/ddkp/price_expectations/).

IMPLIED INFLATION FOR OFZ-IN

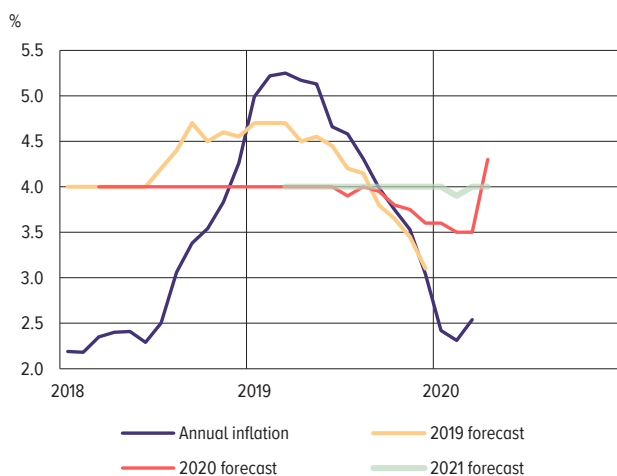
Chart 5



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

BLOOMBERG ANALYSTS' CONSENSUS FORECAST

Chart 6



Sources: Bloomberg, Rosstat.

manufacturing and trade, and most notably in retail.

The question about the reasons behind price changes revealed that the main drivers of price expectations were exchange rate movements and the related changes in costs, while the major factor reducing price expectations was weak demand. Moreover, businesses do not expect that demand and output will recover in the next three months. The expected average growth of output prices in the next three months (in annual terms) remained low – 3.1%.

### Implied inflation for OFZ-IN

In April, implied inflation for inflation-indexed federal government bonds (OFZ-IN) went down after its surge in the middle of March. According to the Bank of Russia's estimates,<sup>5</sup> inflation expected in the next four years returned to 3%, which was its approximate level in November 2019 – February 2020 (Chart 5). Average implied future inflation (from August 2023 until February 2028) also decreased below 4% in April.

### Analysts' inflation forecast

March recorded a rise in the upper bound of the range of analysts' 2020 inflation forecasts<sup>6</sup> that reached 3.5–4.7% (Table 1). Analysts' mid-term inflation expectations remain anchored to the Bank of Russia's targets, that is, close to 4% (Chart 6).

### Bank of Russia forecast

Households' and businesses' inflation expectations rose, driven by temporary pro-inflationary factors, including the weakening of the ruble and elevated demand for individual product categories. Moreover, the decline in demand caused by the current and time-lagged influence of the implemented anti-coronavirus measures will become a material disinflationary

<sup>5</sup> The assessments are based on the comparison of expected returns on OFZ-IN and nominal OFZ, taking into account the lag in the indexation of nominal values and the seasonality of inflation.

<sup>6</sup> Surveys by Interfax, Bloomberg and Thomson Reuters.

factor that will limit the scale of secondary effects of today's rise in inflation. Because of subdued demand, the growth of inflation expectations will be short-term. According to

the Bank of Russia's baseline forecast and given the monetary policy pursued, annual inflation will equal 3.8–4.0% as of the end of 2020 and will stay close to 4% further on.

Data cut-off date – 23.04.2020.

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](mailto:svc_analysis@cbr.ru).

This commentary was prepared by the Monetary Policy Department.

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