



Bank of Russia



# INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No. 7 (43) • July 2020

Information and analytical commentary

27 July 2020

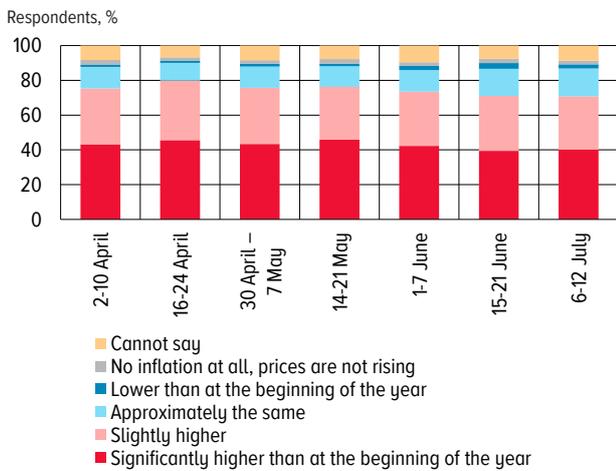
## Inflation expectations and consumer sentiment (July 2020)

In July, inflation expectations changed only slightly. According to inFOM's telephone survey, households' estimates of current and expected price growth for the next year remained largely at the level of the previous month. The monitoring of enterprises conducted by the Bank of Russia in July registered a further decline in short-term price expectations; however, they still remain elevated. At the same time, PMI indices point to a stabilisation of price dynamics near the lows recorded over the past few years. In July, implied inflation for inflation-indexed federal government bonds (OFZ-IN) remained at its all-time lows. Analysts' inflation forecast for 2020 and 2021 fell below 4%. The observed stabilisation of inflation expectations indicates that the sharp temporary acceleration of inflation in March and April has been exhausted. We expect annual inflation to gradually accelerate over the remainder of the year since the low readings recorded in 2019 H2 will be excluded from the inflation calculation and given the current price growth pace below 4%. According to the Bank of Russia's forecast, inflation will stay in the 3.7–4.2% range in 2020 and in the 3.5–4.0% range in 2021.

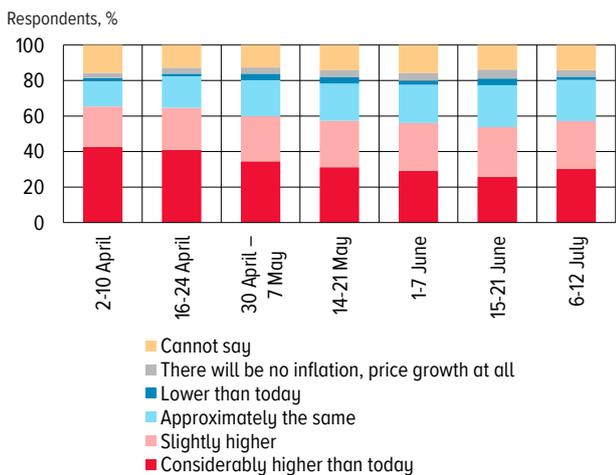
LEADING INFLATION INDICATORS AND INFLATION EXPECTATION INDICATORS

Table 1

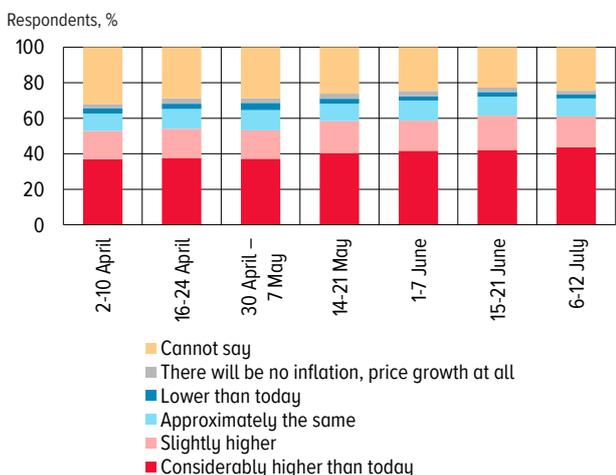
	Expectation horizon	July 2018	July 2019	May 2020	June 2020	July 2020
<b>Inflation, %</b>		<b>2.5</b>	<b>4.6</b>	<b>3.0</b>	<b>3.2</b>	<b>...</b>
<b>Business surveys</b>						
Companies, balance of responses	next 3 months	11.2	9.1	16.5	15.3	14.9
PMI Manufacturing input prices, diffusion index	current month	64.4	53.6	59.8	58.8	
PMI Manufacturing output prices, diffusion index	current month	54.7	50.5	53.2	51.6	
PMI Services input prices, diffusion index	current month	59.4	57.8	54.4	55.9	
PMI Services output prices, diffusion index	current month	53.8	52.7	48.4	49.7	
<b>Analysts, %</b>						
Bloomberg	2020		4.0	4.2	3.7	3.7
Interfax	2020			4.5	3.9	
Reuters	2020			4.2	3.7	
Bloomberg	2021			3.8	3.6	3.6
Interfax	2021			3.9	3.9	
Reuters	2021			3.5	3.5	
<b>Implied inflation for OFZ-IN, %</b>						
OFZ-IN 52001, August 2023	next 3-year average	4.7	3.7	2.4	2.3	2.3
OFZ-IN 52002, February 2028	next 8-year average		3.9	3.0	3.0	3.1
OFZ-IN	2023–2028 average		4.1	3.3	3.4	3.6

CURRENT PRICE GROWTH VS JANUARY–FEBRUARY *Chart 1*

Sources: InFOM, Rosstat.

EXPECTATIONS OF PRICE GROWTH IN A MONTH *Chart 2*

Sources: InFOM, Rosstat.

EXPECTATIONS OF PRICE GROWTH IN A YEAR *Chart 3*

Sources: InFOM, Rosstat.

## Households' inflation expectations

In July 2020, InFOM continued the Bank of Russia-commissioned representative telephone surveys of households across Russia. Their findings are not comparable with the results of the surveys conducted before March 2020 because of considerable differences in their methodologies. However, these telephone surveys provide important up-to-date information on Russians' perception of price trends and consumer behaviour. Due to the improved epidemiological situation, it is planned to return to face-to-face interviews since August.

According to the survey held on 6–12 July, 71% of respondents believe that the current price growth rates are higher than in January – February (Chart 1). This figure is 2 pp less compared to the results of the survey held on 1–7 June. Among the replies to the free-answer question about goods and services demonstrating the most considerable rise in prices (Annex 1 to the *InFOM Analytical Report on the July 2020 Survey*; hereinafter, the Report), Russians increasingly more often mentioned petrol, whose accelerated price growth was registered by Rosstat,<sup>1</sup> and housing and utility rates, which are usually increased in early July. At the same time, respondents rarely mentioned food products, including non-perishable goods (cereals and sugar), whose price growth was noticeable in April and May.

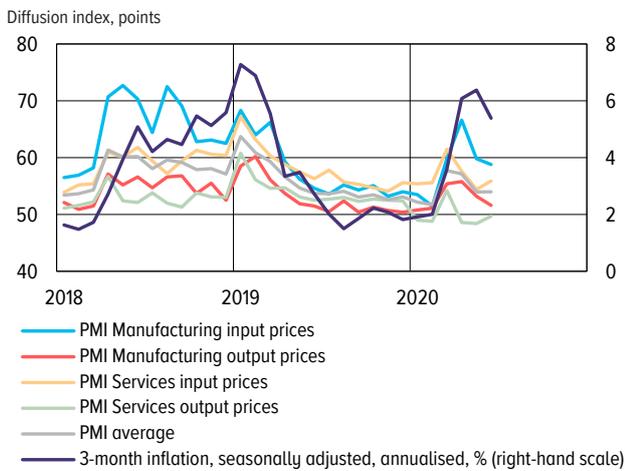
Short-term inflation expectations rose after decreasing since early May. The share of respondents who expect prices to accelerate over the coming month increased by 3 pp (Chart 2). This is likely related to the above-mentioned indexation of housing and utilities rates.

The hypothesis of the seasonal character of growth in short-term inflation expectations is also confirmed by relative stability of respondents' replies about inflation movements over the one-year horizon (Chart 3). The share of respondents who expect inflation to accelerate

<sup>1</sup> Refer to the information and analytical commentary *Consumer Price Dynamics*, No. 6 (54), June 2020.

CHANGES IN COMPANIES' PRICES  
(MARKIT PMI)

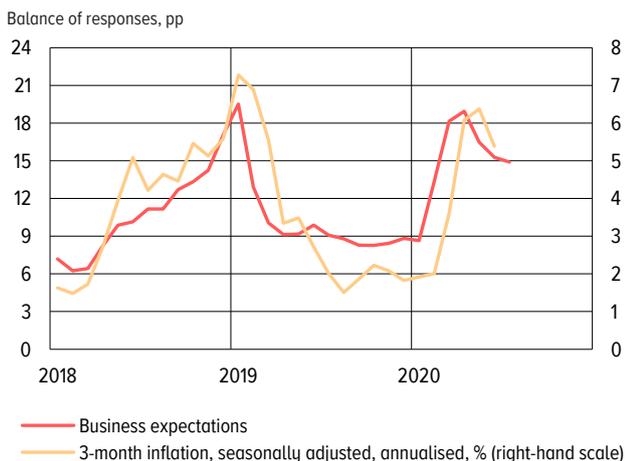
Chart 4



Sources: IHS Markit PMI, Rosstat.

COMPANIES' PRICE EXPECTATIONS  
(BANK OF RUSSIA)

Chart 5



Sources: Bank of Russia, Rosstat.

over the coming year has not changed compared to the previous survey.

## Households' consumer sentiment

In July, households became more positive about their financial standing. Specifically, the percentage of those whose financial standing deteriorated decreased by 7 pp, to 26%, while the share of those whose financial standing improved increased by 5 pp, to 8% (Chart 5 of the Report). The positive trend, continuing since May, is related to a gradual recovery of economic activity.

Expectations of changes in financial standing over the one-month and one-year horizons have remained nearly unchanged since the latest survey conducted on 1–7 June (Charts 8 and 9 of the Report). More respondents still expect that their financial standing will improve rather than deteriorate over the next year.

## Companies' price expectations

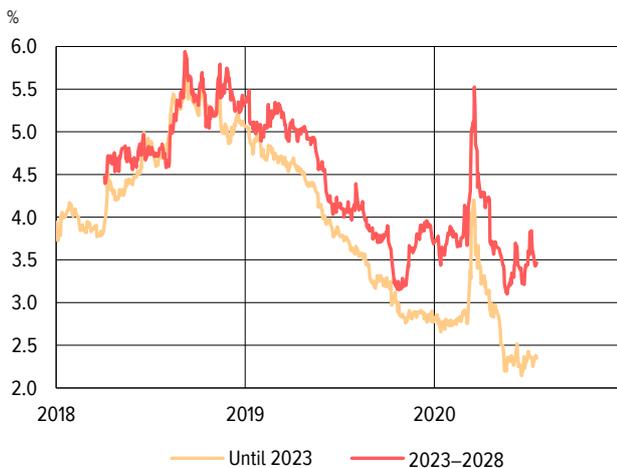
According to *IHS Markit PMI* surveys, price dynamics were diverging in June 2020 (Chart 4). Manufacturing industries recorded a slowdown in the growth rates of both input and output prices compared to the previous month, which was facilitated by a recovery of supply chains and stabilisation of the ruble exchange rate. At the same time, the growth rate of output prices was at the pre-COVID level while that of input prices was higher. This difference indicates lower companies' margin amid weak demand.

In the services sector, input price growth somewhat accelerated on the back of increased pressure of higher supplier costs. Concurrently, the decline of output prices slowed down. The average level of PMI indices is recorded close to the last years' lows.

According to the *monitoring of businesses*, carried out by the Bank of Russia in July 2020, companies' price expectations for three months ahead continued to decline. Their level, however, remains elevated (Chart 5). Expectations varied across industries. Price expectations in agriculture rose owing to the poorer expected harvest of grain crops in certain regions due to bad weather. Transportation and storage

## IMPLIED INFLATION FOR OFZ-IN

Chart 6



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

companies' price expectations increased on the back of a recovery of demand and volume of services amid gradually lifted restrictions. Trade and mining and quarrying companies reported lower price expectations due to weak demand and global economic situation, respectively. Price expectations in construction, manufacturing and services sectors remained largely unchanged.

The responses to the question about the reason of price changes demonstrated that weak demand was the main driver of lower price expectations. However, the share of companies that reported this reason contracted compared to the previous month. The growth of price expectations was most often linked to the rising prices of fuel and lubricants. The average expected rate of price growth in the next three months stood at 2.4% (in annual terms).

### Implied inflation for OFZ-IN

In the first half of July, implied inflation for OFZ-IN remained stable. According to the Bank of Russia's estimates,<sup>2</sup> inflation expected over the next three years remained at the lowest level for these securities ranging from 2.3% to 2.4% (Chart 6). Average implied future inflation (from August 2023 until February 2028) was more volatile in July but remained below 4% at 3.4–3.8%.

### Analysts' inflation forecast

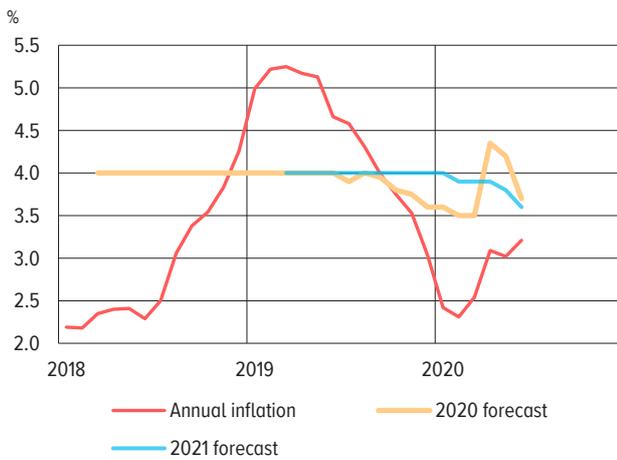
In June 2020, the range of analysts' 2020 inflation forecasts<sup>3</sup> continued to shrink, reaching 3.7–3.9% (Table 1, Chart 7). Analysts' inflation expectations for 2021, according to Bloomberg, fell by 0.2 pp to 3.6%. According to Reuters and Interfax, they remained unchanged at 3.5% and 3.9%, respectively.

<sup>2</sup> 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.

<sup>3</sup> Surveys by Interfax, Bloomberg and Thomson Reuters.

## BLOOMBERG ANALYSTS' CONSENSUS FORECAST

Chart 7



Sources: Bloomberg, Rosstat.

## Bank of Russia forecast

The Bank of Russia expects that weak demand will be the main driver to contain monthly price dynamics. At the same time, annual inflation is likely to accelerate until the end of the current year as low figures of 2019 H2 will be excluded from calculation. The Bank of Russia expects that inflation will stay in the 3.7–4.2% range in 2020 and in the 3.5–4.0% range in 2021.

Data cut-off date – 22.07.2020.

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](mailto:svc_analysis@cbr.ru).

This commentary was prepared by the Monetary Policy Department.

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