



Bank of Russia

Central Bank of the Russian Federation



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**INFLATION EXPECTATIONS  
AND CONSUMER SENTIMENT**

Moscow

## INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

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*Households' inflation expectations remained virtually unchanged in July, holding at 9.7% vs 9.8% seen in June. Stabilisation of petrol prices had its effect on the expectations, however, their future dynamics are uncertain. They may be brought up by the increased VAT (effective from 2019) or diminished on the back of an overall low inflation rate.*

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**Households' inflation expectations<sup>1</sup> for 12 months ahead stabilised in July 2018,** having risen considerably in the May to June period. The indicator slid to 9.7% vs 9.8% registered in June (Chart 12<sup>2</sup>).

The share of respondents who mentioned high petrol price growth rates dropped by 9 pp (Chart 3). These dynamics and open question responses confirm that growing petrol prices were the main reason behind rising inflation expectations in May and June. As fuel prices stopped rising in early June, the Bank of Russia forecasts that this factor will not drive expectations further upwards.

**Inflation expectations stabilised as respondents revised their estimates for observed inflation from 10.6% to 10.3%.** This was supported by favourable price dynamics in a number of food categories.

**At the moment, respondents do not expect the tax measures to have a tangible effect on prices.** Only 4% of respondents considered the VAT as an inflation factor, while 55% of respondents were aware of the planned measure.

July saw an increase in the share of respondents who expected prices to increase at the same rate within the next 12 months as the share of those undecided declined (Chart 5). These estimates also point to an easier attitude to inflation movements and higher

confidence that it will remain unchanged on a one-year horizon.

**According to the Bank of Russia's estimates based on the inFOM survey,<sup>3</sup> inflation expectations rose somewhat in July, to 2.8% (vs 2.6% in June).**

Currently low inflation stabilised expectations on a one-year horizon. At the same time, **respondents' estimates of three-year inflation deteriorated in July.** 49% of respondents believe that price growth rates will exceed 4% within the next three years (vs 46% of respondents a month earlier) (Chart 15).

**Respondents' consumer sentiment also stabilised** after a deterioration in the previous month.

The balance of replies suggesting that this period of time is favourable for saving shifted upwards (Chart 27), while that suggesting it is favourable for borrowing slid down (Chart 37). This behaviour reflects Russians' overall conservative attitude to spending.

Respondents postpone large purchases, though understanding that the time is becoming more favourable for them. Only 21% of respondents consider this period of time to be good for purchases (22% in June) vs 36% of those believing it to be bad (39% in June) (Chart 24). The share of neutral responses increased only insignificantly (by 4 pp): 35% of respondents failed to clearly describe the conditions for large purchases.

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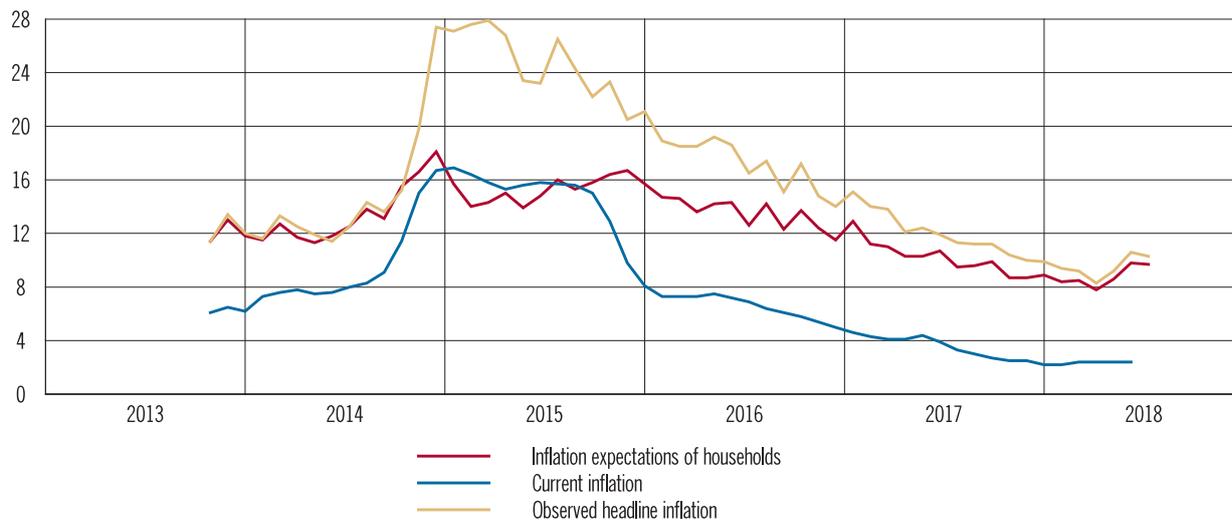
<sup>1</sup> inFOM median estimate.

<sup>2</sup> Here and elsewhere, references are made to figures in the Summary Report on Survey 7 (July 2018).

<sup>3</sup> In its calculations of 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.

## Inflation expectations level off in July (%)

Direct inflation estimates: median values



Sources: Public Opinion Foundation, inFOM.

The structure of large expenses remained virtually unchanged over the past month. In the past three months, Russians most frequently

spent their money for housing repairs and maintenance (18%), medical treatment (10%) and travel (8%) (Chart 25).

Cut-off date – 26 July 2018.

A soft copy of the information and analytical material is published 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).