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**INFLATION EXPECTATIONS
AND CONSUMER
SENTIMENT**

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INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

Households' inflation expectations remained virtually unchanged in August. Petrol prices had a weaker effect on expectations than in July. The risks of a rise in inflation expectations may manifest themselves in the months to come. They are associated with the ruble exchange rate and the VAT rise. Respondents' consumer sentiment is showing a higher propensity to consume.

In August 2018, households' inflation expectations for the 12 months ahead¹ remained virtually unchanged, holding at the level registered in September-October last year. They stood at 9.9% vs 9.7% seen in July (Chart 12²).

Respondents less frequently mentioned rising petrol prices among inflation triggers.³ However, though prices had remained unchanged for two months by the survey date, respondents still cited petrol among the goods which demonstrated the highest rise in prices. This suggests that inflation expectations not only remain sensitive to one-off hikes in prices of certain goods but also tend to hold at an elevated level for some time even in the absence of considerable price movements.

In August, respondents also noticed accelerated growth in meat and poultry prices (Chart 3). This was mentioned by 39% of respondents vs 34% in July. As respondents quite strongly react to a rise in prices of frequently bought goods and services, this may become an additional factor of growth in inflation expectations.

At the same time, the ruble depreciation⁴ and the VAT rise⁵ were more frequently cited among inflation factors in August. As the ruble

weakened in August⁶ and the date of the VAT revision is nearing, inflation expectations may rise in the months to come. The scale and duration of this effect are yet hard to estimate. This uncertainty is among main inflation risks. The Bank of Russia will focus on this issue.

The respondents' estimate of the observed inflation also remained virtually unchanged at 10.4% vs 10.3% in July (Chart 12).

The Bank of Russia's estimates of inflation expectations based on the inFOM survey and the current inflation rate⁷ rose in August to 3.4–3.5% following the actual inflation path (vs 2.8% in July).

August saw an increase in the share of those who believe that price growth rates will overshoot 4% (58% of respondents vs 56% a month earlier) (Chart 14). This reading is consistent with that registered in December 2017. That said, inflation expectations for three years ahead remained unchanged: as many as 49% of respondents said that inflation would overshoot the target, same as in the previous month (Chart 15).

Respondents' consumer sentiment also remained virtually unchanged. Estimates and

¹ inFOM median estimate.

² Here and elsewhere, references are made to figures in the Summary Report on Survey 8 (August 2018).

³ In August, 40% of respondents cited fast increase in petrol prices (vs 48% in July).

⁴ 3% of respondents; no ruble depreciation was mentioned in July.

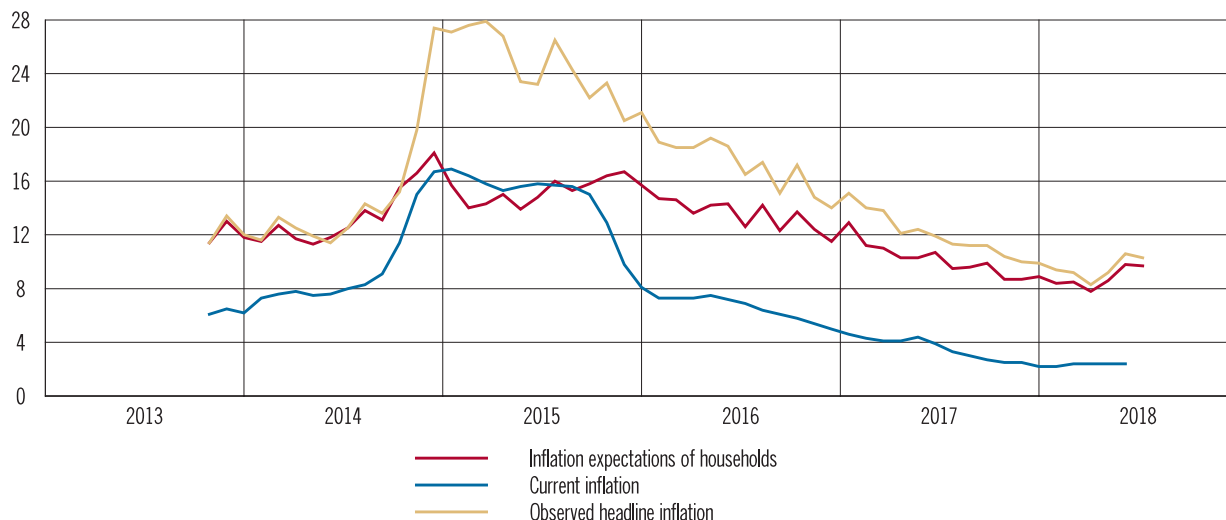
⁵ 5% of respondents vs 4% a month earlier.

⁶ The ruble's weakening may have only partially translated into inflation expectations, as the survey was held on 6–13 August and some respondents answered the questions before the news came on the imposition of external economic restrictions and the rise in exchange rate volatility.

⁷ 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 continued to level off in August (%)

Direct inflation estimates: median values



Sources: Public Opinion Foundation, inFOM.

expectations of the rise in income remained at the previous month level in August (Charts 20 and 21). Having said that, there are signs of a rising propensity to consume. Respondents more frequently said that the current period of time was good for large purchases (22% vs 21% in July). Though 35% of respondents believe that the current period is not good for large purchases (vs 36% in July), the balance of replies to this questions shifted upwards by 2 pp (Chart 25). Respondents most often plan

to increase their spending on housing repairs and maintenance and education (Chart 27). The balance of replies concerning the favourableness of the current period of time for taking loans for large purchases also shifted upwards (Chart 38).

At the same time, the current period of time was less frequently regarded as favourable for saving (Chart 28). The share of those who failed to save over the past month rose to 75%, a two-year high (Chart 30).

Cut-off date – 23 August 2018.

A soft copy of the information and analytical material is published on the Bank of Russia website (<http://www.cbr.ru/DKP/>).

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