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INFLATION EXPECTATIONS
AND CONSUMER
SENTIMENT

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INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

Households' inflation expectations remained elevated in September following the surge in petrol prices in May. Respondents are still concerned about the cost of fuel, although it stopped rising. Inflation expectations have already begun reflecting the ruble depreciation. The imminent VAT hike may also become the reason for their growth in the months to come. The concurrent action of several inflation triggers may result in stronger and long-term response from inflation expectations.

In September 2018, households' inflation expectations for the 12 months ahead¹ increased by 0.2 pp to reach 10.1% (Chart 12²). The expectations remained elevated following the surge in petrol prices in May.

However, although petrol prices stopped their growth in June and even slid down in July-August in monthly terms, 36% of respondents still cited petrol among the goods which demonstrated the highest rise in prices. Petrol ceased to be the most frequently mentioned commodity, but still ranks second. The first place belongs to meat and poultry prices mentioned by 41% of respondents. The accelerated growth in meat prices may become another reason for an increase in households' inflation expectations in the next few months.

Inflation expectations have already begun reflecting the ruble depreciation in August: this factor was more frequently cited among inflation triggers³ in September.

The imminent VAT hike has little impact on household sentiment so far. **Inflation expectations are likely to demonstrate a stronger response to the VAT rise at the end of this year.**

The scale and duration of the increase in inflation expectations are yet hard to estimate. The situation, when there are **several inflation triggers** such as a surge in petrol prices in April-May, the ruble depreciation in August-

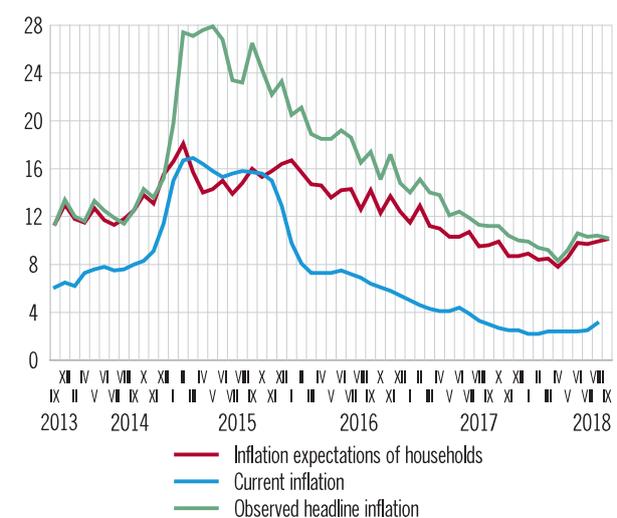
September, and the VAT rise, **may result in stronger and long-term response from inflation expectations**, especially since the latter are not anchored at a low level.

The Bank of Russia's estimates of inflation expectations based on the inFOM survey and the current inflation rate⁴ **rose in September to 3.7-3.8% following the actual inflation rate** (from 3.5-3.6% in August).

Answers to the questions about inflation hitting the 4% target in 2018 and in a three-year perspective remained virtually unchanged.

Inflation expectations remained elevated in September (%)

Direct inflation estimates: median values



Sources: Public Opinion Foundation, inFOM.

¹ inFOM median estimate.

² Here and elsewhere, references are made to figures in the Summary Report on Survey 9 (September 2018).

³ 5% of respondents vs. 3% in August.

⁴ When calculating 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.

Respondents' consumer sentiment also remained virtually unchanged. Answers to a wide range of questions about the amount of savings suggest its downward trend in the previous year and expectations of the same dynamics next year.

Cut-off date – 20 September 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.