



Bank of Russia



# INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No. 9 (33) • September 2019

Information and analytical commentary

30 September 2019

## Inflation expectations and consumer sentiment (September 2019)

In September 2019, the median estimate of inflation observed by households during the past year changed only slightly, remaining close to the readings recorded in recent months. The estimate of expected inflation continued to go down, updating its lowest level of June 2018. Companies' short-term price expectations changed diversely, being impacted by temporary factors in individual markets. Professional analysts' forecasts remained almost unchanged: according to their estimates, annual inflation will continue to slow down and will come in at 4.0–4.3% at the end of the year with its subsequent stabilisation close to 4%. Four-year imputed inflation for inflation-indexed federal government bonds (OFZ-IN) continued to decrease. Long-term imputed inflation slightly deviated downwards away from 4%. The Bank of Russia forecasts that the pursued monetary policy will hold annual inflation close to 4%.

### INFLATION EXPECTATION INDICATORS

Table 1

|   | Expectation horizon | September 2017 | September 2018 | July 2019  | August 2019 | September 2019 |
|---|---------------------|----------------|----------------|------------|-------------|----------------|
| <b>Inflation, %</b>                                     |                     | <b>3.0</b>     | <b>3.4</b>     | <b>4.6</b> | <b>4.3</b>  | ...            |
| <b>Households' inflation expectations</b>               |                     |                |                |            |             |                |
| Public Opinion Foundation (median, expected inflation)  | next 12 months      | 9.6            | 10.1           | 9.4        | 9.1         | 8.9            |
| Public Opinion Foundation (subgroup with savings)       | next 12 months      | 9.4            | 9.2            | 8.6        | 8.9         | 8.4            |
| Public Opinion Foundation (subgroup without savings)    | next 12 months      | 9.8            | 10.5           | 9.7        | 9.3         | 9.2            |
| Public Opinion Foundation (Bank of Russia calculations) | next 12 months      | 2.8            | 3.8            | 5.2        | 4.7         | 4.3            |
| Public Opinion Foundation (median, observed inflation)  | past 12 months      | 11.2           | 10.2           | 9.9        | 10.0        | 9.9            |
| Public Opinion Foundation (subgroup with savings)       | past 12 months      | 10.3           | 10.0           | 9.5        | 9.2         | 9.4            |
| Public Opinion Foundation (subgroup without savings)    | past 12 months      | 11.7           | 10.4           | 10.2       | 10.3        | 10.4           |
| <b>Analysts, %</b>                                      |                     |                |                |            |             |                |
| Bloomberg   | 2019 Q4             |                | 4.7            | 4.2        | 4.2         | 4.2            |
| Bloomberg   | 2020 Q4             |                | 4.0            | 3.9        | 3.9         | 4.0            |
| Bloomberg   | 2021                |                |                | 4.0        | 4.0         | 4.0            |
| Interfax  | December 2019       |                | 4.3            | 4.1        | 4.0         |                |
| Reuters   | December 2019       |                | 4.5            | 4.3        | 4.3         |                |
| <b>Imputed inflation for OFZ-IN, %</b>                  |                     |                |                |            |             |                |
| OFZ-IN 52001, August 2023                               | next 4-year average | 4.2            | 5.5            | 3.7        | 3.5         | 3.3            |
| OFZ-IN 52002, February 2028                             | next 9-year average |                | 5.5            | 3.9        | 3.8         | 3.5            |
| OFZ-IN  | 2023–2028 average   |                | 5.6            | 4.1        | 4.0         | 3.8            |
| <b>Companies' price expectations</b>                    |                     |                |                |            |             |                |
| Companies, balance of responses                         | next 3 months       | 7.5            | 12.5           | 9.1        | 9.0         | 8.1            |
| PMI Manufacturing input prices, diffusion index         | current month       | 57.3           | 69.1           | 53.6       | 55.2        |                |
| PMI Manufacturing output prices, diffusion index        | current month       | 54.1           | 56.8           | 50.5       | 52.4        |                |
| PMI Services input prices, diffusion index              | current month       | 55.7           | 59.4           | 57.8       | 55.7        |                |
| PMI Services output prices, diffusion index             | current month       | 53.1           | 51.3           | 52.7       | 53.0        |                |

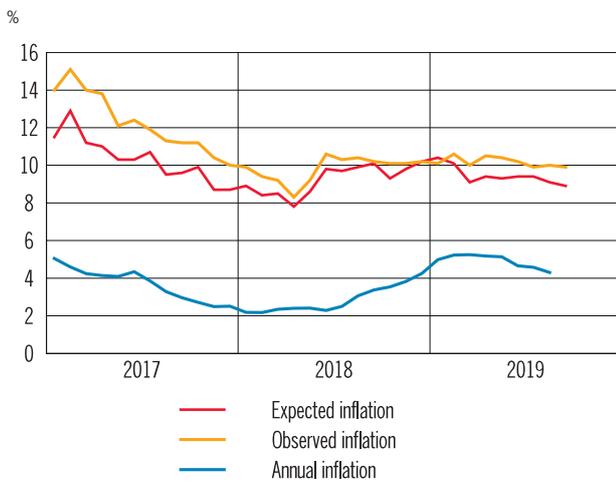
### Households' inflation expectations

According to the Bank of Russia-commissioned InFOM survey, the median estimate of inflation observed by households over the last 12 months remained almost the same in September 2019 (9.9% compared to 10.0% in the previous month, Table 1, Chart 1).

It stayed close to the lower bound of the range where it had been since last June (9.9–10.6%). The median estimate of inflation expected in the next 12 months continued to decline (by 0.2 pp compared to the previous month, to 8.9%), updating its minimum since June 2018 (Chart 1). Expected inflation is still higher than the lowest readings recorded in 2018 H1.

INFLATION OBSERVED AND EXPECTED  
BY HOUSEHOLDS (MEDIAN ESTIMATE)

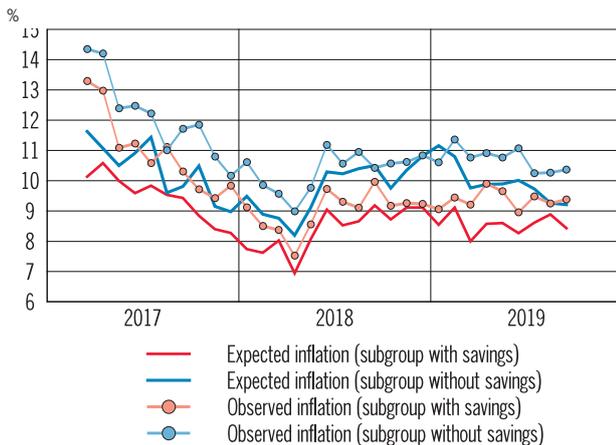
Chart 1



Sources: InFOM, Rosstat.

INFLATION EXPECTED AND OBSERVED,  
BY RESPONDENT SUBGROUP (MEDIAN ESTIMATE)

Chart 2



Sources: InFOM, Bank of Russia calculations.

Expectations of respondents with savings remained lower than that of those without savings (Chart 2).<sup>1</sup> However, the expectation gap in these groups reduced during the last months. The estimate of inflation expected by respondents without savings nearly reached the 2018 H1 levels, while for respondents with savings the current level remains higher than the 2018 H1 readings. Estimates of observed inflation changed similarly across the respondent groups. Its level for respondents without savings is higher than for respondents with savings.

Changes in responses to other questions about future inflation also signify that inflation expectations are gradually going down. Thus, the proportion of respondents expecting inflation growth acceleration in the next 12 months reduced in September, while the share of respondents expecting inflation to slow down increased (Chart 5 of [InFOM Analytical Report on the Ninth Survey in 2019](#), further referred to as the Report). In addition, three-year inflation expectations have also become slightly more optimistic in 2019 (Charts 8 and 9 of the Report). Generally, all the above indicators are in the middle of the ranges recorded since the beginning of 2019. The estimate of households' inflation expectations for the next 12 months calculated by the Bank of Russia with the use of InFOM survey data<sup>2</sup> continued to go down in September and reached 4.3% (vs 5.2% in June).

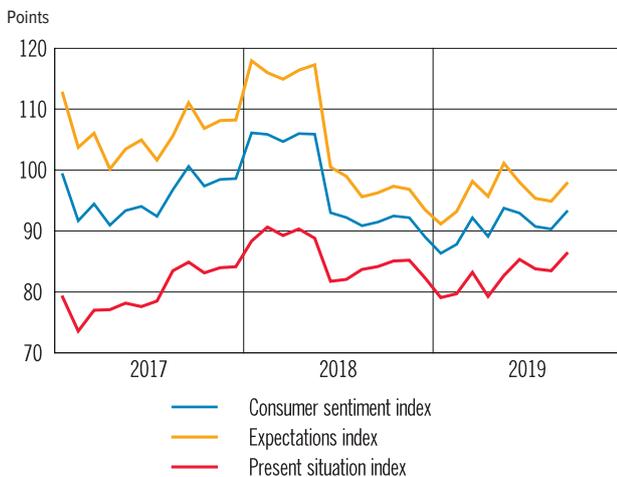
In September, respondents' perception of the increase in prices for certain products and services changed only slightly and in a diverse manner. The number of respondents referring to inflation of clothes and footwear, as well as of children's goods increased the most. This was probably associated with a higher frequency of purchases in these product groups in the run-up to the new school year (Chart 3 of the Report).

<sup>1</sup> Refer to *Monetary Policy Report No. 2 (26)*, June 2019, box 'Survey microdata-based assessment of the relationship between inflation expectations and household saving behaviour'.

<sup>2</sup> 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. For more details, refer to [http://www.cbr.ru/Content/Document/File/59815/Inflation\\_expectations\\_guide.pdf](http://www.cbr.ru/Content/Document/File/59815/Inflation_expectations_guide.pdf).

## CONSUMER SENTIMENT INDEX

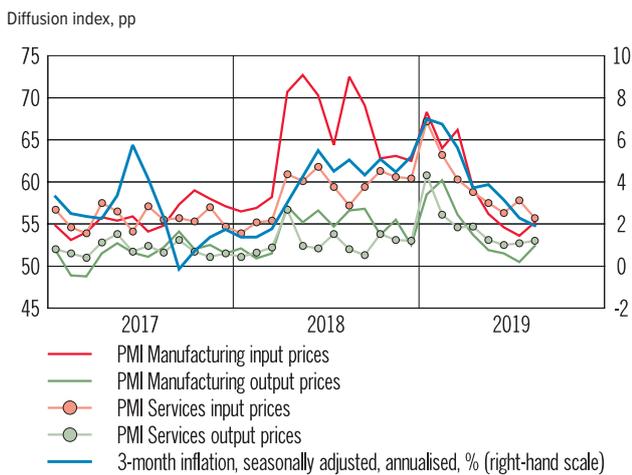
Chart 3



Source: InFOM.

CHANGES IN COMPANIES' PRICES  
(MARKIT PMI)

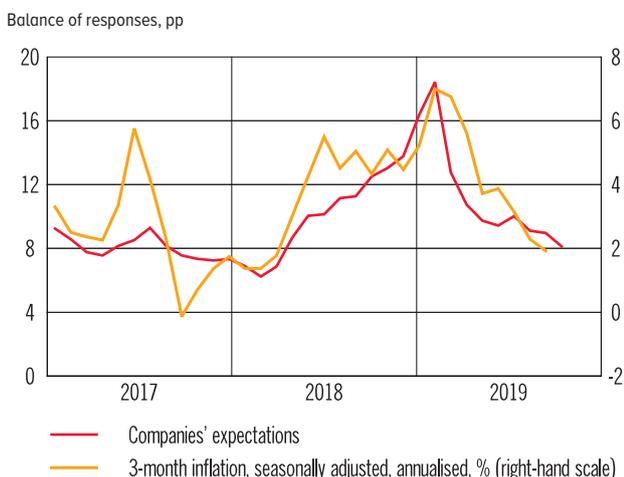
Chart 4



Sources: IHS Markit PMI, Rosstat.

COMPANIES' PRICE EXPECTATIONS  
(BANK OF RUSSIA)

Chart 5



Sources: Bank of Russia, Rosstat.

Inflation expectations lowered only slightly despite the slowdown in actual inflation. This implies that they are not anchored to the Bank of Russia's target and that inflation risks persist.

## Households' consumer sentiment

The consumer sentiment index rose to 93 in September, approaching its maximum recorded last June (vs 90–91 in July–August, Chart 3). Moreover, all its components showed an upward trend. For instance, the estimate of the current growth of financial standing and expectations of its future dynamics improved (Charts 16–17 of the Report). Concurrently, the proportion of respondents believing that it is not a good time now for large purchases decreased to its minimum level since late 2014 (Chart 19 of the Report). This is also confirmed by a growing frequency of such purchases (Chart 20 of the Report).

## Companies' price expectations

According to IHS Markit PMI surveys,<sup>3</sup> the diffusion indices of manufacturing companies' input and output prices rose after their drop in the previous month to their lows recorded at the beginning of the year (Chart 4). Respondents referred to higher inputs caused by the weakening of the ruble as the main driver of a quicker price growth. Diffusion indices of prices in the service sector have stayed close to their minimum since the beginning of the year. Representatives of the above industries stated that the seasonal rise in utility rates was the main proinflationary factor.

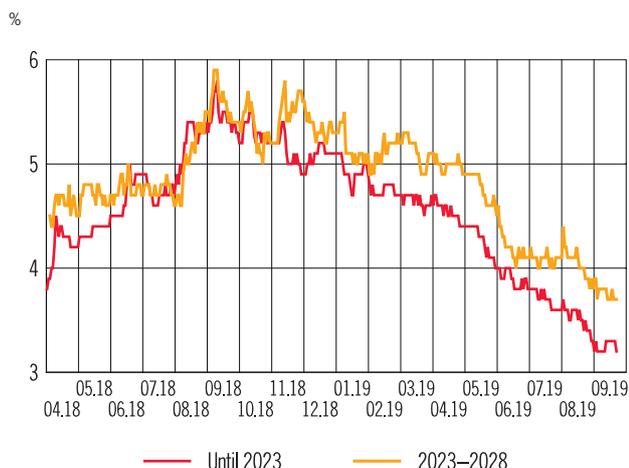
Similar results were also obtained in the course of the survey of enterprises carried out by the Bank of Russia in September 2019.<sup>4</sup> The balance of responses regarding companies' price expectations for the next three months continued to decline, reaching a new minimum level since early 2019 (Chart 5). Expectations

<sup>3</sup> For more details, refer to <https://www.markiteconomics.com/public>.

<sup>4</sup> Final indicator – balance of responses (the difference between the proportions of price rise and fall responses). For details of the survey, see [http://www.cbr.ru/Content/Document/File/62\\_829/analysis\\_18-12.pdf](http://www.cbr.ru/Content/Document/File/62_829/analysis_18-12.pdf).

IMPUTED INFLATION  
FOR OFZ-IN

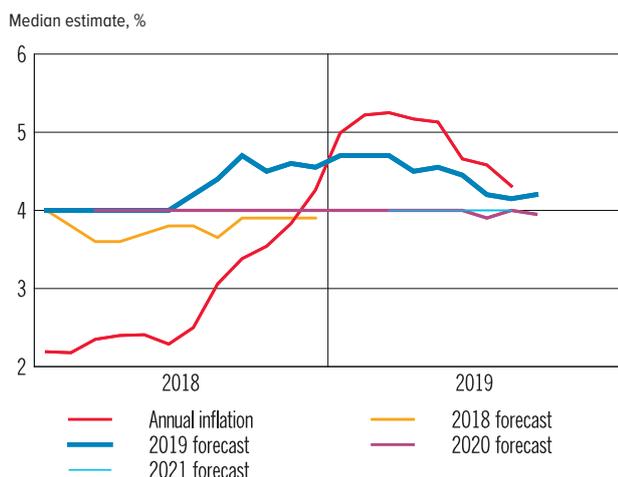
Chart 6



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

## BLOOMBERG ANALYSTS' CONSENSUS FORECAST

Chart 7



Sources: Bloomberg, Rosstat.

varied across industries. For example, the maximum increase was demonstrated by mining enterprises, which reflected the growth of prices for some non-ferrous metal ores and coal in the global market. However, representatives of the retail trade and service sectors stated a rather considerable decrease in their price expectations. They referred to the moderate dynamics of inputs and weak demand as the main causes.

## Imputed inflation for OFZ-IN

According to the Bank of Russia's assessments, four-year annual imputed inflation for OFZ-IN continued to decrease in September and came in at 3.3% (as compared to 4.9–5.1% in January and 3.5% in August, Chart 6), which is a new low recorded for these bonds. Average imputed future inflation (from August 2023 until February 2028) not affected by short-term changes came down to 3.8% (vs 4.0% in August).

## Analysts' inflation expectations

Professional analysts' inflation forecasts for the end of December 2019 remained almost unchanged.<sup>5</sup> The expected level in August was 4.0–4.3% (Table 1). Analysts' mid-term inflation expectations stay anchored to the Bank of Russia's targets (Chart 7).

## Bank of Russia's forecast

The Bank of Russia expects that the pursued monetary policy will hold annual inflation close to 4%.

<sup>5</sup> Surveys by Interfax, Bloomberg, and Thomson Reuters.

Data cut-off date – 27.09.2019.

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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