



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No. 2 (38) • February 2020

Information and analytical commentary

27 February 2020

Inflation expectations and consumer sentiment (February 2020)

In February 2020, household inflation expectations decreased, while other expectation estimates largely remained low. The median estimate of inflation expected by households in the next 12 months approached an all-time low. Inflation forecasts by professional analysts for 2020 continued to go down in January, while their mid-term expectations remain anchored at 4%. Implied inflation for OFZ-IN remained stable in February. The short-term price expectations of businesses were mixed: a January PMI survey points to slack price pressure, whereas the Bank of Russia's monitoring of enterprises registered growth of price expectations in February. In accordance with the Bank of Russia forecast, given the monetary policy stance, annual inflation will come in at 3.5–4.0% in 2020 and will remain close to 4% further on.

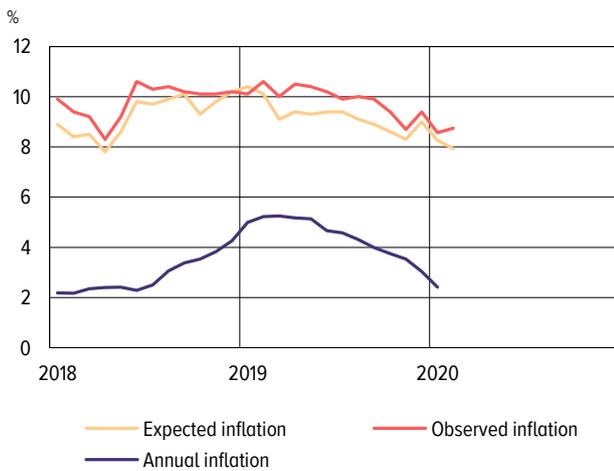
INFLATION EXPECTATION INDICATORS

Table 1

| | Expectation horizon | February 2018 | February 2019 | December 2019 | January 2020 | February 2020 |
|------------------------------------------------------|---------------------|---------------|---------------|---------------|--------------|---------------|
| Inflation, % | | 2.2 | 5.2 | 3.0 | 2.4 | ... |
| Inflation observed by households, % | | | | | | |
| Public Opinion Foundation (median) | past 12 months | 9.4 | 10.6 | 9.4 | 8.6 | 8.7 |
| Public Opinion Foundation (subgroup with savings) | past 12 months | 8.5 | 9.4 | 8.7 | 8.0 | 8.0 |
| Public Opinion Foundation (subgroup without savings) | past 12 months | 9.9 | 11.4 | 9.6 | 8.9 | 9.2 |
| Households' inflation expectations, % | | | | | | |
| Public Opinion Foundation (median) | next 12 months | 8.4 | 10.1 | 9.0 | 8.3 | 7.9 |
| Public Opinion Foundation (subgroup with savings) | next 12 months | 7.6 | 9.1 | 8.3 | 7.6 | 6.9 |
| Public Opinion Foundation (subgroup without savings) | next 12 months | 8.9 | 10.8 | 9.4 | 8.5 | 8.7 |
| Business price expectations | | | | | | |
| Companies, balance of responses | next 3 months | 6.2 | 12.8 | 8.5 | 8.3 | 13.2 |
| PMI Manufacturing input prices, diffusion index | current month | 56.9 | 64.0 | 54.0 | 53.5 | |
| PMI Manufacturing output prices, diffusion index | current month | 50.9 | 60.2 | 50.4 | 50.8 | |
| PMI Services input prices, diffusion index | current month | 55.2 | 63.2 | 55.6 | 55.4 | |
| PMI Services output prices, diffusion index | current month | 51.6 | 56.1 | 52.4 | 49.0 | |
| Analysts, % | | | | | | |
| Bloomberg | 2020 | | 4.0 | 3.6 | 3.6 | 3.6 |
| Interfax | 2020 | | | 3.6 | 3.5 | |
| Reuters | 2020 | | | 3.7 | 3.5 | |
| Bloomberg | 2021 | | | 4.0 | 4.0 | 3.9 |
| Interfax | 2021 | | | | 3.9 | |
| Reuters | 2021 | | | 4.0 | 3.9 | |
| Reuters | 2022 | | | | 4.0 | |
| Implied inflation for OFZ-IN, % | | | | | | |
| OFZ-IN 52001, August 2023 | next 4-year average | 3.9 | 4.7 | 2.8 | 2.8 | 2.8 |
| OFZ-IN 52002, February 2028 | next 9-year average | | 4.9 | 3.4 | 3.3 | 3.3 |
| OFZ-IN | 2023–2028 average | | 5.1 | 3.9 | 3.7 | 3.8 |

INFLATION OBSERVED AND EXPECTED BY
HOUSEHOLDS (MEDIAN ESTIMATE)

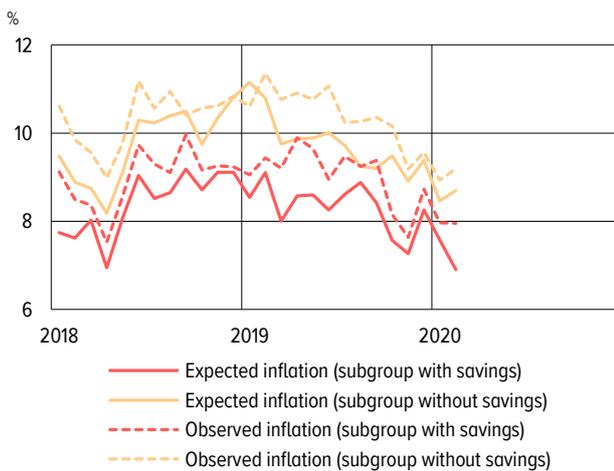
Chart 1



Sources: InFOM, Rosstat.

EXPECTED AND OBSERVED INFLATION BY
RESPONDENT SUBGROUP (MEDIAN ESTIMATE)

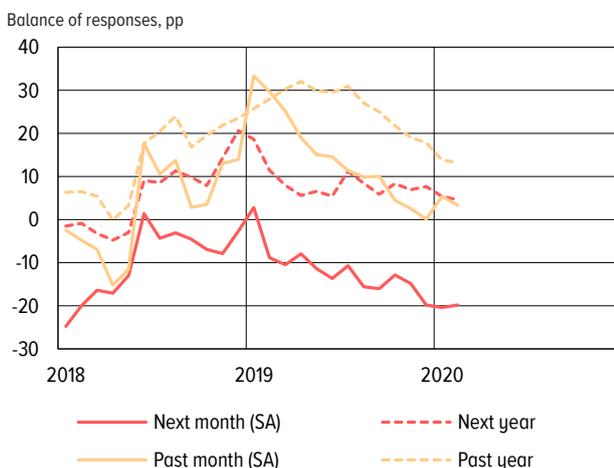
Chart 2



Sources: InFOM, Bank of Russia calculations.

INDICATORS OF PRICE MOVEMENTS

Chart 3



Sources: InFOM, Bank of Russia calculations.

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 rose slightly in February 2020 (to 8.7%, +0.1 pp, Table 1, Chart 1). That said, the median estimate of inflation expected in the next 12 months continued to decline (to 7.9%, -0.4 pp), nearly reaching the all-time low registered in April 2018 (Chart 1).

For respondents with savings, observed inflation remained virtually unchanged, whereas expected inflation hit a fresh all-time low (6.9%, Chart 2).¹ Meanwhile, respondents without savings revised their estimates of both observed and expected inflation. Though the indicators showed mixed dynamics in February, they point to a slide in inflation expectations that has been ongoing since early 2019.

The qualitative indicators of relative changes in current and future annual inflation continued to go down in February; however, the pace of this decline slowed down (Chart 3). The overall estimates of observed inflation have decreased considerably since mid-2019, which resonates with consumer price statistics² released by Rosstat. Expected inflation has changed less significantly since 2019 Q2.

Inflation expectations for 2020 (Chart 8 of the [inFOM Analytical Report on the Second Survey in 2020](#), further referred to as the Report) remained virtually unchanged compared with the previous month.

The estimates of both expected and current monthly price growth (seasonally adjusted, SA) also hardly changed in February compared to January (Chart 3). Respondents often mentioned only seasonal growth of utility rates; this pertains to the increase in the rates of certain utility services (e.g. overhaul fees) this January³ (Chart 3 of the Report).

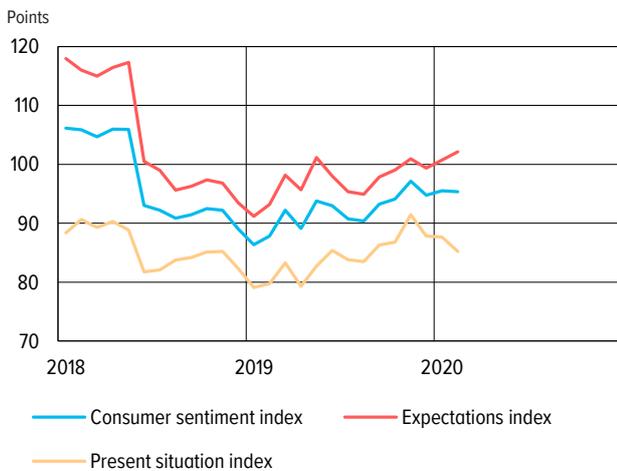
¹ Refer to *Monetary Policy Report No. 2 (26), June 2019* (box 'Survey microdata-based assessment of the relationship between inflation expectations and household saving behaviour').

² Refer to the information bulletin *Consumer Price Indices, No. 1 (199), January 2020*.

³ Refer to the information and analytical commentary *Consumer Price Dynamics, No. 1 (49), January 2020*.

CONSUMER SENTIMENT INDEX

Chart 4



Source: InFOM.

Households' consumer sentiment

In February, the consumer sentiment index remained unchanged (Chart 4). At the same time, the expectations index rose (+2 pp) while the present situation index decreased (-3 pp). Among the components of the consumer sentiment index, estimates of the country's development prospects improved the most (Chart 12 of the Report). However, respondents' attitude to large purchases deteriorated (Chart 19 of the Report).

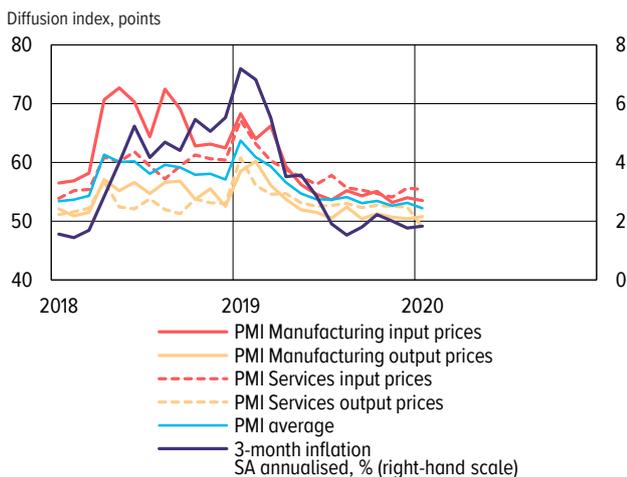
Business price expectations

According to IHS Markit PMI surveys,⁴ price dynamics remained moderate in January 2020. The diffusion indices of changes in the input prices of manufacturing and service companies and the output prices of manufacturing companies remained virtually unchanged. They held near the readings seen in the second half of 2019 (Chart 5). That said, the output price index of service companies fell in January below 50 points for the first time since 2009, suggesting that companies which reduced prices prevailed. As in the previous months, business representatives noted that weak demand and high competition were the major drags on price growth.

According to a survey of businesses carried out by the Bank of Russia⁵ in February 2020, businesses' short-term price expectations rose considerably (Chart 6). However, the survey failed to reveal the economic factors behind such rise in expectations: Demand estimates remained stable, whereas the estimates of the increase in costs and operational risks declined. It may have been caused by one-off factors pertaining to the elevated uncertainty of external conditions. The growth of the indicators might also be partially associated with the expansion of the questionnaire with new questions about

CHANGES IN COMPANIES' PRICES (MARKIT PMI)

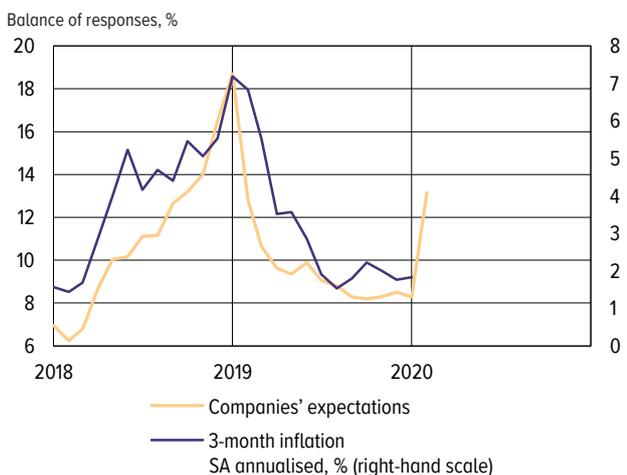
Chart 5



Sources: IHS Markit PMI, Rosstat.

COMPANIES' PRICE EXPECTATIONS (BANK OF RUSSIA)

Chart 6



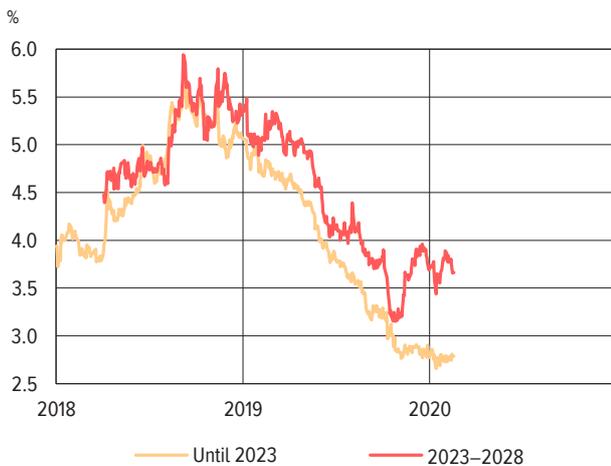
Sources: Bank of Russia, Rosstat.

⁴ For details, refer to <https://www.markiteconomics.com/public>.

⁵ Final indicator – balance of responses (the difference between the proportions of price rise and fall responses). For survey details, refer to http://www.cbr.ru/Content/Document/File/62829/analysis_18-12.pdf.

IMPLIED INFLATION FOR OFZ-IN

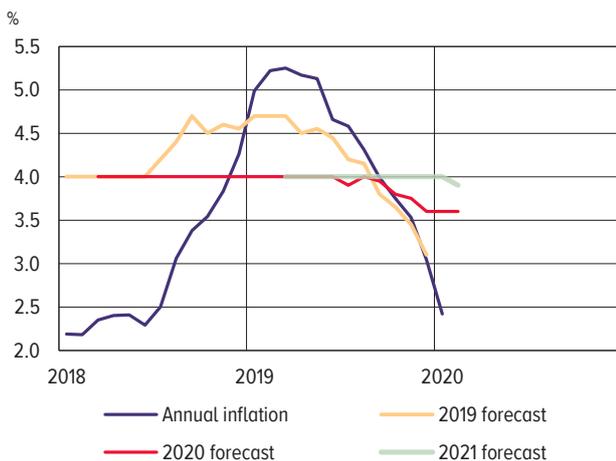
Chart 7



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

ANALYSTS' CONSENSUS FORECAST

Chart 8



Sources: Bloomberg, Rosstat.

expectations for price growth.⁶ The Bank of Russia will provide more effective assessments of the causes and stability of the increase in price expectations registered this month after it receives fresh results of company monitoring.

Additional questions about expected price growth showed that the median inflation in 2020 companies took into account in their business plans equals 3.9%, the mode of response distribution falls into the interval of 3–4%. The average value of expected output price growth in the next three months stands at 1.8% (in annual terms).

Implied inflation for OFZ-IN

According to the Bank of Russia's assessments,⁷ four-year annual implied inflation for OFZ-IN in February held steadily near the level registered in November 2019–January 2020 (2.8%, Chart 7), which is the lowest recorded value for OFZ-IN 52001 bonds. In February, average implied future inflation (from August 2023 to February 2028) also remained virtually unchanged, holding slightly below 4% (3.8%; average in January – 3.7%).

Analysts' inflation forecast

In January 2020, the range of analysts' 2020 inflation forecasts⁸ continued to shrink, reaching 3.5–3.6% (Table 1). Analysts' mid-term inflation expectations remain anchored to the Bank of Russia's targets (Chart 8).

Bank of Russia forecast

According to the Bank of Russia forecast, the pursued monetary policy will help return annual inflation back to target by the middle of the year after a Q1 reading of approximately 2%. At the end of 2020, inflation will come in at 3.5–4.0% and hold close to 4% in the future.

⁶ From February 2020, the questionnaire was expanded with questions about the causes and quantification of expected price growth. The wording of the question whose answers are used to build the balance of responses of business price expectations remained unchanged. However, new questions may influence respondents' answers to questions whose wording remains unchanged.

⁷ The assessments are based on the comparison of expected returns on OFZ-IN and nominal OFZ, taking into account the lag between the nominal value indexation and seasonally adjusted inflation.

⁸ Surveys by Interfax, Bloomberg and Thomson Reuters.

Data cut-off date – 25.02.2020.

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.

This commentary was prepared by the Monetary Policy Department.

Cover photo: M. Neyasova, Bank of Russia

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