



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

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Information and analytical commentary

25 November 2020

Inflation expectations and consumer sentiment (November 2020)

In November, inflation expectations were changing diversely across economic agents' groups. According to InFOM's survey, the median estimate of inflation observed and expected by households continued to increase. In contrast, companies' short-term price expectations remained almost the same, as is evident from the findings of the Bank of Russia's monitoring. Implied inflation for inflation-indexed federal government bonds (OFZ-IN) changed only slightly in November against October's average. There were also no major changes in analysts' inflation forecasts for the period until 2022 which stayed close to 4%. The Bank of Russia forecasts that, given the monetary policy pursued, annual inflation will equal 3.9–4.2% in 2020, 3.5–4.0% in 2021, and stay close to 4.0% further on.

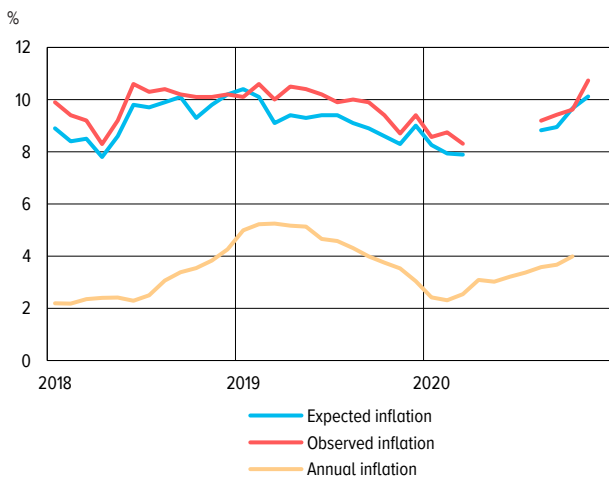
INFLATION EXPECTATION INDICATORS

Table 1

	Expectation horizon	2019 (average)	November 2019	March 2020	September 2020	October 2020	November 2020
Inflation, %		4.5	3.5	2.5	3.7	4.0	
Inflation observed by households, %							
Public Opinion Foundation (median)	past 12 months	9.9	8.7	8.3	9.4	9.6	10.7
Public Opinion Foundation (subgroup with savings)	past 12 months	9.1	7.6	7.2	8.5	9.1	10.0
Public Opinion Foundation (subgroup without savings)	past 12 months	10.4	9.2	8.6	9.9	9.8	11.2
Households' inflation expectations, %							
Public Opinion Foundation (median)	next 12 months	9.3	8.3	7.9	8.9	9.7	10.1
Public Opinion Foundation (subgroup with savings)	next 12 months	8.3	7.3	6.9	8.1	9.0	9.6
Public Opinion Foundation (subgroup without savings)	next 12 months	9.8	8.9	8.5	9.6	10.0	10.6
Companies' price expectations							
Companies, balance of responses	next 3 months	10.2	8.4	18.1	17.6	20.3	20.5
PMI Manufacturing input prices	current month	57.8	53.2	59.8	63.3	72.5	
PMI Manufacturing output prices	current month	53.1	50.7	55.4	53.0	57.1	
PMI Services input prices	current month	58	54.1	61.5	58.6	58.0	
PMI Services output prices	current month	54	52.5	54.2	53.5	53.1	
Analysts, %							
2020, Bloomberg	2020	3.9	3.8	3.5	4.0	4.0	4.0
2020, Interfax	2020		3.7	4.7	3.9	4.0	
2020, Reuters	2020		3.7	4.7	3.9	4.0	
2021, Bloomberg	2021		4.0	4.0	3.9	3.9	3.9
2021, Interfax	2021			3.8	3.6	3.5	
2021, Reuters	2021			3.9	3.5	3.6	
2022, Bloomberg	2022			3.9	3.8	3.8	3.8
2022, Reuters	2022			3.9	3.8	3.7	
Implied inflation for OFZ-IN, %							
OFZ-IN 52001, August 2023	next 3-year average	3.9	2.8	3.5	2.6	2.5	2.5
OFZ-IN 52002, February 2028	next 8-year average	4.1	3.2	4.1	3.5	3.3	3.2
OFZ-IN 52003, July 2030	next 10-year average				3.5	3.3	3.3
OFZ-IN	2023–2028 average	4.3	3.5	4.5	4.0	3.7	3.6
OFZ-IN	2028–2030 average				3.5	3.4	3.3

INFLATION OBSERVED AND EXPECTED
BY HOUSEHOLDS (MEDIAN ESTIMATE)

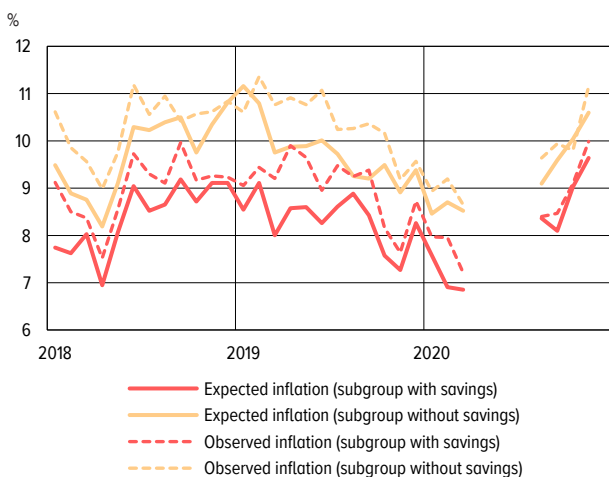
Chart 1



Sources: InFOM, Rosstat.

EXPECTED AND OBSERVED INFLATION
BY RESPONDENT SUBGROUP (MEDIAN ESTIMATE)

Chart 2



Sources: InFOM, Bank of Russia calculations.

Households' inflation expectations

According to the survey by InFOM,¹ inflation expected and observed by households continued to rise in November. Over the past 12 months, the median estimate of inflation observed by households equalled 10.7%, which is 1.1 pp higher than in the previous month² (Table 1, Chart 1). The median estimate of inflation expected in the next 12 months rose to 10.1%, which is 0.4 pp above its reading in October (Chart 1). These changes were rather similar across the subgroups of respondents, with respondents both with and without savings significantly increasing their estimates of observed and expected inflation (Chart 2).

Expected inflation was rising more slowly in November, compared to observed inflation. Accordingly, to a certain extent, households may perceive the observed acceleration of inflation as temporary.

As in October, the growth of expected and observed inflation in November was driven by the weaker ruble and a faster rise in prices for individual products frequently purchased by households. Households' inflation expectations remained close to the peak readings recorded in January–February 2019, when they surged due to the depreciation of the ruble and the VAT rate increase. Observed inflation in November exceeded the levels of early 2019.

In November, the estimates of the current inflation trend increased considerably³ (Chart 3), while the estimates of future inflation trends changed only slightly. Just as measurements, this suggests that respondents expect inflation to slow down compared to its current level.

Households' inflation expectations for the three years ahead slightly lowered in November, with the percentage of respondents expecting inflation to exceed 4.0% in three years decreasing from 52% to 50% (Chart 9

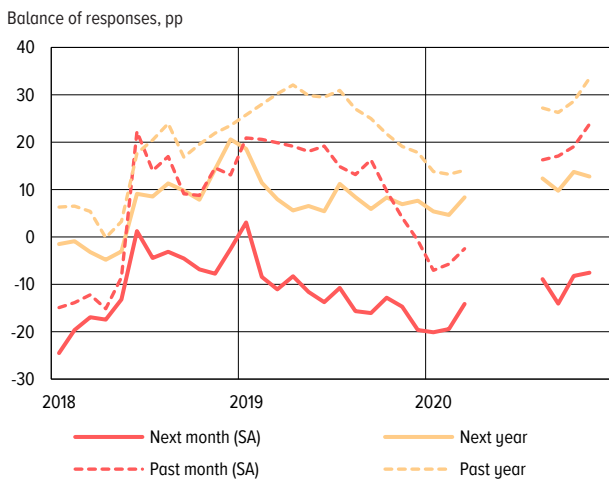
¹ The survey was commissioned by the Bank of Russia and carried out on 2–11 November 2020.

² The previous survey was conducted from 29 September to 9 October 2020.

³ Balance of responses to the question about a change in inflation trends in the past and next years (months), seasonally adjusted.

INDICATORS OF PRICE MOVEMENTS

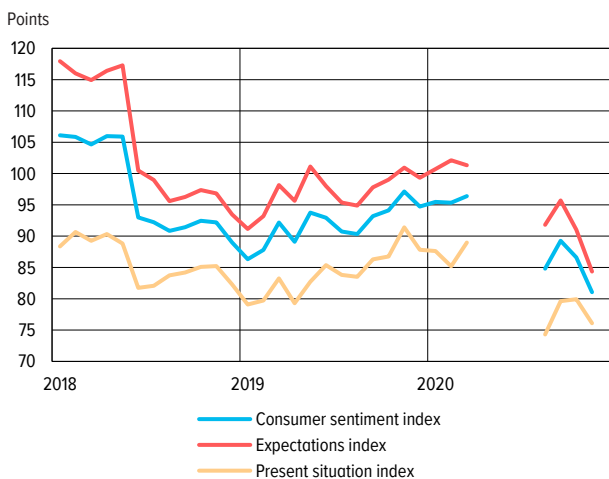
Chart 3



Sources: InFOM, Bank of Russia calculations.

CONSUMER SENTIMENT INDEX

Chart 4



Source: InFOM.

of the [InFOM Analytical Report, November 2020](#); hereinafter, the Report). Concurrently, the estimates of inflation by the end of 2020 rose significantly, specifically by 6 pp against October (Chart 8 of the Report). This ratio of the estimates of future inflation also suggests that households perceive the current acceleration of price growth as a short-term trend.

As regards individual products, a larger percentage (than in October) of respondents complained about a notable rise in prices for such common products as sugar, sunflower oil, and eggs (Chart 3 of the Report). The faster price growth in these product categories was also recorded in statistics.

The increase in inflation expectations entails the risk that households will more often use inflation protection strategies, that is, a temporary rise in demand for durable goods and a fast transfer of funds from deposits to financial market assets, including those denominated in foreign currency. If households turn to such strategies, this may amplify the effect of temporary proinflationary factors because of elevated demand for certain assets, goods, and services. Therefore, the monitoring of inflation expectations is an essential component of the analysis for making monetary policy decisions.

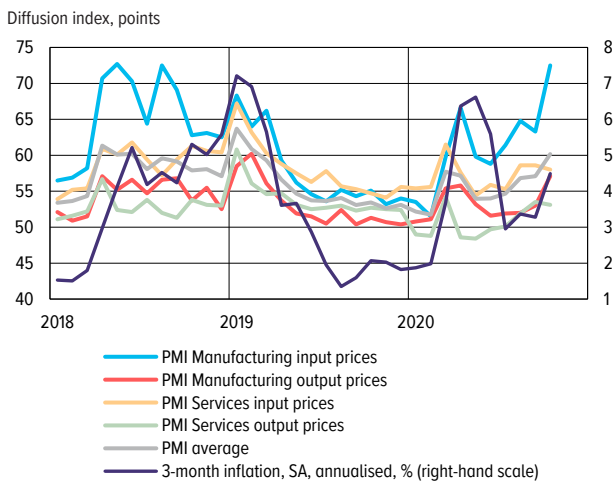
Households' consumer sentiment

The consumer sentiment index was decreasing faster in November, compared to October (Chart 4), dropping to its four-year low. The present situation index also trended down, and the expectations index declined even more considerably. As regards the individual components of the expectations index (Chart 12 of the Report), the most significant decrease was recorded for expectations of changes in the country's economic situation (-10 p) and in personal financial standing (-7 p).

As inflation expectations rose and the estimates of current and future personal financial standing worsened (Charts 14 and 15 of the Report), respondents tended to demonstrate a lower propensity to save in November. The percentage of those opting to save available cash decreased by 3 pp, while the percentage of

CHANGES IN COMPANIES' PRICES
(MARKIT PMI)

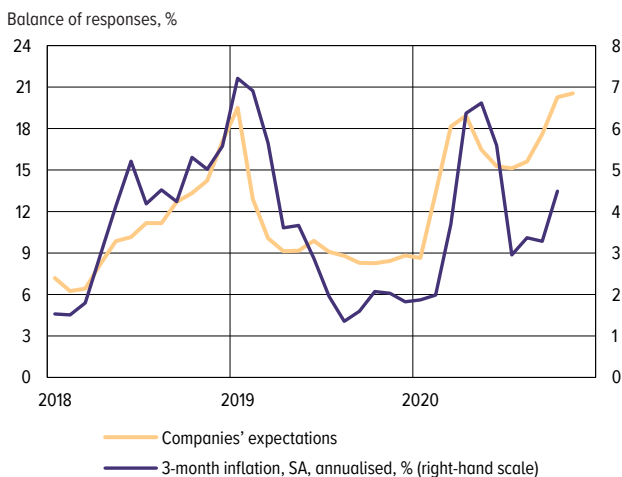
Chart 5



Sources: IHS Markit PMI, Rosstat.

COMPANIES' PRICE EXPECTATIONS
(BANK OF RUSSIA)

Chart 6



Sources: Bank of Russia, Rosstat.

those who would prefer to purchase expensive goods instead was up by 4 pp (Chart 21 of the Report).

Companies' price expectations

According to *IHS Markit PMI* surveys, the growth of companies' input prices sped up in October 2020, compared to September (Chart 5), predominantly driven by higher prices in manufacturing. This rise was associated with increasing costs amid pandemic-induced logistics problems and the weakening of the ruble. Manufacturing enterprises partially passed through the surge in input prices to output prices. The growth of input prices in the service sector slightly slowed down. However, their rise was still faster compared to output prices due to excess capacity and relatively weak demand.

According to the *monitoring of businesses* carried out by the Bank of Russia in November 2020, price expectations for the next three months remained almost unchanged. The estimates in the balance of responses remain above the readings of March–April 2020 (Chart 6). Price expectations were impacted by competing factors: higher costs, on the one hand, and subdued consumer demand, on the other.

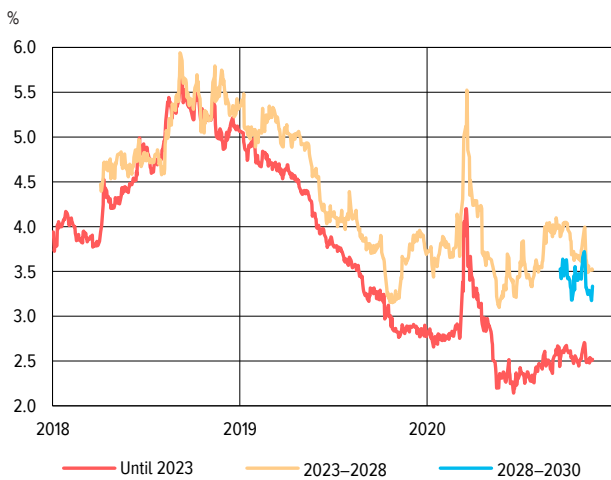
The average price growth rate expected in the next three months equalled 3.2% in annualised terms (vs 2.8% in October).

The rise in respondents' price expectations was mostly caused by higher input prices. Most often, companies mentioned weak demand for their products as the main reason for lower prices.

Price expectations changed diversely across industries. They declined in the service sector most affected by the pandemic-related restrictions and the slower revival of consumer demand. Conversely, price expectations increased in construction: as the government extended its preferential mortgage lending programme until mid-2021, this improved companies' expectations regarding future demand. Trade companies' price expectations remained almost unchanged, with the average price growth rate expected by retailers in the next three months equalling 6.6% in annualised terms (vs 6.4% in October).

IMPLIED INFLATION FOR OFZ-IN

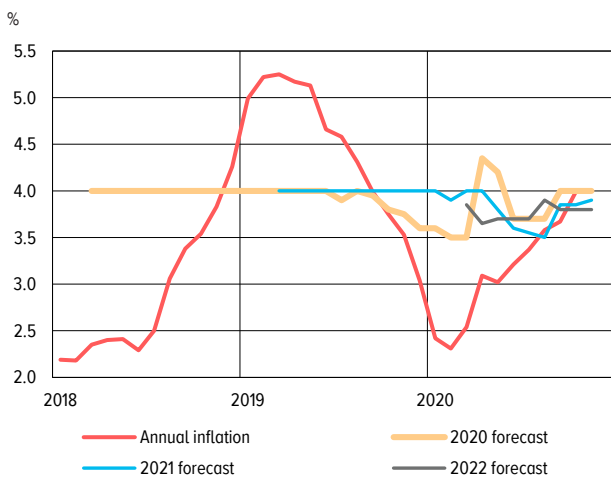
Chart 7



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

BLOOMBERG ANALYSTS' CONSENSUS FORECAST

Chart 8



Sources: Bloomberg, Rosstat.

Implied inflation for OFZ-IN

Implied inflation for inflation-indexed federal government bonds (OFZ-IN) changed only slightly in November against October's average (Table 1). According to the Bank of Russia's estimates,⁴ implied inflation will stay close to 2.5% in the next three years (Chart 7). Average implied future inflation is also estimated below 4.0%, specifically at 3.6% in 2023–2028 and 3.3% in 2028–2030.

Analysts' inflation forecast

In October–November 2020, analysts' inflation forecasts⁵ for 2020–2022 remained almost unchanged (Table 1, Chart 8). According to the consensus forecasts of analysts surveyed by Bloomberg, Reuters, and Interfax, inflation will equal 4.0% by the end of 2020. Forecasts for 2021 ranged from 3.5% to 3.9% and for 2022 – from 3.7% to 3.8%.

Bank of Russia's forecast

Temporary proinflationary factors influencing price trends will persist in the short run, while demand-side disinflationary factors will prevail in the medium term. The Bank of Russia forecasts that in these conditions inflation will be in the range of 3.9–4.2% by the end of 2020. In 2021, inflation will equal 3.5–4.0% and stay close to 4.0% further on.

⁴ The estimates are based on the comparison of expected yields on OFZ-IN and nominal OFZ, with account of the lag in the nominal value indexation and seasonally adjusted inflation.

⁵ Surveys by Interfax, Bloomberg, and Thomson Reuters.

Data cut-off date – 19.11.2020.

A soft copy of the [information and analytical commentary](#) is available on the Bank of Russia website.

Please send your comments and suggestions to svc_analysis@cbr.ru.

This commentary was prepared by the Monetary Policy Department.

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