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INFLATION EXPECTATIONS
AND CONSUMER
SENTIMENT

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INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

October saw households' inflation expectations decline to 9.3% from 10.1% in September following the exchange rate and petrol price stabilisation. Expectations remain elevated since May following the surge in petrol prices. However, the October decline in inflation expectations may turn out to be unstable: they are still highly sensitive to price growth on certain goods and to one-off events.

In October 2018, households' inflation expectations for the 12 months¹ ahead decreased by 0.8 pp to 9.3% (Chart 12²). Although the decrease is rather significant, the reading has not so far reached the level of early 2018. Expectations accelerated in May following the surge in petrol prices.

Inflation expectations moved downwards since households have less concern as to the increased petrol prices. The share of respondents, who have pointed to the quick growth in petrol prices last month, declined again to 31% from 36% in September. However, despite the fact that petrol prices remain stable for four months in a row, petrol still ranks second in the list of commodities the prices of which are soaring, according to people.

The ruble stabilisation is another reason for the decline in inflation expectations. The weaker ruble tended to be less mentioned among the reasons for inflation. The share of respondents expecting the ruble depreciation in the year to come decreased from 50% to 41% in October.

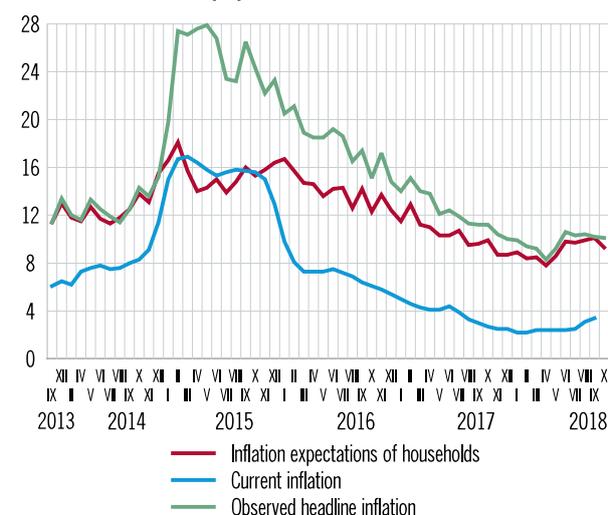
The respondents' estimate of the observed inflation remained virtually unchanged at 10.1% as compared with 10.2% in September. The share of those who believe that the prices increased more than 1.5-fold over the year dropped to a historical low of 0.8%.

The October decline in inflation expectations may turn out to be unstable.

As is seen from the reaction to petrol prices, **expectations are still highly sensitive to price growth on certain goods and to one-off events.**

Speaking about future inflation, **respondents are inclined to mark out special categories, which form the basis for their estimates of future price growth.** Thus, petrol prices are a number one factor in respondents' estimates of future inflation. As many as 43% of the respondents believe that if petrol prices increase inflation will also accelerate. The weaker ruble and food prices as a whole rank second and third (33% and 30% respectively)³.

October decline in inflation expectations may turn out to be unstable (%)



Sources: Public Opinion Foundation, inFOM, Bank of Russia calculations.

¹ inFOM median estimate.

² Here and elsewhere, references are made to figures in the Summary Report on Survey 10 (October 2018).

³ The question about the benchmark categories when estimating future inflation was asked for the first time in October.

Such a great attention to prices for certain goods whose volatility exceeds the consumer basket average makes **inflation expectations unstable and may cause their growth recovery in the next few months.**

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 Bank of Russia's estimates of inflation expectations based on the inFOM survey and the current inflation⁴ rate remained intact in October at 3.8%.

Respondents' consumer sentiment also remained virtually unchanged. The households' estimate of the current and future income dynamics was stable in the past two months. Respondents largely expect their financial standing to remain unchanged.

Respondents more frequently mentioned that the current period was good for large purchases and less frequently – for saving. However, their attitude towards large purchases remains strongly more negative than in 2014. The majority of respondents still prefer to save money (53%) rather than spend it (32%) (Chart 28).

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.

Cut-off date – 18 October 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.