

A record low in Russian inflation expectations

A further drop in household inflation expectations in November should make the Russian central bank's rate-cutting job easier



Source: shutterstock

8.7% Household inflation expectations
One-year projection

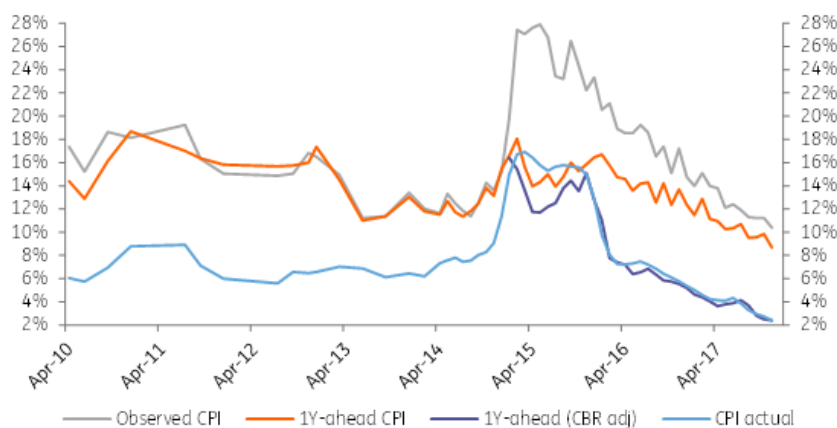
Inflation expectations drop further in November

After a resilient performance in the past three months, 1-year ahead inflation expectations resumed their decline and hit a new all-time low of below 9% vs 9.9% in October. Observed inflation also shifted down from 11.2% to 10.4%, which is also the lowest print for the series history. The The Central Bank of Russia's own estimate, adjusted for households' "upward bias", ticked down from 2.5% to 2.4% and moved further from the 4% target.

Qualitative parameters of inflation expectations haven't changed much, while respondents

expressed their expectations of some traditional price increases ahead of the new year. Overall, the data has once again revealed an adaptive nature of inflation expectations, mostly driven by price changes for goods purchased most regularly. Hence, the CBR reiterated its view that inflation expectations and their excessive sensitivity to selected goods and services create inflation risks.

CPI growth vs inflation expectations



Source: CEIC, CBR

Consumer confidence slightly improves

Consumer confidence in November rose from 97.4 to 98.5 and recovered some earlier losses after a drop from 100.6 in September. The improvement mostly came from better expectations (up from 100.6 to 108.1) on the back of a marginally stronger current assessment (84 vs 83.2).

Longer-term, households turned more optimistic about the next five years although they're more reserved about 2018. The biggest improvement comes from their expectations of personal wellbeing which rose to the highest level since May 2014. That supports a marginal rise in attitudes to big-item purchases (from 85.8 to 86.5). At the same time, people saw better conditions for savings in November.

It could be easier for the CBR to continue policy easing

The resumed drop in inflation expectations, a modest improvement in consumer confidence with no major swings in sentiments to big-item purchases and savings, and the October signs of no visible acceleration of economic activity should all allow the CBR to continue policy easing at the upcoming meeting in mid-December. Inflation has further dipped to 2.4% vs the 4% target, and with the relatively stable RUB inflation outlook looks benign even despite some likely acceleration to 3.5-3.7% by the end of 2018. So, the key question is by how much the CBR may cut the key rate which now stands at 8.25%.