



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No. 5 (53) • May 2021

Information and analytical commentary

28 May 2021

Inflation expectations and consumer sentiment (May 2021)

Overall, inflation expectations remained elevated in May. Their changes varied by group of economic agents. According to an inFOM survey, households' inflation expectations declined but remained elevated. Based on the Bank of Russia's monitoring, the estimates of companies' short-term price expectations edged up further. Two-year ahead implied inflation for inflation-indexed federal government bonds (OFZ-IN) did not change in May (3.8%). Analysts' inflation forecast for 2021 increased, though remaining below the Bank of Russia's forecast, and were unchanged close to 4% for 2022 and 2023. Persistently elevated inflation expectations create risks of secondary effects caused by a pickup in price growth observed in recent months. According to the Bank of Russia's forecast, inflation will be 4.7–5.2% in 2021. Given the monetary policy stance, annual inflation will return to the Bank of Russia's target in the middle of 2022 and will remain close to 4% further on.

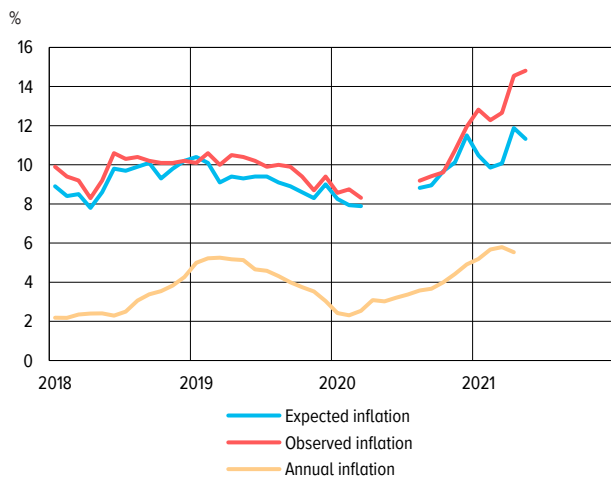
INFLATION EXPECTATION INDICATORS

Table 1

	Expectation horizon	2018 average	2019 average	2020 average	March 2020	March 2021	April 2021	May 2021
Inflation, %		2.9	4.5	3.4	2.5	5.8	5.5	
Inflation observed by households, %								
Public Opinion Foundation (median)	past 12 months	9.8	9.9	9.6	8.3	12.7	14.5	14.8
Public Opinion Foundation (subgroup with savings)	past 12 months	9.0	9.1	8.7	7.2	11.5	11.8	12.4
Public Opinion Foundation (subgroup without savings)	past 12 months	10.3	10.4	9.9	8.6	12.4	16.4	16.0
Households' inflation expectations, %								
Public Opinion Foundation (median)	next 12 months	9.3	9.3	9.1	7.9	10.1	11.9	11.3
Public Opinion Foundation (subgroup with savings)	next 12 months	8.4	8.3	8.4	6.9	9.1	10.5	10.2
Public Opinion Foundation (subgroup without savings)	next 12 months	9.7	9.8	9.6	8.5	10.6	12.5	11.8
Companies' price expectations								
Companies, balance of responses	next 3 months	10.6	10.2	16.5	18.1	21.0	24.9	26.7
PMI Manufacturing input prices	current month	65.0	57.8	64.0	59.8	72.6	76.2	
PMI Manufacturing output prices	current month	54.4	53.1	54.2	55.4	65.3	67.1	
PMI Services input prices	current month	58.8	58.0	58.0	61.5	65.0	62.2	
PMI Services output prices	current month	52.8	54.0	51.3	54.2	56.3	56.2	
Implied inflation for OFZ-IN (monthly average),%								
OFZ-IN 52001, August 2023	next 2-year average	4.7	3.9	2.7	3.5	3.8	3.8	3.8
OFZ-IN 52002, February 2028	next 7-year average		4.1	3.3	4.1	4.0	4.0	4.1
OFZ-IN 52003, July 2030	next 9-year average			3.3		4.2	4.2	4.2
OFZ-IN	2023–2028 average		4.3	3.8	4.5	4.1	4.2	4.3
OFZ-IN	2028–2030 average			3.5		4.6	4.7	4.6
Analysts, %								
2021, Bloomberg	2021				4.0	4.3	4.5	4.5
2021, Interfax	2021				3.8	4.2	4.6	
2021, Reuters	2021				3.9	4.3	4.5	
2022, Bloomberg	2022				3.9	4.4	4.3	4.3
2022, Interfax	2022					4.0	4.0	
2022, Reuters	2022				3.9	4.0	4.0	
2023, Bloomberg	2023					4.0	4.0	4.0
2023, Interfax	2023					4.0	4.0	

INFLATION OBSERVED AND EXPECTED
BY HOUSEHOLDS (MEDIAN ESTIMATE)

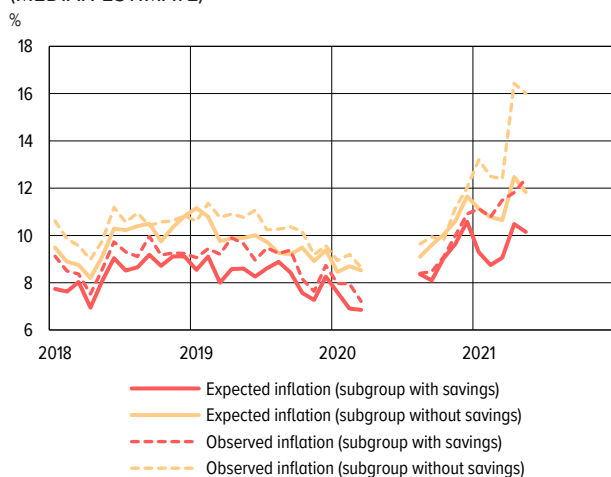
Chart 1



Sources: InFOM, Rosstat.

EXPECTED AND OBSERVED INFLATION
BY RESPONDENT SUBGROUP
(MEDIAN ESTIMATE)

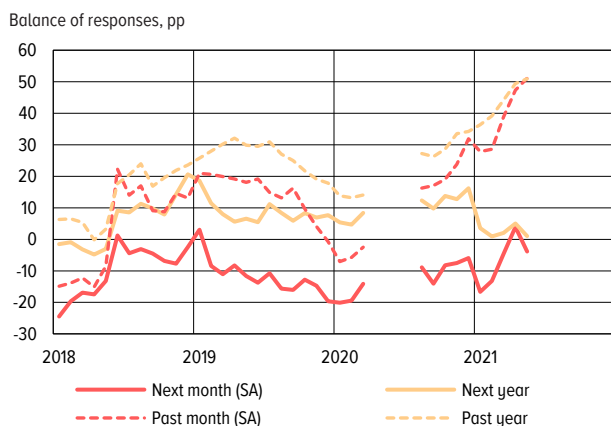
Chart 2



Sources: InFOM, Bank of Russia calculations.

INDICATORS OF PRICE MOVEMENTS*

Chart 3



* Balance of responses to the questions 'How did prices change/will change last year/next year?' and 'How did prices change/will change last month/next month?', seasonally adjusted.

Sources: InFOM, Bank of Russia calculations.

Households' inflation expectations

According to the survey by inFOM commissioned by the Bank of Russia, households' inflation expectations declined in May after a rise in April, though remaining at high levels observed since late 2020 (Table 1, Chart 1). One-year ahead median estimate of expected inflation was 11.3% (-0.6 pp on April). Inflation observed by households edged up slightly more in May. Its median estimate was 14.8% (+0.3 pp on April). Inflation expectations of respondents both with and without savings declined in May (Chart 2). However, only respondents without savings demonstrated a reduction in the estimates of observed inflation, whereas these estimates of respondents with savings continued to grow.

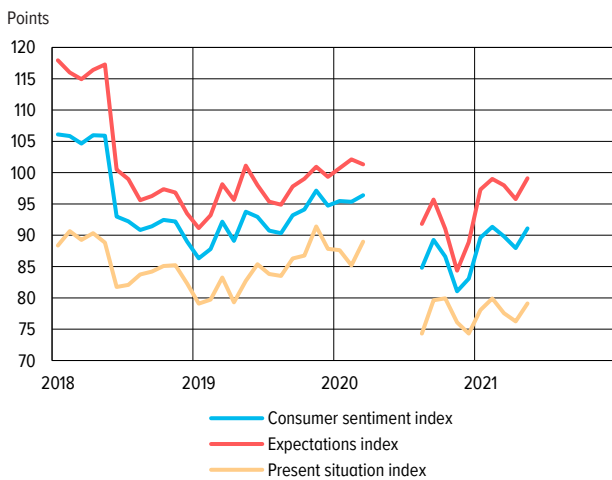
Such divergence in the estimates of observed inflation given by different groups of respondents may point to a higher sensitivity of low-income groups of population (predominantly those without savings) to changes in prices for individual socially important goods. Their estimates of current inflation were more influenced by a certain weakening in the price-side pressure in this market segment: in May, compared to the previous month, respondents by far less often mentioned the growth of prices for oil, sugar, milk and dairy products (Chart 3 of [the inFOM Analytical Report, May 2021](#); hereinafter, the Report). However, growing prices for eggs, meat and poultry continue to be an issue of serious concern for respondents, who mentioned these products more often in May than in April among products with the highest price growth.

The balance of responses to the questions about the quantitative change in one-month and one-year ahead inflation¹ edged downwards in May (Chart 3) for the first time since January and February respectively. The increase in the estimates of current inflation continued in May, though slowing down markedly compared to the previous month.

¹ That is, according to the majority of respondents, prices have grown/will grow very much or have been growing/will be growing faster than before/now.

CONSUMER SENTIMENT INDEX

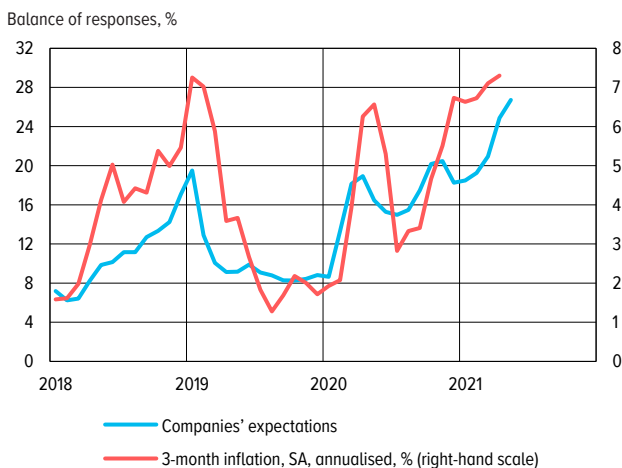
Chart 4



Source: InFOM.

COMPANIES' PRICE EXPECTATIONS
(BANK OF RUSSIA)

Chart 5



Sources: Bank of Russia, Rosstat.

Households' inflation expectations until the end of 2021 and for three years ahead increased in May (Charts 8 and 9 of the Report). The proportion of respondents, expecting that inflation will significantly overshoot 4% at the three-year horizon, reached 53% (+3 pp vs April), the highest value since July 2019.

Households' consumer sentiment

In May, the consumer sentiment index increased (+3.1 p vs April) after the decline in March–April and returned to the February level (Chart 4). Both the expectations index (+3.3 p) and the present situation index (+2.9 p) posted growth (Charts 11 and 12 of the Report).

In May, respondents' propensity for saving continued to decline. The proportion of those who think that it is currently better to spend extra money for expensive² purchases increased to 31% (+3 pp vs April), while the proportion of those who prefer saving declined to 50% (-1 pp vs April) (Chart 22 of the Report), the lowest value since July 2015.

Companies' price expectations

According to the *monitoring* of businesses carried out by the Bank of Russia in May 2021, three-month ahead price expectations of companies continued to grow (Chart 5), remaining above the local highs of 2019–2020. The average price growth rate expected in the next three months was 3.9% in annualised terms (vs 2.3% in May 2020).

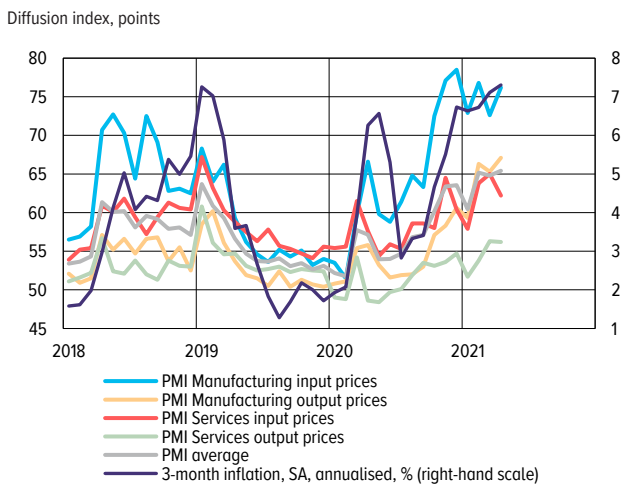
A pickup in the cost growth was the main driver of growing price expectations. The proportion of companies mentioning this factor became the highest in 12 years. The influence of demand on the growth of price expectations decreased slightly compared with the previous month. Companies' assessments of three-month ahead demand movements became less positive.

The highest growth of price expectations was observed in trade and construction. In

² According to respondents, expensive goods most often include real estate, a car or motorcycle, household appliances, and furniture (Table 3 of the *inFOM Analytical Report, April 2021*).

CHANGES IN COMPANIES' PRICES
(MARKIT PMI)

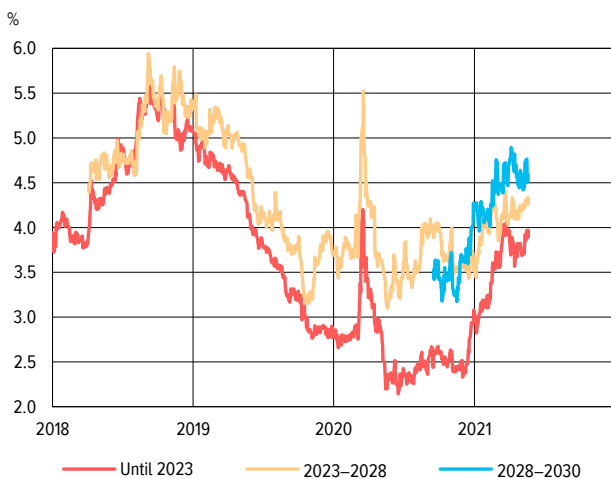
Chart 6



Sources: IHS Markit PMI, Rosstat.

IMPLIED INFLATION FOR OFZ-IN

Chart 7



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

construction, nine out of ten respondents named higher prices for construction and auxiliary materials as the main reason for expected price increases. In trade, price expectations edged up on the back of the increased growth in costs. Trade companies retained their assessments of positive trends in demand. Price expectations were the highest in the motor vehicle trade due to expectations of a further increase in demand given elevated costs and insufficient commodity stocks. The average three-month ahead price growth rate expected by retailers was 5.6% (in annualised terms; vs 5.5% in May 2020).

According to *IHS Markit PMI surveys*, in April 2021, price indices rose in manufacturing and slightly declined in services, remaining close to their highs of recent years (Chart 6). In the manufacturing industry, an increase in input prices was named the driver of price growth due to the ongoing logistics problems in international trade. The services sector also maintained a high growth rate of costs.

Implied inflation for OFZ-IN

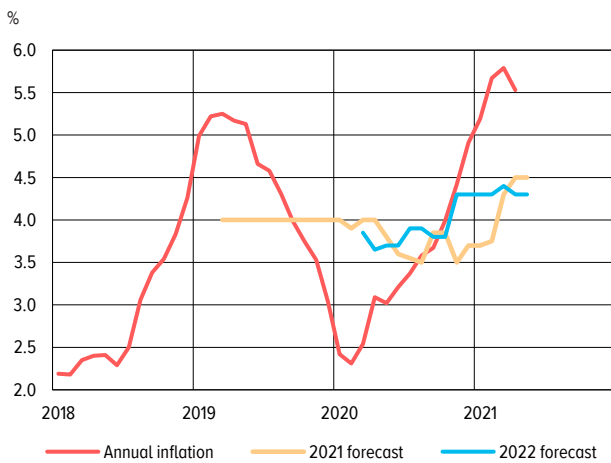
Implied inflation for OFZ-IN was virtually unchanged in May 2021 (Chart 7). According to the Bank of Russia,³ after a slight decrease in early May, in the middle of the month, two-year ahead implied inflation somewhat increased (to 4.0% vs 3.8% in late April). On average, two-year ahead implied inflation was 3.8% in the first twenty days of May, which corresponds to the averages of March–April (Table 1). In May, implied inflation was 4.3% for 2023–2028 (+0.1 pp vs April) and 4.6% for 2028–2030 (-0.1 pp vs April).

Analysts' inflation forecast

In April–May 2021, analysts'⁴ inflation forecast for 2021 increased to 4.5–4.6% (Table 1, Chart 8). The forecast for 2022 remained unchanged ranging from 4.0% to 4.3%, and the forecast for 2023 remained at 4.0%.

³ The estimates are based on the comparison of expected yields on OFZ-IN and nominal OFZ, with due account of the lag between the nominal value indexation and seasonally adjusted inflation. [Calculation methodology](#).

⁴ Surveys by Interfax, Bloomberg, and Thomson Reuters.

BLOOMBERG ANALYSTS' CONSENSUS FORECAST *Chart 8*

Sources: Bloomberg, Rosstat.

The Bank of Russia's forecast

The effect of proinflationary factors linked to the expansion of demand and the increase of costs persists, whereas elevated inflation expectations create spillover risks. According to the Bank of Russia's forecast, inflation will stand at 4.7–5.2% in 2021. Taking into account the monetary policy pursued, annual inflation will return to the Bank of Russia's target close to 4% in the middle of 2022 and remain around this level further on.

Data cut-off date – 24.05.2021.

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.

Cover photo: I. Shubin, Bank of Russia

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