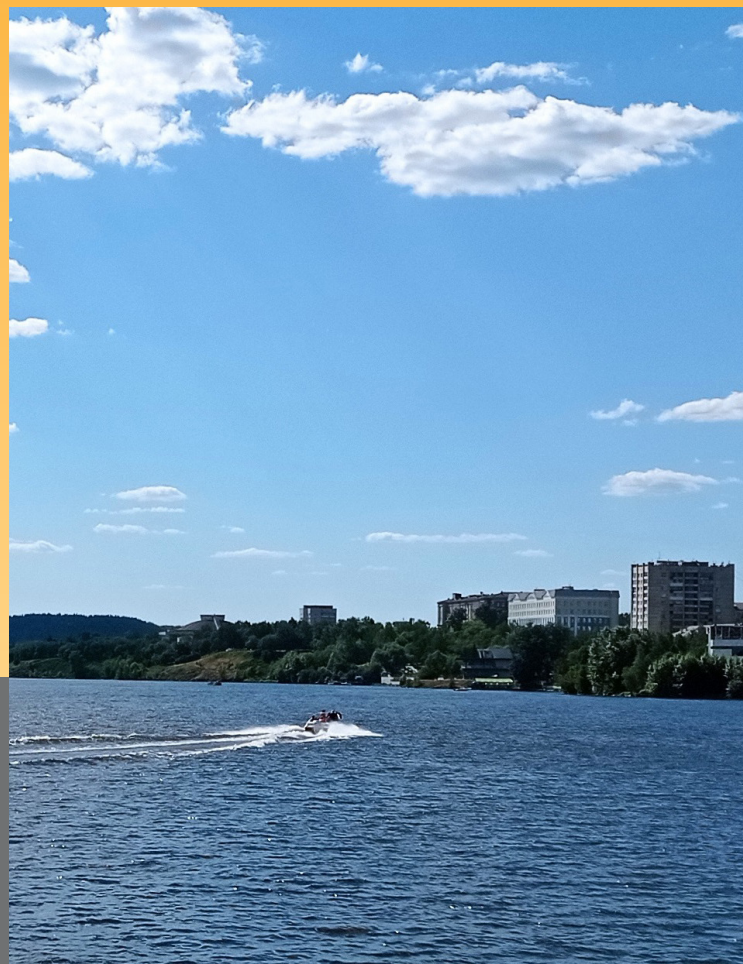




Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No. 10 (58) • October 2021

Information and analytical commentary

25 October 2021

INFLATION EXPECTATIONS AND CONSUMER SENTIMENT (OCTOBER 2021)

In October, inflation expectations went up. According to inFOM survey, households' inflation expectations for the next 12 months returned to their five-year highs. Companies' short-term price expectations also rose but remained below the local high of May–June 2021. Two-year implied inflation for inflation-indexed federal government bonds (OFZ-IN) was also up in October but stayed close to the Bank of Russia's target. Analysts' inflation outlook for 2021 rose to 6.4–7.0%, the forecasts for 2022 and 2023 remained near 4%. According to the Bank of Russia's forecast, annual inflation is expected to stand at 7.4–7.9% at the end of 2021. Given the monetary policy stance, annual inflation will edge down to 4.0–4.5% in 2022 and will remain close to 4% further on.

INFLATION EXPECTATION INDICATORS

Table 1

	Expectation horizon	2018 average	2019 average	2020 average	March 2020	August 2021	September 2021	October 2021
Inflation, %		2.9	4.5	3.4	2.5	6.7	7.4	
Inflation observed by households, %								
Public Opinion Foundation (median)	past 12 months	9.8	9.9	9.6	8.3	16.5	15.6	16.3
Public Opinion Foundation (subgroup with savings)	past 12 months	9.0	9.1	8.7	7.2	13.5	12.9	13.6
Public Opinion Foundation (subgroup without savings)	past 12 months	10.3	10.4	9.9	8.6	18.3	17.2	18.0
Households' inflation expectations, %								
Public Opinion Foundation (median)	next 12 months	9.3	9.3	9.1	7.9	12.5	12.3	13.6
Public Opinion Foundation (subgroup with savings)	next 12 months	8.4	8.3	8.4	6.9	10.6	10.5	11.4
Public Opinion Foundation (subgroup without savings)	next 12 months	9.7	9.8	9.6	8.5	14.0	13.4	15.6
Companies' price expectations								
Companies, balance of responses	next 3 months	10.6	10.2	16.5	18.3	25.9	25.1	26.3
PMI Manufacturing input prices	current month	65.0	57.8	64.0	59.8	65.8	65.0	
PMI Manufacturing output prices	current month	54.4	53.1	54.2	55.4	62.3	57.2	
PMI Services input prices	current month	58.8	58.0	58.0	61.5	61.2	63.1	
PMI Services output prices	current month	52.8	54.0	51.3	54.2	55.9	56.4	
Implied inflation for OFZ-IN (monthly average), %								
OFZ-IN 52001, August 2023	next 2-year average	4.7	3.9	2.7	3.5	4.1	4.2	4.3
OFZ-IN 52002, February 2028	next 7-year average		4.1	3.3	4.1	4.0	4.1	4.3
OFZ-IN 52003, July 2030	next 9-year average			3.3		4.1	4.2	4.3
OFZ-IN	2023–2028 average		4.3	3.8	4.5	4.0	4.0	4.3
OFZ-IN	2028–2030 average			3.5		4.4	4.3	4.3
Analysts, %								
Bloomberg	2021				4.0	6.0	5.8	6.4
Interfax	2021				3.8	5.9	6.6	
Reuters	2021				3.9	6.0	6.5	
Survey by the Bank of Russia	2021						5.9	7.0
Bloomberg	2022				3.9	4.1	4.1	3.9
Interfax	2022					4.0	4.3	
Reuters	2022				3.9	4.1	4.1	
Survey by the Bank of Russia	2022						4.0	4.2
Bloomberg	2023					4.0	4.0	4.0
Reuters	2023					4.0	4.0	
Survey by the Bank of Russia	2023						4.0	4.0

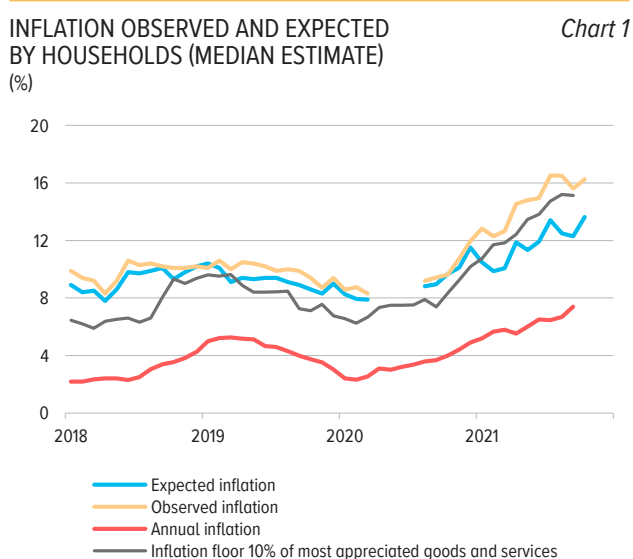
Households' inflation expectations

According to inFOM survey, commissioned by the Bank of Russia, in October, households' inflation expectations increased (Table 1, Chart 1), exceeded the local peak of July 2021 and hit their highs since November 2016. The median estimate of inflation expected in the next 12 months amounted to 13.6% (+1.3 pp vs September). In October, inflation observed by households also grew but remained slightly below the levels of July–August 2021. Its median estimate was 16.3% (+0.7 pp). The estimates of expected inflation went up higher among respondents without savings (Chart 2).

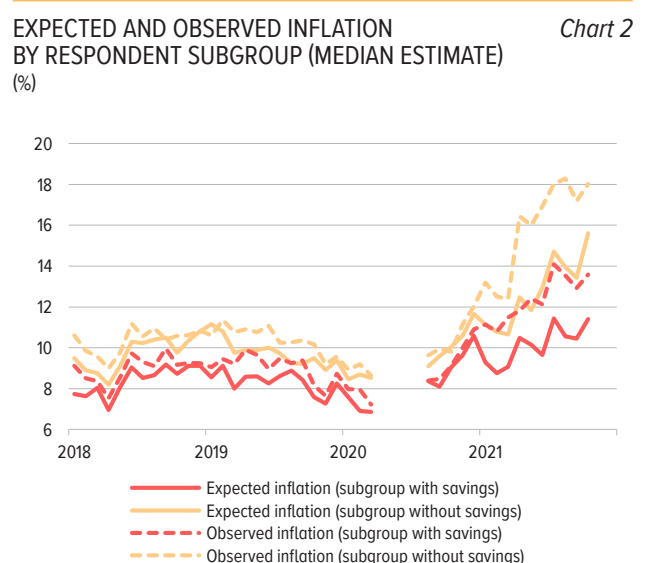
Households tend to interpret price movements based on goods and services demonstrating the highest rises in their prices. However, goods and services whose prices edge up moderately or decline often stay outside personal inflation estimates. As a result, the estimates of expected and observed inflation are sustainably above the average price growth rates across the entire consumer basket. In 2021, the estimates of observed inflation were rising faster than the consumer price index following the most appreciated goods and services (Chart 1). For instance, in October, respondents shared their concern about mounting prices for eggs, cereal, pasta, meat, fruit and vegetables, milk and dairy products more often. (Chart 3 of the [InFOM Analytical Report October 2021](#); hereinafter, the Report). Rosstat recorded an accelerating growth in the prices for these goods in the past September¹.

The share of respondents who try to estimate future price development on a regular basis increased amid spurring inflation. In October, this share reached 31% (Chart 30 of the Report). This is the highest value since October 2018 when this question was included in the survey. The previous high amounted to 30% and was recorded in May 2021. This indicator used to be 20–22% in late 2019 – early 2020 before the pandemic. Furthermore, October saw an increase in the portion of respondents who tend to shape their inflation expectations based on the current food price trends. It reached 46% of all respondents (including those who do not normally speculate on future inflation). This is also the highest percentage since October 2018. Besides, respondents' inflation expectations are often based on the current trends in petroleum prices (43% of respondents), ruble exchange rate fluctuations (40%), and harvest situation (35%).

In October, the estimates of the balance of responses to the questions about changes in present and future inflation trends edged up² (Chart 3) and so did households' inflation expectations for the remainder of the year and three years ahead (Charts 8 and 9 of the Report).



Sources: InFOM, Bank of Russia calculations.



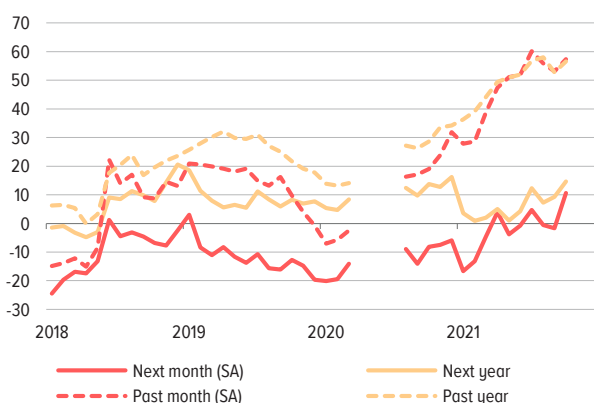
Sources: InFOM, Bank of Russia calculations.

¹ See more details on inflation in September in the information and analytical commentary [Consumer Price Dynamics, No. 9 \(69\), September 2021](#).

² That is, a bigger percentage of respondents answered that prices rose/will rise very much or were/will be rising faster than before/now.

INDICATORS OF PRICE MOVEMENTS*
(BALANCE OF RESPONSES, PP)

Chart 3

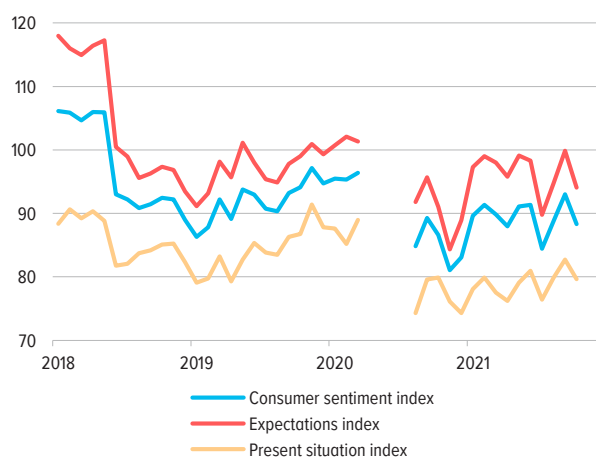


* Balance of responses to the questions 'How did prices change/will prices change last/next year?' and 'How did prices change/will prices change last/next month?', seasonally adjusted.

Sources: InFOM, Bank of Russia calculations.

CONSUMER SENTIMENT INDEX
(POINTS)

Chart 4



Source: InFOM.

Households' consumer sentiment

The consumer sentiment index fell in October (-4.7 p vs September) down to the August level (Chart 4). The expectations index decreased most of all (-5.8 p). The present situation index was down by 3 p.

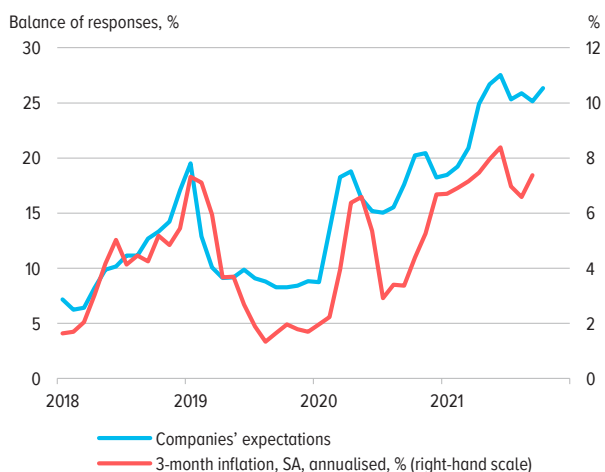
October again witnessed a decline in the number of respondents opting for saving on the back of resuming growth in observed and expected inflation. The portion of those who think that now it is better to put money aside, decreased to 51% (-2 pp vs September) (Chart 21 of the Report). As for the forms of savings, respondents did not change their preferences (Chart 22 of the Report).

Companies' price expectations

According to the [monitoring](#) carried out by the Bank of Russia in October 2021, three-month ahead price expectations of companies were slightly up (Chart 5) but stayed below the peaks of May – June 2021. The average three-month ahead price growth rate was expected to be 4.0% in annualised terms (vs 2.8% in October 2020). Price expectations were pushed upward by higher costs, i.e. input prices and fuel expenses.

COMPANIES' PRICE EXPECTATIONS
(BANK OF RUSSIA)

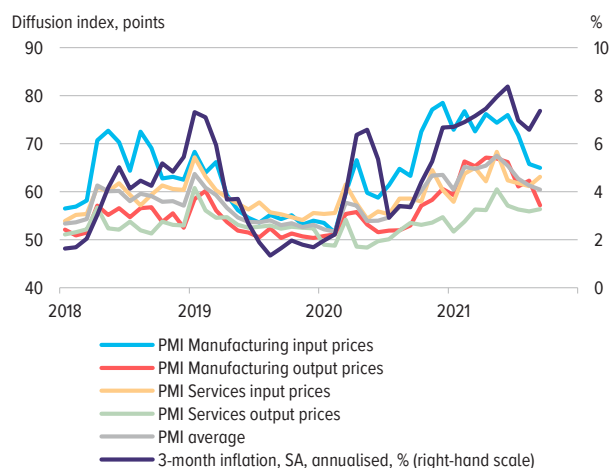
Chart 5



Sources: Bank of Russia, Rosstat.

CHANGES IN COMPANIES' PRICES (MARKIT PMI)

Chart 6



Sources: IHS Markit PMI, Rosstat.

The highest rise was recorded in the price expectations of wholesale businesses who complained about appreciated input prices more often. Retailers' price expectations dropped in October. The industry expected the average price growth rate to be 7.1% in annualised terms. The key reasons behind the drop in price expectations are appreciating ruble and lower estimates of the current and expected demand amid worsening epidemic situation.

October saw a slight decline in price expectations in agriculture. Farmers recorded lower business risks. This may be partially associated with the fact that the higher risks prompted by unfavourable weather conditions already realised during the harvest campaign in the previous months. Besides, the industry's estimates of cost trends stabilised after their considerable growth for much of 2021.

Based on the surveys by *IHS Markit PMI*, industries showed diverse price trends in September. The output price index in manufacturing dropped to its year-low owing to weak business environment in August and September. The input price index declined slightly. On the contrary, services recorded some increase in both output and input price indices. The input price index was growing faster due to higher fuel prices, according to businesses.

Implied inflation for OFZ-IN

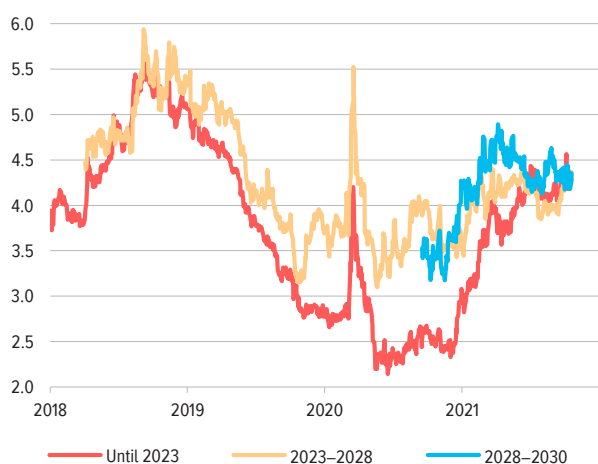
Implied inflation for OFZ-INs was up in October 2021 (Chart 7). According to the Bank of Russia's estimates,³ two-year ahead implied inflation averaged 4.3% over the first twenty days of October (+0.1 pp vs September, Table 1). Implied inflation for 2023–2028 and 2028–2030 was also 4.3% (+0.3 pp and no change vs September, respectively).

Analysts' inflation forecast

In September–October, analysts' inflation outlook⁴ for 2021 increased drastically (Table 1, Chart 8). Based on the results of the Bank of Russia macroeconomic survey in October, analysts' inflation forecast was up to 7% as of the year-end (+1.1 pp vs September). According to Bloomberg, Reuters, and Interfax surveys carried out in late September and October, analysts' forecasts for the 2021 year-end ranged from 6.4 to 6.6%. Analysts' consensus forecasts for 2022 and 2023 changed insignificantly and remained close to 4% reflecting their continuous anchoring to the Bank of Russia's target.

IMPLIED INFLATION FOR OFZ-IN (%)

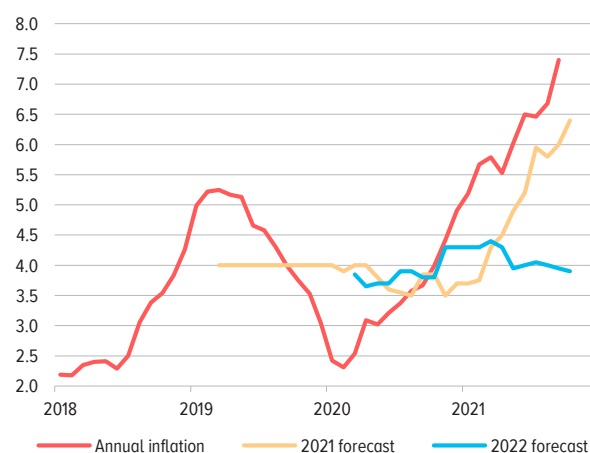
Chart 7



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

BLOOMBERG ANALYSTS' CONSENSUS FORECAST (%)

Chart 8



Sources: Bloomberg, Rosstat.

³ The estimates are based on the comparison of expected yields on OFZ-INs and nominal OFZs taking into account the lag between the nominal value indexation and seasonally adjusted inflation. [Calculation method.](#)

⁴ Surveys by Interfax, Bloomberg, Thomson Reuters, and the Bank of Russia.

The Bank of Russia's forecast

According to Bank of Russia estimates, the contribution of stable factors to inflation remains substantial as demand is growing faster than output expansion capacity. Also, there are persistent risks of spillovers from elevated inflation expectations. In this environment, the balance of risks is largely shifted towards proinflationary ones. This may result in a longer upward deviation of inflation from the target. According to the Bank of Russia forecast, annual inflation is expected to stand at 7.4–7.9% at the end of 2021. Given the monetary policy stance, annual inflation will edge down to 4.0–4.5% in 2022 and will remain close to 4% further on.

Data cut-off date – 20.10.2021.

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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