



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

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Information and analytical commentary

24 June 2022

INFLATION EXPECTATIONS AND CONSUMER SENTIMENT (JUNE 2022)

Households' inflation expectations for a year ahead edged up in June 2022 and are now close to the levels of August–September 2021, as shown by InFOM's survey. The median estimate of inflation expected in the next 12 months reached 12.4%. Businesses' short-term price expectations continued to decrease, returning to the readings of spring 2021. Analysts' inflation forecasts for 2022 and 2023 lowered. The Bank of Russia forecasts that given the monetary policy pursued, annual inflation will equal 14–17% in 2022, go down to 5–7% in 2023, and return to its 4% target in 2024.

INFLATION EXPECTATION INDICATORS

	Expectation horizon	2019 (average)	2020 (average)	2021 (average)	June 2021	February 2022	April 2022	May 2022	June 2022
Inflation, %		4.5	3.4	6.7	6.5	9.2	17.8	17.1	
Inflation observed by households, %									
Public Opinion Foundation (median)	previous 12 months	9.9	9.6	15.1	14.9	17.1	19.9	25.1	23.7
Public Opinion Foundation (subgroup with savings)	previous 12 months	9.1	8.7	12.8	12.1	15.6	17.0	20.2	19.4
Public Opinion Foundation (subgroup without savings)	previous 12 months	10.4	9.9	16.2	16.9	18.2	22.3	28.0	27.2
Households' inflation expectations, %									
Public Opinion Foundation (median)	next 12 months	9.3	9.1	12.1	11.9	13.5	12.5	11.5	12.4
Public Opinion Foundation (subgroup with savings)	next 12 months	8.3	8.4	10.5	9.7	12.1	11.4	10.6	10.5
Public Opinion Foundation (subgroup without savings)	next 12 months	9.8	9.6	13.2	12.9	14.5	13.4	12.0	14.2
Companies' price expectations									
Companies, balance of responses	next 3 months	9.6	13.3	20.0	22.0	22.0	32.8	22.8	17.8
Implied inflation for OFZ-IN (monthly average), %									
OFZ-IN 52001, August 2023	next year average	3.9	2.7	4.1	4.1	5.6	6.0	3.5	3.6
OFZ-IN 52002, February 2028	next 6-year average	4.1	3.3	4.2	4.2	6.4	7.0	6.4	5.6
OFZ-IN 52003, July 2030	next 8-year average		3.3	4.3	4.3	6.2	7.2	6.7	5.7
OFZ-IN 52004, March 2032	next 10-year average					6.5	7.3	6.9	6.0
OFZ-IN	2023–2028 average	4.3	3.8	4.3	4.3	6.6	7.3	7.1	6.1
OFZ-IN	2028–2030 average		3.5	4.4	4.4	6.0	7.5	7.1	6.0
OFZ-IN	2030–2032 average					7.8	8.1	7.9	7.2
Analysts, %									
Interfax	2022			4.3	4.0		22.7	19.3	16.7
Reuters	2022			4.2	4.0		20.5	16.4	
Survey by the Bank of Russia	2022			4.2		5.5	22.0		17.0
Interfax	2023				4.0		8.6	8.6	7.1
Survey by the Bank of Russia	2023			4.0		4.0	7.6		6.7
Survey by the Bank of Russia	2024					4.0	5.0		5.0

Sources: Rosstat, InFOM, Bank of Russia, Interfax, Moscow Exchange, Reuters.

Households' inflation expectations edged up

Households' inflation expectations increased in June 2022, according to InFOM's survey commissioned by the Bank of Russia. The median estimate of inflation expectations equalled 12.4% (+0.9 pp vs May), returning to the readings of August–September 2021. The rise in inflation expectations in June was due to an increase in the estimates of respondents without savings, that is, of lower-income households. Expectations of respondents with savings edged down slightly.

In June, annual inflation observed by households decreased for the first time since March, with its median estimate equalling 23.7% (-1.4 pp vs May). Despite the actual decline, the current rate of observed inflation remains the highest since October 2015. The estimates of observed inflation changed similarly among respondents both with and without savings.

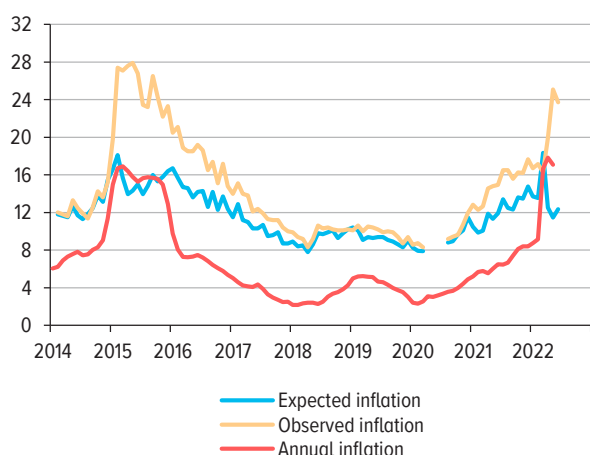
In June, respondents became less concerned about the observed growth of prices for the majority of frequently purchased goods and services. The decrease in concerns was especially notable in relation to the rise in prices for sugar and salt, eggs, fruit and vegetables, and vegetable oil. Rosstat recorded a slowdown of price growth in these product groups in May.¹

The values of the balances of responses to the questions about changes in future inflation trends for one month and one year ahead edged down in May.² The qualitative estimates of inflation over the past month declined as well, whereas those of inflation over the past year continued to go up.³

Households' long-term inflation expectations slightly rose in June 2022, while staying below the levels of 2021 H2 and early 2022. The proportion of respondents considering that the price growth rate three years later will notably surpass 4% reached 48% (+2 pp vs May and -9 pp vs February 2022). This figure corresponds to the level of February 2021.

INFLATION OBSERVED AND EXPECTED BY HOUSEHOLDS (MEDIAN ESTIMATE) (%)

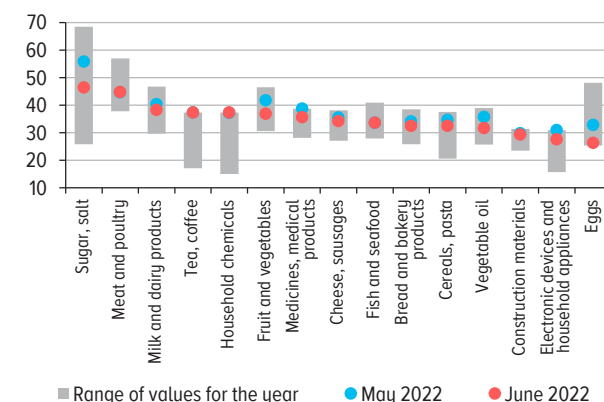
Chart 1



Sources: InFOM, Rosstat.

DISTRIBUTION OF RESPONSES TO THE QUESTION 'WHAT MAIN PRODUCTS AND SERVICES SHOWED VERY HIGH GROWTH RATES OVER THE PAST MONTH?' (% OF ALL RESPONDENTS)

Chart 2



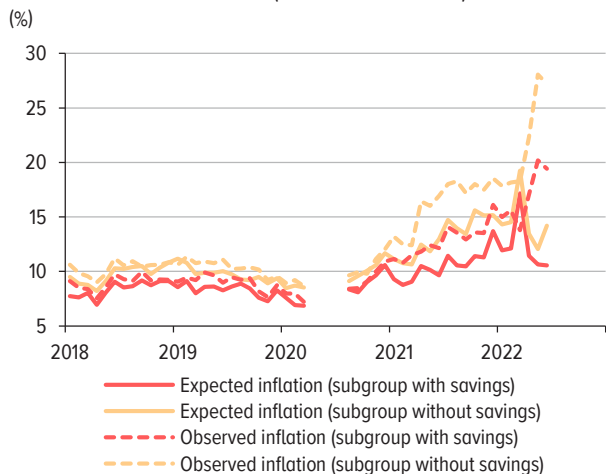
Sources: InFOM, Bank of Russia calculations.

¹ For details on inflation in May, refer to the information and analytical commentary [Consumer Price Dynamics, No. 5 \(77\), May 2022](#).

² That is, a smaller percentage of respondents, as compared to the previous month, answered that prices will rise considerably or will be rising faster than now.

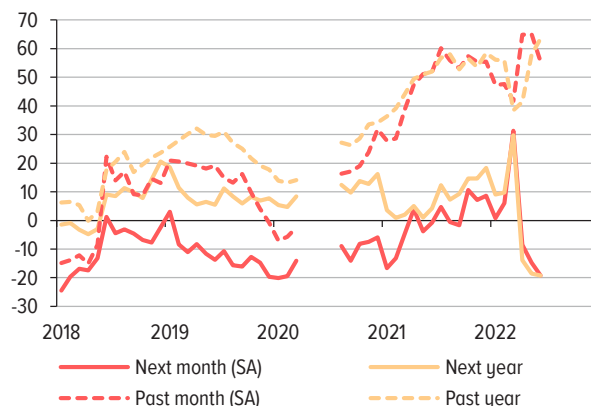
³ That is, a larger percentage of respondents, as compared to the previous month, answered that prices were rising faster than before.

EXPECTED AND OBSERVED INFLATION BY RESPONDENT SUBGROUP (MEDIAN ESTIMATE) Chart 3



Sources: InFOM, Bank of Russia calculations.

INDICATORS OF PRICE MOVEMENTS* (BALANCE OF RESPONSES, PP) Chart 4



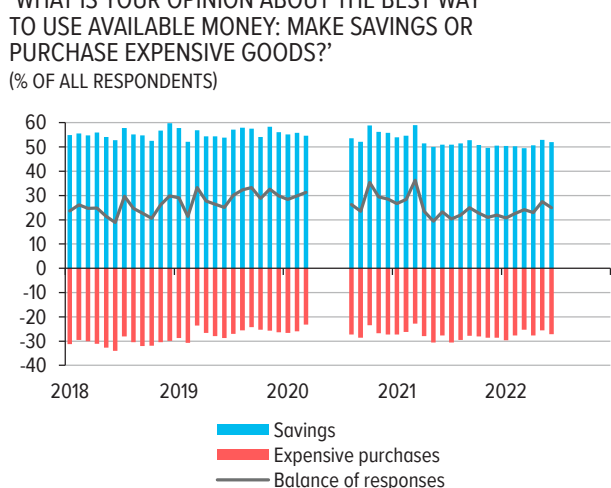
* Balance of responses to the questions 'How prices were/will be changing last year/next year?' and 'How did/will prices change last month/next month?', seasonally adjusted.
Sources: InFOM, Bank of Russia calculations.

Consumer sentiment – close to the highest level since mid-2020

In June, the consumer sentiment index had been rising for the third consecutive month, reaching 92.8 points (+3.9 points vs May), which is close to its two-year highs. The present situation index increased most significantly, namely to 70.5 points (+5.4 points vs May). This index comprises the estimates of actual changes in personal financial standing over the year and the estimates of the suitability of the current period for large purchases. Despite the actual growth, the estimates of the present situation remain considerably below the range of 2017–2021. The expectations index that includes the estimates of changes in personal financial standing for a year ahead and expectations about changes in economic conditions in the country for the next one and five years increased in June as well, reaching 107.7 points (+3.0 points vs May), which is the highest level since May 2018.

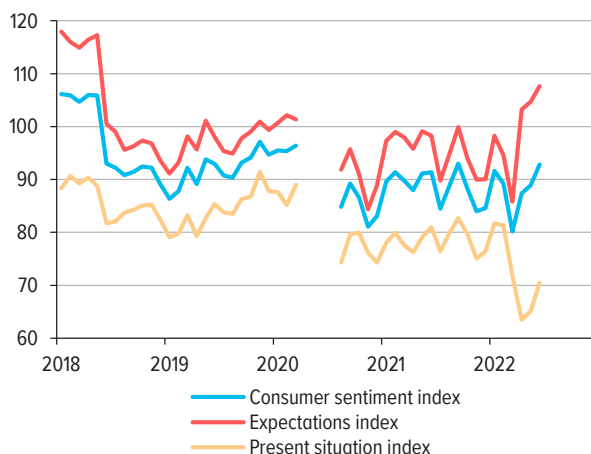
Despite the continuing growth of optimism and a slight recovery of the current estimates of the economic situation, in June, a fourth of respondents reported that their income from employment or business declined due to the imposed sanctions.

DISTRIBUTION OF RESPONSES TO THE QUESTION 'WHAT IS YOUR OPINION ABOUT THE BEST WAY TO USE AVAILABLE MONEY: MAKE SAVINGS OR PURCHASE EXPENSIVE GOODS?' Chart 5



Sources: InFOM, Bank of Russia calculations.

CONSUMER SENTIMENT INDEX (POINTS) Chart 6



Source: InFOM.

Households' propensity to save remained almost unchanged in June. The percentage of respondents opting to save rather than consume edged down to 52% (-1 pp vs May). Respondents' preferences about the types of savings returned to the readings recorded in February. The proportion of respondents preferring to keep their money in bank accounts increased to 35.8% (+3.1 pp vs May). The percentage of those opting to have cash holdings decreased to 33.1% (-2.4 pp vs May).

Companies' price expectations continued to go down

According to the [monitoring](#) carried out by the Bank of Russia in June 2022, companies' price expectations for the next three months continued to go down, returning to the level of spring 2021. The average price growth rate expected in the next three months equalled 5.5% in annualised terms (vs 4.1% in June 2021).⁴

Companies' price expectations decreased mainly because of a slower rise in costs, which was owing to a further strengthening of the ruble, still stable prices for motor fuels, and a gradual adaptation of businesses to the new external conditions of operation. The proportion of respondents who consider that the reason for the expected price growth is changes in the costs of raw materials and components decreased, coming close to the readings of the middle of 2021. The estimates of the economic situation became less negative, and fewer respondents reported stronger risks to their business. Furthermore, companies believe that the contraction of demand decelerated, and they are now more optimistic about demand and output trends in the next three months.

Price expectations declined most notably in trade where the estimates of current demand remained more negative than in other industries. The average price growth rate expected by retailers in the next three months equalled 9.5% in annualised terms (vs 6.1% in June 2021).

The mining and quarrying sector lowered price expectations less notably as prices in the global market remained high. However, in contrast to most other industries, mining companies became more pessimistic in their estimates of current demand amid the external restrictions on exports of Russian commodities. Respondents became less positive about demand expected in the next three months, complaining about higher risks to their business.

COMPANIES' PRICE EXPECTATIONS
(BANK OF RUSSIA)
(BALANCE OF RESPONSES, % SA)

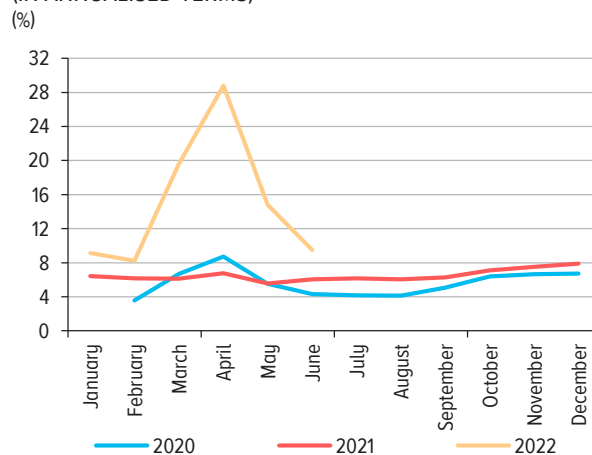
Chart 7



Sources: Bank of Russia, Rosstat.

AVERAGE PRICE GROWTH EXPECTED
BY RETAILERS IN THE NEXT THREE MONTHS
(IN ANNUALISED TERMS)

Chart 8

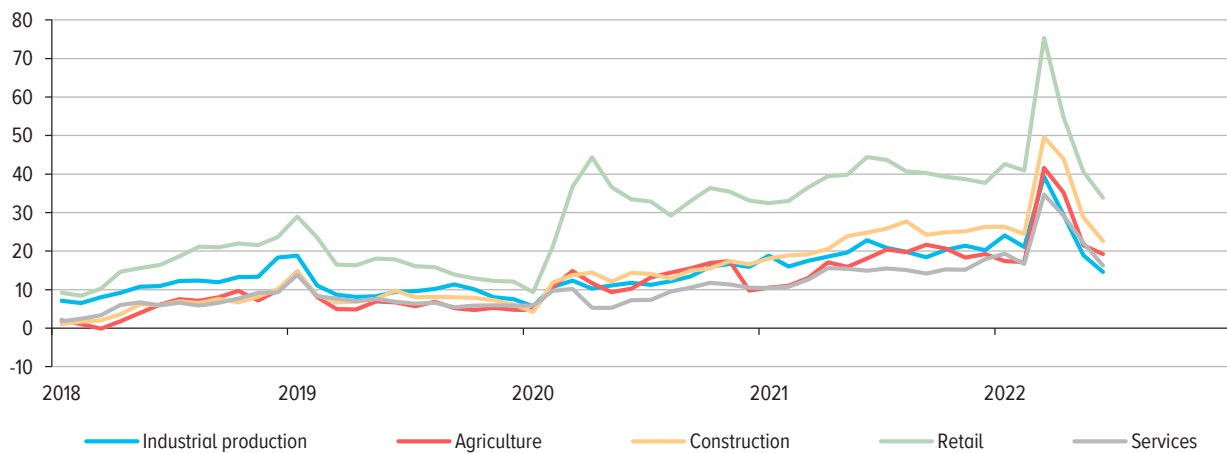


Source: Bank of Russia.

⁴ Since April 2022, the calculation of the average price growth rate expected in the next three months changed as the scale of the expected increase (decrease) in prices for products (services) in the market questionnaire was expanded.

COMPANIES' PRICE EXPECTATIONS BY KEY INDUSTRY (BANK OF RUSSIA)
(BALANCE OF RESPONSES, % SA)

Chart 9



Source: Bank of Russia.

Implied inflation for a year remained the same

Over the first twenty days of June, implied inflation for inflation-indexed federal government bonds (OFZ-IN) equalled 3.6% on average (+0.1 pp vs May), according to the Bank of Russia's estimates.⁵ This value is not necessarily a correct estimate of expectations as liquidity in the related instrument was extremely limited. As to longer periods, the estimates of implied inflation declined. Over the first twenty days of June, implied inflation for 2023–2028 averaged 6.1% (-1 pp vs May) and for 2028–2030 – 6.0% (-1.1 pp vs May).

Analysts decreased their inflation forecasts

In late May–early June, analysts decreased their inflation forecasts for 2022. According to the findings of [the Bank of Russia's macroeconomic survey](#) carried out in June, analysts' inflation forecast for the end of 2022 equalled 17.0% (-5 pp vs April). Analysts expect inflation to slow down to 6.7% in 2023 (-0.9 pp vs April) and 5% in 2024 (the same as in April). As shown by a survey carried out by Interfax in June, analysts' consensus forecast of inflation for the end of 2022 was 16.7% (-2.6 pp vs May). A survey by Reuters conducted at the end of May shows that analysts' forecast for 2022 decreased to 16.4% (-4.1 pp vs April). A survey by Interfax reports that analysts' forecast for 2023 edged down to 7.1% (-1.5 pp vs May).

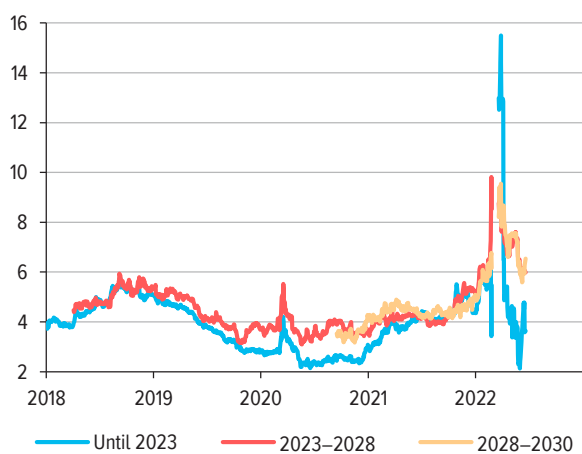
The Bank of Russia forecasts that annual inflation will return to 4% in 2024

According to the Bank of Russia's assessments, proinflationary risks continue to go down, while still remaining considerable. Over the short-term horizon, the impact of proinflationary factors might strengthen due to high and unanchored inflation expectations. The Bank of Russia forecasts that given the monetary policy pursued, annual inflation will equal 14–17% in 2022, go down to 5–7% in 2023, and return to its 4% target in 2024.

⁵ The estimates are based on the comparison of expected yields on OFZ-IN and nominal OFZ (OFZ-PD) bonds, with account of the lag in the nominal value indexation and seasonally adjusted inflation. [Calculation method](#).

IMPLIED INFLATION FOR OFZ-IN
(%)

Chart 10

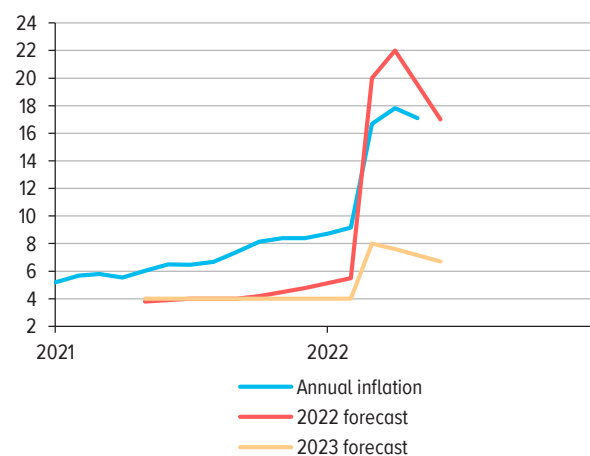


Sources: Moscow Exchange, Rosstat, Bank of Russia calculations.

RESULTS OF THE BANK OF RUSSIA'S
MACROECONOMIC SURVEY

Chart 11

(%)



Sources: Bank of Russia, Rosstat.

The data cut-off date – 20.06.2022.

The electronic version 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 of the Irkutsk Regional Division of the Siberian Main Branch of the Central Bank of the Russian Federation.

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