



Bank of Russia



# INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

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Information and analytical commentary

25 July 2022

## INFLATION EXPECTATIONS AND CONSUMER SENTIMENT (JULY 2022)

According to InFOM survey findings, one-year ahead inflation expectations of households declined in July 2022. The median estimate of inflation expected over the next 12 months decreased by 1.6 pp to 10.8% that is the lowest level since March 2021. Businesses' short-term price expectations continued to decline, returning to the level of early 2021. Analysts' inflation forecasts for 2022 and 2023 edged down. According to the Bank of Russia's July survey, analysts expect inflation to return to the range close to 4%. According to the Bank of Russia's forecast, given the monetary policy stance, annual inflation will edge down to 12–15% in 2022, to 5–7% in 2023, and return to 4% in 2024.

### INFLATION EXPECTATION INDICATORS

	Expectation horizon	2019 (average)	2020 (average)	2021 (average)	July 2021	February 2022	May 2022	June 2022	July 2022
Inflation, %		4.5	3.4	6.7	6.5	9.2	17.1	15.9	
<b>Inflation observed by households, %</b>									
Public Opinion Foundation (median)	previous 12 months	9.9	9.6	15.1	16.5	17.1	25.1	23.7	22.2
Public Opinion Foundation (subgroup with savings)	previous 12 months	9.1	8.7	12.8	14.1	15.6	20.2	19.4	19.1
Public Opinion Foundation (subgroup without savings)	previous 12 months	10.4	9.9	16.2	18.0	18.2	28.0	27.2	25.0
<b>Households' inflation expectations, %</b>									
Public Opinion Foundation (median)	next 12 months	9.3	9.1	12.1	13.4	13.5	11.5	12.4	10.8
Public Opinion Foundation (subgroup with savings)	next 12 months	8.3	8.4	10.5	11.4	12.1	10.6	10.5	10.2
Public Opinion Foundation (subgroup without savings)	next 12 months	9.8	9.6	13.2	14.7	14.5	12.0	14.2	11.4
<b>Companies' price expectations</b>									
Companies, balance of responses	next 3 months	9.6	13.3	20.0	21.7	21.9	22.7	17.7	16.0
<b>Implied inflation for OFZ-IN (monthly average), %</b>									
OFZ-IN 52002, February 2028	next 6-year average	4.1	3.3	4.2	4.1	6.4	6.4	5.5	5.6
OFZ-IN 52003, July 2030	next 8-year average		3.3	4.3	4.2	6.2	6.7	5.6	5.8
OFZ-IN 52004, March 2032	next 10-year average					6.5	6.9	5.9	6.0
OFZ-IN	2023–2028 average	4.3	3.8	4.3	4.1	6.6	7.1	5.9	5.9
OFZ-IN	2028–2030 average		3.5	4.4	4.2	6.0	7.1	6.0	6.3
OFZ-IN	2030–2032 average					7.8	7.9	7.1	6.7
<b>Analysts, %</b>									
Interfax	2022			4.3	4.1		19.3	16.7	14.6
Reuters	2022			4.2	4.1		16.4	14.5	
Survey by the Bank of Russia	2022			4.2	4.0	5.5		17.0	15.0
Interfax	2023						8.6	7.1	6.5
Survey by the Bank of Russia	2023			4.0	4.0	4.0		6.7	6.1
Survey by the Bank of Russia	2024					4.0		5.0	4.2

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

## Households' inflation expectations declined

According to InFOM surveys, the median estimate of inflation expectations in July was 10.8% (-1.6 pp vs June). This is the lowest level since March 2021.

The annual inflation observed by households in July continued to decline for the second consecutive month. Its median estimate was 22.2% (-1.5 pp vs June). Despite the previous decline, estimates of current inflation remain close to its highs since late 2015. Changes in estimates of expected and observed inflation were similar among respondents both with and without savings.

The slowdown of inflation expectations and observed inflation happened amid near-zero growth in prices over the past two months and a stronger ruble, as well as persistently growing optimism about the economic outlook.

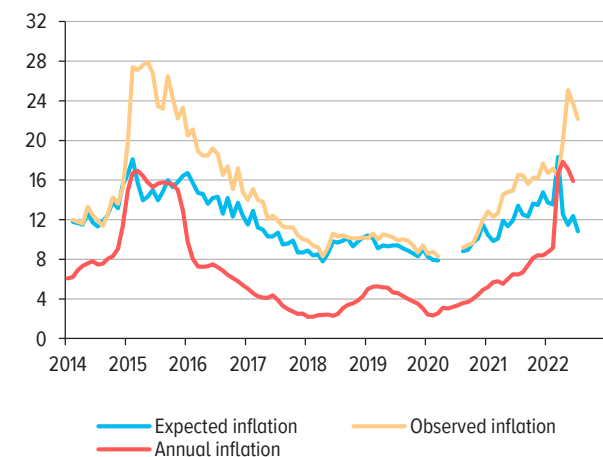
In July, respondents less concerned about rising prices for the majority of frequently purchased goods and services, most noticeably for sugar and salt, cereals and pasta, fruit and vegetables. In June, Rosstat recorded lower growth or a decrease in prices for these products.<sup>1</sup>

In July, the values of the balances of responses to the questions about changes in future inflation<sup>2</sup> for one month ahead edged down and for one year ahead remained unchanged. The qualitative estimates of inflation lowered for the past month and the past year.<sup>3</sup>

Households' long-term inflation expectations remained actually stable in July 2022, while staying considerably below the levels of 2021 H2 and early 2022. The proportion of respondents considering that the price growth rate in three years will notably surpass 4% reached 47% (-1 pp vs June and -10 pp vs February 2022).

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

Chart 1

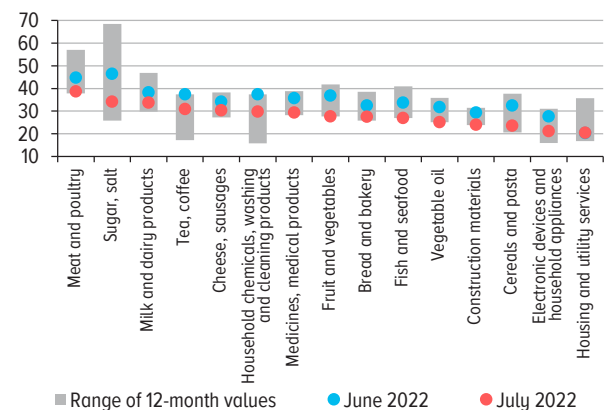


Sources: InFOM, Rosstat.

DISTRIBUTION OF RESPONDENTS' ANSWERS TO THE QUESTION 'FOR WHICH MAIN PRODUCTS, GOODS AND SERVICES HAVE PRICES RISEN THE MOST SIGNIFICANTLY OVER THE PAST MONTH?' (% OF ALL RESPONDENTS)

Chart 2

(% OF ALL RESPONDENTS)



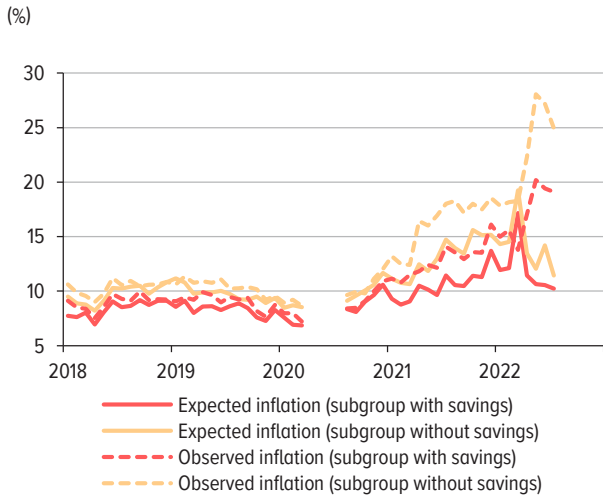
Sources: InFOM, Bank of Russia calculations.

<sup>1</sup> More information about inflation in June is available in the information and analytical commentary [Consumer Price Dynamics, No. 6 \(78\), June 2022](#).

<sup>2</sup> That is, a smaller percentage of respondents, as compared to the previous month, noted that prices would rise dramatically.

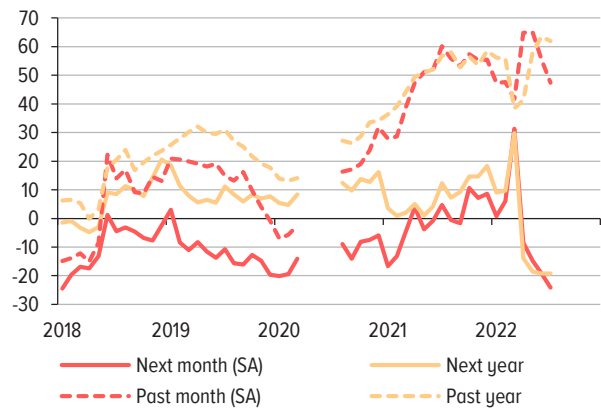
<sup>3</sup> That is, a smaller percentage of respondents, as compared to the previous month, noted that prices had risen significantly or were rising faster than before.

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*



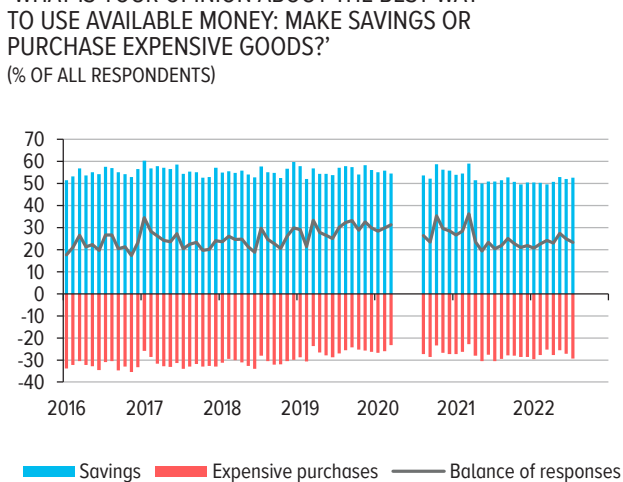
\* Balance of responses to the questions 'How prices were/will be changing last year/next year?' and 'How did/will prices change last month/next month?', seasonally adjusted.  
Sources: InFOM, Bank of Russia calculations.

## Consumer sentiment reached its highs since 2018

In July, the consumer sentiment index continued to increase for the fourth consecutive month and reached 97.7 points (+4.9 points vs June). This is the highest level since May 2018. The present situation index rose to 76.7 points (+6.2 points vs June). This index includes the estimates of the actual change in personal financial standing over the year and the estimates of the suitability of the current period for large purchases. Despite the recent growth, current situation assessments remain below the pre-crisis levels of January–February 2022. The expectations index, taking into account the estimates of future personal financial standing for a year ahead and expectations about changes in economic conditions in the country for the next one and five years, also rose in July and reached 111.6 points (+3.9 points vs June). This is the highest level since May 2018.

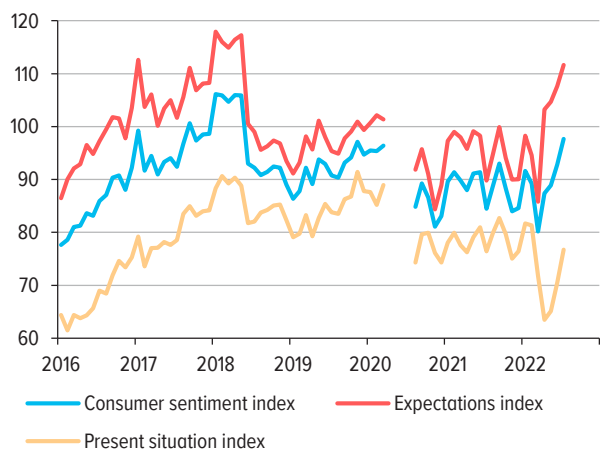
Households' propensity to save edged down slightly in July. The proportion of respondents, preferring to buy expensive goods rather than to save available money, totalled 29% (+2 pp vs June). When answering questions about preferences regarding the forms of savings, the share of bank accounts continued to grow and reached 38% (+2 pp vs June). The number of respondents, preferring to save cash, did not change compared to June and totalled 33%.

DISTRIBUTION OF ANSWERS 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.

## Companies' price expectations are minimal since early 2021

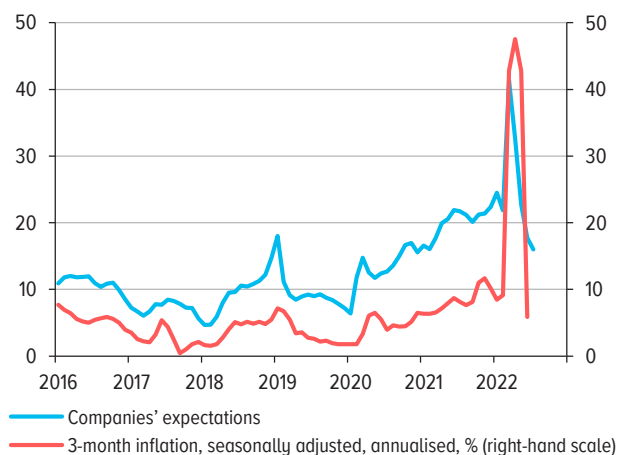
According to the monitoring conducted by the Bank of Russia in July 2022, price expectations for the next three months continued to decline for the fourth consecutive month. Compared to the historical high of March 2022, their level dropped and returned to the values of early 2021. The average price growth rate is expected to be 4.4% in annualised terms in the next three months, reaching the level<sup>4</sup> of July 2021.<sup>5</sup>

The decrease in companies' price expectations was driven by a slowdown in the growth of costs and risks of economic activity, a stronger ruble, the stabilisation of prices for motor fuel, and the adjustment of the economy to changes in the external environment. Furthermore, respondents improved their expectations regarding demand for the next three months, current demand estimates became less negative.

Price expectations sank most notably in agriculture amid expectations of a record high grain harvest. In trade, the decrease in price expectations occurred both in the retail and wholesale segments, most significantly in motor vehicle sales, according to respondents, due to the significant impact of a stronger ruble on these sectors' activity. The average price growth rate expected by retailers over the next three months was 8.0% year-on-year (vs 6.2% in July 2021).

COMPANIES' PRICE EXPECTATIONS  
(BALANCE OF RESPONSES, %)

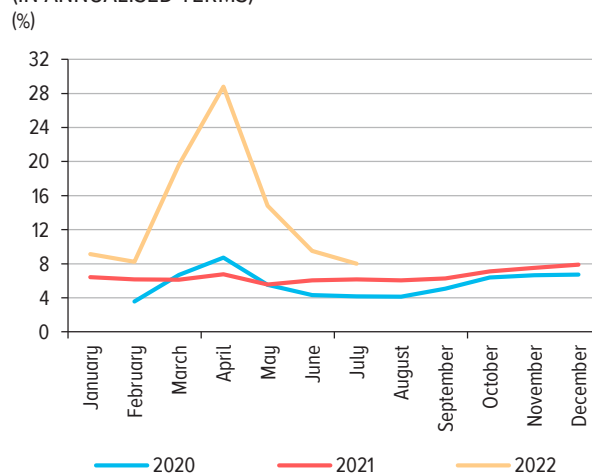
Chart 7



Sources: Bank of Russia, Rosstat.

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

Chart 8



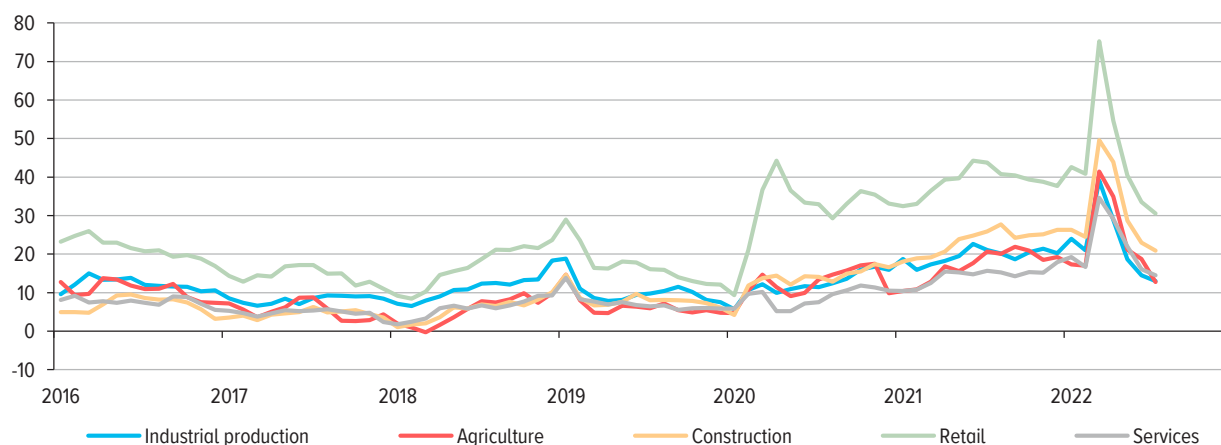
Source: Bank of Russia.

<sup>4</sup> According to the data from 13,258 market questionnaires as of 20 July 2021. Refer to the information and analytical commentary [Inflation Expectations and Consumer Sentiment, No. 7 \(55\), July 2021](#). The updated value according to the data from 13,705 market questionnaires in July 2021 is 4.3%.

<sup>5</sup> Since April 2022, the calculation of three-month-ahead average price growth rate has been changed due to the expansion of the scale of expected growth (decline) in prices for products (services) in the market questionnaire.

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

Chart 9



Source: Bank of Russia.

## Implied inflation is close to 6%

On average, over the first twenty days of July, implied inflation for inflation-indexed federal government bonds (OFZ-IN) remain almost unchanged. According to Bank of Russia estimates,<sup>6</sup> the average implied inflation for 2028 was 5.6% (+0.1 pp vs June); for the period of 2023–2028 – 5.9% (unchanged vs June), and for the period of 2028–2030 – 6.3% (+0.3 pp vs June).

## Analysts expect inflation to return close to 4% in 2024

In late June–early July, analysts' forecasts continued to decline. Based on the data of [the Bank of Russia's macroeconomic survey](#), analysts' inflation forecast for the 2022 year-end was 15.0% (-2 pp vs June). They expect inflation to decrease to 6.1% (-0.6 pp vs June) in 2023 and return close to 4% in 2024 (the forecast for late 2024 is 4.2% (-0.8 pp vs June)). According to the July survey conducted by Interfax analysts, the consensus forecast of inflation for late 2022 decreased to 14.6% (-2.1 pp vs June). Analysts polled by Interfax expect price growth in 2023 by 6.5% (-0.6 pp vs June). A survey by Reuters conducted at the end of June shows that analysts' forecast was 14.5% for 2022 (-1.9 pp vs May).

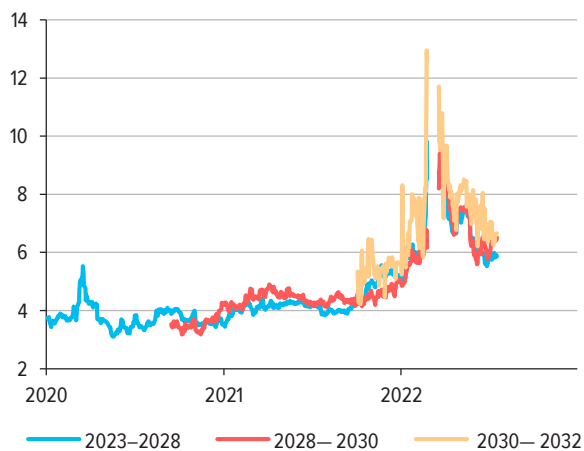
## According to the Bank of Russia's forecast, annual inflation will return to 4% in 2024

According to Bank of Russia estimates, short-term disinflationary risks have grown. However, proinflationary risks remain substantial and still dominate over the medium-term horizon. The Bank of Russia forecasts that, given the monetary policy pursued, annual inflation will equal 12–15% in 2022, decrease to 5–7% in 2023, and return to 4% in 2024.

<sup>6</sup> The estimates are based on the comparison of expected yields on inflation indexed (OFZ-IN) and nominal OFZ (OFZ-PD) bonds, with regard to the lag in the nominal value indexation and seasonally adjusted inflation. Calculation method.

IMPLIED INFLATION FOR OFZ-IN  
(%)

Chart 10

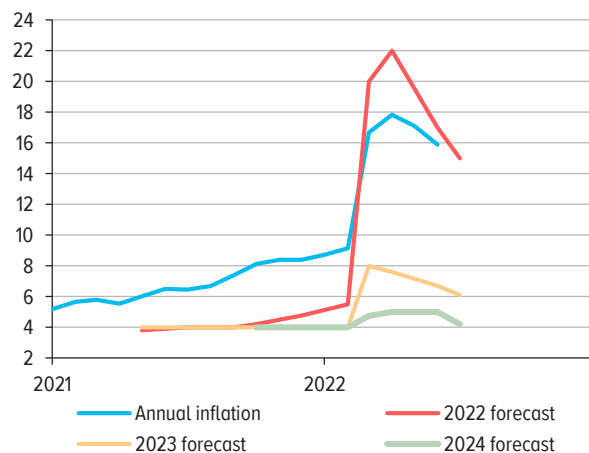


Sources: Moscow Exchange, Rosstat, Bank of Russia calculations.

RESULTS OF THE BANK OF RUSSIA'S  
MACROECONOMIC SURVEY

Chart 11

(%)



Sources: Bank of Russia, Rosstat.

The data cut-off date – 20.07.2022.

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](mailto:svc_analysis@cbr.ru).

This commentary was prepared by the Monetary Policy Department jointly with the Irkutsk Regional Division of the Siberian Main Branch of the Bank of Russia.

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