



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

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Information and analytical commentary

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INFLATION EXPECTATIONS AND CONSUMER SENTIMENT (NOVEMBER 2022)

In November 2022, households' inflation expectations for a year ahead edged down but remained elevated within their April–October 2022 range, as shown by InFOM's survey. The median estimate of the inflation expected in the next 12 months reached 12.2%. Short-term companies' price expectations continued to go up. Analysts' inflation forecasts remained almost unchanged. The Bank of Russia forecasts that annual inflation will equal 12–13% in 2022 and, given the monetary policy pursued, lower to 5–7% in 2023 and return to 4% in 2024.

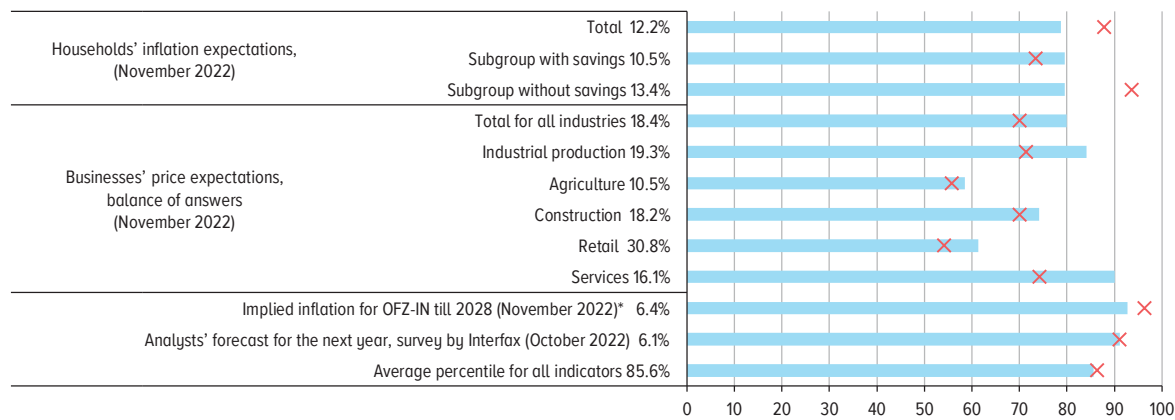
INFLATION EXPECTATION INDICATORS

	Expectation horizon	2019 average	2020 average	2021 average	November 2021	February 2022	September 2022	October 2022	November 2022
Inflation, %		4.5	3.4	6.7	8.4	9.2	13.7	12.6	
Inflation observed by households, %									
Public Opinion Foundation (median)	previous 12 months	9.9	9.6	15.1	16.2	17.1	21.5	18.2	17.6
Public Opinion Foundation (subgroup with savings)	previous 12 months	9.1	8.7	12.8	13.5	15.6	18.3	14.6	15.3
Public Opinion Foundation (subgroup without savings)	previous 12 months	10.4	9.9	16.2	17.5	18.2	24.4	20.5	19.5
Households' inflation expectations, %									
Public Opinion Foundation (median)	next 12 months	9.3	9.1	12.1	13.5	13.5	12.5	12.8	12.2
Public Opinion Foundation (subgroup with savings)	next 12 months	8.3	8.4	10.5	11.3	12.1	10.4	10.4	10.5
Public Opinion Foundation (subgroup without savings)	next 12 months	9.8	9.6	13.2	15.1	14.5	13.6	14.8	13.4
Companies' price expectations									
Companies, balance of answers	next 3 months	9.6	13.3	20.0	21.3	21.8	15.3	16.5	18.4
Implied inflation for OFZ-IN (monthly average), %									
OFZ-IN 52002, February 2028	next 5.5-year average	4.1	3.3	4.2	5.1	6.4	5.7	6.5	6.4
OFZ-IN 52003, July 2030	next 8-year average		3.3	4.3	4.9	6.2	5.8	6.6	6.6
OFZ-IN 52004, March 2032	next 9.5-year average				5.0	6.5	6.1	6.9	6.8
OFZ-IN	2023-2028 average	4.3	3.8	4.3	5.1	6.6	5.7	6.6	6.6
OFZ-IN	2028-2030 average		3.5	4.4	4.5	6.0	6.2	6.9	7.0
OFZ-IN	2030-2032 average				5.4	7.8	7.5	7.9	7.9
Analysts, %									
Interfax	2022			4.3	5.1		12.5	12.5	
Survey by the Bank of Russia	2022			4.2		5.5	12.9	12.5	
Interfax	2023						6.1	6.1	
Survey by the Bank of Russia	2023			4.0		4.0	6.0	6.0	
Survey by the Bank of Russia	2024					4.0	4.0	4.2	

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

INFLATION EXPECTATION INDICATORS IN PERCENTILES RELATIVE TO THE DISTRIBUTIONS OF VALUES SINCE 2017 (%)

Chart 1



Note. The chart shows the current level of the indicator (in percentiles) relative to the distribution of values since January 2017. The red marker shows the indicator's level (in percentiles) as of the previous date. A shift of the indicator to the left relative to the previous date indicates lower inflation expectations, and a shift to the right indicates higher inflation expectations.

* Percentiles are shown in relation to the distribution of values since April 2018 for implied inflation.

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

Inflation expectations of economic agents impact the effectiveness of monetary policy in fighting inflation.¹ When making consumption, saving and investment decisions, setting prices for goods, loan and deposit rates, households and businesses consider, among other things, their expectations regarding future inflation. In turn, the Bank of Russia's monetary policy influences inflation expectations. Achieving the inflation target and keeping it at a consistently low level helps anchor inflation expectations and reduce their volatility and sensitivity to one-time and short-term spikes in prices for certain goods or services.

Estimates of inflation expectations and observed inflation based on household surveys in Russia and abroad usually exceed actual inflation rates. This discrepancy is related to the peculiarities of perception: rising prices are more likely to get attention and active response, while declining or stable prices tend to receive less attention. Therefore, people judge inflation to a greater extent by looking at the most expensive goods. Despite this, systematic shifts in the absolute values of inflation expectations, their changes and relative level compared to their historical range are a very important indicator that makes it possible to assess potential changes in the economic behaviour of households that determine future sustained inflation.

¹ For details about the monetary policy transmission mechanism, refer to Appendix 1 to [Monetary Policy Guidelines for 2023–2025](#).

Households' inflation expectations remained at the April–October levels

In November, households' inflation expectations edged down but remained elevated within their April–October 2022 range, as shown by InFOM's survey. The median estimate of households' inflation expectations for the next 12 months equalled 12.2% (-0.6 pp vs October; average for 2017–2019: 9.6%). In November, as in the previous months, the changes in inflation expectations were driven by respondents without savings. The median estimate of inflation expectations of this group considerably decreased to 13.4% in November (-1.4 pp vs October). The inflation expectations of respondents with savings remained almost unchanged for the third month in a row (10.5%, +0.1 pp vs the September–October level, average for 2017–2019: 8.7%).

In November 2022, the annual inflation observed by households continued to decline returning to the level of December 2021. Its median estimate was 17.6% (-0.6 pp vs October). Respondents without savings had their estimates of observed inflation decreased, while those with savings increased their estimates.

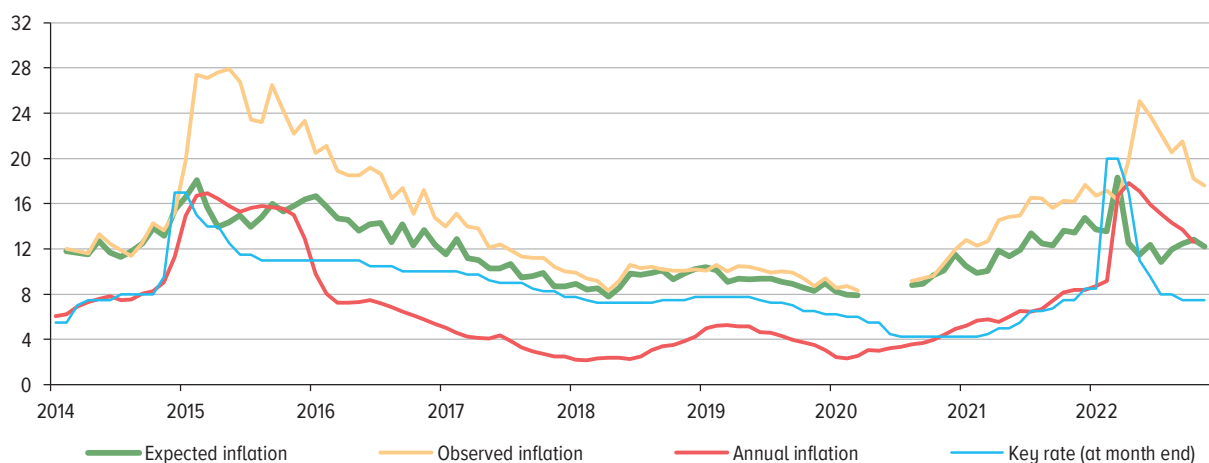
In November, respondents' concern about the rise in prices for the majority of frequently purchased goods continued to decline. For almost all the goods included into the questionnaire, the estimates were close to annual lows. Respondents were somewhat more concerned about the rise in prices for eggs (the growth in egg prices accelerated in October, according to Rosstat²) and fruit and vegetables (which is typical for the end of the year).

The qualitative estimates of inflation expected for one month and one year ahead edged down³ in November. The qualitative estimates of inflation over the past month⁴ declined as well, whereas those of inflation over the past year remained unchanged.

Longer-term inflation expectations declined slightly in November. The share of respondents who believed that in three years the price increase would be noticeably higher than 4% amounted to 50% (-2 pp vs September, this question was not asked in October). Over the next five years respondents expect further deceleration in inflation. In November, the median of five-year inflation expectations was 10.8% (this question was asked for the first time).

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

Chart 2



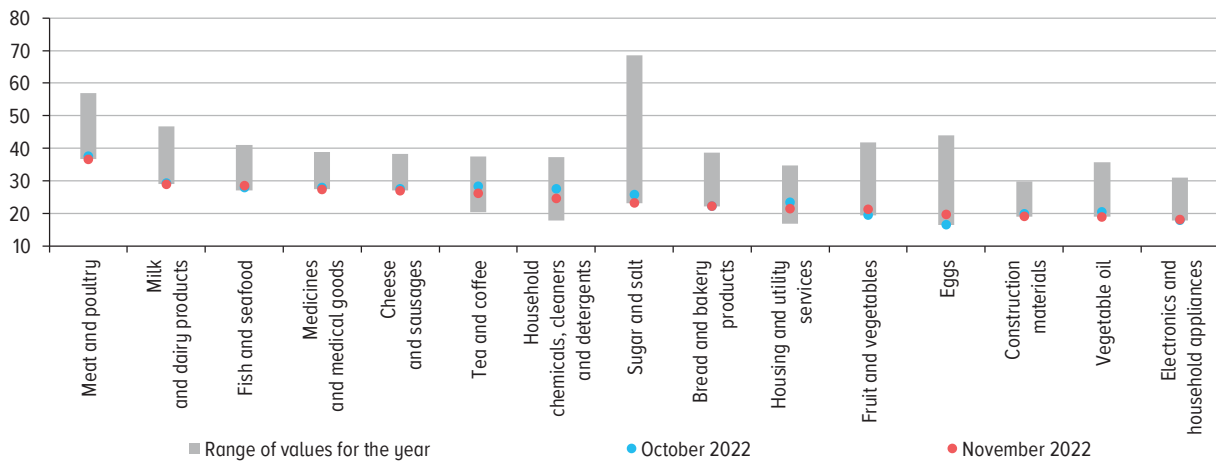
Sources: InFOM, Rosstat.

² More information about inflation in September is available in the information and analytical commentary [Consumer Price Dynamics No. 10 \(82\), October 2022](#).

³ That is, a larger percentage of respondents, as compared to the previous month, answered that prices will rise considerably or will be rising faster than now.

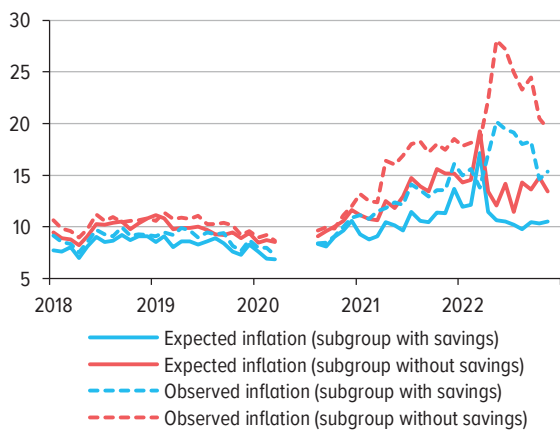
⁴ That is, a smaller percentage of respondents, as compared to the previous month, answered that prices rose considerably.

DISTRIBUTION OF RESPONDENTS' ANSWERS TO THE QUESTION 'WHAT MAIN PRODUCTS AND SERVICES SHOWED VERY HIGH GROWTH RATES OVER THE PAST MONTH?' (Chart 3)
(% OF TOTAL RESPONDENTS)



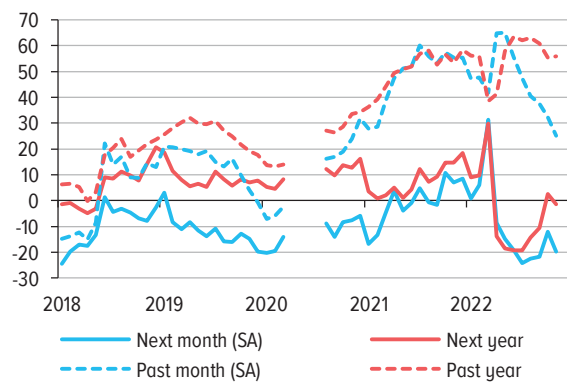
Sources: InFOM, Bank of Russia calculations.

EXPECTED AND OBSERVED INFLATION BY RESPONDENT SUBGROUP (MEDIAN ESTIMATE) (Chart 4)
(%)



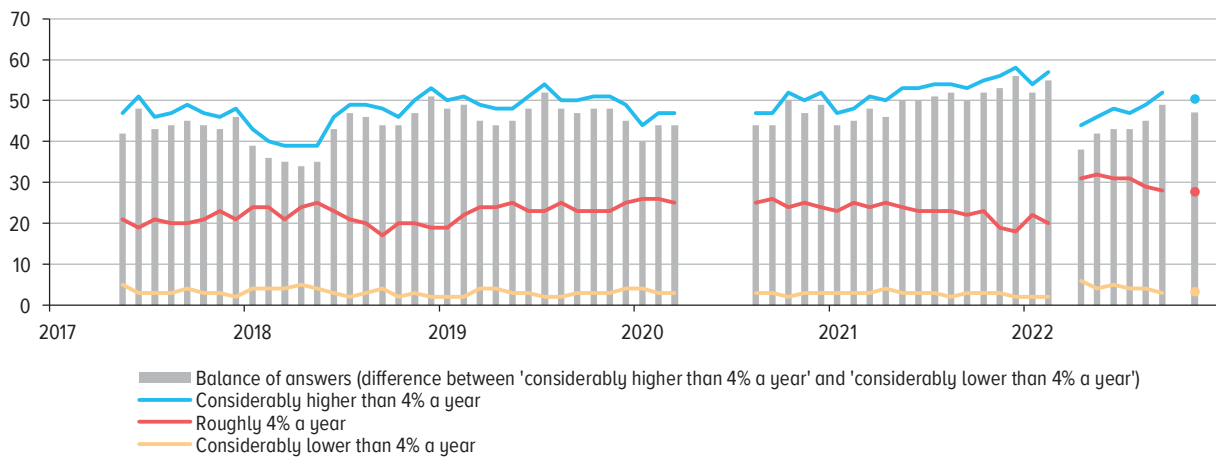
Sources: InFOM, Bank of Russia calculations.

INDICATORS OF PRICE MOVEMENTS* (Chart 5)
(BALANCE OF ANSWERS, PP)



* Balance of answers 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.

DISTRIBUTION OF ANSWERS TO THE QUESTION 'WILL ANNUAL PRICE GROWTH BE ABOVE OR BELOW 4% IN THREE YEARS, IN YOUR OPINION?' (Chart 6)
(% OF TOTAL RESPONDENTS)



Sources: InFOM, Bank of Russia calculations.

Consumer sentiment index slightly increased

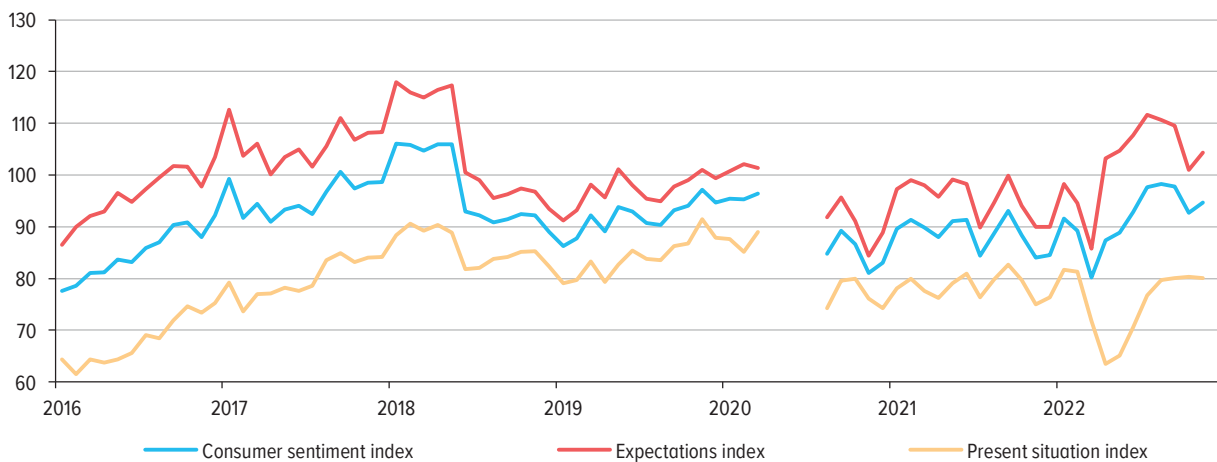
In November, the consumer sentiment index (CSI) came in at 94.6 points. Although it exceeded the CSI value in October (+1.9 points vs October), it was significantly lower than in September. The reason for the rise was that the expectations index included in the CSI increased to 104.4 points (+3.4 points vs October). After falling in October, the estimates of all the components of the expectations index rose in November, including the expectations of future personal financial standing for a year ahead and the expectations of changes in economic conditions in the country for the next one and five years.

The present situation index making a part of the CSI (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) stayed almost unchanged for the third month in a row, amounting to 80.1 points (-0.2 points vs October) and remained in the upper part of the 2021 range.

In November, after partial mobilisation ended, the respondents' propensity to consume slightly increased. The percentage of respondents, preferring to buy expensive goods rather than to save available funds, increased to 27.9% (+2.3 pp vs October) but remains below the 2021 levels. The percentage of those opting to have cash holdings decreased to 35.1% (-2.8 pp vs October).

CONSUMER SENTIMENT INDEX
(POINTS)

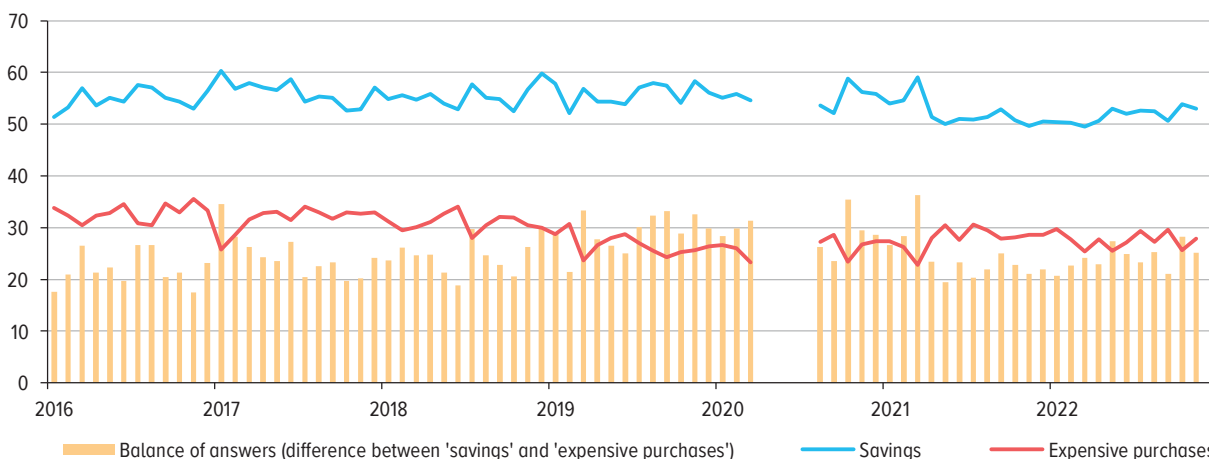
Chart 7



Source: *inFOM*.

DISTRIBUTION OF ANSWERS TO THE QUESTION 'WHAT IS YOUR OPINION ABOUT THE BEST WAY TO USE AVAILABLE MONEY: MAKE SAVINGS OR PURCHASE EXPENSIVE GOODS?'
(% OF TOTAL RESPONDENTS)

Chart 8



Sources: *InFOM, Bank of Russia calculations*.

Companies' price expectations continued to go up

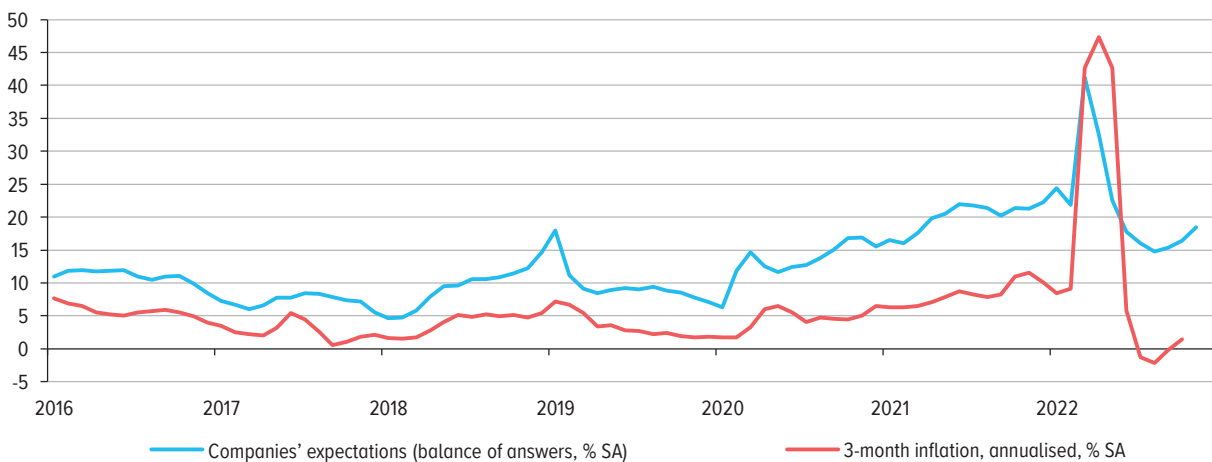
According to the [monitoring](#) carried out by the Bank of Russia in November 2022, companies' price expectations (balance of answers) for the next three months continued to increase. The quantitative indicator of companies' price expectations – the average price growth rate expected in the next three months – equalled 4.9% in annualised terms in November (vs 4.2% in November 2021).⁵ Improved estimates of current and future demand influenced price expectations movements.

In most industries price expectations increased. Expectations in trade were impacted by improved forecasts for future sales, primarily in the retail sector. The average price growth rate expected by retailers grew to 8.2% in annualised terms (vs 7.5% in November 2021). Concurrently, price expectations continued to fall and approached the levels of early 2020 in car sales, which saw the biggest sales' decline in recent months, according to respondents.

The increase in price expectations in industrial production was primarily due to thermal power and water supply sectors, where it was related to the upcoming indexation of rates in December. In transportation and storage, improved estimates of future demand and service volumes, as well as future indexation of rail freight rates led to higher price expectations.

COMPANIES' PRICE EXPECTATIONS

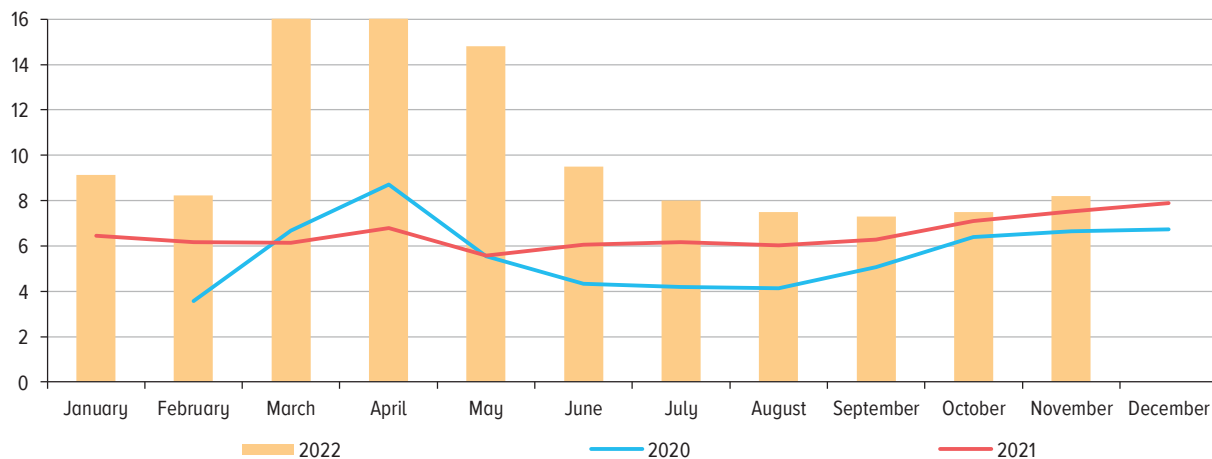
Chart 9



Sources: Bank of Russia, Rosstat.

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

Chart 10

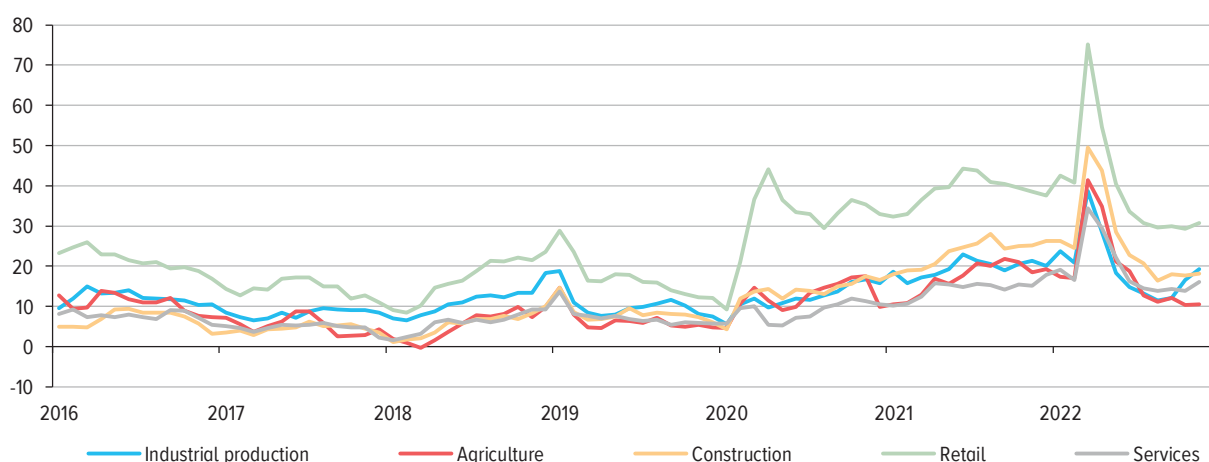


Source: Bank of Russia.

⁵ Since April 2022, the calculation of the average price growth rate expected in the next three months has been 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
(BALANCE OF ANSWERS, SA %)

Chart 11



Source: Bank of Russia.

Price expectations in agriculture remained almost unchanged. Concurrently, agricultural producers found rising costs to be accelerating and remained cautious about the demand for their products over the next three months.

Implied inflation stayed unchanged

In November, implied inflation, included in OFZ yields, almost did not change from October and remained high compared to the summer months. According to the Bank of Russia's estimates,⁶ average implied inflation for the next 5.5 years for inflation-indexed federal government bonds (OFZ-IN) was 6.4% over the first twenty days of November (-0.1 pp vs October). Implied inflation for 2028–2030 equalled 7.0% (+0.1 pp vs October), for 2030–2032, it was 7.9% (unchanged from October).

Analysts expect inflation to slow down to 6–6.1% next year

In late October–early November, analysts' inflation forecasts remained almost unchanged. As shown by the survey carried out by Interfax, in October, analysts' consensus forecast of inflation for the end of 2022 was 12.5% (unchanged from September), and the forecast for the end of 2023 also remained at 6.1%. According to the findings of the Bank of Russia's macroeconomic survey carried out in October, analysts' inflation forecast for the end of 2022 equalled 12.5% (-0.4 pp vs September). In 2023, analysts expect inflation to edge down to 6.0% (unchanged from September). Inflation forecasts for 2024 have slightly increased but remain close to 4%.

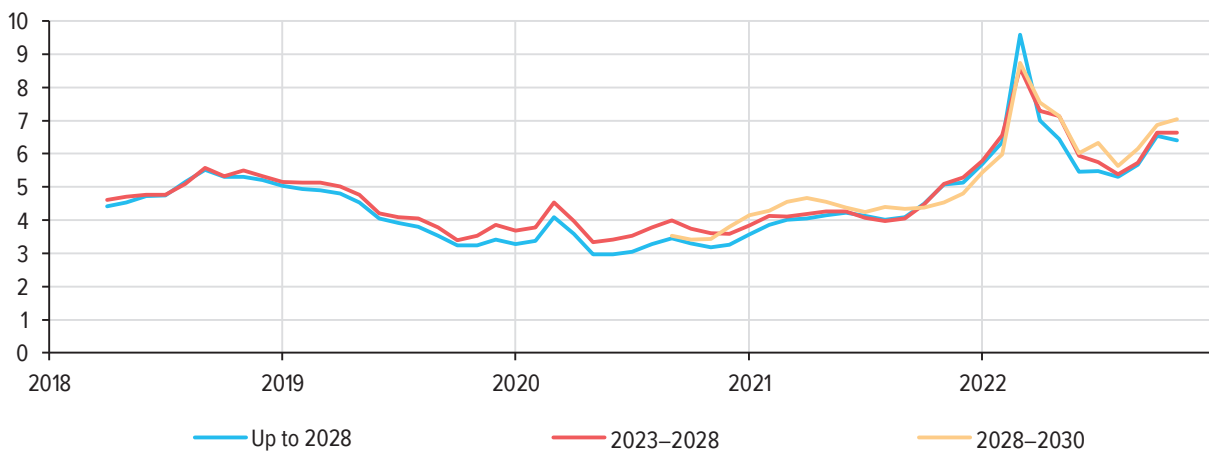
⁶ The estimates are based on the comparison of expected yields on OFZ-IN and nominal OFZ (OFZ-PD) bonds, with account of the lag in the nominal value indexation and seasonally adjusted inflation. [Calculation method](#).

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

According to the Bank of Russia's estimates, there is a balance between proinflationary and disinflationary risks in the short term. The medium-term horizon is still dominated by proinflationary risks, which have grown slightly since mid-September. According to the Bank of Russia's forecast, annual inflation will be 12–13% in 2022. Given the monetary policy pursued, annual inflation will decline to 5–7% in 2023 and return to 4% in 2024.

IMPLIED INFLATION FOR OFZ-IN
(%)

Chart 12



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

The data cut-off date – 21.11.2022.

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 jointly with the Irkutsk Regional Division of the Siberian Main Branch of the Bank of Russia.

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