



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

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Information and analytical commentary

21 December 2022

INFLATION EXPECTATIONS AND CONSUMER SENTIMENT (DECEMBER 2022)

In December 2022, households' inflation expectations for a year ahead remained elevated, as shown by InFOM's survey. The median estimate of the inflation expected in the next 12 months reached 12.1%. Short-term companies' price expectations rose. At the same time, analysts' inflation forecasts for 2022 and 2023 edged down. The Bank of Russia forecasts that, given the monetary policy pursued, inflation will edge down to 5–7% in 2023 and return to the 4% target in 2024.

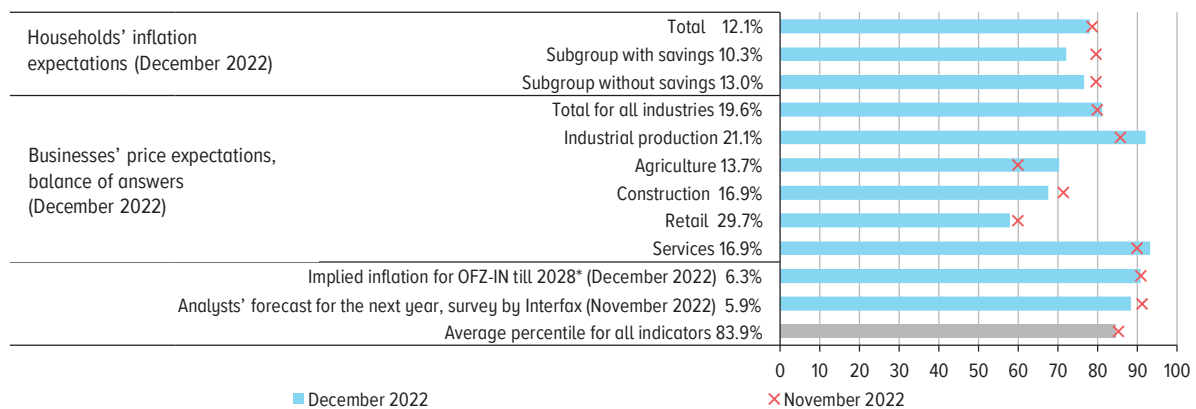
INFLATION EXPECTATION INDICATORS

	Expectation horizon	2019 average	2020 average	2021 average	December 2021	February 2022	October 2022	November 2022	December 2022
Inflation, %		4.5	3.4	6.7	8.4	9.2	12.6	12.0	
Inflation observed by households, %									
Public Opinion Foundation (median)	previous 12 months	9.9	9.6	15.1	17.7	17.1	18.2	17.6	16.3
Public Opinion Foundation (subgroup with savings)	previous 12 months	9.1	8.7	12.8	16.1	15.6	14.6	15.3	13.7
Public Opinion Foundation (subgroup without savings)	previous 12 months	10.4	9.9	16.2	18.5	18.2	20.5	19.5	18.2
Households' inflation expectations, %									
Public Opinion Foundation (median)	next 12 months	9.3	9.1	12.1	14.8	13.5	12.8	12.2	12.1
Public Opinion Foundation (subgroup with savings)	next 12 months	8.3	8.4	10.5	13.7	12.1	10.4	10.5	10.3
Public Opinion Foundation (subgroup without savings)	next 12 months	9.8	9.6	13.2	15.2	14.5	14.8	13.4	13.0
Companies' price expectations									
Companies, balance of answers	next 3 months	9.6	13.3	20.0	22.2	21.8	16.5	18.5	19.6
Implied inflation for OFZ-IN (monthly average), %									
OFZ-IN 52002, February 2028	next 5 year average	4.1	3.3	4.2	5.1	6.4	6.5	6.3	6.3
OFZ-IN 52003, July 2030	next 7.5-year average		3.3	4.3	5.0	6.2	6.6	6.5	6.5
OFZ-IN 52004, March 2032	next 9 year average				5.1	6.5	6.9	6.8	6.7
OFZ-IN	2023-2028 average	4.3	3.8	4.3	5.3	6.6	6.6	6.6	6.6
OFZ-IN	2028-2030 average		3.5	4.4	4.8	6.0	6.9	7.0	7.0
OFZ-IN	2030-2032 average				5.6	7.8	7.9	7.9	7.3
Analysts, %									
Interfax	2022			4.3	5.1		12.5	12.4	
Survey by the Bank of Russia	2022			4.2	4.8	5.5	12.5		12.3
Interfax	2023						6.1	5.9	
Survey by the Bank of Russia	2023			4.0	4.0	4.0	6.0		5.8
Survey by the Bank of Russia	2024				4.0	4.0	4.2		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 percentiles of inflation expectations for the current and previous months in the distribution observed since January 2017. The red marker shows the percentile as of the previous date, and the blue column shows that as of the current 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, businesses, credit institutions and households consider, among other things, their expectations regarding future inflation. In turn, the Bank of Russia's monetary policy performance results influence inflation expectations. Achieving the inflation target and keeping it at a consistently low level help 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 shift in the absolute values of inflation expectations, their changes and relative level compared to their historical range are very important indicators that make it possible to assess potential changes in the economic behaviour of households. In turn, these changes determine future sustained inflation.

Unlike households' inflation expectations, price expectations of businesses are measured as the balance of responses to the question about the expected change in selling prices in the next three months rather than the median of the expected price growth in the next 12 months. The rise in price expectations means that the majority of companies are planning to increase prices. However, the change in the balance of responses does not enable to form a view of the value of this increase.

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

Inflation expectations of households remained elevated

In December, households' inflation expectations edged down but remained elevated within their higher April–November 2022 range, as shown by InFOM's survey. The median estimate of households' inflation expectations for the next 12 months equalled 12.1% (-0.1 pp vs November; average for 2017–2019: 9.6%). In December, expectations of respondents both with and without savings edged down. Inflation expectations in the subgroup with savings remained virtually unchanged for the fourth consecutive month. In December, their median was 10.3% (-0.2 pp vs November; average for 2017–2019: 8.7%). The median estimate of expectations among respondents without savings was 13.0% in December (-0.4 pp vs November).

In December 2022, the annual inflation observed by households continued to decline returning to the level of October–November 2021. Its median estimate was 16.3% (-1.3 pp vs November). Estimates of observed inflation declined among respondents both with and without savings.

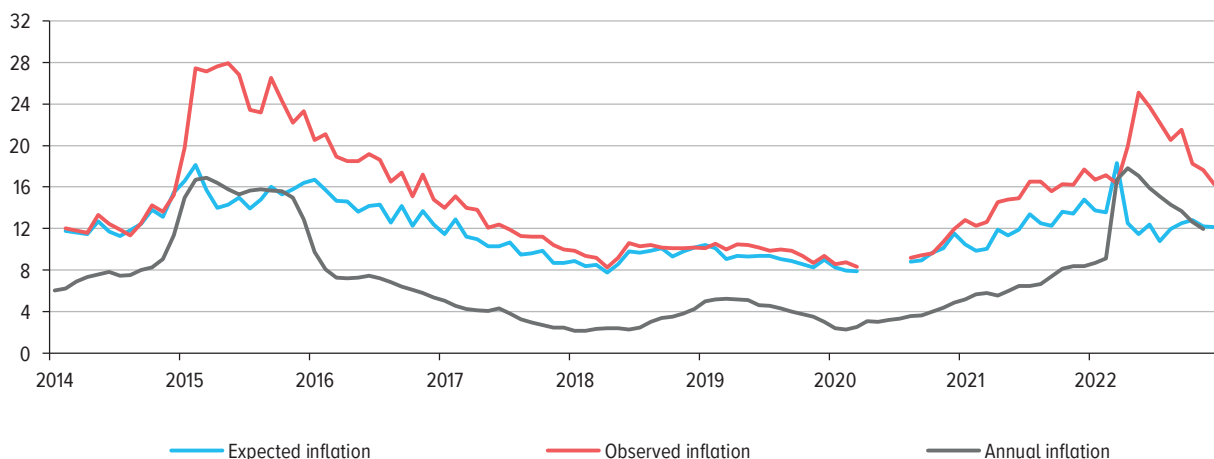
December witnessed respondents' rising concerns about a surge in housing and utility prices (due to the indexation of prices from 1 December 2022)² and prices for certain food products (meat and poultry, fish and seafood, cheese and sausage, fruit and vegetables). For almost all the goods included into the questionnaire, the estimates stayed close to annual lows.

The qualitative estimates of inflation expected for one month and one year ahead edged up³ in December, and those of actual inflation over the past month and the past year declined.⁴

Longer-term inflation expectations increased slightly in December. The proportion of respondents believing that the price growth rate in three years will notably surpass 4% reached 52% (+2 pp vs November).

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

Chart 2



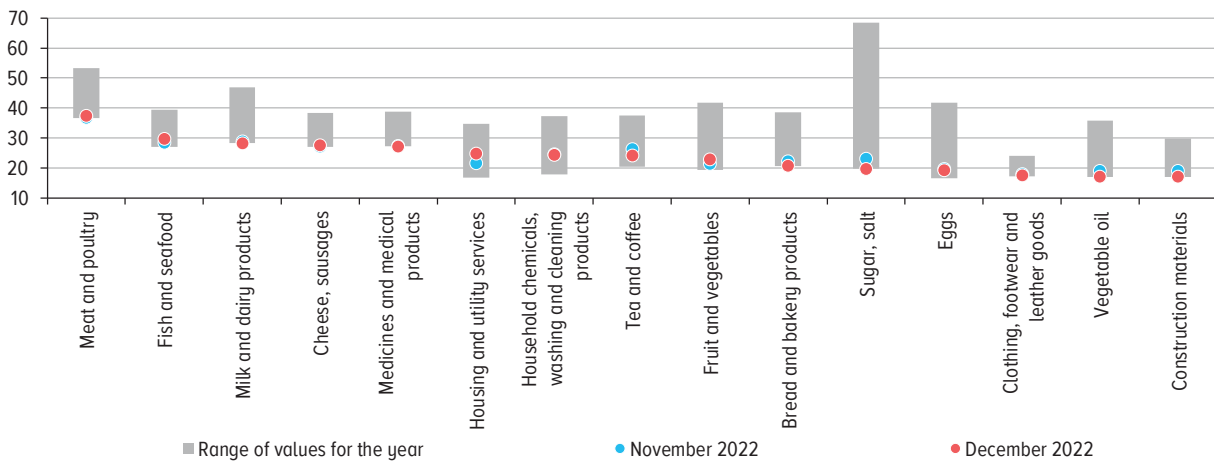
Sources: InFOM, Rosstat.

² More information about inflation in November is available in the information and analytical commentary [Consumer Price Dynamics No. 11 \(83\), November 2022](#).

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

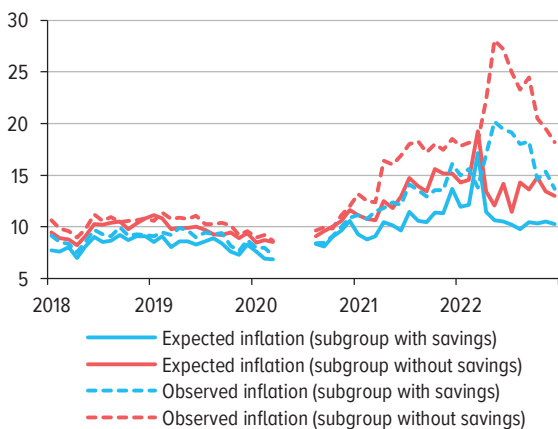
⁴ That is, a smaller percentage of respondents, as compared to the previous month, answered that prices rose considerably or were rising faster than before.

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)



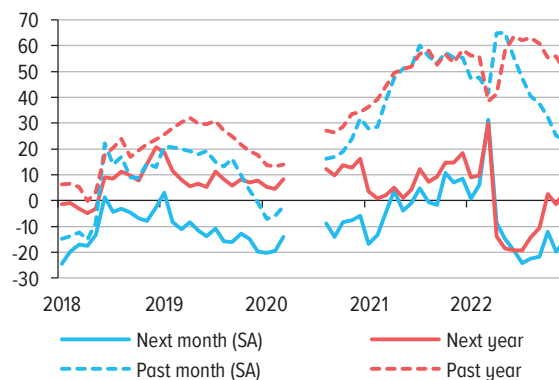
Sources: InFOM, Bank of Russia calculations.

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



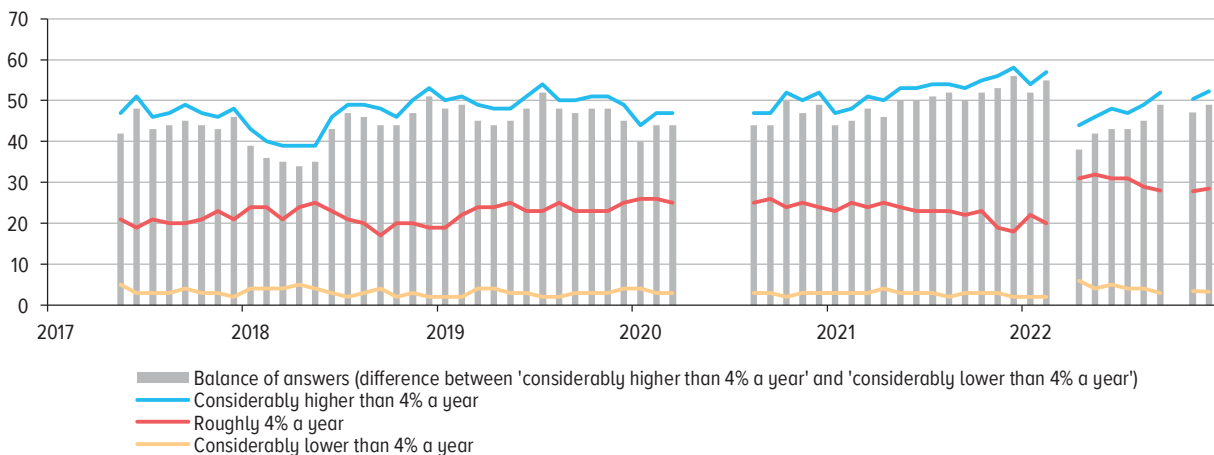
Sources: InFOM, Bank of Russia calculations.

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



* 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 did not change

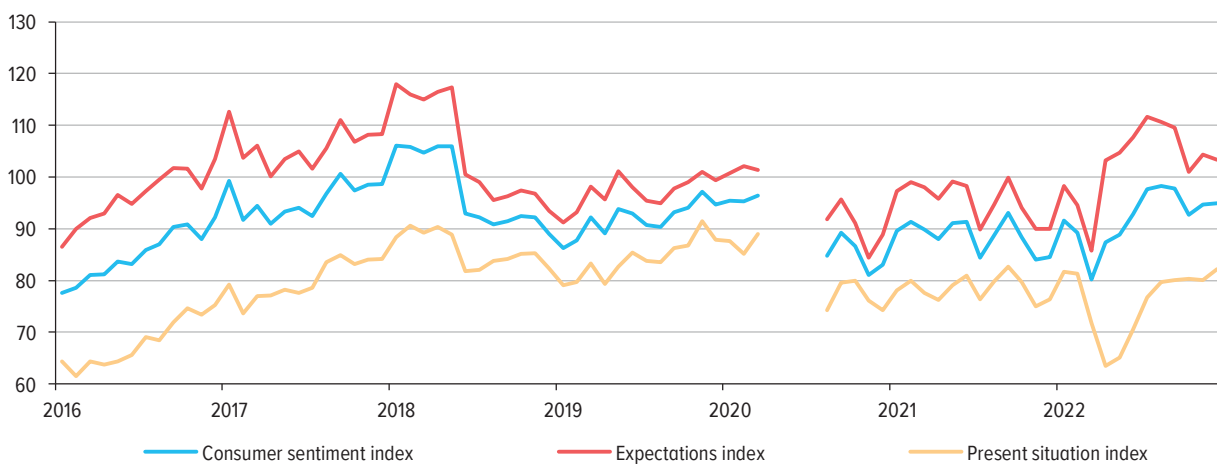
In December, the consumer sentiment index (CSI) came in at 94.9 points (+0.3 points vs November) to remain notably below the level in September (-2.9 points vs September). The expectations index making a part of the CSI declined (to 103.4 points; -1 point vs November). The estimates of all its components: 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 decreased.

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 major purchases) rose for the first time since September reaching the peaks of September 2021. The present situation index equalled 82.2 points (+2.1 points vs November).

In December, households' propensity to save increased. The percentage of respondents opting to save rather than purchase expensive goods increased to 54.3% (+1.3 pp vs November), which is the highest reading since March 2021. As to the forms of savings, respondents' preferences remained almost unchanged.

CONSUMER SENTIMENT INDEX
(POINTS)

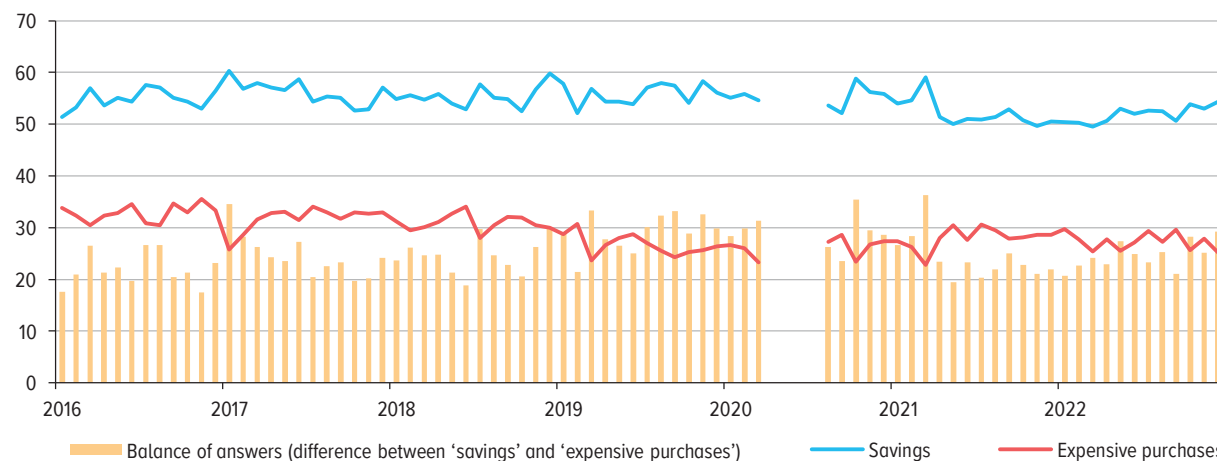
Chart 7



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*.

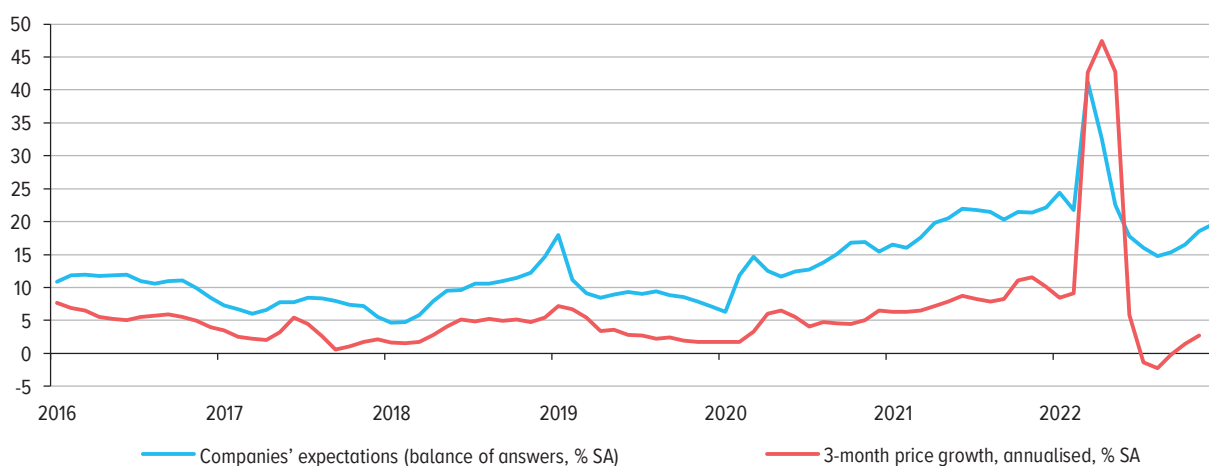
Companies' price expectations rose again

According to the [monitoring](#) carried out by the Bank of Russia in December 2022, companies' price expectations (balance of responses) for the next three months continued to increase for the fourth consecutive month, but the pace of increase declined compared to November. The quantitative indicator of companies' price expectations – the average price growth rate expected in the next three months – equalled 6.5% in annualised terms in December (vs 5.1% in December 2021).⁵ Accelerating growth of business costs amid better estimates of current demand influenced companies' price expectation movements.

Price expectations were the highest in agriculture due to more optimistic future demand estimates unlike those in other industries. Besides, the majority of surveyed agricultural producers indicated the change in prices for similar products in the market as the main reason behind the upcoming increase in prices for their products. In transportation and storage, the increase in price expectations was associated, among other things, with the expected indexation of rail freight rates from 1 January 2023.

COMPANIES' PRICE EXPECTATIONS

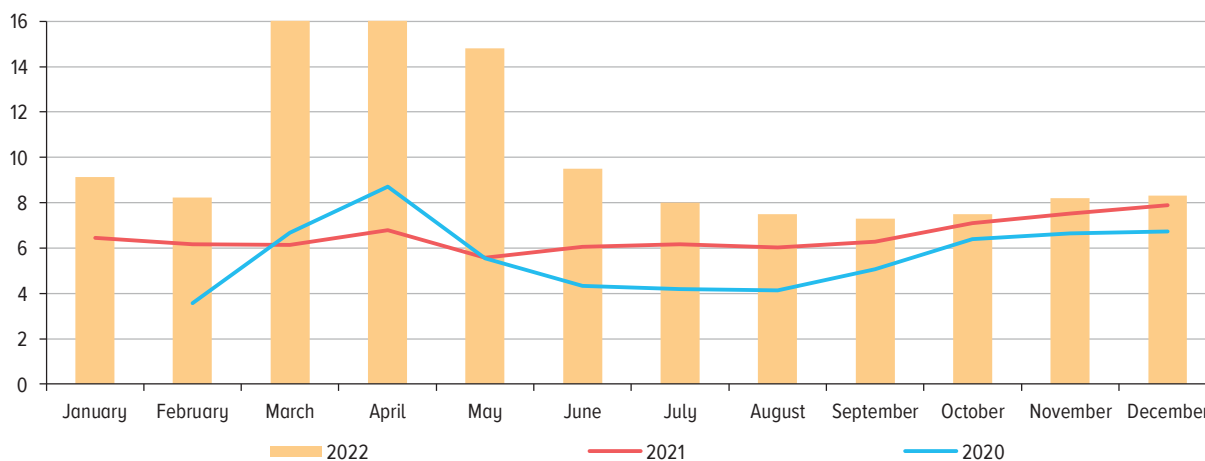
Chart 9



Sources: Bank of Russia, Rosstat.

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

Chart 10

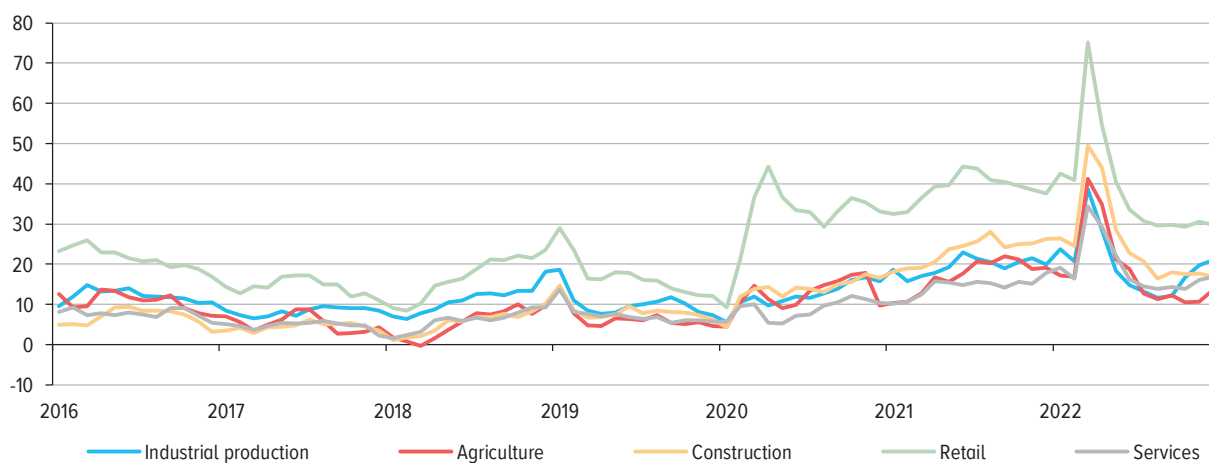


Source: Bank of Russia.

⁵ Since April 2022, the calculation of the average price growth rate expected in the next three months 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 trade remained almost unchanged amid mixed dynamics in wholesale and retail sectors. In wholesale trade, price expectations (the balance of responses) increased, but in retail trade they decreased as estimates of future demand worsened. The average price growth rate expected by retailers in the next three months equalled 8.3% in annualised terms (vs 7.9% in December 2021).

Implied inflation remained elevated

In December, implied inflation, included in OFZ yields, almost did not change from November and remained high compared to the summer months. According to the Bank of Russia's estimates,⁶ average implied inflation for the next five years for inflation-indexed federal government bonds (OFZ-IN) was 6.3% over the first half of December (unchanged from November). Implied inflation for 2028–2030 equalled 7.0% (unchanged from November), for 2030–2032, it decreased to 7.3% (-0.6% vs November).

Analysts expect inflation to slow down to 5.8–5.9% next year

In late November–early December, analysts decreased slightly their inflation forecasts. According to the findings of [the Bank of Russia's macroeconomic survey](#) carried out in December, analysts' inflation forecast for the end of 2022 equalled 12.3% (-0.2 pp vs October, no survey was conducted in November). In 2023, analysts expect inflation to edge down to 5.8% (-0.2 pp vs October). Inflation forecasts for 2024 have not changed and remain close to 4%. As shown by the survey carried out by Interfax, in November, analysts' consensus forecast of inflation for the end of 2022 was 12.4% (-0.1 pp vs October), and the forecast for the end of 2023 was 5.9% (-0.2 pp vs October).

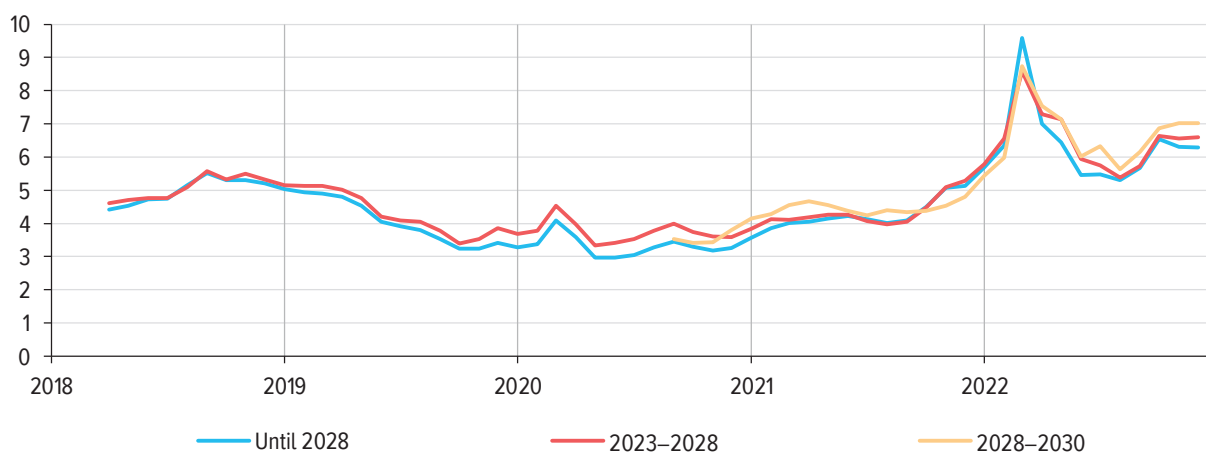
⁶ The estimates are based on the comparison of expected yields on OFZ-IN and nominal OFZ (OFZ-PD) bonds, with account of the lag in the nominal value indexation and seasonally adjusted inflation. [Calculation method](#).

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

The medium-term balance of risks, as assessed by the Bank of Russia, is still skewed towards proinflationary ones. Short-term proinflationary risks have increased and exceed disinflationary risks. The Bank of Russia forecasts that, given the monetary policy stance, inflation will decline to 5–7% in 2023 and return to 4% in 2024.

IMPLIED INFLATION FOR OFZ-IN
(%)

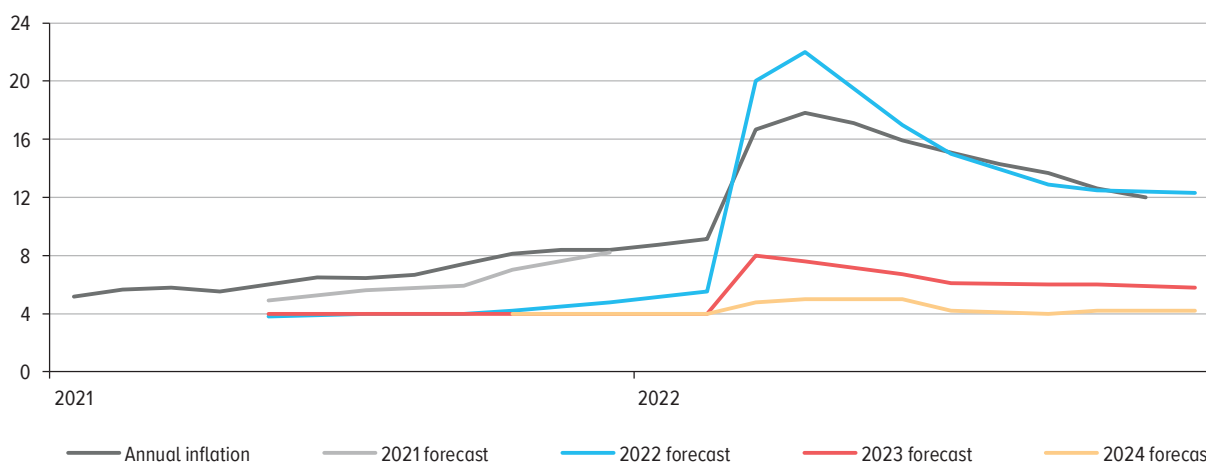
Chart 12



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

RESULTS OF THE BANK OF RUSSIA'S MACROECONOMIC SURVEY
(%)

Chart 13



Sources: Bank of Russia, Rosstat.

The data cut-off date – 19.12.2022.

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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