



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

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Information and analytical commentary

26 September 2023

INFLATION EXPECTATIONS AND CONSUMER SENTIMENT (SEPTEMBER 2023)

Inflation expectations continued to increase in September. The median estimate of inflation expected by households in the coming 12 months went up to 11.7% in September (+0.2 pp vs August), as shown by InFOM's survey. The median of long-term expectations for five years ahead increased more significantly to 11.4% (+1.9 pp vs August). Price expectations of businesses reached their highs since April 2022. Implied inflation for inflation-indexed federal government bonds (OFZ-IN) increased to 8.3% over the next five years. Analysts' forecasts also predicted a rise in inflation for 2023 and 2024. The Bank of Russia's policy is aimed at decreasing inflation expectations and returning inflation to the target. The Bank of Russia forecasts that given the monetary policy pursued, annual inflation will be 6.0–7.0% in 2023, return to 4% in 2024, and stay close to 4% further on.

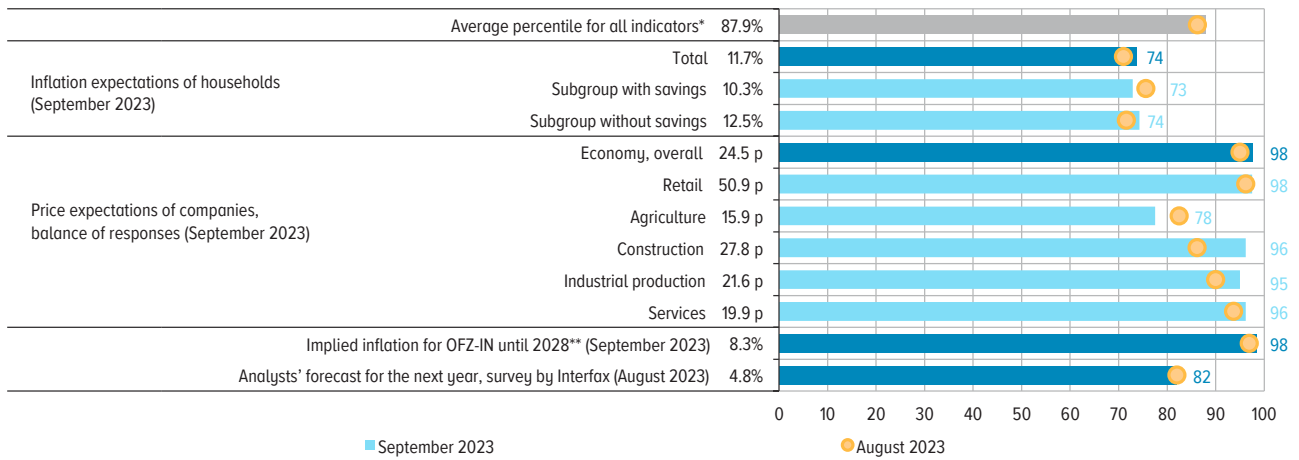
INFLATION EXPECTATION INDICATORS

	Expectation horizon	2020 average	2021 average	2022 average	2023 Q2 average	2023 Q3 average	July 2023	August 2023	September 2023
Inflation, %		3.4	6.7	13.8	2.7		4.3	5.2	
Inflation observed by households, %									
Public Opinion Foundation (median)	past 12 months	9.6	15.1	19.6	14.3	13.7	13.8	13.5	13.8
Public Opinion Foundation (subgroup with savings)	past 12 months	8.7	12.8	16.7	12.4	12.0	12.1	12.0	12.0
Public Opinion Foundation (subgroup without savings)	past 12 months	9.9	16.2	21.9	15.8	14.8	15.2	14.2	14.9
Households' inflation expectations, %									
Public Opinion Foundation (median)	next 12 months	9.1	12.1	12.9	10.5	11.4	11.1	11.5	11.7
Public Opinion Foundation (subgroup with savings)	next 12 months	8.4	10.5	11.3	9.5	10.3	10.2	10.4	10.3
Public Opinion Foundation (subgroup without savings)	next 12 months	9.6	13.2	14.0	11.3	12.2	11.8	12.2	12.5
Public Opinion Foundation (median of five-year inflation expectations)	next 5 years				10.7	10.1	9.5	9.5	11.4
Companies' price expectations, balance of responses									
Companies, total	next 3 months	13.3	20.1	21.7	16.3	21.6	17.5	22.9	24.5
Retail	next 3 months	31.7	38.8	38.9	35.5	46.9	42.1	47.7	50.9
Implied inflation for OFZ-IN (monthly average), %									
OFZ-IN 52002, February 2028	next 5-year average	3.3	4.2	6.3	6.6	7.8	7.2	7.9	8.3
OFZ-IN 52003, July 2030	next 7-year average	3.3	4.3	6.5	7.2	7.9	7.6	8.0	8.2
OFZ-IN 52004, March 2032	next 9-year average			6.7	7.6	8.0	7.9	8.0	8.2
OFZ-IN	2028–2030 average	3.5	4.4	6.7	8.3	8.1	8.3	8.1	8.0
OFZ-IN	2030–2032 average			7.6	9.1	8.5	9.1	8.3	8.1
Analysts, %									
Survey by the Bank of Russia	2023		4.0	6.3	5.7	6.0	5.7		6.3
Interfax	2023			6.5	5.8		6.0	6.4	
Survey by the Bank of Russia	2024			4.4	4.1	4.4	4.3		4.5
Interfax	2024				4.7		4.8	4.8	
Survey by the Bank of Russia	2025			4.0	4.0	4.0	4.0		4.0

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

INFLATION EXPECTATION INDICATORS IN PERCENTILES RELATIVE TO THE DISTRIBUTION OF VALUES SINCE 2017

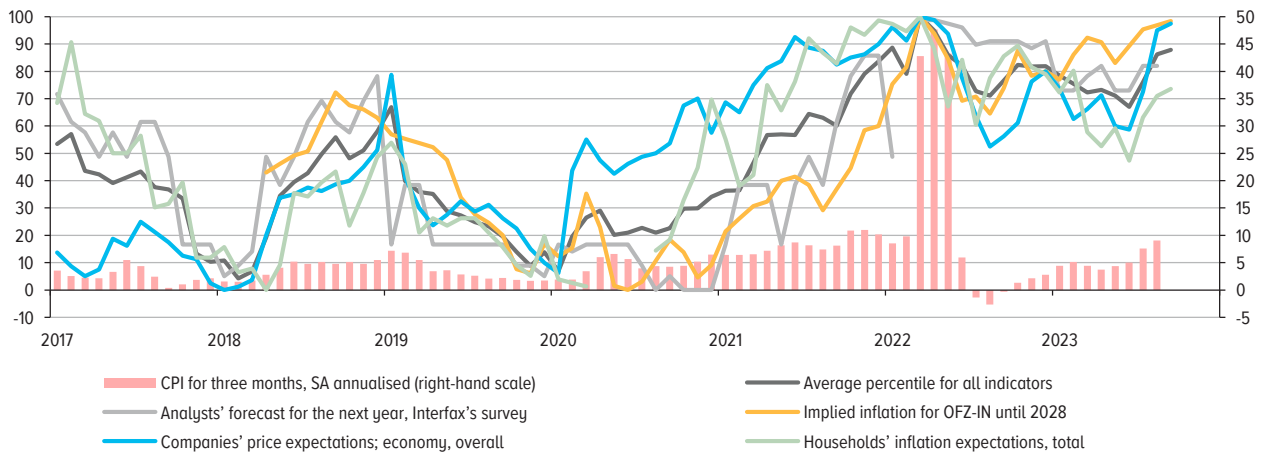
Chart 1



* The average of the percentiles of households' inflation expectations (total), companies' price expectations (the economy, overall), implied inflation for OFZ-IN until 2028, and analysts' forecast for the next year.
 ** Percentiles for implied inflation are specified relative to the distribution of values since April 2018.
 Note. The chart shows the percentiles of inflation expectation indicators for the current and previous months in the distribution observed since January 2017. The percentiles as of the previous date are highlighted in yellow, and the percentiles as of the current date are shown as grey, blue and cyan columns. A shift in the indicator to the left relative to the previous date means lower inflation expectations, and its shift to the right – higher inflation expectations.
 Sources: InFOM, Bank of Russia, Interfax, Moscow Exchange.

PERCENTILES OF INFLATION EXPECTATION INDICATORS RELATIVE TO THE DISTRIBUTION OF VALUES SINCE 2017

Chart 2



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

Monetary policy and inflation expectations

Inflation expectations of economic agents influence how efficiently monetary policy will be able to control inflation.¹ This is because companies, credit institutions and households make their decisions on consumption, savings and investment, price products, and set credit and deposit rates, being guided by their expectations about future inflation, among other factors. The performance of the Bank of Russia's monetary policy in turn impacts 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 almost always exceed actual inflation rates. This discrepancy is related to the peculiarities of perception: people tend to notice and actively respond to price growth, whereas declining or stable prices usually attract less attention. Therefore, people judge inflation to a greater extent by looking at the goods whose prices have increased most. Despite this systematic bias in the absolute values of inflation expectations, their change and relative level compared to the historical range are essential indicators showing possible changes in households' economic behaviour. These changes in turn influence future steady inflation.

Unlike households' inflation expectations, price expectations of businesses are measured as the balance of responses to the question about the expected change in output prices in the next three months rather than the median of the expected price growth in the next 12 months. Rising price expectations mean that a higher percentage of companies plan to increase prices compared to the previous month. However, it is not possible to assess the scope of this increase based on the change in the balance of responses.

¹ The monetary policy transmission mechanism is detailed in Appendix 1 to the [Monetary Policy Guidelines for 2023–2025](#).

Household inflation expectations increased again

Based on InFOM's survey, in September 2023, the median estimate of household inflation expectations for the next 12 months totalled 11.7% (+0.2 pp vs August, +1.2 pp vs the 2023 Q2 average) (Annex, Chart 1). Inflation expectations grew only among respondents without savings (Annex, Chart 3). The median of inflation expectations in the subgroup with savings equalled 10.3% in September (-0.1 pp vs August), which nevertheless remains elevated.

The estimate of inflation observed by households rose in September after four months of decline and returned to July 2023 levels. The median inflation rate equalled 13.8% (+0.3 pp vs August). Estimates of observed inflation increased mainly owing to the subgroup of respondents without savings, while estimates of respondents with savings remained unchanged.

In September, respondents were more concerned about rising prices for most goods included in the survey (Annex, Chart 2). Respondents markedly more often than in August reported about a strong increase in prices for petrol, as well as for meat and poultry.² Respondents' concerns about rising prices for these goods reached their highs over the year. Not so often than last month, respondents reported about increases in prices for housing and utility services, salt and sugar.

Qualitative estimates of expected inflation for one month and one year ahead, as well as actual inflation over the previous month and past year were also higher in September³ (Annex, Chart 4).

Long-term inflation expectations for five years ahead⁴ increased in September. Their median equalled 11.4% (+1.9 pp vs August). Expectations increased among respondents both with savings (up to 10.3%; +1.7 pp vs August) and without savings (up to 12.4%; +2.2 pp vs August). The proportion of respondents who believe that in three years price growth will be noticeably higher than 4% did not change (compared to July; the question was not asked in August) and equalled 46% (Annex, Chart 5).

Consumer sentiment decreased

In September, the consumer sentiment index (CSI) lowered, returning to the level of February 2023 (Annex, Chart 6). It equalled 102.4 points (-3.2 points vs August). Both the expectations index and the estimates of the present situation included in the CSI decreased.

The expectations index equalled 110.3 points in September (-3.3 points vs August). The values of all its components (the estimates of personal finance prospects for a year ahead and expectations about changes in economic conditions in the country for a year and five years ahead) declined.

The present situation index totalled 90.4 points (-3.3 points vs August). The estimates of both its components decreased (actual changes in personal finance over the year and the suitability of the current period for large purchases).

However, respondents' propensity to save increased in September (Annex, Chart 7). The percentage of respondents opting to save money rather than purchase expensive goods increased to 53.2% (+1.5 pp vs August). The percentage of respondents preferring to spend available cash declined to 28.4% (-3.6 pp vs August).

In September, respondents more often than a month ago said that they prefer to keep their savings in cash (33% of respondents vs 30% in August), and less often in bank accounts (37% of respondents vs 42% in August).

² For details on inflation in August, refer to the information and analytical commentary [Consumer Price Dynamics](#) No. 8 (92), August 2023.

³ That is, a higher percentage of respondents, as compared to the previous month, answered that prices will rise considerably or will be rising faster than now. A higher percentage of respondents also answered that prices had risen considerably and were rising faster than before.

⁴ The question 'Could you even roughly estimate inflation and price growth in Russia in five years?' The proportion of respondents who gave a meaningful response to this question (excluding the answers such as 'I have no idea what will happen to prices in Russia in five years' and 'It is hard to say') was 51% in September (vs 52% in August).

Growth in companies' price expectations continued

According to the monitoring carried out by the Bank of Russia in September 2023, companies' price expectations (the balance of responses) for the next three months continued to grow (Annex, Chart 8). The balance of responses reached its maximum since April 2022. In September 2023, the survey covered 11,100 enterprises (for more details, refer to the information and analytical commentary [Monitoring of Businesses: Assessments, Expectations and Comments](#)).

The quantitative indicator of companies' inflation expectations – the average price growth rate expected in the next three months⁵ – was 5.9% in annualised terms in September (vs 5.2% in August), which is significantly higher than the inflation target.

There was a rise in price expectations in the majority of industries (Annex, Chart 9). As in the previous month, the main reasons were the depreciation of the ruble and rising costs (including higher prices for fuels and lubricants and salary increases amid shortages of personnel).

In September, the most significant rise in price expectations occurred in manufacturing and construction. In manufacturing, assessments of actual and expected demand remain at an elevated level as compared to other industries. In construction, expectations regarding demand for the next three months increased in September.

In trade, price expectations continued to rise in both the wholesale and retail segments (except car sales), remaining the highest among all industries. The average price growth rate expected by retailers in the next three months equalled 14.4% in annualised terms (Annex, Chart 10). In addition to general reasons, the trends in price expectations of trade companies were influenced by respondents' improved assessments of current demand. However, in car sales, respondents' expectations regarding demand and turnover significantly worsened, and price expectations declined.

Decreased price expectations were also noticeable in agriculture. This was triggered by growth in production volumes, including due to a rich crop harvest, with actually unchanged estimates of demand. Price expectations also declined in mining and quarrying amid a noticeable increase in expectations for production output.

Implied inflation for the next five years is estimated at 8.3%

In September, according to the Bank of Russia's estimates,⁶ average implied inflation for the next five years to 2028, calculated on the basis of the ratio between yields on OFZ-PD and OFZ-IN bonds with the same maturity dates continued to increase and averaged 8.3% (+0.4 pp vs August) (Annex, Chart 11). Implied inflation for longer periods edged down. It totalled 8.0% (-0.1 pp vs August) for the period of 2028–2030 and 8.1% (-0.2 pp vs August) for the period of 2030–2032.

Analysts made their inflation growth forecasts

In August–September 2023, analysts predicted higher inflation. According to the findings of the [Bank of Russia's macroeconomic survey](#) carried out in September, analysts forecast that inflation would be 6.3% at the end of 2023 (+0.6 pp vs July, no survey was conducted in August) and 4.5% at the end of 2024 (+0.2 pp vs July) (Annex, Chart 12). Analysts surveyed by the Bank of Russia expect inflation to be 4.0% in 2025. In August, according to the survey carried out by Interfax, analysts' consensus forecast of inflation was 6.4% for the end of 2023 (+0.4% vs July) and 4.8% for the end of 2024 (unchanged vs July).

⁵ Seasonally unadjusted data.

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

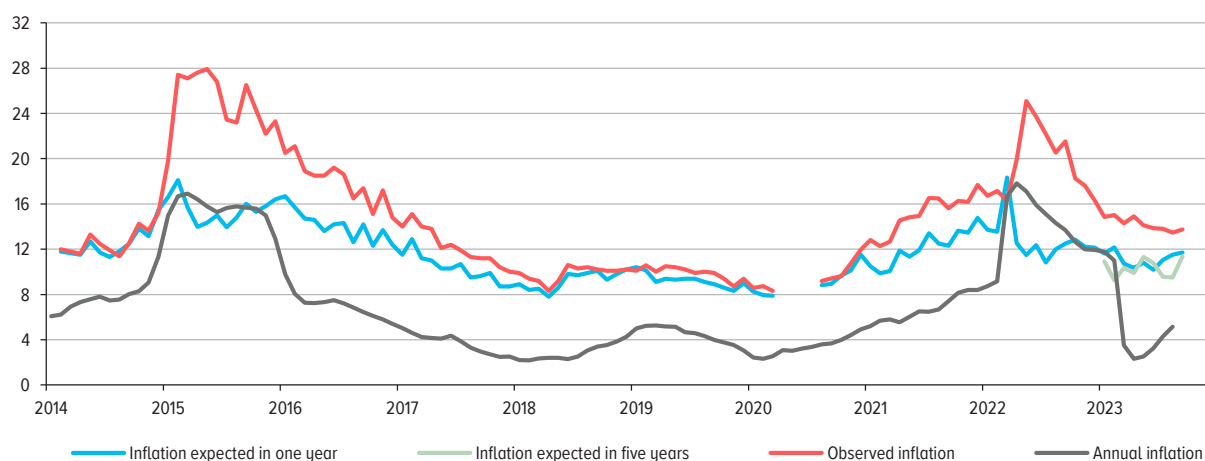
The Bank of Russia forecasts that annual inflation will continue to rise in the next few months. Low price growth rates of autumn 2022 will be gradually excluded from its calculations. Significant proinflationary risks have materialised in recent months, namely the growth in domestic demand outpacing the output expansion capacity and the depreciation of the ruble. This situation required to increase the key rate in order to limit the inflation deviation upward from the target value and return it to 4% in 2024. According to the Bank of Russia's forecast, annual inflation will be 6.0–7.0% in 2023. Given the monetary policy pursued, annual inflation will return to 4% in 2024 and stay at this level further on.

ANNEX

Analytical charts

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

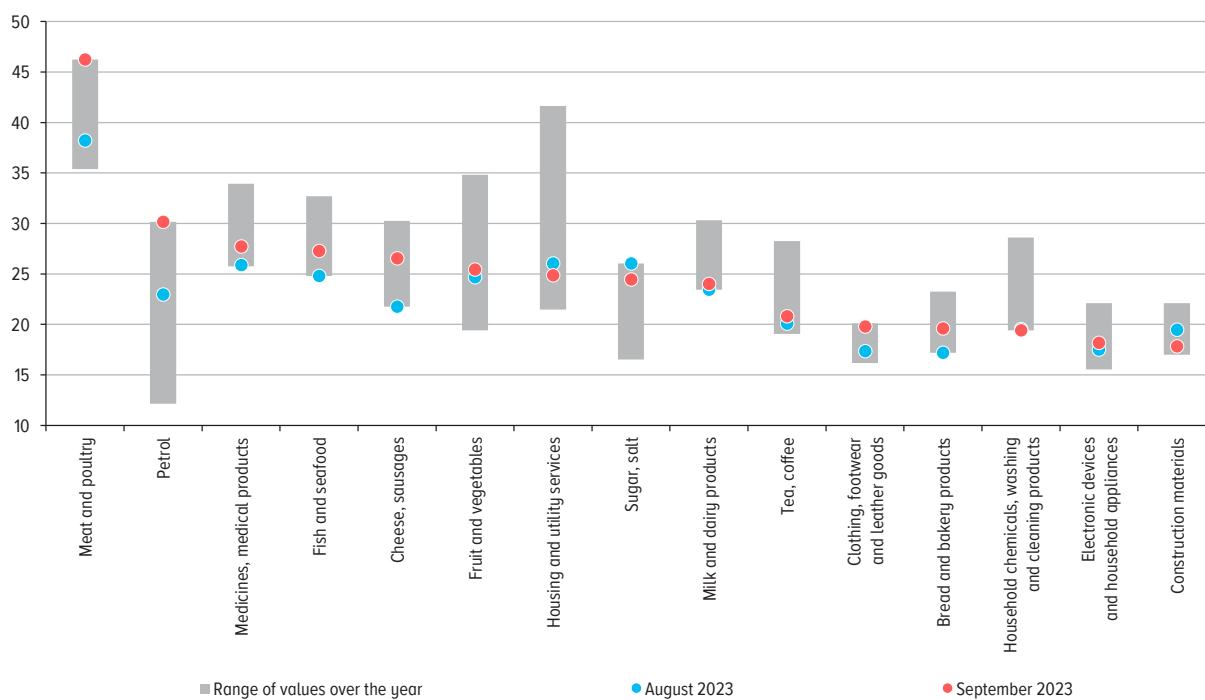
Chart 1



Sources: InFOM, Rosstat.

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

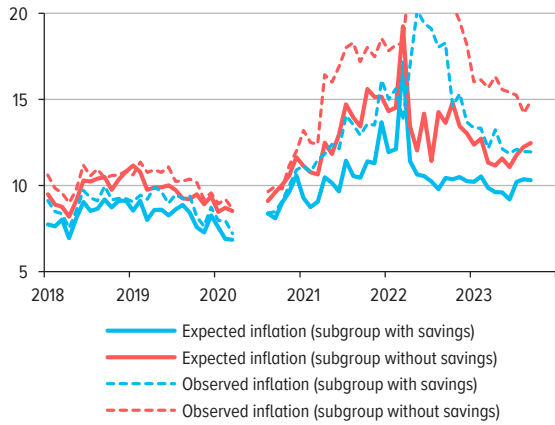
Chart 2



Sources: InFOM, Bank of Russia calculations.

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

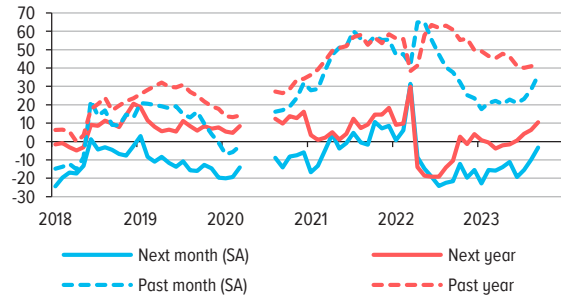
Chart 3



Sources: InFOM, Bank of Russia calculations.

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

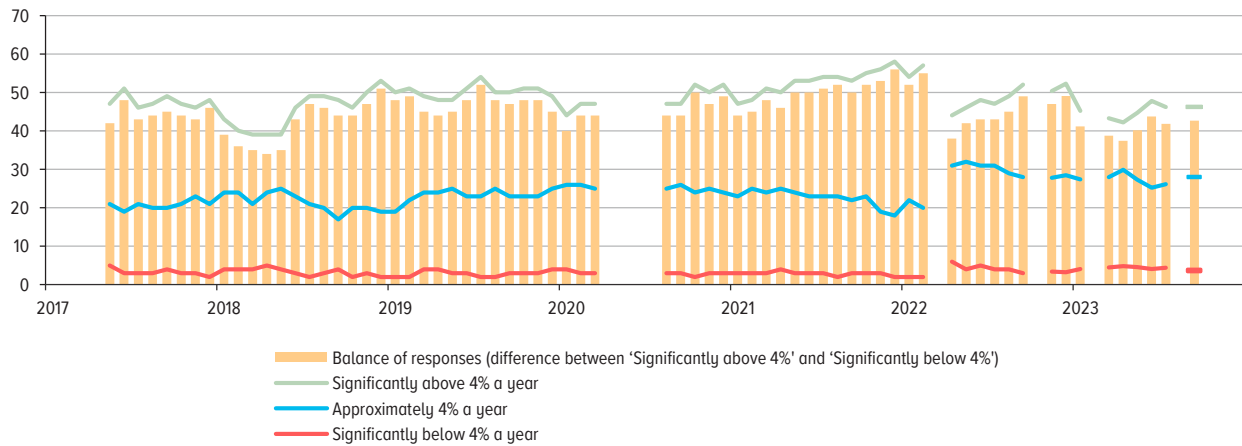
Chart 4



* Balance of responses to the questions 'How were prices changing overall over the past 12 months (year), in your opinion?'; 'How will prices be changing overall in the next 12 months (year), in your opinion?'; 'How did prices for food products, non-food goods and services change overall over the past month, in your opinion?'; 'How will prices for food products, non-food goods and services change overall next month, in your opinion?'. For the last two questions – seasonally adjusted prices.
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?'
(% OF ALL RESPONDENTS)

Chart 5



Sources: InFOM, Bank of Russia calculations.

CONSUMER SENTIMENT INDEX (POINTS)

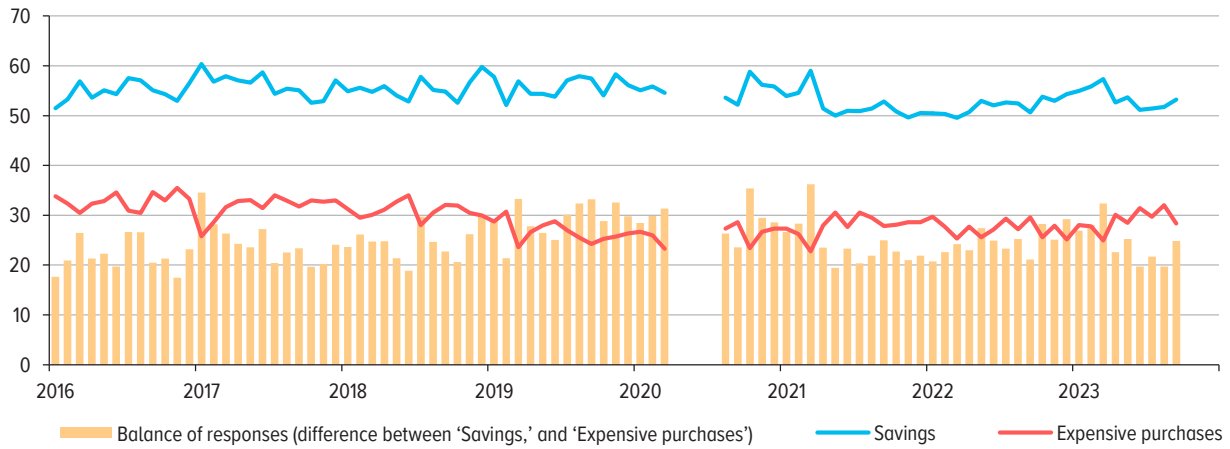
Chart 6



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 ALL RESPONDENTS)

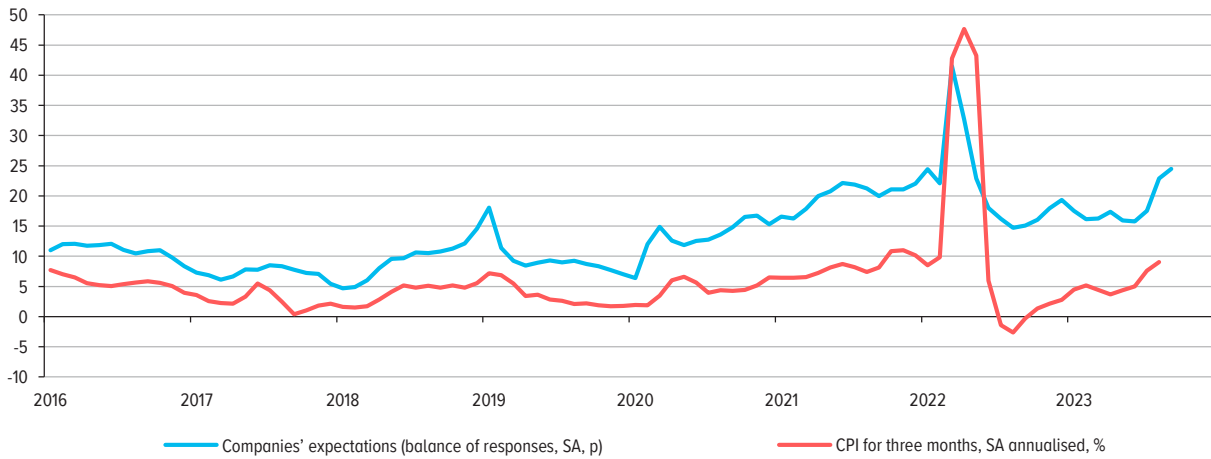
Chart 7



Sources: InFOM, Bank of Russia calculations.

COMPANIES' PRICE EXPECTATIONS

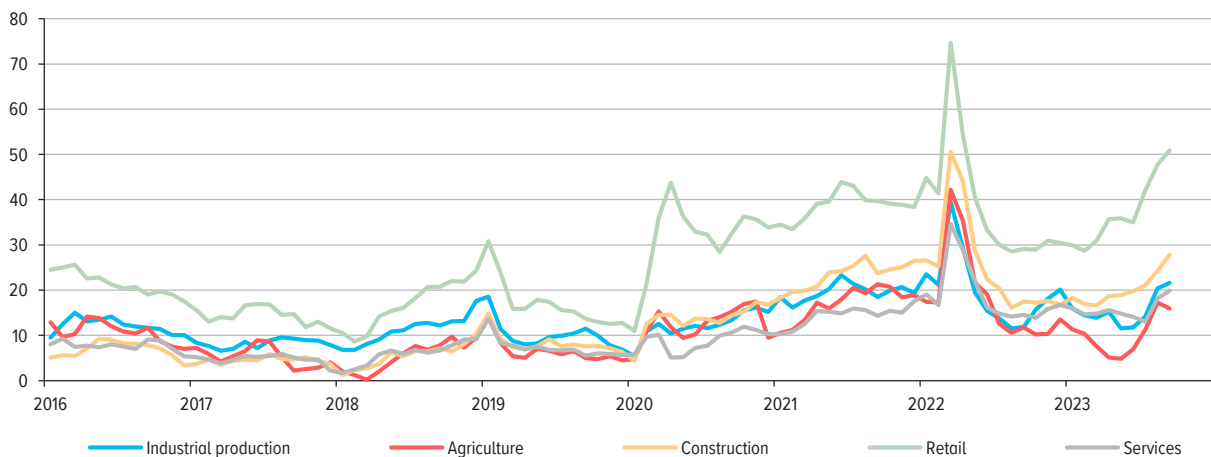
Chart 8



Sources: Bank of Russia, Rosstat.

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

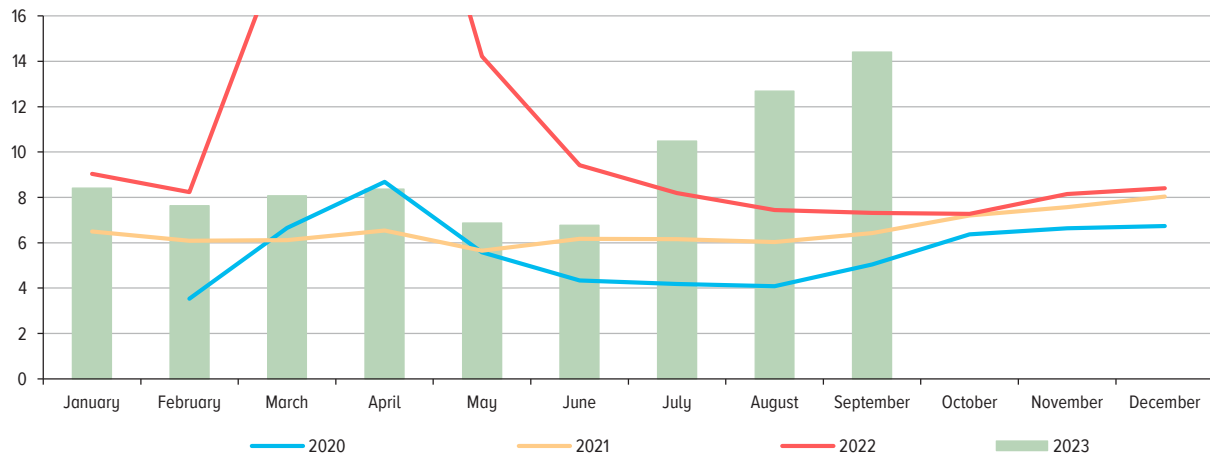
Chart 9



Source: Bank of Russia.

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

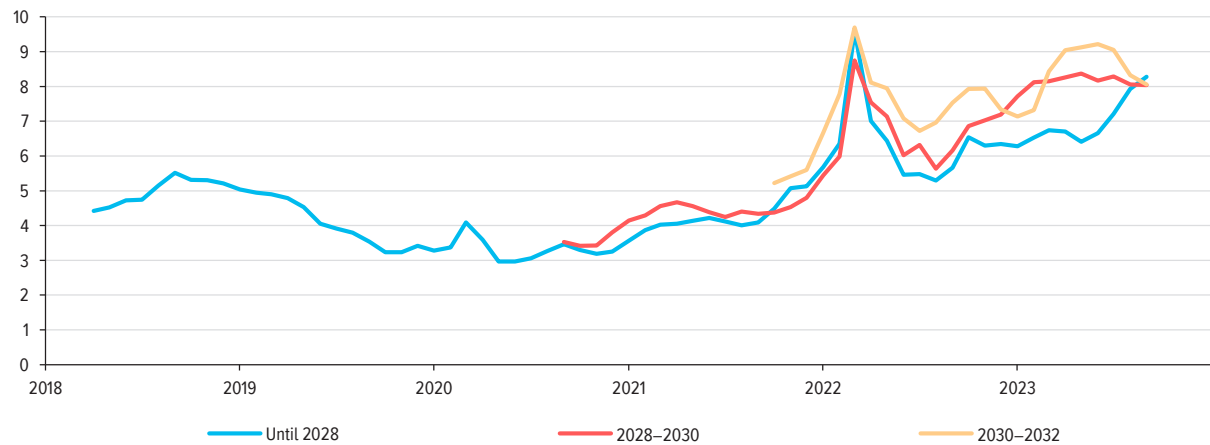
Chart 10



Source: Bank of Russia.

IMPLIED INFLATION FOR OFZ-IN
(%)

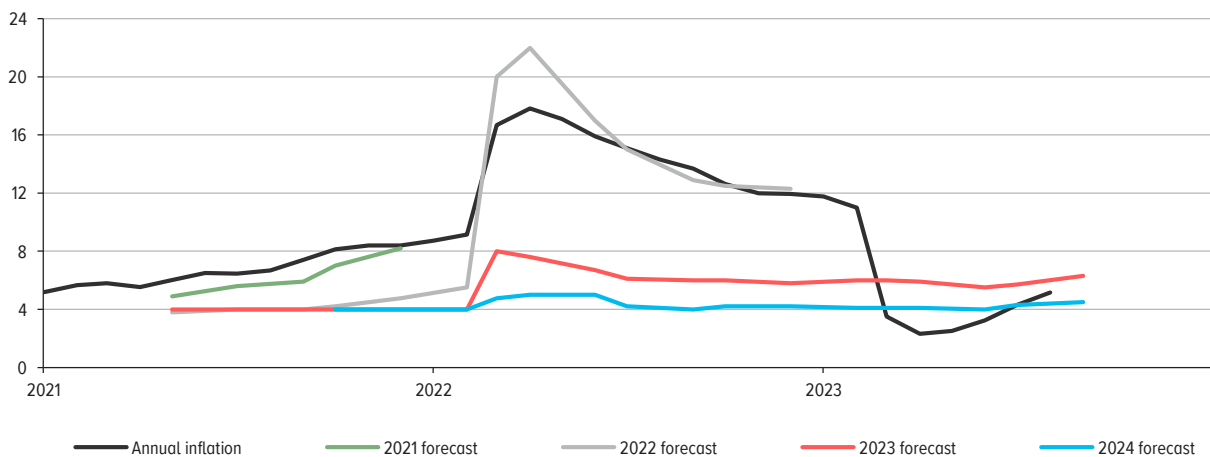
Chart 11



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

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

Chart 12



Sources: Bank of Russia, Rosstat.

The data cut-off date – 21.09.2023.

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 Central Bank of the Russian Federation.

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