



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No. 12 (48) • December 2020

Information and analytical commentary

24 December 2020

Inflation expectations and consumer sentiment (December 2020)

In December, the dynamics of inflation expectations varied across economic agents' groups. According to InFOM's survey, the median estimate of inflation observed and expected by households continued to increase. Analysts' inflation forecasts for 2021 and 2022 remained virtually unchanged (close to 4%). Implied inflation for inflation-indexed federal government bonds (OFZ-INs) in December stayed at the levels reached in October and November. According to a Bank of Russia business survey, firms' short-term inflation expectations declined somewhat albeit remained elevated. According to the Bank of Russia's forecast, annual inflation will reach 4.6–4.9% in 2020, 3.5–4.0% in 2021 and will stabilise around 4% later on.

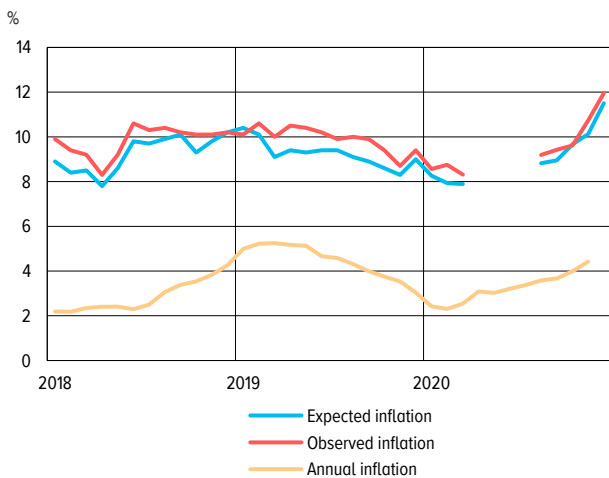
INFLATION EXPECTATION INDICATORS

Table 1

| | Expectation horizon | 2019 average | December 2019 | March 2020 | October 2020 | November 2020 | December 2020 |
|--|----------------------|--------------|---------------|------------|--------------|---------------|---------------|
| Inflation, % | | 4,5 | 3,0 | 2,5 | 4,0 | 4,4 | |
| Inflation observed by households, % | | | | | | | |
| Public Opinion Foundation (median) | past 12 months | 9.9 | 9.4 | 8.3 | 9.6 | 10.7 | 12.0 |
| Public Opinion Foundation (subgroup with savings) | past 12 months | 9.1 | 8.7 | 7.2 | 9.1 | 10.0 | 10.9 |
| Public Opinion Foundation (subgroup without savings) | past 12 months | 10.4 | 9.6 | 8.6 | 9.8 | 11.2 | 12.0 |
| Households' inflation expectations, % | | | | | | | |
| Public Opinion Foundation (median) | next 12 months | 9.3 | 9.0 | 7.9 | 9.7 | 10.1 | 11.5 |
| Public Opinion Foundation (subgroup with savings) | next 12 months | 8.3 | 8.3 | 6.9 | 9.0 | 9.6 | 10.6 |
| Public Opinion Foundation (subgroup without savings) | next 12 months | 9.8 | 9.4 | 8.5 | 10.0 | 10.6 | 11.7 |
| Companies' price expectations | | | | | | | |
| Companies, balance of responses | next 3 months | 10.2 | 8.8 | 18.1 | 20.2 | 20.4 | 19.0 |
| PMI Manufacturing input prices | current month | 57.8 | 54.0 | 59.8 | 72.5 | 77.1 | |
| PMI Manufacturing output prices | current month | 53.1 | 50.4 | 55.4 | 57.1 | 58.3 | |
| PMI Services input prices | current month | 58 | 55.6 | 61.5 | 58.0 | 64.5 | |
| PMI Services output prices | current month | 54 | 52.4 | 54.2 | 53.1 | 53.6 | |
| Analysts, % | | | | | | | |
| 2020, Bloomberg | 2020 | 3.9 | 3.8 | 3.5 | 4.0 | 4.2 | 4.3 |
| 2020, Interfax | 2020 | | 3.7 | 4.7 | 4.0 | 4.4 | |
| 2020, Reuters | 2020 | | 3.7 | 4.7 | 4.0 | 4.4 | |
| 2021, Bloomberg | 2021 | | 4.0 | 4.0 | 3.9 | 3.5 | 3.6 |
| 2021, Interfax | 2021 | | | 3.8 | 3.5 | 3.5 | |
| 2021, Reuters | 2021 | | | 3.9 | 3.6 | 3.7 | |
| 2022, Bloomberg | 2022 | | | 3.9 | 3.8 | 3.8 | 3.8 |
| 2022, Reuters | 2022 | | | 3.9 | 3.7 | 3.9 | |
| Implied inflation for OFZ-IN, % | | | | | | | |
| OFZ-IN 52001, August 2023 | next 3-year average | 3.9 | 2.8 | 3.5 | 2.5 | 2.5 | 2.4 |
| OFZ-IN 52002, February 2028 | next 8-year average | 4.1 | 3.4 | 4.1 | 3.3 | 3.2 | 3.2 |
| OFZ-IN 52003, July 2030 | next 10-year average | | | | 3.3 | 3.2 | 3.3 |
| OFZ-IN | 2023–2028 average | 4.3 | 3.9 | 4.5 | 3.7 | 3.6 | 3.6 |
| OFZ-IN | 2028–2030 average | | | | 3.4 | 3.4 | 3.7 |

INFLATION OBSERVED AND EXPECTED
BY HOUSEHOLDS (MEDIAN ESTIMATE)

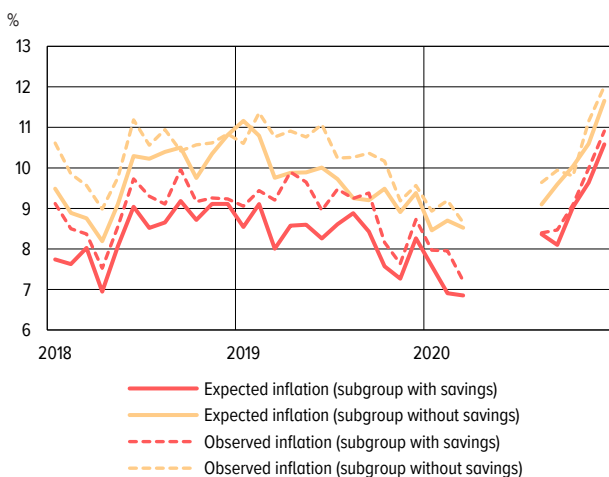
Chart 1



Sources: InFOM, Rosstat.

EXPECTED AND OBSERVED INFLATION
BY RESPONDENT SUBGROUP (MEDIAN ESTIMATE)

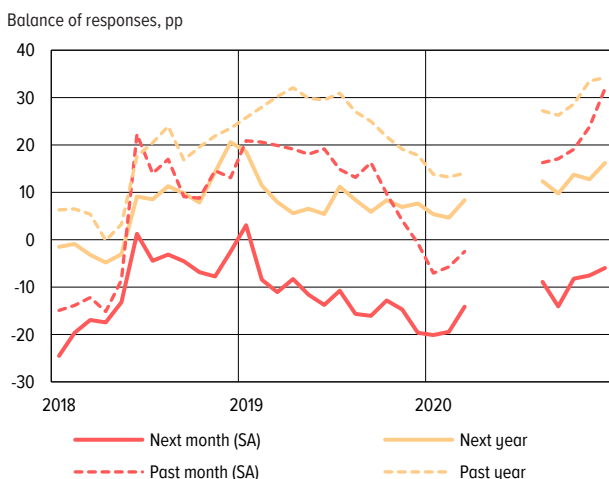
Chart 2



Sources: InFOM, Bank of Russia calculations.

INDICATORS OF PRICE MOVEMENTS

Chart 3



Sources: InFOM, Bank of Russia calculations.

Households' inflation expectations

According to the survey by InFOM, inflation expected and observed by households continued to rise in December. Over the past 12 months, the median estimate of inflation observed by households equalled 12.0%, which is 1.3 pp higher than in the previous month (Table 1, Chart 1). The median estimate of inflation expected in the next 12 months rose to 11.5%, which is 1.4 pp above its reading in November (Chart 1). These changes were synchronous for respondents both with and without savings (Chart 2).

As in November, the growth of inflation expected and observed by households was driven by a rise in prices for individual frequently purchased products. In December, respondents more often noted the rise in the price for sugar, vegetable oil, and eggs (Chart 3 of [the InFOM Analytical Report, December 2020](#); hereinafter, the Report). Rosstat also reported the accelerated growth of prices for these products in October–November. This growth was driven by supply-side factors and is temporary.

In December, qualitative estimates of inflation,¹ both current and future, also grew (Chart 3). The estimates of price growth over the past month increased most strongly, which confirms that households are significantly concerned about the actual price growth. Qualitative estimates of expected price movements over both one-month and one-year horizons increased only slightly. This ratio of qualitative estimates of price growth in the current and next month indicates that respondents mostly perceive the observed acceleration in price growth as temporary.

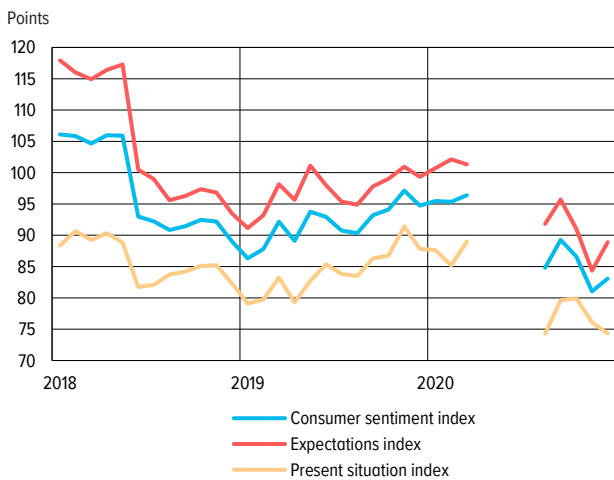
Households' inflation expectations for three years ahead also slightly grew in December. About half of the respondents believe that inflation will persist above 4% (Chart 9 of the Report).

The maintaining high sensitivity of households' inflation expectations to the movement of prices for individual goods creates risks of secondary effects: an increase

¹ Balance of responses to the question about a change in inflation trends in the past and next years, seasonally adjusted.

CONSUMER SENTIMENT INDEX

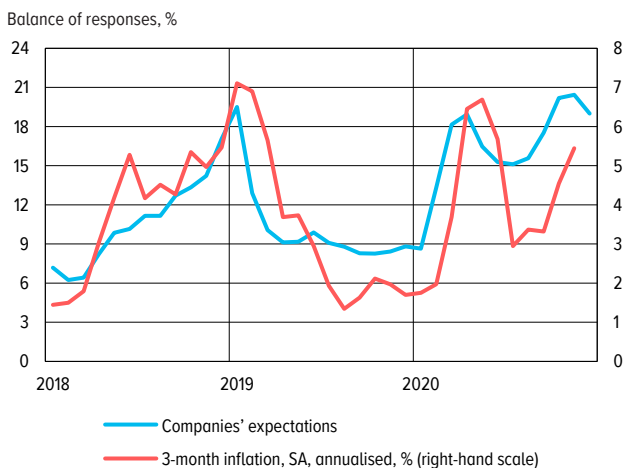
Chart 4



Source: InFOM.

COMPANIES' PRICE EXPECTATIONS
(BANK OF RUSSIA)

Chart 5



Sources: Bank of Russia, Rosstat.

in expectations due to temporary factors can exacerbate inflation due to a decrease in the sensitivity of demand to price growth. Therefore, monitoring inflation expectations is an important aspect of analysis when making monetary policy decisions.

Households' consumer sentiment

The consumer sentiment index rose from the November four-year lows by 2 p (Chart 4) owing to the increased expectations index (by 5 p). The present situation index continued to trend down (by 2 p), dropping to the lowest level since early 2017.

Despite the increased inflation expectations and negative assessment of personal financial standing (Chart 16 of the Report), the amount of households' savings remained virtually unchanged in December (Charts 25 and 26 of the Report). At the same time, amid lower deposit rates and low awareness of households about alternative forms of savings,² the share of responses that savings are best kept in cash increased (to 34%, Chart 22 of the Report).

Companies' price expectations

According to the *monitoring of businesses* carried out by the Bank of Russia in December 2020, price expectations for the next three months declined: enterprises noted planned price reviews less frequently. The balance of responses remains above the maximum readings reached in March–April 2020 (Chart 5).

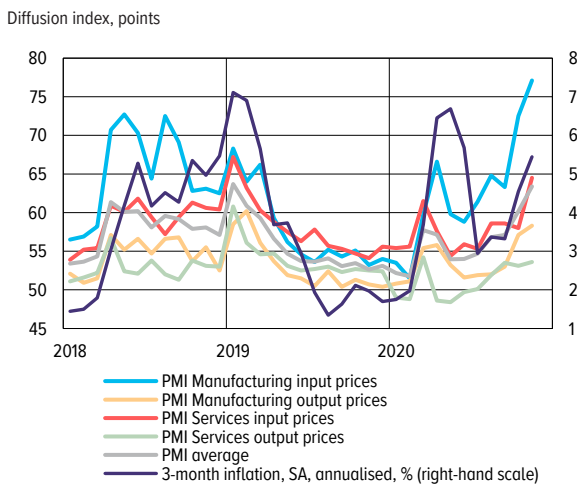
At the same time, the average expected price growth rate continued to increase. Companies expect that the price growth in the next three months will be 3.4% (in annual terms, compared to 3.2% in November).

Price expectations are driven mainly by the strengthening of the ruble and weak demand for products of enterprises: estimates of expected demand in the next 3 months slightly deteriorated. When planning to raise prices, firms most often attributed this to an increase

² *Inflation expectations and consumer sentiment, No. 11 (47), November 2020.*

CHANGES IN COMPANIES' PRICES
(MARKIT PMI)

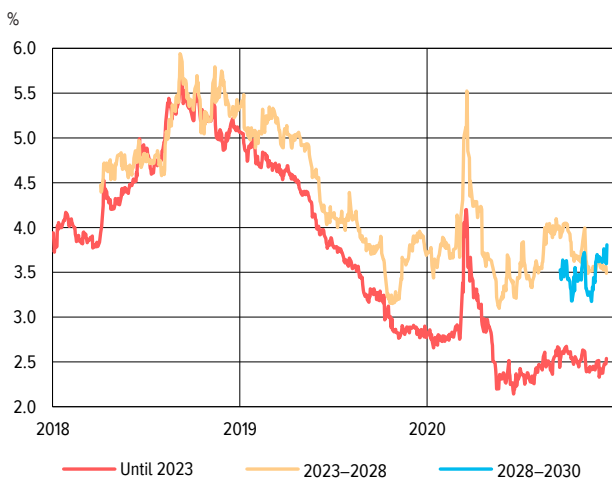
Chart 6



Sources: IHS Markit PMI, Rosstat.

IMPLIED INFLATION FOR OFZ-IN

Chart 7



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

in input prices. The share of companies that noted an increase in costs also remained high.

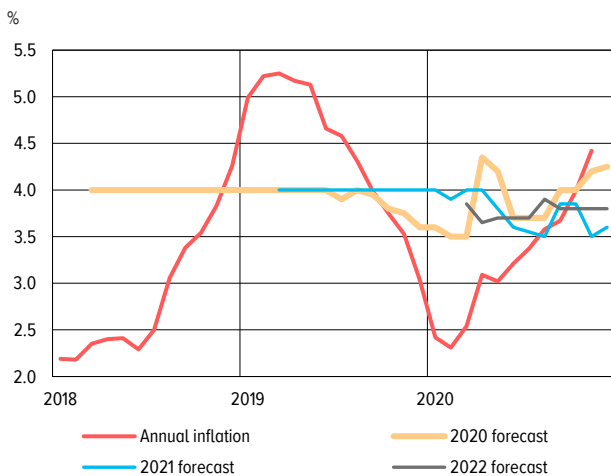
Growing price expectations growth were noted in manufacturing on the back of the continuing cost increase driven by the pandemic, among other things. In other sectors, price expectations declined. Agricultural companies noted declining demand, the ruble's weakening, and state regulation measures as the main reasons behind falling prices. Price expectations in retail were also driven downwards by the weakening of the ruble and declining demand for goods. The share of respondents in retail who named exchange rate fluctuations as a reason for price growth decreased compared to the previous month. The average price growth rate expected by retailers in the next three months equalled 6.7% in annualised terms (vs 6.6% in November).

According to *IHS Markit PMI* surveys, the growth of companies' input and output prices continued to accelerate in November 2020 compared to October (Chart 6). Input prices rose at a faster pace due to supply disruptions and increased transportation costs. Despite the deteriorating business activity, firms were able to partially transfer the increase in costs to output prices.

Implied inflation for OFZ-IN

Implied inflation for inflation-indexed federal government bonds (OFZ-INS) changed only slightly in December compared to October and November (Table 1). According to the Bank of Russia's estimates,³ implied inflation will stay close to 2.4% in the next three years (Chart 7). Average implied future inflation will remain close to 4.0%, specifically at 3.6% in 2023-2028 and 3.7% in 2028-2030.

³ The estimates are based on the comparison of expected yields on OFZ-INS and nominal OFZs, with account of the lag between the nominal value indexation and seasonally adjusted inflation.

BLOOMBERG ANALYSTS' CONSENSUS FORECAST *Chart 8*

Sources: Bloomberg, Rosstat.

Analysts' inflation forecast

In November–December 2020, analysts' inflation forecasts⁴ for 2020 increased to 4.3–4.4% (Table 1, Chart 8). Forecasts for 2021–2022 remained virtually unchanged. According to the consensus forecasts of analysts surveyed by Bloomberg, Reuters, and Interfax, inflation will range from 3.5% to 3.7% at the end on 2021 and from 3.8% to 3.9% at the end of 2022.

Bank of Russia's forecast

Inflation is higher than the October forecast of the Bank of Russia. It is expected to range from 4.6% to 4.9% at the end of 2020. According to the Bank of Russia's forecast, given the current monetary policy stance, annual inflation will reach 3.5–4.0% in 2021 and will stabilise around 4% later on.

⁴ Surveys by Interfax, Bloomberg, and Thomson Reuters.

Data cut-off date – 18.12.2020.

A soft copy 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.

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