



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No. 12 (60) • December 2021

Information and analytical commentary

23 December 2021

INFLATION EXPECTATIONS AND CONSUMER SENTIMENT (DECEMBER 2021)

Inflation expectations stayed elevated in December. Pursuant to the survey by InFOM, households' inflation expectations for a year ahead rose in December, reaching a new five-year high. Companies' short-term price expectations did not change, remaining high. Implied inflation for inflation-indexed federal government bonds (OFZ-IN) stayed close to 5%. Analysts raised their inflation forecasts for 2021 and 2022 to 8.0–8.3% and 4.5–5.1%, respectively. Analysts' expectations for 2023 remain close to the Bank of Russia's target. The Bank of Russia assumes that given the monetary policy pursued, annual inflation will slow down to 4.0–4.5% by the end of 2022 and stay close to 4% further on.

INFLATION EXPECTATION INDICATORS

Table 1

	Expectation horizon	2018 average	2019 average	2020 average	March 2020	October 2021	November 2021	December 2021
Inflation, %		2.9	4.5	3.4	2.5	8.1	8.4	
Inflation observed by households, %								
Public Opinion Foundation (median)	past 12 months	9.8	9.9	9.6	8.3	16.3	16.2	17.7
Public Opinion Foundation (subgroup with savings)	past 12 months	9.0	9.1	8.7	7.2	13.6	13.5	16.1
Public Opinion Foundation (subgroup without savings)	past 12 months	10.3	10.4	9.9	8.6	18.0	17.5	18.5
Households' inflation expectations, %								
Public Opinion Foundation (median)	next 12 months	9.3	9.3	9.1	7.9	13.6	13.5	14.8
Public Opinion Foundation (subgroup with savings)	next 12 months	8.4	8.3	8.4	6.9	11.4	11.3	13.7
Public Opinion Foundation (subgroup without savings)	next 12 months	9.7	9.8	9.6	8.5	15.6	15.1	15.2
Companies' price expectations								
Companies, balance of responses	next 3 months	10.6	10.2	16.5	18.3	26.4	25.7	25.3
PMI Manufacturing input prices	current month	65.0	57.8	64.0	59.8	63.7	66.6	
PMI Manufacturing output prices	current month	54.4	53.1	54.2	55.4	58.5	58.4	
PMI Services input prices	current month	58.8	58.0	58.0	61.5	64.7	64.9	
PMI Services output prices	current month	52.8	54.0	51.3	54.2	56.7	56.4	
Implied inflation for OFZ-IN (monthly average),%								
OFZ-IN 52001, August 2023	next 2-year average	4.7	3.9	2.7	3.5	4.5	5.0	4.8
OFZ-IN 52002, February 2028	next 6-year average		4.1	3.3	4.1	4.5	5.1	5.2
OFZ-IN 52003, July 2030	next 9-year average			3.3		4.5	4.9	5.1
OFZ-IN 52004, March 2032	next 10-year average							5.1
OFZ-IN	2023–2028 average		4.3	3.8	4.5	4.5	5.1	5.3
OFZ-IN	2028–2030 average			3.5		4.4	4.5	4.7
OFZ-IN	2030–2032 average						5.4	5.6
Analysts, %								
Bloomberg	2021				4.0	6.4	7.7	8.0
Interfax	2021				3.8	7.8	8.3	
Reuters	2021				3.9	7.8	8.0	
Survey by the Bank of Russia	2021					7.0		8.2
Bloomberg	2022				3.9	3.9	4.3	4.5
Interfax	2022					4.7	5.1	
Reuters	2022				3.9	4.9	5.0	
Survey by the Bank of Russia	2022					4.2		4.8
Bloomberg	2023					4.0	4.0	4.0
Reuters	2023					4.0	4.0	
Survey by the Bank of Russia	2023					4.0		4.0

Households' inflation expectations

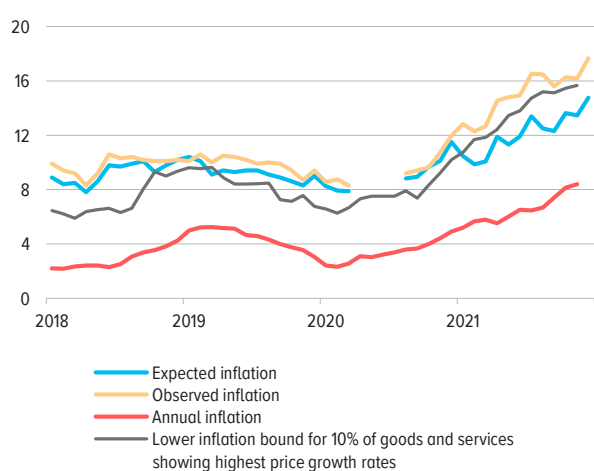
According to InFOM's survey commissioned by the Bank of Russia, households' inflation expectations trended upwards in December (Table 1; Chart 1), hitting the highest level since February 2016. The median estimate of inflation expected in the next 12 months reached 14.8% (+1.3 pp vs November). Inflation observed by households increased as well, reaching its July 2016 peak. Its median estimate equalled 17.7% (+1.5 pp vs November). In December, the estimates of observed and expected inflation rose most significantly among respondents with savings (Chart 2). As a result, the gap between the estimates of respondents with and without savings reduced after its expansion in previous months. This gap was increasing during 2021 because the estimates of respondents without savings are affected more quickly and strongly by the current acceleration of price growth. Furthermore, inflation expectations and observed inflation in the group of respondents without savings are more sensitive to food price increases, as compared to respondents with savings. In November, food inflation slowed down, which was the main factor influencing the estimates of respondents without savings.

Nonetheless, the growth rates of prices for certain goods frequently purchased by households remained elevated, which impacted respondents' answers. In December, increasingly more respondents expressed concerns about growing prices for animal products (meat, eggs, and milk). Moreover, respondents started to complain considerably more frequently about higher prices for fish and seafood (Chart 3 of the *InFOM Analytical Report, December 2021*; hereinafter, the Report). According to Rosstat, the rise in prices for fish products sped up in November 2021, and the growth rates of meat, milk and egg prices remained high as well.¹

The estimates of the balance of responses to the questions about changes in future inflation trends rose in December (Chart 3).² Expectations for a year ahead increased more notably, while staying almost the same for the next month.

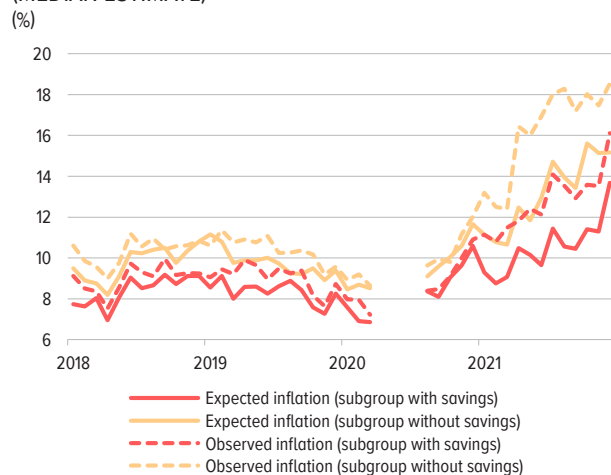
Households' long-term inflation expectations also edged up in December. The portion of respondents expecting inflation to significantly exceed 4% reached 58% (Chart 9 of the Report), which is the highest percentage on record (since May 2017).

INFLATION OBSERVED AND EXPECTED BY HOUSEHOLDS (MEDIAN ESTIMATE) (%) *Chart 1*



Sources: InFOM, Rosstat, Bank of Russia calculations.

EXPECTED AND OBSERVED INFLATION BY RESPONDENT SUBGROUP (MEDIAN ESTIMATE) (%) *Chart 2*



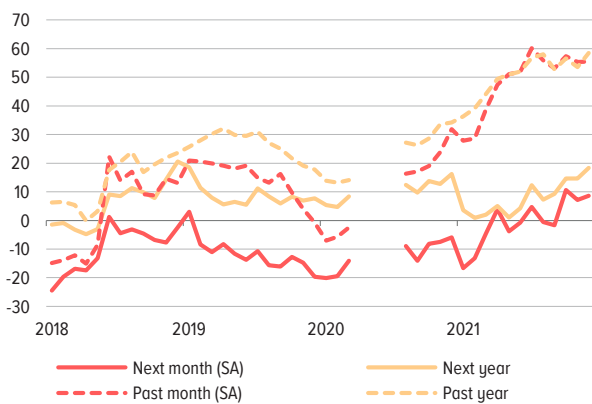
Sources: InFOM, Bank of Russia calculations.

¹ For details on inflation in November, refer to the information and analytical commentary [Consumer Price Dynamics, No. 11 \(71\), November 2021](#).

² That is, a higher percentage of respondents answered that prices rose/will rise considerably or were/will be rising faster than before/now.

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

Chart 3

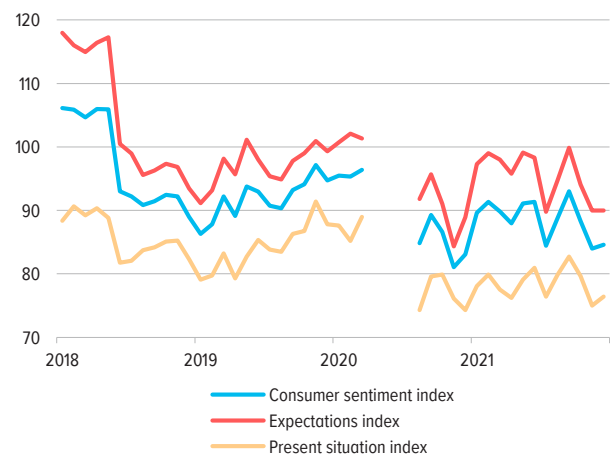


* Balance of responses to the questions 'How did prices change/will prices change last/next year?' and 'How did prices change/will prices change last/next month?', seasonally adjusted.

Sources: InFOM, Bank of Russia calculations.

CONSUMER SENTIMENT INDEX
(POINTS)

Chart 4



Source: InFOM.

Households' consumer sentiment

The consumer sentiment index changed only slightly in December, equalling 84.6 points (+0.6 points vs November) (Chart 4). The expectations index remained the same. The present situation index edged up slightly (+1.4 points).

The indicators showing respondents' propensity to save stayed almost unchanged in December. As in November, 50% of respondents prefer to save available cash. This percentage stays close to its July 2015 low (Chart 23 of the Report). Concurrently, the portion of people preferring to keep their money in bank accounts increased to 37% (+2 pp in November) (Chart 24 of the Report).

Companies' price expectations

According to the [monitoring](#) carried out by the Bank of Russia in December 2021, companies' price expectations for the next three months remained almost the same (Chart 5), staying at the highest levels of the past year. The average price growth rate expected in the next three months equalled 5.1% in annualised terms (vs 3.3% in December 2020). Price expectations remained elevated due to the surge in both demand and costs. Another reason is that economic activity risks are still high. The trends in expectations were diverse across industries.

Retailers slightly lowered their price expectations owing to a slower rise in costs. However, whereas expectations about demand and sales remain positive for the next three months, price expectations are still elevated. In December, the average price growth rate expected by retailers in the next three months equalled 7.9% in annualised terms (vs 6.7% in December 2020).

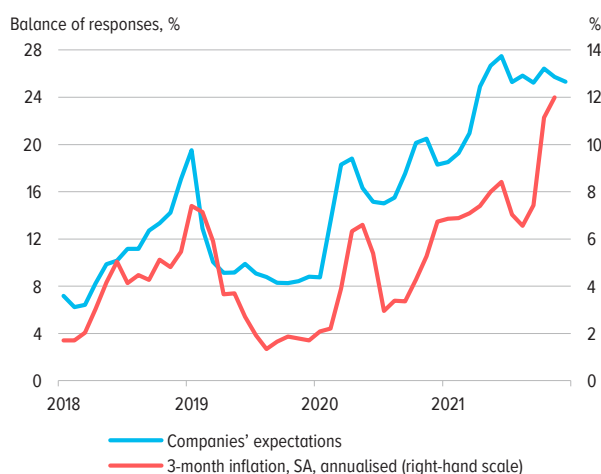
After the prolonged upward trend, price expectations in construction declined slightly for the first time since the beginning of the year. According to construction companies, economic activity risks weakened. Respondents were still optimistic about the expected demand for services and construction volumes in the next three months; as a result, price expectations edged down only slightly.

Price expectations in transportation and storage, as well as in services rose as compared to the previous period. Companies in these industries expressed more positive estimates about the expansion of the demand for and sales of services for the next three months.

According to [IHS Markit PMI](#) surveys, output price indices remained almost unchanged in November 2021 (Chart 6). The input price index went up. Input prices increased faster in manufacturing,

COMPANIES' PRICE EXPECTATIONS
(BANK OF RUSSIA)

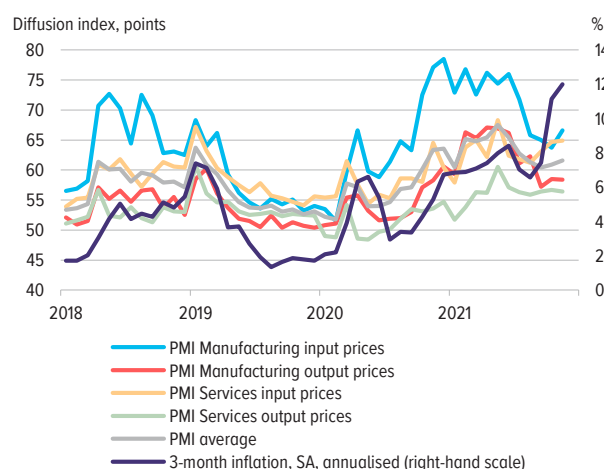
Chart 5



Sources: Bank of Russia, Rosstat.

CHANGES IN COMPANIES' PRICES (MARKIT PMI)

Chart 6



Sources: IHS Markit PMI, Rosstat.

and companies complained about a shortage of raw materials. The growth rate of output prices did not change, staying below 2021 levels, but exceeding pre-pandemic readings.

Implied inflation for OFZ-IN

Implied inflation³ for inflation-indexed federal government bonds (OFZ-IN) stayed close to 5% in December 2021 (Chart 7). Financial market participants' inflation expectations for the next two years are close to analysts' forecasts. Implied inflation for longer periods rose in December, reaching 5.3% for 2023–2028 (+0.2 pp vs November) and 4.7% for 2028–2030 (+0.2 pp).

Analysts' inflation forecast

In November–December 2021, analysts continued to raise their inflation forecasts⁴ for 2021–2022 (Table 1; Chart 8). According to the findings of the macroeconomic survey carried out by the Bank of Russia in December, analysts raised their inflation forecasts to 8.2% for the end of 2021 (+1.2 pp vs October) and to 4.8% (+0.6 pp) for the end of 2022.

Surveys by Bloomberg, Reuters, and Interfax conducted in late November–December show that analysts' consensus forecasts were in the range of 8.0–8.3% for the end of 2021 and 4.5–5.1% for the end of 2022. Forecasts for 2023 remained unchanged, staying close to the Bank of Russia's target.

The Bank of Russia's forecast

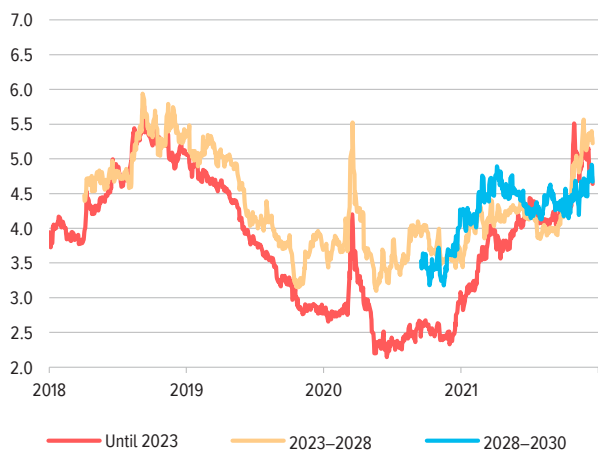
As assessed by the Bank of Russia, inflation is still largely driven by steady components as the expansion of demand surpasses the capacities to ramp up output. In these conditions and considering growing inflation expectations, the balance of risks for inflation is considerably shifted towards proinflationary ones. This might entail a more considerable and long-lasting deviation of inflation upwards from the target. The Bank of Russia assumes that given the monetary policy pursued, annual inflation will slow down to 4.0–4.5% by the end of 2022 and stay close to 4% further on.

³ The estimates are based on the comparison of expected yields on OFZ-IN and nominal OFZ bonds, with account of the lag in the nominal value indexation and seasonally adjusted inflation. [Calculation method](#).

⁴ Surveys by the Bank of Russia, Interfax, Bloomberg, and Thomson Reuters.

IMPLIED INFLATION FOR OFZ-IN
(%)

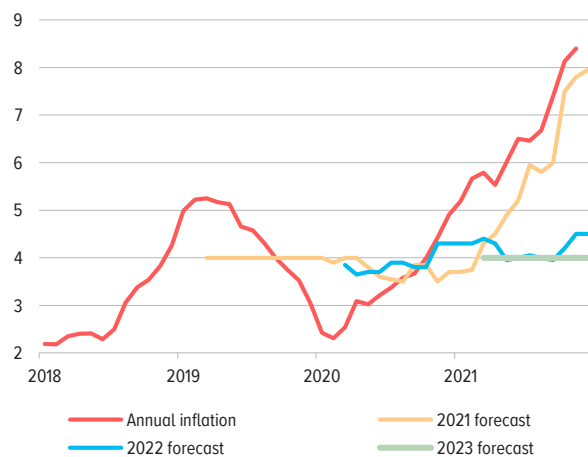
Chart 7



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

BLOOMBERG ANALYSTS' CONSENSUS FORECAST
(%)

Chart 8



Sources: Bloomberg, Rosstat.

The data cut-off date – 20.12.2021.

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.

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