



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

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Information and analytical commentary

25 May 2022

INFLATION EXPECTATIONS AND CONSUMER SENTIMENT (MAY 2022)

Households' inflation expectations for a year ahead continued to go down in May 2022, returning to the levels of May 2021, as shown by InFOM's survey. The median estimate of inflation expected in the next 12 months reached 11.5%. Companies' short-term price expectations edged down as well – to the readings of early 2022. The decrease in inflation expectations is a critical condition for a reduction in inflationary pressure and proves that the Bank of Russia has room for cutting the key rate. The Bank of Russia forecasts that given the monetary policy pursued, annual inflation will equal 18.0–23.0% in 2022, lower to 5.0–7.0% in 2023, and return to its 4% target in 2024.

INFLATION EXPECTATION INDICATORS

	Expectation horizon	2019 (average)	2020 (average)	2021 (average)	March 2020	May 2021	March 2022	April 2022	May 2022
Inflation, %		4.5	3.4	6.7	2.5	6.0	16.7	17.8	
Inflation observed by households, %									
Public Opinion Foundation (median)	previous 12 months	9.9	9.6	15.1	8.3	14.8	16.3	19.9	25.1
Public Opinion Foundation (subgroup with savings)	previous 12 months	9.1	8.7	12.8	7.2	12.4	13.8	17.0	20.2
Public Opinion Foundation (subgroup without savings)	previous 12 months	10.4	9.9	16.2	8.6	16.0	18.3	22.3	28.0
Households' inflation expectations, %									
Public Opinion Foundation (median)	next 12 months	9.3	9.1	12.1	7.9	11.3	18.3	12.5	11.5
Public Opinion Foundation (subgroup with savings)	next 12 months	8.3	8.4	10.5	6.9	10.2	17.2	11.4	10.6
Public Opinion Foundation (subgroup without savings)	next 12 months	9.8	9.6	13.2	8.5	11.8	19.3	13.4	12.0
Companies' price expectations									
Companies, balance of responses	next 3 months	9.6	13.3	20.0	15.0	20.6	41.8	32.6	23.3
PMI Manufacturing input prices	current month	57.8	64.0	70.7	59.8	74.4	90.0	76.3	
PMI Manufacturing output prices	current month	53.1	54.2	62.4	55.4	66.9	77.8	72.5	
PMI Services input prices	current month	58.0	58.0	63.4	61.5	68.3	81.3	77.1	
PMI Services output prices	current month	54.0	51.3	56.1	54.2	60.5	67.3	64.8	
Implied inflation for OFZ-IN (monthly average), %									
OFZ-IN 52001, August 2023	next year average	3.9	2.7	4.1	3.5	3.9	13.4	6.0	4.0
OFZ-IN 52002, February 2028	next 6-year average	4.1	3.3	4.2	4.1	4.1	9.6	7.0	6.7
OFZ-IN 52003, July 2030	next 8-year average		3.3	4.3		4.3	9.3	7.2	7.0
OFZ-IN 52004, March 2032	next 10-year average						9.4	7.3	7.2
OFZ-IN	2023–2028 average	4.3	3.8	4.3	4.5	4.3	8.6	7.3	7.4
OFZ-IN	2028–2030 average		3.5	4.4		4.6	8.7	7.5	7.5
OFZ-IN	2030–2032 average						9.7	8.1	8.2
Analysts, %									
Interfax	2022			4.3		3.9		22.7	19.3
Reuters	2022			4.2	3.9	3.9	23.7	20.5	
Survey by the Bank of Russia	2022			4.2		3.8	20.0	22.0	
Interfax	2023							8.6	8.6
Survey by the Bank of Russia	2023			4.0		4.0	8.0	7.6	
Survey by the Bank of Russia	2024						4.8	5.0	

Sources: Rosstat, InFOM, Bank of Russia, IHS Markit PMI, Interfax, Moscow Exchange, Reuters.

Households' inflation expectations continued to decrease

Households' inflation expectations decreased in May 2022, according to InFOM's survey commissioned by the Bank of Russia. The median estimate of inflation expectations equalled 11.5% (-1 pp vs April), returning to the readings of May 2021. Households' inflation expectations declined for the second consecutive month as the ruble strengthened and respondents remained positive about the country's economic prospects.

Annual inflation observed by households in May soared, with its median estimate reaching 25.1% (+5.2 pp vs April). This is the highest reading since September 2015. The estimates of observed and expected inflation changed similarly among respondents both with and without savings.

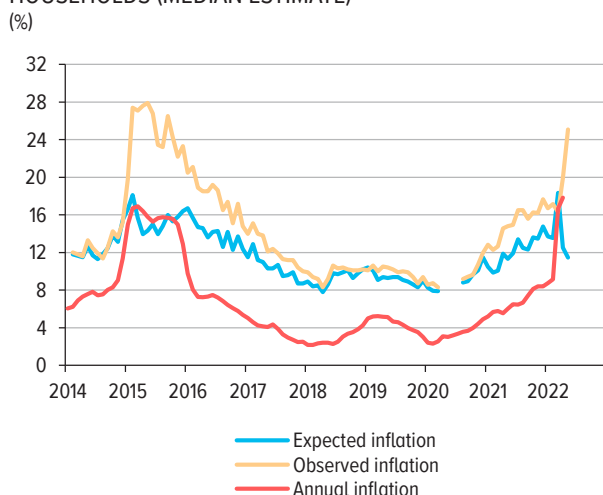
In May, respondents became more concerned about the observed growth of prices for the majority of frequently purchased goods and services. As compared to April, significantly more respondents mentioned meat and poultry, cheese and sausages, and fish and seafood among the products and services showing the highest price growth rates. Contrastingly, respondents became less concerned about the rise in prices for sugar and salt, as well as cereals and pasta that slowed down after surging in the previous month.¹

The estimates of the balances of responses to the questions about changes in future inflation trends for one month and one year ahead edged down in May,² whereas the qualitative estimates of inflation over the past year increased³ and over the past month – remained unchanged.

Households' long-term inflation expectations slightly rose in May 2022, while staying considerably below the levels of 2021 H2 and early 2022. The proportion of respondents considering that the price growth rate three years later will notably surpass 4% reached 46% (+2 pp vs April and -11 pp vs February 2022).

INFLATION OBSERVED AND EXPECTED BY HOUSEHOLDS (MEDIAN ESTIMATE)

Chart 1

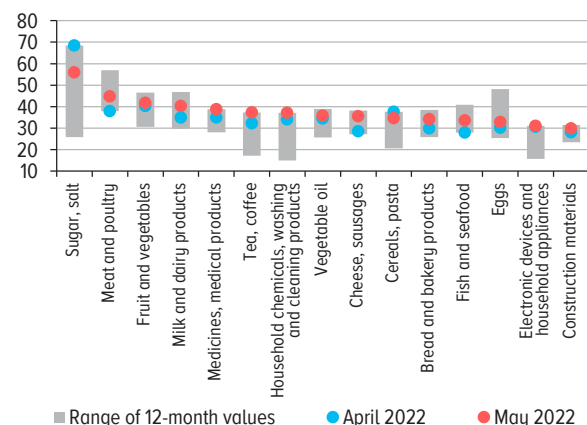


Sources: InFOM, Rosstat.

DISTRIBUTION OF RESPONSES TO THE QUESTION 'WHAT MAIN PRODUCTS AND SERVICES SHOWED VERY HIGH GROWTH RATES OVER THE PAST MONTH?'

Chart 2

(% OF ALL RESPONDENTS)



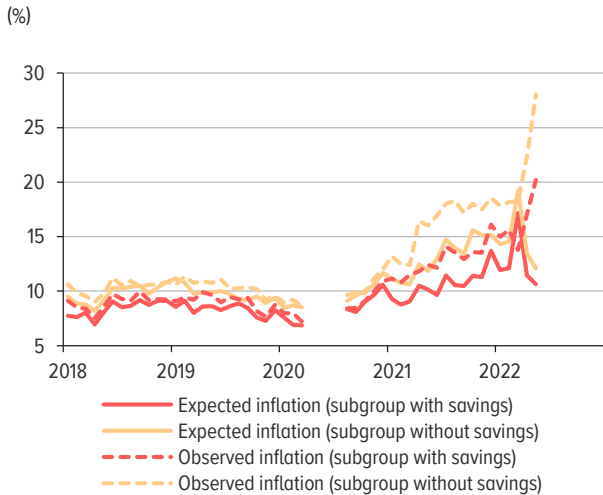
Sources: InFOM, Bank of Russia calculations.

¹ For details on inflation in April, refer to the information and analytical commentary [Consumer Price Dynamics, No. 4 \(76\), April 2022](#).

² That is, a smaller percentage of respondents, as compared to the previous month, answered that prices will rise considerably or will be rising faster than now.

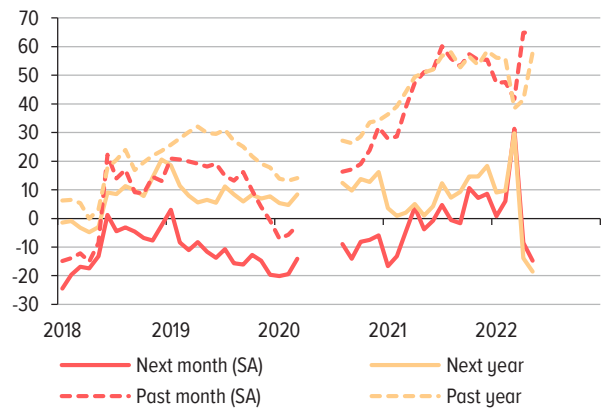
³ That is, a larger percentage of respondents, as compared to the previous month, answered that prices were rising faster than before.

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*



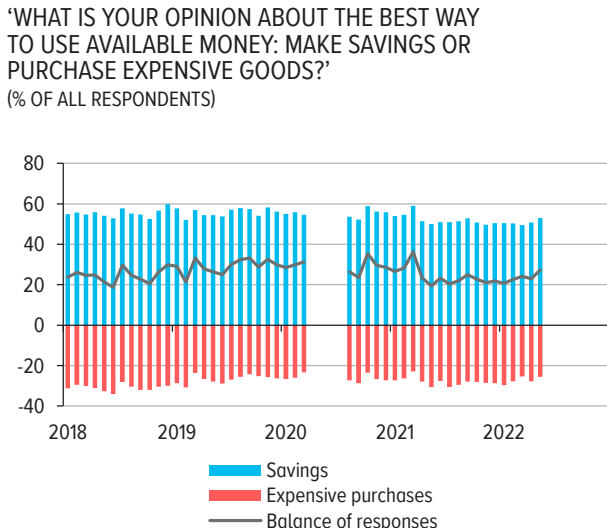
* Balance of responses to the questions 'How prices were/will be changing last year/next year?' and 'How did/will prices change last month/next month?', seasonally adjusted.
Sources: InFOM, Bank of Russia calculations.

Estimates of savings sentiment were up

Households' propensity to save rose in May. The percentage of respondents opting to save rather than consume increased to 53.0% (+2.3 pp vs April), which is the highest reading since March 2021. Furthermore, after a decline in April, the proportion of respondents preferring to have cash holdings was up to 35.5% (+1.9 pp vs April).

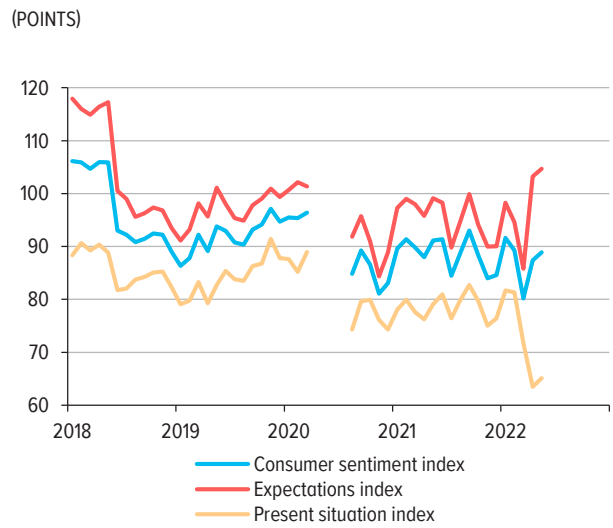
The consumer sentiment index edged up slightly to 88.9 points (+1.6 points vs April). The expectations index remained elevated, rising to 104.7 points in May (+1.5 points vs April). This index includes the estimates of changes in personal financial standing for a year ahead and expectations about changes in economic conditions in the country for the next one and five years. The present situation index comprising 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 edged up slightly in May, after its reduction in April, reaching 65.1 points (+1.6 points vs April). The present situation index stayed close to its lowest readings since spring 2016.

DISTRIBUTION OF RESPONSES TO THE QUESTION 'WHAT IS YOUR OPINION ABOUT THE BEST WAY TO USE AVAILABLE MONEY: MAKE SAVINGS OR PURCHASE EXPENSIVE GOODS?' *Chart 5*



Sources: InFOM, Bank of Russia calculations.

CONSUMER SENTIMENT INDEX (POINTS) *Chart 6*



Source: InFOM.

Companies' price expectations lowered

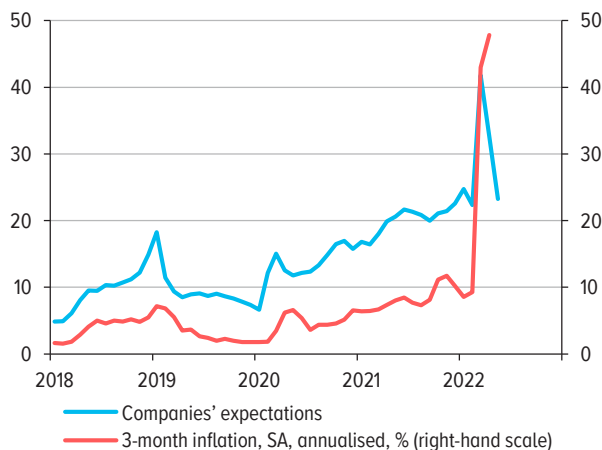
According to the *monitoring* carried out by the Bank of Russia in May 2022, companies' price expectations for the next three months continued to go down across all industries, almost returning to the level of early 2022. The average price growth rate expected in the next three months halved as compared to the previous month, dropping to 9.1% in annualised terms.⁴

Changes in companies' price expectations in most industries were largely caused by the shrinkage of demand, as well as a slightly slower increase in costs, a stronger ruble, and lower prices for motor fuels. Furthermore, companies reported a decelerated rise in risks to business activity and less negative estimates of the economic situation and finished product inventories. In contrast to the actual estimates, respondents' expectations about demand in the next three months improved in almost all industries (except agriculture and the mining and quarrying sector). Nonetheless, their level is lower than at the beginning of the year.

Price expectations in trade continued to decline due to contracting demand and a stronger ruble. As opposed to most other industries, trade companies' finished product inventories continued to

COMPANIES' PRICE EXPECTATIONS
(BANK OF RUSSIA)
(BALANCE OF RESPONSES, % SA)

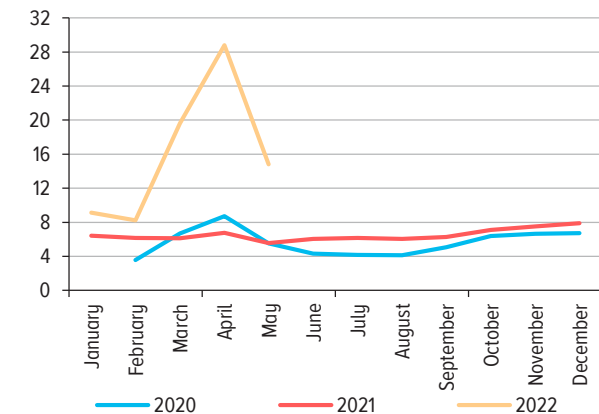
Chart 7



Sources: Bank of Russia, Rosstat.

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

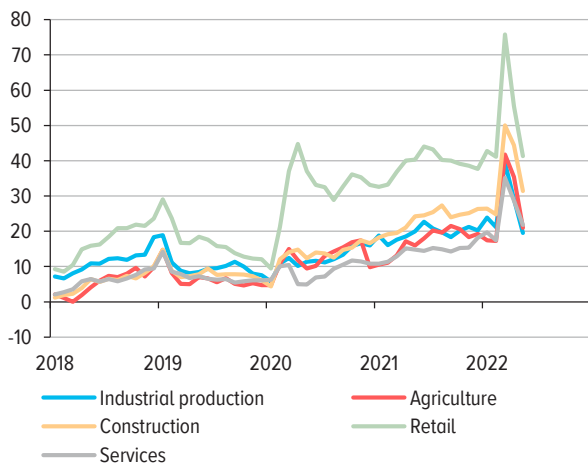
Chart 8



Source: Bank of Russia.

COMPANIES' PRICE EXPECTATIONS BY KEY INDUSTRY
(BANK OF RUSSIA)
(BALANCE OF RESPONSES, % SA)

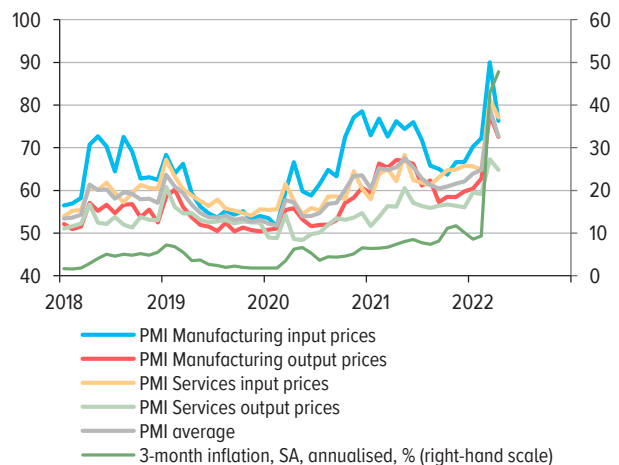
Chart 9



Source: Bank of Russia.

CHANGES IN COMPANIES' PRICES (MARKIT PMI)
(DIFFUSION INDEX, POINTS)

Chart 10



Sources: IHS Markit PMI, Rosstat.

⁴ 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.

decrease. These trends were recorded in both wholesale and retail trade. The average price growth rate expected by retailers in the next three months dropped from 28.8% in April to 14.8% (in annualised terms) in May 2022 (vs 5.6% in May 2021).

The price indices of *IHS Markit PMI* declined in April 2022, while staying close to their record highs. Price growth slowed down in both production and services. The indices of input prices declined faster than those of output prices, which was due to weaker demand.

Implied inflation for a year ahead edged down

Over the first twenty days of May, implied inflation for inflation-indexed federal government bonds (OFZ-IN) equalled 4.0% on average (-2 pp vs April), according to the Bank of Russia's estimates.⁵ This value is not necessarily a correct estimate of expectations as liquidity in the related instrument was extremely limited. As to longer periods, the estimates of implied inflation remained almost unchanged as compared to April. For 2023–2028, they averaged 7.4% over the first half of May (+0.1 pp vs April), and for 2028–2030 – 7.5% (the same as in April).

Analysts decreased their inflation forecasts

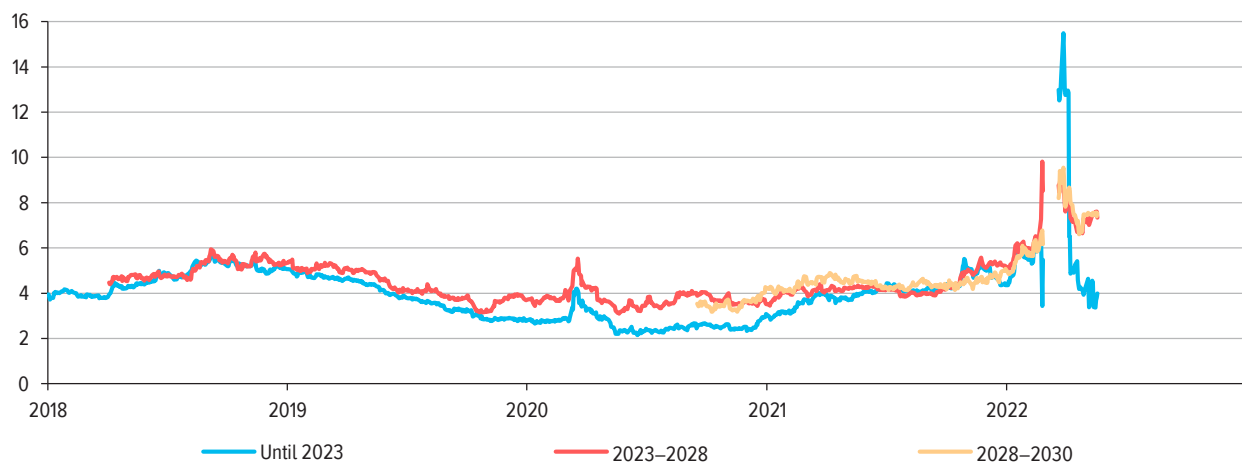
In late April–early May, analysts decreased their inflation forecasts for 2022. According to the findings of a survey carried out by Interfax in May, analysts' consensus forecast of inflation for the end of 2022 was 19.3% (-3.4 pp vs April). A survey by Reuters conducted at the end of April shows that analysts' forecast for 2022 equalled 20.5% (-3.2 pp vs March). A survey by Interfax reports that the forecast for 2023 remained unchanged at 8.6%.

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

The decrease in inflation expectations is a critical condition for a reduction in inflationary pressure and proves that the Bank of Russia has room for cutting the key rate. The Bank of Russia forecasts that given the monetary policy pursued, annual inflation will equal 18.0–23.0% in 2022, lower to 5.0–7.0% in 2023, and return to its 4% target in 2024.

IMPLIED INFLATION FOR OFZ-IN
(%)

Chart 11



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

⁵ 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 data cut-off date – 20.05.2022.

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.

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