



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No. 10 (70) • October 2022

Information and analytical commentary

31 October 2022

INFLATION EXPECTATIONS AND CONSUMER SENTIMENT (OCTOBER 2022)

In October 2022, households' inflation expectations for a year ahead remained elevated as compared to the June–August period, as shown by InFOM's survey. The median estimate of inflation expected in the next 12 months edged up to 12.8%. Companies' short-term price expectations were up as well. Analysts' inflation forecasts for 2022 slightly lowered and remained almost unchanged for 2023–2024. The Bank of Russia forecasts that annual inflation will equal 12–13% in 2022 and, given the monetary policy pursued, lower to 5–7% in 2023 and return to 4% in 2024.

INFLATION EXPECTATION INDICATORS

	Expectation horizon	2019 (average)	2020 (average)	2021 (average)	October 2021	February 2022	August 2022	September 2022	October 2022
Inflation, %		4.5	3.4	6.7	8.1	9.2	14.3	13.7	
Inflation observed by households, %									
Public Opinion Foundation (median)	previous 12 months	9.9	9.6	15.1	16.3	17.1	20.5	21.5	18.2
Public Opinion Foundation (subgroup with savings)	previous 12 months	9.1	8.7	12.8	13.6	15.6	18.0	18.3	14.6
Public Opinion Foundation (subgroup without savings)	previous 12 months	10.4	9.9	16.2	18.0	18.2	23.3	24.4	20.5
Inflation expectations of households, %									
Public Opinion Foundation (median)	next 12 months	9.3	9.1	12.1	13.6	13.5	12.0	12.5	12.8
Public Opinion Foundation (subgroup with savings)	next 12 months	8.3	8.4	10.5	11.4	12.1	9.8	10.4	10.4
Public Opinion Foundation (subgroup without savings)	next 12 months	9.8	9.6	13.2	15.6	14.5	14.3	13.6	14.8
Companies' price expectations									
Companies, balance of responses	next 3 months	9.6	13.3	20.0	21.2	21.9	14.8	15.4	17.4
Implied inflation for OFZ-IN (monthly average), %									
OFZ-IN 52002, February 2028	next 5.5-year average	4.1	3.3	4.2	4.5	6.4	5.3	5.7	6.6
OFZ-IN 52003, July 2030	next 8-year average		3.3	4.3	4.5	6.2	5.4	5.8	6.7
OFZ-IN 52004, March 2032	next 9.5-year average					6.5	5.7	6.1	6.9
OFZ-IN	2023–2028 average	4.3	3.8	4.3	4.5	6.6	5.4	5.7	6.7
OFZ-IN	2028–2030 average		3.5	4.4	4.4	6.0	5.6	6.2	6.9
OFZ-IN	2030–2032 average					7.8	7.0	7.5	7.9
Analysts, %									
Interfax	2022			4.3	4.7		12.7	12.5	
Survey by the Bank of Russia	2022			4.2	4.2	5.5		12.9	12.5
Interfax	2023						6.1	6.1	
Survey by the Bank of Russia	2023			4.0	4.0	4.0		6.0	6.0
Survey by the Bank of Russia	2024					4.0		4.0	4.2

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

Inflation expectations of households remain elevated

In October, the median estimate of households' inflation expectations for the next 12 months equalled 12.8% (+0.3 pp vs September), as shown by InFOM's survey. Inflation expectations edged up mainly among respondents without savings (14.8%, +1.2 pp). The expectations of respondents with savings remained unchanged (10.4%).

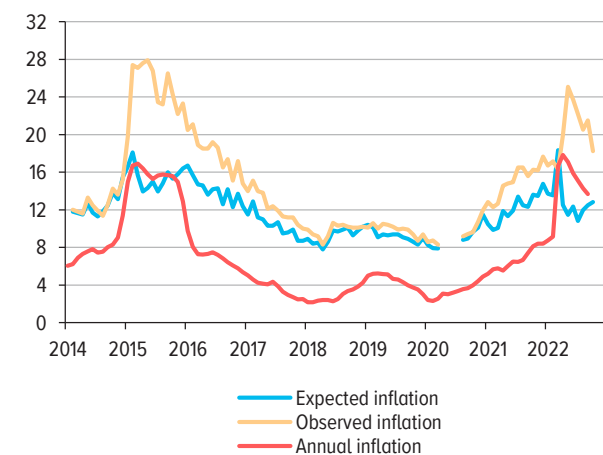
In October, the annual inflation observed by households slowed down after a slight increase in September. Its median estimate was 18.2% (-3.3 pp vs September). Observed inflation estimates considerably decreased among respondents with and without savings.

In October, respondents' concern about the rise in prices for the majority of frequently purchased goods continued to decline. For almost all the goods included into the questionnaire, the estimates were close to annual lows. Respondents' concern about the rise in prices for tea and coffee, as well as for household chemicals, remained elevated relative to the annual average.¹

The qualitative estimates of inflation expected for one month and one year ahead edged up in October.² The qualitative estimates of actual inflation declined over the previous month and the past year.³

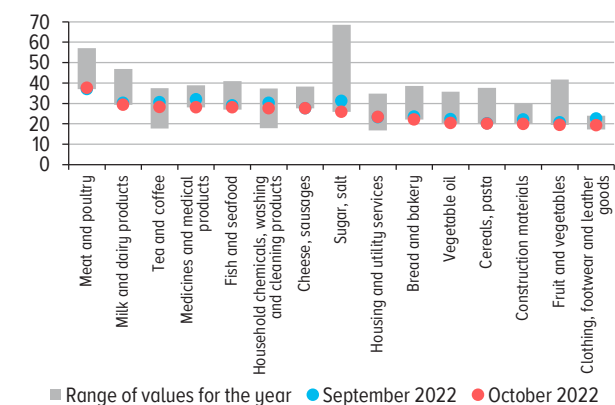
Long-term inflation expectations of households remain elevated. In October, the median estimate of inflation expectations for the next three years reached 7.6%. It is slightly less than in March 2022 (8.0%), when this question was asked last time.

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



Sources: InFOM, Rosstat.

DISTRIBUTION OF RESPONDENTS' ANSWERS TO THE QUESTION 'WHAT MAIN PRODUCTS AND SERVICES SHOWED VERY HIGH GROWTH RATES OVER THE PAST MONTH?' (% OF TOTAL RESPONDENTS) *Chart 2*

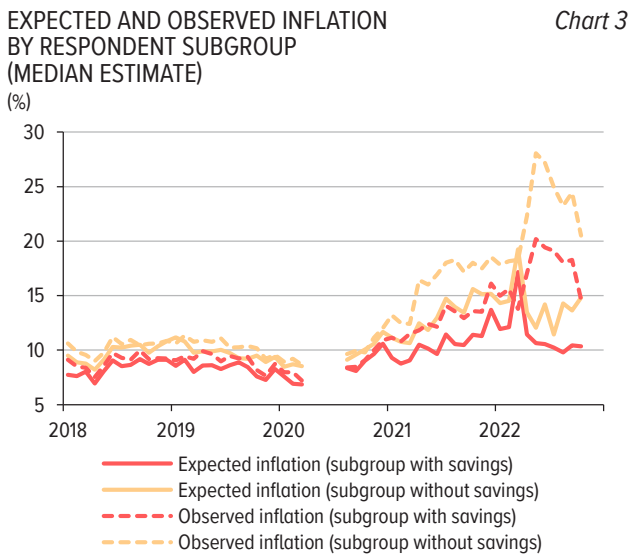


Sources: InFOM, Bank of Russia calculations.

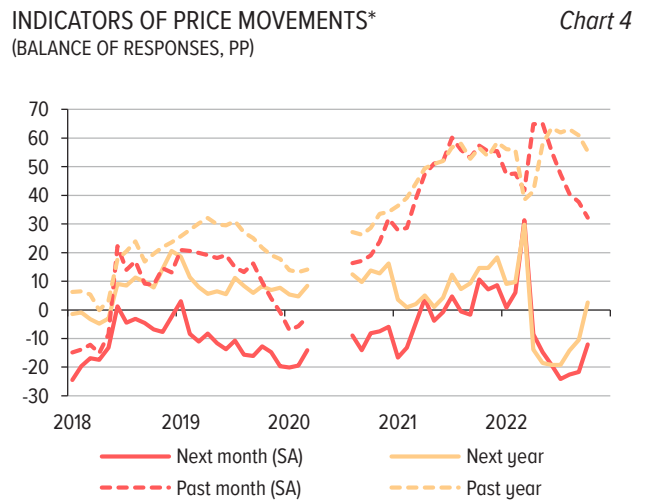
¹ More information about inflation in September is available in the information and analytical commentary [Consumer Price Dynamics, No. 9 \(81\), September 2022](#).

² That is, a larger 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 smaller percentage of respondents, as compared to the previous month, answered that prices rose considerably or were rising faster than before.



Sources: InFOM, Bank of Russia calculations.



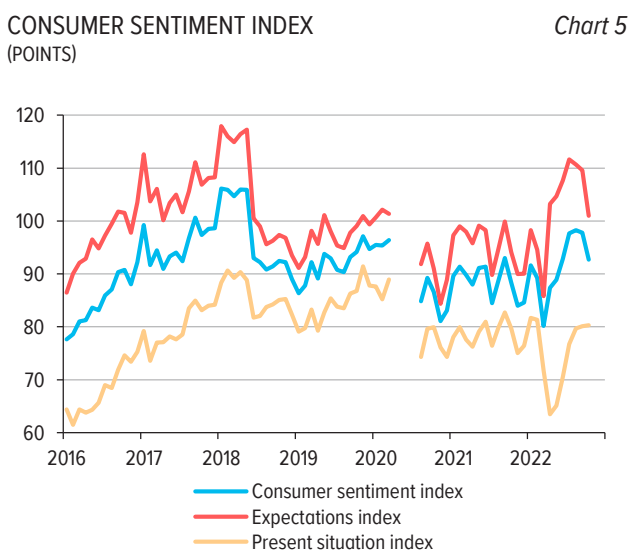
* Balance of responses to the questions 'How prices were/will be changing last year/next year?' and 'How did/will prices change last month/next month?', seasonally adjusted.
Sources: InFOM, Bank of Russia calculations.

Consumer sentiment index declined faster

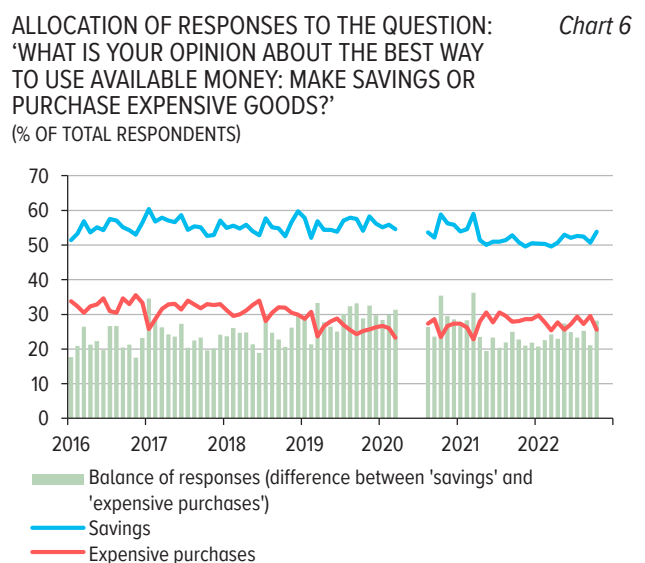
In October, the consumer sentiment index (CSI) dropped to 92.7 points (-5.1 points vs September). The decline was due to the expectations index making a part of the CSI. In October, it reached 101.0 points (-8.6 points vs September). The estimates of almost all the components of the expectations index declined, including 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. As compared to September, expectations of changes in economic conditions in the country for a year ahead deteriorated most of all, and their levels returned to those of January 2022.

In October, 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 large purchases) remained almost unchanged, equalling 80.3 points (+0.2 point vs September).

In October, households' propensity to save increased amid rising uncertainty. The percentage of respondents, preferring to save available funds rather than buy expensive goods, increased to 53.8%



Source: inFOM.



Sources: InFOM, Bank of Russia calculations.

(+3.2 pp vs September), which is the highest reading since March 2021. The percentage of those opting to have cash holdings also increased to 37.9% (+3.4 pp vs September).

Companies' price expectations remain elevated

According to the [monitoring](#) carried out by the Bank of Russia in October 2022, companies' price expectations (balance of responses) for the next three months slightly increased. The quantitative indicator of companies' price expectations – the average price growth rate expected in the next three months – equalled 4.1% in annualised terms in October (vs 4.0% in October 2021).⁴

According to respondents' estimates, an increase in price expectations was mainly driven by rising business risks amid higher uncertainty and escalating geopolitical tensions. In addition, growth of costs accelerated in some industries.

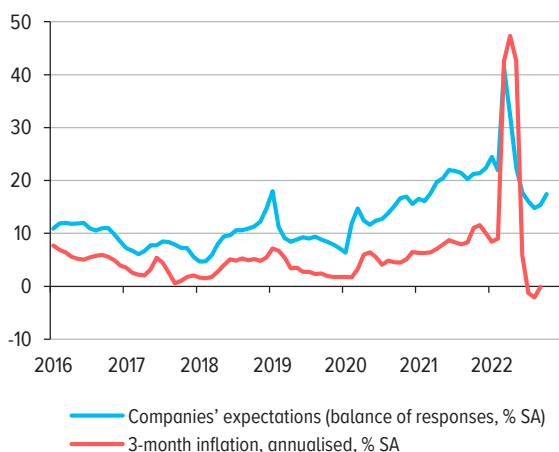
In most industries price expectations increased. In transportation and storage, respondents most frequently mentioned changes in the cost of materials and components as drivers of the expected price growth. In mining and quarrying, price expectations increased due to a growing cost pressure and the cutting of oil production quotas by OPEC+ countries.

Price expectations in trade increased mainly due to wholesale. In retail, price expectations remained unchanged. Meanwhile, they were considerably higher than in other industries. The average price growth rate expected by retailers in the next three months equalled 7.5% in annualised terms (vs 7.1% in October 2021), which is still above 2020 and 2021 levels.

Unlike most other industries, price expectations decreased in agriculture. This was mainly due to a good grain harvest amid more moderate estimates of the current and expected demand as compared to the previous month.

COMPANIES' PRICE EXPECTATIONS

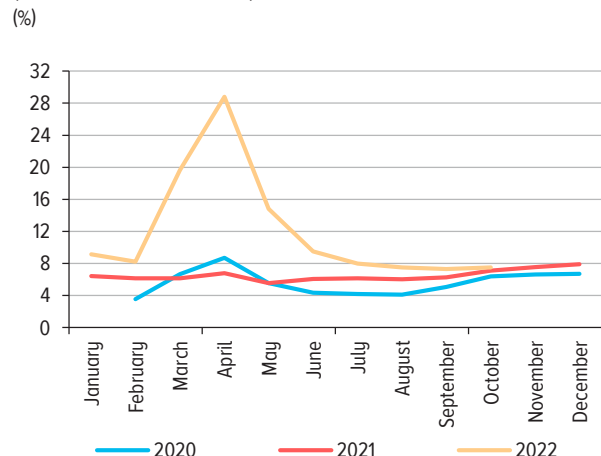
Chart 7



Sources: Bank of Russia, Rosstat.

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

Chart 8

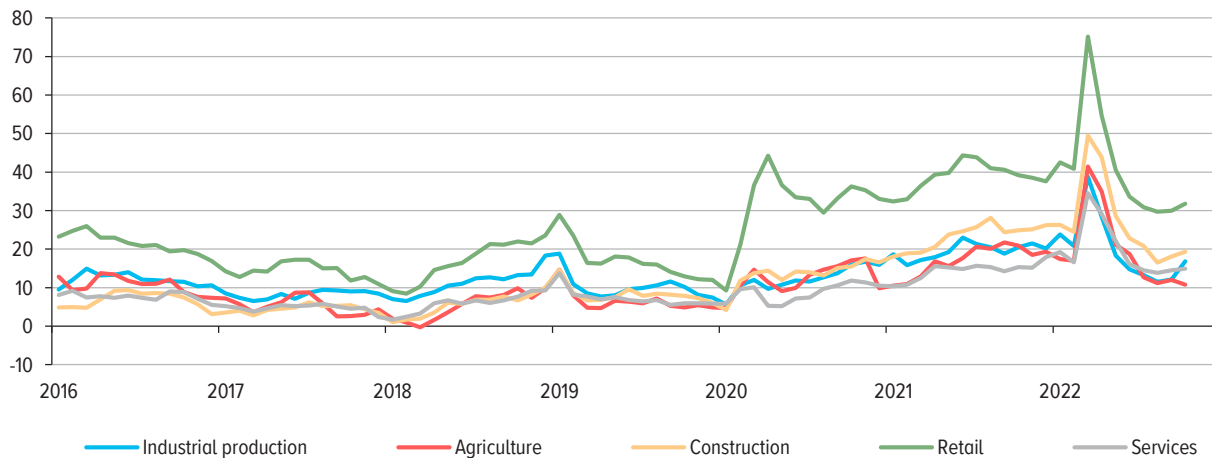


Source: Bank of Russia.

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.

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

Chart 9



Source: Bank of Russia.

Implied inflation went up

After the decrease from April to the first half of September, implied inflation again resumed its growth since the end of September and returned to the April–May levels. According to the Bank of Russia's estimates,⁵ average implied inflation for the next 5.5 years for inflation-indexed federal government bonds (OFZ-IN) equalled 6.6% in October (+0.9 pp vs September). Implied inflation for longer periods also increased: for 2028–2030 it reached 6.9% (+0.7 pp vs September), for 2030–2032 it was 7.9% (+0.4 pp vs September).

Analysts expect inflation to slow down to 6% next year

In late September–mid-October, analysts insignificantly modified their inflation forecasts. According to the findings of [the Bank of Russia's macroeconomic survey](#) carried out in October, analysts' inflation forecast for the end of 2022 equalled 12.5% (-0.4 pp vs September). In 2023, they expect inflation to edge down to 6.0% (unchanged from September); in 2024 and further on, their expectations remained at the July–September levels and actually anchored to the Bank of Russia's target close to 4%. As shown by the survey carried out by Interfax, in September, analysts' consensus forecast of inflation for the end of 2022 edged down to 12.5% (-0.2 pp vs August), and the forecast for the end of 2023 was 6.1% (unchanged from August).

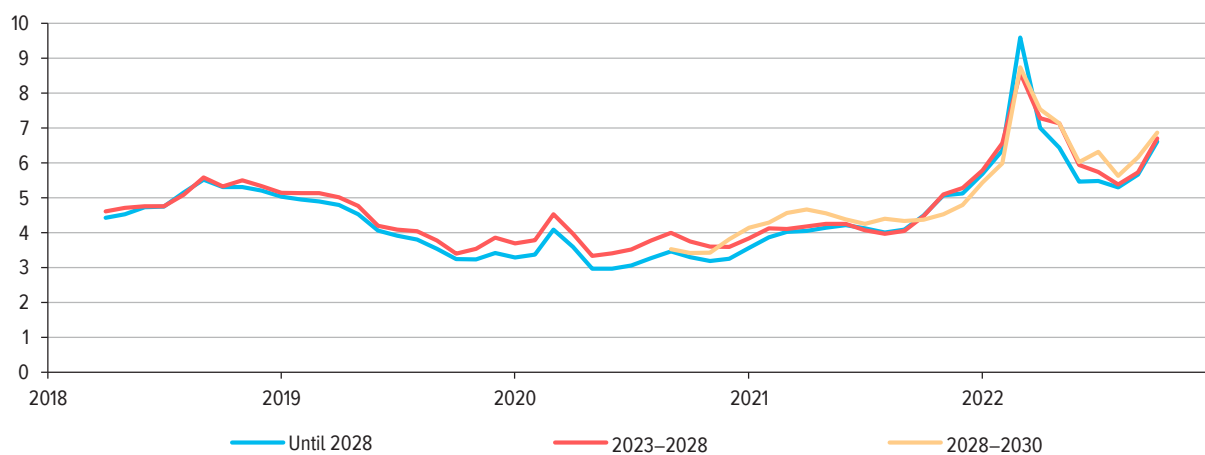
The Bank of Russia forecasts that annual inflation will return to 4% in 2024

According to the Bank of Russia's estimate, there is a balance between proinflationary and disinflationary risks in the short term. As to the medium-term horizon, proinflationary risks still dominate and have grown slightly since mid-September. The Bank of Russia forecasts that annual inflation will equal 12–13% in 2022 and, given the monetary policy pursued, lower to 5–7% in 2023 and return to 4% in 2024.

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](#).

IMPLIED INFLATION FOR OFZ-IN
(%)

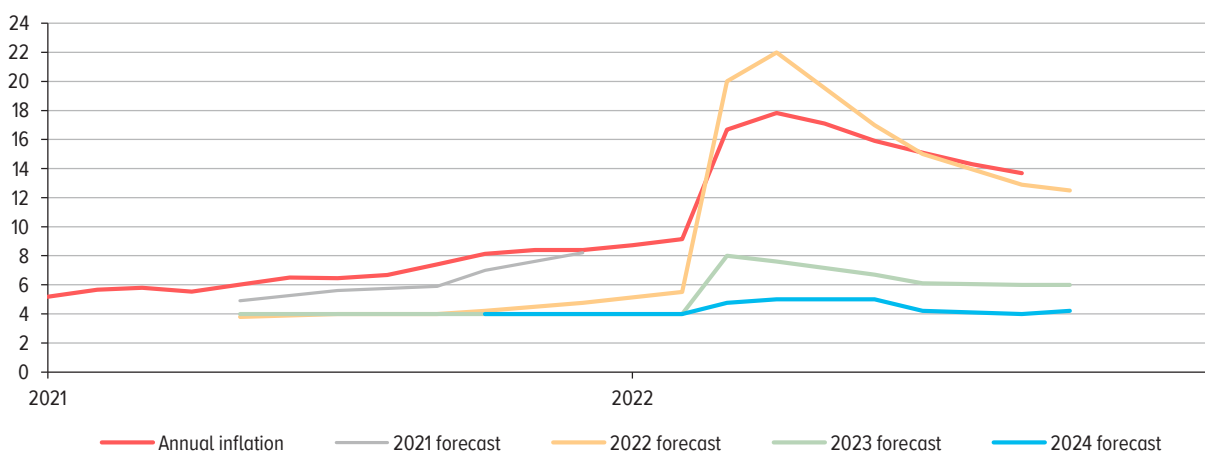
Chart 10



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

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

Chart 11



Sources: Bank of Russia, Rosstat.

The data cut-off date – 26 October 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 Central Bank of the Russian Federation.

Cover photo: Shutterstock/FOTODOM

12 Neglinnaya Street, 107016 Moscow

Bank of Russia website: www.cbr.ru