



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

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Information and analytical commentary

24 May 2023

INFLATION EXPECTATIONS AND CONSUMER SENTIMENT (MAY 2023)

The expectations of economic agents for future trends in prices were changing diversely in May. According to InFOM surveys, households' inflation expectations slightly increased after their decline in the previous two months. The median estimate of inflation was expected to reach 10.8% in the next 12 months and 11.3% in the next five years. Short-term price expectations generally decreased but continued to grow in the retail sector. Implied inflation for OFZ-IN edged down. Analysts' inflation forecasts for 2023 and 2024 remained virtually unchanged. The Bank of Russia forecasts that inflation will equal 4.5–6.5% in 2023 and return to 4% in 2024 due to the monetary policy pursued.

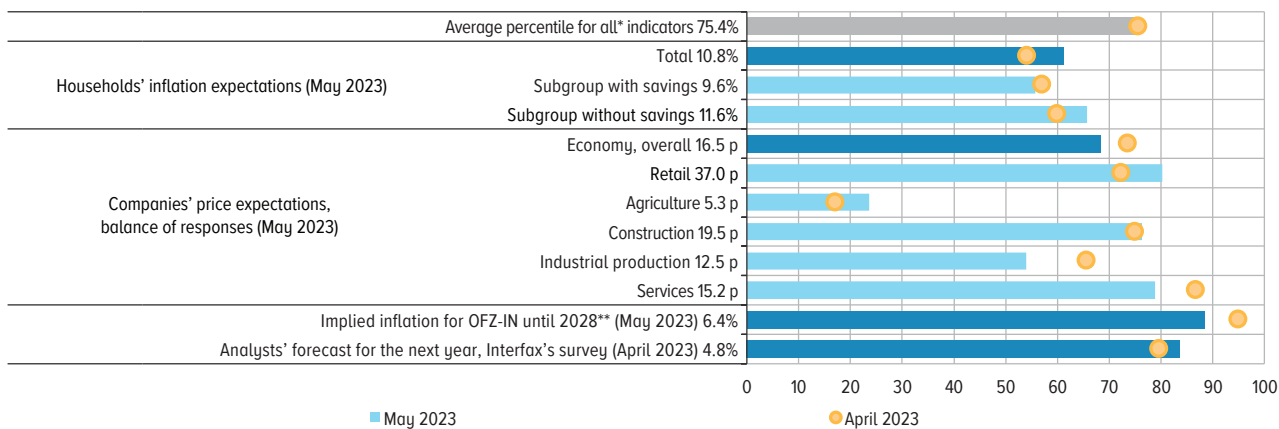
INFLATION EXPECTATION INDICATORS

	Expectation horizon	2020 average	2021 average	2022 average	2022 Q4 average	2023 Q1 average	March 2023	April 2023	May 2023
Inflation, %		3.4	6.7	13.8	12.2	8.8	3.5	2.3	
Inflation observed by households, %									
Public Opinion Foundation (median)	past 12 months	9.6	15.1	19.6	17.4	14.7	14.3	14.9	14.1
Public Opinion Foundation (subgroup with savings)	past 12 months	8.7	12.8	16.7	14.5	12.9	12.2	13.2	12.1
Public Opinion Foundation (subgroup without savings)	past 12 months	9.9	16.2	21.9	19.4	16.0	15.7	16.3	15.6
Households' inflation expectations, %									
Public Opinion Foundation (median)	next 12 months	9.1	12.1	12.9	12.4	11.5	10.7	10.4	10.8
Public Opinion Foundation (subgroup with savings)	next 12 months	8.4	10.5	11.3	10.4	10.2	9.9	9.6	9.6
Public Opinion Foundation (subgroup without savings)	next 12 months	9.6	13.2	14.0	13.8	12.1	11.3	11.2	11.6
Public Opinion Foundation (median of five-year inflation expectations)	next 5 years					10.2	10.4	9.9	11.3
Companies' price expectations, balance of responses									
Companies, total	next 3 months	13.3	20.1	21.8	18.0	16.7	16.3	17.4	16.5
Retail	next 3 months	31.7	38.8	38.9	30.5	29.8	30.6	35.2	37.0
Implied inflation for OFZ-IN (monthly average), %									
OFZ-IN 52002, February 2028	next 5-year average	3.3	4.2	6.3	6.4	6.5	6.7	6.7	6.4
OFZ-IN 52003, July 2030	next 7-year average	3.3	4.3	6.5	6.6	7.0	7.2	7.2	7.1
OFZ-IN 52004, March 2032	next 9-year average			6.7	6.8	7.1	7.5	7.6	7.5
OFZ-IN	2028–2030 average	3.5	4.4	6.7	7.0	8.0	8.2	8.3	8.4
OFZ-IN	2030–2032 average			7.6	7.7	7.6	8.4	9.0	9.1
Analysts, %									
Survey by the Bank of Russia	2023		4.0	6.3	5.9	6.0	6.0	5.9	
Interfax	2023			6.5	6.0	6.2	6.2	5.9	
Survey by the Bank of Russia	2024			4.4	4.2	4.1	4.1	4.1	
Interfax	2024					4.6	4.7	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 (economy, overall); implied inflation for OFZ-IN until 2028 and analysts' forecast for the next year.

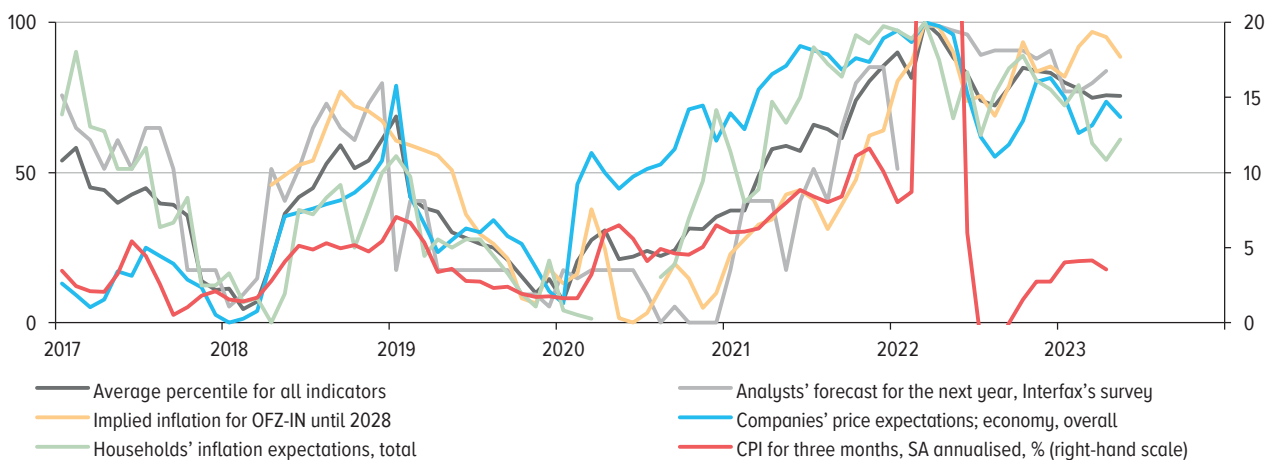
** Percentiles for implied inflation are specified relative to the distribution of values since April 2018.

Note. The chart shows the percentiles of inflation expectation indicators for the current and previous months in the distribution observed since January 2017. The percentile as of the previous date is highlighted in yellow, and the percentile as of the current date is shown as the blue bar. A shift of 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, Bank of Russia, Interfax, Moscow Exchange.

Economic agents' inflation expectations influence how efficiently monetary policy will be able to control inflation.¹ Among other things, companies, credit institutions and households make their decisions on consumption, savings and investment, set prices for goods, as well as loan and deposit rates, based on their expectations regarding future inflation. Inflation expectations, in turn, depend on the Bank of Russia's monetary policy outcomes. 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 public opinion polls in Russia and abroad usually exceed actual inflation rates. This difference 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 mainly judge inflation by the goods which have become more expensive. Despite this systematic bias in the absolute values of inflation expectations, their change and relative level compared to the historical range are very essential indicators showing possible changes in households' economic behaviour. These changes in turn influence future steady inflation.

Unlike households' inflation expectations, companies' price expectations are measured as a balance of responses to the question about the expected change in output prices during the next three months, rather than the median of price growth expected during the next 12 months. Rising price expectations mean that a higher percentage of companies are planning to increase prices. However, the extent of the increase cannot be estimated based on the change in the balance of responses.

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

Households' inflation expectations edged up

In May 2023, as shown by InFOM's survey, inflation expectations slightly increased for a year ahead (Annex, Chart 1). Their median estimate was 10.8 (+0.4 pp vs April and -0.7 pp vs the 2023 Q1 average). In May, inflation expectations grew only among respondents without savings (Annex, Chart 3). In the subgroup with savings, the expectations remained unchanged and totalled 9.6%.

Annual inflation observed by households decreased in May. Its median estimate was 14.8% (+0.3 pp vs April). This is the lowest figure since March 2021. Estimates of observed inflation declined among respondents both with and without savings.

In May, respondents were less concerned about rising prices for most goods included in the survey (Annex, Chart 2). The percentage of respondents who reported a dramatic rise in prices for housing and utility services (due to the seasonal factor – the end of the heating season), medicines, tea and coffee, and eggs² decreased most noticeably. Nevertheless, respondents began to report significant growth in prices for cheese and sausages, clothes, footwear and leather goods somewhat more often than last month.

The qualitative estimates of inflation expected for one year and one month ahead slightly edged up in May³ (Annex, Chart 4). The qualitative estimates of actual inflation decreased over the past year,⁴ whereas they increased over the previous month.⁵

Long-term inflation expectations also rose in May. The median of inflation expectations for the next five years⁶ was 11.3% in May (vs 9.9% in April). Five-year inflation expectations grew mainly owing to respondents without savings. For this subgroup, the median increased from 10.4% in April to 12.6% in May. Among respondents with savings, the median of inflation expectations in May totalled 10.0% (vs 9.5% in April) (Annex, Chart 5).

Consumer sentiment index edged down by 3.4%

The consumer sentiment index (CSI) slightly decreased in May after six months of growth and returned to the level of March 2023, staying close to its highs since 2018 H1 (Annex, Chart 6). It equalled 103.7 points (-2.2 points vs April). The decrease was caused by the worsened expectations of respondents while the present situation estimates included in the CSI remained virtually unchanged.

In May, the expectations index equalled 112.1 points (-3.7 points vs April). The values of all its components (the estimates of personal financial standing for a year ahead and expectations about changes in economic conditions in the country for the next one and five years) edged down by 3.4%.

The present situation index equalled 91.2 points in May (+0.2 points vs April). The estimates of both its components remained nearly the same (actual changes in personal financial standing over the year and the suitability of the current period for large purchases).

In May, respondents' propensity to save grew slightly up after a significant decrease in April but remained lower than in early 2023 (Annex, Chart 7). The percentage of respondents opting to save rather than purchase expensive goods increased to 53.7% (+1.1 pp vs April). The percentage of respondents preferring to buy expensive goods declined to 28.5% (-1.6 pp vs April).

In May 2023, the percentage of respondents preferring to keep their savings in bank accounts continued to grow. It reached 42% (+3 pp vs April). This was the highest figure since June 2017. The percentage of those opting to have cash holdings decreased to 31% (-1 pp vs April).

² For details on inflation in April, refer to the information and analytical commentary [Consumer Price Dynamics No. 4 \(88\), April 2023](#).

³ That is, a higher percentage of respondents, as compared to the previous month, answered that prices would rise faster than now, or would rise dramatically.

⁴ That is, a lower percentage of respondents, as compared to the previous month, answered that prices were rising faster than before.

⁵ That is, a higher percentage of respondents, as compared to the previous month, said that prices rose considerably.

⁶ The question 'Could you even roughly predict inflation and price growth in Russia in five years?'. In May, the proportion of respondents who answered 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 49%.

Companies' price expectations lowered

According to the monitoring carried out by the Bank of Russia in May 2023, price expectations of enterprises (the balance of responses) for the next three months decreased⁷ (Annex, Chart 8). The average price growth rate expected over the next three months, measuring companies' price expectations, equalled 3.6% in annualised terms in May.

The decrease in companies' price expectations was mainly associated with lower estimates of current and expected demand. Price expectations were diverse across industries (Annex, Chart 10). Their estimates were lower in the industrial sector, including manufacturing enterprises, in wholesale trade and services, mainly because respondents in these sectors became less positive about the situation with demand. In mining and quarrying, enterprises also reported a slower rise in costs.

However, despite more subdued demand expectations from retailers, retail price expectations continued to rise in May. The average price growth rate expected by retailers in the next three months equalled 7.0% in annualised terms (Annex, Chart 9).

In May, price expectations in agriculture increased after four months of decline. Agrarians noted a faster escalation in costs (in particular, they began to report a rise in prices for fuels and lubricant more frequently). In May, price expectations also increased in manufacturing, transportation and storage where estimates of expected demand had improved, and in construction where companies noted an accelerated cost growth.

Implied inflation remains elevated

In May, according to the Bank of Russia's estimates,⁸ average implied inflation for inflation-indexed federal government bonds (OFZ-IN) for the next five years edged down, reaching 6.4% (-0.3 pp vs April) (Annex, Chart 11). Forecasts about implied inflation for longer periods slightly increased: it is estimated at 8.4% (+0.1 pp vs April) in 2028–2030, and it will reach 9.1% (+0.1 pp vs April) in 2030–2032.

Analysts expect inflation to reach 5.9% in 2023

In April 2023, analysts' inflation forecasts remained almost the same. According to the findings of the [Bank of Russia's macroeconomic survey](#) carried out in April, analysts' inflation forecast for the end of 2023 equalled 5.9% (-0.1 pp vs March) (Annex, Chart 12). Their forecasts of inflation for 2024 and 2025 stayed close to 4%. In April, according to the survey carried out by Interfax, analysts' consensus forecast of inflation was 5.9% for the end of 2023 (-0.3 pp vs March) and 4.8% for the end of 2024 (+0.1 pp vs March).

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

According to the Bank of Russia forecast, annual inflation will be higher from May as the low values recorded in summer–autumn 2022 are not included in the inflation calculation. Given the monetary policy pursued, annual inflation will be 4.5–6.5% in 2023 and stay close to 4% in 2024 and further on.

⁷ In May 2023, we surveyed 12,546 enterprises. For more details on the monitoring of companies, refer to the information and analytical commentary [Monitoring of Businesses: Assessments, Expectations and Comments](#).

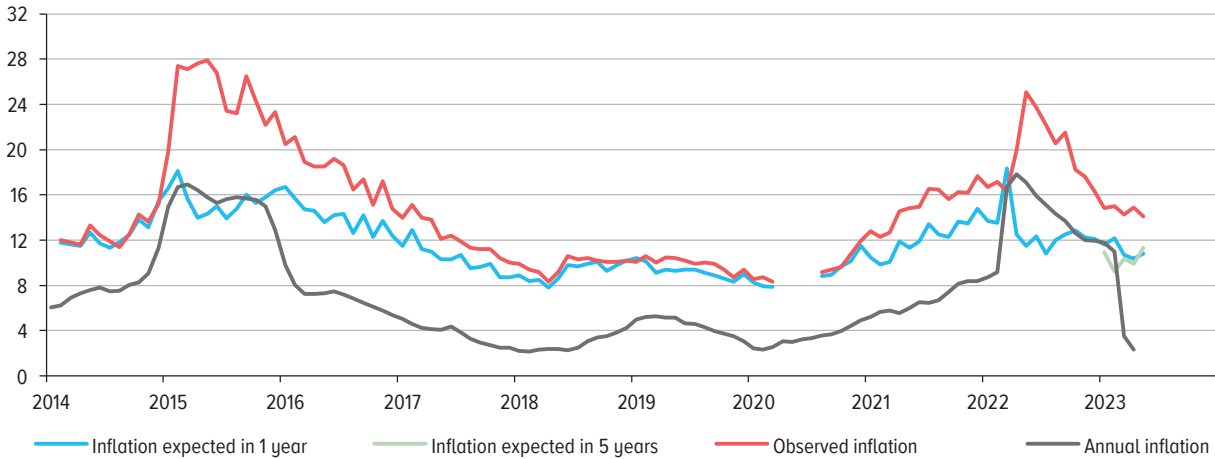
⁸ The estimates are based on the comparison of expected yields on OFZ-IN and nominal OFZ (OFZ-PD) bonds, taking into account the lag in the nominal value indexation and seasonally adjusted inflation. [Calculation method](#).

ANNEX

Analytical charts to the text

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

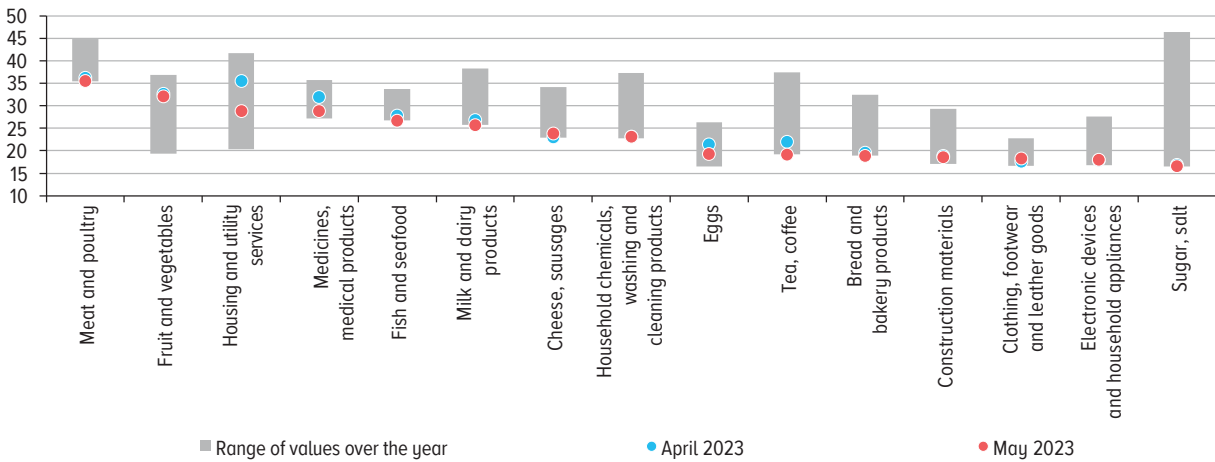
Chart 1



Sources: InFOM, Rosstat.

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

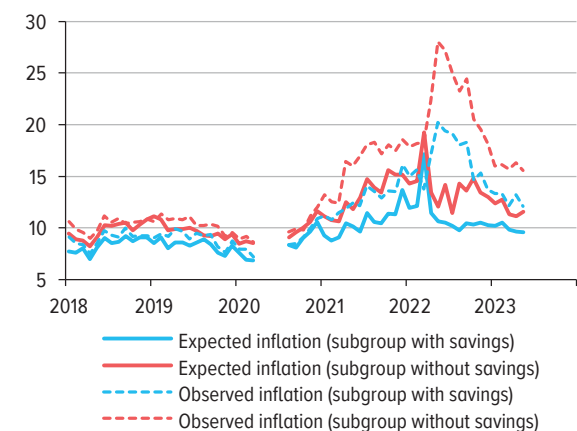
Chart 2



Sources: InFOM, Bank of Russia calculations.

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

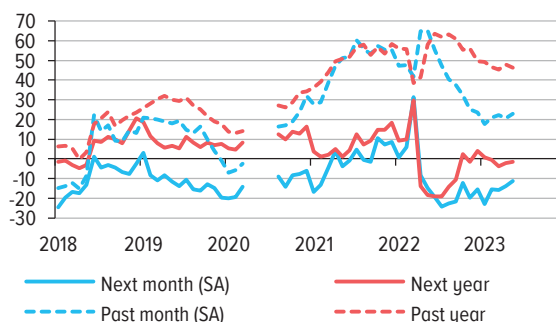
Chart 3



Sources: InFOM, Bank of Russia calculations.

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

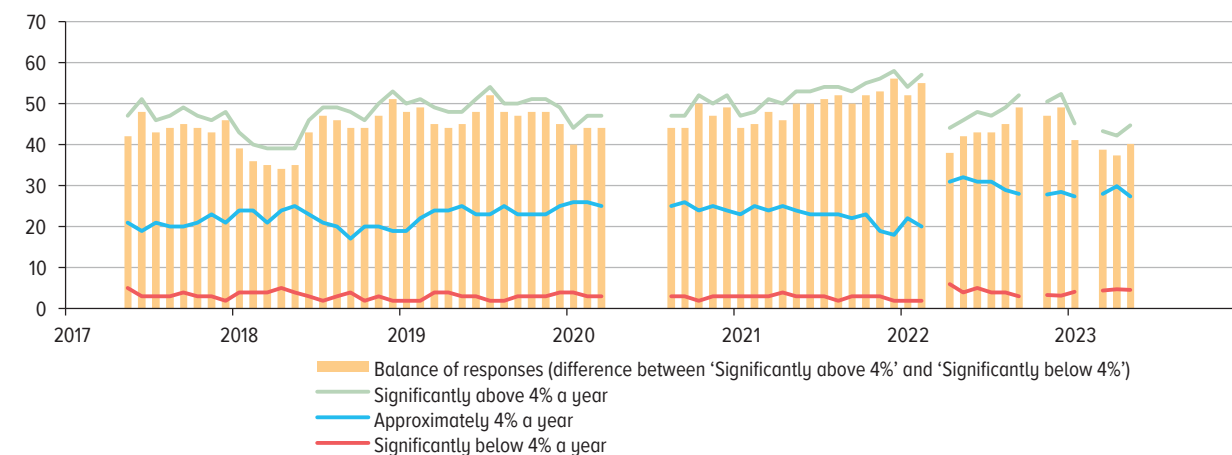
Chart 4



* 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 over 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 over the next month, in your opinion?'. For the last two questions – seasonally adjusted prices.
Sources: InFOM, Bank of Russia calculations.

DISTRIBUTION OF RESPONSES TO THE QUESTION 'WILL ANNUAL PRICE GROWTH BE ABOVE OR BELOW 4% IN THREE YEARS, IN YOUR OPINION?'
(% OF ALL RESPONDENTS)

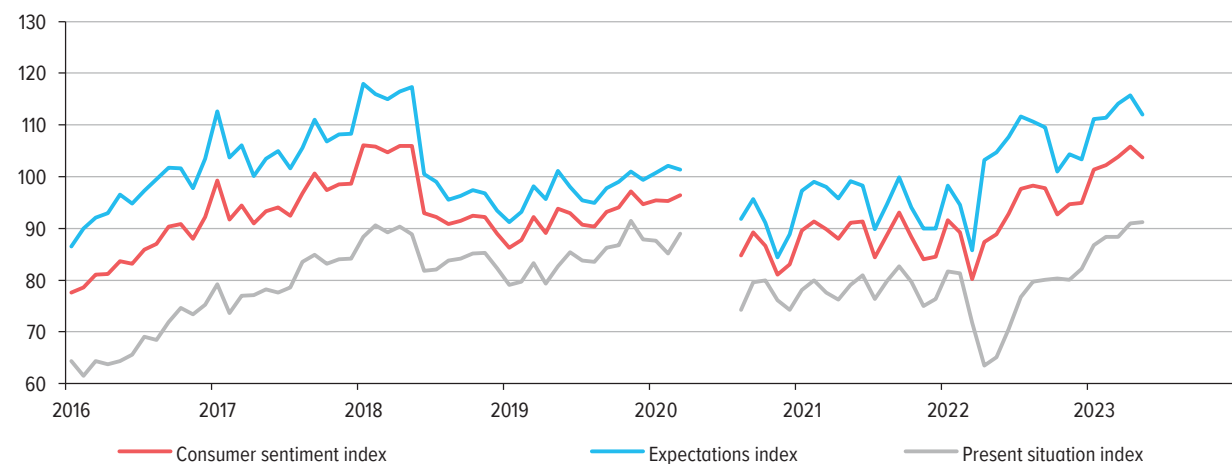
Chart 5



Sources: InFOM, Bank of Russia calculations.

CONSUMER SENTIMENT INDEX (POINTS)

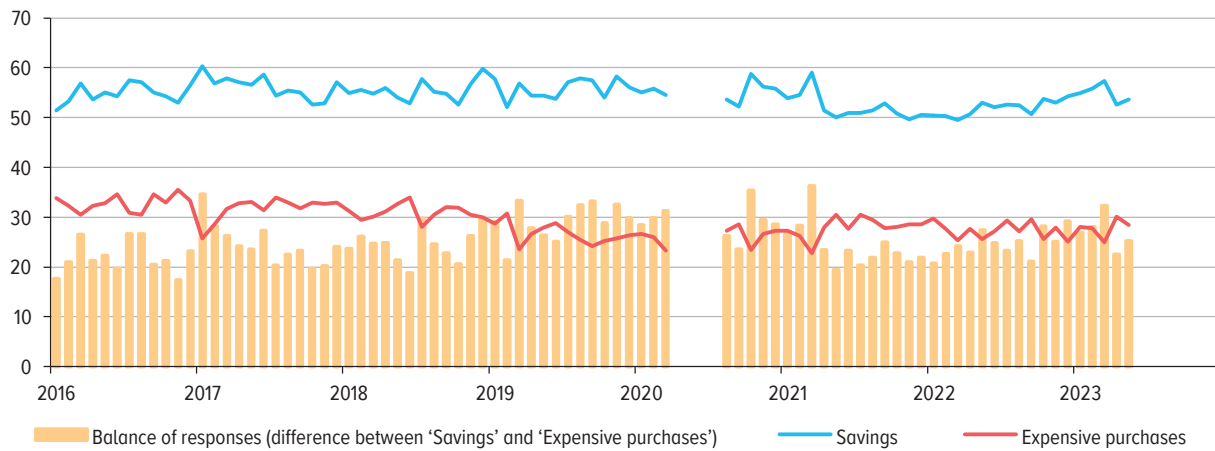
Chart 6



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)

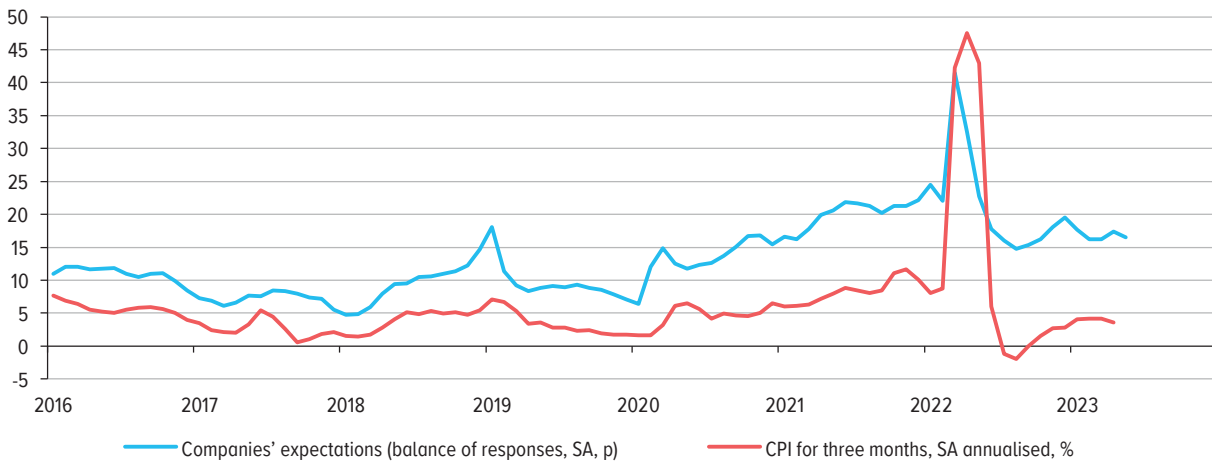
Chart 7



Sources: InFOM, Bank of Russia calculations.

COMPANIES' PRICE EXPECTATIONS

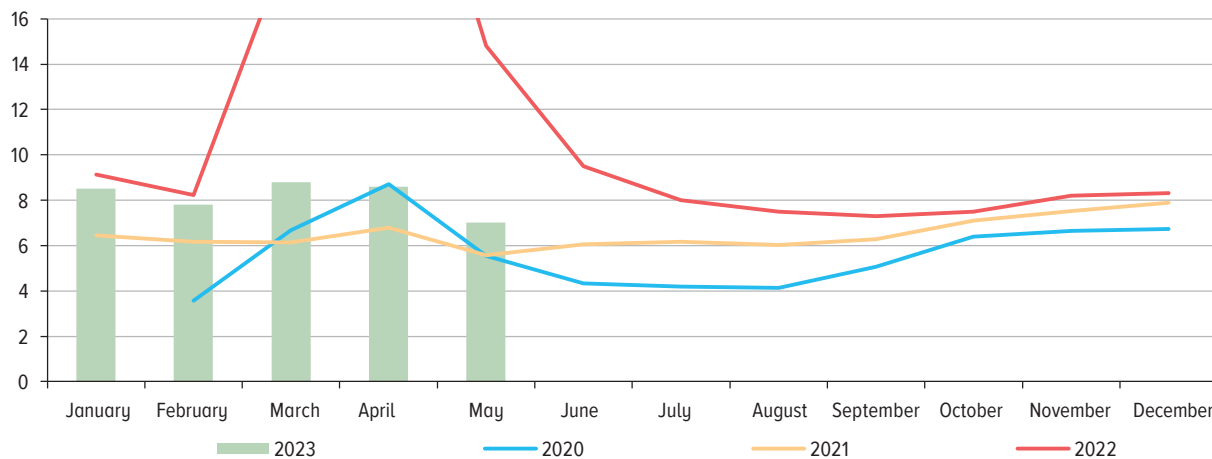
Chart 8



Sources: Bank of Russia, Rosstat.

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

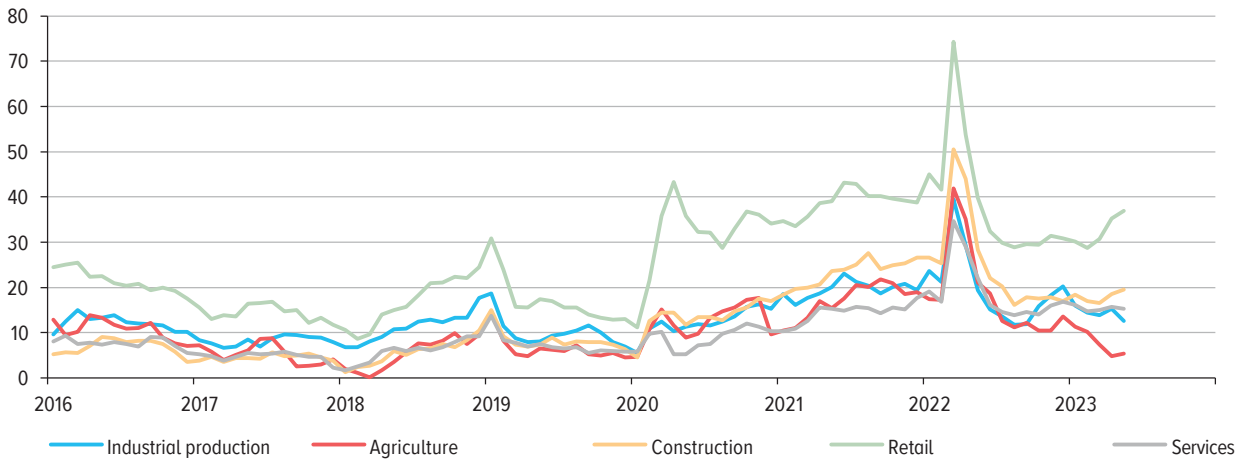
Chart 9



Source: Bank of Russia.

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

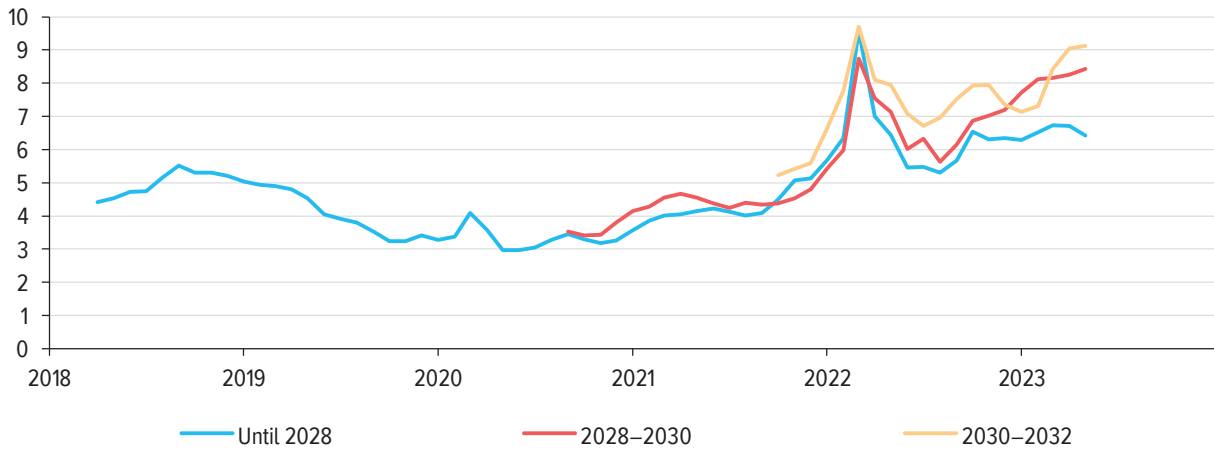
Chart 10



Source: Bank of Russia.

IMPLIED INFLATION FOR OFZ-IN
(%)

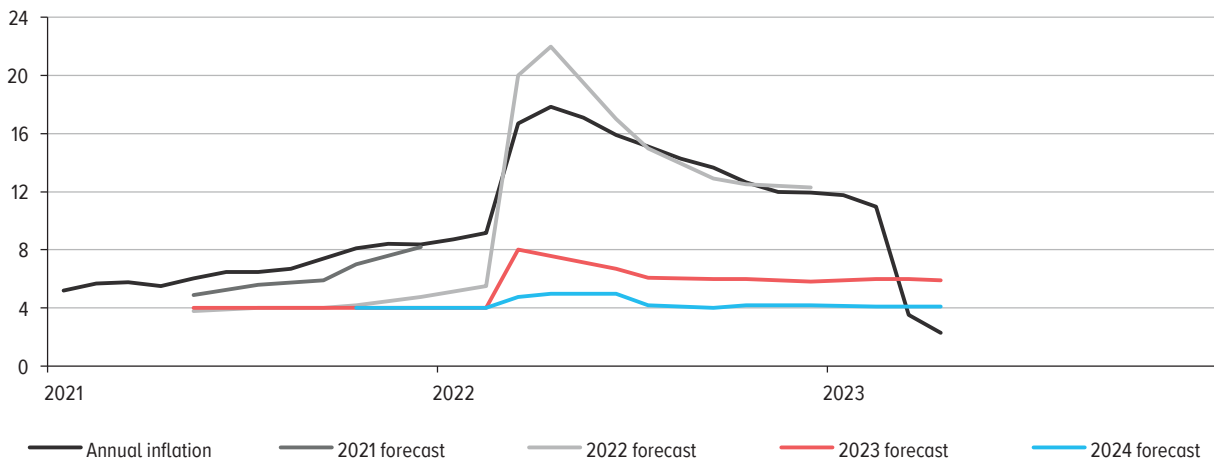
Chart 11



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

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

Chart 12



Sources: Bank of Russia, Rosstat.

Cut-off date – 19.05.2023.

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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