



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

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Information and analytical commentary

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INFLATION EXPECTATIONS AND CONSUMER SENTIMENT (JUNE 2023)

Economic agents' expectations for the future trends in prices were mainly declining in June, but still remained high. Households' inflation expectations, companies' price expectations and analysts' inflation forecasts lowered. Concurrently, implied inflation for OFZ-IN bonds slightly grew over the next five years. Given the monetary policy pursued, the Bank of Russia forecasts that inflation will equal 4.5–6.5% in 2023 and return to 4% in 2024.

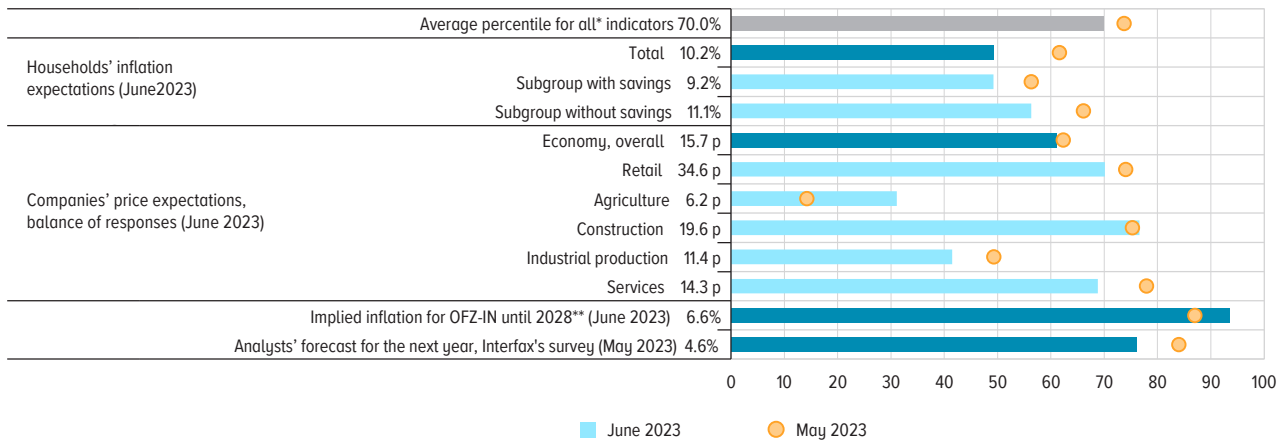
INFLATION EXPECTATION INDICATORS

	Expectation horizon	2020 average	2021 average	2022 average	2023 Q1 average	2023 Q2 average	April 2023	May 2023	June 2023
Inflation, %		3.4	6.7	13.8	8.8		2.3	2.5	
Inflation observed by households, %									
Public Opinion Foundation (median)	previous 12 months	9.6	15.1	19.6	14.7	14.3	14.9	14.1	13.9
Public Opinion Foundation (subgroup with savings)	previous 12 months	8.7	12.8	16.7	12.9	12.4	13.2	12.1	11.9
Public Opinion Foundation (subgroup without savings)	previous 12 months	9.9	16.2	21.9	16.0	15.8	16.3	15.6	15.4
Households' inflation expectations, %									
Public Opinion Foundation (median)	next 12 months	9.1	12.1	12.9	11.5	10.5	10.4	10.8	10.2
Public Opinion Foundation (subgroup with savings)	next 12 months	8.4	10.5	11.3	10.2	9.5	9.6	9.6	9.2
Public Opinion Foundation (subgroup without savings)	next 12 months	9.6	13.2	14.0	12.1	11.3	11.2	11.6	11.1
Public Opinion Foundation (median of five-year inflation expectations)	next 5 years				10.2	10.7	9.9	11.3	10.8
Companies' price expectations, balance of responses									
All companies	next 3 months	13.3	20.1	21.8	16.7	16.3	17.3	16.1	15.7
Retailers	next 3 months	31.7	38.8	38.9	29.7	34.9	34.8	35.2	34.6
Implied inflation for OFZ-IN (monthly average), %									
OFZ-IN 52002, February 2028	next 5-year average	3.3	4.2	6.3	6.5	6.6	6.7	6.4	6.6
OFZ-IN 52003, July 2030	next 7-year average	3.3	4.3	6.5	7.0	7.2	7.2	7.1	7.1
OFZ-IN 52004, March 2032	next 9-year average			6.7	7.1	7.5	7.6	7.5	7.5
OFZ-IN	2028–2030 average	3.5	4.4	6.7	8.0	8.3	8.3	8.4	8.2
OFZ-IN	2030–2032 average			7.6	7.6	9.1	9.0	9.1	9.2
Analysts, %									
Survey by the Bank of Russia	2023		4.0	6.3	6.0	5.7	5.9		5.5
Interfax	2023			6.5	6.2		5.9	5.8	
Survey by the Bank of Russia	2024			4.4	4.1	4.1	4.1		4.0
Interfax	2024				4.6		4.8	4.6	
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

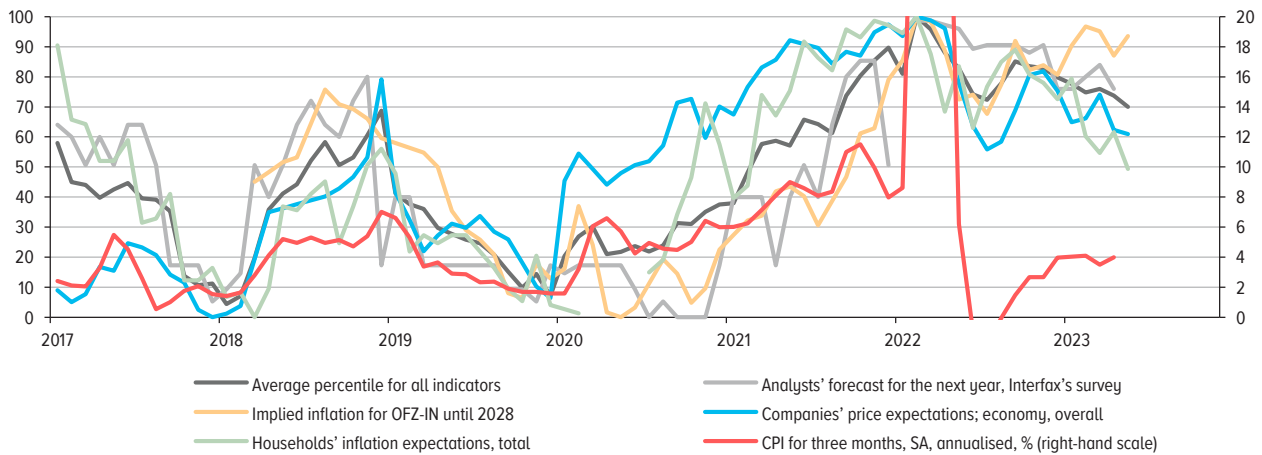
Chart 1



* The average of the percentiles of households' inflation expectations (total), companies' price expectations (the 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 indicates 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.

Monetary policy and inflation expectations

Economic agents' inflation expectations influence how efficiently monetary policy will be able to control inflation.¹ This is because companies, credit institutions and households make their decisions on consumption, savings and investment, price products, and set credit and deposit rates, being guided by their expectations about future inflation, among other factors. In turn, the Bank of Russia's monetary policy results impact inflation expectations. Achieving the inflation target and maintaining inflation at a steadily low level help anchor inflation expectations and reduce their volatility and responsiveness to one-off and short-term spikes in prices for some products or services.

Inflation expectations and observed inflation measured based on household surveys almost always exceed actual inflation rates both in Russia and abroad. This discrepancy is related to the peculiarities of perception: rising prices are more likely to get attention and an active response, while declining or stable prices tend to receive less attention. Accordingly, people estimate inflation guided primarily by the product prices that have increased most significantly. Despite this systematic bias in the absolute values of inflation expectations, their change and relative level compared to the historical range are essential indicators showing possible changes in households' economic behaviour. These changes in turn influence future steady inflation.

Unlike households' inflation expectations, businesses' price expectations are measured as the balance of answers to the question about expected changes in selling prices in the next three months rather than the median of the expected price growth over the next 12 months. Rising price expectations mean that a higher percentage of companies plan 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 down

In June 2023, as shown by an InFOM survey, inflation expectations dropped to a minimum for a year ahead from March 2021 (Annex, Chart 1). Their median estimate was 10.2% (-0.6 pp vs May and -1.3 pp vs the 2023 Q1 average). Inflation expectations of respondents both with and without savings decreased (Annex, Chart 3). The median of inflation expectations of the subgroup with savings equalled 9.2% in June.

Annual inflation observed by households continued to decline in June. Its median estimate equalled 13.9% (-0.2 pp vs May). Similar to inflation expectations, the observed inflation rate in June was the lowest since March 2021. The estimates of observed inflation declined among respondents both with and without savings.

In June, respondents were less concerned about rising prices for most goods included in the survey (Annex, Chart 2). The percentage of respondents who said about significant growth in prices for housing and utility services, medicines and eggs² dropped notably. However, the respondents became more concerned about a rise in prices for petrol, as well as for sugar and salt.

Qualitative estimates of expected inflation for one month ahead decreased in June³ but increased for the next 12 month⁴ (Annex, Chart 4). Qualitative estimates of actual inflation over the previous month and the past year declined.⁵

Five- and three-year inflation expectations were diverse in June. Inflation expectations for the next five years⁶ decreased, and their median was 10.8% (vs 11.3% in May). Five-year inflation expectations declined mainly owing to respondents without savings. For this subgroup, the median dropped from 12.6% in May to 11.8% in June. Among respondents with savings, the median of inflation expectations for the next five years was 9.9% in June (vs 10.0% in May). The percentage of respondents believing that the price growth rate will notably surpass 4% in three years continued to grow for the second consecutive month and reached 48% in June (vs 45% in May) (Annex, Chart 5).

Propensity to consume increased

The propensity of respondents to consume increased in June (Annex, Chart 7). The percentage of respondents opting not to save money but to purchase expensive goods increased to 31.4% (+2.9 pp vs May), reaching its maximum since October 2018. The percentage of those who prefer to save edged down to 51.1% (-2.6 pp vs May). Estimates of the suitability of the current period for making major purchases, which are used to calculate the consumer price index (CPI), also increased. In June, they demonstrated their maximum values since March 2020.

However, the CPI slightly lowered (to 103.1 points, -0.6 point vs May), although it remained close to its highs since 2018 H1 (Annex, Chart 6). The CPI mainly decreased due to worsened expectations of the respondents. The expectations index equalled 110.6 points in June (-1.5 points vs May). Estimates of future changes in economic conditions in the country for one year and five years ahead declined, but estimates of changes in personal financial standing for a year ahead increased. In June, the present situation index edged up to 91.9 points (+0.7 point vs May) owing to improved estimates of the suitability of the current period for making major purchases. Estimates of changes in personal financial standing over the past year slightly decreased.

² For details on inflation in May, refer to the information and analytical commentary [Consumer Price Dynamics No. 5 \(89\), May 2023](#).

³ That is, a smaller percentage of respondents, as compared to the previous month, answered that prices would rise considerably.

⁴ That is, a larger percentage of respondents, as compared to the previous month, answered that prices would rise faster than now.

⁵ That is, a smaller percentage of respondents, as compared to the previous month, answered that prices rose faster than before or had risen dramatically.

⁶ The question was 'Can you at least roughly estimate what the level of inflation and price growth will be in Russia in five years?' 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 53% in June.

The respondents' growing propensity to consume also influenced their preferences for the types of savings. In June, they more often demonstrated their preference to keep their money in cash which is a more liquid form of savings (33% of respondents vs 31% in May), and less often in bank accounts (37% of respondents vs 42% in May).

Companies' price expectations lowered

According to the monitoring carried out by the Bank of Russia in June 2023, companies' price expectations⁷ (the balance of responses) for the next three months slightly lowered, although remaining at a higher level compared to 2017–2019 when inflation was close to 4% (Annex, Chart 8). The average price growth rate expected over the next three months, measuring companies' price expectations, equalled 3.5% in annualised terms in June.

The lower price expectations of businesses were mainly due to a decline in demand expectations, while estimates of current demand increased. Price expectations were diverse across industries (Annex, Chart 9). They decreased in services, transportation and storage, as well as in manufacturing, where companies became less optimistic about demand over the next three months.

Price expectations of both wholesale and retail trade segments lowered (except for the car trade). The average price growth rate expected by retail trade enterprises in the next three months reached 7.0% year-on-year (Annex, Chart 10). As demand estimates improved and sales increased in the reporting period, respondents' expectations for future trends in demand and sales became less positive. Nevertheless, in the car trade, where growth in demand and sales was most significant, price expectations grew. The key drivers of the expected price growth in this segment were increased procurement prices, changes in the exchange rate, and higher costs of similar products in the market.

Price expectations were higher in agriculture where respondents noted a high growth rate of costs (including growing prices for fuels and lubricants) and greater business risks.

In mining and quarrying, increased price expectations were associated with faster growth in costs, while demand expectations remained positive. Price expectations also rose in construction with persistently high estimates of increasing costs. However, every third respondent in the construction sector said that the expected growth in prices for their products and/or services was caused by changes in competitors' prices.

Implied inflation remains elevated

In June, according to the Bank of Russia's estimates,⁸ average implied inflation for the next five years, calculated on the basis of the ratio between yields on OFZ-PD and OFZ-IN bonds with the same maturity dates, slightly increased to 6.6% (+0.2 pp vs May) (Annex, Chart 11). Implied inflation for longer periods varied diversely. It decreased to 8.2% (-0.2 pp vs May) for 2028–2030 and increased to 9.2% (+0.1 pp vs May) for 2030–2032.

⁷ The survey covered 14,464 enterprises in June. For more details on the monitoring of enterprises, 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, considering the lag in nominal value indexation and seasonally adjusted inflation. [Calculation method](#).

Analysts expect inflation below 6% in 2023

Analysts' inflation forecasts slightly lowered in May–June 2023. According to the findings of the [Bank of Russia's macroeconomic survey](#) carried out in June, analysts' inflation forecast for the end of 2023 was 5.5% (-0.4 pp vs April; no survey was carried out in May) (Annex, Chart 12). Analysts surveyed by the Bank of Russia expect inflation to be 4.0% in 2024–2025. In May, according to the survey carried out by Interfax, analysts' consensus forecast of inflation was 5.8% for the end of 2023 (-0.1 pp vs April) and 4.6% for the end of 2024 (-0.2 pp vs April).

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

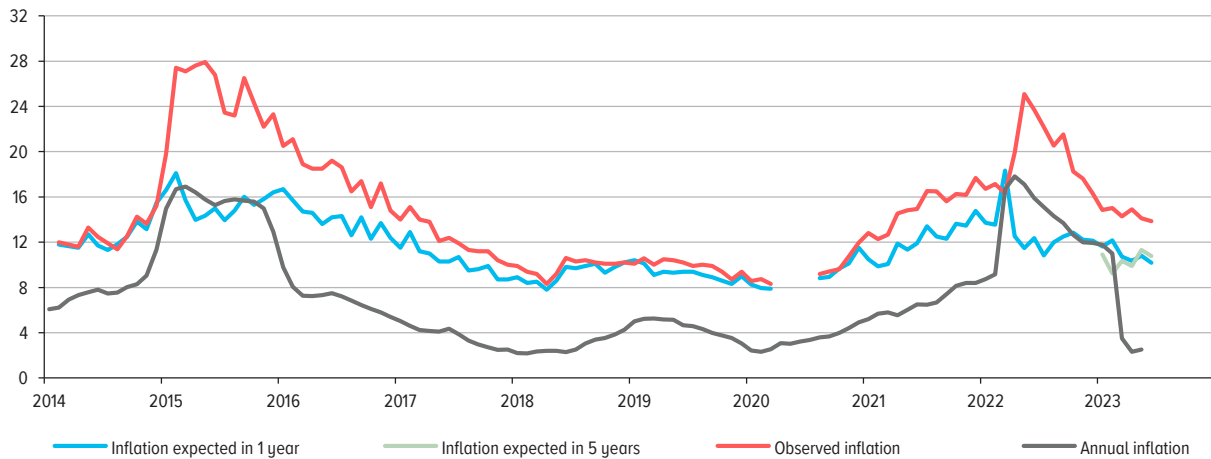
According to the Bank of Russia forecast, annual inflation will rise over the coming months as price pressure builds up and low monthly values of summer–autumn 2022 are excluded from the calculation of inflation. Given the monetary policy pursued, annual inflation will be 4.5–6.5% by the end of 2023 and stay close to 4% in 2024 and beyond.

ANNEX

Analytical charts

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

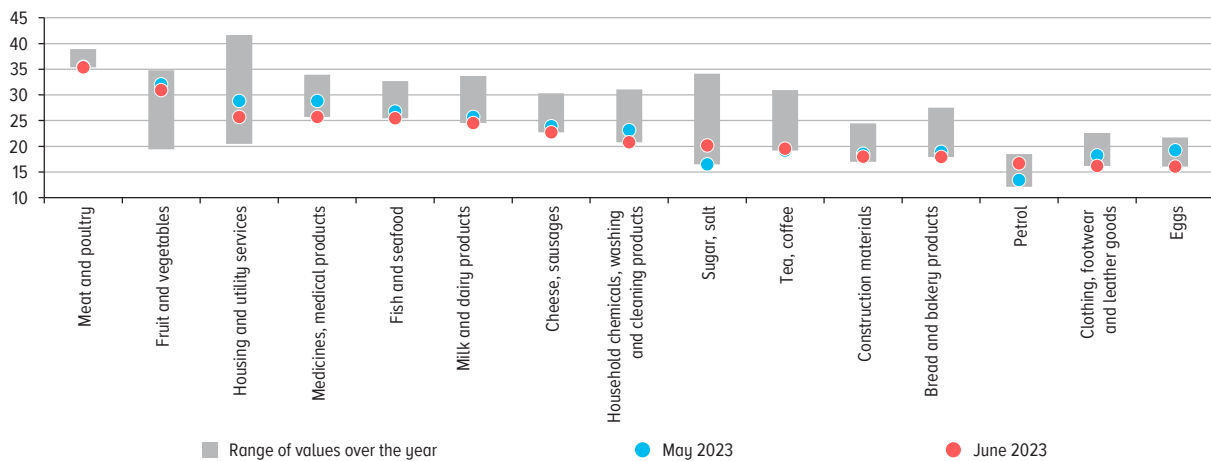
Chart 1



Sources: InFOM, Rosstat.

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

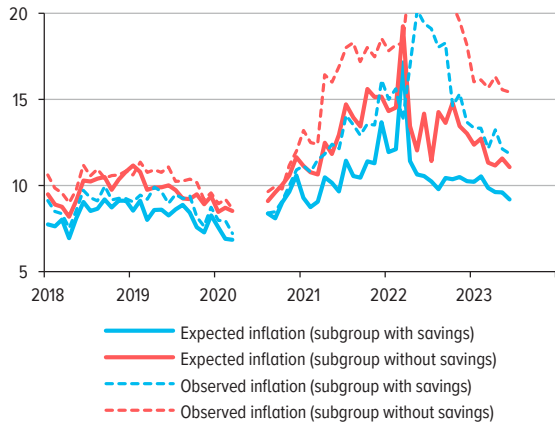
Chart 2



Sources: InFOM, Bank of Russia calculations.

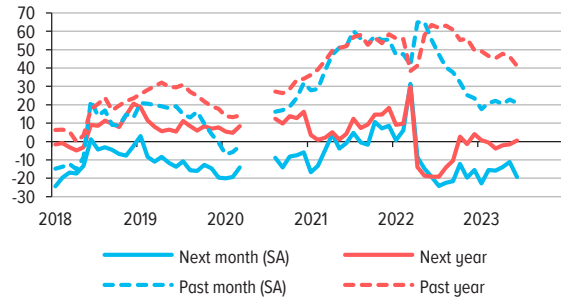
EXPECTED AND OBSERVED INFLATION BY RESPONDENT SUBGROUP (%)

Chart 3



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

Chart 4

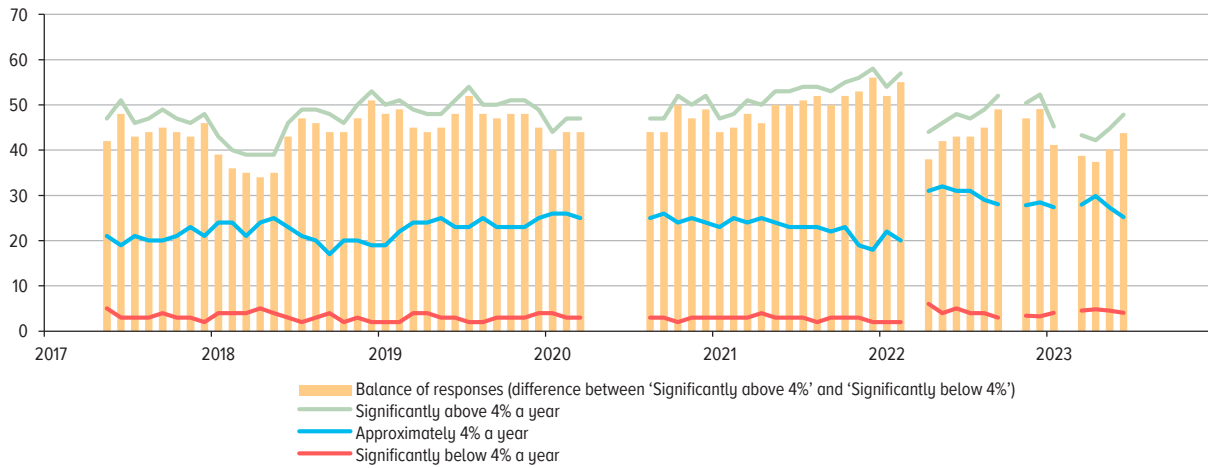


* Balance of responses to the questions 'How were prices changing overall over the past 12 months (year), in your opinion?'; 'How will prices be changing overall over the next 12 months (year), in your opinion?'; 'How did prices for food products, non-food goods and services change overall over the past 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.

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)

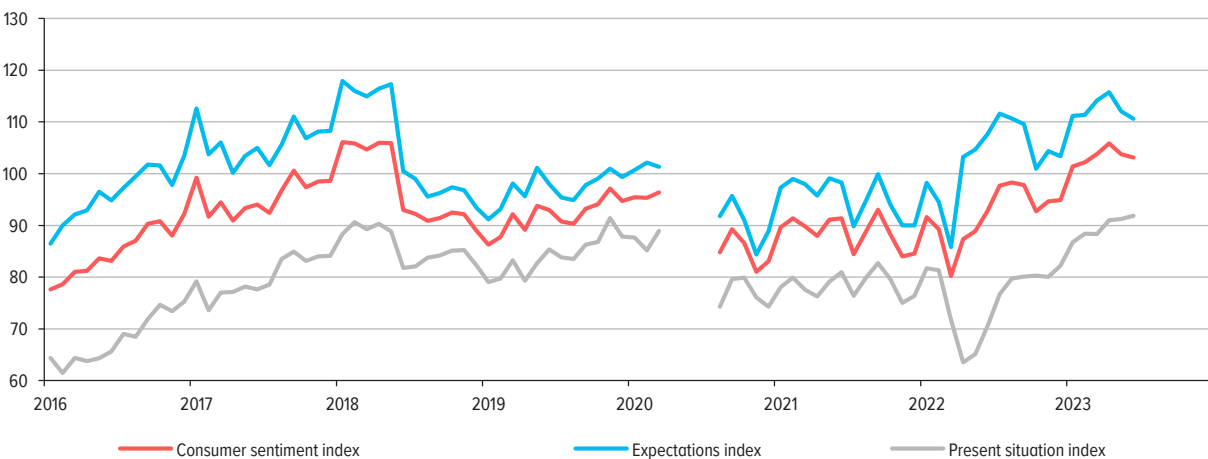
Chart 5



Sources: InFOM, Bank of Russia calculations.

CONSUMER SENTIMENT INDEX (POINTS)

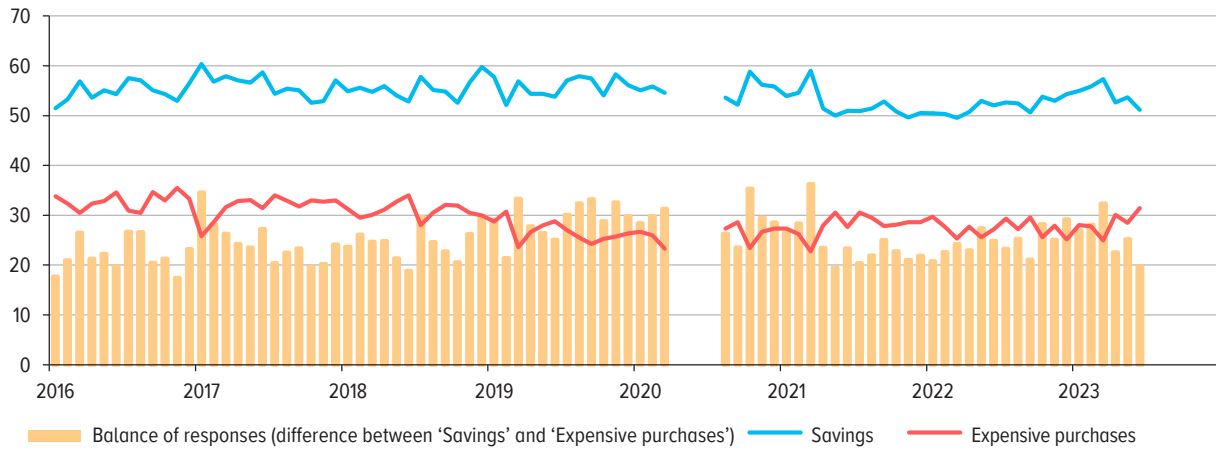
Chart 6



Source: InFOM.

DISTRIBUTION OF RESPONSES TO THE QUESTION 'WHAT IS YOUR OPINION ABOUT THE BEST WAY TO USE AVAILABLE MONEY: MAKE SAVINGS OR PURCHASE EXPENSIVE GOODS?'
(% OF ALL RESPONDENTS)

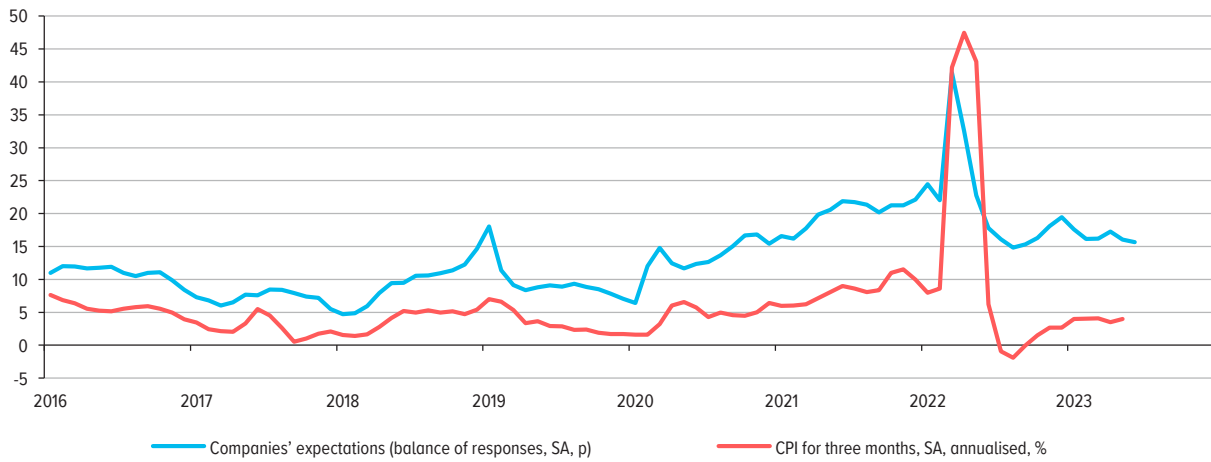
Chart 7



Sources: InFOM, Bank of Russia calculations.

COMPANIES' PRICE EXPECTATIONS

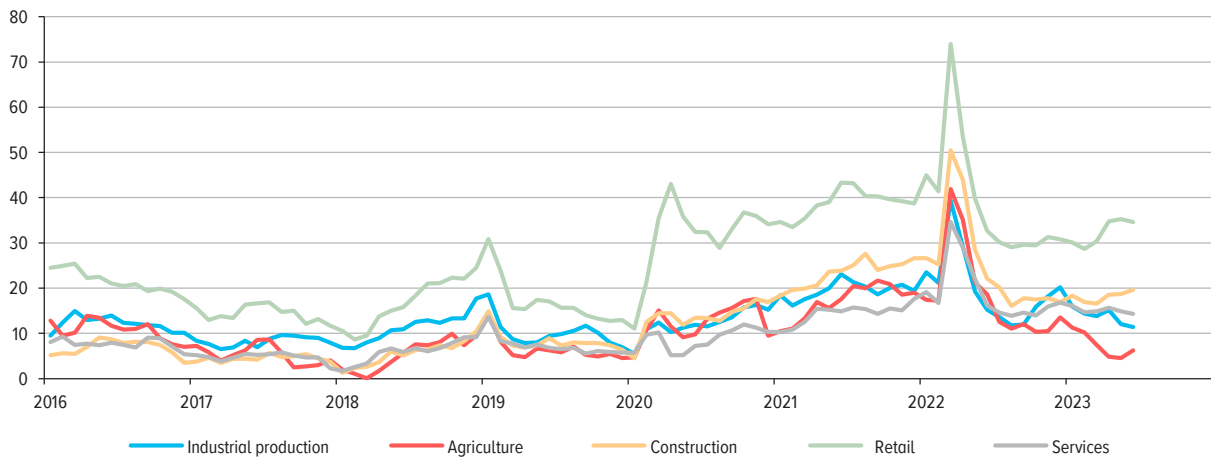
Chart 8



Sources: Bank of Russia, Rosstat.

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

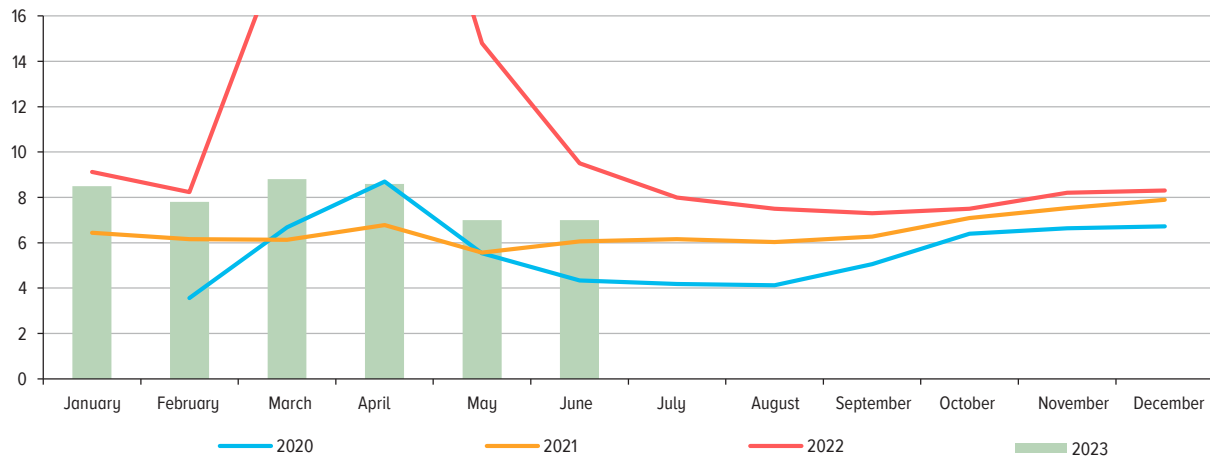
Chart 9



Source: Bank of Russia.

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

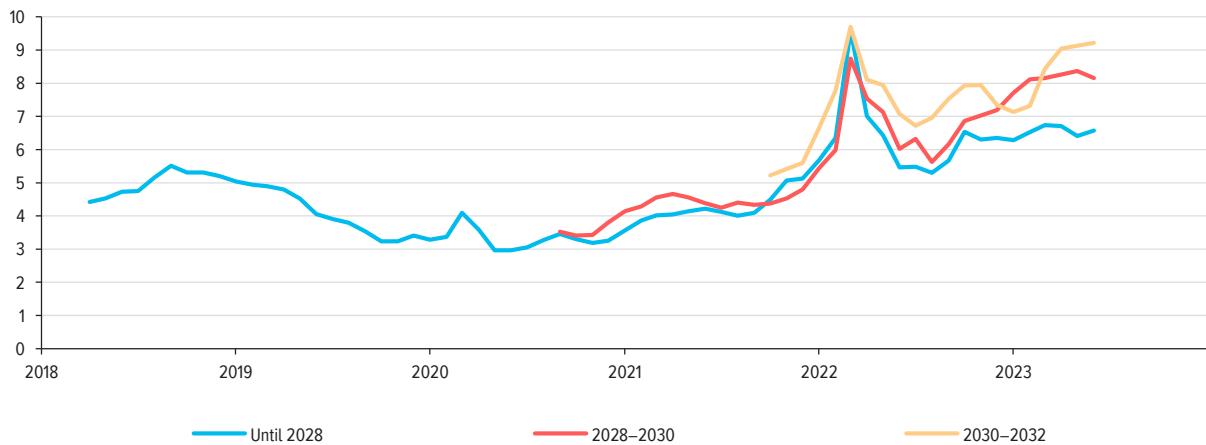
Chart 10



Source: Bank of Russia.

IMPLIED INFLATION FOR OFZ-IN
(%)

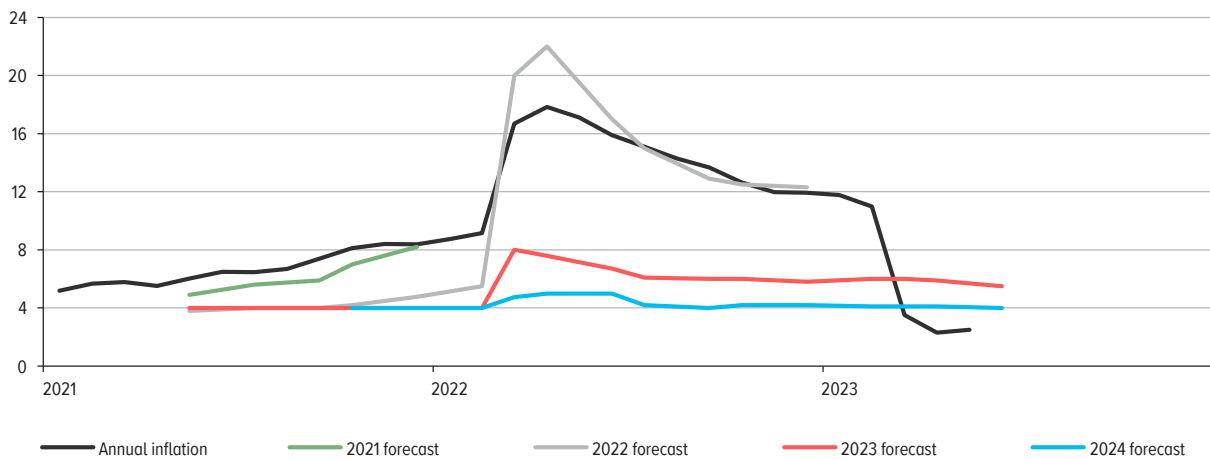
Chart 11



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

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

Chart 12



Sources: Bank of Russia, Rosstat.

The data cut-off date – 21.06.2023.

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 Bank of Russia.

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