



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

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Information and analytical commentary

3 February 2021

Inflation expectations and consumer sentiment (January 2021)

In January, inflation expectations dynamics varied by group of economic agents. According to a survey by inFOM, after surging in 2020, household inflation expectations declined noticeably in January 2021, though remaining elevated. Based on the Bank of Russia's monitoring, assessments of companies' short-term price expectations remained virtually unchanged, staying close to the high levels observed in March–April 2020. Professional analysts' inflation forecasts for 2021 and 2022 were also virtually unchanged (slightly below 4%). However, implied inflation for inflation-indexed federal government bonds (OFZ-IN) increased in January, with its three-year-ahead levels reaching 3%, and its longer-term levels being close to 4%. The Bank of Russia forecasts annual inflation to come in at 3.5–4.0% in 2021 and close to 4% further on.

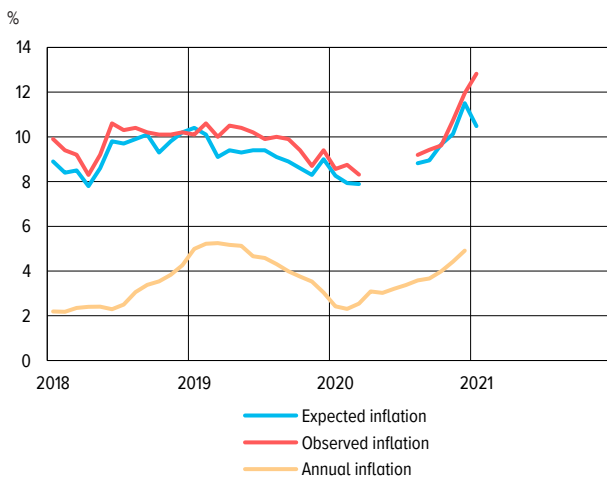
INFLATION EXPECTATION INDICATORS

Table 1

	Expectation horizon	2019 average	January 2020	March 2020	November 2020	December 2020	January 2021
Inflation, %		4.5	2.4	2.5	4.4	4.9	
Inflation observed by households, %							
Public Opinion Foundation (median)	past 12 months	9.9	8.6	8.3	10.7	12.0	12.8
Public Opinion Foundation (subgroup with savings)	past 12 months	9.1	8.0	7.2	10.0	10.9	11.1
Public Opinion Foundation (subgroup without savings)	past 12 months	10.4	8.9	8.6	11.2	12.0	13.2
Households' inflation expectations, %							
Public Opinion Foundation (median)	next 12 months	9.3	8.3	7.9	10.1	11.5	10.5
Public Opinion Foundation (subgroup with savings)	next 12 months	8.3	7.6	6.9	9.6	10.6	9.3
Public Opinion Foundation (subgroup without savings)	next 12 months	9.8	8.5	8.5	10.6	11.7	11.1
Companies' price expectations							
Companies, balance of responses	next 3 months	10.2	8.6	18.1	20.4	18.1	18.3
PMI Manufacturing input prices	current month	57.8	53.5	59.8	77.1	78.5	
PMI Manufacturing output prices	current month	53.1	50.8	55.4	58.3	60.6	
PMI Services input prices	current month	58	55.4	61.5	64.5	60.4	
PMI Services output prices	current month	54	49.0	54.2	53.6	54.7	
Analysts, %							
2021, Bloomberg	2021		4.0	4.0	3.5	3.7	3.7
2021, Interfax	2021		3.9	3.8	3.5	3.5	
2021, Reuters	2021		3.9	3.9	3.7	3.6	
2022, Bloomberg	2022		4.0	3.9	3.8	3.8	3.8
2022, Reuters	2022		4.0	3.9	3.9	3.9	
Implied inflation for OFZ-IN, %							
OFZ-IN 52001, August 2023	next 3-year average	3.9	2.8	3.5	2.5	2.6	3.0
OFZ-IN 52002, February 2028	next 8-year average	4.1	3.3	4.1	3.2	3.2	3.5
OFZ-IN 52003, July 2030	next 10-year average				3.2	3.4	3.7
OFZ-IN	2023–2028 average	4.3	3.7	4.5	3.6	3.6	3.8
OFZ-IN	2028–2030 average				3.4	3.8	4.1

INFLATION OBSERVED AND EXPECTED
BY HOUSEHOLDS (MEDIAN ESTIMATE)

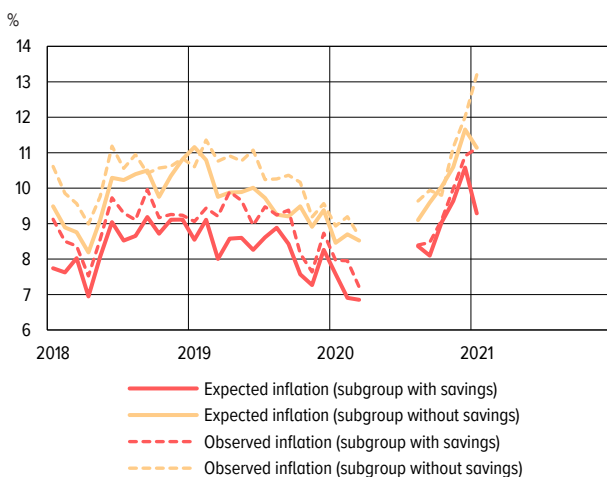
Chart 1



Sources: InFOM, Rosstat.

EXPECTED AND OBSERVED INFLATION
BY RESPONDENT SUBGROUP (MEDIAN ESTIMATE)

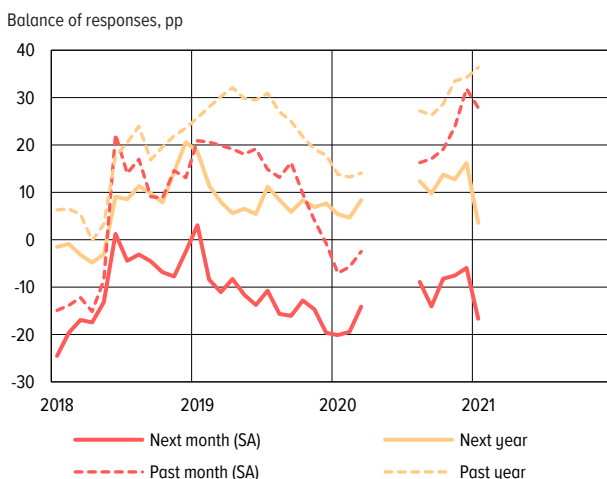
Chart 2



Sources: InFOM, Bank of Russia calculations.

INDICATORS OF PRICE MOVEMENTS

Chart 3



Sources: InFOM, Bank of Russia calculations.

Households' inflation expectations

According to the survey by InFOM, households' inflation expectations declined in January for the first time since August (Table 1, Chart 1). The median estimate of inflation expected in the next 12 months stood at 10.5% (-1 pp on December). Inflation observed by households continued to rise (12.8%, +0.8 pp on December). The change was rather heterogeneous across some respondent subgroups (Chart 2). For respondents with savings, the decline in expectations was more considerable and the increase in the estimates of observed inflation was much less than for respondents without savings. Inflation expectations of households with savings as well as inflation levels perceived by them are typically closer to the price dynamics registered by statistics.¹

In January, as before, an increase in the estimates of observed inflation was caused by the accelerated price growth for certain food products frequently purchased by households. Respondents noted by far more often than in December rises in prices for eggs and sunflower oil (Chart 3 of [the InFOM Analytical Report, January 2021](#)). According to the November and December surveys, the surge in prices for the mentioned products aroused the biggest concern of respondents. However, in January, weekly statistics demonstrated a decline in these prices compared to the end-December readings.

At the same time, qualitative estimates² of current and future inflation predominantly declined in January (Chart 3). A slight increase was only registered for the last year price growth estimates. Expectations of price changes dropped significantly: estimates of future inflation for a month ahead returned to the levels of February–March 2020, and for a year ahead – reached their lowest values since May 2018.

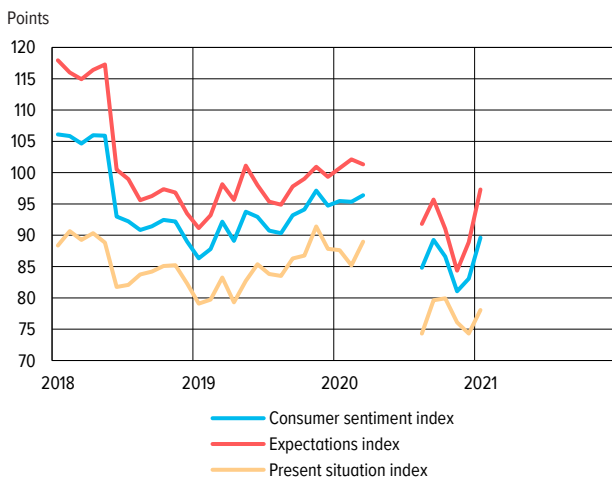
Households' inflation expectations for three years ahead also dropped in January. Compared

¹ Monetary Policy Report No. 2 (26) June 2019.

² Balance of responses to the question about a qualitative change in inflation trends in the past and next year (month), seasonally adjusted.

CONSUMER SENTIMENT INDEX

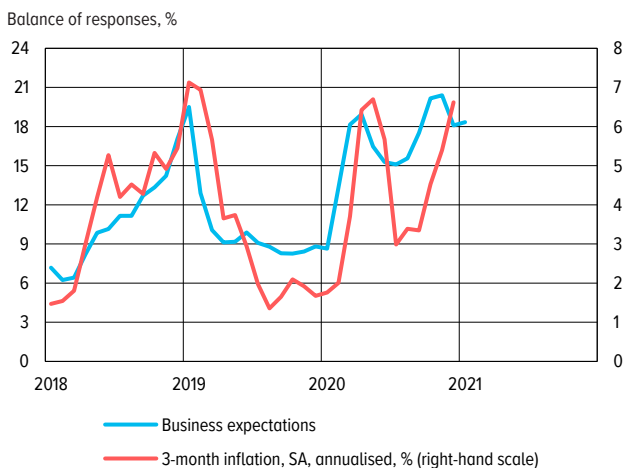
Chart 4



Source: InFOM.

COMPANIES' PRICE EXPECTATIONS
(BANK OF RUSSIA)

Chart 5



Sources: Bank of Russia, Rosstat.

to December, the share of respondents, who believed that inflation would significantly overshoot 4%, decreased by 5 pp – to 47% (Chart 9 of the Report).

Households' consumer sentiment

In January, the consumer sentiment index continued to rise (by 7 p compared to December) and returned to the level of September 2020 (Chart 4). Both the expectations index (+8 p) and the present situation index (+4 p) increased.

As a result of lower inflation expectations and some improvement in the current financial standing (Chart 14 of the Report), the propensity of households to save increased in January (Chart 20 of the Report). In particular, the share of respondents with savings increased to 37% (+4 pp on December, +3 pp on the average level for 2020) (Chart 24 of the Report).

Companies' price expectations

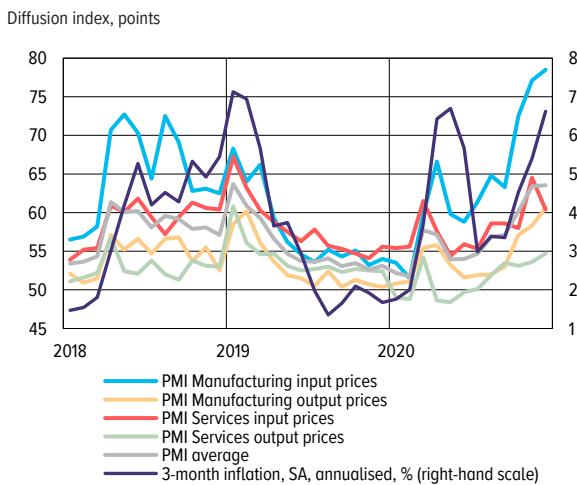
According to the [monitoring of businesses](#) carried out by Bank of Russia in January 2021, price expectations for three months ahead were virtually unchanged (Chart 5). The balance of responses remains close to the maximum readings of the last five years reached in March-April 2020 (the beginning of the pandemic) and in January 2019 (the VAT rate increase). The average price growth rate expected in the next three months equalled 3.9% (in annualised terms).

Surveyed companies noted that the main reason behind the expected price growth continued to be changes in prices for raw materials, component parts, and supplies. At the same time, in January, the rise in prices for fuel and lubricants began to be mentioned much more often. The share of such companies reached a record high since February 2020. For the second month in a row, the share of enterprises that mentioned the change in the ruble exchange rate as the reason for the expected increase in prices continued to decline.

The dynamics of price expectations by industry were heterogeneous. The most

CHANGES IN COMPANIES' PRICES
(MARKIT PMI)

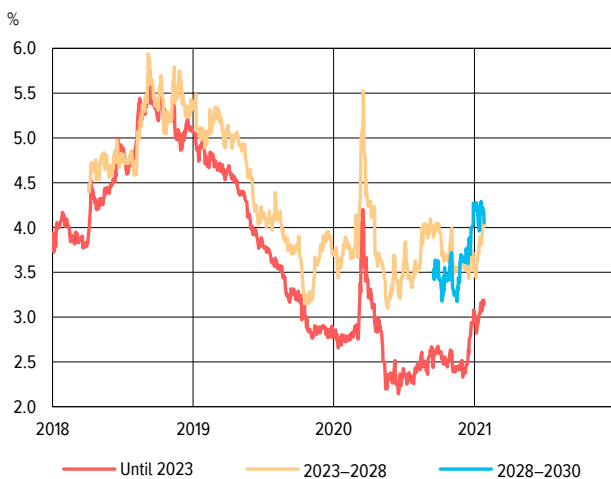
Chart 6



Sources: IHS Markit PMI, Rosstat.

IMPLIED INFLATION FOR OFZ-IN

Chart 7



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

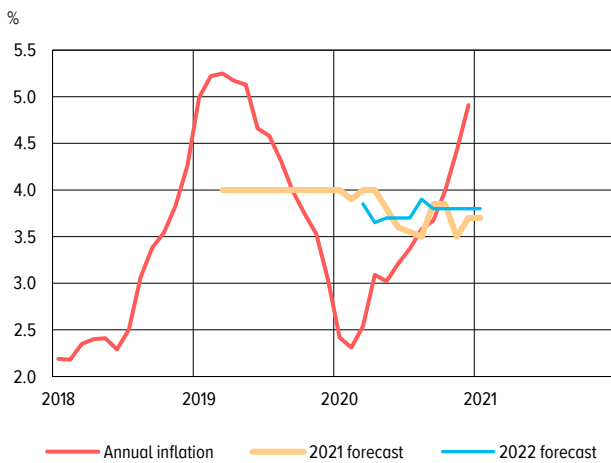
noticeable increase was seen in the price expectations of mining and quarrying companies due to the recovery in global demand for metals and coal. In the manufacturing industry, price expectations rose to their highest level since the start of the pandemic. The price pressure in the manufacturing industry is also explained by the recovery in demand. Enterprises noted an improvement in the situation with demand for their products in the current period and expect its further growth in the next three months. Price expectations in trade continued their gradual decline, remaining the highest among the industries. The average price growth rate expected by retailers in the next three months equalled 6.4% (in annualised terms).

According to *IHS Markit PMI*, surveys, price growth in the manufacturing sector continued to accelerate for the sixth straight month in December 2020 (Chart 6). The growth rate of input prices in this industry reached the values of late 2014 – early 2015. This growth was driven by a shortage of suppliers and transport delays. The increase in input prices was the main reason for the acceleration in the growth of output prices in the manufacturing industry. In the services sector, the growth rate of input prices slowed down compared to the previous month, remaining at a high level.

Implied inflation for OFZ-IN

Implied inflation for inflation-indexed federal government bonds (OFZ-IN) increased in December 2020 – January 2021 (Table 1). According to Bank of Russia estimates,³ implied inflation would reach 3.0% in the next three years (Chart 7). Average implied future inflation is estimated close to 4.0%, specifically at 3.8% in 2023–2028, and at 4.1% in 2028–2030. These levels correspond to the values of 2019 Q3.

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

BLOOMBERG ANALYSTS' CONSENSUS FORECAST *Chart 8*

Sources: Bloomberg, Rosstat.

Analysts' inflation forecast

In December 2020 – January 2021, analysts' inflation forecasts⁴ for 2020 and 2022 remained virtually unchanged, staying slightly below 4% (Table 1, Chart 8). Forecasts for 2021 still ranged from 3.5% to 3.7%, and for 2022 – from 3.8% to 3.9%. Analysts expect that inflation will return to 4% in 2021 Q2 and will slow down in 2021 Q4.

Bank of Russia's forecast

According to the Bank of Russia's forecast, given the current monetary policy stance, annual inflation will stand at 3.5–4.0% in 2021, and will remain close to 4% further on. Proinflationary risks are created by the dynamics of domestic prices for certain food products shaped by supply-side factors and the situation in global markets, an uneven recovery in demand across individual sectors of the economy, as well as an increase in costs as a result of other factors. In the baseline scenario, disinflationary risks are mainly associated with a slower-than-expected recovery of the economy and household incomes.

⁴ Surveys by Interfax, Bloomberg, and Thomson Reuters.

Data cut-off date – 28.01.2021.

A soft copy 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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