



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

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Information and analytical commentary

24 September 2021

INFLATION EXPECTATIONS AND CONSUMER SENTIMENT (SEPTEMBER 2021)

In September, inflation expectations stopped growing but remained elevated. According to a survey by InFOM, 12-month ahead inflation expectations of households somewhat declined but stayed close to multi-year highs. The Bank of Russia's monitoring shows that companies' short-term price expectations were also slightly down but still elevated. Two-year implied inflation for inflation-indexed federal government bonds (OFZ-IN) changed inconsiderably in September staying close to the Bank of Russia's target. Analysts' inflation outlook for 2021 hardly changed and ranged from 5.8% to 6.0%, the forecasts for 2022 and 2023 remained near 4%. According to the Bank of Russia forecast, annual inflation will start slowing down in 2021 Q4. Given the monetary policy stance, annual inflation will edge down to 4.0–4.5% in 2022 and will remain close to 4% further on.

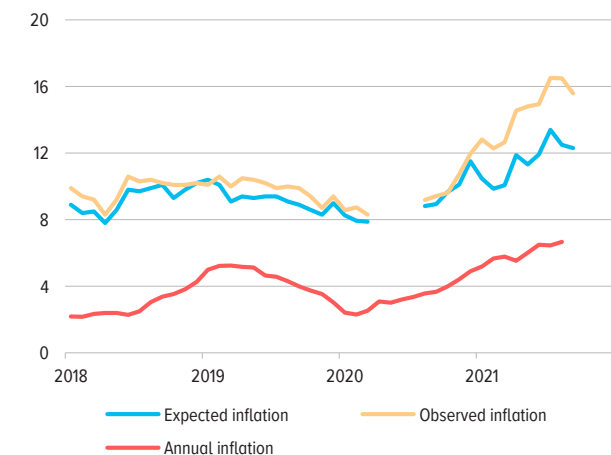
INFLATION EXPECTATION INDICATORS

Table 1

	Expectation horizon	2018 average	2019 average	2020 average	March 2020	July 2021	August 2021	September 2021
Inflation, %		2.9	4.5	3.4	2.5	6.5	6.7	
Inflation observed by households, %								
Public Opinion Foundation (median)	past 12 months	9.8	9.9	9.6	8.3	16.5	16.5	15.6
Public Opinion Foundation (subgroup with savings)	past 12 months	9.0	9.1	8.7	7.2	14.1	13.5	12.9
Public Opinion Foundation (subgroup without savings)	past 12 months	10.3	10.4	9.9	8.6	18.0	18.3	17.2
Households' inflation expectations, %								
Public Opinion Foundation (median)	next 12 months	9.3	9.3	9.1	7.9	13.4	12.5	12.3
Public Opinion Foundation (subgroup with savings)	next 12 months	8.4	8.3	8.4	6.9	11.4	10.6	10.5
Public Opinion Foundation (subgroup without savings)	next 12 months	9.7	9.8	9.6	8.5	14.7	14.0	13.4
Companies' price expectations								
Companies, balance of responses	next 3 months	10.6	10.2	16.5	18.3	25.2	25.8	25.0
PMI Manufacturing input prices	current month	65.0	57.8	64.0	59.8	71.8	65.8	
PMI Manufacturing output prices	current month	54.4	53.1	54.2	55.4	61.1	62.3	
PMI Services input prices	current month	58.8	58.0	58.0	61.5	61.8	61.2	
PMI Services output prices	current month	52.8	54.0	51.3	54.2	56.3	55.9	
Implied inflation for OFZ-IN (monthly average), %								
OFZ-IN 52001, August 2023	next 2-year average	4.7	3.9	2.7	3.5	4.2	4.1	4.2
OFZ-IN 52002, February 2028	next 7-year average		4.1	3.3	4.1	4.1	4.0	4.0
OFZ-IN 52003, July 2030	next 9-year average			3.3		4.2	4.1	4.1
OFZ-IN	2023–2028 average		4.3	3.8	4.5	4.1	4.0	4.0
OFZ-IN	2028–2030 average			3.5		4.2	4.4	4.3
Analysts, %								
Bloomberg	2021				4.0	5.5	6.0	5.8
Interfax	2021				3.8	5.9	5.9	
Reuters	2021				3.9	6.0	6.0	
Survey by the Bank of Russia	2021					5.6		5.9
Bloomberg	2022				3.9	4.0	4.1	4.1
Interfax	2022					4.1	4.0	
Reuters	2022				3.9	4.1	4.1	
Survey by the Bank of Russia	2022					4.0		4.0
Bloomberg	2023					4.0	4.0	4.0
Reuters	2023					4.0	4.0	
Survey by the Bank of Russia	2023					4.0		4.0

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

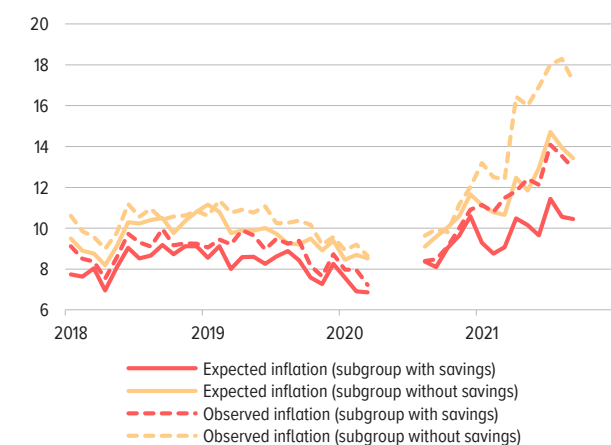
Chart 1



Sources: InFOM, Rosstat.

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

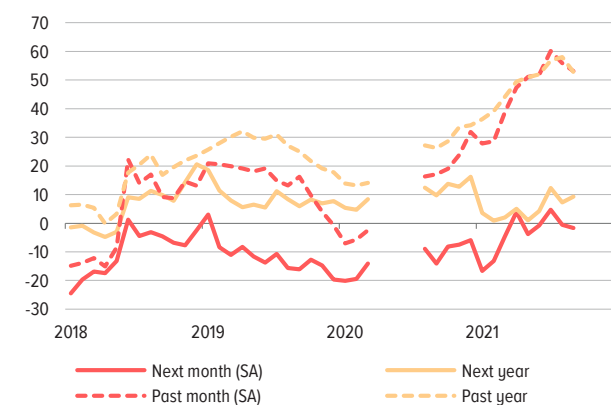
Chart 2



Sources: InFOM, Bank of Russia calculations.

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

Chart 3



* Balance of responses to the questions 'How did prices change/will prices change last/next year?' and 'How did prices change/will prices change last/next month?', seasonally adjusted.

Sources: InFOM, Bank of Russia calculations.

Households' inflation expectations

According to InFOM's survey commissioned by the Bank of Russia, households' inflation expectations slightly dropped in September but are still close to their multi-year highs (Table 1, Chart 1). The median estimate of inflation expected in the next 12 months amounted to 12.3% (-0.2 pp vs August). In September, inflation observed by households reduced for the first time since February 2021. Its median estimate was 15.6% (-0.9 pp vs August). The estimates of expected and observed inflation declined among respondents both with and without savings (Chart 2).

In September, such decline in observed and expected inflation estimates was largely linked to the slower growth of prices for many goods frequently purchased by households. For example, amid the seasonal downturn in fruit and vegetable prices, the number of respondents who mentioned fruit and vegetables among those goods whose prices were rising most notably, continued to decrease (Chart 3 of the [InFOM Analytical Report, September 2021](#); hereinafter, the Report). Also, respondents tended to mention less often vegetable oil, sugar, eggs, medicines, and construction materials as the goods whose prices increased most. Rosstat recorded a slower rise in prices for these goods in the past August.¹

In September, the estimates of the balance of responses to the questions about changes in future inflation trends² for one month ahead edged down and for one year ahead slightly increased (Chart 3). The qualitative estimates of inflation reduced in the past month and past year.

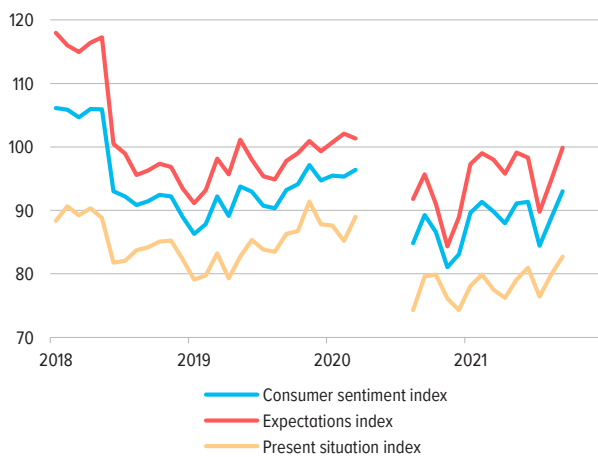
Households' inflation expectations until the 2021 year-end were down in September (Chart 8 of the Report) with the three years ahead inflation expectations virtually unchanged (Chart 9 of the Report).

¹ See more details on inflation in August in the information and analytical commentary [Consumer Price Dynamics, No. 8 \(68\), August 2021](#).

² That is, a smaller percentage of respondents noted that prices would rise dramatically.

CONSUMER SENTIMENT INDEX
(POINTS)

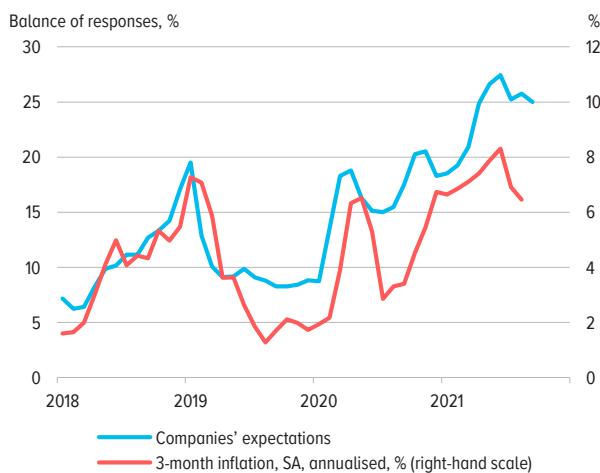
Chart 4



Source: InFOM.

COMPANIES' PRICE EXPECTATIONS
(BANK OF RUSSIA)

Chart 5



Sources: Bank of Russia, Rosstat.

Households' consumer sentiment

The consumer sentiment index kept on rising in September (+4.2 p vs August) and reached its peak since August 2020 (Chart 4). The expectations index increased most of all (+5.2 p). The present situation index was up 2.9 p.

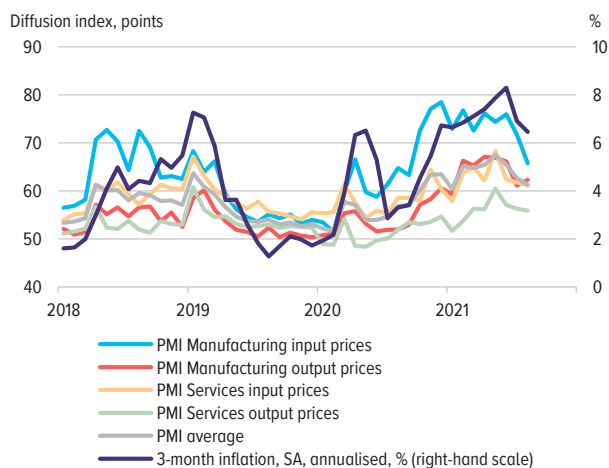
In September, respondents were more in favour of saving amid rising deposit rates and lower estimates of observed inflation. The portion of those who think that now it is better to put money aside, increased to 53% (+2 pp vs August). However, it is still below the pre-pandemic level: it used to be 55–56% in January to March 2020 (Chart 23 of the Report). Also, the share of respondents who preferred to keep their savings in bank accounts, continued to increase in September and came in at 37% (+2 pp vs August). However, this indicator also remains below the pre-pandemic level of early 2020 (Chart 24 of the Report).

Companies' price expectations

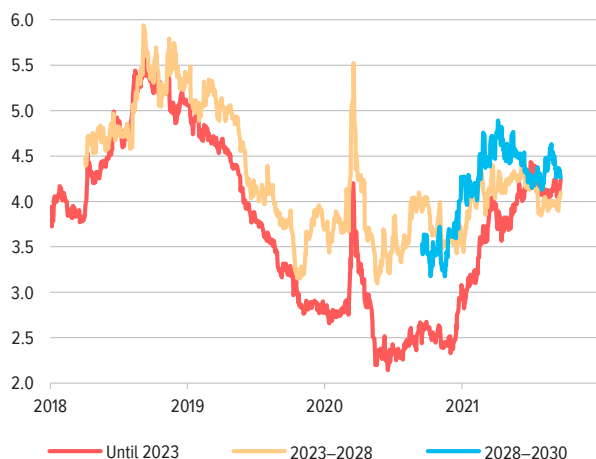
According to the *monitoring* carried out by the Bank of Russia, in September 2021, three-month ahead price expectations of companies edged down (Chart 5) staying close to recent years' highs. The average three-month ahead price growth rate is expected to be 3.6% in annualised terms (vs 2.3% in September 2020). The lower price expectations were backed by slower growth in costs and business risks, and ruble appreciation. However, businesses noted accelerating growth in demand and expected the high growth pace to keep for the next few months.

In contrast to most sectors, price expectations of transportation and storage companies went up. Respondents reported that the demand for their services noticeably expanded amid eased anti-Covid restrictions. The sector's three-month outlook improved. This enabled companies to include the higher costs, whose estimates had been close to their record highs for the second month in a row, into tariffs.

Price expectations in trade were falling for the third month in a row. September saw a decline both in wholesale and in retail trade.

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.

According to respondents, the key factors were slower growth in input prices and ruble appreciation. In September, retailers expected the average three-month ahead price growth rate to be 6.3% in annualised terms (vs 5.1% in September 2020).

Based on the surveys by *IHS Markit PMI*, price growth rates were mostly slowing down in August. The indices in the manufacturing industry were moving in different directions. Input price growth decelerated to the minimum paces over the last year and stayed above the 2018–2019 average rate. This situation stems from a continuous rise in the transport costs and shortages of materials. The increase in costs in the past few months pushed up output prices. Services recorded a drop in both input and output price indices. Despite the slowdown, price indices remain above their historical average values in this sector just as in the manufacturing.

Implied inflation for OFZ-IN

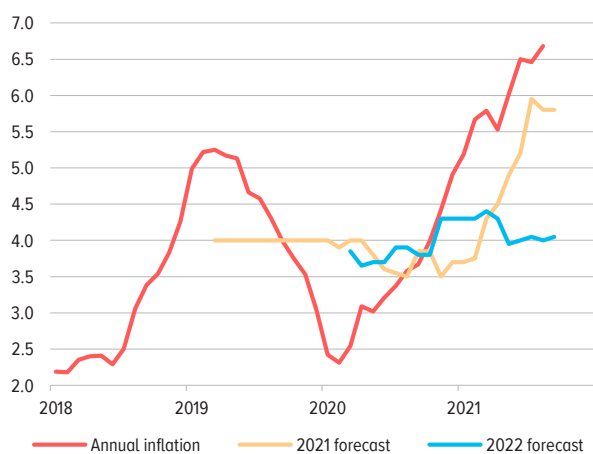
Implied inflation for OFZ-INs hardly changed in September 2021 (Chart 7). According to the Bank of Russia's estimates,³ two-year ahead implied inflation averaged 4.2% over the first twenty days of September (+0.1 pp vs August) (Table 1). Compared to August, implied inflation for 2023–2028 and 2028–2030 changed slightly and was about 4%.

Analysts' inflation forecast

In August–September, analysts' inflation outlook⁴ for 2021 changed insignificantly (Table 1, Chart 8). Based on the results of the Bank of Russia macroeconomic survey, analysts' inflation forecast was up to 5.9% (+0.3 pp vs July). According to the Bloomberg survey, analysts' consensus forecast edged down to 5.8% in September (-0.2 pp vs August). Analysts' consensus forecasts prepared by

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

⁴ Surveys by Interfax, Bloomberg, Thomson Reuters, and the Bank of Russia.

BLOOMBERG ANALYSTS' CONSENSUS FORECAST *Chart 8*
(%)

Sources: Bloomberg, Rosstat.

Reuters and Interfax in late August did not change.

In August–September, analysts' forecasts for 2022 and 2023 hardly changed and stayed close to 4% evidencing that their mid-term expectations continued to be anchored to the Bank of Russia's target.

The Bank of Russia's forecast

The balance of risks is assessed by the Bank of Russia to be largely skewed towards proinflationary ones. The contribution of stable factors to inflation remains substantial as demand is growing faster than output expansion capacity. Also, there are persistent risks of spillovers from elevated inflation expectations. According to the Bank of Russia forecast, annual inflation will start slowing down in 2021 Q4. Given the monetary policy stance, annual inflation will edge down to 4.0–4.5% in 2022 and will remain close to 4% further on.

Data cut-off date – 20.09.2021.

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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