



Bank of Russia



# INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No. 11 (59) • November 2021

Information and analytical commentary

25 November 2021

## INFLATION EXPECTATIONS AND CONSUMER SENTIMENT (NOVEMBER 2021)

In November, inflation expectations remained elevated. According to a survey by InFOM, households' inflation expectations for a year ahead slightly dropped in November but stayed close to their multi-year highs. Companies' short-term price expectations also decreased although remained high. Two-year ahead implied inflation for inflation-indexed federal government bonds (OFZ-IN) was up in November and reached 4.9%. Analysts' inflation outlook for 2021 and 2022 went up ranging from 7.7% to 7.8% and from 4.3% to 4.9%, respectively. According to the Bank of Russia's forecast, 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	September 2021	October 2021	November 2021
Inflation, %		2.9	4.5	3.4	2.5	7.4	8.1	
<b>Inflation observed by households, %</b>								
Public Opinion Foundation (median)	past 12 months	9.8	9.9	9.6	8.3	15.6	16.3	16.2
Public Opinion Foundation (subgroup with savings)	past 12 months	9.0	9.1	8.7	7.2	12.9	13.6	13.5
Public Opinion Foundation (subgroup without savings)	past 12 months	10.3	10.4	9.9	8.6	17.2	18.0	17.5
<b>Households' inflation expectations, %</b>								
Public Opinion Foundation (median)	next 12 months	9.3	9.3	9.1	7.9	12.3	13.6	13.5
Public Opinion Foundation (subgroup with savings)	next 12 months	8.4	8.3	8.4	6.9	10.5	11.4	11.3
Public Opinion Foundation (subgroup without savings)	next 12 months	9.7	9.8	9.6	8.5	13.4	15.6	15.1
<b>Companies' price expectations</b>								
Companies, balance of responses	next 3 months	10.6	10.2	16.5	18.3	25.2	26.4	25.5
PMI Manufacturing input prices	current month	65.0	57.8	64.0	59.8	65.0	63.7	
PMI Manufacturing output prices	current month	54.4	53.1	54.2	55.4	57.2	58.5	
PMI Services input prices	current month	58.8	58.0	58.0	61.5	63.1	64.7	
PMI Services output prices	current month	52.8	54.0	51.3	54.2	56.4	56.7	
<b>Implied inflation for OFZ-IN (monthly average), %</b>								
OFZ-IN 52001, August 2023	next 2-year average	4.7	3.9	2.7	3.5	4.2	4.5	4.9
OFZ-IN 52002, February 2028	next 6-year average		4.1	3.3	4.1	4.1	4.5	4.9
OFZ-IN 52003, July 2030	next 9-year average			3.3		4.2	4.5	4.8
OFZ-IN 52004, March 2032	next 10-year average							4.9
OFZ-IN	2023–2028 average		4.3	3.8	4.5	4.0	4.5	4.9
OFZ-IN	2028–2030 average			3.5		4.3	4.4	4.5
OFZ-IN	2030–2032 average							5.6
<b>Analysts, %</b>								
Bloomberg	2021				4.0	5.8	6.4	7.7
Interfax	2021				3.8	6.6	7.8	
Reuters	2021				3.9	6.5	7.8	
Survey by the Bank of Russia	2021					5.9	7.0	
Bloomberg	2022				3.9	4.1	3.9	4.3
Interfax	2022					4.3	4.7	
Reuters	2022				3.9	4.1	4.9	
Survey by the Bank of Russia	2022					4.0	4.2	
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	

## Households' inflation expectations

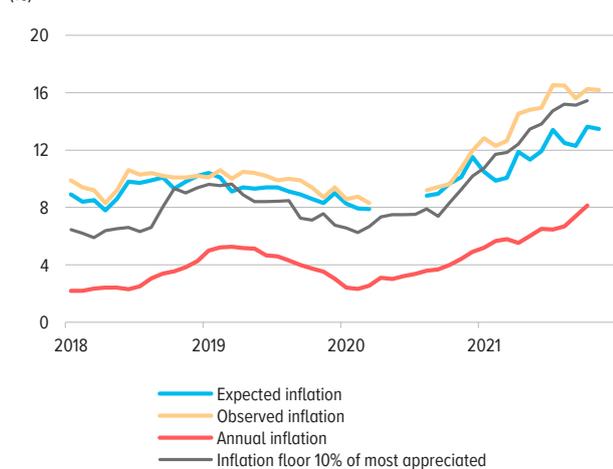
According to the InFOM's survey commissioned by the Bank of Russia, households' inflation expectations slightly dropped in November but stayed close to their multi-year highs (Table 1, Chart 1). The median estimate of inflation expected in the next 12 months reached 13.5% (-0.1 pp vs October). In November, inflation observed by households also slightly dropped but remained elevated. Its median estimate was 16.2% (-0.1 pp vs October). The estimates of expected and observed inflation was very much alike among respondents both with and without savings (Chart 2).

Although the median estimates of inflation expected and observed by households slightly dropped in November, the growth in prices for the most frequently bought goods aroused higher concern among respondents. Considerably more often than in October, respondents voiced their concern about higher prices for animal food products (eggs, cheese and sausages, meat and milk) (Chart 3 of the *InFOM Analytical Report, November 2021*; hereinafter, the Report). Rosstat recorded an acceleration of price growth for these goods in October 2021.<sup>1</sup>

In November, such decline in inflation observed and expected by households took place despite the actual acceleration of price growth in the previous month. When building their estimates of current inflation, respondents are focusing on the price dynamics of the goods and services appreciating most significantly. In October, the rise in inflation in this group was much lower than the overall acceleration in price growth (Chart 1). Lower estimates of expected inflation might have resulted from a stronger ruble in October. About 40% of respondents take into account the national currency exchange rate as they shape their inflation expectations.

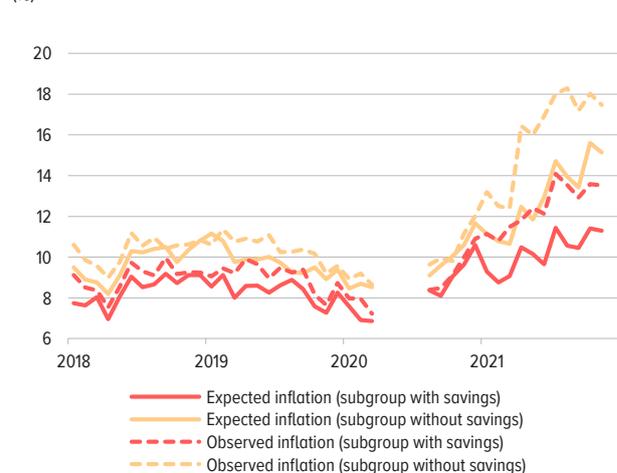
The estimates of the balance of responses to the questions about qualitative changes in inflation trends edged down in November.<sup>2</sup> Qualitative estimates of inflation trends expected in the next month also moved down,<sup>3</sup> but remained unchanged for the next 12 months (Chart 3). Households' inflation expectations for the three years ahead increased in November (Chart 9 of the Report).

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



Sources: InFOM, Bank of Russia calculations.

EXPECTED AND OBSERVED INFLATION BY RESPONDENT SUBGROUP (MEDIAN ESTIMATE) Chart 2



Sources: InFOM, Bank of Russia calculations.

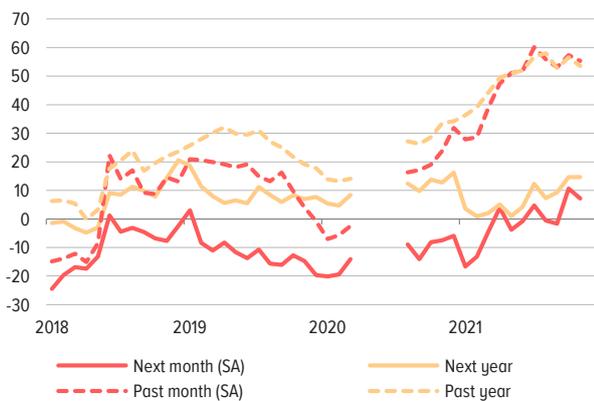
<sup>1</sup> See more details on inflation in October in the information and analytical commentary [Consumer Price Dynamics, No. 10 \(70\), October 2021](#).

<sup>2</sup> That is, a smaller percentage of respondents answered that prices rose considerably or were rising faster than before.

<sup>3</sup> That is, a smaller percentage of respondents noted that prices would rise dramatically.

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

Chart 3

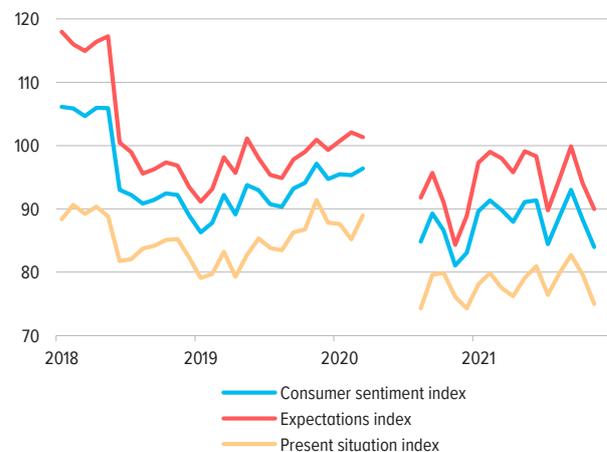


\* Balance of responses to the questions 'How did prices change/will prices change last/next year?' and 'How did prices change/will prices change last/next month?', seasonally adjusted.

Sources: InFOM, Bank of Russia calculations.

CONSUMER SENTIMENT INDEX  
(POINTS)

Chart 4



Source: InFOM.

## Households' consumer sentiment

In November, the consumer sentiment index continued its decline amid the worsening pandemic situation and the announcement of the non-work period. Its value dropped to 84 p (-4.3 p vs October) (Chart 4). Both the expectations index (-4.1 p) and the present situation index (-4.7 p) decreased.

In November, respondents' propensity for saving continued. The portion of those who think that it is better to save available cash decreased to 50% (-1 pp vs October) (Chart 22 of the Report). As to the forms of savings, respondents did not change their preferences much (Chart 23 of the Report).

## Companies' price expectations

According to the [monitoring](#) carried out by the Bank of Russia in November 2021, three-month ahead price expectations of companies edged down compared to October (Chart 5) staying close to recent years' highs. The average price growth rate expected in the next three months was 4.2% in annual terms (vs 3.1% in November 2020). A weaker demand and slower growth of costs turned out to be the main drivers of lower price expectations.

The highest drop in companies' price expectations was recorded in services and in transportation and storage. Tighter restrictions amid the exacerbation of the epidemic situation again worsened estimates of demand in these industries. Nonetheless, businesses in these industries remained positive about output and demand of short-term services.

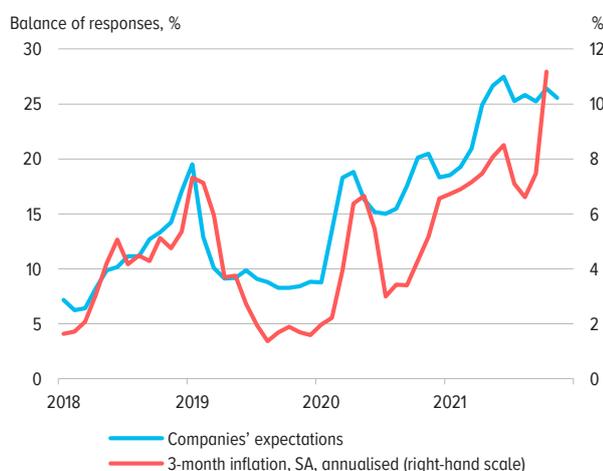
Retailers also reduced their price expectations. Another core reason was a weaker demand due to tighter anti-pandemic restrictions, among other things. The average price growth rate expected by retailers in the next three months equalled 7.5% in annual terms in November.

Price expectations in agriculture were decreasing for the second consecutive month amid the slowdown in the growth of production costs.

Price expectations continued to rise in construction. Estimates of demand are close to their highs observed in the recent eight years. The growth rates of costs remained high although they were slowing down. Motor vehicle trade continued to show increasing price expectations due to higher costs and the worsening of the situation with stocks. According to companies' estimates, demand trends in this segment were positive and respondents expected its further expansion in the next three months.

COMPANIES' PRICE EXPECTATIONS  
(BANK OF RUSSIA)

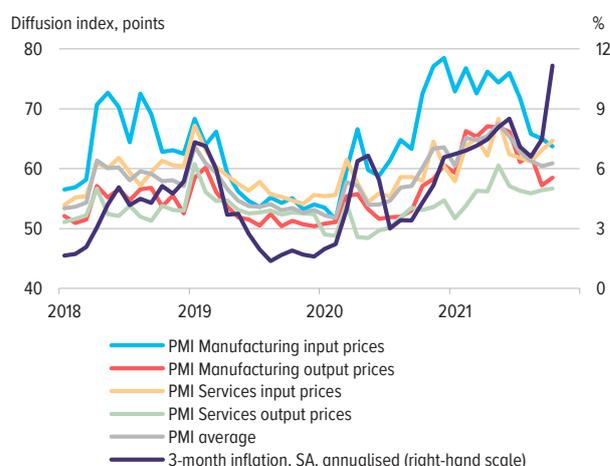
Chart 5



Sources: Bank of Russia, Rosstat.

CHANGES IN COMPANIES' PRICES (MARKIT PMI)

Chart 6



Sources: IHS Markit PMI, Rosstat.

According to [IHS Markit PMI](#) surveys, most price indices rose in October 2021 (Chart 6). The input price index in manufacturing turned out to be an exclusion reaching its minimum over the year. Nonetheless, it was above the average of 2018–2019. High growth rates in input prices were supported by the remaining logistical problems. The growth of industrial output prices accelerated due to a better business environment and an increase in orders. Services witnessed a rise in both output and input price indices. The acceleration in output price growth was insignificant and was restrained by a decline in business activity in this industry.

## Implied inflation for OFZ-IN

Implied inflation for OFZ-INs saw a tangible rise in November 2021 (Chart 7). According to Bank of Russia estimates,<sup>4</sup> two-year ahead implied inflation averaged 4.9% over the first half of November (+0.4 pp vs October, Table 1). The increase in the estimates may be explained by reviewed expectations of market participants amid soaring inflation in October. Implied inflation also went up to 4.9% for 2023–2028 (+0.4 pp vs October) and remained almost the same at 4.5% for 2028–2030 (+0.1 pp vs October). In early October, the Government placed OFZ-INs maturing in 2032. Implied inflation for 2030–2032 reached 5.6% in November.

## Analysts' inflation forecast

In October–November, analysts' inflation outlook for 2021 increased drastically (Table 1, Chart 8). According to Bloomberg, Reuters, and Interfax surveys carried out in late October–November, analysts' forecasts stood at 7.7–7.8% for the 2021 year-end. Analysts' consensus forecasts for 2022 also went up to 4.3–4.9%. Forecasts for 2023 remained the same at the Bank of Russia's inflation target.

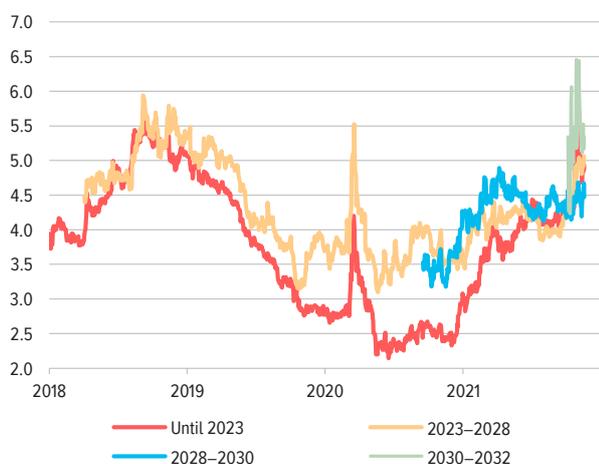
## The Bank of Russia's forecast

According to Bank of Russia estimates, the contribution of stable factors to inflation remains substantial as demand is growing faster than output expansion capacity. Also, there are persistent risks of secondary effects from elevated inflation expectations. In this environment, the balance of

<sup>4</sup> The estimates are based on the comparison of expected yields on OFZ-INs and nominal OFZs taking into account the lag between the nominal value indexation and seasonally adjusted inflation. [Calculation method.](#)

IMPLIED INFLATION FOR OFZ-IN  
(%)

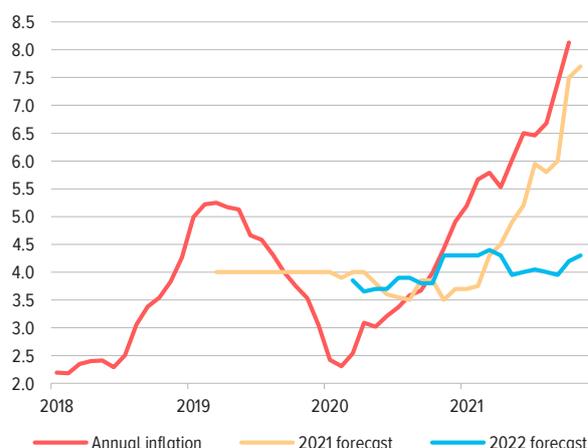
Chart 7



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

BLOOMBERG ANALYSTS' CONSENSUS FORECAST  
(%)

Chart 8



Sources: Bloomberg, Rosstat.

risks is largely shifted towards proinflationary ones. This may result in a longer upward deviation of inflation from the target. Given the monetary policy pursued, the Bank of Russia forecasts that annual inflation will edge down to 4.0–4.5% in 2022 and remain close to 4% further on.

Data cut-off date – 18.11.2021.

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](mailto:svc_analysis@cbr.ru).

This commentary was prepared by the Monetary Policy Department.

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12 Neglinnaya Street, 107016 Moscow

Bank of Russia website: [www.cbr.ru](http://www.cbr.ru)

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