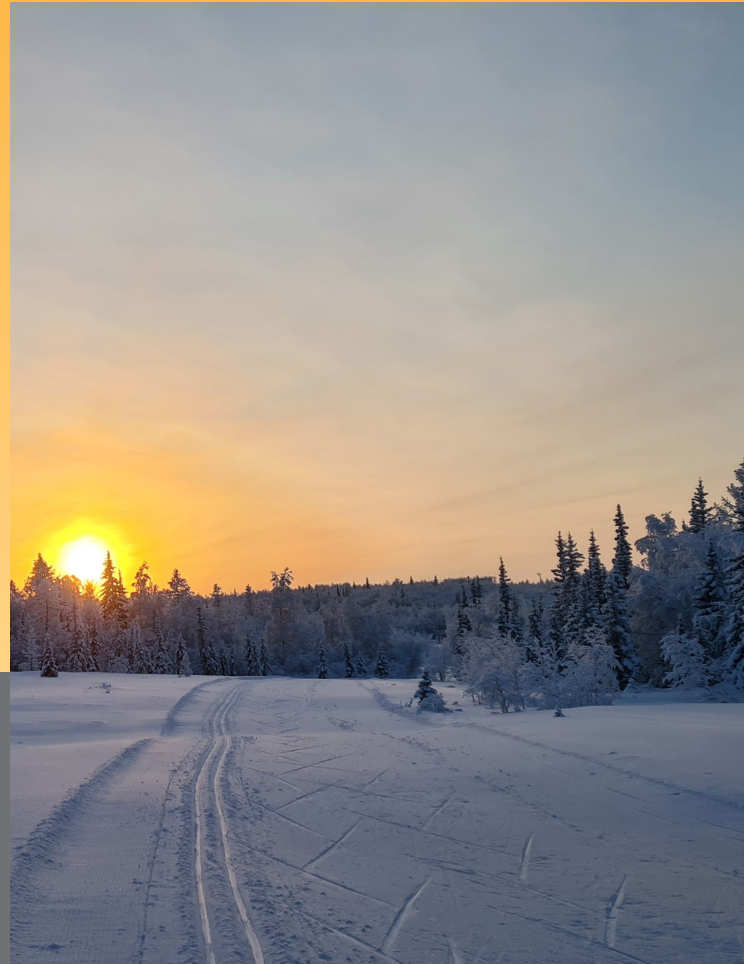




Bank of Russia



# INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No. 1 (73) • January 2023

Information and analytical commentary

31 January 2023

## INFLATION EXPECTATIONS AND CONSUMER SENTIMENT (JANUARY 2023)

According to the InFOM's survey findings, one-year ahead inflation expectations of households declined in January 2023 yet stayed elevated. The median estimate of the inflation expected in the next 12 months reached 11.6%. Companies' short-term price expectations were down as well. Analysts' inflation forecasts for 2023 and 2024 remained virtually unchanged. The Bank of Russia forecasts that given the monetary policy pursued inflation will slow down to 5–7% in 2023 and return to 4% in 2024.

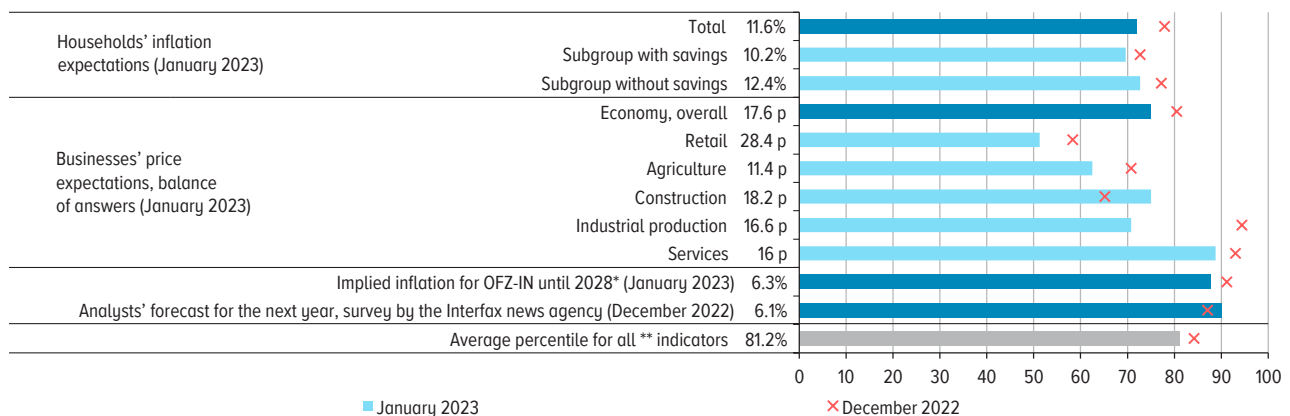
### INFLATION EXPECTATION INDICATORS

	Expectation horizon	2020 average	2021 average	2022 average	January 2022	November 2022	December 2022	January 2023
Inflation, %		3.4	6.7	13.8	8.7	12.0	11.9	
<b>Inflation observed by households, %</b>								
Public Opinion Foundation (median)	previous 12 months	9.6	15.1	19.6	16.7	17.6	16.3	14.9
Public Opinion Foundation (subgroup with savings)	previous 12 months	8.7	12.8	16.7	15.0	15.3	13.7	13.3
Public Opinion Foundation (subgroup without savings)	previous 12 months	9.9	16.2	21.9	17.8	19.5	18.2	16.0
<b>Households' inflation expectations, %</b>								
Public Opinion Foundation (median)	next 12 months	9.1	12.1	12.9	13.7	12.2	12.1	11.6
Public Opinion Foundation (subgroup with savings)	next 12 months	8.4	10.5	11.3	11.9	10.5	10.3	10.2
Public Opinion Foundation (subgroup without savings)	next 12 months	9.6	13.2	14.0	14.3	13.4	13.0	12.4
Public Opinion Foundation (proportion of respondents considering that the price growth rate in three years will notably surpass 4%)	next 3 years	48.3	52.7	50.0	54.0	50.4	52.3	45.2
<b>Companies' price expectations</b>								
Companies, balance of answers	next 3 months	13.3	20.1	21.8	24.4	18.4	19.7	17.6
<b>Implied inflation for OFZ-IN (monthly average), %</b>								
OFZ-IN 52002, February 2028	next 5-year average	3.3	4.2	6.3	5.7	6.3	6.3	6.3
OFZ-IN 52003, July 2030	next 7.5-year average	3.3	4.3	6.5	5.6	6.5	6.6	6.7
OFZ-IN 52004, March 2032	next 9-year average			6.7	5.8	6.8	6.8	6.8
OFZ-IN	2028–2030 average	3.5	4.4	6.7	5.4	7.0	7.2	7.6
OFZ-IN	2030–2032 average			7.6	6.7	7.9	7.3	7.2
<b>Analysts, %</b>								
Interfax	2023			6.5	4.1	5.9	6.1	
Survey by the Bank of Russia	2023		4.0	6.3			5.8	
Survey by the Bank of Russia	2024			4.4			4.2	
Survey by the Bank of Russia	2025			4.0			4.0	

Sources: Rosstat, InFOM, Bank of Russia, Interfax, Moscow Exchange.

## INFLATION EXPECTATION INDICATORS IN PERCENTILES RELATIVE TO THE DISTRIBUTIONS OF VALUES SINCE 2017

Chart 1



\* Percentiles are shown in relation to the distribution of values since April 2018 for implied inflation.

\*\* 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.

Note. The chart shows the percentiles of inflation expectation indicators for the current and previous months relative to the distribution observed since January 2017. The red marker shows the percentile as of the previous date, and the blue column shows the percentile as of the current date. A shift of the indicator to the left relative to the previous date indicates lower inflation expectations, and a shift to the right indicates higher inflation expectations.

Sources: InFOM, Bank of Russia, Interfax, Moscow Exchange.

Inflation expectations of economic agents impact the effectiveness of monetary policy in fighting inflation.<sup>1</sup> When making consumption, saving and investment decisions, setting prices for goods, loan and deposit rates, businesses, credit institutions and households consider, among other things, their expectations regarding future inflation. In turn, the Bank of Russia's monetary policy performance results influence inflation expectations. 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 household surveys in Russia and abroad almost always exceed actual inflation rates. This discrepancy is related to the peculiarities of perception: rising prices are more likely to get attention and active response, while declining or stable prices tend to receive less attention. Therefore, people judge inflation to a greater extent by looking at the most expensive goods. Despite this systematic shift in the absolute values of inflation expectations, their changes and relative level compared to their historical range are very important indicators that make it possible to assess potential changes in the economic behaviour of households. In turn, these changes determine future sustained inflation.

Unlike households' inflation expectations, price expectations of businesses are measured as the balance of responses to the question about the expected change in selling prices in the next three months rather than the median of the expected price growth in the next 12 months. The rise in price expectations means that the majority of companies are planning to increase prices. However, the change in the balance of responses does not enable to form a view of the value of this increase.

<sup>1</sup> For details of the monetary policy transmission mechanism, refer to Appendix 1 to the [Monetary Policy Guidelines for 2023–2025](#).

## Inflation expectations of households remained elevated

In January 2023, households' inflation expectations decreased but remained elevated within their April – December 2022 range, as shown by the InFOM's survey. The median estimate of households' inflation expectations for the next 12 months equalled 11.6% (-0.5 pp vs December 2022; average for 2017–2019: 9.6%). In January, expectations of respondents both with and without savings decreased. Their median estimate was 12.4% (-0.6 pp vs December 2022). Inflation expectations in the subgroup with savings remained virtually unchanged for the fifth consecutive month. In January, their median estimate was 10.2% (-0.1 pp vs December 2022; average for 2017–2019: 8.7%).

In January 2023, the annual inflation observed by households continued to decline returning to the level of May – June 2021. Its median estimate was 14.9% (-1.4 pp vs December 2022). Estimates of observed inflation declined among respondents both with and without savings.

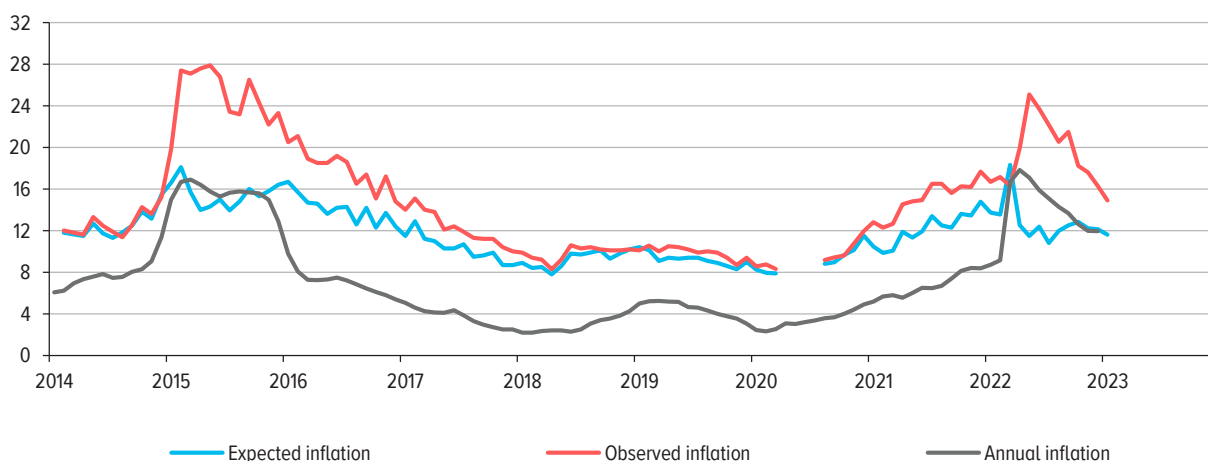
January witnessed a strong increase in respondents' concerns about higher prices for housing and utility services (due to the indexation of prices on 1 December 2022). For many other products included in the survey questionnaire, concerns about the rise in prices in January also increased. The percentage of respondents concerned about rising prices for medicines (+7 pp), fruit and vegetables (+6 pp), electronics (+5 pp), and construction materials (+5 pp) increased more noticeably.

In January, the qualitative estimates of inflation expected one month and one year ahead and those of actual inflation over the previous month and the last year declined.<sup>2</sup>

Long-term inflation expectations also decreased in January. The percentage of respondents believing that the price growth rate three years later will notably surpass 4% reached 45% (-7 pp vs December).

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

Chart 2

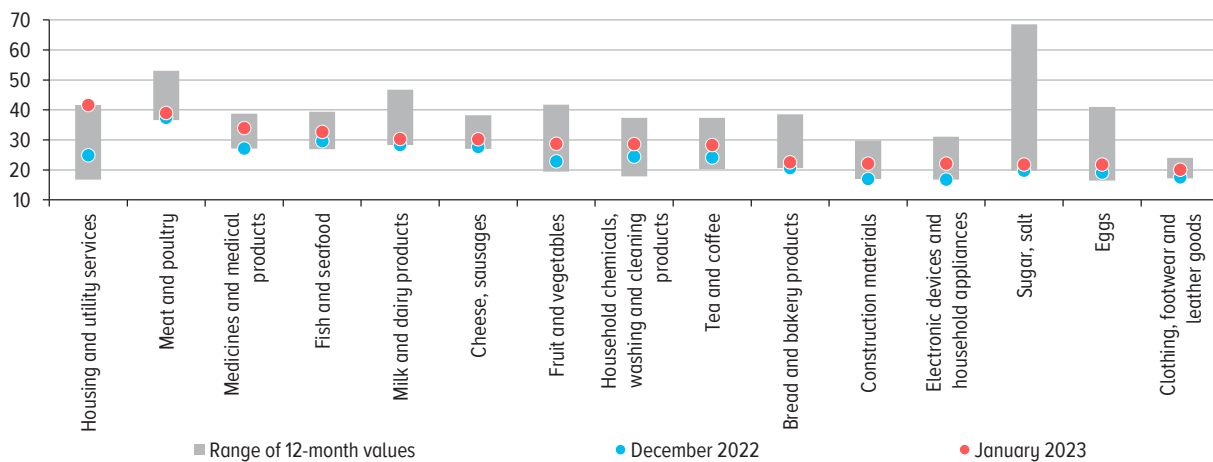


Sources: InFOM, Rosstat.

<sup>2</sup> That is, a smaller percentage of respondents, as compared to the previous month, answered that prices had risen/ would be rising considerably or had been rising/ would be rising faster than before/ now.

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

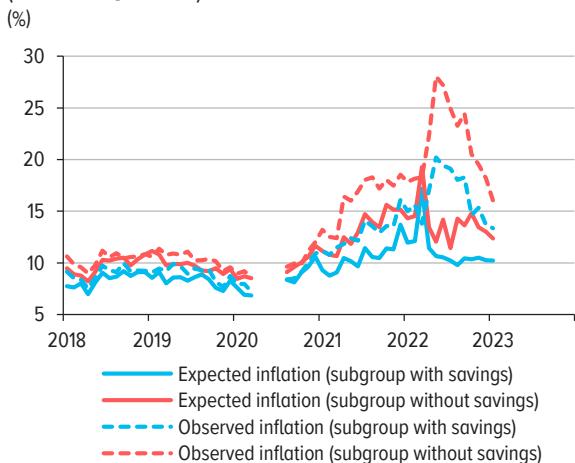
Chart 3



Sources: InFOM, Bank of Russia calculations.

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

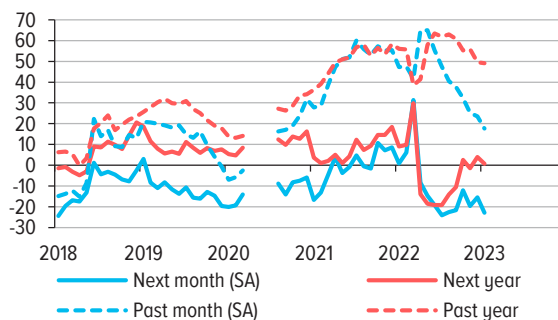
Chart 4



Sources: InFOM, Bank of Russia calculations.

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

Chart 5

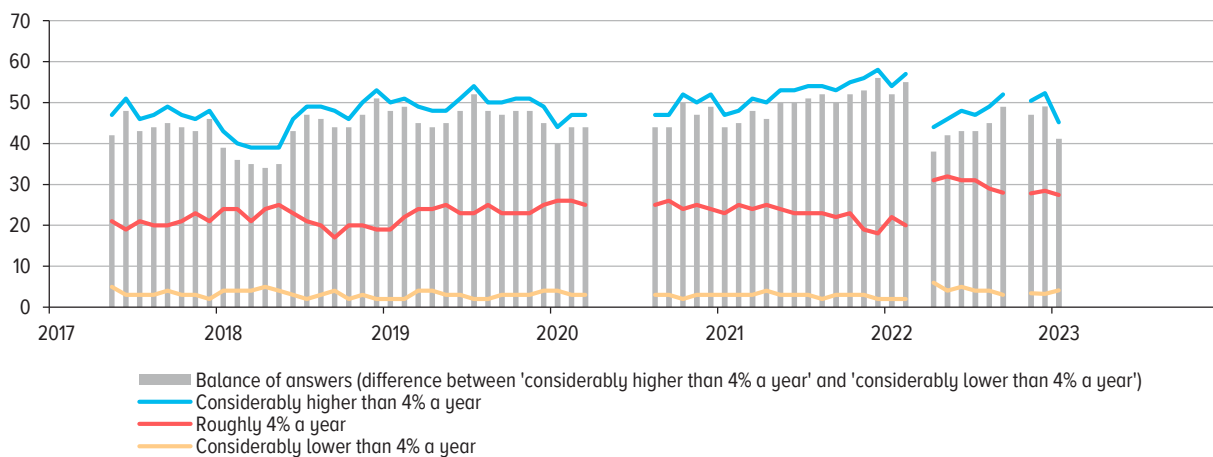


\* Balance of answers to the questions 'How prices were/will be changing in general last year/next year?', 'How will prices change in general next year?', 'How did prices for food products, non-food products and services change in general last month (seasonally adjusted)?', and 'How prices for food products, non-food products and services will be changing in general next month (seasonally adjusted)?'

Sources: InFOM, Bank of Russia calculations.

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

Chart 6



Sources: InFOM, Bank of Russia calculations.

## Consumer sentiment improved

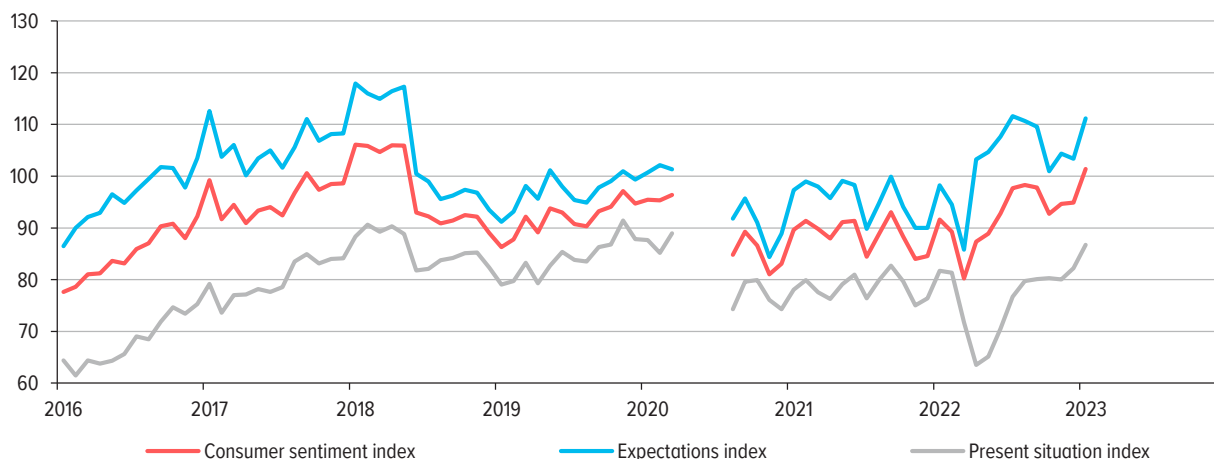
In January, the consumer sentiment index (CSI) came in at 101.4 points (+6.5 points vs December 2022), thus exceeding the local highs of July – September 2022 and reaching its maximum since May 2018. In January, estimates of both the current state and expectations included in the CSI significantly increased. However, such higher estimates in January can partially be attributed to seasonality.

The expectations index increased to 111.2 points (+7.8 points vs December). The estimates of all its components increased, including the expectations of future personal financial standing for a year ahead and the expectations of changes in economic conditions in the country for the next one and five years. In January, the present situation index making a part of the CSI (comprises the estimates of actual changes in personal financial standing over the year and the estimates of the suitability of the current period for major purchases) reached 86.7 points (+4.5 points vs December).

In January, households' propensity to save continued to increase. The percentage of respondents, preferring to save available funds rather than buy expensive goods, increased to 54.9% (+0.6 pp vs December). The percentage of respondents preferring to keep their money in bank accounts increased to 38% (+5 pp vs December). The percentage of those who preferred to keep their savings in cash decreased to 30% (-4 pp vs December) dropping to the lowest reading since February 2022.

CONSUMER SENTIMENT INDEX  
(POINTS)

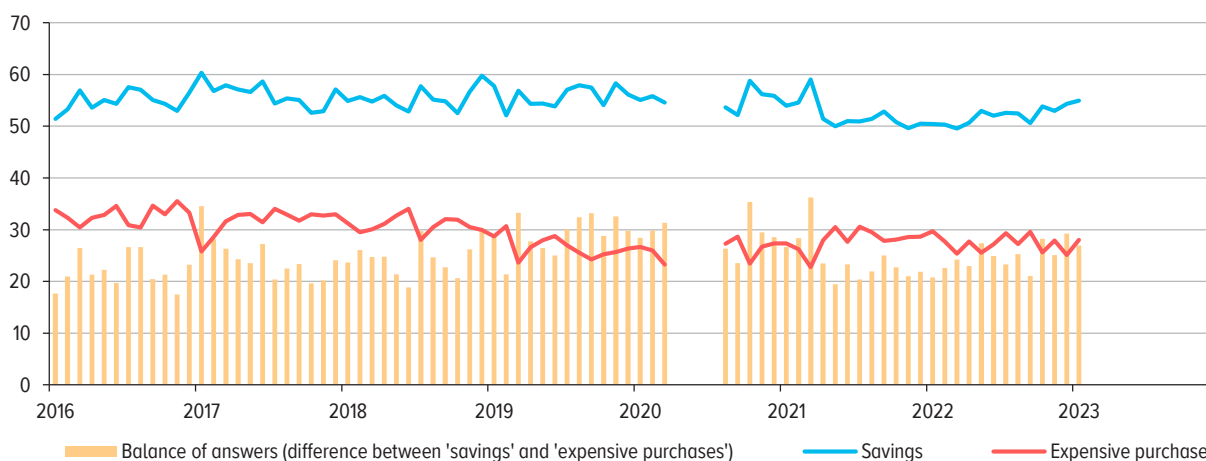
Chart 7



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 8



Sources: InFOM, Bank of Russia calculations.

## Companies' price expectations lowered

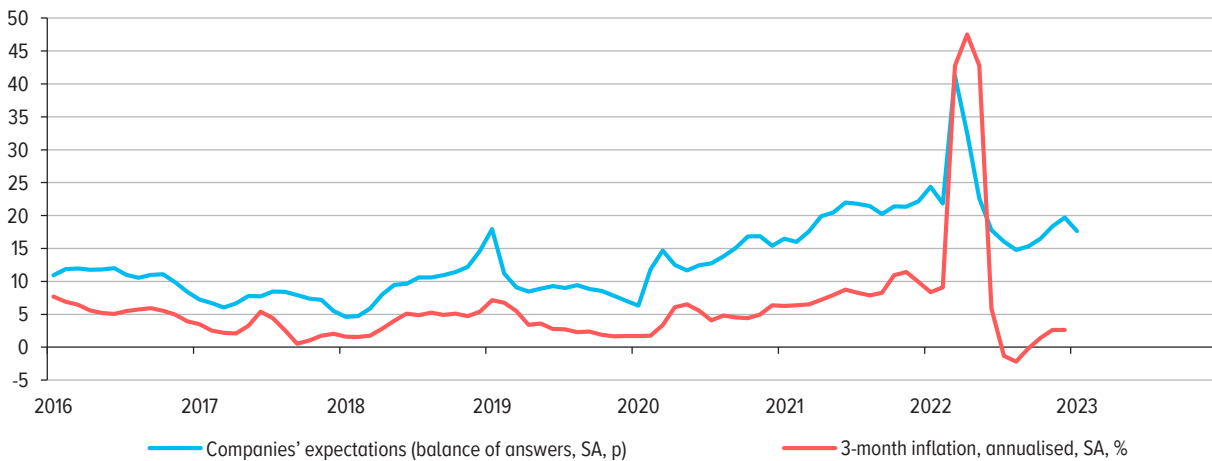
According to the [monitoring](#) carried out by the Bank of Russia in January 2023, companies' price expectations (balance of responses) for the next three months decreased after the four-month growth, but remained elevated. The quantitative indicator of companies' price expectations – the average price growth rate expected in the next three months – equalled 6.3% in annualised terms in January. In most industries price expectations decreased. Their dynamics were largely impacted, among other things, by the pass-through of higher costs to prices.

Price expectations declined most notably in industrial production. This was mainly due to the power and water supply sectors, where the previous increase in price expectations was related to the indexation of rates in December.

In trade, the decrease in price expectations occurred in both the retail and wholesale segments. Individual retailers take a wait-and-see position in making their decisions to increase prices now that current demand estimates are still negative. The average price growth rate expected by retailers in the next three months equalled 8.5% in annualised terms (vs 9.1% in January 2022).

COMPANIES' PRICE EXPECTATIONS

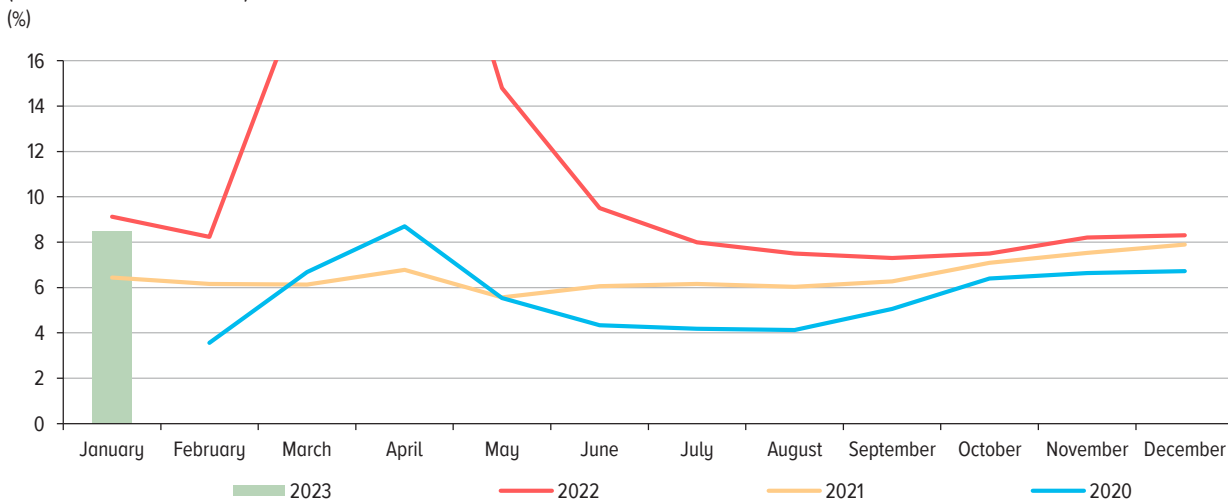
Chart 9



Sources: Bank of Russia, Rosstat.

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

Chart 10

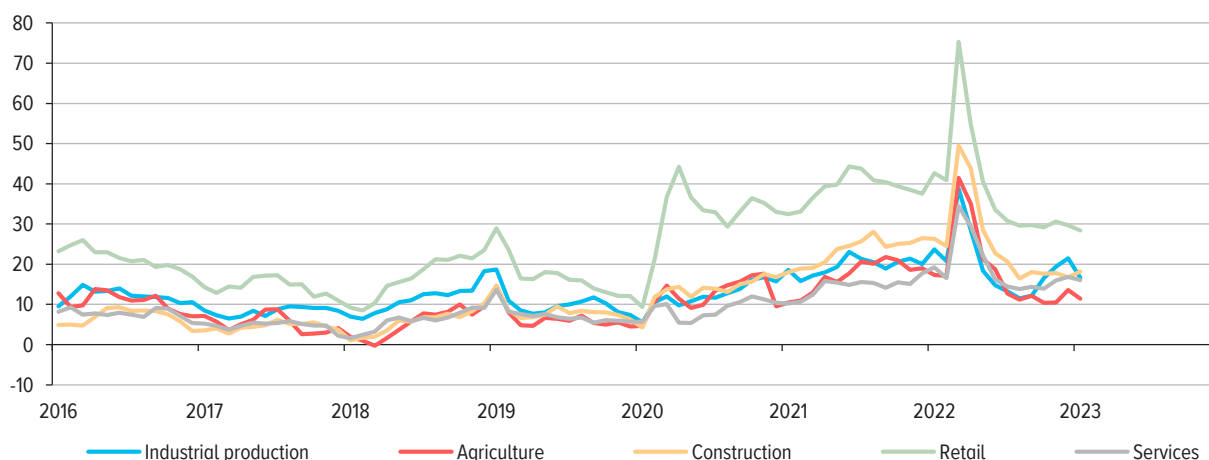


Source: Bank of Russia.



COMPANIES' PRICE EXPECTATIONS, BY KEY INDUSTRY  
(BALANCE OF ANSWERS, SA, P)

Chart 11



Source: Bank of Russia.

In agriculture, price expectations decreased regardless the improved estimates of current and future demand. As compared to the previous survey data, the number of agricultural companies likely to reduce their prices increased. Most of them explained their intentions by the change in prices for similar products in the market, in part due to record-high crops in cereals.

Price expectations continued to rise in mining and quarrying. This may be due to improved expectations of mining and quarrying companies regarding demand as alternative sales channels are being established. In January, a slight increase in price expectations also occurred in construction, where it was supported by companies' improved expectations regarding demand and output.

Price expectations remained virtually unchanged in manufacturing.

## Implied inflation remained elevated

In January, according to the Bank of Russia's estimates,<sup>3</sup> average implied inflation for the next five years for inflation-indexed federal government bonds (OFZ-IN) remained the same at 6.3%. Implied inflation for 2028–2030 increased to 7.6% (+0.4 pp vs December), for 2030–2032, it decreased to 7.2% (-0.1 pp vs December).

## Analysts expect inflation to slow down to 5.8–6.1% in 2023

In December 2022, analysts' inflation forecasts changed slightly. According to the findings of the [Bank of Russia's macroeconomic survey](#) carried out in December, analysts' inflation forecast for the end of 2023 equalled 5.8% (-0.2 pp vs October; no survey was carried out in November). Analysts' inflation forecasts for 2024 and 2025 did not change and stayed close to 4%. According to the findings of the survey carried out by the Interfax news agency, in December, analysts' consensus forecast of inflation for the end of 2023 was 6.1% (+0.2 pp vs November).

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

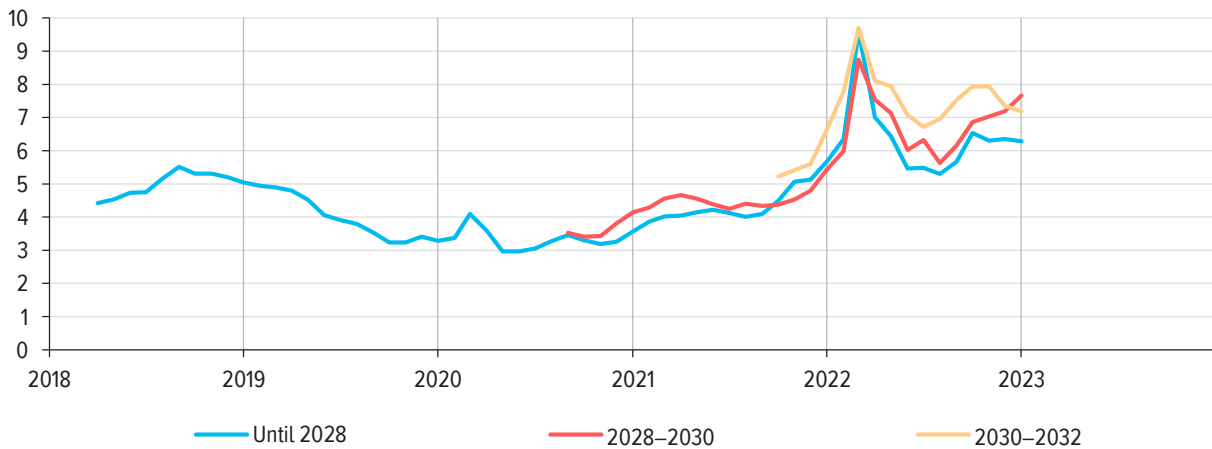
According to the Bank of Russia's assessments, the balance of risks is skewed towards proinflationary ones over a medium-term horizon. Short-term proinflationary risks have increased and also exceed disinflationary risks. The Bank of Russia forecasts that given the monetary policy pursued inflation will slow down to 5–7% in 2023 and return to 4% in 2024.

<sup>3</sup> The estimates are based on the comparison of expected yields on OFZ-IN and nominal OFZ (OFZ-PD) bonds, with account of the lag in the nominal value indexation and seasonally adjusted inflation. [Calculation method](#).



IMPLIED INFLATION FOR OFZ-IN  
(%)

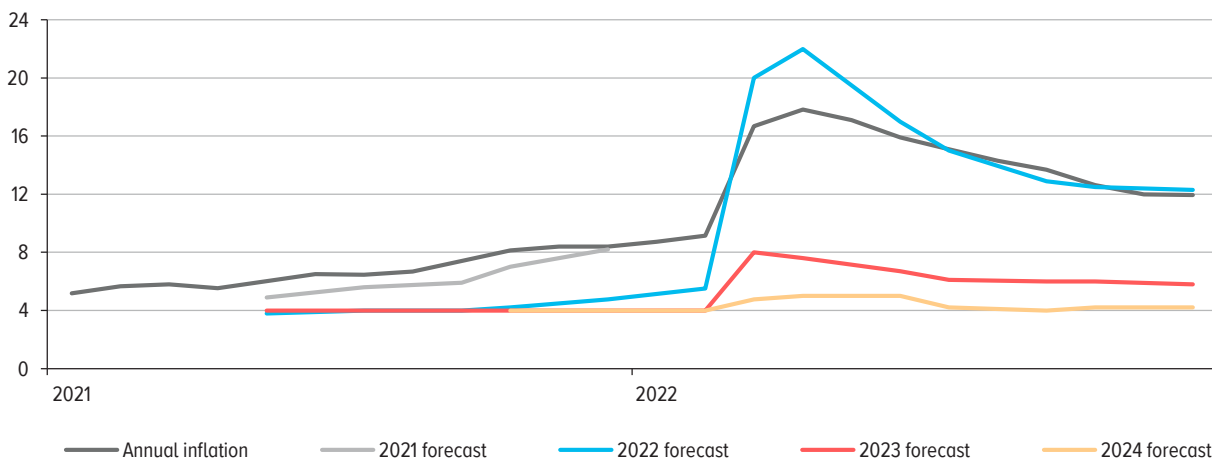
Chart 12



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

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

Chart 13



Sources: Bank of Russia, Rosstat.

The data cut-off date – 26.01.2023.

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](mailto: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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