



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No. 8 (80) • August 2023

Information and analytical commentary

23 August 2023

INFLATION EXPECTATIONS AND CONSUMER SENTIMENT (AUGUST 2023)

After a decline in 2023 Q2, inflation expectations were up again in July–August. The median estimate of inflation expected by households in the coming 12 months rose to 11.5% in August, as shown by InFOM’s survey, which corresponds to the level of 2023 Q1. Companies’ price expectations reached their highs since May 2022. Implied inflation for inflation-indexed federal government bonds (OFZ-IN) increased to 8.0% for the next five years. In July, analysts’ forecasts predicted a rise in inflation for 2023 and 2024. Higher inflation expectations are associated with the changes in both actual inflation and the exchange rate. The Bank of Russia’s policy is aimed at decreasing inflation expectations and returning inflation to the target. The Bank of Russia forecasts that given the monetary policy pursued, annual inflation will equal 5.0–6.5% in 2023, return to 4% in 2024, and stay close to 4% further on.

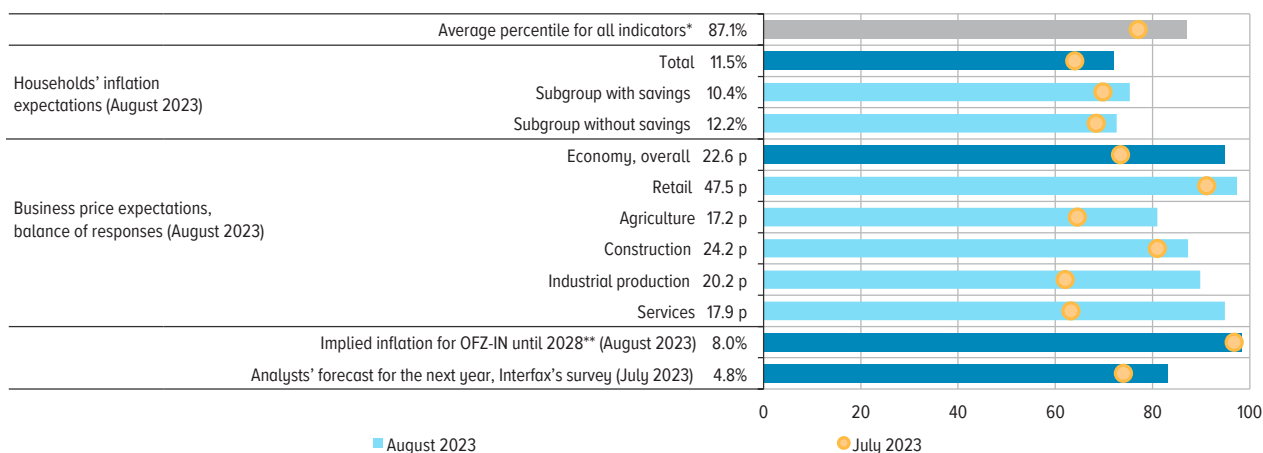
INFLATION EXPECTATION INDICATORS

	Expectation horizon	2020 average	2021 average	2022 average	2023 Q1 average	2023 Q2 average	June 2023	July 2023	August 2023
Inflation, %		3.4	6.7	13.8	8.8	2.7	3.3	4.3	
Inflation observed by households, %									
Public Opinion Foundation (median)	past 12 months	9.6	15.1	19.6	14.7	14.3	13.9	13.8	13.5
Public Opinion Foundation (subgroup with savings)	past 12 months	8.7	12.8	16.7	12.9	12.4	11.9	12.1	12.0
Public Opinion Foundation (subgroup without savings)	past 12 months	9.9	16.2	21.9	16.0	15.8	15.4	15.2	14.2
Households’ inflation expectations, %									
Public Opinion Foundation (median)	next 12 months	9.1	12.1	12.9	11.5	10.5	10.2	11.1	11.5
Public Opinion Foundation (subgroup with savings)	next 12 months	8.4	10.5	11.3	10.2	9.5	9.2	10.2	10.4
Public Opinion Foundation (subgroup without savings)	next 12 months	9.6	13.2	14.0	12.1	11.3	11.1	11.8	12.2
Public Opinion Foundation (median of five-year inflation expectations)	next 5 years				10.2	10.7	10.8	9.5	9.5
Companies’ price expectations, balance of responses									
Companies, total	next 3 months	13.3	20.1	21.7	16.7	16.3	15.7	17.4	22.6
Retail	next 3 months	31.7	38.8	38.9	29.9	35.4	34.9	41.9	47.5
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	7.2	8.0
OFZ-IN 52003, July 2030	next 7-year average	3.3	4.3	6.5	7.0	7.2	7.2	7.6	8.0
OFZ-IN 52004, March 2032	next 9-year average			6.7	7.1	7.6	7.6	7.9	8.1
OFZ-IN	2028–2030 average	3.5	4.4	6.7	8.0	8.3	8.2	8.3	8.1
OFZ-IN	2030–2032 average			7.6	7.6	9.1	9.2	9.1	8.3
Analysts, %									
Survey by the Bank of Russia	2023		4.0	6.3	6.0	5.7	5.5	5.7	
Interfax	2023			6.5	6.2	5.8	5.7	6.0	
Survey by the Bank of Russia	2024			4.4	4.1	4.1	4.0	4.3	
Interfax	2024				4.6	4.7	4.6	4.8	
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.

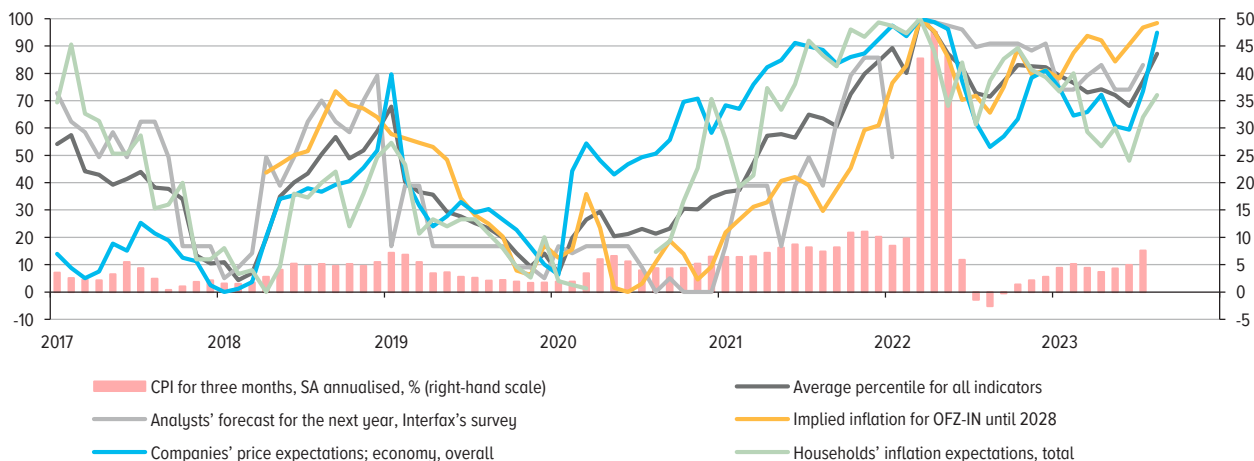
** Percentiles for implied inflation are specified relative to the distribution of values since April 2018.

Note. The chart shows the percentiles of inflation expectation indicators for the current and previous months relative to the distribution observed since January 2017. The percentiles as of the previous date are highlighted in yellow, and the percentiles as of the current date are shown as grey, dark and light blue lines. A shift in the indicator to the left relative to the previous date means 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, Rosstat, 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. The performance of the Bank of Russia's monetary policy in turn impacts 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 usually exceed actual inflation rates. This discrepancy is related to the peculiarities of perception: people tend to notice and actively respond to price growth, whereas declining or stable prices usually attract less attention. As a result, people judge inflation largely by looking at the goods whose prices 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, companies' price expectations are measured as a balance of responses to the question about the expected change in output prices during the next three months, rather than the median of price growth expected during the next 12 months. Rising price expectations mean that a higher percentage of companies plan to increase prices compared to the previous month. 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 Appendix 1 to the [Monetary Policy Guidelines for 2023–2025](#).

Household inflation expectations rose

Based on InFOM's survey, in August² 2023, the median estimate of household inflation expectations for the next 12 months was 11.5% (+0.4 pp vs July, +1.0 pp vs the 2023 Q2 average) (Annex, Chart 1). Inflation expectations of respondents both with and without savings were rising amid the ruble depreciation (Annex, Chart 3). The median of inflation expectations of the subgroup with savings was 10.4% in August (+0.2 pp vs July).

Annual inflation observed by households continued to decline in August. Its median estimate equalled 13.5% (-0.3 pp vs July). Estimates of observed inflation decreased mainly owing to the subgroup of respondents without savings, while estimates of respondents with savings remained almost unchanged.

In August, respondents voiced different opinions about the rise in prices for certain goods and services and expressed their noticeably growing concern about rising prices for salt and sugar, petrol, meat and poultry, tea and coffee³ (Annex, Chart 2). They were less concerned over higher prices for fruit and vegetables (due to seasonal factors), fish and seafood, cheese and sausages, and household cleaning products.

The qualitative estimates of expected inflation for one month and one year ahead were also higher in August⁴ (Annex, Chart 4). The qualitative estimate of actual inflation over the past year almost unchanged,⁵ whereas it was higher over the previous month.⁶

Long-term inflation expectations remained unchanged in August. The median of inflation expectations for the next five years⁷ was 9.5% as in July.

Consumer sentiment improved

The consumer sentiment index (CSI) increased in August, staying close to its five-year high (Annex, Chart 5). It equalled 105.6 points (+2.9 points vs July). Both the expectations index and the estimates of the present situation included in the consumer sentiment index increased.

In August, the expectations index equalled 113.6 points (+3.2 points vs July). The values of all its components (the estimates of personal finance prospects for a year ahead and expectations about changes in economic conditions in the country for the next one and five years) rose.

The present situation index equalled 93.7 points in August (+2.5 points vs July). The estimates of both its components increased (actual changes in personal finance over the year and the suitability of the current period for large purchases).

The respondents' propensity to consume was slightly higher in August (Annex, Chart 6). The percentage of the respondents opting to purchase expensive goods rather than save money reached 32.0% (+2.3 pp vs July). The percentage of those who prefer to save almost did not change and totalled 51.7% (+0.3 pp vs July).

In August, they more often demonstrated their preference to keep their money in bank accounts than a month ago (42% of respondents vs 39% in July), and less often in cash (30% of respondents vs 32% in July).

² The survey was conducted from 1 to 10 August 2023.

³ For details on inflation in July, refer to the information and analytical commentary [Consumer Price Dynamics](#) No. 7 (91), July 2023.

⁴ That is, a higher percentage of respondents, as compared to the previous month, answered that prices will rise considerably or will be rising faster than now.

⁵ That is, almost the same percentage of respondents, as compared to the previous month, answered that prices had been rising faster than before.

⁶ That is, a higher percentage of respondents, as compared to the previous month, said that prices had risen considerably.

⁷ The question 'Could you even roughly predict inflation and price growth in Russia in five years?'. The proportion of respondents who gave a meaningful response to 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 52% in August (vs 50% in July).

Growth in companies' price expectations accelerated

According to the monitoring carried out by the Bank of Russia in early August 2023, companies' price expectations (the balance of responses) for the next three months grew faster (Annex, Chart 7). The balance of responses reached its maximum since May 2022. In August 2023, the survey covered 14,557 enterprises (for more details, refer to the information and analytical commentary [Monitoring of Businesses: Assessments, Expectations and Comments](#)).

In August, the average price growth rate expected over the next three months,⁸ measuring companies' price expectations, equalled 5.2% in annualised terms (vs 4.4% in July).

There was a rise in price expectations in all industries (Annex, Chart 8). The main reasons were the ruble depreciation and accelerating growth in costs (including higher prices for fuels and lubricants).

In trade, price expectations increased in both the wholesale and retail sectors and remained the highest among all industries. The average price growth rate expected by retailers in the next three months equalled 12.6% in annualised terms (Annex, Chart 9).

In transportation and storage, as well as in agriculture, higher price expectations, in addition to general factors, were influenced by improved estimates of future demand, and in construction – by improved estimates of current demand. In mining and quarrying, increased price expectations were associated with faster growth in costs and higher global oil prices.

Implied inflation for the next five years is estimated at 8.0%

In August, according to the Bank of Russia's estimates,⁹ average implied inflation for the next five years (till 2028), calculated on the basis of the ratio between yields on OFZ-PD and OFZ-IN bonds with the same maturity dates, increased again to 8.0% (+0.8 pp vs July) (Annex, Chart 10). Implied inflation for longer periods decreased: it totalled 8.1% for the period of 2028–2030 (-0.2 pp vs July) and 8.3% for the period of 2030–2032 (-0.8 pp vs July).

Analysts forecast inflation growth in July

In July 2023, analysts predicted higher inflation. According to the findings of the [Bank of Russia's macroeconomic survey](#) carried out in July, analysts forecast that inflation would be 5.7% at the end of 2023 (+0.2 pp vs June) and 4.3% at the end of 2024 (+0.3 pp vs June) (Annex, Chart 11). Analysts surveyed by the Bank of Russia expect inflation to be 4.0% in 2025. In July, according to the survey carried out by the Interfax news agency, analysts' consensus forecast of inflation was 6.0% for the end of 2023 (+0.3% vs June) and 4.8% for the end of 2024 (+0.2 pp vs June).

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

According to the Bank of Russia's forecast, annual inflation will continue rising in 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 5.0–6.5% in 2023, stabilise close to its target of 4% in 2024, and stay at this level further on.

⁸ Seasonally unadjusted data.

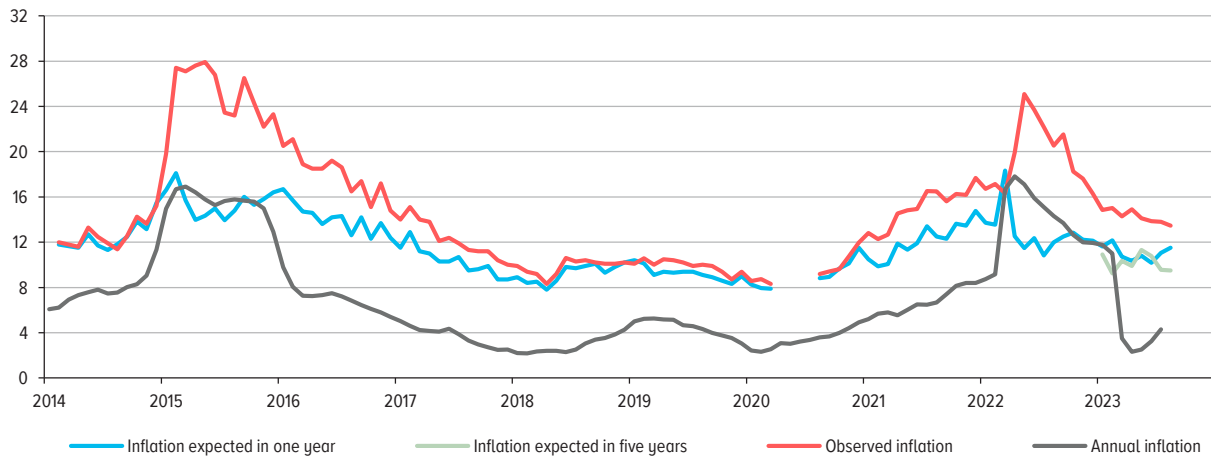
⁹ The estimates are based on the comparison of expected yields on OFZ-IN and nominal OFZ (OFZ-PD) bonds, taking into account the lag in nominal value indexation and seasonally adjusted inflation. [Calculation method](#).

ANNEX

Analytical charts

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

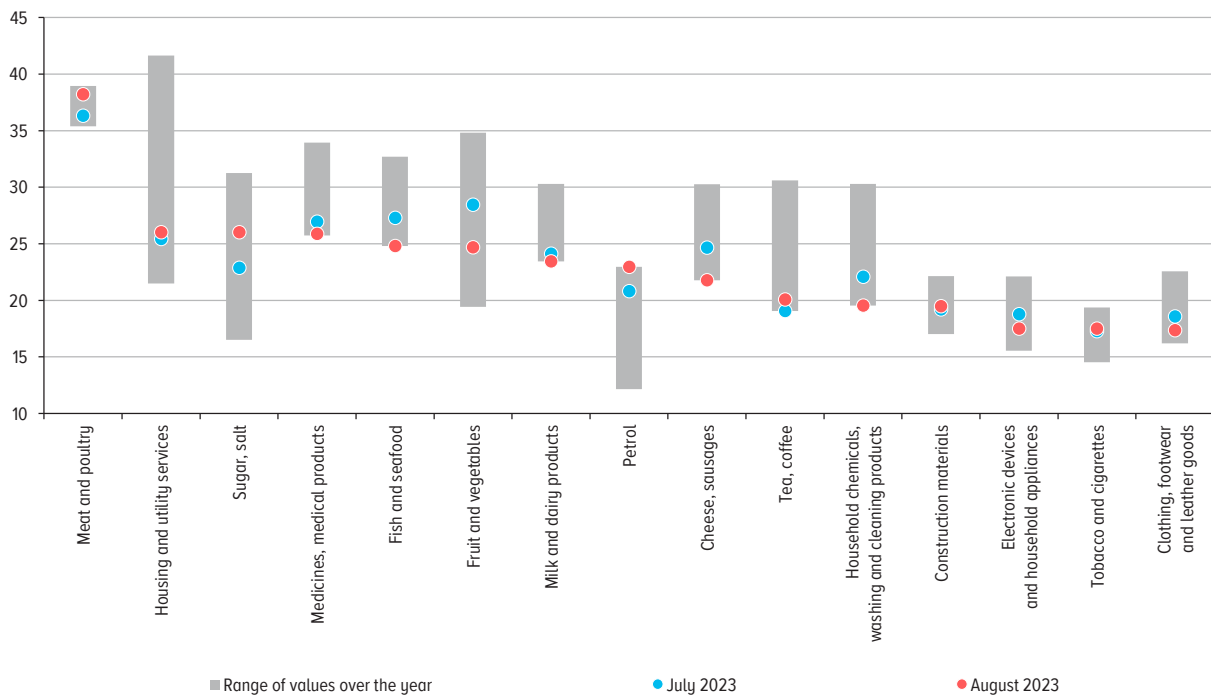
Chart 1



Sources: InFOM, Rosstat.

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

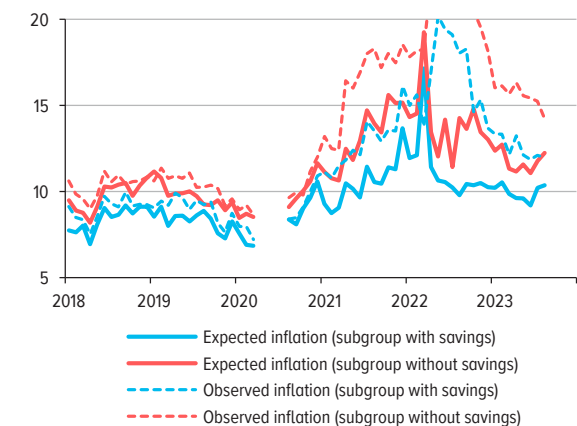
Chart 2



Sources: InFOM, Bank of Russia calculations.

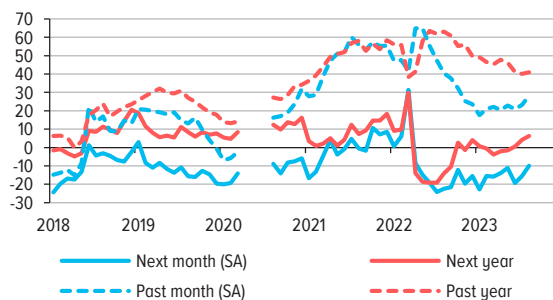
EXPECTED AND OBSERVED INFLATION BY RESPONDENT SUBGROUP (MEDIAN ESTIMATE)

Chart 3



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

Chart 4

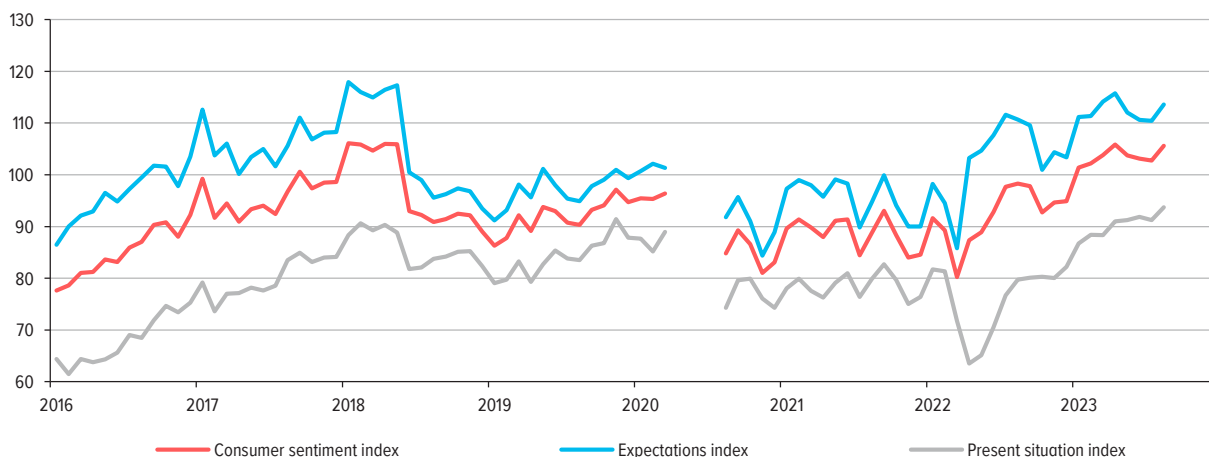


* Balance of responses to the questions 'How were prices changing overall over the past 12 months (year), in your opinion?'; 'How will prices be changing overall over the next 12 months (year), in your opinion?'; 'How did prices for food products, non-food goods and services change overall over the past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

CONSUMER SENTIMENT INDEX (POINTS)

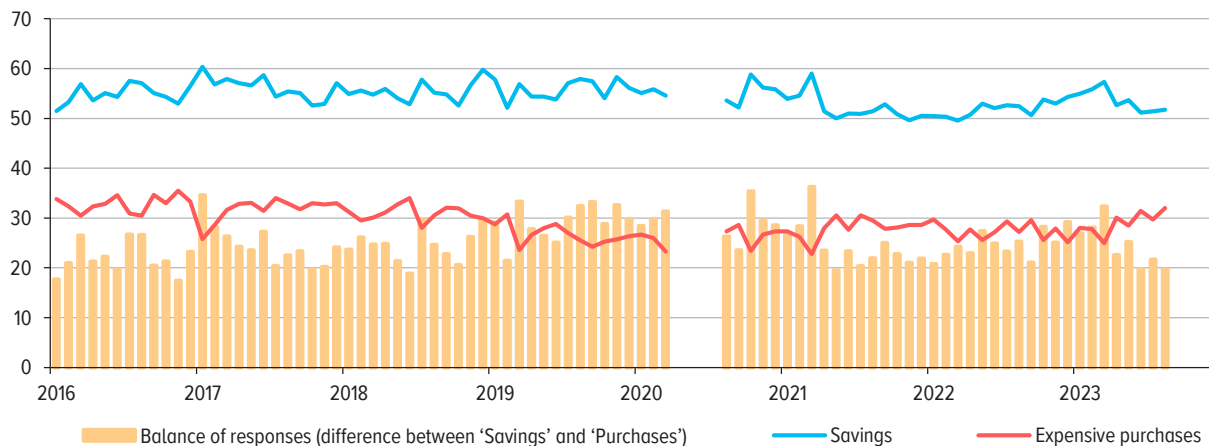
Chart 5



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)

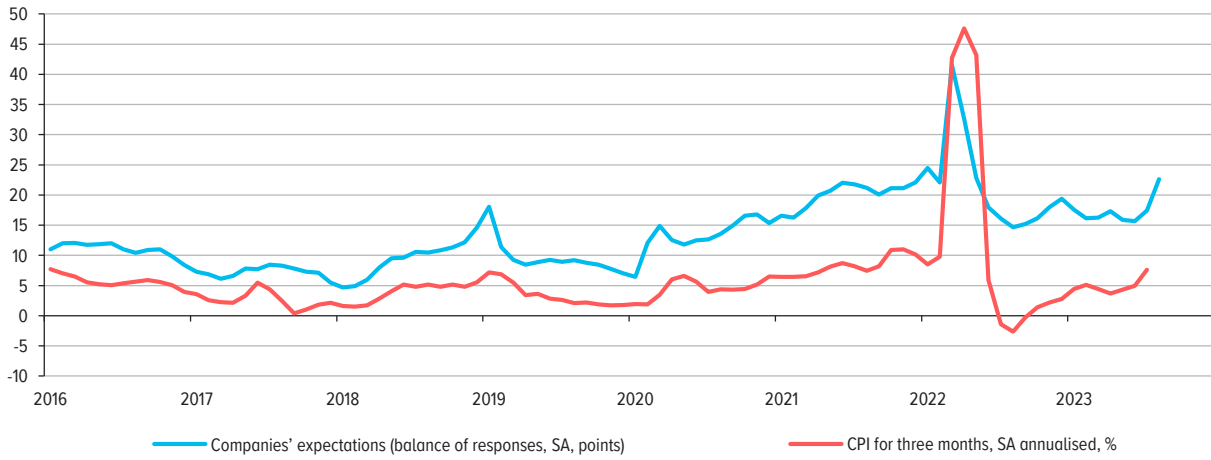
Chart 6



Sources: InFOM, Bank of Russia calculations.

COMPANIES' PRICE EXPECTATIONS

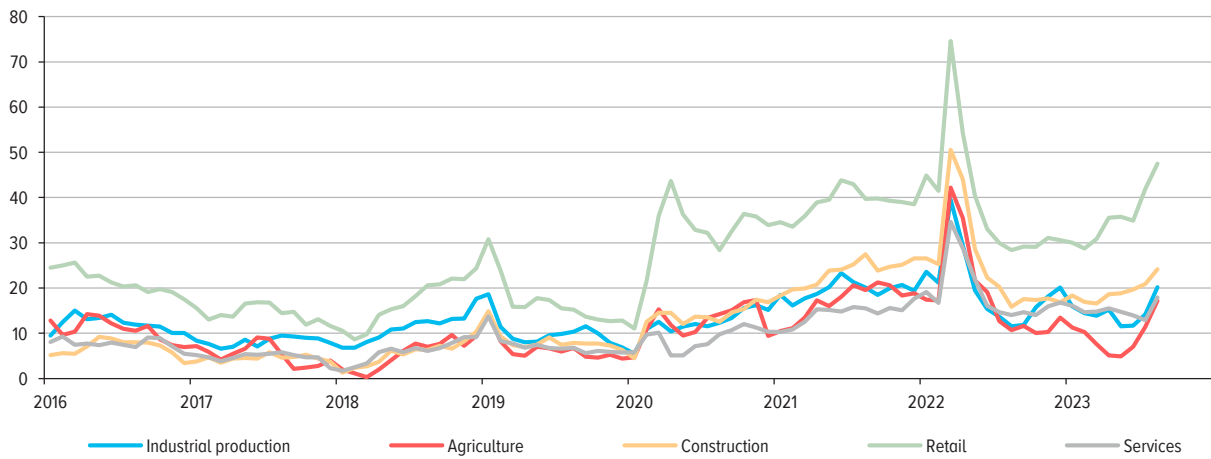
Chart 7



Sources: Bank of Russia, Rosstat.

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

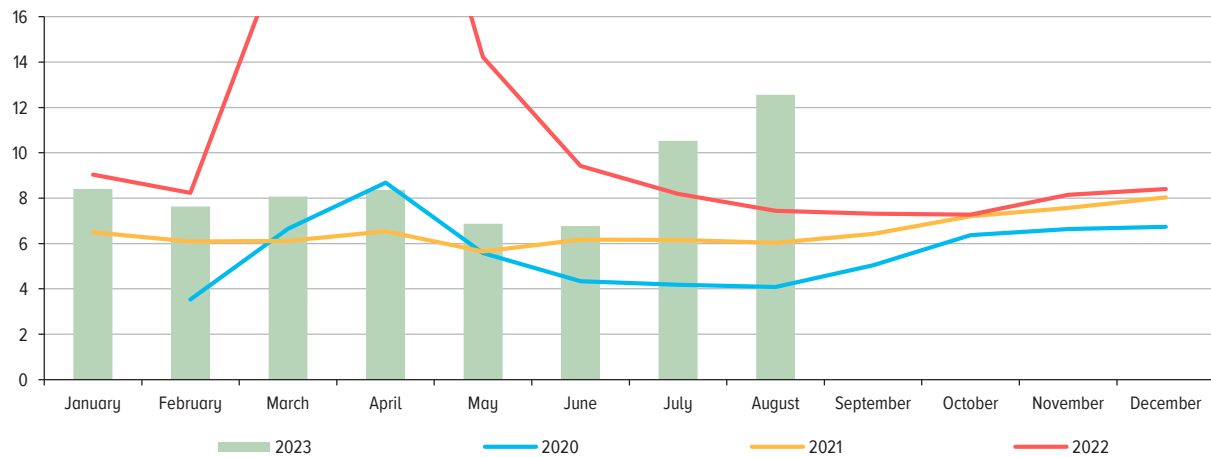
Chart 8



Source: Bank of Russia.

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

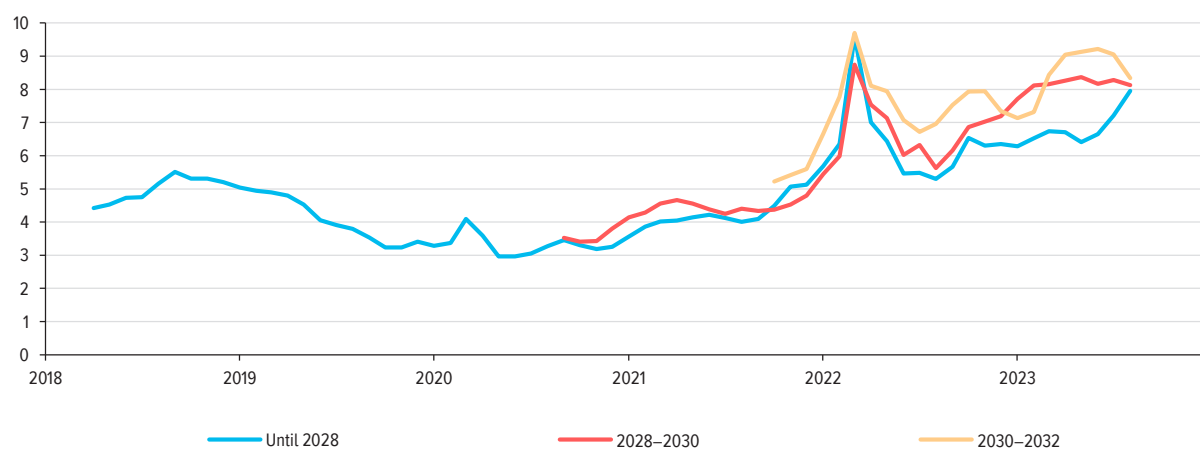
Chart 9



Source: Bank of Russia.

IMPLIED INFLATION FOR OFZ-IN
(%)

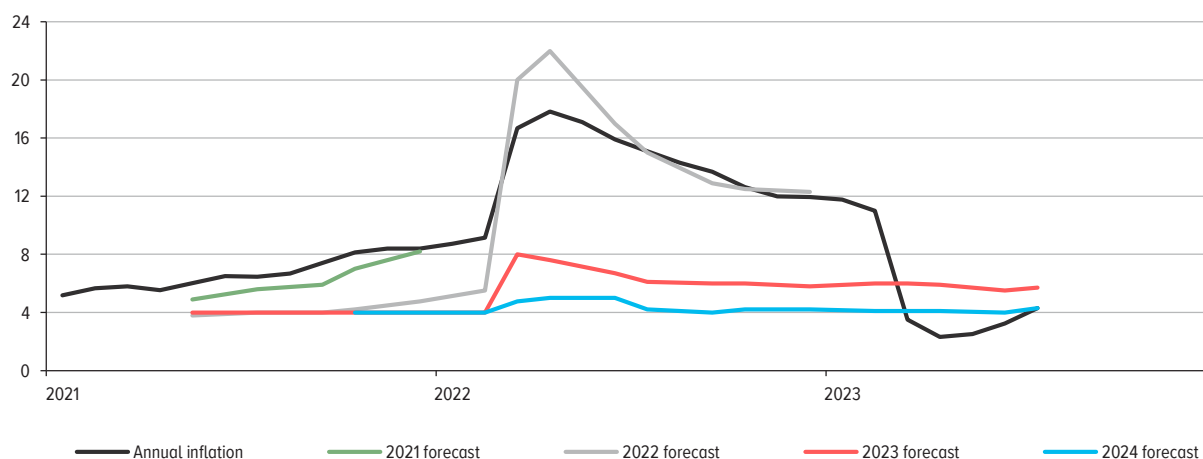
Chart 10



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

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

Chart 11



Sources: Bank of Russia, Rosstat.

The data cut-off date – 17.08.2023.

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 Central Bank of the Russian Federation.

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