



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

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Information and analytical commentary

23 May 2024

INFLATION EXPECTATIONS AND CONSUMER SENTIMENT (MAY 2024)

In May, indicators of inflation expectations were predominantly up. The median estimate of inflation expected by households in the next 12 months rose to 11.7% in May, as shown by the InFOM's survey. The median of long-term expectations for the next five years edged up as well, namely to 10.4%. Companies' price expectations for the next three months remained generally unchanged. Implied inflation for inflation-indexed federal government bonds (OFZ-IN) for the next four years increased to 7.9%. The pause in the decline in inflation expectations observed in the recent months confirms that bringing inflation down to the target will require maintaining tight monetary conditions for longer. The Bank of Russia forecasts that, given the monetary policy pursued, annual inflation will decelerate to 4.3–4.8% in 2024 and return to 4% in 2025.

INDICATORS OF INFLATION EXPECTATIONS

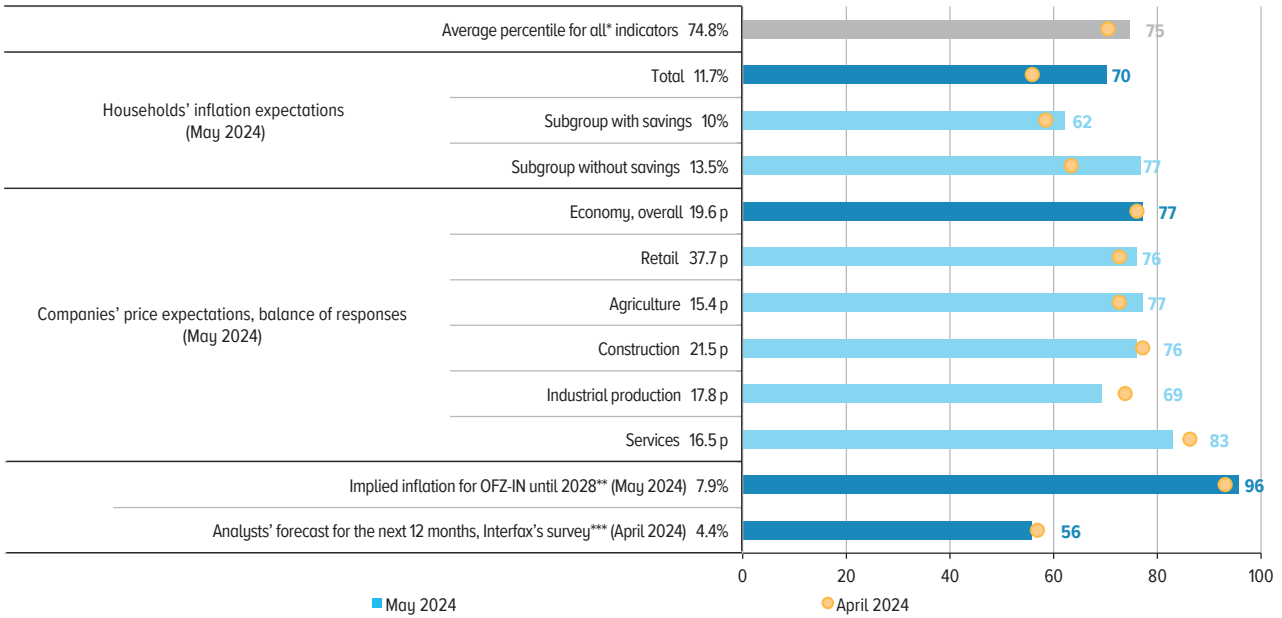
	Expectations horizon	2021 average	2022 average	2023 average	2023 Q4 average	2024 Q1 average	March 2024	April 2024	May 2024	Average over the past three months
Inflation, %		6.7	13.8	5.9	7.2	7.6	7.7	7.8		
Inflation observed by households, Public Opinion Foundation, %										
Median	previous 12 months	15.1	19.6	14.5	15.3	15.5	14.8	14.4	14.0	14.4
Subgroup with savings	previous 12 months	13.2	16.8	13.0	13.3	13.5	13.0	13.1	12.0	12.7
Subgroup without savings	previous 12 months	16.3	22.0	15.9	17.2	17.3	16.7	15.7	16.3	16.2
Households' inflation expectations, Public Opinion Foundation, %										
Median	next 12 months	12.1	12.9	11.5	12.5	12.0	11.5	11.0	11.7	11.4
Subgroup with savings	next 12 months	10.6	11.3	10.2	10.8	10.5	9.8	9.9	10.0	9.9
Subgroup without savings	next 12 months	13.3	14.2	12.7	14.3	13.5	12.9	12.2	13.5	12.9
Median for the next five years	next five years			10.5	11.2	9.7	10.0	9.8	10.4	10.1
Companies' price expectations, Bank of Russia's monitoring of businesses, balance of responses (SA)*, p										
Companies, total	next three months	20.1	21.7	19.5	23.2	20.0	18.6	19.6	19.6	19.2
Retail	next three months	38.8	38.9	38.6	43.4	35.8	35.9	36.5	37.7	36.7
Implied inflation for OFZ-IN (monthly average), %										
OFZ-IN 52002, February 2028	next four-year average	4.2	6.3	7.2	7.7	6.8	6.9	7.4	7.9	7.4
OFZ-IN 52003, July 2030	next six-year average	4.3	6.5	7.4	7.6	6.8	6.9	7.4	7.8	7.4
OFZ-IN 52004, March 2032	next eight-year average		6.7	7.6	7.8	7.0	7.1	7.7	8.0	7.6
OFZ-IN	2028–2030 average	4.4	6.7	7.9	7.3	6.7	7.0	7.4	7.6	7.3
OFZ-IN	2030–2032 average		7.6	8.5	8.7	8.0	8.0	8.6	8.6	8.4
Analysts, %										
Survey by the Bank of Russia	2024		4.4	4.4	5.1	5.1	5.2	5.2	n/a	
Interfax	2024			4.8	5.2	5.2	5.3	5.3	n/a	
Survey by the Bank of Russia	2025			4.0	4.0	4.1	4.1	4.1	n/a	
Interfax	2025						4.5	4.4	n/a	
Survey by the Bank of Russia	2026			4.0	4.0	4.0	4.0	4.0	n/a	

* SA – seasonally adjusted.

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

INDICATORS OF INFLATION EXPECTATIONS IN PERCENTILES RELATIVE TO DISTRIBUTION OF VALUES SINCE 2017

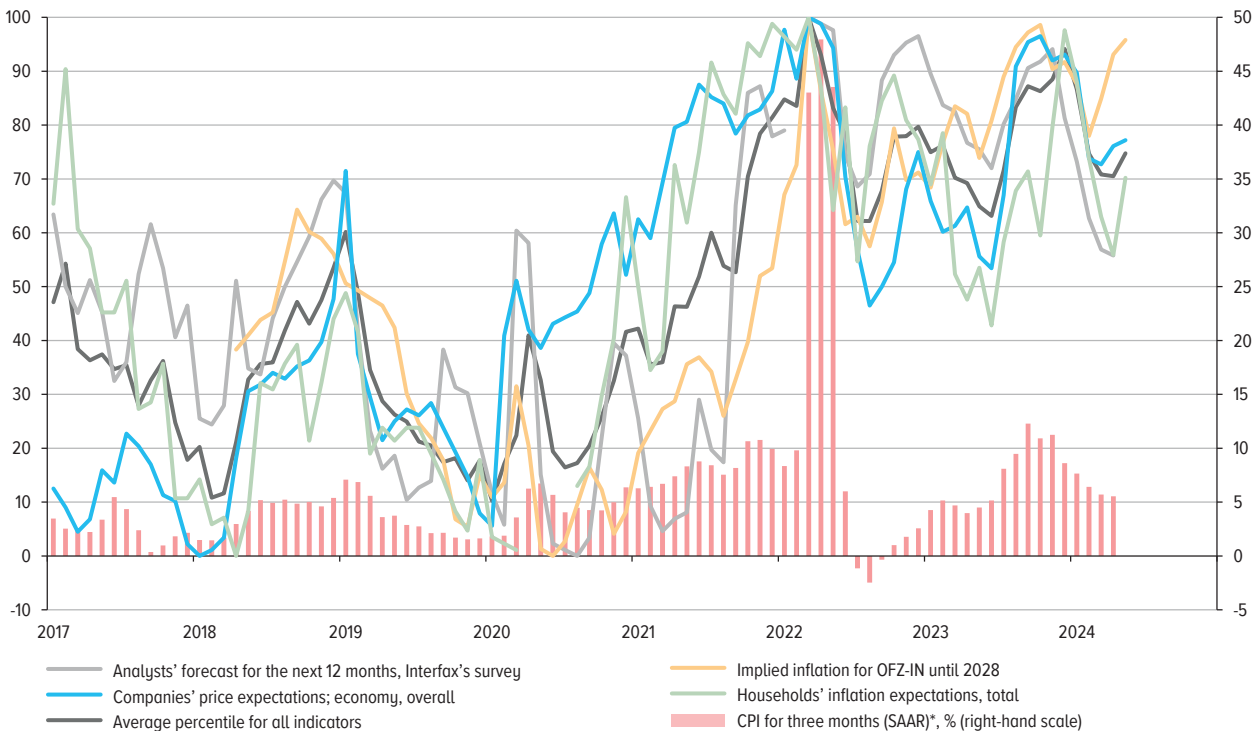
Chart 1



* The average of 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 12 months.
 ** Percentiles for implied inflation are specified relative to the distribution of values since April 2018.
 *** Analysts' prediction for the next 12 months is made using forecasts for this and subsequent years, taking into consideration actual inflation since the beginning of this year.
 Note. The chart shows the percentiles of inflation expectation indicators for the current and previous months in 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 the grey, blue and light blue bars. 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 INDICATORS OF INFLATION EXPECTATIONS RELATIVE TO DISTRIBUTION OF VALUES SINCE 2017

Chart 2



* SAAR – seasonally adjusted annualised rate.
 Sources: InFOM, Rosstat, Bank of Russia, Interfax, Moscow Exchange.

Monetary policy and inflation expectations

Inflation expectations of economic agents influence how effectively 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 maintaining inflation at a consistently low level help anchor inflation expectations and reduce their volatility and sensitivity to one-off and short-term spikes in prices for some products or services.

Estimates of inflation expectations and observed inflation based on household surveys in Russia and abroad almost always exceed actual inflation rates. This difference is ascribed to certain perception patterns: people tend to notice and actively respond to price growth, whereas declining or stable prices usually attract less attention. Therefore, people estimate inflation guided primarily by those product prices that 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 underlying inflation.

Unlike households' inflation expectations, companies' price expectations are measured as the balance of responses to the question about the expected change in output prices in the next three months rather than the median of price growth expected in the next 12 months. Rising price expectations mean that a higher percentage of companies plan to increase prices compared to the previous month. However, it is impossible to assess the extent of this increase 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 2024–2026](#).

Households' inflation expectations edged up

In May 2024, the median estimate of inflation expectations for the next 12 months went up to 11.7% (+0.7 pp MoM; +0.9 pp YoY), as shown by the InFOM's survey (Charts 3 and 4). Following a four-month decline, this increase was generated by respondents without savings (13.5%; +1.3 pp MoM; +1.6 pp YoY) (Chart 6). For respondents with savings, the median of inflation expectations has remained virtually unchanged for the third consecutive month (10.0%; +0.1 pp MoM; +0.3 pp YoY).

Inflation observed by households continued to slow down in May, with its median value equalling 14.0% (-0.4 pp MoM; -0.1 pp YoY). The estimates of observed inflation went down among respondents with savings and increased among those without savings. The gap between the estimate of observed inflation and annual CPI growth shrank by a factor of 1.8 to 6.2 pp.

When responding to the question about growth in prices for certain goods and services,² respondents mentioned higher prices for eggs, housing and utility services, household chemicals, electronic devices and household appliances, milk and dairy products less frequently in May than in April (Chart 5). Contrastingly, respondents complained about growing prices for bread and bakery products more often than in the previous month.

In May, qualitative estimates of expected inflation for one month ahead decreased.³ However, there was an increase in those for the next 12 months.⁴ The estimates of inflation over the past month were up,⁵ whereas those over the past year declined⁶ (Chart 7).

Long-term inflation expectations for the next five years⁷ increased to 10.4% in May (+0.6 pp MoM; -0.9 pp YoY). Long-term expectations rose more notably among respondents without savings (to 11.7%; +1.4 pp MoM; -0.9 pp YoY) and to a lesser extent among respondents with savings (to 9.6%; +0.3 pp MoM; -0.4 pp YoY). The percentage of respondents believing that the price growth rate will notably surpass 4% in three years reached 48% in May (+5 pp MoM; +3 pp YoY) (Chart 8).

The consumer sentiment index remained close to its record high

The consumer sentiment index remained almost unchanged in May, equalling 112.2 p (-0.4 p MoM; +8.5 p YoY) (Chart 9), holding close to its record high. The estimates of the present situation increased, while expectations declined.

The present situation index equalled 97.5 p in May (+1.2 p MoM; +6.3 p YoY). The estimates of both its components went up, namely the actual changes in personal financial standing over the year and the suitability of the current period for making large purchases.

The expectations index equalled 122.1 p in May (-1.4 p MoM; +10.0 p YoY). In terms of its components, the expectations about the country's economic prospects for the next five years and personal financial prospects for the coming year declined, whereas the estimates of the country's development prospects for a year ahead were up.

² For details on inflation in April, refer to the information and analytical commentary [Consumer Price Dynamics](#) No. 4 (100), April 2024.

³ That is, the percentage of respondents who said that prices would rise considerably was lower than in the previous month.

⁴ That is, the percentage of respondents who said that prices would be rising faster in the future was higher than in the previous month.

⁵ That is, the percentage of respondents who said that prices had risen considerably was higher than in the previous month.

⁶ That is, the percentage of respondents who said that prices were rising faster than in the past was lower than in the previous month.

⁷ The question 'Could you even roughly estimate 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 50% in May (vs 49% in April).

The ratio of respondents' answers to the question about the best money management options remained virtually unchanged in May. The percentage of respondents opting to save their spare cash rather than use it to purchase expensive goods amounted to 52.4% (+0.7 pp MoM; -1.3 pp YoY) (Chart 10), staying below the average recorded since 2016 (54.3%). The proportion of those preferring to spend equalled 30.2% (+1.0 pp MoM; +1.7 pp YoY). As to preferred forms of savings, the share of respondents opting to keep their money in bank accounts declined in May, compared to the previous month, totalling 42% (-2 pp MoM; unchanged YoY). Contrastingly, the percentage of those opting to have cash holdings rose to 28% (+1 pp MoM; -3 pp YoY).

Companies' price expectations remained elevated

According to the monitoring carried out by the Bank of Russia in May 2024, businesses' price expectations (the balance of responses) for the next three months stayed generally unchanged, compared to April (Chart 11),⁸ while remaining high. Companies' demand expectations for the three months ahead edged down in May, whereas their estimates of cost changes remained virtually the same.

Price expectations were diverse across industries. They were rising in agriculture, transportation and storage, trade, electricity and water supply, while declining in manufacturing, mining and quarrying, and services. Price expectations remained unchanged in construction.

The most notable increase in price expectations for the three months ahead was in electricity and water supply, reflecting the upcoming indexation of utility tariffs in July (tariffs were not indexed in 2023). Rising price expectations in agriculture were driven by improved estimates of current and future demand, as well as accelerating growth of costs. The increase in price expectations in transportation and storage was accompanied by improved estimates of current demand.

In trade, the rise in price expectations was mainly driven by the retail segment, where the estimates of cost changes were also up. However, retailers' expectations concerning demand for the next three months were less positive than a month earlier.

The decline in price expectations in manufacturing and services was influenced by lower estimates of future demand. In addition, the slowdown in cost growth in the services sector continued for the third month in a row. In mining and quarrying, companies' price expectations lowered due to the decelerating growth of costs and deteriorating estimates of current demand.

The average price growth rate expected in the next three months⁹ (in annualised terms) measuring companies' inflation expectations equalled 4.9% in May (-0.1 pp MoM; +1.3 pp YoY) (Chart 12). The average price growth rate expected by retailers in the next three months⁸ declined slightly more notably, totalling 8.7% (in annualised terms) in May (-0.3 pp MoM; +1.8 pp YoY).

Implied inflation is 7.9% for the next four years

As estimated by the Bank of Russia,¹⁰ average implied inflation for the next four years, until February 2028, calculated based on the ratio between yields on permanent coupon-income federal government bonds (OFZ-PD) and OFZ-IN with the same maturity dates was higher in May than in April. Its average from 1 through 20 May equalled 7.9% (+0.5 pp MoM; +1.5 pp YoY) (Chart 13). Implied inflation for 2028–2030 rose to 7.6% (+0.2 pp MoM; -0.8 pp YoY), while that for 2030–2032 did not change, equalling 8.6% (unchanged MoM; -0.5 pp YoY).

⁸ In May 2024, the Bank of Russia surveyed 15,000 companies (more detailed results of the monitoring are available in the information and analytical commentary [Monitoring of Businesses: Assessments, Expectations and Comments](#)).

⁹ Seasonally adjusted data.

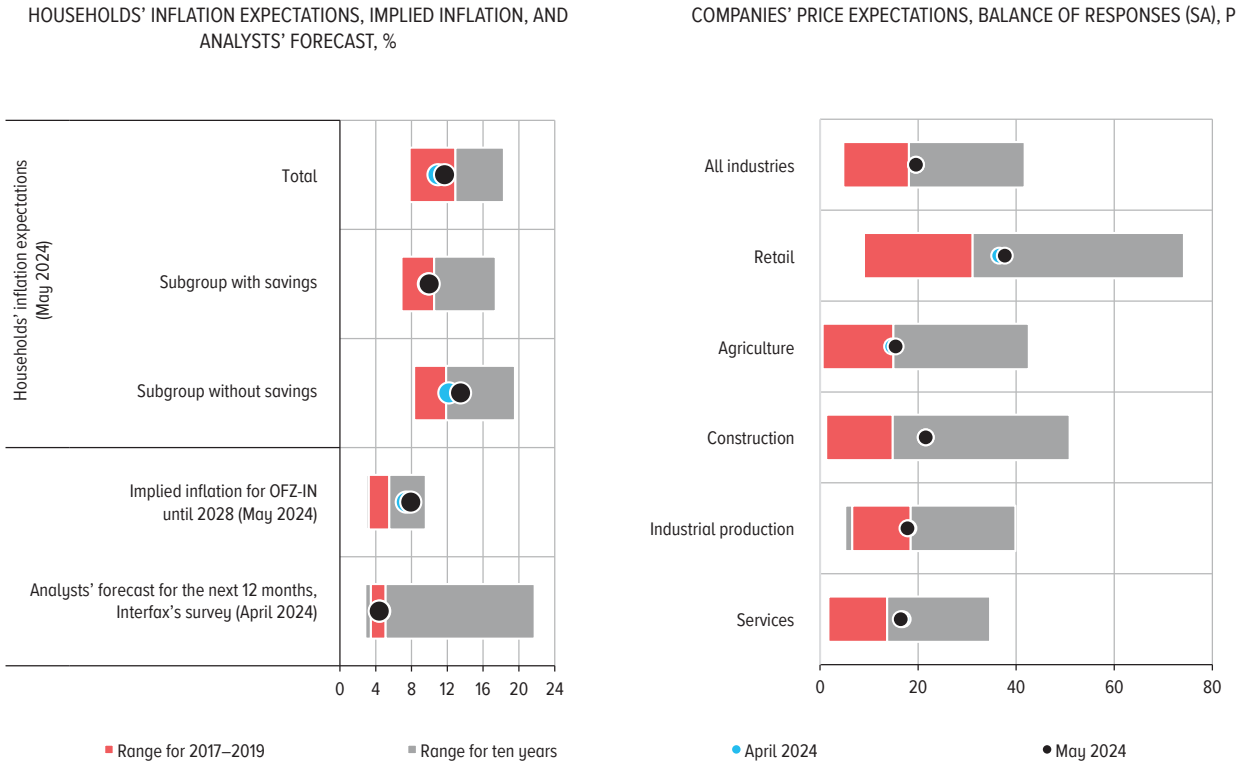
¹⁰ The estimates are based on the comparison of expected yields on inflation-indexed OFZ (OFZ-IN) and nominal OFZ (OFZ-PD), taking into account the lag in the nominal value indexation and seasonally adjusted inflation. [Calculation method](#).

The Bank of Russia forecasts that annual inflation will slow down to 4.3–4.8% in 2024

A prerequisite for returning inflation to the target is a further reduction in inflation expectations. To bring inflation back to the target and stabilise it close to 4%, it is necessary to maintain tight monetary conditions in the economy for a longer period than predicted before. The Bank of Russia forecasts that, given the monetary policy pursued, annual inflation will decelerate to 4.3–4.8% in 2023 and return to 4% in 2025.

INDICATORS OF INFLATION EXPECTATIONS AND DISTRIBUTION OF THEIR VALUES OVER TEN YEARS

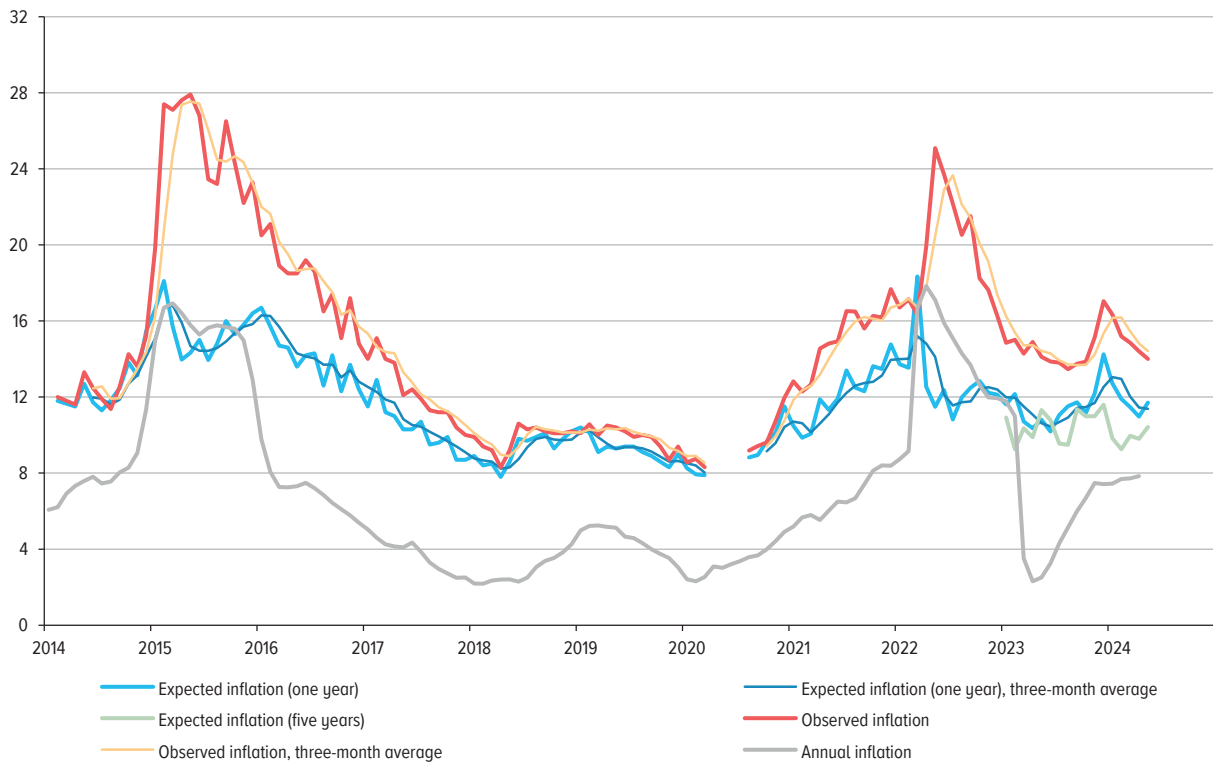
Chart 3



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

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

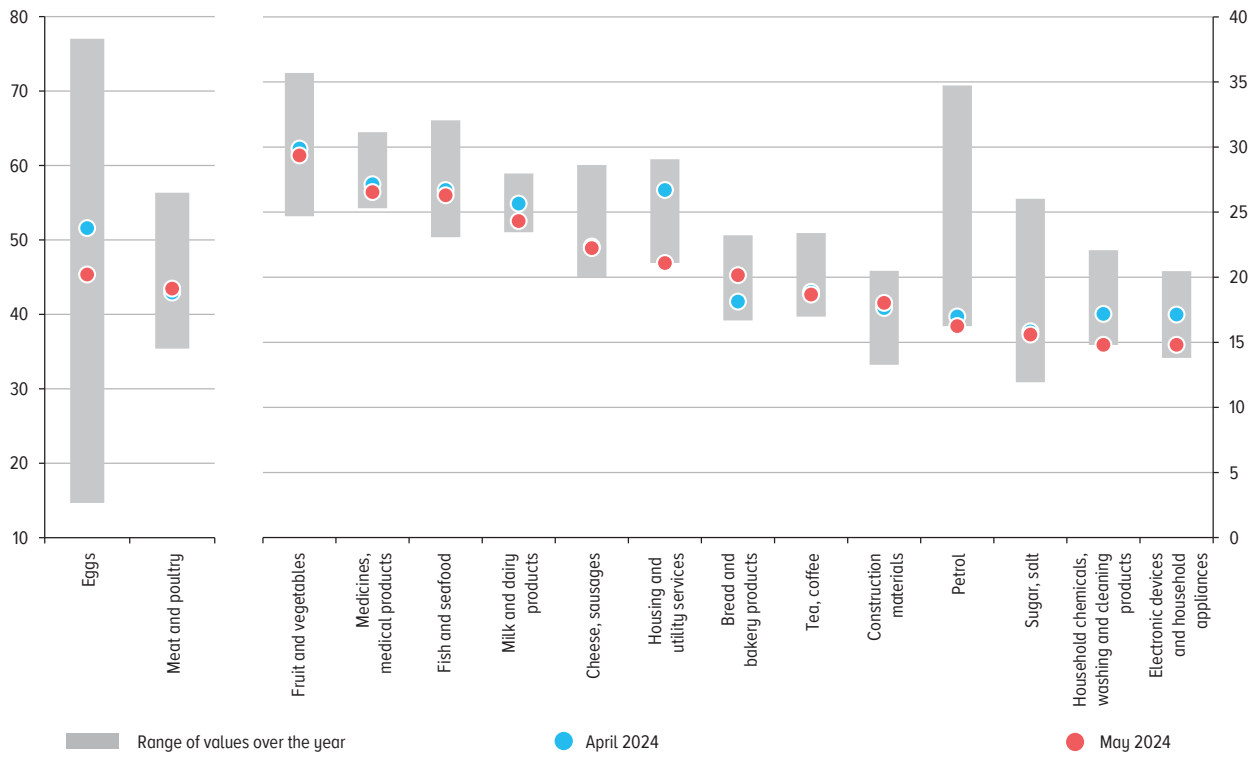
Chart 4



Sources: InFOM, Rosstat, Bank of Russia calculations.

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

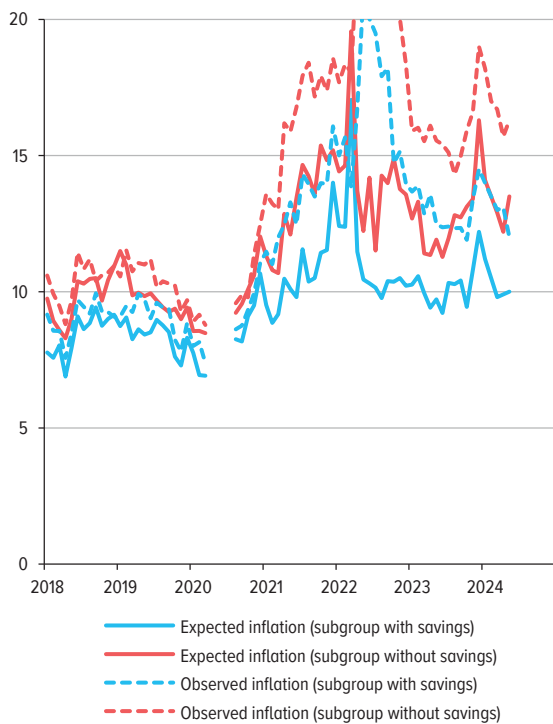
Chart 5



Sources: InFOM, Bank of Russia calculations.

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

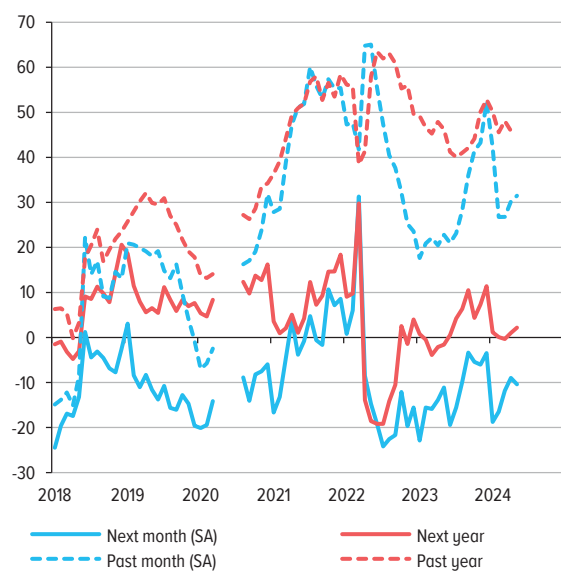
Chart 6



Source: InFOM.

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

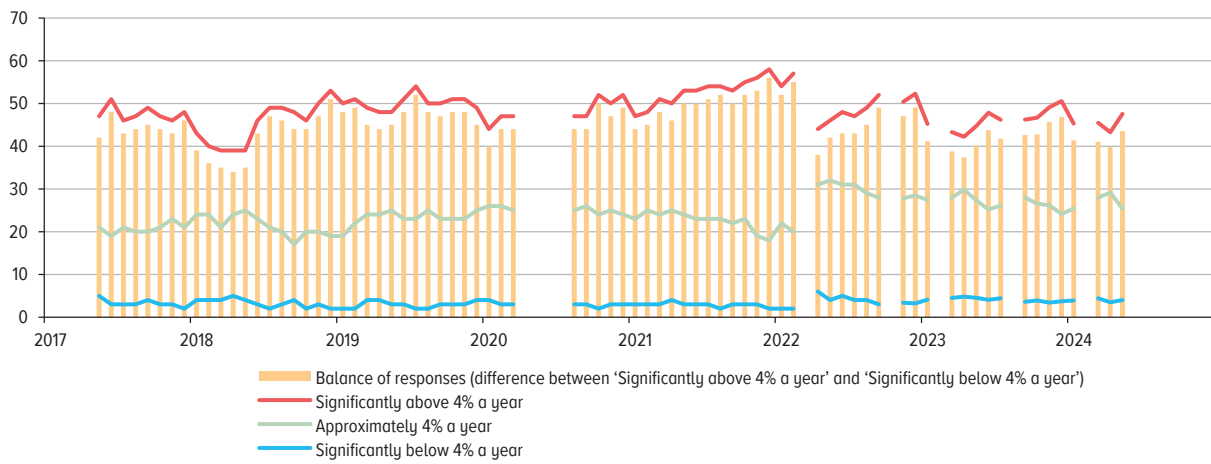
Chart 7



* The balance of responses to the questions ‘How will prices for food products, non-food goods and services change overall next month, in your opinion?’, ‘How will prices be changing overall in 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 were prices changing overall over the past 12 months (year), in your opinion?’. For questions about price changes in the past and next months – seasonally adjusted prices.
Sources: InFOM, Bank of Russia calculations.

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

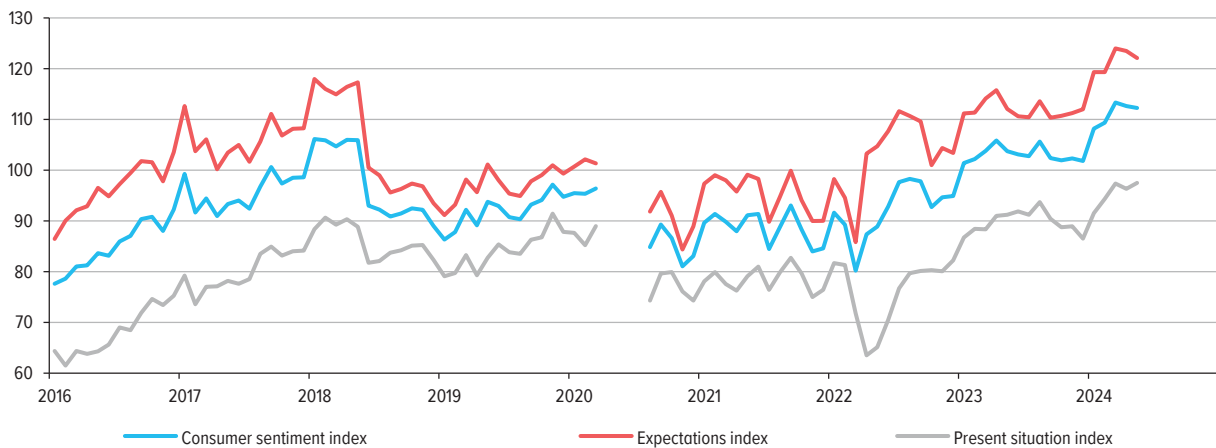
Chart 8



Sources: InFOM, Bank of Russia calculations.

CONSUMER SENTIMENT INDEX (P)

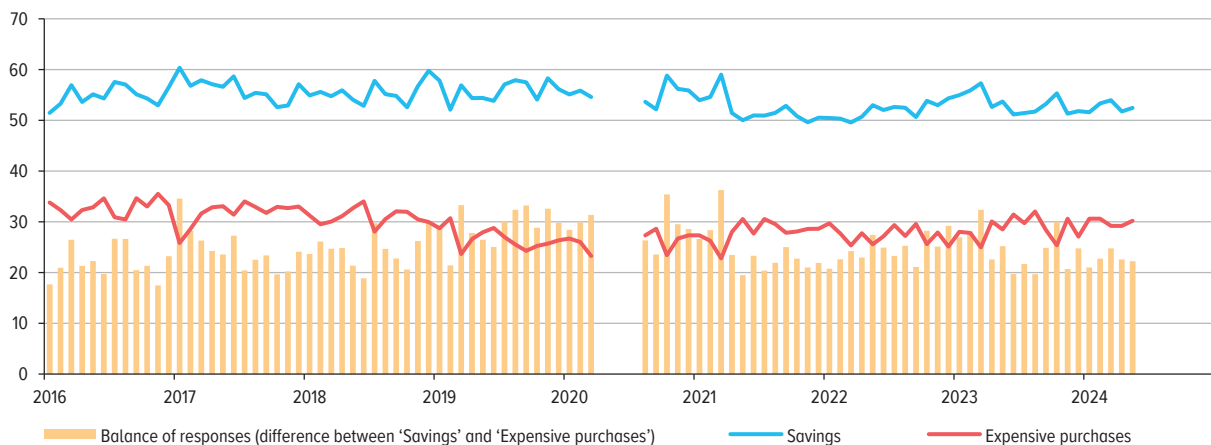
Chart 9



Source: InFOM.

DISTRIBUTION OF RESPONSES TO THE QUESTION 'WHAT IS YOUR OPINION ABOUT THE BEST WAY TO USE AVAILABLE MONEY: MAKE SAVINGS OR PURCHASE EXPENSIVE GOODS?' (% OF ALL RESPONDENTS)

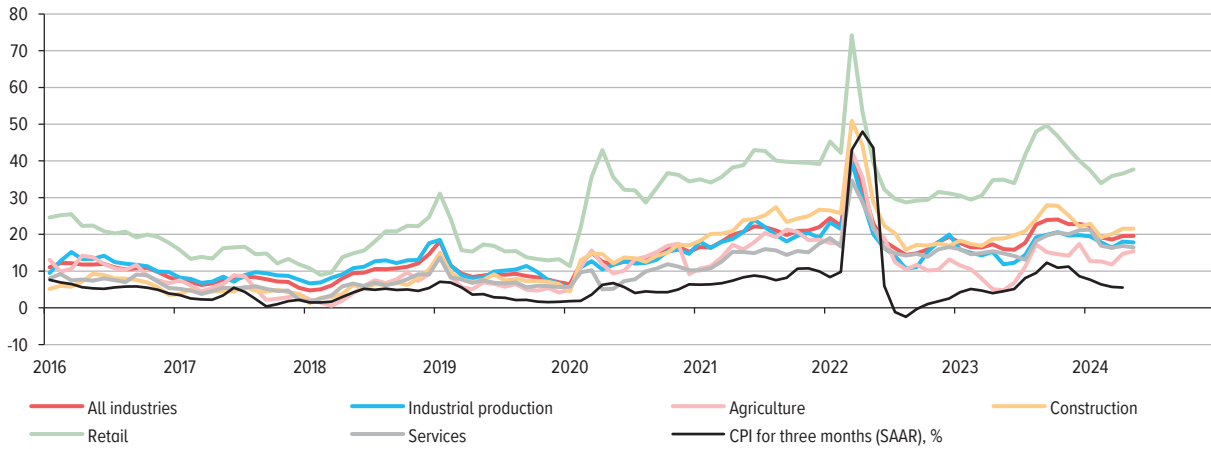
Chart 10



Sources: InFOM, Bank of Russia calculations.

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

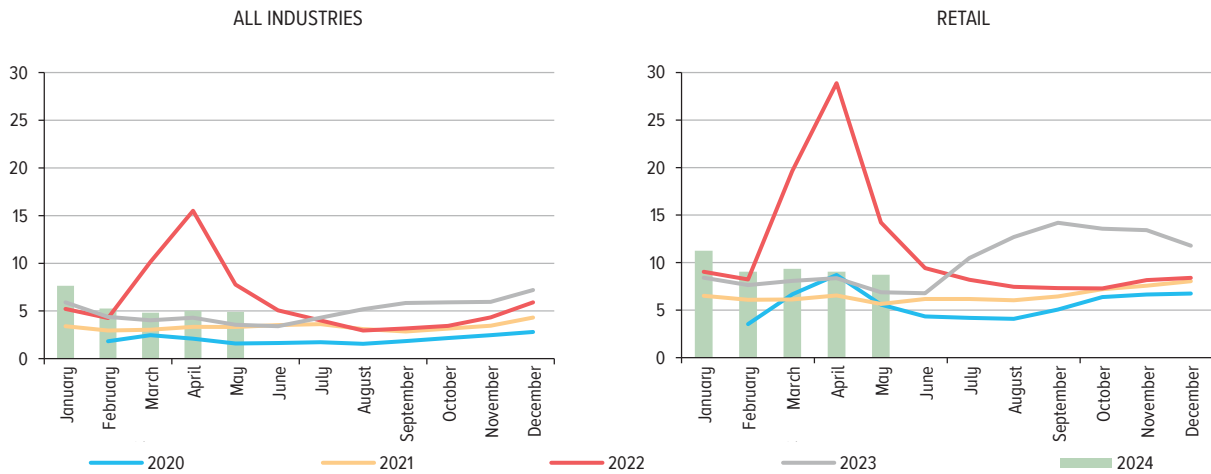
Chart 11



Sources: Bank of Russia, Rosstat.

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

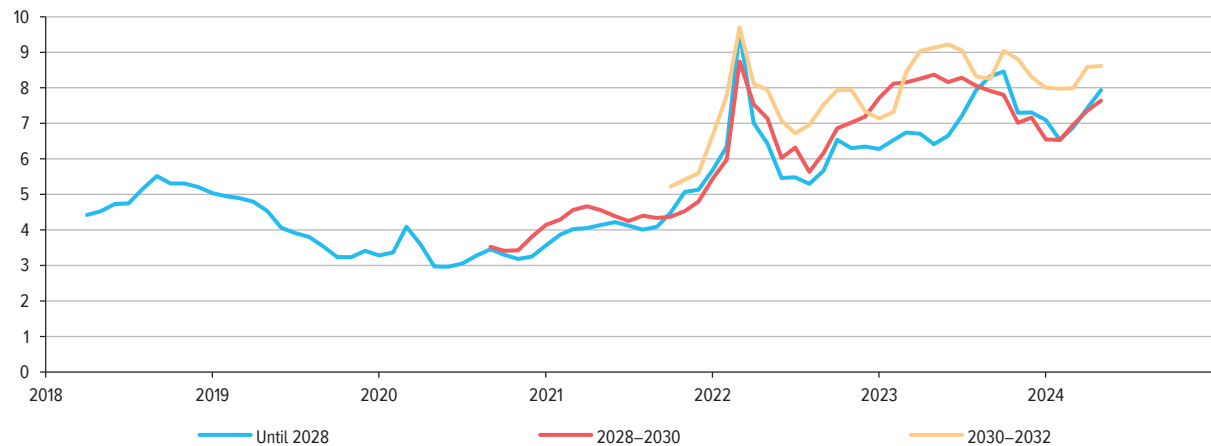
Chart 12



Source: Bank of Russia.

IMPLIED INFLATION FOR OFZ-IN
(%)

Chart 13



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

The data cut-off date – 21.05.2024.

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 together with the Irkutsk Regional Division of the Siberian Main Branch of the Central Bank of the Russian Federation.

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