



Bank of Russia



# INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No. 7 (91) • July 2024

Information and analytical commentary

29 July 2024

## INFLATION EXPECTATIONS AND CONSUMER SENTIMENT (JULY 2024)

The indicators of inflation expectations were mainly up in July. The median estimate of inflation expected by households in the next 12 months rose to 12.4% in July, as shown by InFOM's survey. The median of long-term expectations for the five years ahead remained almost unchanged and equalled 10.6%. Companies' price expectations for the next three months stayed nearly the same, following an increase a month earlier. Breakeven inflation for inflation-indexed federal government bonds (OFZ-IN) for the next four years went down to 7.6%. In July, analysts raised their forecasts to 6.5% for the end of 2024 and to 4.5% for the end of 2025. Analysts' expectations stay anchored to the inflation target for the period starting from 2026. The Bank of Russia raised its inflation forecast for 2024 to 6.5–7.0%. Given the monetary policy pursued, annual inflation will decline to 4.0–4.5% in 2025 and stay close to 4% further on.

### INDICATORS OF INFLATION EXPECTATIONS

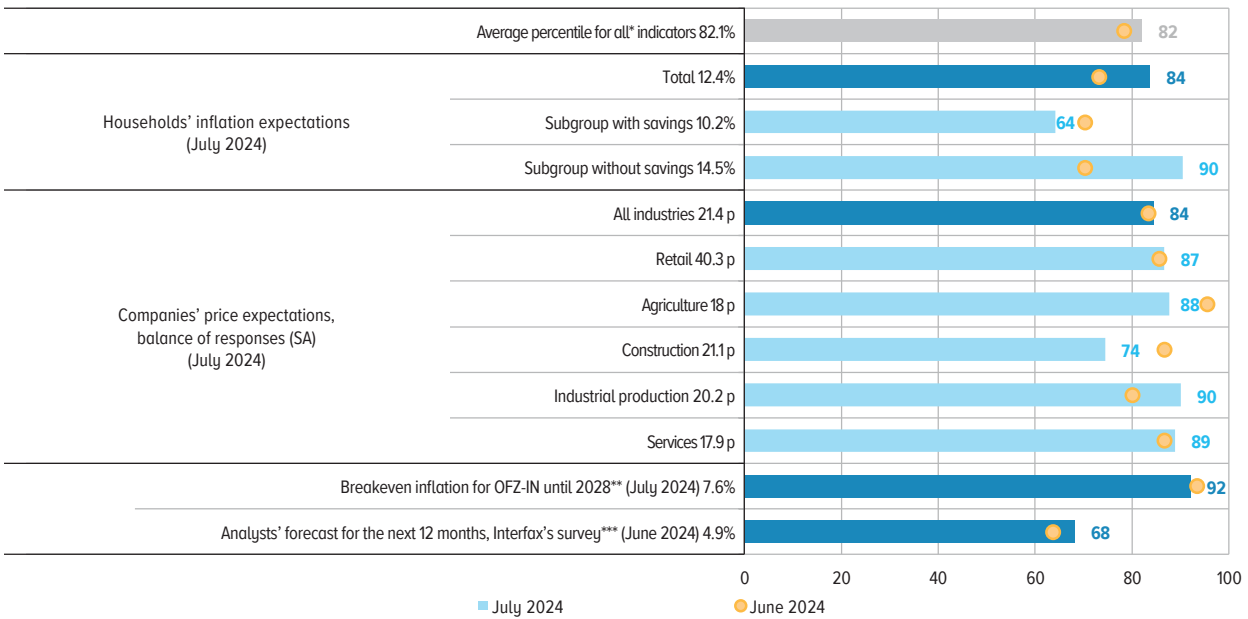
	Expectations horizon	2021 average	2022 average	2023 average	2024 Q1 average	2024 Q2 average	May 2024	June 2024	July 2024	Average over the past three months
Inflation, %		6.7	13.8	5.9	7.6	8.2	8.3	8.6		
<b>Inflation observed by households, Public Opinion Foundation, %</b>										
Median	previous 12 months	15.1	19.6	14.5	15.5	14.3	14.0	14.4	14.2	14.2
Subgroup with savings	previous 12 months	13.2	16.8	13.0	13.5	12.5	12.0	12.5	12.1	12.2
Subgroup without savings	previous 12 months	16.3	22.0	15.9	17.3	16.0	16.3	16.0	16.7	16.3
<b>Households' inflation expectations, Public Opinion Foundation, %</b>										
Median	next 12 months	12.1	12.9	11.5	12.0	11.5	11.7	11.9	12.4	12.0
Subgroup with savings	next 12 months	10.6	11.3	10.2	10.5	10.1	10.0	10.3	10.2	10.2
Subgroup without savings	next 12 months	13.3	14.2	12.7	13.5	12.9	13.5	13.1	14.5	13.7
Median for the next five years	next five years			10.5	9.7	10.3	10.4	10.7	10.6	10.6
<b>Companies' price expectations, Bank of Russia's monitoring of businesses, balance of responses, p, SA*</b>										
Companies, total	next three months	20.1	21.7	19.5	20.1	20.2	19.7	21.3	21.4	20.8
Retail	next three months	38.8	38.9	38.6	36.0	38.2	37.8	40.0	40.3	39.4
<b>Breakeven inflation for OFZ-IN (monthly average), %</b>										
OFZ-IN 52002, February 2028	next four-year average	4.2	6.3	7.2	6.8	7.8	7.9	7.9	7.6	7.8
OFZ-IN 52003, July 2030	next six-year average	4.3	6.5	7.4	6.8	7.6	7.8	7.5	7.2	7.5
OFZ-IN 52004, March 2032	next eight-year average		6.7	7.6	7.0	7.8	8.1	7.7	7.7	7.8
OFZ-IN	2028–2030 average	4.4	6.7	7.9	6.7	7.3	7.6	6.9	6.7	7.1
OFZ-IN	2030–2032 average		7.6	8.5	8.0	8.8	9.1	8.6	9.2	9.0
<b>Analysts, %</b>										
Survey by the Bank of Russia	2024		4.4	4.4	5.1	5.4	5.5		6.5	
Interfax	2024			4.8	5.2	5.8	5.7	6.3		
Survey by the Bank of Russia	2025			4.0	4.1	4.2	4.2		4.5	
Interfax	2025						4.6	4.6		
Survey by the Bank of Russia	2026			4.0	4.0	4.0	4.0		4.0	

\* 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 (all industries); breakeven inflation for OFZ-IN until 2028 and analysts' forecast for the next 12 months.

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

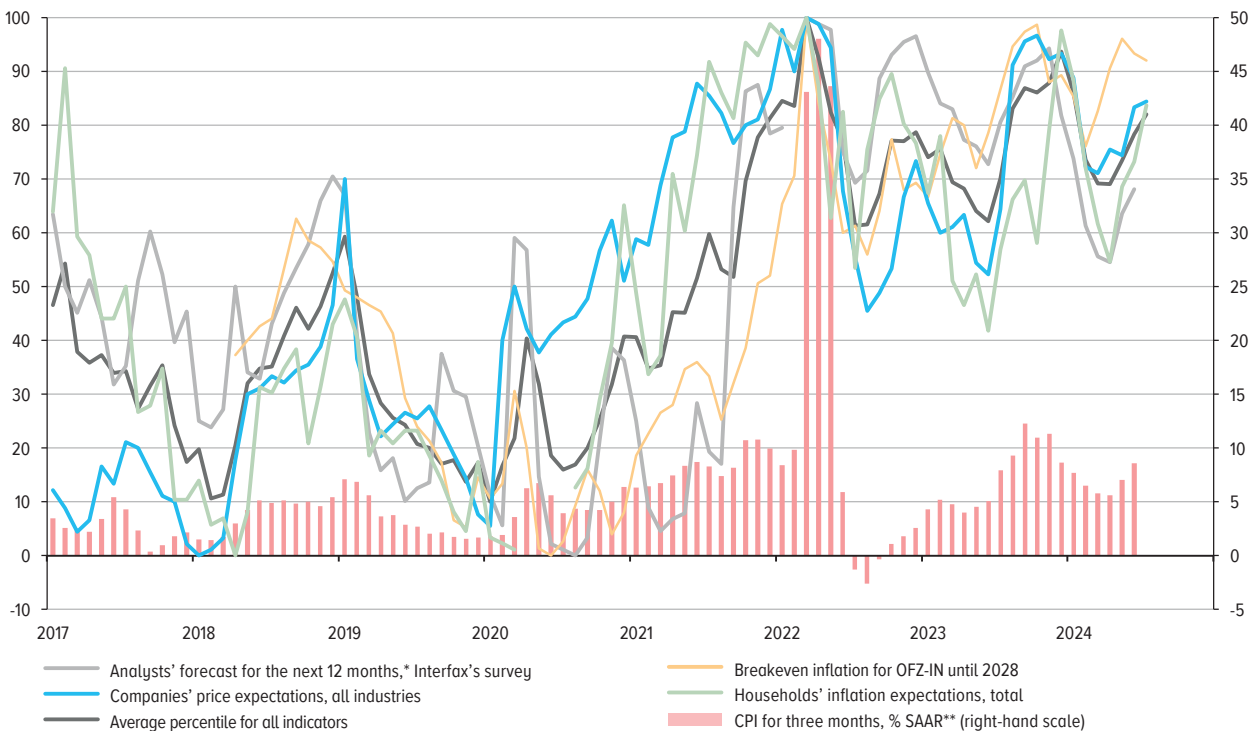
\*\*\* Analysts' forecast for the next 12 months was made using forecasts for this and subsequent years, taking into consideration actual inflation since the beginning of this year.

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



\* Analysts' forecast for the next 12 months was made using forecasts for this and subsequent years, taking into consideration actual inflation since the beginning of this year.

\*\* SAAR – seasonally adjusted annualised rate.

Sources: InFOM, 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.<sup>1</sup> 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.*

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<sup>1</sup> The monetary policy transmission mechanism is detailed in Appendix 1 to the [Monetary Policy Guidelines for 2024–2026](#).

## Households' inflation expectations edged up

In July 2024, the median estimate of inflation expectations for the next 12 months went up to 12.4% (+0.5 pp MoM; +1.3 pp YoY), as shown by InFOM's survey (Charts 3 and 4). The increase was driven by growing expectations among respondents without savings (14.5%; +1.4 pp MoM; +2.5 pp YoY) (Chart 6), while those among respondents with savings remained virtually unchanged (10.2%; -0.1 pp MoM; -0.1 pp YoY).

Inflation observed by households edged down in July, with its median equalling 14.2% (-0.2 pp MoM; +0.4 pp YoY). The estimates of observed inflation were up among respondents without savings and down among those with savings. The gap between the estimate of observed inflation and the annual growth of the consumer price index (CPI) shrank by a factor of 1.7 to 5.6 pp.

When answering the question about increases in prices for certain goods and services,<sup>2</sup> a notably smaller number of respondents complained about higher prices for many food products (eggs, meat and poultry, fruit and vegetables, cheese and sausages) in July as compared to the previous month (Chart 5). Contrastingly, more respondents reported higher housing and utility rates due to their significant indexation in early July. Furthermore, respondents more frequently mentioned medicines and medical products, petrol, construction materials, and household chemicals among the products showing the highest price growth rates in July vs June.

In July, the estimates of inflation trends expected in one month and one year stayed at virtually the same level. The estimates of inflation over the past month increased,<sup>3</sup> whereas those over the past year declined<sup>4</sup> (Chart 7).

Long-term inflation expectations for the next five years<sup>5</sup> remained almost unchanged in July, with their median estimate amounting to 10.6% (-0.1 pp MoM; +1.1 pp YoY). Long-term expectations decreased to 9.5% among respondents with savings (-0.5 pp MoM; +0.5 pp YoY) and increased to 12.6% among respondents without savings (+0.9 pp MoM; +2.2 pp YoY). The percentage of respondents believing that the price growth rate will notably surpass 4% in three years rose again in July to reach 50% (+1 pp MoM; +4 pp YoY) (Chart 8).

## Consumer sentiment index declined

In July, the consumer sentiment index decreased to 108.7 p (-1.2 p MoM; +6.0 p YoY) but remained well above its levels recorded a year ago (Chart 9). The decline was accounted for by the estimates of the present situation, while respondents' expectations stayed almost the same.

The present situation index equalled 94.6 p in July (-3.4 p MoM; +3.4 p YoY). Respondents considered the present situation to be less favourable for making large purchases, whereas their estimates of actual changes in personal financial standing over the past twelve months remained virtually unchanged.

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<sup>2</sup> For details on inflation in June, refer to the information and analytical commentary [Consumer Price Dynamics](#) No. 6 (102), June 2024.

<sup>3</sup> That is, the percentage of respondents who said that prices had risen considerably was higher than in the previous month.

<sup>4</sup> That is, the percentage of respondents who said that prices were rising faster than in the past was lower than in the previous month.

<sup>5</sup> The question 'Could you even roughly estimate inflation and price growth in Russia in five years?'. The percentage 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 51% in July (vs 47% in June).

The expectations index equalled 118.0 p in July (+0.2 p MoM; +7.6 p YoY). As for its components, expectations regarding the country's economic prospects for the next five years improved, while one-year ahead estimates of the country's economic prospects and personal financial prospects were down.

Respondents' propensity to consume was slightly higher in July. The percentage of respondents opting to purchase expensive goods rather than save money increased to 31.5% (+1.3 pp MoM; +1.8 pp YoY) (Chart 10). The percentage of respondents opting to save their spare cash rather than spend it barely changed and amounted to 51.6% (-0.2 pp MoM; +0.2 pp YoY), staying below the average recorded since 2016 (54.2%). As to preferred forms of savings, in July, considerably more respondents (as compared to the previous month) said they opted for keeping their money in bank accounts. Such respondents accounted for 46% (+4 pp MoM; +7 pp YoY) of the total number, which was the maximum since June 2014. Contrastingly, the percentage of those opting to have cash holdings contracted to 26% (-3 pp MoM; -6 pp YoY).

## Companies' price expectations remained elevated

According to the monitoring of businesses carried out by the Bank of Russia in July 2024, companies' price expectations (the balance of responses) for the next three months remained essentially unchanged after another rise in June (Chart 11).<sup>6</sup> Dropping estimates of current and future demand contained the growth in price expectations.

Price expectations were changing diversely across industries. They increased in industrial production, including mining and quarrying and the manufacturing sector, but declined in agriculture and construction. Price expectations remained virtually unchanged in trade and services as well as in transportation and storage.

In mining and quarrying and in manufacturing, price expectations continued to grow for the second consecutive month. Higher prices for raw materials, components, and supplies were still the main reason behind the expected growth in output prices in these sectors.

Price expectations in construction and agriculture declined. In construction, this was primarily attributed to lower current demand estimates. Moreover, as compared to the previous month, more developers mentioned government regulation (referring to the termination of the non-targeted subsidised mortgage programme) among the reasons behind the expected drop in prices. As to agriculture, lower price expectations were associated with decelerating cost growth as well as higher output accompanied by a decline in the estimates of current and expected demand.

In trade, price expectations stayed at the previous month's level amid a substantial decrease in the estimates of current demand and sales as well as more moderate (vs June) expectations of their future increase among respondents.

The average price growth rate expected in the next three months<sup>7</sup> (in annualised terms), measuring companies' inflation expectations, equalled 5.6% in July (+0.2 pp MoM; +1.3 pp YoY) (Chart 12). The average price growth rate expected by retailers in the next three months<sup>7</sup> was 8.6% in annualised terms (+0.3 pp MoM; -1.9 pp YoY).

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<sup>6</sup> In July 2024, the Bank of Russia surveyed 14,700 companies (more detailed results of the monitoring are available in the information and analytical commentary [Monitoring of Businesses: Assessments, Expectations and Comments](#)).

<sup>7</sup> Seasonally adjusted data.



## Breakeven inflation is 7.6% for the next four years

As estimated by the Bank of Russia,<sup>8</sup> average breakeven inflation in the next four years, until February 2028, calculated based on the ratio between yields on OFZ-IN and OFZ-PD (fixed coupon federal government bonds) with the same maturity dates, edged down in July vs June. Its average for 1–24 July was 7.6% (-0.3 pp MoM; +0.4 pp YoY) (Chart 13). Breakeven inflation for 2028–2030 edged down as well to 6.7% (-0.2 pp MoM; -1.6 pp YoY), while that for 2030–2032 was up to reach 9.2% (+0.6 pp MoM; +0.1 pp YoY).

## Analysts expect inflation above 6% by the end of 2024

In June–July 2024, analysts raised their inflation forecasts. According to the findings of the [Bank of Russia's macroeconomic survey](#) carried out in July, analysts forecast that inflation would be 6.5% at the end of 2024 (+1.0 pp MoM; +2.2 pp YoY) and 4.5% at the end of 2025 (+0.3 pp MoM; +0.5 pp YoY). The analysts surveyed by the Bank of Russia expected that inflation would be 4.0% in 2026 and stay at this level further on (Chart 14). As shown by Interfax's survey, in June 2024, analysts raised their consensus forecast of inflation to 6.3% for the end of 2024 (+0.6 pp MoM; +1.6 pp YoY), whereas that for the end of 2025 did not change compared to the previous month and equalled 4.6%.

## Bank of Russia forecasts that annual inflation will be 6.5–7.0% in 2024

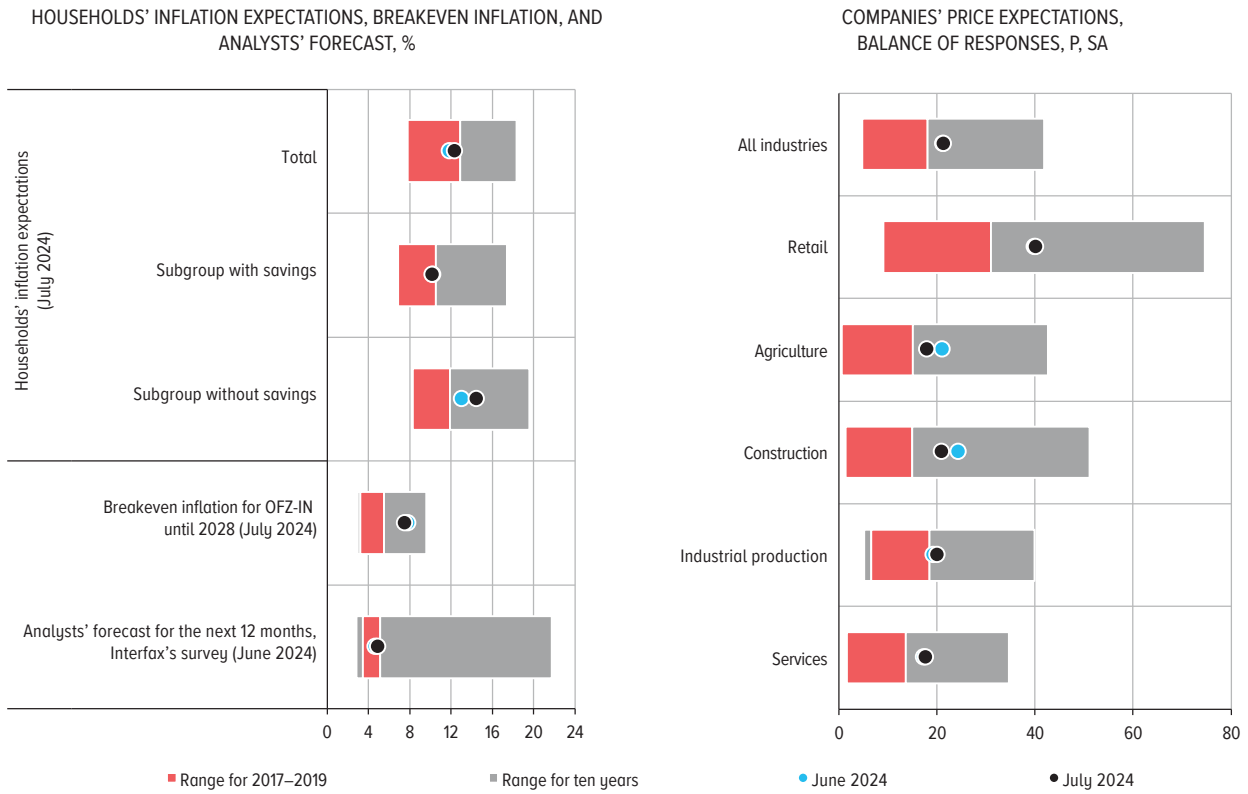
Additional monetary tightening is required for inflation to start decelerating again, and considerably tighter monetary conditions than previously assumed are needed to bring inflation down to the target. The Bank of Russia raised its inflation forecast for 2024 to 6.5–7.0%. Given the monetary policy pursued, annual inflation will decline to 4.0–4.5% in 2025 and stay close to 4% further on.

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<sup>8</sup> 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](#).

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

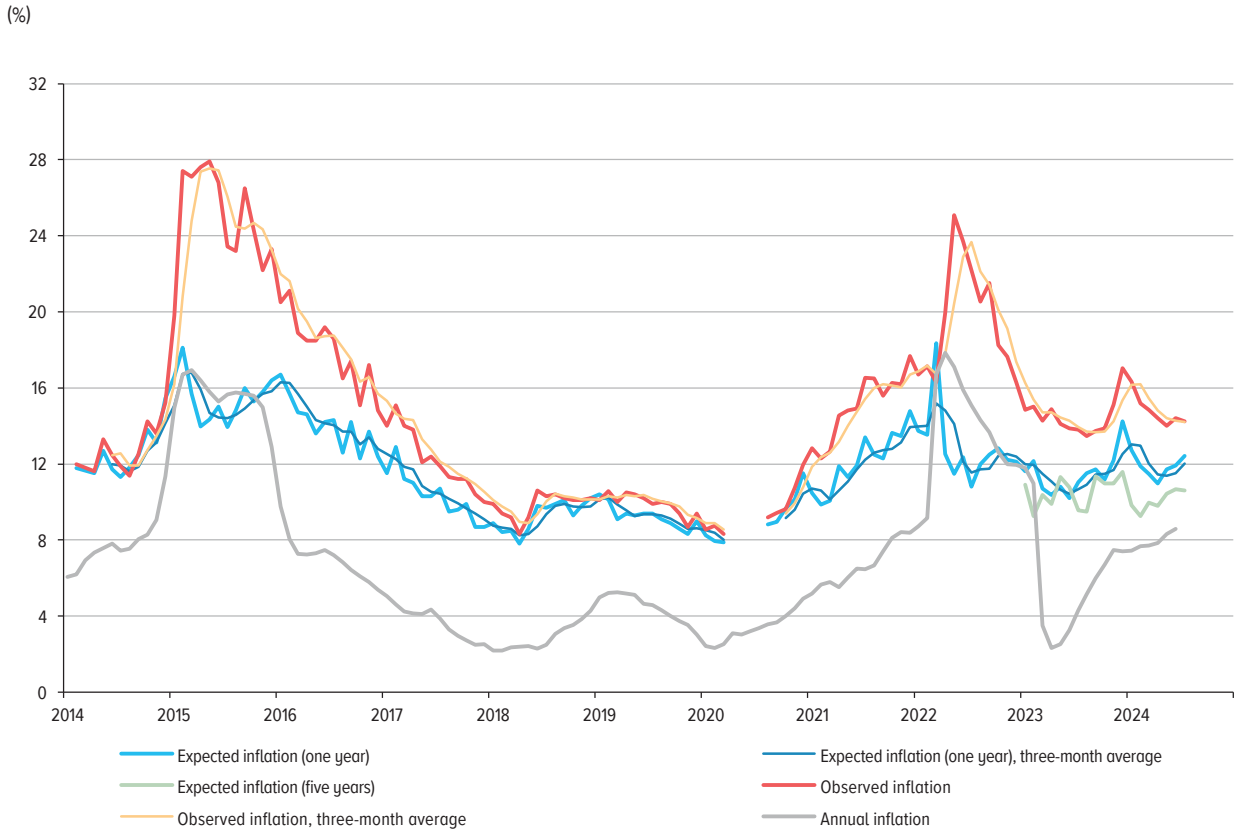
Chart 3



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

INFLATION OBSERVED AND EXPECTED BY HOUSEHOLDS (MEDIAN ESTIMATE)

Chart 4

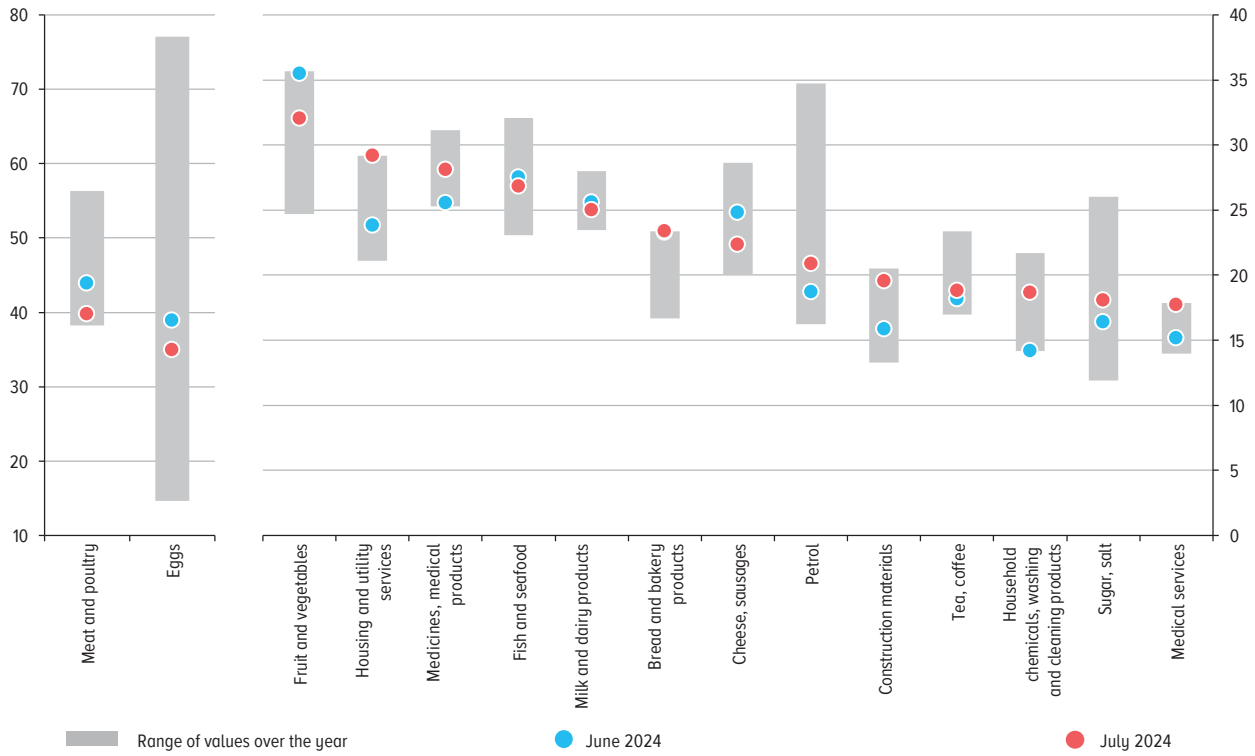


Sources: InFOM, Rosstat, Bank of Russia calculations.



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)

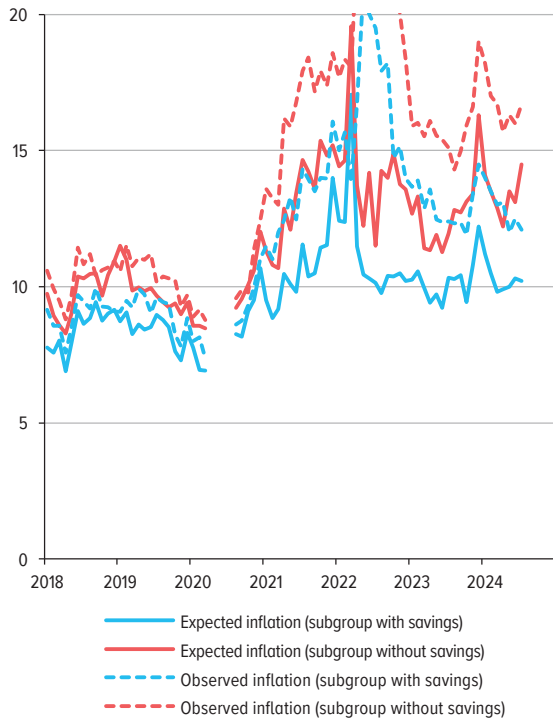
Chart 5



Sources: InFOM, Bank of Russia calculations.

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

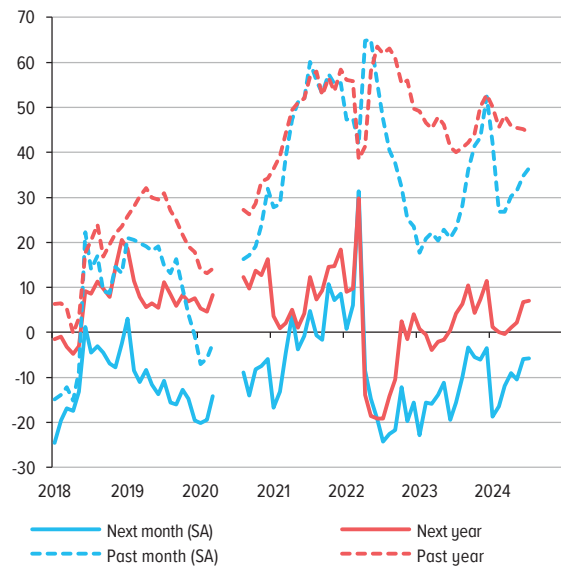
Chart 6



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 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 were prices changing overall over the past 12 months (year), in your opinion?'. For the questions about price changes in the past and next months, prices are seasonally adjusted.

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)

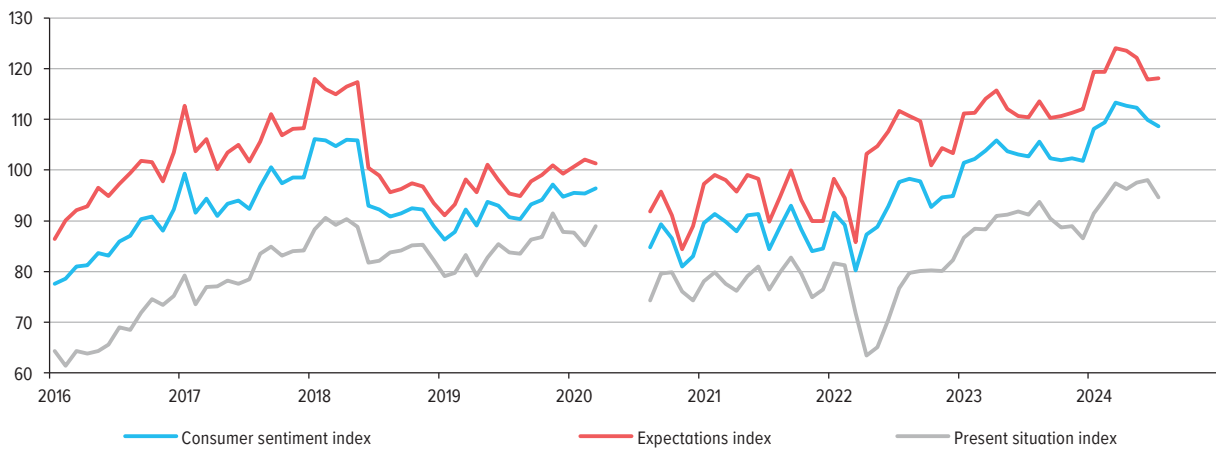
Chart 8



Sources: InFOM, Bank of Russia calculations.

CONSUMER SENTIMENT INDEX (P)

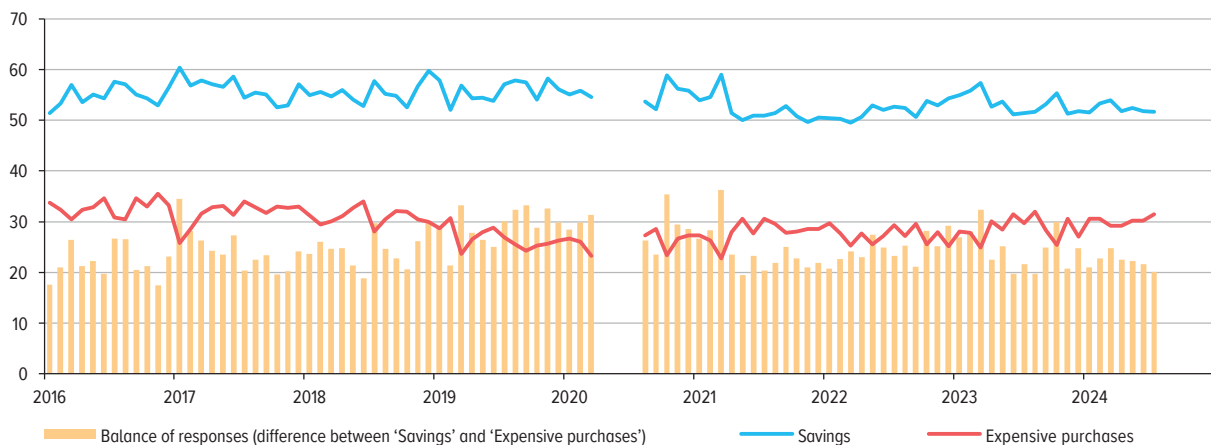
Chart 9



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)

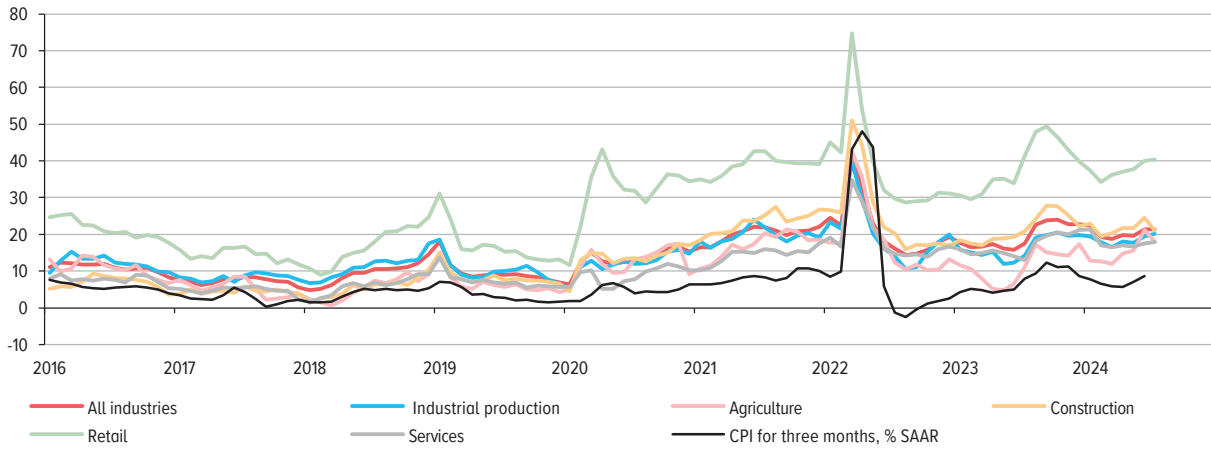
Chart 10



Sources: InFOM, Bank of Russia calculations.

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

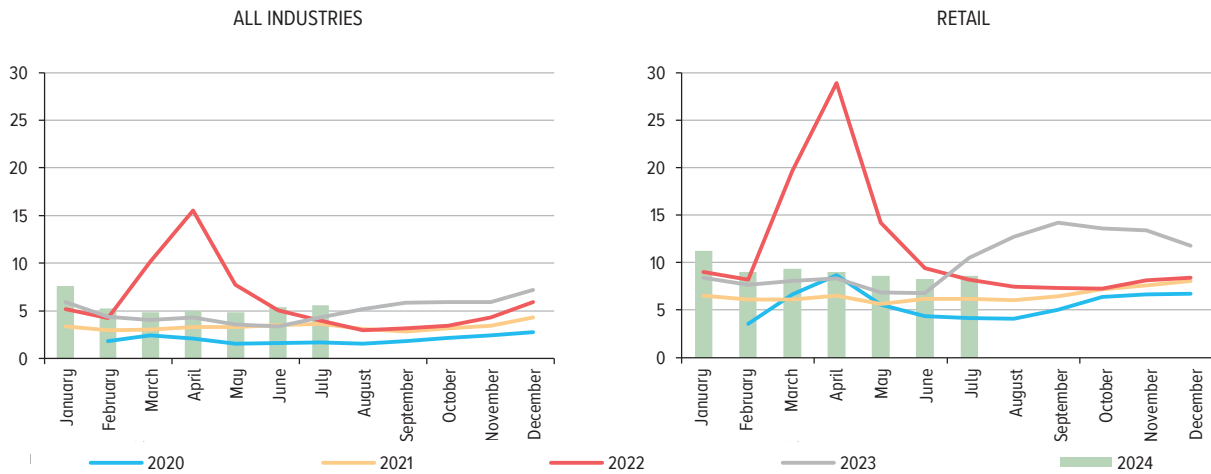
Chart 11



Sources: Bank of Russia, Rosstat.

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

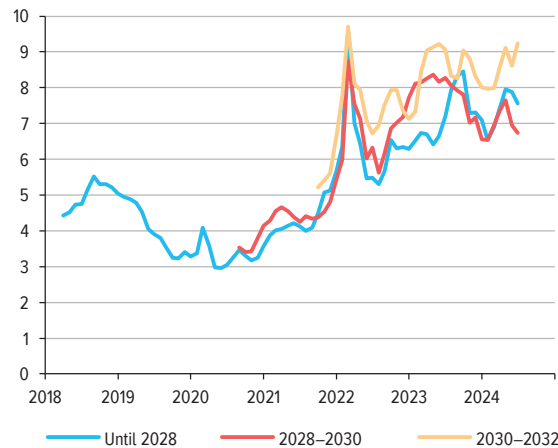
Chart 12



Source: Bank of Russia.

BREAKEVEN INFLATION FOR OFZ-IN  
(%)

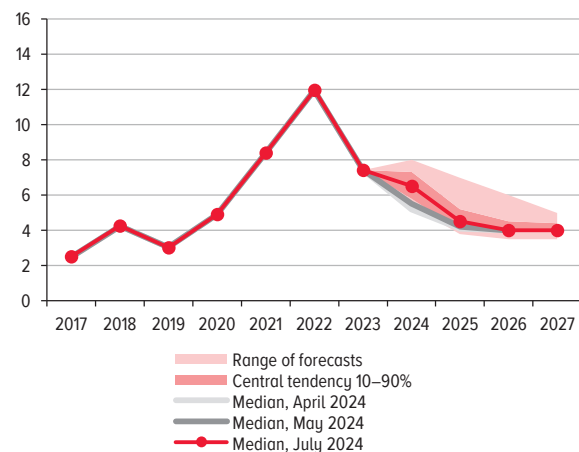
Chart 13



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

RESULTS OF THE BANK OF RUSSIA'S  
MACROECONOMIC SURVEY, INFLATION FORECAST  
(% IN DECEMBER YOY)

Chart 14



Sources: Bank of Russia, Rosstat.

The data cut-off date – 25.07.2024.

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](mailto: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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