



Bank of Russia



# INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

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Information and analytical commentary

25 March 2021

## Inflation expectations and consumer sentiment (March 2021)

In March, inflation expectations of households and businesses remained elevated and even rose somewhat compared to February. According to a survey by inFOM, households' inflation expectations rose albeit remained below the local high of December 2020. Based on the Bank of Russia's monitoring, the estimates of companies' short-term price expectations continued to rise. Price components of PMI indexes draw a similar picture, in particular with regard to input prices. Analysts' inflation forecasts for 2021 and 2022 slightly increased albeit remained anchored to the Bank of Russia's target. However, implied inflation for the next three years for inflation-indexed federal government bonds (OFZ-IN) continued to rise in March reaching 4% as of now; for longer terms, it remained close to 4%. According to the Bank of Russia's forecast, annual inflation will return to the target in the first half of 2022 and stay close to 4% further on.

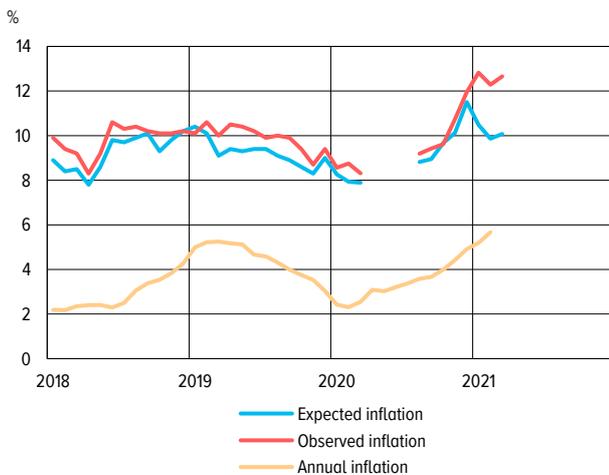
### INFLATION EXPECTATION INDICATORS

Table 1

	Expectation horizon	2018 average	2019 average	2020 average	March 2020	January 2021	February 2021	March 2021
<b>Inflation, %</b>		2.9	4.5	3.4	2.5	5.2	5.7	
<b>Inflation observed by households, %</b>								
Public Opinion Foundation (median)	past 12 months	9.8	9.9	9.6	8.3	12.8	12.3	12.7
Public Opinion Foundation (subgroup with savings)	past 12 months	9.0	9.1	8.7	7.2	11.1	10.8	11.5
Public Opinion Foundation (subgroup without savings)	past 12 months	10.3	10.4	9.9	8.6	13.2	12.5	12.4
<b>Households' inflation expectations, %</b>								
Public Opinion Foundation (median)	next 12 months	9.3	9.3	9.1	7.9	10.5	9.9	10.1
Public Opinion Foundation (subgroup with savings)	next 12 months	8.4	8.3	8.4	6.9	9.3	8.8	9.1
Public Opinion Foundation (subgroup without savings)	next 12 months	9.7	9.8	9.6	8.5	11.1	10.8	10.6
<b>Companies' price expectations</b>								
Companies, balance of responses	next 3 months	10.6	10.2	16.5	18.1	18.4	19.1	20.7
PMI Manufacturing input prices	current month	65.0	57.8	64.0	59.8	72.9	76.8	
PMI Manufacturing output prices	current month	54.4	53.1	54.2	55.4	59.3	66.3	
PMI Services input prices	current month	58.8	58.0	58.0	61.5	57.9	63.8	
PMI Services output prices	current month	52.8	54.0	51.3	54.2	51.7	53.8	
<b>Implied inflation for OFZ-IN (monthly average),%</b>								
OFZ-IN 52001, August 2023	next 3-year average	4.7	3.9	2.7	3.5	3.1	3.4	3.7
OFZ-IN 52002, February 2028	next 7-year average		4.1	3.3	4.1	3.6	3.9	3.9
OFZ-IN 52003, July 2030	next 10-year average			3.3		3.7	4.0	4.1
OFZ-IN	2023–2028 average		4.3	3.8	4.5	3.8	4.1	4.0
OFZ-IN	2028–2030 average			3.5		4.1	4.3	4.5
<b>Analysts, %</b>								
2021, Bloomberg	2021				4.0	3.7	3.8	3.9
2021, Interfax	2021				3.8	3.8	3.8	
2021, Reuters	2021				3.9	3.6	3.8	
2022, Bloomberg	2022					4.3	4.3	4.4
2022, Interfax	2022					3.9	4.0	
2022, Reuters	2022				3.9	4.0	3.9	

INFLATION OBSERVED AND EXPECTED  
BY HOUSEHOLDS (MEDIAN ESTIMATE)

Chart 1



Sources: InFOM, Rosstat.

## Households' inflation expectations

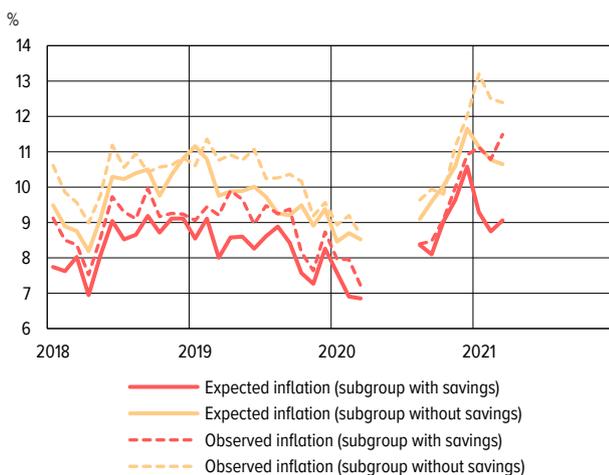
According to the survey by inFOM commissioned by the Bank of Russia, households' inflation expectations slightly rose in March and remained elevated but below the local high of December 2020 (Table 1, Chart 1). The median estimate of inflation expected in the next 12 months stood at 10.1% (+0.2 pp on February). Inflation observed by households also grew. Its median estimate was 12.7% (+0.4 pp vs February), which is close to the highest level over the last four years. The estimates of expected and observed inflation changed diversely across different groups of respondents. They increased only among respondents with savings (Chart 2) whereas respondents without savings reduced both their expectations and estimates of current inflation. This might indicate a high sensitivity of low-income households to prices for socially important goods and the influence of administrative measures to curb price growth on their expectations. At the same time, the growth in inflation expectations of more well-off households points to an increase in sustainable demand-side factors.

The increase in the estimates of observed inflation was primarily caused by the accelerated growth of prices for certain goods frequently purchased by households. In March, respondents significantly more often than in February noted a rise in prices for eggs, meat, and poultry. Rosstat also recorded an increase in prices for these products in February.<sup>1</sup> Answering the question about observed price growth, respondents also more often mentioned other frequently purchased goods and services (Chart 3 of the [inFOM Analytical Report, March 2021](#); hereinafter, the Report).

March saw an increase in the balance of responses to the question regarding a qualitative change in current and future inflation<sup>2</sup> (Chart 3). The estimates of growth for the past month and for one month ahead rose most significantly. At

EXPECTED AND OBSERVED INFLATION  
BY RESPONDENT SUBGROUP (MEDIAN ESTIMATE)

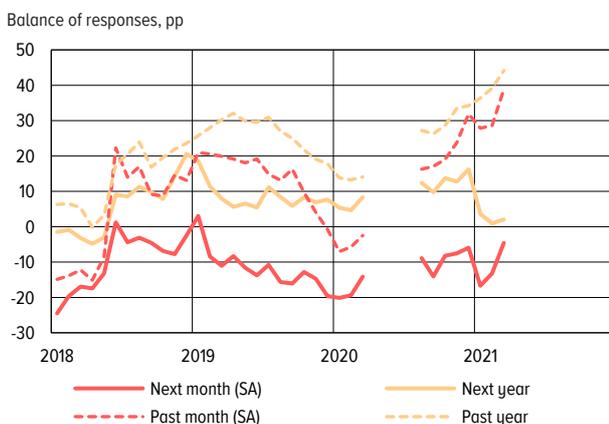
Chart 2



Sources: InFOM, Bank of Russia calculations.

INDICATORS OF PRICE MOVEMENTS\*

Chart 3



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

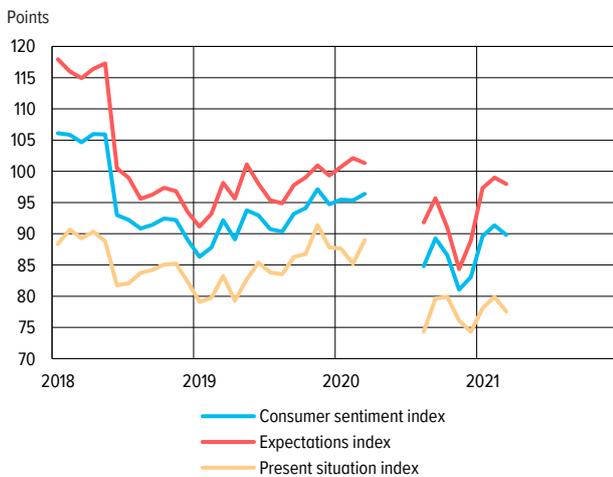
Sources: InFOM, Bank of Russia calculations.

<sup>1</sup> Refer to the information and analytical commentary *Consumer Price Dynamics*, No. 2 (62), February 2021.

<sup>2</sup> That is, according to the majority of respondents, prices have grown/will grow very much or have been growing/will be growing faster than before/now.

## CONSUMER SENTIMENT INDEX

Chart 4



Source: InFOM.

the same time, expectations for one year ahead changed only slightly and remained close to the lowest level since May 2018. This indicates that respondents expect a slight additional inflation acceleration against the current level over a one-year horizon with the largest portion of it within the coming month.

In March, the share of respondents who expect that inflation will be near 4% at the end of 2021 increased somewhat (from 28% to 31%; Chart 8 of the Report). Households' inflation expectations for the three years ahead grew in March: 51% of respondents (+3 pp vs February) expect that, in three years, prices will be growing at a significantly higher pace than 4% (Chart 9 of the Report).

The fact that inflation expectations are not anchored to the Bank of Russia's target and remain elevated creates the risks of secondary effects.

## Households' consumer sentiment

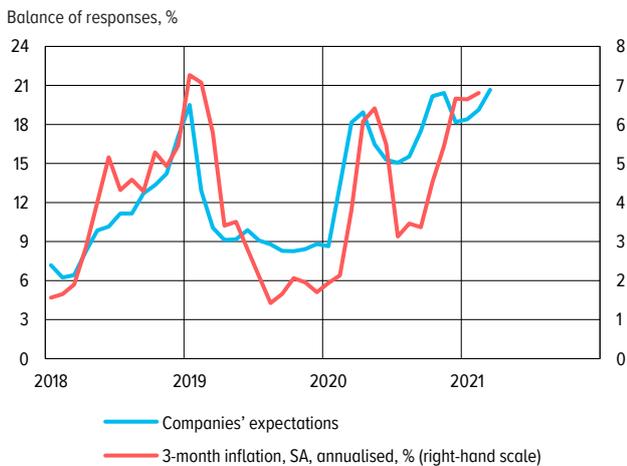
In March, the consumer sentiment index slightly declined (by 1.6 p vs February) but remained close to the highest level since mid-2020 (Chart 4). Among its components, the present situation index dropped the most (-2.4 p) while the expectations index declined by 1 p.

Respondents' propensity to save rose in March. The share of those who think that it is currently better not to spend extra money increased to 59% (+4 pp vs February; Chart 23 of the Report). This fact, however, is not affecting the actual consumer behaviour at the moment: the share of people who managed to save anything fell to 24% in March (-2 pp vs February; Chart 25 of the Report). This may indicate that, despite the increased propensity to save, the share of respondents with extra funds available for that purpose fell.

Last year brought about a change in respondents' perceptions with regard to the best investment options. As a result of the decline in deposit interest rates, the share of people who consider bank deposits to be the best investment option substantially dropped

COMPANIES' PRICE EXPECTATIONS  
(BANK OF RUSSIA)

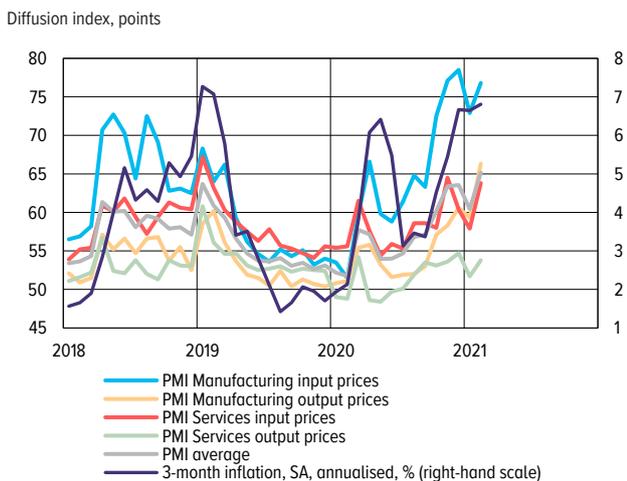
Chart 5



Sources: Bank of Russia, Rosstat.

CHANGES IN COMPANIES' PRICES  
(MARKIT PMI)

Chart 6



Sources: IHS Markit PMI, Rosstat.

(to 29% from 37% in March 2020). However, despite the decline in the proportion, this option was the most popular response. At the same time, alternative savings options became more attractive. These included cash US dollars and euros (the share of respondents who chose this option rose from 9% to 13% and from 7% to 11% respectively) and the stock market (up from 7% to 12%).

## Companies' price expectations

According to [the monitoring of businesses](#) carried out by the Bank of Russia in March 2021, price expectations for the three months ahead continued to grow. They remain close to the 2020 highs (Chart 5). The average price growth rate expected in the next three months equalled 3.6% in annualised terms (vs 3.1% in March 2020).

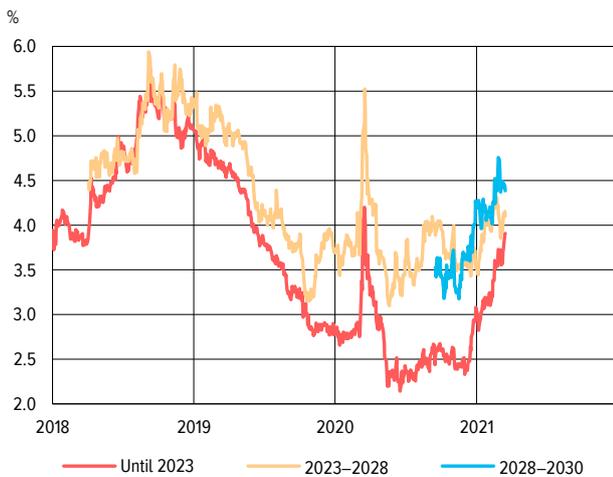
The main reasons behind the still high price expectations are companies' growing expectations of the recovery of demand amid the remaining high estimates of cost growth. 80% of the surveyed companies indicated changing prices for raw materials, parts and components as the reason why they expect prices to grow. This share has been growing for the fifth month in a row. Rising prices for motor fuel were also more often indicated as a reason for expected price growth. In addition, the restraining effect of demand was weakening: the share of firms that lowered their prices due to falling demand had been contracting for the fifth month in a row and reached the pre-pandemic level.

Price expectations grew the most in retail. The main reason for that were input price dynamics. Inflation expectations in this sector remain the most elevated, which may indicate that it is highly likely that the growth rates of consumer prices for goods will stay elevated in the coming months. The average price growth rate expected by retailers in the next three months equalled 6.1% in annualised terms (vs 6.7% in March 2020 when the demand for food products was especially high before the lockdown).

According to [IHS Markit PMI](#) surveys, price growth reached the highest level in February

## IMPLIED INFLATION FOR OFZ-IN

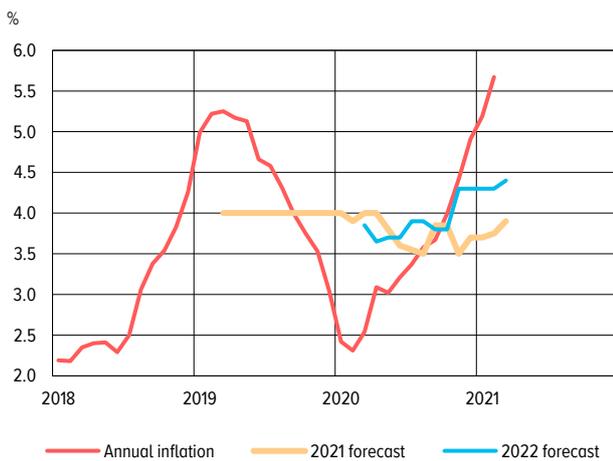
Chart 7



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

## BLOOMBERG ANALYSTS' CONSENSUS FORECAST

Chart 8



Sources: Bloomberg, Rosstat.

2021 (Chart 6). The growth of output prices in manufacturing hit its record high for the last six years. According to companies' representatives, this was related to a substantial growth in input prices over the last few months. Owing to an increase in new orders, manufacturers were able to pass through the growth of costs to final prices for their products. In the services sector, the growth of output prices sped up as well. Companies were passing through rising costs, the growth rate of which was close to the two-year high, to prices.

## Implied inflation for OFZ-IN

Implied inflation for OFZ-INS changed diversely in March 2021 (Chart 7). According to Bank of Russia estimates,<sup>3</sup> implied inflation for the next three years continued to grow with the average rate of 3.7% in March (Table 1) and came close to 4% by the date of this report. Average implied future inflation remained quite stable in the first half of March after growing in January and February. Its rate is 4.0% for 2023–2028 and 4.5% for 2028–2030. These levels correspond to the rates of mid-2019. After growing over the last three months, the observed level of implied inflation for the next three years corresponds to analysts' consensus forecasts.

## Analysts' inflation forecast

In February – March 2021, analysts' inflation forecasts<sup>4</sup> for 2021 and 2022 slightly increased albeit staying close to 4% (Table 1, Chart 8). Forecasts for 2021 ranged from 3.8% to 3.9%, and for 2022 – from 3.9% to 4.4%. At the same time, last month, analysts raised the inflation path for 2021: they expect inflation to return to 4% in 2021 Q4.

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

<sup>4</sup> Surveys by Interfax, Bloomberg, and Thomson Reuters.

## Bank of Russia's forecast

In 2021 Q1, annual inflation is developing above the Bank of Russia's forecast published in February. It is expected to peak in March and

go down further on. Taking into account the monetary policy pursued, annual inflation will return to the Bank of Russia's target near 4% in the first half of 2022 and remain around this level further on.

Data cut-off date – 19.03.2021.

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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