



Bank of Russia



# INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No. 7 (55) • July 2021

Information and analytical commentary

26 July 2021

## Inflation expectations and consumer sentiment (July 2021)

In July, inflation expectations generally went up. According to inFOM survey, households' inflation expectations for the next 12 months continued growing and reached a new five-year high. The Bank of Russia's monitoring shows that companies' short-term price expectations went down but stayed close to their multi-year highs. Two-year implied inflation for inflation-indexed federal government bonds (OFZ-IN) was up in July but remained close to the Bank of Russia's target. Analysts' inflation outlook for 2021 increased to 5.4–5.7%, forecasts for 2022 и 2023 hardly changed and remained near 4%. According to the Bank of Russia's forecast, annual inflation will reach 5.7-6.2% in 2021. Given the monetary policy stance, annual inflation will edge down to 4.0-4.5% in 2022 and will remain close to 4% further on.

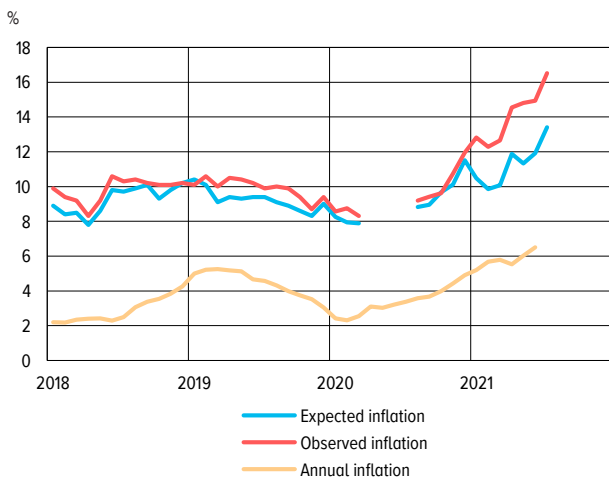
### INFLATION EXPECTATION INDICATORS

Table 1

	Expectation horizon	2018 average	2019 average	2020 average	March 2020	May 2021	June 2021	July 2021
<b>Inflation, %</b>		2.9	4.5	3.4	2.5	6.0	6.5	
<b>Inflation observed by households, %</b>								
Public Opinion Foundation (median)	past 12 months	9.8	9.9	9.6	8.3	14.8	14.9	16.5
Public Opinion Foundation (subgroup with savings)	past 12 months	9.0	9.1	8.7	7.2	12.4	12.1	14.1
Public Opinion Foundation (subgroup without savings)	past 12 months	10.3	10.4	9.9	8.6	16.0	16.9	18.0
<b>Households' inflation expectations, %</b>								
Public Opinion Foundation (median)	next 12 months	9.3	9.3	9.1	7.9	11.3	11.9	13.4
Public Opinion Foundation (subgroup with savings)	next 12 months	8.4	8.3	8.4	6.9	10.2	9.7	11.4
Public Opinion Foundation (subgroup without savings)	next 12 months	9.7	9.8	9.6	8.5	11.8	12.9	14.7
<b>Companies' price expectations</b>								
Companies, balance of responses	next 3 months	10.6	10.2	16.5	18.3	26.6	27.4	25.2
PMI Manufacturing input prices	current month	65.0	57.8	64.0	59.8	74.4	76.0	
PMI Manufacturing output prices	current month	54.4	53.1	54.2	55.4	66.9	66.2	
PMI Services input prices	current month	58.8	58.0	58.0	61.5	68.3	62.4	
PMI Services output prices	current month	52.8	54.0	51.3	54.2	60.5	57.1	
<b>Implied inflation for OFZ-IN (monthly average),%</b>								
OFZ-IN 52001, August 2023	next 2-year average	4.7	3.9	2.7	3.5	3.9	4.1	4.3
OFZ-IN 52002, February 2028	next 7-year average		4.1	3.3	4.1	4.1	4.2	4.2
OFZ-IN 52003, July 2030	next 9-year average			3.3		4.3	4.3	4.2
OFZ-IN	2023–2028 average		4.3	3.8	4.5	4.3	4.3	4.2
OFZ-IN	2028–2030 average			3.5		4.6	4.4	4.3
<b>Analysts, %</b>								
2021, Bloomberg	2021				4.0	4.9	5.0	5.5
2021, Interfax	2021				3.8	4.9	5.7	
2021, Reuters	2021				3.9	4.8	5.4	
2021, survey by the Bank of Russia	2021					4.9		5.6
2022, Bloomberg	2022				3.9	4.0	4.0	4.0
2022, Interfax	2022					3.9	4.0	
2022, Reuters	2022				3.9	3.9	4.0	
2022, survey by the Bank of Russia	2022					3.8		4.0
2023, Bloomberg	2023					4.0	4.0	4.0
2023, Reuters	2023					4.0	4.0	
2023, survey by the Bank of Russia	2023					4.0		4.0

INFLATION OBSERVED AND EXPECTED  
BY HOUSEHOLDS (MEDIAN ESTIMATE)

Chart 1



Sources: InFOM, Rosstat.

## Households' inflation expectations

According to inFOM's survey commissioned by the Bank of Russia, households' inflation expectations continued to rise in July and reached a new five-year high since November 2016 (Table 1, Chart 1). The median estimate of inflation expected in the next 12 months amounted to 13.4% (+1.5 pp vs June). Inflation observed by households increased too in July. Its median estimate was 16.5% (+1.6 pp). Observed and expected inflation estimates rose among the respondents both with and without savings (Chart 2).

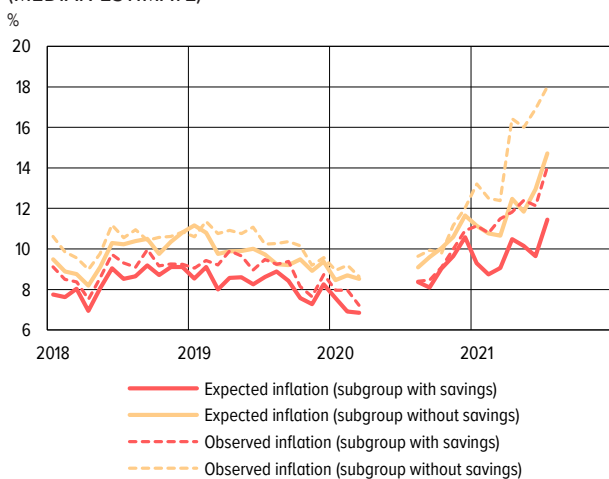
In July, respondents complained about increased prices for vegetables, construction materials and utility services much more often than in the previous month (Chart 3 of the [InFOM Analytical Report, July 2021](#); hereinafter, the Report). Rosstat recorded an accelerating rise in prices for the so-called 'borsch basket' vegetables and construction materials this June.<sup>1</sup> However, in July, respondents tended to mention eggs, milk, vegetable oil, meat and poultry as the goods whose prices increased most of all, less often. Given the accelerating growth of fruit and vegetable prices in the last few months, more respondents regard the crops situation as an important feature of future inflation (Chart 33 of the Report).

The estimates of the balance of responses to the questions about changes in future inflation trends<sup>2</sup> for one month and one year ahead continued edging up in July (Chart 3).

Households' inflation expectations until the end of 2021 and for the three years ahead remained virtually unchanged (Charts 8 and 9 of the Report).

EXPECTED AND OBSERVED INFLATION  
BY RESPONDENT SUBGROUP  
(MEDIAN ESTIMATE)

Chart 2

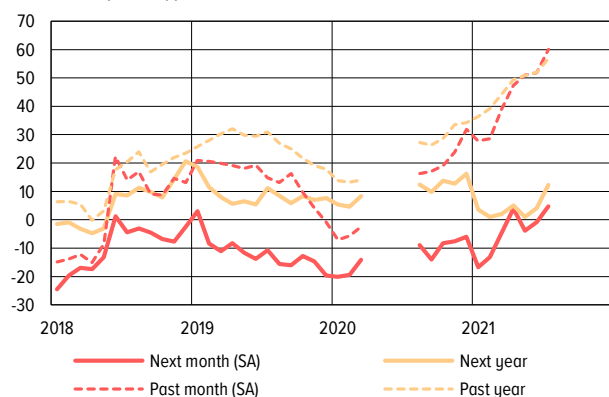


Sources: InFOM, Bank of Russia calculations.

INDICATORS OF PRICE MOVEMENTS\*

Chart 3

Balance of responses, pp



\* Balance of responses to the questions 'How prices were/will be changing last/next year?' and 'How did/will prices change last/next month?'; seasonally adjusted.  
Sources: InFOM, Bank of Russia calculations.

## Households' consumer sentiment

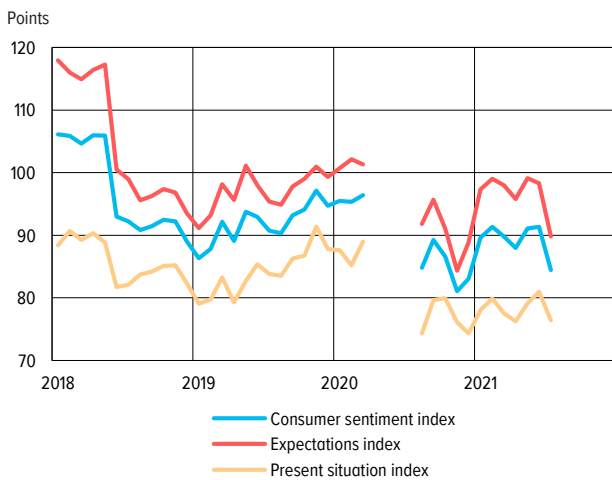
The consumer sentiment index fell in July (-6.9 p vs June) to its lowest level since the

<sup>1</sup> Refer to the information and analytical commentary [Consumer Price Dynamics, No. 6 \(66\), June 2021](#).

<sup>2</sup> That is, a higher percentage of respondents answered that prices rose/will rise very much or were/will be rising faster than before/now.

## CONSUMER SENTIMENT INDEX

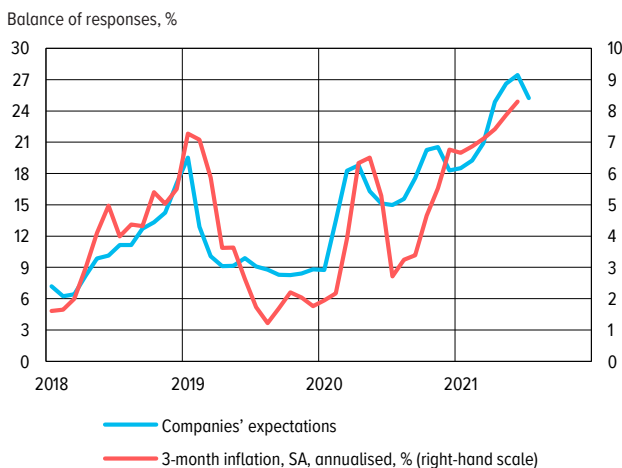
Chart 4



Source: InFOM.

COMPANIES' PRICE EXPECTATIONS  
(BANK OF RUSSIA)

Chart 5



Sources: Bank of Russia, Rosstat.

year-beginning (Chart 4). The expectations index dropped most of all (-8.5 p). The present situation index edged down by 4.6 points.

The percentage of respondents preferring to save hardly changed in July. As in June, 51% of the respondents think that it is better to put aside available cash now (Chart 21 of the Report). However, the portion of those who believe that available cash should be spent on expensive<sup>3</sup> goods went up to 31% (+3 pp vs June). With the worsening epidemic situation and toughening restrictions in a number of regions the share of respondents opting to hold their savings in cash increased again in July to 32% (+2 pp) (Chart 22 of the Report).

## Companies' price expectations

According to the *monitoring* carried out by the Bank of Russia in July 2021, companies' price expectations for the next three months dropped for the first time since December 2020 (Chart 5) but stayed high above the local peaks of 2019–2020. The average price growth rate is expected to be 4.4% in annualised terms (vs 2.2% in July 2020) in the next three months. Price expectations were driven down primarily by the slowdown in the growth of costs, the ruble appreciation in June and a decline in companies' expectations related to further expansion of demand and output amid the worsening epidemic situation.

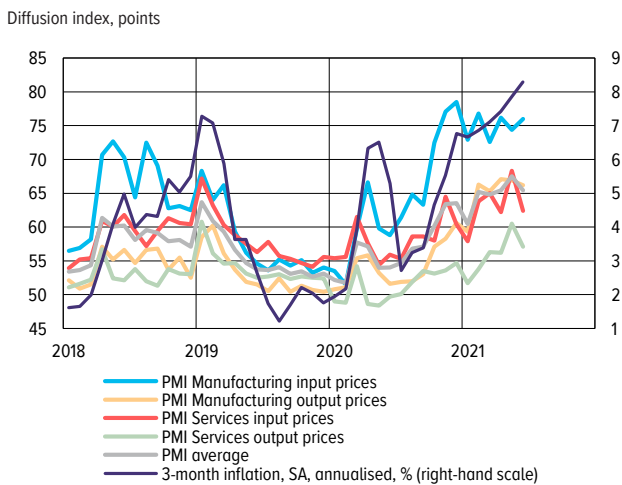
Although most industries reduced or slightly changed their estimates, the price expectations in the construction sector continued rising as companies kept on transferring input costs to output prices backed by elevated demand. Estimates of changes in costs in the construction sector remain at the highest level since 2004.

Price expectations dropped most significantly in trade, both wholesale and retail, except car sales. Notably, price expectations of trade companies remained higher than in other industries. As the economy in general, trade witnessed some slowdown in the growth of

<sup>3</sup> According to respondents, expensive goods most often include real estate, a car or motorcycle, household appliances, and furniture (Table 3 of the *inFOM Analytical Report, April 2021*).

CHANGES IN COMPANIES' PRICES  
(MARKIT PMI)

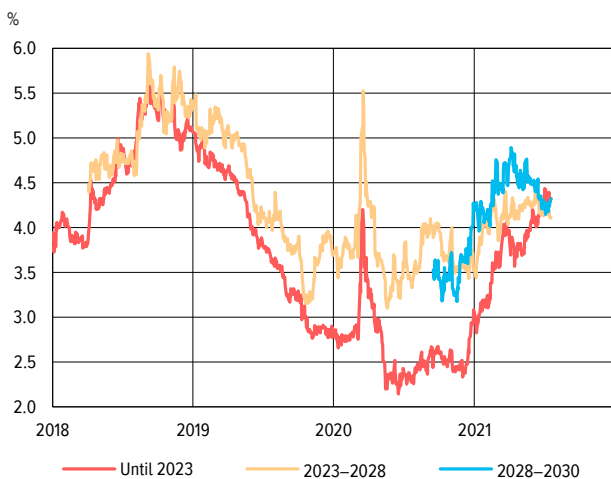
Chart 6



Sources: IHS Markit PMI, Rosstat.

## IMPLIED INFLATION FOR OFZ-IN

Chart 7



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

costs (input prices and motor fuel expenses) and a disinflationary effect of the ruble appreciation. In the next three months, the average price growth rate is expected by retailers to be 6.2% in annualised terms (vs 4.2% in July 2020). Motor vehicles trade showed increased price expectations. Companies of this sector continued transferring higher costs to prices as their business risks were rising and their inventories were shrinking.

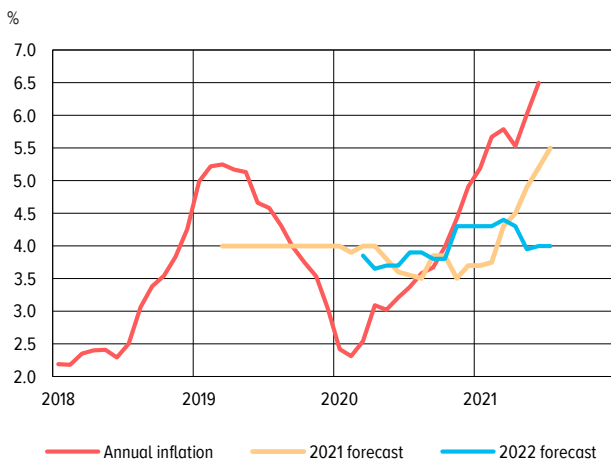
Price expectations in the mining and quarrying sector dropped mainly owing to the companies engaged in oil production and metal ores mining. As far as oil companies are concerned, this was prompted by changes in the OPEC+ deal and a gradual increase in output, as well as emerging risks of demand shrinking amid the deteriorating epidemic situation in many countries. Lower price expectations of mining companies are likely connected with the forthcoming introduction of temporary metals export duties in effect from 1 August 2021.

Based on surveys by [IHS Markit PMI](#), businesses continued raising prices in June. PMI price indices slightly declined but stayed near their highs for the recent years (Chart 6). The manufacturing sector saw a continued rise in input and output prices, PMI indices changed slightly. According to companies, the increase in input prices stemmed from the shortage of raw materials and components. Businesses kept on transferring higher costs to output prices. PMI indices of input and output prices in the services sector declined in July but stayed elevated. Companies linked the growth in prices with the ongoing rise in suppliers' prices and high cost of labour.

## Implied inflation for OFZ-IN

Implied inflation for inflation-indexed federal government bonds (OFZ-IN) was changing diversely in July 2021 (Chart 7). According to the Bank of Russia's estimates,<sup>4</sup> implied inflation for the next two years edged up, averaging 4.3% over the first twenty days of July (vs 4.1% on

<sup>4</sup> The estimates are based on the comparison of expected yields on OFZ-INs and nominal OFZs taking into account the lag between the nominal value indexation and seasonally adjusted inflation. [Calculation method](#).

BLOOMBERG ANALYSTS' CONSENSUS FORECAST *Chart 8*

Sources: Bloomberg, Rosstat.

average in June) (Table 1). Implied inflation for 2023–2028 and 2028–2030 was slightly down to 4.2% and 4.3%, respectively.

### Analysts' inflation forecast

In June–July 2021, analysts' inflation outlooks<sup>5</sup> for 2021 increased considerably to 5.4–5.7% (Table 1, Chart 8). Their forecasts for 2022 and 2023 hardly changed and stayed at 4% evidencing that the mid-term expectations continued to be anchored to the Bank of Russia's target.

### The Bank of Russia's forecast

According to the Bank of Russia's assessment, the balance of risks remains largely shifted towards proinflationary ones. Inflationary pressure is exerted by steady factors associated with the persistent rise in demand outpacing supply expansion capacities. The impact of proinflationary factors may be intensified by elevated inflation expectations and corresponding secondary effects. The Bank of Russia forecasts annual inflation to reach 5.7–6.2% in 2021. Given the monetary policy stance, annual inflation will edge down to 4.0–4.5% in 2022 and will remain close to 4% further on.

<sup>5</sup> Surveys by Interfax, Bloomberg, Thomson Reuters, and the Bank of Russia.

Data cut-off date – 20.07.2021.

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.

Cover photo: I. Shubin, Bank of Russia

12 Neglinnaya Street, 107016 Moscow

Bank of Russia website: [www.cbr.ru](http://www.cbr.ru)

© Central Bank of the Russian Federation 2021