



Bank of Russia



# INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

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Information and analytical commentary

28 February 2022

## INFLATION EXPECTATIONS AND CONSUMER SENTIMENT (FEBRUARY 2022)

Households' inflation expectations for a year ahead remained almost unchanged in February, still at a high level, as shown by InFOM's survey. The median estimate of inflation expected in the next 12 months reached 13.5%, which is the same as in November 2021. Companies' short-term price expectations dropped from the peaks of January 2022, but stayed elevated. Implied inflation for inflation-indexed federal government bonds (OFZ-IN) for the next 18 months rose to 5.7%. Analysts also increased their inflation forecasts for 2022 to 5.2–5.5%. The Bank of Russia forecasts that given the monetary policy pursued, annual inflation will slow down to 5.0–6.0% in 2022 and return to the target in the middle of 2023. Further on, inflation will stay close to 4.0%.

### INFLATION EXPECTATION INDICATORS

Table 1

	Expectation horizon	2019 (average)	2020 (average)	2021 (average)	March 2020	February 2021	December 2021	January 2022	February 2022
Inflation, %		4.5	3.4	6.7	2.5	5.7	8.4	8.7	
<b>Inflation observed by households, %</b>									
Public Opinion Foundation (median)	previous 12 months	9.9	9.6	15.1	8.3	12.3	17.7	16.7	17.1
Public Opinion Foundation (subgroup with savings)	previous 12 months	9.1	8.7	12.8	7.2	10.8	16.1	15.0	15.6
Public Opinion Foundation (subgroup without savings)	previous 12 months	10.4	9.9	16.2	8.6	12.5	18.5	17.8	18.2
<b>Households' inflation expectations, %</b>									
Public Opinion Foundation (median)	next 12 months	9.3	9.1	12.1	7.9	9.9	14.8	13.7	13.5
Public Opinion Foundation (subgroup with savings)	next 12 months	8.3	8.4	10.5	6.9	8.8	13.7	11.9	12.1
Public Opinion Foundation (subgroup without savings)	next 12 months	9.8	9.6	13.2	8.5	10.8	15.2	14.3	14.5
<b>Companies' price expectations</b>									
Companies, balance of responses	next 3 months	9.6	13.3	20.0	15.0	16.3	22.4	24.7	21.9
PMI Manufacturing input prices	current month	57.8	64.0	70.7	59.8	76.8	66.7	70.2	
PMI Manufacturing output prices	current month	53.1	54.2	62.4	55.4	66.3	59.8	60.4	
PMI Services input prices	current month	58.0	58.0	63.4	61.5	63.8	65.8	65.6	
PMI Services output prices	current month	54.0	51.3	56.1	54.2	53.8	56.0	59.5	
<b>Implied inflation for OFZ-IN (monthly average), %</b>									
OFZ-IN 52001, August 2023	next 1.5-year average	3.9	2.7	4.1	3.5	3.4	4.7	5.3	5.7
OFZ-IN 52002, February 2028	next 6-year average	4.1	3.3	4.2	4.1	3.9	5.1	5.7	6.0
OFZ-IN 52003, July 2030	next 8-year average		3.3	4.3		4.0	5.0	5.6	6.0
OFZ-IN 52004, March 2032	next 10-year average						5.1	5.8	6.1
OFZ-IN	2023–2028 average	4.3	3.8	4.3	4.5	4.1	5.3	5.8	6.1
OFZ-IN	2028–2030 average		3.5	4.4		4.3	4.8	5.4	5.8
OFZ-IN	2030–2032 average						5.6	6.7	7.0
<b>Analysts, %</b>									
Bloomberg	2022			4.2	3.9	4.3	4.5	4.8	5.2
Interfax	2022			4.3		4.0	5.1	5.5	
Reuters	2022			4.2	3.9	3.9	4.9	5.5	
Survey by the Bank of Russia	2022			4.2			4.8		5.5
Bloomberg	2023			4.0			4.0	4.0	4.0
Interfax	2023							4.1	
Reuters	2023			4.0			4.0		
Survey by the Bank of Russia	2023			4.0			4.0		4.0

Sources: Rosstat, InFOM, Bank of Russia, IHS Markit PMI, Interfax, Bloomberg, Reuters.

## Households' inflation expectations remain close to 2021 highs

Households' inflation expectations remained almost the same in February 2022, staying close to the high levels of October–November 2021 (according to InFOM's survey commissioned by the Bank of Russia). The median estimate of inflation expected in the next 12 months reached 13.5% (-0.2 pp vs January). Inflation observed by households rose slightly, with its median estimate equalling 17.1% (+0.4 pp vs January). The change in the estimates of observed and expected inflation was minor among respondents both with and without savings.<sup>1</sup>

Inflation expectations and inflation observed by households remained elevated, with the current price growth rates staying high. In January, inflation sped up both across the consumer basket in general<sup>2</sup> and in the subgroup of the goods and services showing the highest growth rates where price dynamics are most close to the estimates of expected and observed inflation.

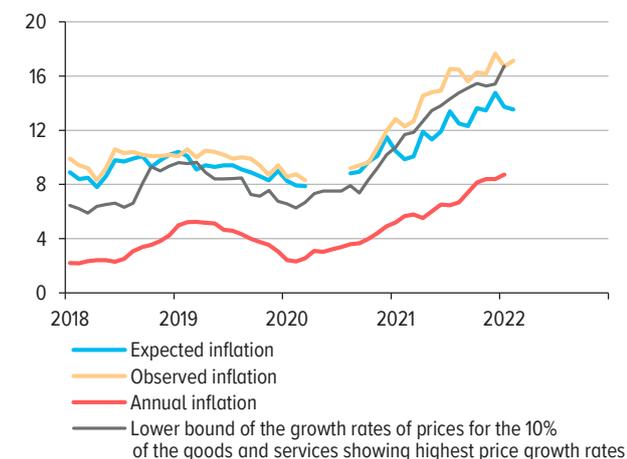
Households' perception of the movements of prices for certain frequently purchased goods changed diversely in February. On the one hand, more respondents noted a rise in prices for a range of food products and housing and utility services. On the other hand, respondents became less concerned about increasing prices for petrol which is one of the main marker products influencing households' estimates of future inflation. When forming inflation expectations, the current changes in petrol prices are considered by 42% of respondents. The same percentage of people take into account food price movements.

The estimates of the balance of responses to the questions about changes in current and future inflation trends remained almost the same in February.<sup>3</sup> Only expectations about price changes in the next month edged up slightly.

Households' long-term inflation expectations increased in February 2022, after a decline in January. The portion of respondents expecting inflation to significantly exceed 4% reached 57% (+3 pp vs January), which is the same as in November–December 2021.

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

Chart 1

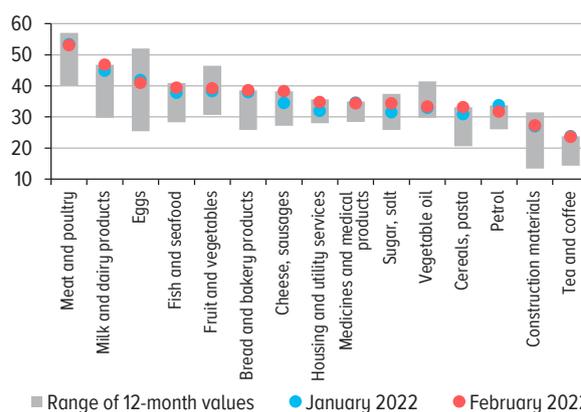


Sources: InFOM, Rosstat, Bank of Russia calculations.

DISTRIBUTION OF RESPONDENTS' ANSWERS TO THE QUESTION 'WHAT MAIN PRODUCTS AND SERVICES SHOWED THE HIGHEST GROWTH RATES OVER THE PAST MONTH?'

Chart 2

(% OF ALL RESPONDENTS)



Sources: InFOM, Bank of Russia calculations.

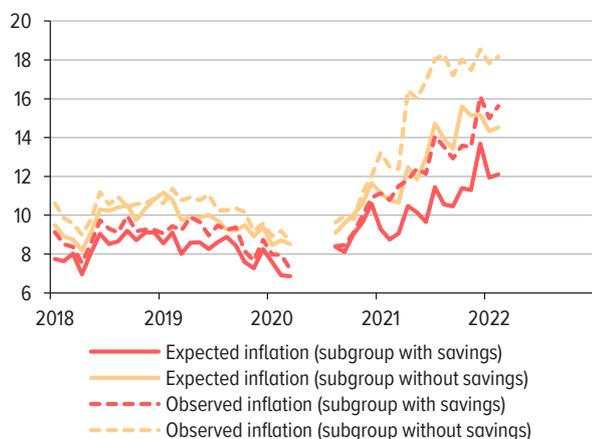
<sup>1</sup> The slight variation in the dynamics of the median of inflation expectations across subgroups of respondents and generally among all respondents is due to the fact that the calculation of the median by subgroup did not cover the respondents who refused to answer the question about savings and the respondents who gave contradictory answers to the questions about changes in price growth trends and rates.

<sup>2</sup> For details on inflation in January, refer to the information and analytical commentary [Consumer Price Dynamics, No. 1 \(73\), January 2022](#).

<sup>3</sup> That is, nearly the same percentage of respondents answered that prices rose/will rise considerably or were/will be rising faster than before/now.

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

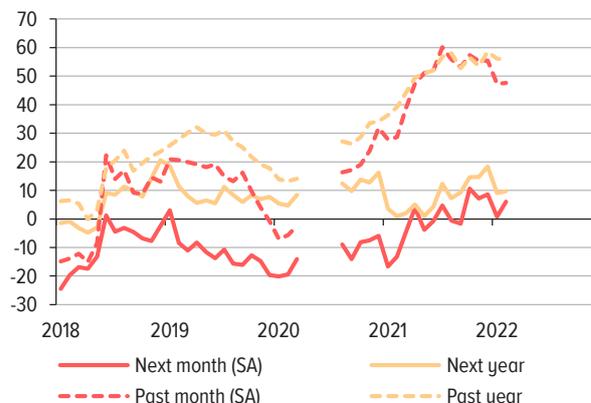
Chart 3



Sources: InFOM, Bank of Russia calculations.

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

Chart 4



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

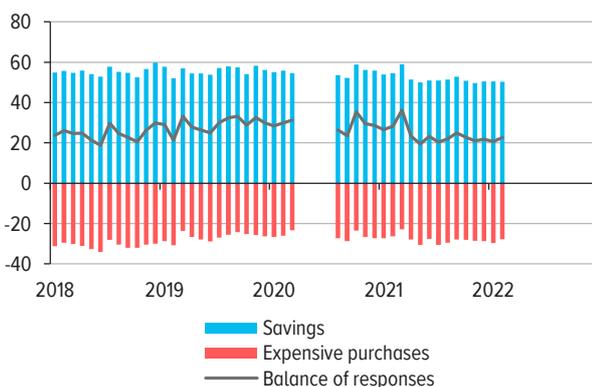
## Estimates of savings sentiment stayed low

Households' propensity to save rose somewhat in February 2022. The percentage of respondents opting to make purchases, rather than save available funds declined to 28% (-2 pp vs January). Despite a slight increase, the balance of responses to the question about the best way to use available money stayed close to multi-year lows. The estimated neutral level of this indicator may be deemed equal to its average for 2017–2019 when inflation was close to 4% on average and there were no sharp fluctuations in savings sentiment. During the said period, the balance of responses averaged 26%, and in February 2022 it was 23%. Thus, households' propensity to save remains low. Accordingly, consumer demand puts additional upward pressure on prices.

The demand for bank deposits as a form of savings declined in February. The portion of people preferring to keep their money in bank accounts dropped to 35% in February (-3 pp vs January). Contrastingly, the percentage of people opting to have cash holdings increased to 31% (+3 pp vs January). Such a change in preferences could be partially caused by the escalation of geopolitical tensions.

**DISTRIBUTION OF RESPONDENTS' 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)

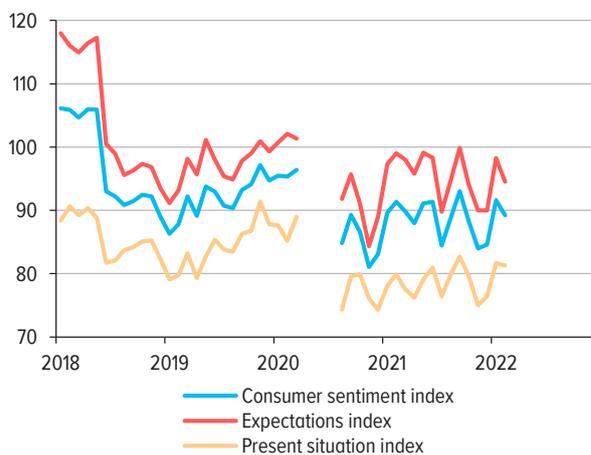
Chart 5



Sources: InFOM, Bank of Russia calculations.

**CONSUMER SENTIMENT INDEX  
(POINTS)**

Chart 6



Source: InFOM.

The consumer sentiment index edged down slightly to 89.3 points in February, losing 2.4 points compared to January, mostly due to the decrease in the expectations index (-3.7 points). Respondents' expectations regarding economic conditions in the country for the next one and five years lowered most notably. The present situation index changed only slightly (-0.4 points). The consumer sentiment index is close to the levels of 2021 H1 and considerably below pre-pandemic readings.

## Companies' price expectations lowered

According to the [monitoring](#) carried out by the Bank of Russia in February 2022, companies' price expectations for the next three months decreased, while staying close to the highest levels. The average price growth rate expected in the next three months equalled 5% in annualised terms (vs 3.6% in February 2021). The main reason for lower price expectations was weaker demand.

Over the past 12 months, companies significantly raised the inflation rate in their business plans for a year ahead: it averaged 8.2% for 2022, as compared to 6.0% for 2021 in February 2021.

Enterprises in transportation, storage, and services lowered their price expectations. As the pandemic situation worsened, respondent companies from these industries complained about weaker demand and a reduction in orders, while staying optimistic about future demand. Furthermore, the increasing pressure put by higher costs entailed a surge in tariffs in January and was a reason why enterprises' price expectations for the next three months remained elevated.

Weaker demand was also the main reason for lower price expectations in trade. Companies selling motor vehicles, whose price expectations declined most notably, became less optimistic in their estimates of demand and sales in the next three months. Nonetheless, trade companies' price expectations stayed the highest compared to all other industries. In February, the average price growth rate expected by retailers in the next three months equalled 8.2% in annualised terms (vs 6.1% in February 2021).

The price indices of [IHS Markit PMI](#) rose in January 2022. The growth of input prices in manufacturing industries sped up substantially, reaching the peaks of the last six months. Companies explained this by delays in transportation and higher prices for raw materials. The output price index in manufacturing industries also edged up somewhat amid a fast increase in new orders. The growth rate of input prices in services remained almost the same, staying close to 2021 highs. The rise in output prices accelerated to the highest levels recorded since May 2021.

COMPANIES' PRICE EXPECTATIONS  
(BANK OF RUSSIA)  
(BALANCE OF RESPONSES, % SA)

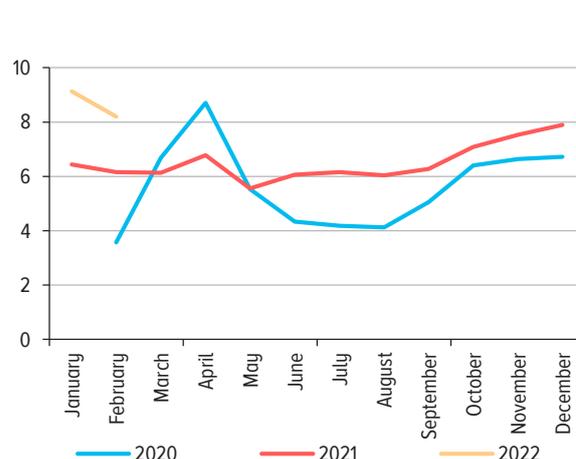
Chart 7



Sources: Bank of Russia, Rosstat.

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

Chart 8



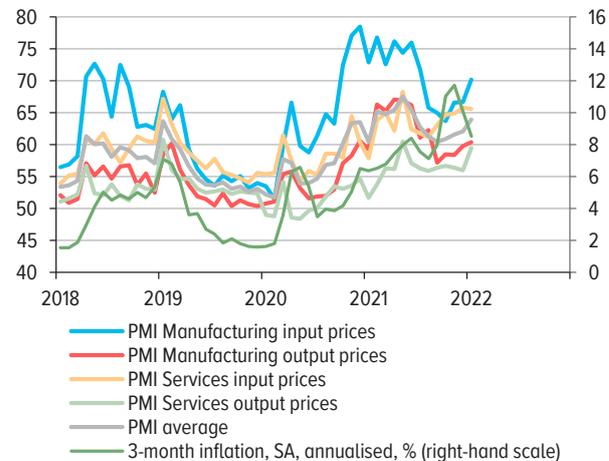
Source: Bank of Russia.

COMPANIES' PRICE EXPECTATIONS, BY KEY INDUSTRY *Chart 9*  
(BANK OF RUSSIA)  
(BALANCE OF RESPONSES, % SA)



Source: Bank of Russia.

CHANGES IN COMPANIES' PRICES (MARKIT PMI)  
(DIFFUSION INDEX, POINTS) *Chart 10*



Sources: IHS Markit PMI, Rosstat.

## Implied inflation exceeded 5.5%

Implied inflation for inflation-indexed federal government bonds (OFZ-IN) for the next 18 months continued to rise in February 2022. According to the Bank of Russia's estimates,<sup>4</sup> it averaged 5.7% for the first twenty days of February (+0.4 pp vs January). Implied inflation for longer periods rose as well in February, reaching 6.1% for 2023–2028 (+0.3 pp vs January) and 5.8% for 2028–2030 (+0.4 pp). As in January, the rise in implied inflation was partially the result of persistently high volatility in the OFZ market which affected the estimates. Fixed-coupon and inflation-indexed federal government bonds (OFZ-PD and OFZ-IN) used to calculate implied inflation differ in terms of the structure of investors and liquidity. Accordingly, their prices change differently during the periods of significant fluctuations in the bond market, which distorts the estimates.

## Analysts' forecast for a year ahead exceed 5%

In January–February, analysts<sup>5</sup> continued to raise their inflation forecasts for 2022. According to the findings of the macroeconomic survey carried out by the Bank of Russia in February, analysts increased their inflation forecasts to 5.5% for the end of 2022 (+0.7 pp vs December 2021). Surveys by Bloomberg, Reuters, and Interfax conducted in late January–February show that analysts' consensus forecasts were in the range of 5.2–5.5% for the end of 2022. Forecasts for 2023 remained unchanged, staying close to the Bank of Russia's target.

## High inflation expectations exacerbate inflation risks

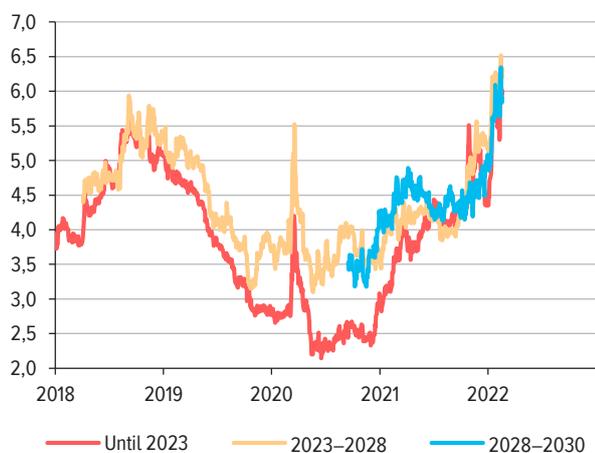
According to the Bank of Russia' assessment, the balance of inflation risks shifted towards proinflationary ones even more. The influence of proinflationary factors may be strengthened by elevated inflation expectations and the accompanying secondary effects. The Bank of Russia forecasts that given the monetary policy pursued, annual inflation will slow down to 5.0–6.0% in 2022 and return to the target in the middle of 2023. Further on, inflation will stay close to 4.0%.

<sup>4</sup> The estimates are based on the comparison of expected yields on OFZ-IN and nominal OFZ (OFZ-PD) bonds, with account of the lag in the nominal value indexation and seasonally adjusted inflation. [Calculation method](#).

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

IMPLIED INFLATION FOR OFZ-IN  
(%)

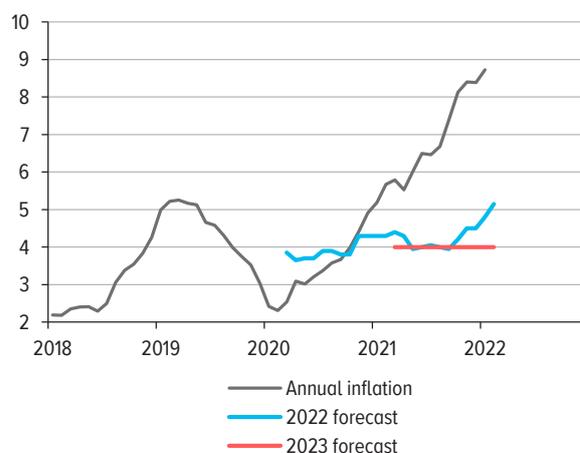
Chart 11



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

BLOOMBERG ANALYSTS' CONSENSUS FORECAST  
(%)

Chart 12



Sources: Bloomberg, Rosstat.

The data cut-off date – 21.02.2022.

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.

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