



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

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Information and analytical commentary

23 March 2022

INFLATION EXPECTATIONS AND CONSUMER SENTIMENT (MARCH 2022)

Households' inflation expectations for a year ahead surged in March, as shown by InFOM's survey. The median estimate of inflation expected in the next 12 months reached 18.3%, which is the second highest level on record. Companies' short-term price expectations also rose in March, reaching their record high. In March, analysts raised their inflation forecasts for 2022 to 20%. The Bank of Russia's monetary policy will promote conditions for a gradual adaptation of the economy to the new environment and prevent an uncontrollable increase in prices. As a result, annual inflation will return to 4% in 2024.

INFLATION EXPECTATION INDICATORS

	Expectation horizon	2019 (average)	2020 (average)	2021 (average)	March 2020	March 2021	January 2022	February 2022	March 2022
Inflation, %		4.5	3.4	6.7	2.5	5.8	8.7	9.2	
Inflation observed by households, %									
Public Opinion Foundation (median)	previous 12 months	9.9	9.6	15.1	8.3	12.7	16.7	17.1	16.3
Public Opinion Foundation (subgroup with savings)	previous 12 months	9.1	8.7	12.8	7.2	11.5	15.0	15.6	13.8
Public Opinion Foundation (subgroup without savings)	previous 12 months	10.4	9.9	16.2	8.6	12.4	17.8	18.2	18.3
Households' inflation expectations, %									
Public Opinion Foundation (median)	next 12 months	9.3	9.1	12.1	7.9	10.1	13.7	13.5	18.3
Public Opinion Foundation (subgroup with savings)	next 12 months	8.3	8.4	10.5	6.9	9.1	11.9	12.1	17.2
Public Opinion Foundation (subgroup without savings)	next 12 months	9.8	9.6	13.2	8.5	10.6	14.3	14.5	19.3
Companies' price expectations									
Companies, balance of responses	next 3 months	9.6	13.3	20.0	15.0	18.0	24.7	22.1	41.9
PMI Manufacturing input prices	current month	57.8	64.0	70.7	59.8	72.6	70.2	72.2	
PMI Manufacturing output prices	current month	53.1	54.2	62.4	55.4	65.3	60.4	62.8	
PMI Services input prices	current month	58.0	58.0	63.4	61.5	65.0	65.6	64.9	
PMI Services output prices	current month	54.0	51.3	56.1	54.2	56.3	59.5	59.2	
Implied inflation for OFZ-IN (monthly average), %									
OFZ-IN 52001, August 2023	next 1.5-year average	3.9	2.7	4.1	3.5	3.8	5.3	5.6	
OFZ-IN 52002, February 2028	next 6-year average	4.1	3.3	4.2	4.1	4.0	5.7	6.4	
OFZ-IN 52003, July 2030	next 8-year average		3.3	4.3		4.2	5.6	6.2	
OFZ-IN 52004, March 2032	next 10-year average						5.8	6.5	
OFZ-IN	2023–2028 average	4.3	3.8	4.3	4.5	4.1	5.8	6.6	
OFZ-IN	2028–2030 average		3.5	4.4		4.6	5.4	6.0	
OFZ-IN	2030–2032 average						6.7	7.8	
Профессиональные аналитики, %									
Interfax	2022			4.3		4.2	5.5		
Survey by the Bank of Russia	2022			4.2				5.5	20.0
Interfax	2023						4.1		
Survey by the Bank of Russia	2023			4.0				4.0	8.0
Interfax	2024								
Survey by the Bank of Russia	2024							4.0	4.8

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

Households' inflation expectations reached an 11-year high

Households' inflation expectations soared in March 2022, according to InFOM's survey commissioned by the Bank of Russia. The survey was carried out from 28 February to 10 March. The median estimate of inflation expectations rose to 18.3% (+4.8 pp vs February), which is the second highest level on record (the survey is conducted since April 2010). Inflation observed by households edged down slightly in March, with its median estimate equalling 16.3% (-0.8 pp vs February). Inflation expectations surged among respondents both with and without savings. The estimates of observed inflation changed diversely in different groups of respondents, decreasing among those having savings and slightly rising in the group without savings.

Expecting inflation to soar in the near future, respondents significantly revised their estimates of the current growth rate of prices for the most frequently purchased goods and services, which is why observed inflation lowered. As compared to February, fewer respondents complained in March about higher prices for the majority of food products and petrol which are most often the basis for households' perception of inflation. Nevertheless, respondents became much more concerned about the actual increase in prices for electronic devices and household appliances, as well as sugar.¹

The estimates of the balances of responses to the questions about changes in future inflation trends for one month and one year ahead edged up in March,² whereas the qualitative estimates of current inflation lowered.³

In the longer run, respondents expect inflation to slow down significantly, after the surge in 2022. The median estimate of inflation expectations for the next three years reached 8% in March. This figure corresponds to the lowest levels of inflation expectations for a year ahead observed in 2018–2019, when actual inflation was close to or below 4%.

INFLATION OBSERVED AND EXPECTED BY HOUSEHOLDS (MEDIAN ESTIMATE)

(%)

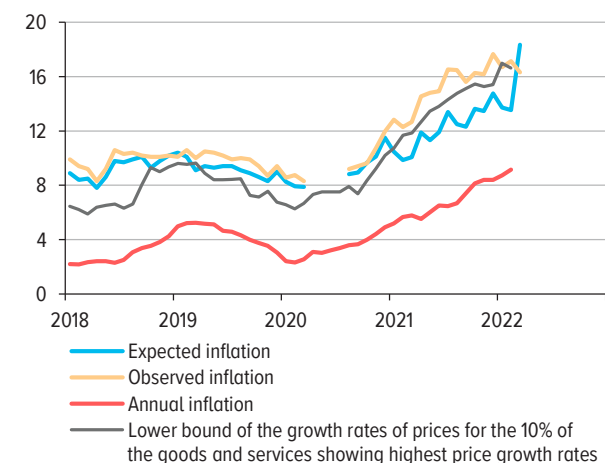


Chart 1

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

(% OF ALL RESPONDENTS)

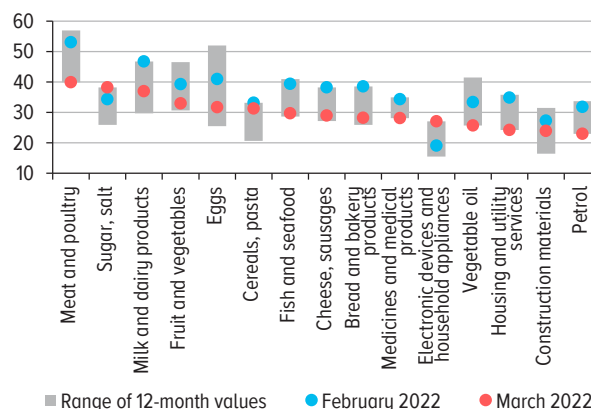


Chart 2

Sources: InFOM, Rosstat, Bank of Russia calculations.

Sources: InFOM, Bank of Russia calculations.

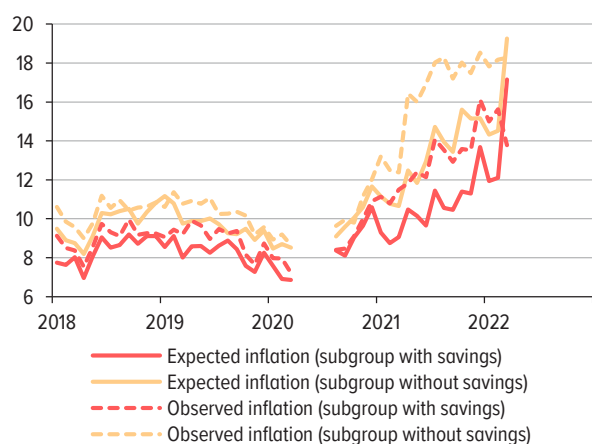
¹ For details on inflation in February, refer to the information and analytical commentary [Consumer Price Dynamics, No. 2 \(74\), February 2022](#).

² That is, a larger percentage of respondents, as compared to the previous month, answered that prices will rise considerably or will be rising faster than now.

³ That is, a smaller percentage of respondents, as compared to the previous month, answered that prices rose considerably or were rising faster than before.

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

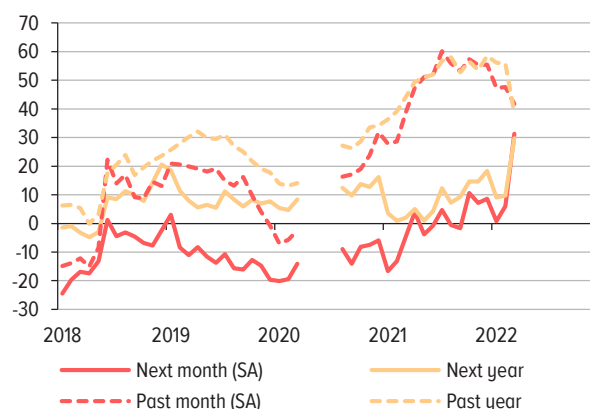
Chart 3



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.

Consumer sentiment declined to 2015–2016 levels

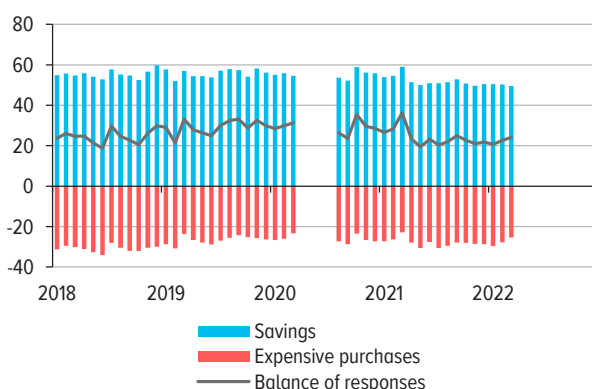
The consumer sentiment index dropped to 80.2 in March (-9.1 points vs February). This is the lowest reading since February 2016. There was a decrease in the expectations index (-8.7 points) which includes the estimates of changes in personal financial standing for a year ahead and expectations about changes in economic conditions in the country for the next one and five years. The present situation index comprising the estimates of actual changes in personal financial standing over the year and the estimates of the suitability of the current period for large purchases declined as well (-9.5 points).

Households' propensity to save edged up slightly in March amid an increase in overall economic uncertainty. The percentage of respondents opting to make purchases rather than save available funds declined to 25% (-3 pp vs February).

In early March, respondents significantly changed their preferences about the types of savings. The portion of respondents opting to have cash holdings increased to 39% (+8 pp vs February), which is the highest level after this question was included in the survey (September 2012). The previous peak of 34% was recorded in November 2020. The portion of respondents preferring to

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)

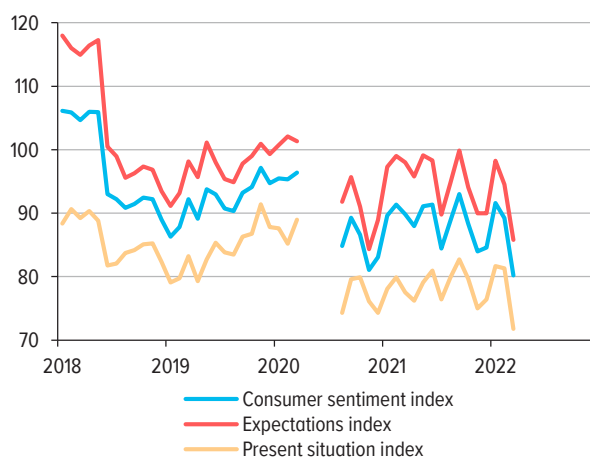
Chart 5



Sources: InFOM, Bank of Russia calculations.

CONSUMER SENTIMENT INDEX (POINTS)

Chart 6



Source: InFOM.

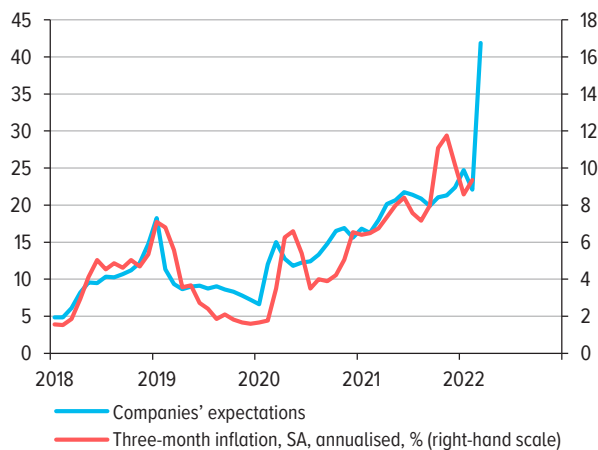
keep their money in bank accounts decreased to 30% at the beginning of March (-5 pp vs February), which is the lowest reading on record.

Companies' price expectations reached a record high since 2000

According to the [monitoring](#) carried out by the Bank of Russia in March 2022, companies' price expectations for the next three months surged, hitting the highest level on record, that is, since January 2000. The average price growth rate expected in the next three months reached 11.9% in annualised terms. The rise in companies' price expectations was primarily explained by the depreciation of the ruble and higher input prices.

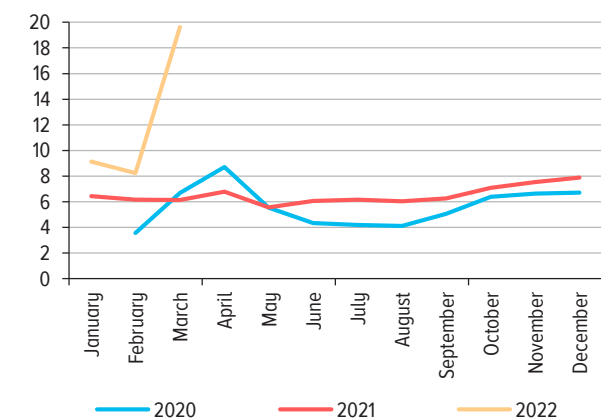
Price expectations rose across all industries, except utility services.⁴ The increase was most significant in retail. The average price growth rate expected by retailers in the next three months surged to 19.6% in annualised terms. Price expectations rose the least in transportation and storage, services, and mining and quarrying. Although expecting costs to soar, transportation and service

COMPANIES' PRICE EXPECTATIONS
(BANK OF RUSSIA)
(BALANCE OF RESPONSES, % SA) Chart 7



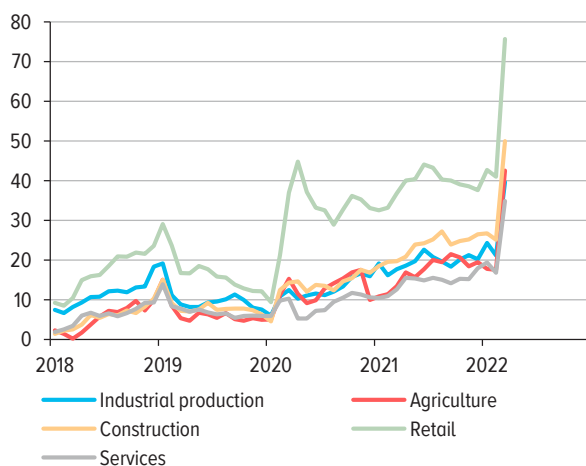
Sources: Bank of Russia, Rosstat.

AVERAGE PRICE GROWTH EXPECTED BY RETAILERS
IN THE NEXT THREE MONTHS
(IN ANNUALISED TERMS)
(%) Chart 8



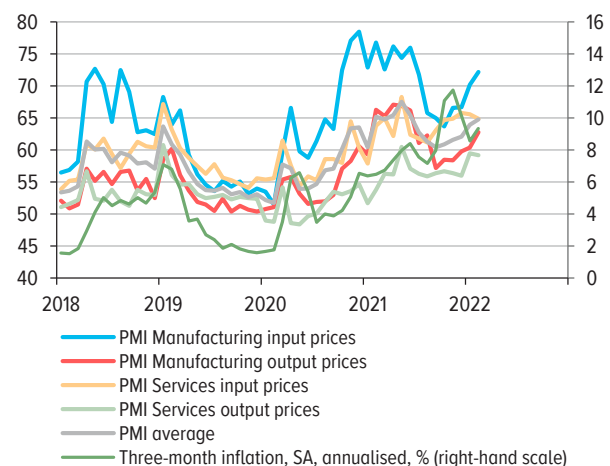
Source: Bank of Russia.

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



Source: Bank of Russia.

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



Sources: IHS Markit PMI, Rosstat.

⁴ Economic activities 'Electricity, gas and steam supply; air conditioning' and 'Water supply, sewerage, waste management, pollution controls'.

companies believed that the growth of output prices would be limited by a contraction of demand that would be more considerable in these industries than on average across the economy.

The price indices of [IHS Markit PMI](#) changed diversely in February 2022. Manufacturing industries continued to face a faster rise in both input and output prices. Enterprises complained about increases in producer prices and disruptions in supplies. As before, they continued to pass through higher costs to their output prices despite the actual decline in demand. The growth of input and output prices in services slowed down slightly, although remaining fast. According to service companies, the persistent rise in costs was fuelled by the increase in producer prices, more expensive fuels, and higher rents.

Analysts expect inflation to reach 20% by the end of the year

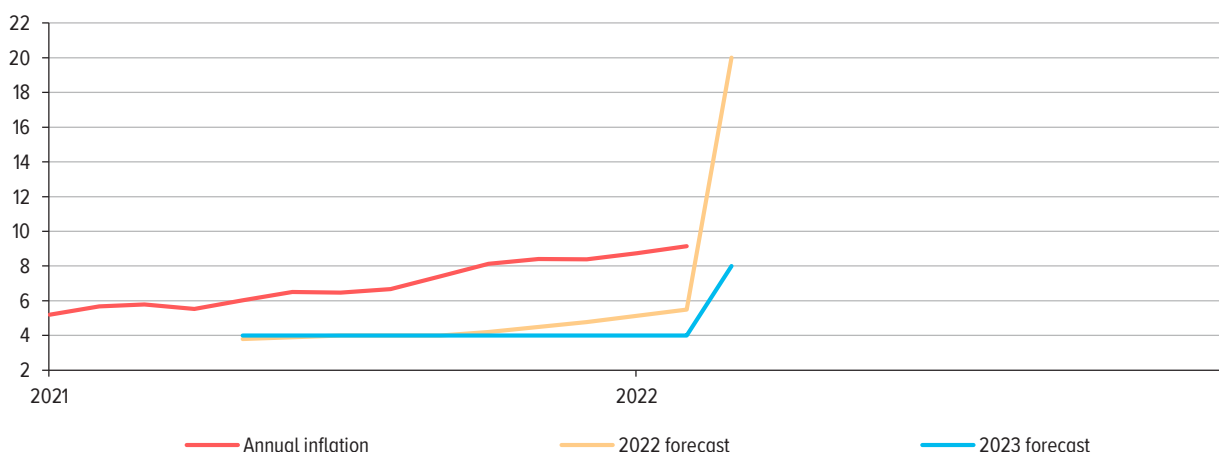
In March, analysts significantly raised their inflation forecast due to the altered macroeconomic conditions. According to the [findings of the Bank of Russia's macroeconomic survey](#), analysts increased their inflation forecast to 20% for the end of 2022 (+14.5 pp vs February). Analysts expect inflation to decelerate to 8% in 2023 and to 4.8% as of the end of 2024.

The Bank of Russia forecasts that annual inflation will return to 4% in 2024

The Russian economy is moving into a phase of a large-scale structural transformation which will be accompanied by temporarily yet inevitably elevated inflation predominantly associated with the adjustment of relative prices for a broad range of goods and services. The Bank of Russia's monetary policy will promote conditions for a gradual adaptation of the economy to the new environment and prevent an uncontrollable increase in prices. As a result, annual inflation will return to 4% in 2024.

RESULTS OF THE BANK OF RUSSIA'S MACROECONOMIC SURVEY
(%)

Chart 11



Sources: Bank of Russia, Rosstat.

The data cut-off date – 18.03.2022.

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.

This commentary was prepared by the Monetary Policy Department.

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12 Neglinnaya Street, 107016 Moscow

Bank of Russia website: www.cbr.ru

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