



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

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Information and analytical commentary

25 June 2024

INFLATION EXPECTATIONS AND CONSUMER SENTIMENT (JUNE 2024)

In June, indicators of inflation expectations were predominantly up. The median estimate of one-year ahead households' inflation expectations rose to 11.9% in June, according to InFOM's survey. The median of five-year expectations went up as well to 10.7%. Companies' price expectations for the coming three months increased. Implied inflation for inflation-indexed federal government bonds (OFZ-IN) for the next four years remained unchanged at 7.9%. Analysts' forecasts for the end of 2024 rose to 5.5%. Analysts' medium-term expectations were still anchored to the inflation target. Even though inflation expectations of households and businesses edged up, they remained below the levels of 2023 Q4. However, their further growth may entail proinflationary risks. To limit these risks and return inflation to target, it is necessary to maintain tight monetary conditions for a long time. According to the Bank of Russia's forecast and given the monetary policy stance, annual inflation will return to target in 2025 and stabilise close to 4% further on.

INDICATORS OF INFLATION EXPECTATIONS

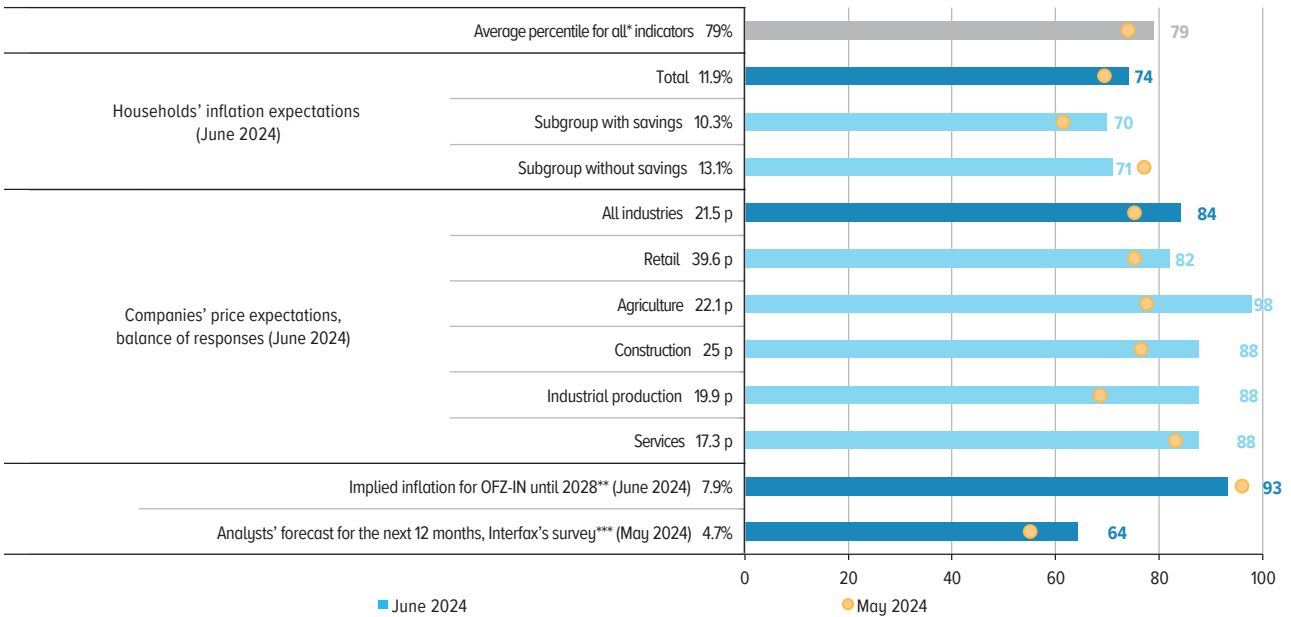
	Expectations horizon	2021 average	2022 average	2023 average	2023 Q4 average	2024 Q1 average	April 2024	May 2024	June 2024	Average over the past three months
Inflation, %		6.7	13.8	5.9	7.2	7.6	7.8	8.3		
Inflation observed by households, Public Opinion Foundation, %										
Median	previous 12 months	15.1	19.6	14.5	15.3	15.5	14.4	14.0	14.4	14.3
Subgroup with savings	previous 12 months	13.2	16.8	13.0	13.3	13.5	13.1	12.0	12.5	12.5
Subgroup without savings	previous 12 months	16.3	22.0	15.9	17.2	17.3	15.7	16.3	16.0	16.0
Households' inflation expectations, Public Opinion Foundation, %										
Median	next 12 months	12.1	12.9	11.5	12.5	12.0	11.0	11.7	11.9	11.5
Subgroup with savings	next 12 months	10.6	11.3	10.2	10.8	10.5	9.9	10.0	10.3	10.1
Subgroup without savings	next 12 months	13.3	14.2	12.7	14.3	13.5	12.2	13.5	13.1	12.9
Median for the next five years	next five years			10.5	11.2	9.7	9.8	10.4	10.7	10.3
Companies' price expectations, Bank of Russia's monitoring of businesses, balance of responses (SA), p										
Companies, total	next three months	20.1	21.7	19.5	23.2	20.1	19.7	19.7	21.5	20.3
Retail	next three months	38.8	38.9	38.6	43.1	36.0	37.0	37.8	39.6	38.1
Implied inflation for OFZ-IN (monthly average), %										
OFZ-IN 52002, February 2028	next four-year average	4.2	6.3	7.2	7.7	6.8	7.4	7.9	7.9	7.8
OFZ-IN 52003, July 2030	next six-year average	4.3	6.5	7.4	7.6	6.8	7.4	7.8	7.5	7.6
OFZ-IN 52004, March 2032	next eight-year average		6.7	7.6	7.8	7.0	7.7	8.1	7.8	7.9
OFZ-IN	2028–2030 average	4.4	6.7	7.9	7.3	6.7	7.4	7.6	7.0	7.3
OFZ-IN	2030–2032 average		7.6	8.5	8.7	8.0	8.6	9.1	9.0	8.9
Analysts, %										
Survey by the Bank of Russia	2024		4.4	4.4	5.1	5.1	5.2	5.5		
Interfax	2024			4.8	5.2	5.2	5.3	5.7		
Survey by the Bank of Russia	2025			4.0	4.0	4.1	4.1	4.2		
Interfax	2025						4.4	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); implied inflation for OFZ-IN until 2028, and analysts' forecast for the next 12 months.

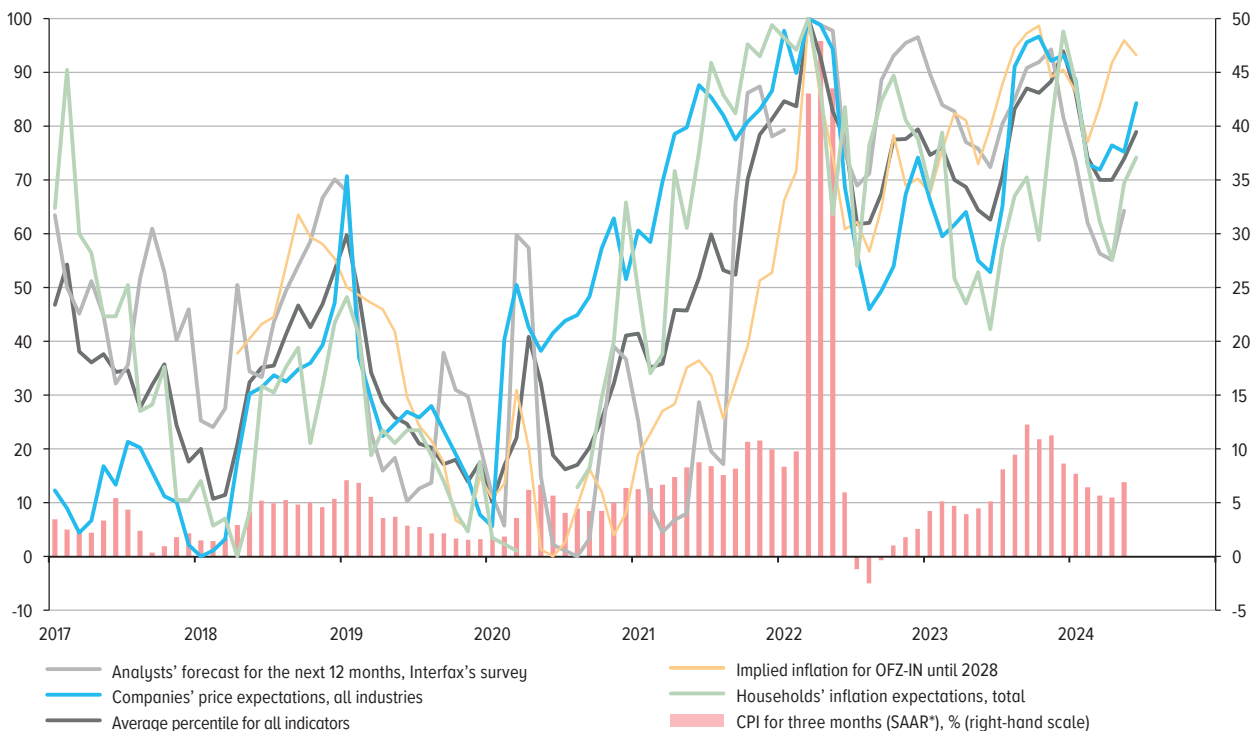
** Percentiles for implied inflation are specified relative to the distribution of values since April 2018.

*** Analysts' prediction for the next 12 months is made using forecasts for this and subsequent years, taking into consideration actual and expected 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 in grey, blue and light blue. 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



* SAAR – seasonally adjusted annual 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.¹ The reason is that 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 almost always exceed actual inflation rates both in Russia and abroad. 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 not possible to assess the extent of this increase based on the change in the balance of responses.

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

Households' inflation expectations edged up

In June 2024, the median estimate of one-year ahead inflation expectations went up to 11.9% (+0.2 pp MoM; +1.7 pp YoY), as shown by the InFOM's survey (Charts 3 and 4). The increase was driven by growing expectations among respondents with savings (10.3%; +0.3 pp MoM; +1.1 pp YoY) (Chart 6). Expectations of respondents without savings edged down (13.1%; -0.4 pp MoM; +1.8 pp YoY) but were still around the level of autumn 2023.

Inflation observed by households was up in June for the first time since the beginning of the year. Its median equalled 14.4% (+0.4 pp MoM; +0.5 pp YoY). The estimates of observed inflation increased among respondents with savings and decreased among those without savings. The gap between the estimate of observed inflation and annual CPI growth remained almost unchanged at 6.1 pp (1.7 times).

In June, respondents began to report rises in prices for most frequently purchased goods and services¹ more often. The percentage of respondents who mentioned rises in prices for some food products (fruit and vegetables, bread and bakery products, cheese and sausages), as well as housing and utility services and petrol (Chart 5), grew significantly. Contrastingly, respondents complained about higher prices for eggs, construction materials, medicines and medical products less often than in the previous month.

Qualitative assessments of one-month and one-year ahead inflation expectations also increased² in June. The estimates of inflation in the past month were up,³ whereas those in the past year remained nearly the same (Chart 7).

Five-year ahead⁴ inflation expectations increased to 10.7% in June (+0.3 pp MoM; -0.1 pp YoY). Long-term expectations among respondents with savings edged up (to 9.6%; +0.4 pp MoM; +0.1 pp YoY). Long-term expectations among respondents without savings did not change (11.7%; unchanged MoM; -0.1 pp YoY). The percentage of respondents believing that the price growth rate would notably surpass 4% in three years was up to 49% in June (+1 pp MoM; +1 pp YoY) (Chart 8).

Consumer sentiment index dropped

The consumer sentiment index decreased to 109.9 points in June (-2.3 p MoM; +6.8 p YoY) but stayed much higher than the values of 2023 (Chart 9). The decrease was due to the expectations of respondents, while the assessments of the present situation remained almost unchanged.

The expectations index equalled 117.8 p in June (-4.3 p MoM; +7.2 p YoY). Among its components, a drop was registered in one-year and five-year ahead expectations for the country's economic future. The assessments of the personal financial standing prospects for one year ahead did not change.

¹ For details on inflation in May, refer to the information and analytical commentary [Consumer Price Dynamics](#) No. 5 (101), May 2024.

² That is, the percentage of respondents who said that prices would rise considerably or would be rising faster than now was higher than in the previous month.

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

⁴ The question 'Could you even roughly estimate inflation and price growth in Russia in five years?'. The proportion 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 47% in June (vs 50% in May).

The present situation index equalled 98.0 p in June (+0.5 p MoM; +6.1 p YoY). The respondents' assessments of the suitability of the current period for making large purchases improved, but those of the actual change in their personal financial standing over the past year worsened.

The ratio of respondents' answers to the question about the best money management options remained virtually unchanged in June. The percentage of respondents opting to save their spare cash rather than use it for purchasing expensive goods amounted to 51.8% (-0.6 pp MoM; +0.7 pp YoY) (Chart 10), staying below the average recorded since 2016 (54.2 %). The proportion of those preferring to make purchases was 30.2% (unchanged MoM; -1.2 pp YoY). The distribution of responses to the question about the preferred types of savings among surveyed participants remained almost unchanged in June as well. The percentage of respondents who preferred to keep their money in bank accounts equalled 42% (unchanged MoM; +5 pp YoY) vs 29% of those who opted for cash (+1 pp MoM; -4 pp YoY).

Companies' price expectations increased

According to the monitoring of businesses carried out by the Bank of Russia in June 2024, companies' price expectations (the balance of responses) for the next three months were up (Chart 11).⁵ They increased in all major industries. Growth in price expectations was followed by an increase in the estimates of changes in costs and current demand. Estimates of actual demand were at their highest since 2008. However, companies' future demand expectations became more moderate, they had been decreasing for the third month in a row.

Agriculture demonstrated the most significant growth in price expectations. Farmers noted faster growth in costs and higher business risks in part due to unfavourable weather conditions in the European part of Russia last month.

In wholesale and retail trade, the increase in price expectations was triggered by the accelerated increase in costs. In the wholesale segment, estimates of current demand were also higher.

In construction and services, companies indicated that changes in prices for raw materials and components, prices for similar products, and stronger demand were among the reasons for higher price expectations.

Price expectations increased in the manufacturing, transportation, and energy sectors despite decreased estimates of current and expected demand. Estimates of current and expected output/services volumes in these industries also declined. Among the reasons for the expected price growth, respondents mentioned changes in prices for raw materials, components, other materials, motor fuel, while energy companies noted government regulation (the upcoming indexation of prices in July).

In mining and quarrying, increased price expectations were followed by higher estimates of current demand and lower estimates of changes in costs.

The average price growth rate expected in the next three months,⁶ measuring companies' inflation expectations, equalled 5.4% in June in annualised terms (+0.5 pp MoM; +2.0 pp YoY) (Chart 12). The average price growth rate expected by retail trade enterprises in the next three months⁷ edged down to 8.2% in annualised terms (vs -0.4 pp MoM; +1.4 pp YoY).

⁵ In June 2024, the Bank of Russia surveyed 14,100 companies (more detailed results of the monitoring are available in the information and analytical commentary [Monitoring of Businesses: Assessments, Expectations and Comments](#)).

⁶ Seasonally adjusted data.

⁷ Seasonally adjusted data.

Implied inflation is 7.9% in the next four years

As estimated by the Bank of Russia,⁸ compared to May, June saw no changes in average implied inflation in the next four years until February 2028, calculated based on the spread between yields on OFZ-IN and OFZ-PD (fixed coupon federal government bonds) with the same maturities. From 1 through 20 June, it averaged 7.9% (unchanged MoM; +1.2 pp YoY) (Chart 13). Implied inflation for longer maturities declined to 7.0% for securities maturing in 2028–2030 (-0.6 pp MoM; -1.2 pp YoY) and 9.0% for those maturing in 2030–2032 (-0.1 pp MoM; -0.2 pp YoY).

Analysts expect inflation above 5% by the end of 2024

In May 2024, analysts raised their inflation forecasts. According to the findings of the [Bank of Russia's macroeconomic survey](#) carried out in May, analysts forecast that inflation would be 5.5% at the end of 2024 (+0.3 pp MoM; +1.5 pp YoY) and 4.2% at the end of 2025 (+0.1 pp MoM; +0.2 pp YoY). Analysts surveyed by the Bank of Russia expected inflation to be 4.0% in 2026 (Chart 14). As shown by Interfax's survey, in May 2024, analysts raised their consensus inflation forecast to 5.7% as of the end of 2024 (+0.4 pp MoM; +1.1 pp YoY) and to 4.6% as of the end of 2025 (+0.2 pp MoM).

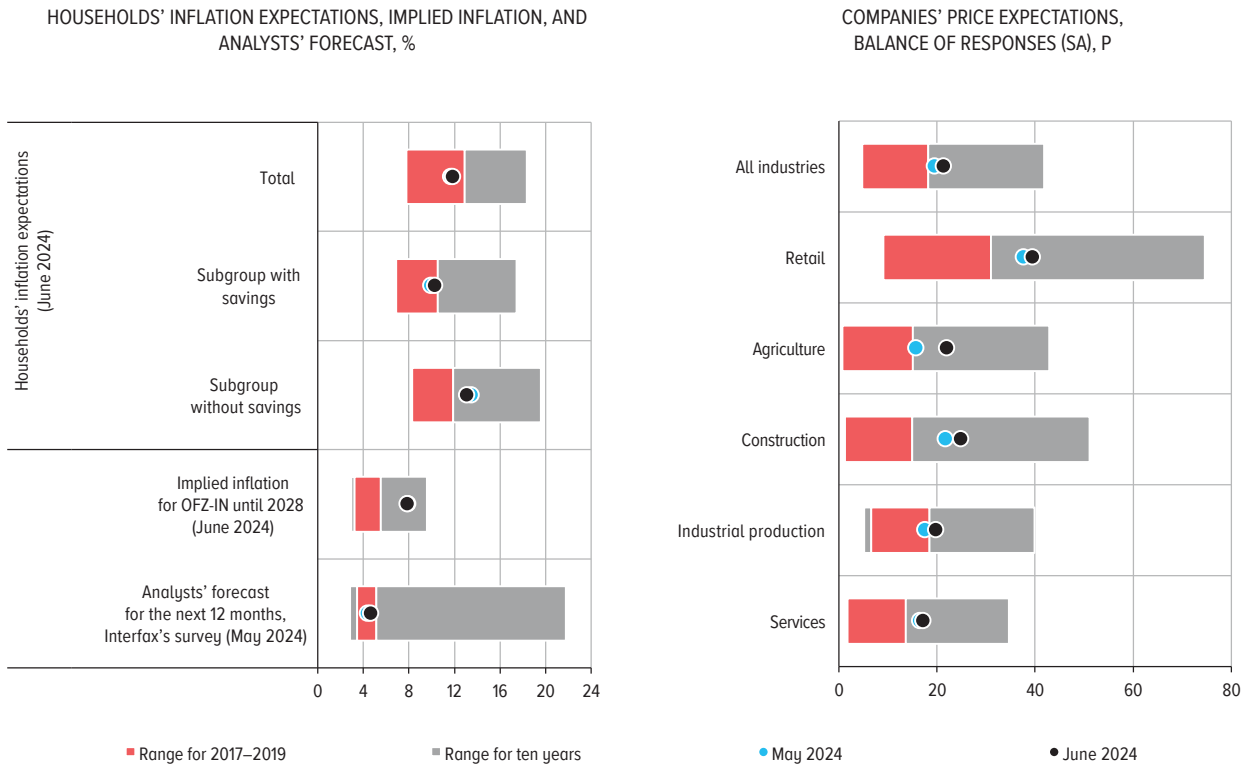
The Bank of Russia forecasts that annual inflation will return to target in 2025

A critical condition for inflation to return to target is a decrease in inflation expectations. According to the Bank of Russia's forecast, the monetary policy pursued will curb excessive growth in domestic demand and dampen its proinflationary consequences. To lower inflation, it will be necessary to maintain tight monetary conditions for a substantially longer period than predicted in April. Given the monetary policy stance, annual inflation will return to target in 2025 and stay close to 4% further on.

⁸ 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](#).

INFLATION EXPECTATION INDICATORS AND DISTRIBUTION OF THEIR VALUES OVER TEN YEARS

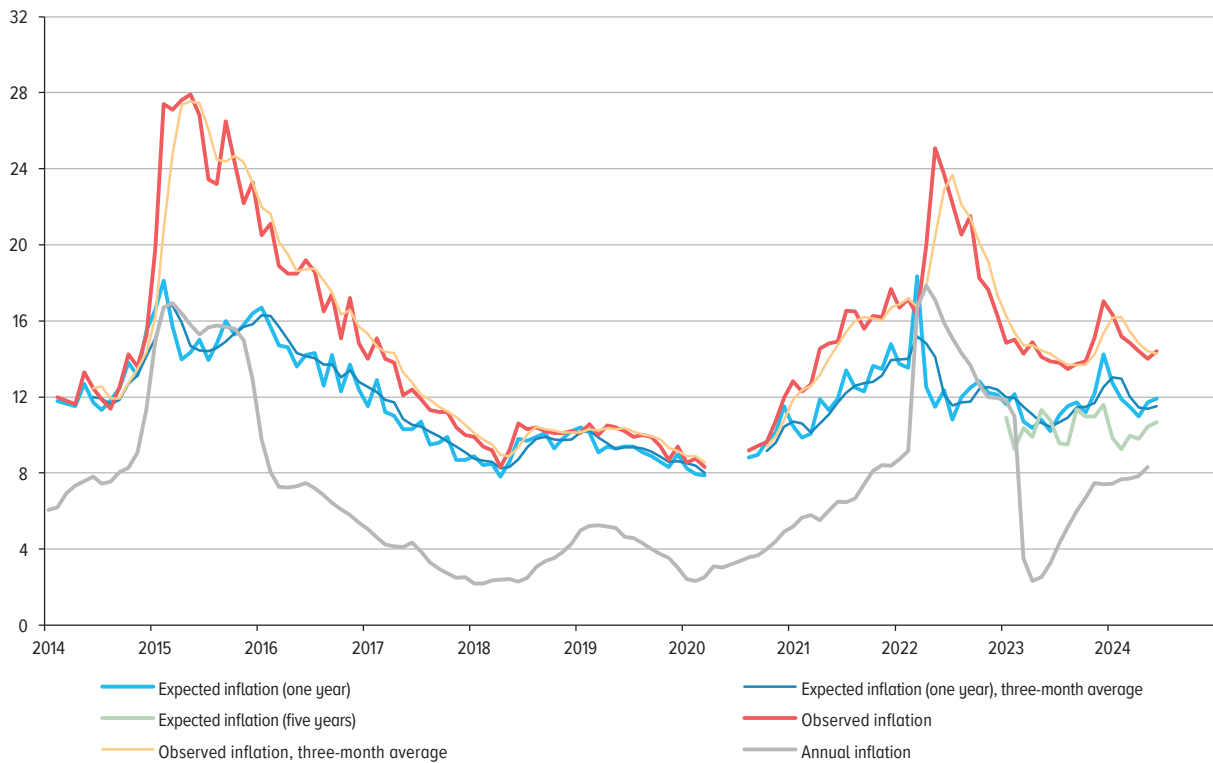
Chart 3



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

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

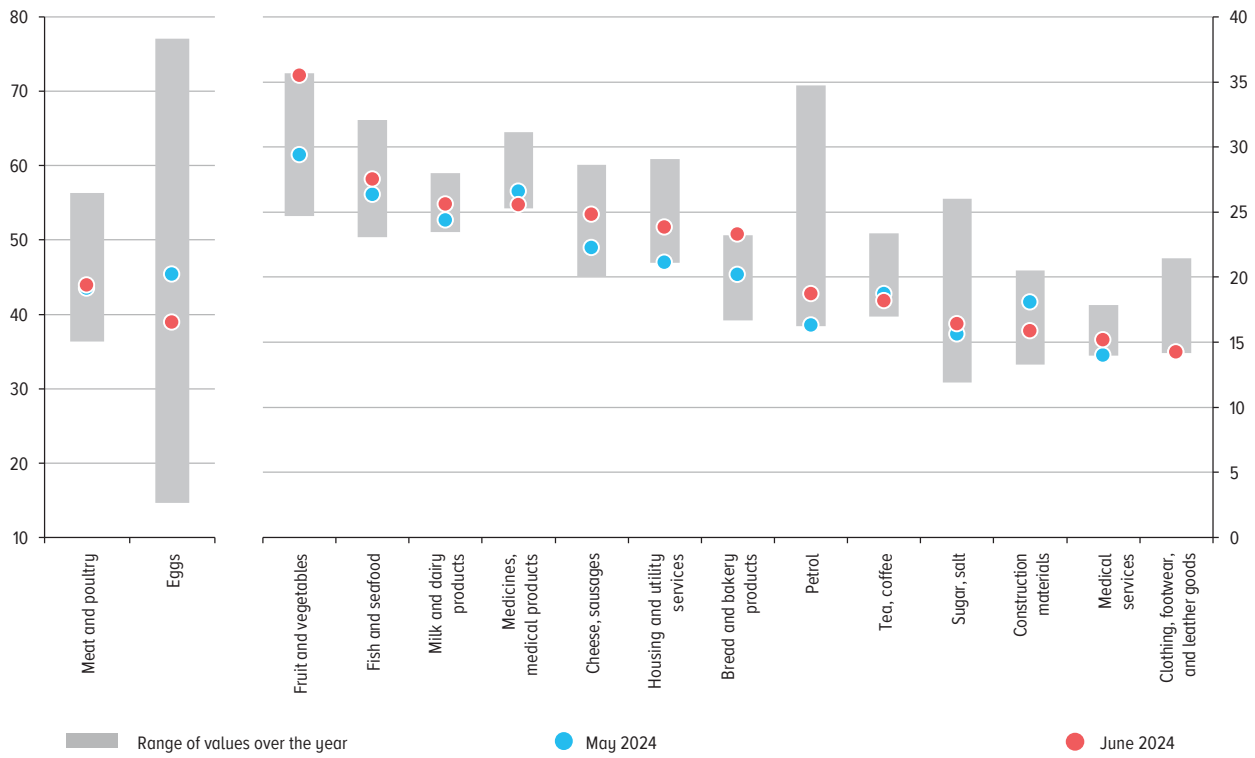
Chart 4



Sources: InFOM, Rosstat, Bank of Russia calculations.

DISTRIBUTION OF RESPONSES TO THE QUESTION 'WHAT MAIN PRODUCTS, GOODS, AND SERVICES DEMONSTRATED VERY HIGH PRICE GROWTH OVER THE PAST MONTH?' (% OF ALL RESPONDENTS)

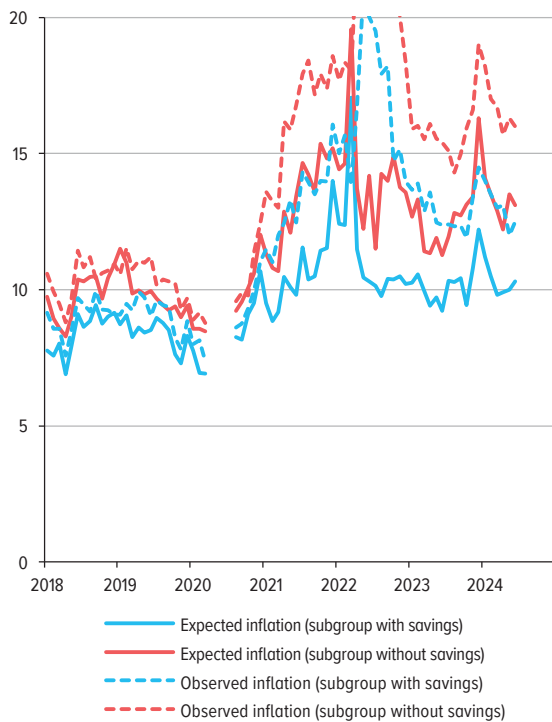
Chart 5



Sources: InFOM, Bank of Russia calculations.

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

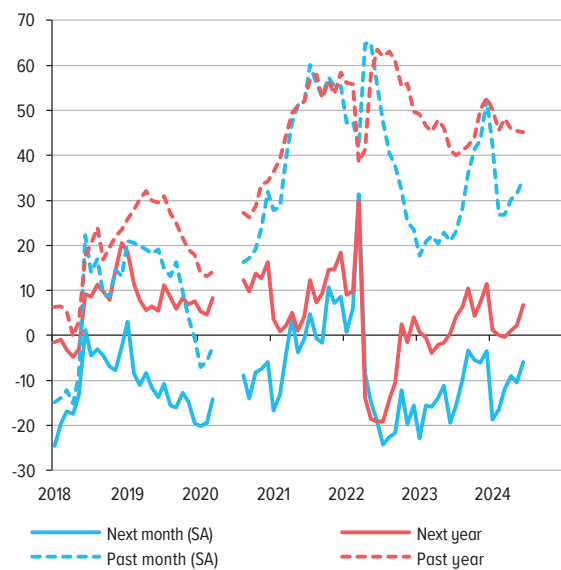
Chart 6



Source: InFOM.

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

Chart 7



* The balance of responses to the questions 'How do you think prices for food products, non-food goods, and services will change overall in the next month?'; 'How do you think prices will be changing overall over the next 12 months (year)?'; 'How do you think prices for food products, non-food goods, and services have changed overall over the past month?'; 'How do you think prices have been changing overall over the past 12 months (year)?'. Questions about price changes in the previous and next months imply seasonally adjusted prices.

Sources: InFOM, Bank of Russia calculations.

DISTRIBUTION OF RESPONSES TO THE QUESTION 'DO YOU THINK ANNUAL PRICE GROWTH WILL BE ABOVE OR BELOW 4% IN THREE YEARS?' (% OF ALL RESPONDENTS)

Chart 8



Sources: InFOM, Bank of Russia calculations.

CONSUMER SENTIMENT INDEX (P)

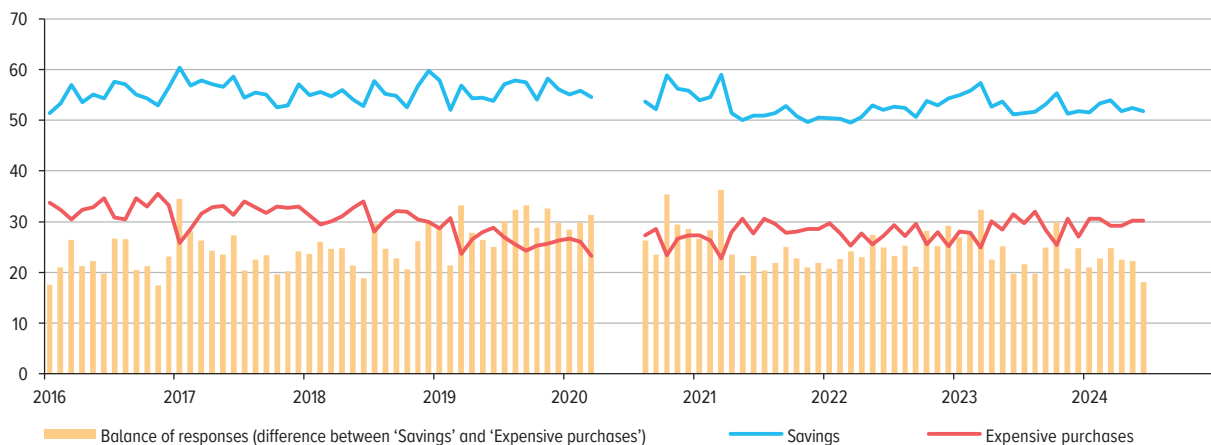
Chart 9



Source: InFOM.

DISTRIBUTION OF RESPONSES TO THE QUESTION 'WHAT DO YOU THINK ABOUT THE BEST WAY TO USE AVAILABLE MONEY: MAKE SAVINGS OR PURCHASE EXPENSIVE GOODS?' (% OF ALL RESPONDENTS)

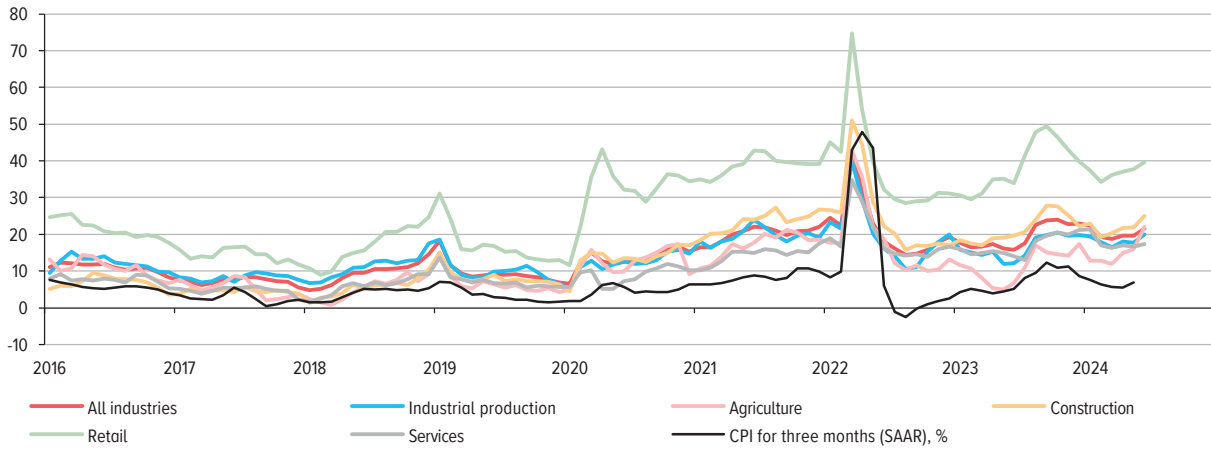
Chart 10



Sources: InFOM, Bank of Russia calculations.

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

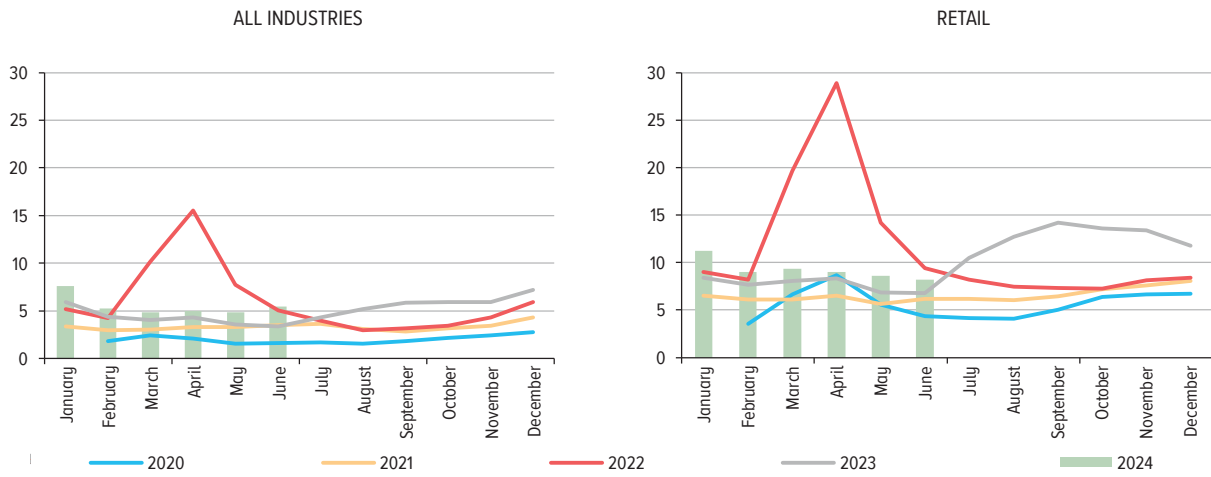
Chart 11



Sources: Bank of Russia, Rosstat.

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

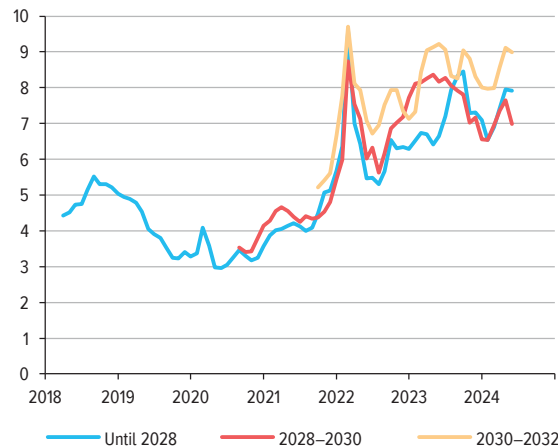
Chart 12



Source: Bank of Russia.

IMPLIED INFLATION FOR OFZ-IN
(%)

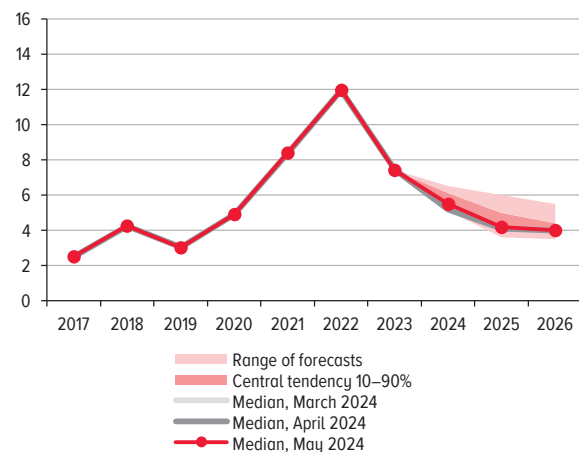
Chart 13



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 – 21.06.2024.

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.

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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