



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No. 8 (56) • August 2021

Information and analytical commentary

26 August 2021

Inflation expectations and consumer sentiment (August 2021)

In August, inflation expectations remained elevated. Pursuant to the survey by InFOM, households' inflation expectations for a year ahead declined but stayed close to multi-year highs. The Bank of Russia's monitoring shows that companies' short-term price expectations were virtually unchanged, remaining elevated. Two-year implied inflation for inflation-indexed federal government bonds (OFZ-IN) changed negligibly in August, while staying close to the Bank of Russia's target. Analysts' inflation outlook for 2021 increased to 5.6–6.0%, forecasts for 2022 and 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.

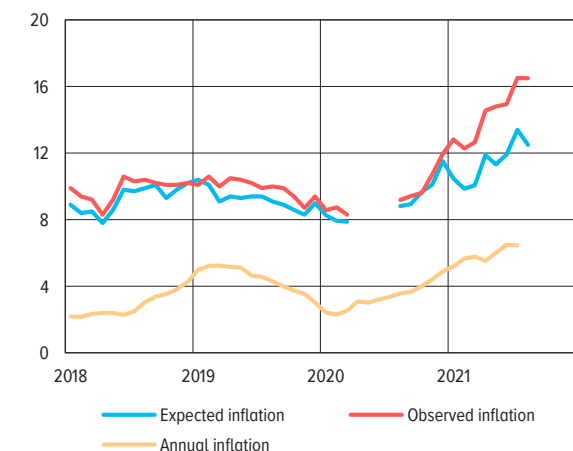
INFLATION EXPECTATION INDICATORS

Tabl. 1

	Expectation horizon	2018 average	2019 average	2020 average	March 2020	June 2021	July 2021	August 2021
Inflation, %		2.9	4.5	3.4	2.5	6.5	6.5	
Inflation observed by households, %								
Public Opinion Foundation (median)	past 12 months	9.8	9.9	9.6	8.3	14.9	16.5	16.5
Public Opinion Foundation (subgroup with savings)	past 12 months	9.0	9.1	8.7	7.2	12.1	14.1	13.5
Public Opinion Foundation (subgroup without savings)	past 12 months	10.3	10.4	9.9	8.6	16.9	18.0	18.3
Households' inflation expectations, %								
Public Opinion Foundation (median)	next 12 months	9.3	9.3	9.1	7.9	11.9	13.4	12.5
Public Opinion Foundation (subgroup with savings)	next 12 months	8.4	8.3	8.4	6.9	9.7	11.4	10.6
Public Opinion Foundation (subgroup without savings)	next 12 months	9.7	9.8	9.6	8.5	12.9	14.7	14.0
Companies' price expectations								
Companies, balance of responses	next 3 months	10.6	10.2	16.5	18.3	27.5	25.3	25.9
PMI Manufacturing input prices	current month	65.0	57.8	64.0	59.8	76.0	71.8	
PMI Manufacturing output prices	current month	54.4	53.1	54.2	55.4	66.2	61.1	
PMI Services input prices	current month	58.8	58.0	58.0	61.5	62.4	61.8	
PMI Services output prices	current month	52.8	54.0	51.3	54.2	57.1	56.3	
Implied inflation for OFZ-IN (monthly average), %								
OFZ-IN 52001, August 2023	next 2-year average	4.7	3.9	2.7	3.5	4.1	4.2	4.1
OFZ-IN 52002, February 2028	next 7-year average		4.1	3.3	4.1	4.2	4.1	4.0
OFZ-IN 52003, July 2030	next 9-year average			3.3		4.3	4.2	4.1
OFZ-IN	2023–2028 average		4.3	3.8	4.5	4.3	4.1	4.0
OFZ-IN	2028–2030 average			3.5		4.4	4.2	4.3
Analysts, %								
Bloomberg	2021				4.0	5.0	5.5	6.0
Interfax	2021				3.8	5.7	5.9	
Reuters	2021				3.9	5.4	6.0	
Survey by the Bank of Russia	2021						5.6	
Bloomberg	2022				3.9	4.0	4.0	4.1
Interfax	2022					4.0	4.1	
Reuters	2022				3.9	4.0	4.1	
Survey by the Bank of Russia	2022						4.0	
Bloomberg	2023					4.0	4.0	4.0
Reuters	2023					4.0	4.0	
Survey by the Bank of Russia	2023						4.0	

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

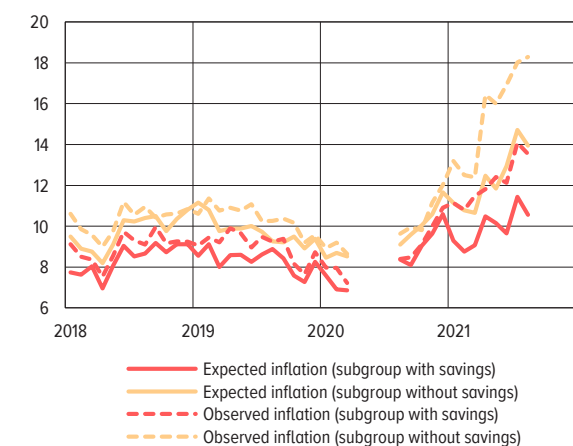
Chart 1



Sources: InFOM, Rosstat.

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

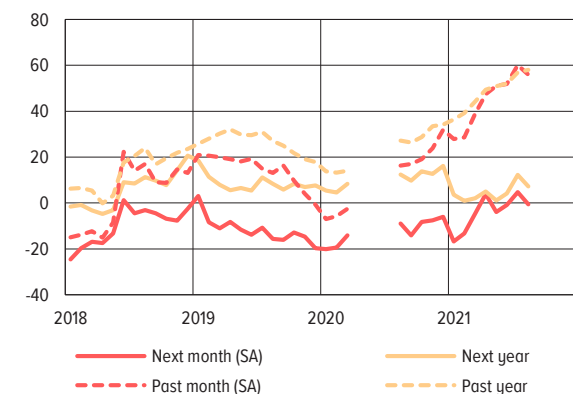
Chart 2



Sources: InFOM, Bank of Russia calculations.

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

Chart 3



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

Sources: InFOM, Bank of Russia calculations.

Households' inflation expectations

According to InFOM's survey commissioned by the Bank of Russia, households' inflation expectations dropped in August from the July peak and remained close their multi-year highs (Table 1, Chart 1). The median estimate of inflation expected in the next 12 months amounted to 12.5% (-0.9 pp vs July). Inflation observed by households remained unchanged in August. Its median estimate was 16.5%. Expected inflation estimates declined among respondents both with and without savings (Chart 2). As for observed inflation estimates, they decreased only among respondents with savings in August, but they continued to rise among respondents without savings.

In August, amid a seasonal downturn in fruit and vegetable prices respondents noted increased prices for this subgroup appreciably less often than a month before (Chart 3 of the [in-From Analytical Report, August 2021](#); hereinafter, the Report). Moreover, respondents tended to mention less often eggs, sugar, fish, cereals, and pasta as the goods whose prices increased most of all. In August, a considerable increase in the prices for construction materials and utility services was also noted more often. Rising concerns about a surge in utility prices was associated with the seasonal indexation of utility rates. Rosstat recorded high growth rates of prices for construction materials in July 2021.¹

The estimates of the balance of responses to the questions about changes in future inflation trends² for one month and one year ahead edged down in August (Chart 3).

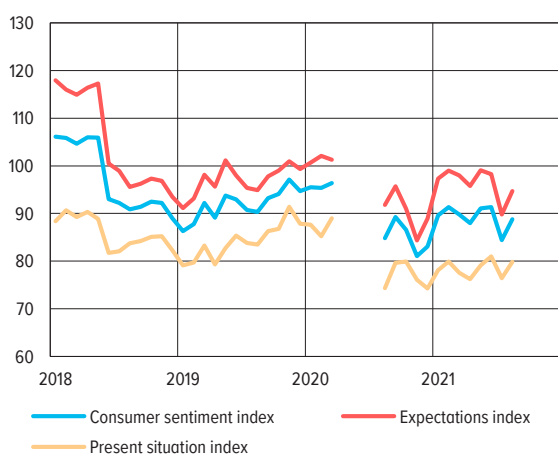
Households' inflation expectations until the end of 2021 and for the three years ahead remained virtually unchanged in August (Charts 8 and 9 of the Report).

¹ See the information and analytical commentary [Consumer Price Dynamics, No. 7 \(67\), July 2021](#).

² That is, a smaller percentage of respondents answered that prices rose/will rise considerably or were/will be rising faster than before/now.

CONSUMER SENTIMENT INDEX
(POINTS)

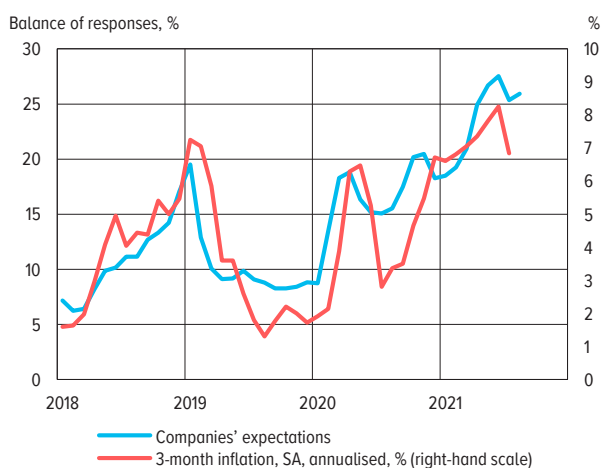
Chart 4



Source: InFOM.

COMPANIES' PRICE EXPECTATIONS
(BANK OF RUSSIA)

Chart 5



Sources: Bank of Russia, Rosstat.

Households' consumer sentiment

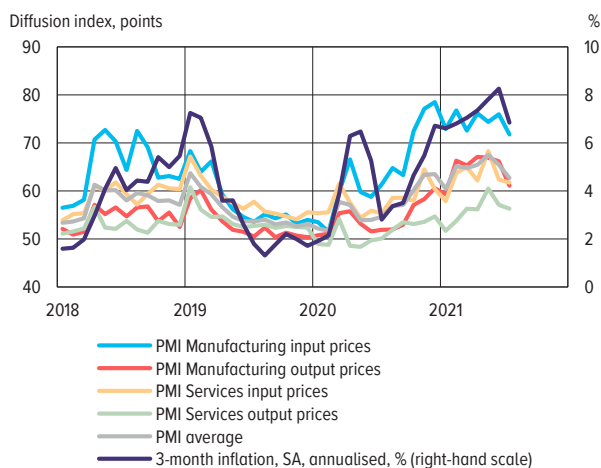
After the July drop, the consumer sentiment index edged up in August (+4.4 p vs July) (Chart 4). The expectations index increased most of all (+4.9 p). The present situation index was up 3.4 p.

The percentage of respondents preferring to save hardly changed in August. As in July, 51% of the respondents think that it is better to put aside available cash now. Being markedly smaller than before the pandemic, this figure remains close to multi-year lows: in January–March 2020, it was 55–56% (Chart 22 of the Report). Amid growing deposit interest rates, the share of respondents preferring to keep their savings in bank accounts grew in August (up to 35%, +1 pp vs July). However, this indicator also remains below the pre-pandemic level of early 2020 (Chart 23 of the Report).

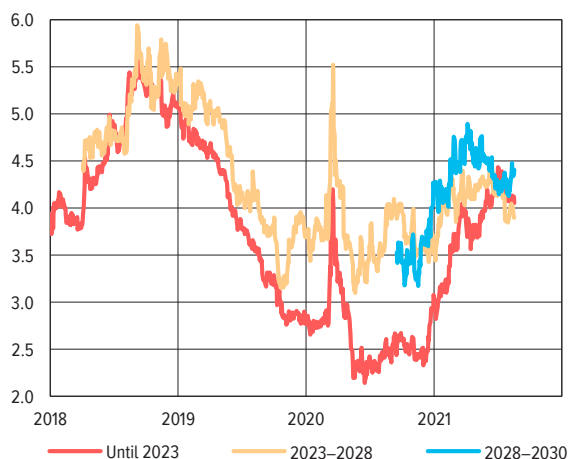
Companies' price expectations

According to the *monitoring* carried out by the Bank of Russia in August 2021, three-month ahead price expectations of companies were almost unchanged (Chart 5), remaining considerably above the local highs of 2019–2020. The average three-month ahead price growth rate is expected to be 3.8% in annualised terms (vs 1.9% in August 2020). Slowing growth of costs and demand were among the key factors hindering price expectations. However, three-month ahead companies' expectations about demand and output remain optimistic. Rising prices for motor fuel were also indicated by companies as main reasons for expected output price growth.

Price expectations in construction rose again due to rising costs. Estimates of current sectoral demand deteriorated, thereby moderating the pass-through of rising costs to prices. Respondents continue to be optimistic in their expectations regarding three-month ahead demand movements.

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.

Compared to the previous period, increase in price expectations was recorded in transportation, storage and services sector. These sectors demonstrated worsening estimates of demand and volume of services rendered, like a month earlier. This fact may be in part due to anti-pandemic restrictions. However, as restrictions were lifted, companies' optimism about the expansion of demand and services volumes in the next three months improved, causing a further increase in price expectations.

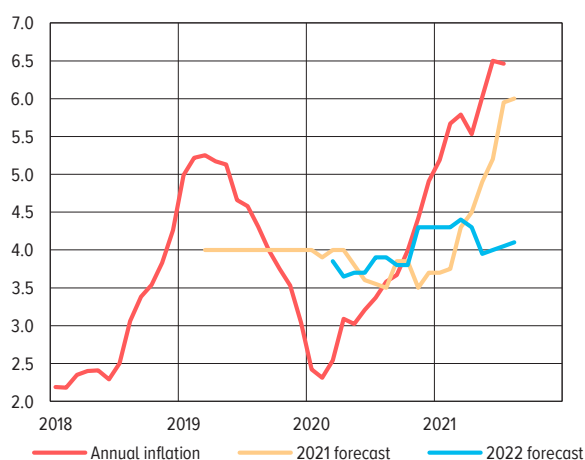
Price expectations in trade have been falling for the second month in a row. With that, they declined in the sale of motor vehicles for the first time this year due to a slowdown in demand growth rates. Decrease in price expectations in retail trade is also conditioned by weaker demand dynamics compared with the previous month. Conversely, positive expectations regarding demand and sale of goods in the next three months helped maintain price expectations across all trade segments at levels close to their highs. Three-month ahead average price growth expected by retailers was 6.0% in August (in annualised terms; vs 4.1% in August 2020).

Based on the surveys by [IHS Markit PMI](#), all price indices declined suggesting a slowdown in price growth. Output price indices remained elevated, despite their plummeting to past six-month lows. The biggest drop in price indices occurred in manufacturing amid a decline in the volume of new orders. In services, input and output price indices reduced slightly. Companies explained price growth by a pick up in transportation and fuel prices.

Implied inflation for OFZ-IN

Implied inflation for inflation-indexed federal government bonds (OFZ-IN) changed negligibly in August 2021 (Chart 7). According to the Bank of Russia's estimates,³ two-year ahead implied inflation went down, averaging 4.1% over the first twenty days of August (vs 4.2% on average in July) (Table 1). Compared to July, implied inflation

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

BLOOMBERG ANALYSTS' CONSENSUS FORECAST *Chart 8*
(%)

Sources: Bloomberg, Rosstat.

reduced to 4.0% for 2023–2028 (-0.1 pp) and increased to 4.3% for 2028–2030 (+0.1 pp).

Analysts' inflation forecast

In July–August 2021, analysts' inflation outlooks⁴ for 2021 continued to go up ranging from 5.6% to 6.0% (Table 1, Chart 8). Their forecasts for 2022 and 2023 hardly changed and stayed close to 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 Bank of Russia assessments, the balance of risks remains largely skewed towards proinflationary ones. The contribution of stable factors to inflation increased due to faster growth of demand compared to output expansion capacity. The risks of secondary effects spurred by elevated inflation expectations remain significant. 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.

⁴ Surveys by Interfax, Bloomberg, Thomson Reuters, and the Bank of Russia.

Data cut-off date – 20.08.2021.

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.

This commentary was prepared by the Monetary Policy Department.

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