



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No. 8 (92) • August 2024

Information and analytical commentary

26 August 2024

INFLATION EXPECTATIONS AND CONSUMER SENTIMENT (AUGUST 2024)

In August, indicators of inflation expectations mainly increased. The median estimate of inflation expected by households in the next 12 months rose to 12.9% in August, as shown by InFOM's survey. The median of long-term expectations for the next five years went down to 10.4%. Companies' price expectations for the next three months increased. Breakeven inflation for inflation-indexed federal government bonds (OFZ-IN) for the next 3.5 years continued to decline for the second consecutive month and equalled 7.0%. The Bank of Russia forecasts that annual inflation will be 6.5–7.0% in 2024. Given the monetary policy pursued, annual inflation will decline to 4.0–4.5% in 2025 and stay close to 4% further on.

INDICATORS OF INFLATION EXPECTATIONS

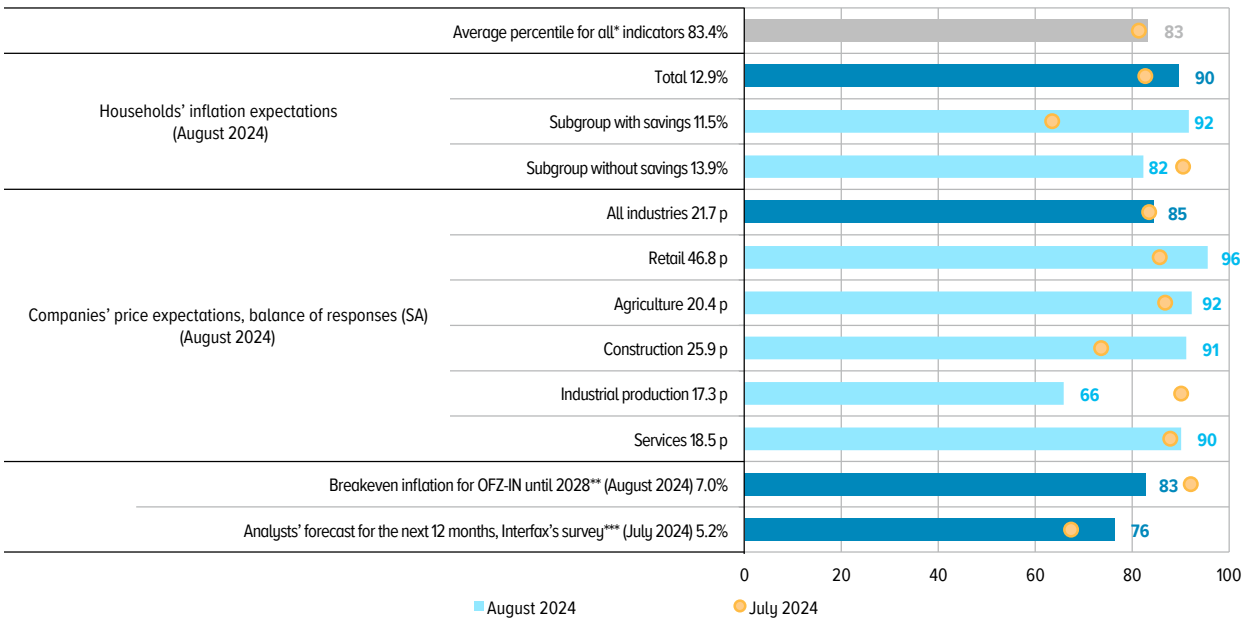
	Expectations horizon	2021 average	2022 average	2023 average	2024 Q1 average	2024 Q2 average	June 2024	July 2024	August 2024	Average over the past three months
Inflation, %		6.7	13.8	5.9	7.6	8.2	8.6	9.1		
Inflation observed by households, Public Opinion Foundation, %										
Median	previous 12 months	15.1	19.6	14.5	15.5	14.3	14.4	14.2	15.0	14.5
Subgroup with savings	previous 12 months	13.2	16.8	13.0	13.5	12.5	12.5	12.1	13.5	12.7
Subgroup without savings	previous 12 months	16.3	22.0	15.9	17.3	16.0	16.0	16.7	16.1	16.3
Households' inflation expectations, Public Opinion Foundation, %										
Median	next 12 months	12.1	12.9	11.5	12.0	11.5	11.9	12.4	12.9	12.4
Subgroup with savings	next 12 months	10.6	11.3	10.2	10.5	10.1	10.3	10.2	11.5	10.7
Subgroup without savings	next 12 months	13.3	14.2	12.7	13.5	12.9	13.1	14.5	13.9	13.8
Median for the next five years	next five years			10.5	9.7	10.3	10.7	10.6	10.4	10.6
Companies' price expectations, Bank of Russia's monitoring of businesses, balance of responses, p, SA*										
Companies, total	next three months	20.1	21.7	19.5	20.1	20.3	21.3	21.5	21.7	21.5
Retail	next three months	38.8	38.9	38.6	35.9	38.5	40.5	41.1	46.8	42.8
Breakeven inflation for OFZ-IN (monthly average), %										
OFZ-IN 52002, February 2028	next 3.5-year average	4.2	6.3	7.2	6.8	7.8	7.9	7.5	7.0	7.5
OFZ-IN 52003, July 2030	next six-year average	4.3	6.5	7.4	6.8	7.6	7.5	7.2	6.7	7.1
OFZ-IN 52004, March 2032	next eight-year average		6.7	7.6	7.0	7.8	7.7	7.7	7.2	7.6
OFZ-IN	2028–2030 average	4.4	6.7	7.9	6.7	7.3	6.9	6.8	6.3	6.7
OFZ-IN	2030–2032 average		7.6	8.5	8.0	8.8	8.6	9.4	9.1	9.1
Analysts, %										
Survey by the Bank of Russia	2024		4.4	4.4	5.1	5.4		6.5		
Interfax	2024			4.8	5.2	5.8	6.3	6.8		
Survey by the Bank of Russia	2025			4.0	4.1	4.2		4.5		
Interfax	2025						4.6	4.8		
Survey by the Bank of Russia	2026			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), breakeven inflation for OFZ-IN until 2028, and analysts' forecast for the next 12 months.

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

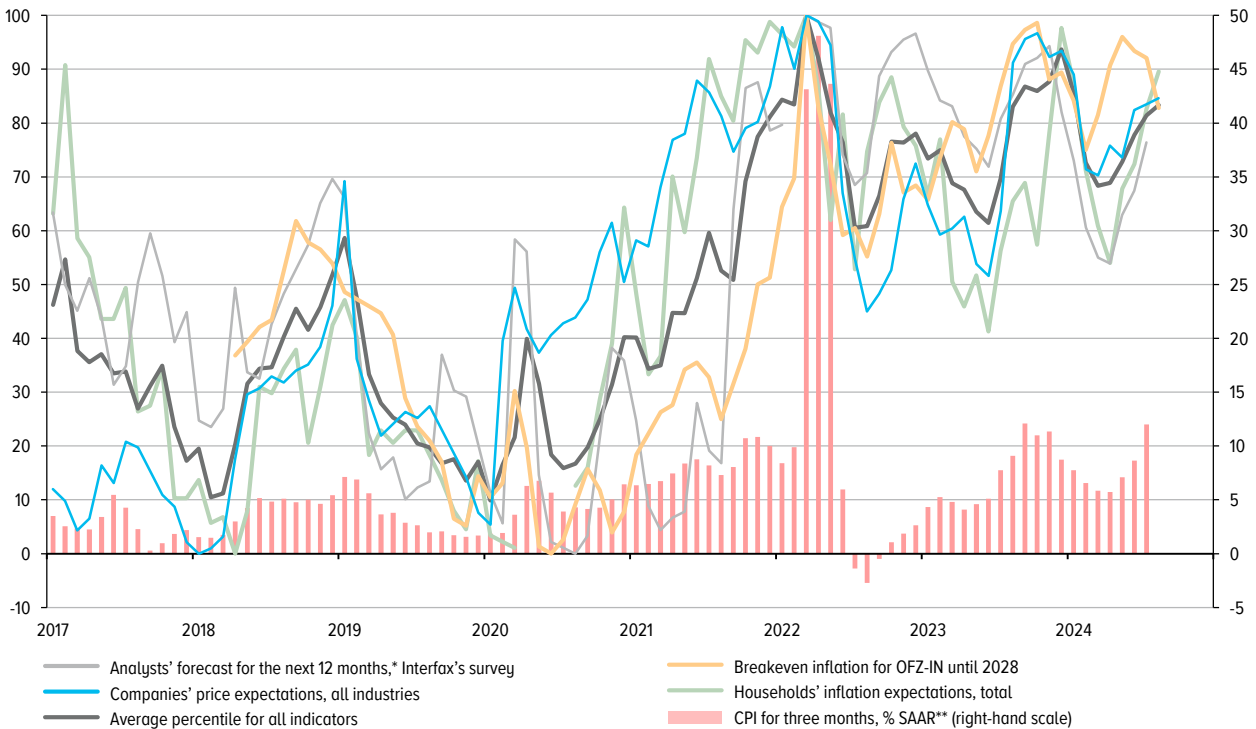
*** Analysts' forecast for the next 12 months was made using forecasts for this and subsequent years, taking into consideration actual inflation since the beginning of this year.

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 as the grey, blue and light blue bars. 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



* Analysts' forecast for the next 12 months was made using forecasts for this and subsequent years, taking into consideration actual inflation since the beginning of this year.

** SAAR – seasonally adjusted annualised 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 This is because 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 in Russia and abroad almost always exceed actual inflation rates. 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 impossible 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 went up

As shown by [InFOM's survey](#), in August 2024, the median estimate of inflation expectations for the next 12 months continued to rise for the fourth consecutive month and equalled 12.9% (+0.5 pp MoM; +1.4 pp YoY) (Charts 3 and 4). The increase was driven by growing expectations among respondents with savings (11.5%; +1.3 pp MoM; +1.2 pp YoY) (Chart 6). Expectations of respondents without savings declined (13.9%; -0.6 pp MoM; +1.1 pp YoY) but were still around their highs since the beginning of 2024.

Inflation observed by households also increased in August, with its median equalling 15.0% (+0.8 pp MoM; +1.5 pp YoY). The estimates of observed inflation were up among respondents with savings and down among those without savings. The gap between the estimate of observed inflation and the annual growth of the consumer price index (CPI) widened by a factor of 1.6 to 5.9 pp.

In August, respondents reported rising prices for most frequently purchased goods and services more often than in July.² The proportion of respondents indicating an increase in prices for meat and poultry, housing and utility services, petrol, cheese and sausages expanded most significantly (Chart 5). Contrastingly, respondents complained about a rise in prices for eggs, fruit and vegetables less often than in the previous month.

In August, the qualitative estimates of inflation expected in one month declined,³ whereas those of inflation expected in one year increased.⁴ The qualitative estimates of observed inflation were up both over the past month and over the past year⁵ (Chart 7).

Long-term inflation expectations for the next five years⁶ edged down to 10.4% in August (-0.2 pp MoM; +0.9 pp YoY). Long-term expectations of respondents without savings decreased (11.2%; -1.4 pp MoM; +1.0 pp YoY), while those of respondents with savings remained almost the same (9.6%; +0.1 pp MoM; +1.0 pp YoY).

Consumer sentiment index declined

In August, the consumer sentiment index went down again to 105.0 p (-3.7 p MoM; -0.6 p YoY), dropping to its minimum since early 2024 and below its value year-on-year (Chart 8). Both the present situation estimates and the expectations of respondents declined, with the latter going down more significantly.

The expectations index was 113.1 p in August (-4.9 p MoM; -0.5 p YoY). Estimates of all its components dropped, including expectations regarding the country's economic prospects for one year and five years ahead as well as estimates of personal financial prospects for the next 12 months.

The present situation index equalled 92.8 p in August (-1.8 p MoM; -0.9 p YoY). Respondents' estimates of actual changes in their personal financial standing over the past year worsened, whereas their assessments of the suitability of the current period for large purchases edged up.

² For details on inflation in July, refer to the information and analytical commentary [Consumer Price Dynamics](#) No. 7 (103), July 2024.

³ That is, the percentage of respondents who said that prices would surge was lower than in the previous month.

⁴ That is, the percentage of respondents who said that prices would be rising faster in the future was higher than in the previous month.

⁵ That is, the percentage of respondents who said that prices had risen considerably and were rising faster than before was higher than in the previous month.

⁶ The question 'Could you even roughly estimate inflation and price growth in Russia in five years?'. The percentage 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 50% in August (vs 51% in July).

In August, the percentage of respondents opting to save money rather than purchase expensive goods remained virtually at the same level of 51.5% (-0.1 pp MoM; -0.2 pp YoY) (Chart 9), staying below the average value since 2016 (54.2%). The proportion of those who preferred to spend money was 30.6% (-0.9 pp MoM; -1.4 pp YoY). Answering the question about preferred forms of saving, in August, a smaller number of respondents said that they preferred to keep money in a bank account as compared with July. The proportion of such answers among all respondents was 42% (-4 pp MoM; unchanged YoY). The percentage of respondents opting to have cash holdings was up to reach 29% (+3 pp MoM; -1 pp YoY).

Companies' price expectations increased

According to the monitoring of businesses carried out by the Bank of Russia in August 2024, companies' price expectations (the balance of responses) for the next three months edged up again (Chart 10).⁷ The accelerated cost growth and higher business risks were putting upward pressure on price expectations, while estimates of current and future demand decreased.

Price expectations rose in all sectors, except for the industrial production where they returned to the spring lows but remained above the average level of 2023.

The strongest growth was observed in retail. Enterprises in this sector increased their estimates of current demand and changes in costs.

In construction, estimates of cost changes reached their maximum since the beginning of 2024, which also contributed to the growth of price expectations. Contrastingly, estimates of current demand dropped to their lowest level since November 2022, which reflected high rates on market mortgages and the termination of the non-targeted subsidised mortgage programme. Expectations of future demand in construction also worsened.

Higher price expectations in services as well as agriculture were accompanied by faster cost growth. Among the reasons for the expected price growth, respondents mentioned changes in prices for raw materials, components and supplies, including motor fuel, as well as changes in competitors' prices for similar products.

Price expectations in mining and quarrying and in manufacturing decreased. Moreover, demand and output expectations worsened in manufacturing, while their actual estimates declined in mining and quarrying.

The average price growth rate expected in the next three months⁸ (in annualised terms), measuring companies' inflation expectations, equalled 4.9% in August (-0.8 pp MoM; -0.3 pp YoY) (Chart 11). The average price growth rate expected by retailers in the next three months⁸ equalled 11.6% in annualised terms (+2.7 pp MoM; -1.1 pp YoY).

⁷ In August 2024, the Bank of Russia surveyed 11,800 companies (more detailed results of the monitoring are available in the information and analytical commentary [Monitoring of Businesses: Assessments, Expectations and Comments](#)).

⁸ Seasonally adjusted data.

Breakeven inflation decreased

As estimated by the Bank of Russia,⁹ average breakeven inflation in the next 3.5 years until February 2028, calculated based on the ratio between yields on OFZ-IN and OFZ-PD (fixed coupon federal government bonds) with the same maturity dates, decreased in August as compared to July. Its average for 1–21 August was 7.0% (-0.5 pp MoM; -0.9 pp YoY) (Chart 12). Breakeven inflation for longer periods was also down, equalling 6.3% (-0.5 pp MoM; -1.8 pp YoY) for 2028–2030 and 9.1% (-0.3 pp MoM; +0.8 pp YoY) for 2030–2032.

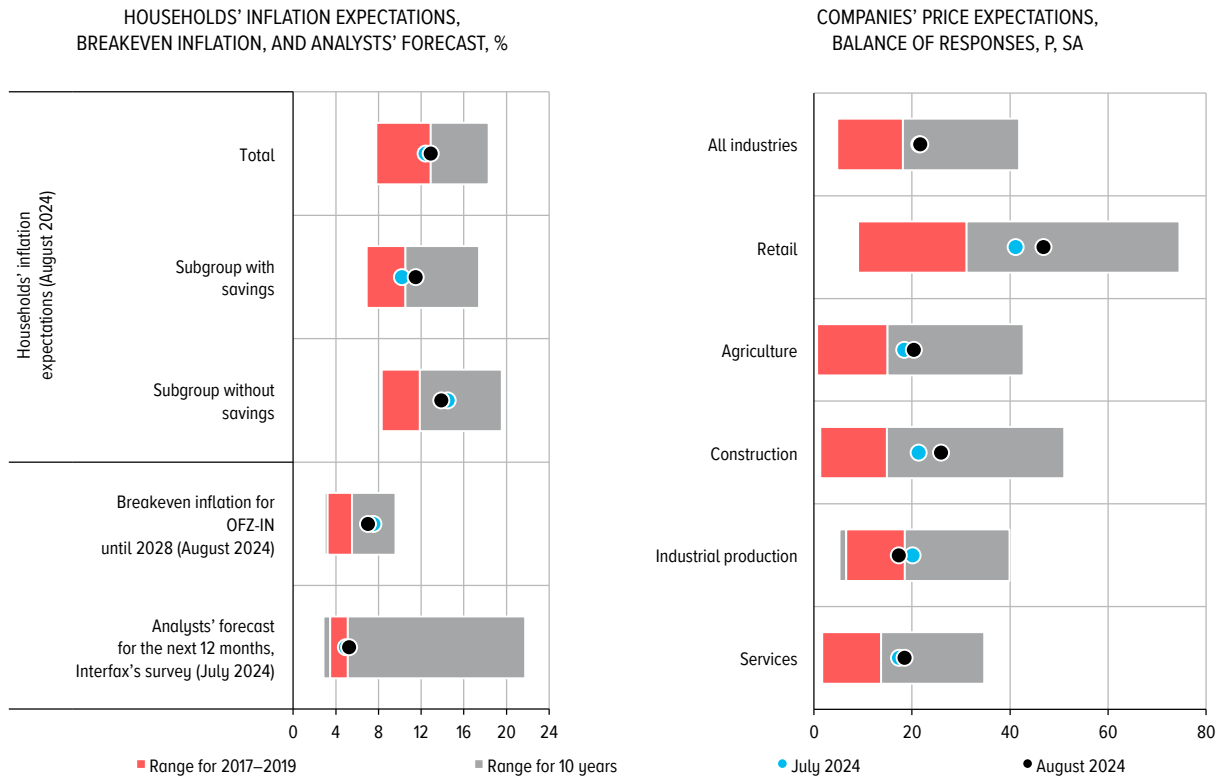
Bank of Russia forecasts that annual inflation will be 6.5–7.0% in 2024

Reducing inflation expectations is a prerequisite for bringing inflation down to the target. The Bank of Russia forecasts that annual inflation will be 6.5–7.0% in 2024. Given the monetary policy pursued, annual inflation will decline to 4.0–4.5% in 2025 and stay close to 4% further on.

⁹ 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](#).

INDICATORS OF INFLATION EXPECTATIONS AND DISTRIBUTION OF THEIR VALUES OVER 10 YEARS

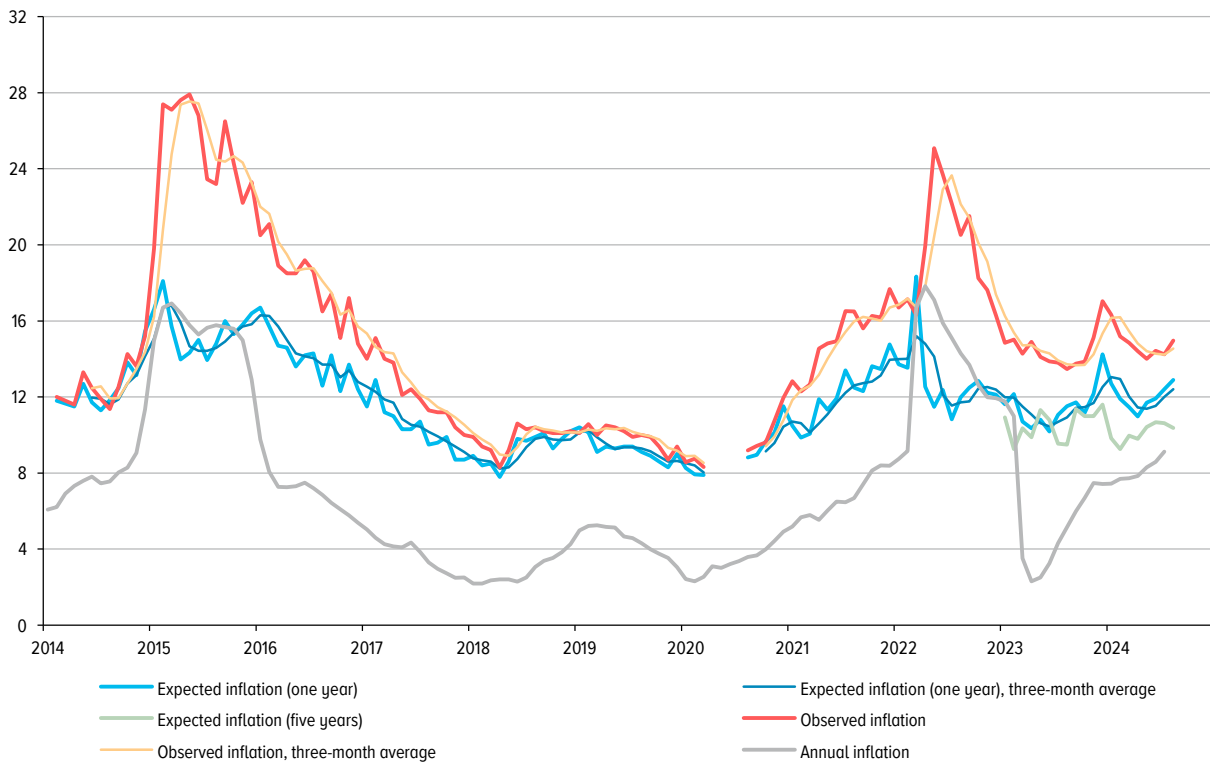
Chart 3



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

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

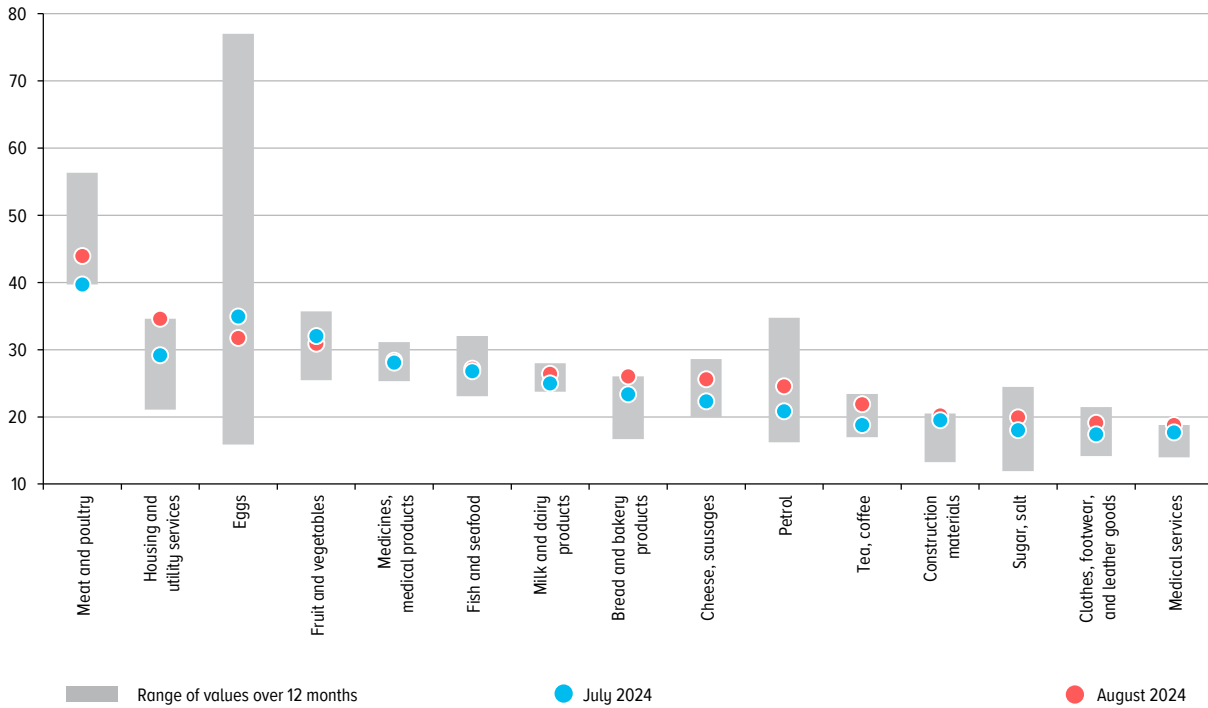
Chart 4



Sources: InFOM, Rosstat, Bank of Russia calculations.

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

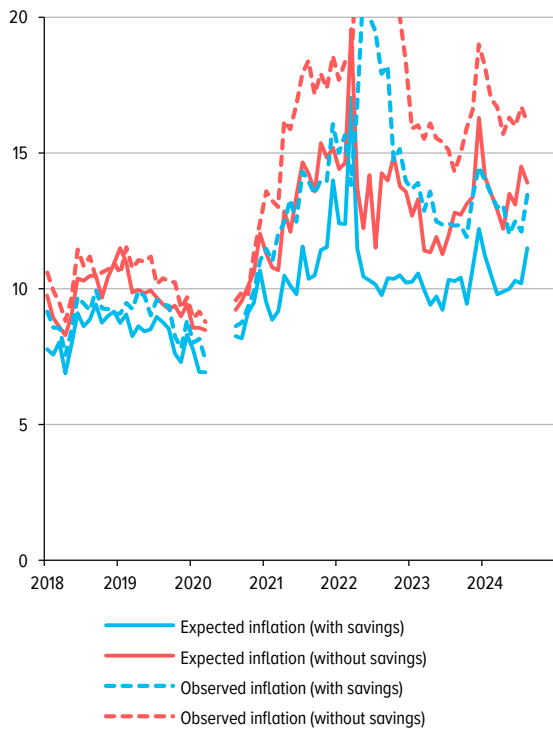
Chart 5



Sources: InFOM, Bank of Russia calculations.

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

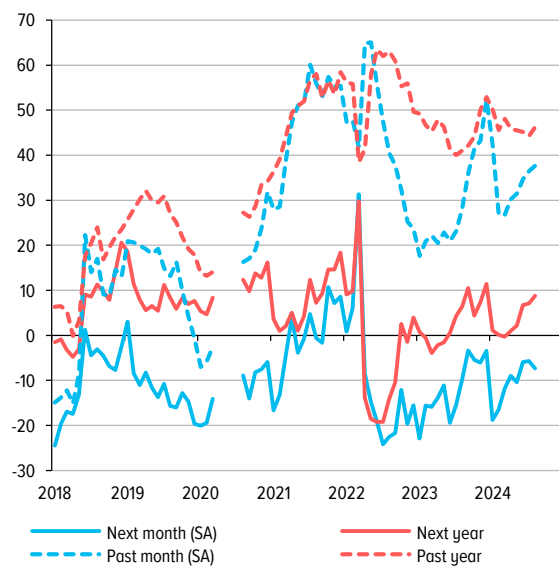
Chart 6



Source: InFOM.

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

Chart 7

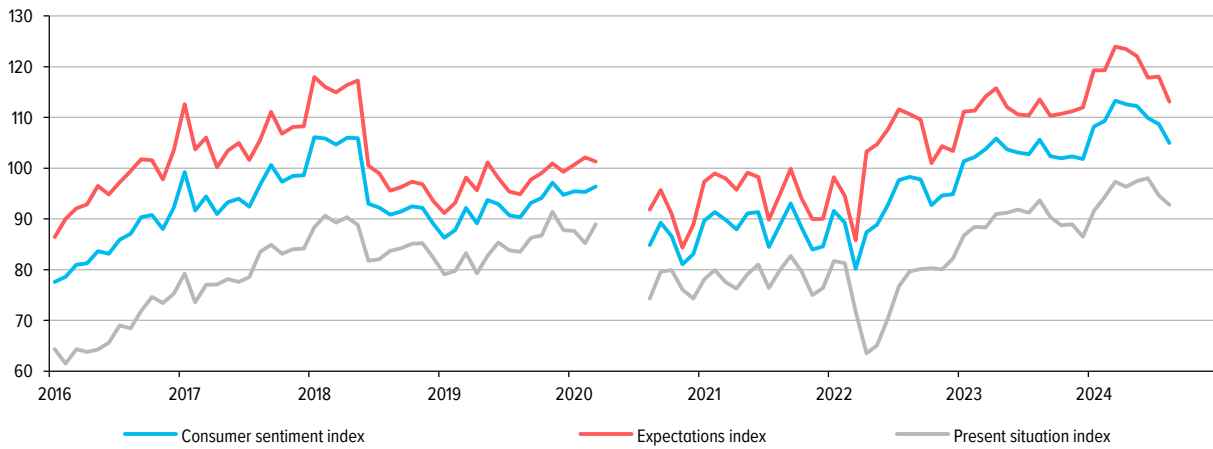


* The balance of responses to the questions 'How will prices for food products, non-food goods, and services change overall next month, in your opinion?'; 'How will prices be changing overall over the next 12 months (year), in your opinion?'; 'How did prices for food products, non-food goods, and services change overall over the past month, in your opinion?'; 'How were prices changing overall over the past 12 months (year), in your opinion?'. For questions about price changes in the past and next months, prices are seasonally adjusted.

Sources: InFOM, Bank of Russia calculations.

CONSUMER SENTIMENT INDEX
(P)

Chart 8



Source: InFOM.

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

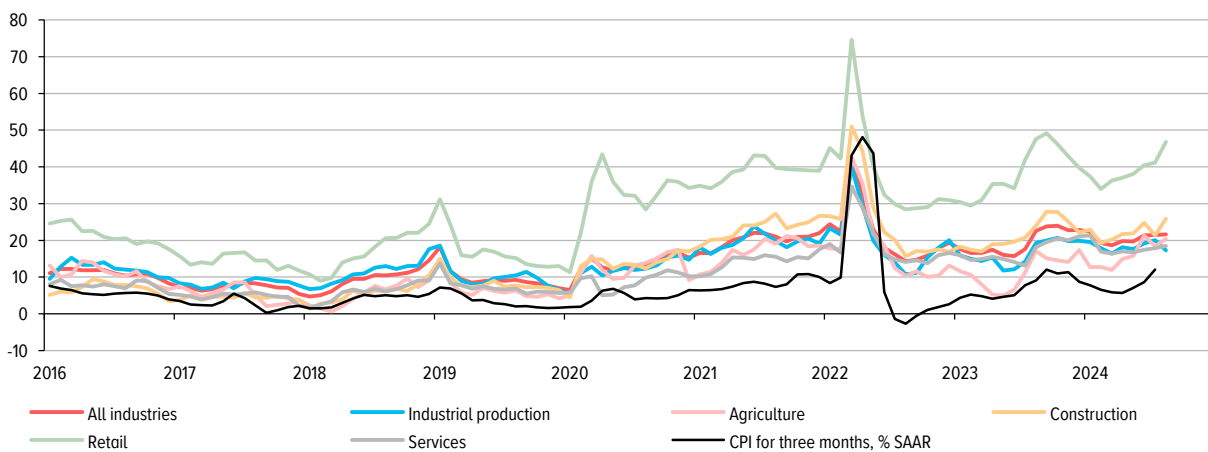
Chart 9



Sources: InFOM, Bank of Russia calculations.

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

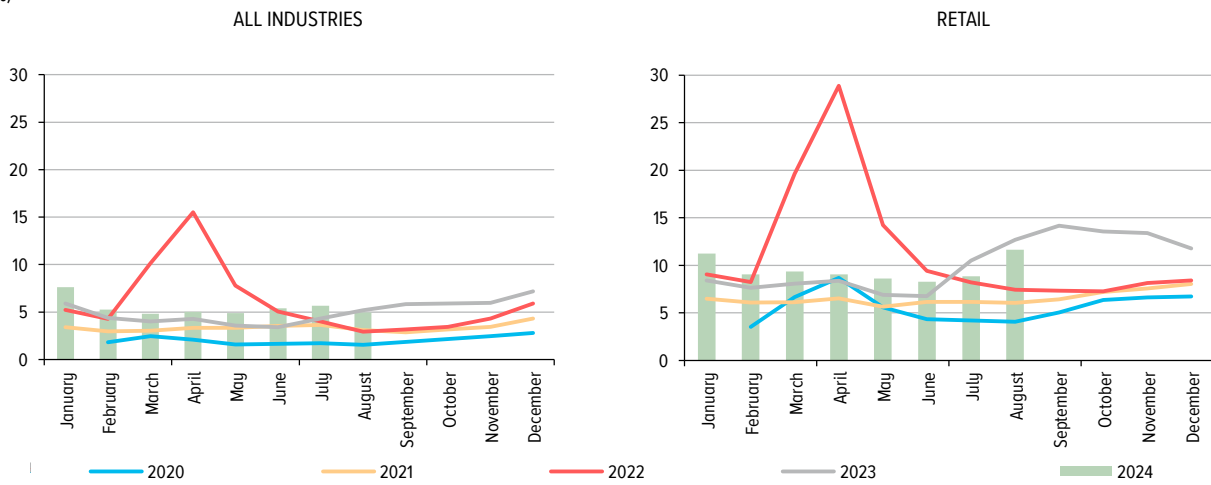
Chart 10



Sources: Bank of Russia, Rosstat.

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

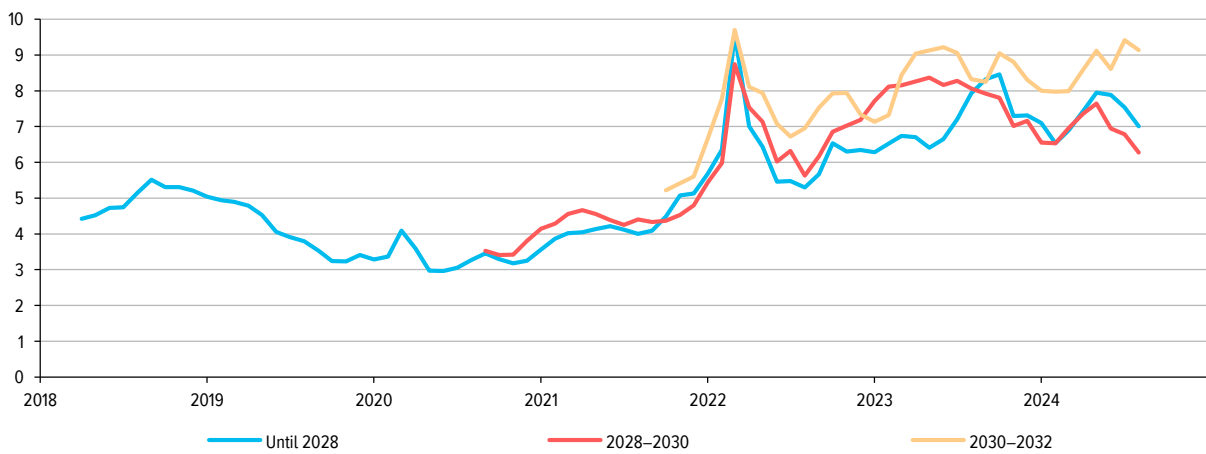
Chart 11



Source: Bank of Russia.

BREAKEVEN INFLATION FOR OFZ-IN
(%)

Chart 12



Sources: Moscow Exchange, Rosstat, Bank of Russia calculations.

The data cut-off date – 22 August 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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Bldg V, 12 Neglinnaya Street, Moscow, 107016

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