



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No. 2 (50) • February 2021

Information and analytical commentary

1 March 2021

Inflation expectations and consumer sentiment (February 2021)

In February, the dynamics of inflation expectations varied across economic agents' groups. According to a survey by inFOM, households' inflation expectations continued to decline for the second month in a row albeit remained high. Based on the Bank of Russia's monitoring, assessments of companies' short-term price expectations remained virtually unchanged, staying close to the high levels observed in March–April 2020. Analysts' inflation forecasts for 2021 and 2022 also remained nearly unchanged around 4%. However, implied inflation for inflation-indexed federal government bonds (OFZ-IN) increased in February, with its three-year-ahead levels reaching 3.5% by the end of the month, and its longer-term levels being slightly above 4%. The Bank of Russia forecasts annual inflation to come in at 3.7–4.2% in 2021 and close to 4% further on.

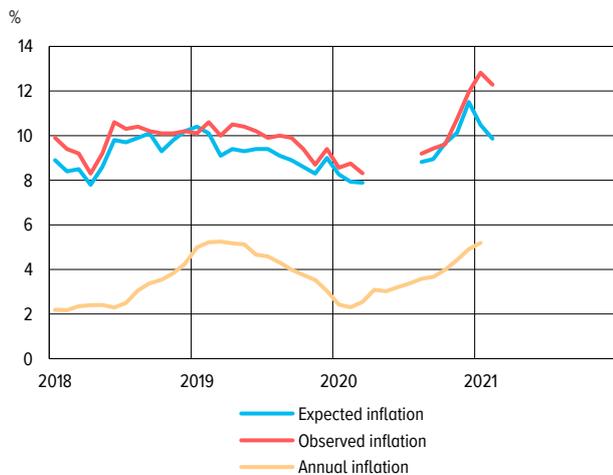
INFLATION EXPECTATION INDICATORS

Table 1

	Expectation horizon	2019 average	February 2020	March 2020	December 2020	January 2021	February 2021
Inflation, %		4.5	2.3	2.5	4.9	5.2	
Inflation observed by households, %							
Public Opinion Foundation (median)	past 12 months	9.9	8.7	8.3	12.0	12.8	12.3
Public Opinion Foundation (subgroup with savings)	past 12 months	9.1	8.0	7.2	10.9	11.1	10.8
Public Opinion Foundation (subgroup without savings)	past 12 months	10.4	9.2	8.6	12.0	13.2	12.5
Households' inflation expectations, %							
Public Opinion Foundation (median)	next 12 months	9.3	7.9	7.9	11.5	10.5	9.9
Public Opinion Foundation (subgroup with savings)	next 12 months	8.3	6.9	6.9	10.6	9.3	8.8
Public Opinion Foundation (subgroup without savings)	next 12 months	9.8	8.7	8.5	11.7	11.1	10.8
Companies' price expectations							
Companies, balance of responses	next 3 months	10.2	13.3	18.1	18.1	18.3	19.1
PMI Manufacturing input prices	current month	57.8	51.5	59.8	78.5	72.9	76.8
PMI Manufacturing output prices	current month	53.1	51.1	55.4	60.6	59.3	66.3
PMI Services input prices	current month	58	55.6	61.5	60.4	57.9	
PMI Services output prices	current month	54	48.8	54.2	54.7	51.7	
Analysts, %							
2021, Bloomberg	2021		3.9	4.0	3.7	3.7	3.7
2021, Interfax	2021		3.9	3.8	3.5	3.8	
2021, Reuters	2021		3.9	3.9	3.6	3.6	
2022, Bloomberg	2022			3.9	4.3	4.3	4.3
2022, Reuters	2022		4.0	3.9	3.9	4.0	
Implied inflation for OFZ-IN, %							
OFZ-IN 52001, August 2023	next 3-year average	3.9	2.8	3.5	2.6	3.1	3.3
OFZ-IN 52002, February 2028	next 8-year average	4.1	3.4	4.1	3.2	3.6	3.8
OFZ-IN 52003, July 2030	next 10-year average				3.4	3.7	3.9
OFZ-IN	2023–2028 average	4.3	3.8	4.5	3.6	3.8	4.1
OFZ-IN	2028–2030 average				3.8	4.1	4.2

INFLATION OBSERVED AND EXPECTED
BY HOUSEHOLDS (MEDIAN ESTIMATE)

Chart 1



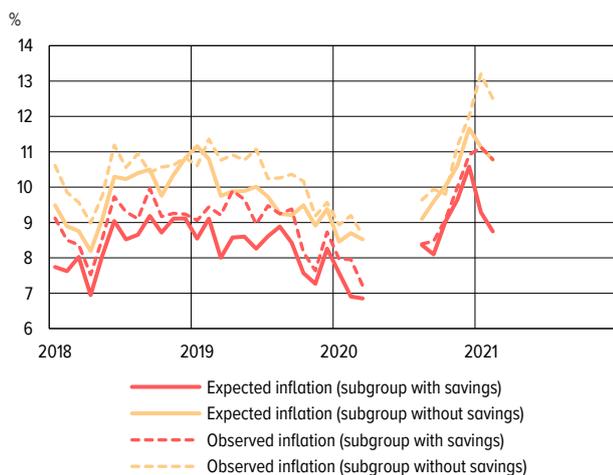
Sources: InFOM, Rosstat.

Households' inflation expectations

According to the survey by inFOM, households' inflation expectations continued to decline in February (Table 1, Chart 1). The median estimate of inflation expected in the next 12 months stood at 9.9% (-0.6 pp on January), which is still much higher than the average level of 2018–2019. Inflation observed by households also declined in February for the first time since August 2020. Its median estimate was 12.3% (-0.5 pp vs January). Estimates of expected and observed inflation declined for respondents both with and without savings (Chart 2). For respondents with savings, expected inflation returned to the levels of 2019 Q1.

EXPECTED AND OBSERVED INFLATION
BY RESPONDENT SUBGROUP (MEDIAN ESTIMATE)

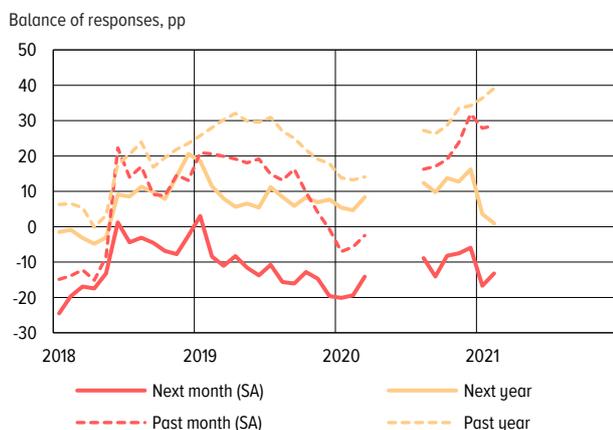
Chart 2



Sources: InFOM, Bank of Russia calculations.

INDICATORS OF PRICE MOVEMENTS*

Chart 3



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

Sources: InFOM, Bank of Russia calculations.

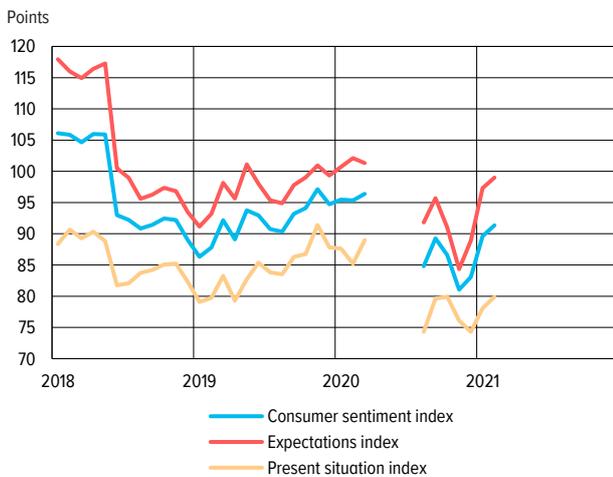
The movements of prices for individual goods frequently purchased by households is the most important driver of changes in observed inflation estimates. In February, respondents significantly less than in January noted the rise in prices for sugar, sunflower oil and eggs, which has caused the greatest public concern in recent months (Chart 3 of the [inFOM Analytical Report](#), February 2021; hereinafter, the Report). The decline in prices for sugar and eggs at the end of January (month-on-month) was recorded by Rosstat, and the growth in prices for sunflower oil slowed down significantly. At the same time, in February, respondents more often noted an increase in prices for housing and utility services and petrol.

The balance of responses to the question about a qualitative change in current inflation (Chart 3) increased in February (that is, more respondents indicated that prices rose very strongly or were growing faster than before). The response balance values were significantly above the average levels of 2019. At the same time, qualitative assessments of price growth for one year and one month ahead remained at a fairly low level compared to both 2019 and the second half of 2020.

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

CONSUMER SENTIMENT INDEX

Chart 4



Source: InFOM.

COMPANIES' PRICE EXPECTATIONS
(BANK OF RUSSIA)

Chart 5



Sources: Bank of Russia, Rosstat.

Households' consumer sentiment

In January, the consumer sentiment index continued to rise (by 2 p compared to January) and reached the highest level since August 2020 (Chart 4). Both the expectations index and the present situation index increased at the same pace (+2 p MoM). At the same time, the respondents did not note an improvement in their financial situation but were more likely to make large purchases (Chart 12 of the Report).

The values of the survey indicators that characterise the propensity of households to save did not change in February (Charts 21 and 22 of the Report).

Companies' price expectations

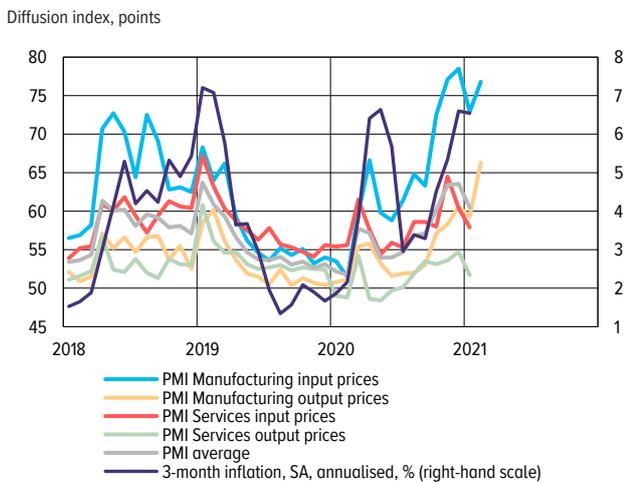
According to [the monitoring of businesses](#) carried out by the Bank of Russia in February 2021, price expectations for three months ahead remained virtually unchanged (Chart 5). The average price growth rate expected in the next three months equalled 3.6% in annualised terms (vs 3.9% in January 2021 and 2.1% in February 2020). The average rate of inflation used by companies when preparing their business plans for 2021 increased to 5.9% vs 5.2% in 2020.

Surveyed companies noted that changes in prices for raw materials, components, and supplies continued to be the main reason behind the expected price growth. For the second month in a row, the survey participants noted the change in the cost of fuel as the second most important reason. The share of such companies reached the highest level since the beginning of last year. As before, the change in demand was the main reason behind the expected price decreases, however the frequency of mentioning this factor lowered for the third month in a row.

The dynamics of price expectations by industry were heterogeneous. Reduced demand and slower cost growth led to lower price expectations in manufacturing. At the same time, respondents' high estimates of demand in the next three months contributed to price expectations remaining elevated. Price

CHANGES IN COMPANIES' PRICES
(MARKIT PMI)

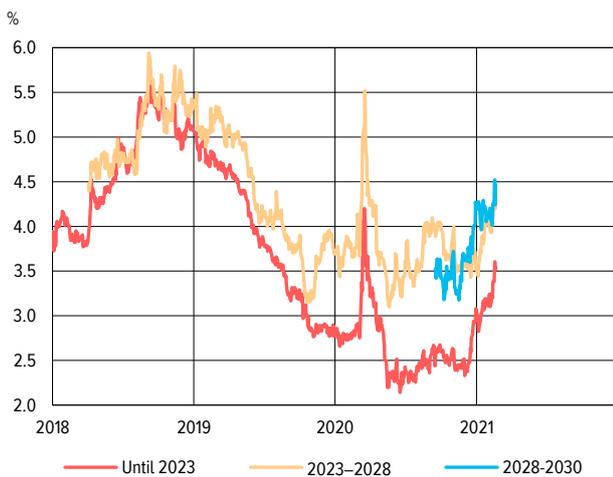
Chart 6



Sources: IHS Markit PMI, Rosstat.

IMPLIED INFLATION FOR OFZ-IN

Chart 7



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

expectations in agriculture decreased. Price expectations in trade increased mainly due to rising costs. According to the estimates of retailers, demand remained subdued and was not expected to improve significantly in the next three months. The average price growth rate expected by retailers in the next three months equalled 6.2% in annualised terms (vs 3.6% in February 2020).

According to *IHS Markit PMI* surveys, price growth remained elevated in January–February 2020 (Chart 6). The growth of input prices in manufacturing in January–February was driven by aggravating logistics issues due to transport delays and a shortage of supplies. In February, it was also affected by ruble exchange rate movements. The continuing growth of output prices in the manufacturing industry was related to the pass-through of rising costs. In the services sector, the growth rate of input prices declined for the second month in a row. Increased prices for fuel and transportation services prevented a faster price decline.

Implied inflation for OFZ-IN

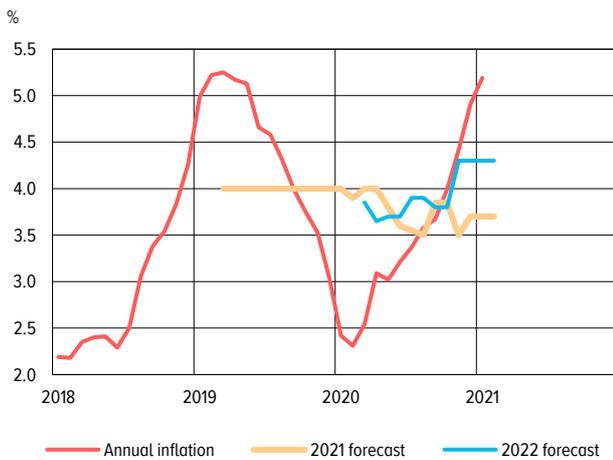
Implied inflation for OFZ-IN continued to increase in February 2021 (Chart 7). According to Bank of Russia estimates,¹ average implied inflation for the next three years was 3.3% in February (Table 1), reaching 3.5% by the end of the month. Average implied future inflation is estimated close to 4%, specifically at 4.1% in 2023–2028 and at 4.2% in 2028–2030. These levels correspond to the values of 2019 Q3. The growth of implied inflation for the next three years observed in December 2020 – February 2021 indicates that market participants revised the duration of the influence of disinflationary factors.

Analysts' inflation forecast

In January–February 2021, analysts' inflation forecasts² for 2021 and 2022 remained virtually unchanged, staying close to 4% (Table 1,

¹ The estimates are based on the comparison of expected yields on OFZ-IN and nominal OFZ, taking into account the lag between the nominal value indexation and seasonally adjusted inflation. The [calculation method](#) is published on the Bank of Russia website.

² Surveys by Interfax, Bloomberg, and Thomson Reuters.

BLOOMBERG ANALYSTS' CONSENSUS FORECAST *Chart 8*

Sources: Bloomberg, Rosstat.

Chart 8). Forecasts for 2021 ranged from 3.6% to 3.8%, and for 2022 – from 4.0% to 4.3%. Analysts expect that inflation will return to 4% in 2021 Q2.

Bank of Russia's forecast

The Bank of Russia's inflation forecast for 2021 was raised to 3.7–4.2%. Disinflationary risks have ceased to prevail on the 2021 horizon. The effect of proinflationary factors may be more prolonged and pronounced amid a faster recovery in demand and the earlier increase in inflation expectations and related secondary effects. Moving forward, the monetary policy pursued will keep inflation close to 4%.

Data cut-off date – 01.03.2021.

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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