



Bank of Russia



# INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No. 4 (52) • April 2021

Information and analytical commentary

26 April 2021

## Inflation expectations and consumer sentiment (April 2021)

In April, inflation expectations of households and businesses grew even more. According to a survey by inFOM, households' inflation expectations rose significantly reaching the maximum level since February 2017. Based on the Bank of Russia's monitoring, the estimates of companies' short-term price expectations also continued to rise rapidly. Implied inflation for the next two years for inflation-indexed federal government bonds (OFZ-IN) changed only slightly in April vs the average level of 3.8% in March. Analysts' inflation forecasts for 2021 and 2022 increased, while staying close to 4%. According to the Bank of Russia's forecast, inflation will stand at 4.7–5.2% in 2021. Given the monetary policy stance, annual inflation will return to the Bank of Russia's target in the middle of 2022 and will remain close to 4% further on. The key rate path will largely depend on the speed of the reduction in inflation expectations of households and businesses.

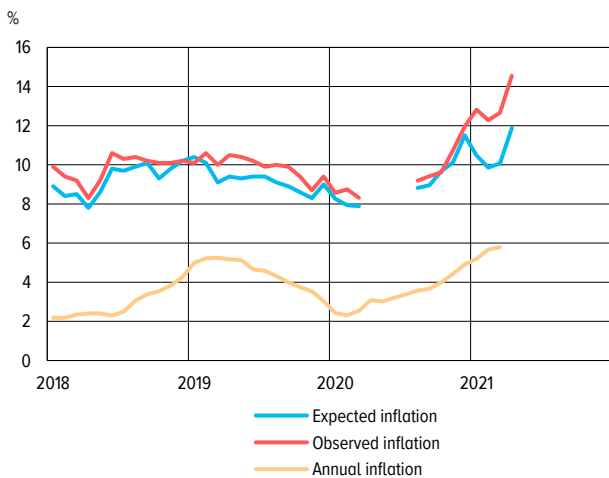
### INFLATION EXPECTATION INDICATORS

Table 1

	Expectation horizon	2018 average	2019 average	2020 average	March 2020	February 2021	March 2021	April 2021.
<b>Inflation, %</b>		2.9	4.5	3.4	2.5	5.7	5.8	
<b>Inflation observed by households, %</b>								
Public Opinion Foundation (median)	past 12 months	9.8	9.9	9.6	8.3	12.3	12.7	14.5
Public Opinion Foundation (subgroup with savings)	past 12 months	9.0	9.1	8.7	7.2	10.8	11.5	11.8
Public Opinion Foundation (subgroup without savings)	past 12 months	10.3	10.4	9.9	8.6	12.5	12.4	16.4
<b>Households' inflation expectations, %</b>								
Public Opinion Foundation (median)	next 12 months	9.3	9.3	9.1	7.9	9.9	10.1	11.9
Public Opinion Foundation (subgroup with savings)	next 12 months	8.4	8.3	8.4	6.9	8.8	9.1	10.5
Public Opinion Foundation (subgroup without savings)	next 12 months	9.7	9.8	9.6	8.5	10.8	10.6	12.5
<b>Companies' price expectations</b>								
Companies, balance of responses	next 3 months	10.6	10.2	16.5	18.1	19.3	21.0	25.0
PMI Manufacturing input prices	current month	65.0	57.8	64.0	59.8	76.8	72.6	
PMI Manufacturing output prices	current month	54.4	53.1	54.2	55.4	66.3	65.3	
PMI Services input prices	current month	58.8	58.0	58.0	61.5	63.8	65.0	
PMI Services output prices	current month	52.8	54.0	51.3	54.2	53.8	56.3	
<b>Implied inflation for OFZ-IN (monthly average),%</b>								
OFZ-IN 52001, August 2023	next 2-year average	4.7	3.9	2.7	3.5	3.4	3.8	3.8
OFZ-IN 52002, February 2028	next 7-year average		4.1	3.3	4.1	3.9	4.0	4.1
OFZ-IN 52003, July 2030	next 9-year average			3.3		4.0	4.2	4.3
OFZ-IN	2023–2028 average		4.3	3.8	4.5	4.1	4.1	4.2
OFZ-IN	2028–2030 average			3.5		4.3	4.6	4.8
<b>Профессиональные аналитики, %</b>								
2021, Bloomberg	2021				4.0	3.8	3.9	4.4
2021, Interfax	2021				3.8	3.8	4.2	
2021, Reuters	2021				3.9	3.8	4.3	
2022, Bloomberg	2022					4.3	4.4	4.4
2022, Interfax	2022					4.0	4.0	
2022, Reuters	2022				3.9	3.9	4.0	
2023, Bloomberg	2023						4.0	4.0
2023, Interfax	2023					4.0	4.0	

INFLATION OBSERVED AND EXPECTED  
BY HOUSEHOLDS (MEDIAN ESTIMATE)

Chart 1



Sources: InFOM, Rosstat.

## Households' inflation expectations

According to the survey by inFOM commissioned by the Bank of Russia, households' inflation expectations significantly increased in April (Table 1, Chart 1). They exceeded the local maximum of December 2020 and reached the highest level since February 2017. The median estimate of inflation expected in the next 12 months stood at 11.9% (+1.8 pp on March). Inflation observed by households also markedly grew. Its median estimate was 14.5% (+1.9 pp vs March). The estimates of expected and observed inflation increased for respondents both with and (much more) without savings (Chart 2).

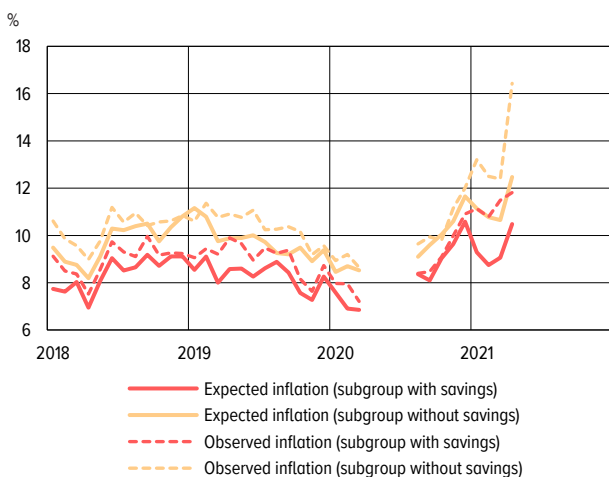
The increase in the estimates of observed and expected inflation was primarily associated with the acceleration of the current growth of prices for certain food products and petrol, as well as with the repeated weakening of the ruble in late March – early April. These are the indicators households mostly rely on in their assumptions with regard to future inflation (Charts 32 and 33 of the Report). In April, respondents noted a rise in prices for eggs and petrol significantly more often than in March. Rosstat also recorded an increase in prices for these products in March 2021.<sup>1</sup> Answering the question about observed price growth, respondents also more often mentioned other frequently purchased goods and services (Chart 3 of the [inFOM Analytical Report, April 2021](#); hereinafter, the Report).

April saw an increase in the balance of responses to the question regarding a qualitative change in current and future inflation<sup>2</sup> (Chart 3). As in March, the estimates of growth for the past month and for one month ahead rose most significantly. At the same time, expectations for one year ahead increased only slightly and remained below their level in the second half of 2020.

Households' inflation expectations until the end of 2021 and for the three years ahead

EXPECTED AND OBSERVED INFLATION  
BY RESPONDENT SUBGROUP (MEDIAN ESTIMATE)

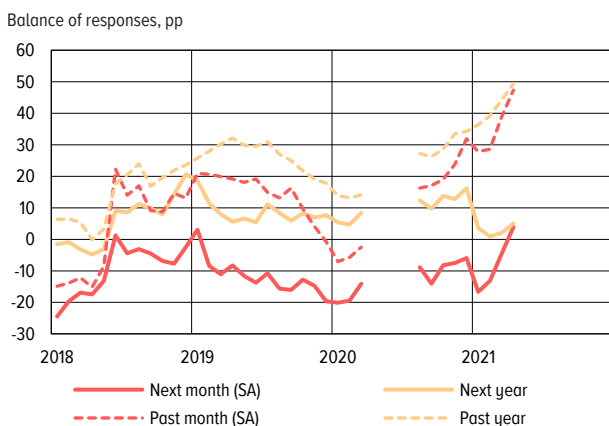
Chart 2



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.

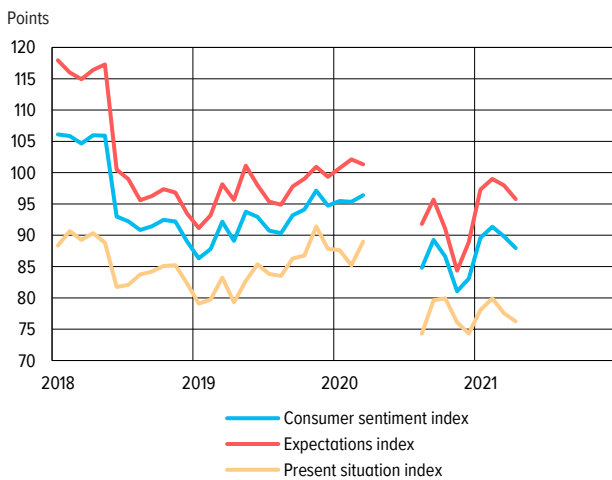
Sources: InFOM, Bank of Russia calculations.

<sup>1</sup> Refer to the information and analytical commentary [Consumer Price Dynamics, No. 3 \(63\), March 2021](#).

<sup>2</sup> That is, according to the majority of respondents, prices have grown/will grow very much or have been growing/will be growing faster than before/now.

## CONSUMER SENTIMENT INDEX

Chart 4



Source: InFOM.

remained virtually unchanged in April (Charts 8 and 9 of the Report).

As inflation expectations are not anchored to the Bank of Russia's target and are highly sensitive to the fluctuations of prices for certain goods, expected inflation remains elevated, which creates risks of secondary effects for price dynamics.

## Households' consumer sentiment

In April, the consumer sentiment index declined for the second month in a row (-1.8 p vs March; Chart 4). Among its components, the expectations index dropped the most (-2.2 p). The present situation index edged down 1.3 p due to a decline in the estimates of the current financial standing; however, the large purchases index remained unchanged (Chart 12 of the Report).

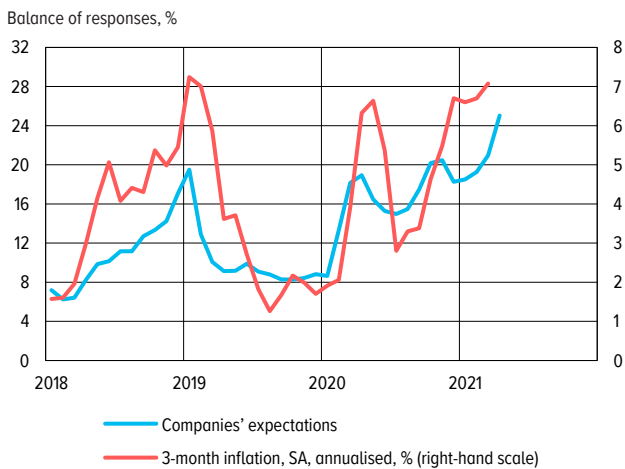
Amid the strong rise in observed inflation and inflation expectations and persistently low deposit rates, respondents' propensity to save significantly decreased in April. The share of those who think that it is currently better to spend extra money for expensive purchases increased to 28% (+5 pp vs March), while the share of those who prefer saving declined to 51% (-8 pp vs March; Chart 21 of the Report). The last time the proportion of respondents who prefer saving was that low in December 2015 – January 2016. At the same time, the share of respondents who think that it is better to keep money with a bank rose to 38% (+3 pp vs March) but remained below the levels of February–March 2020 (Chart 22 of the Report). This increase could be driven by a little uptick in interest rates on deposits at the largest banks in late March – early April.

## Companies' price expectations

According to the *monitoring* of businesses carried out by the Bank of Russia in April 2021, companies' price expectations for the three months ahead accelerated and exceeded the local highs of 2019–2000. The average price growth rate expected in the next three months

COMPANIES' PRICE EXPECTATIONS  
(BANK OF RUSSIA)

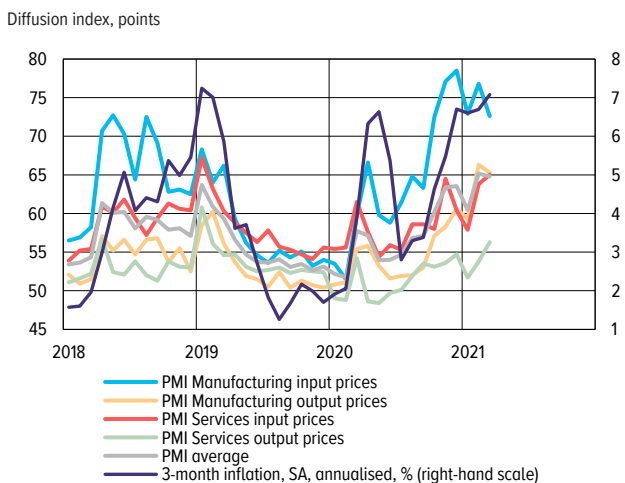
Chart 5



Sources: Bank of Russia, Rosstat.

CHANGES IN COMPANIES' PRICES  
(MARKIT PMI)

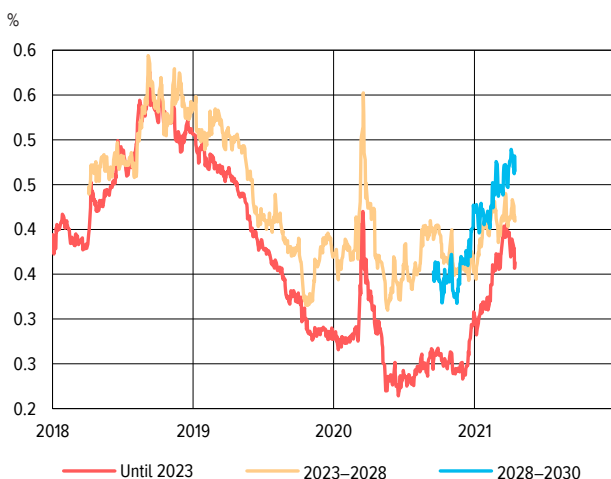
Chart 6



Sources: IHS Markit PMI, Rosstat.

## IMPLIED INFLATION FOR OFZ-IN

Chart 7



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

equalled 4.0% in annualised terms (vs 3.1% in April 2020).

The recovery of demand amid high cost-side pressure remained the main reason behind the growth of price expectations. Thus, companies continued to raise their estimates of current demand dynamics. The estimates of expected demand for the three months ahead also remained high. At the same time, the share of companies that noted the growth of costs over the last month increased to the highest level over the last six years. Eight out of ten companies noted higher prices for raw materials, parts and components, including motor fuel. The share of respondents who planned to raise prices due to exchange rate fluctuations increased for the first time in the last six months.

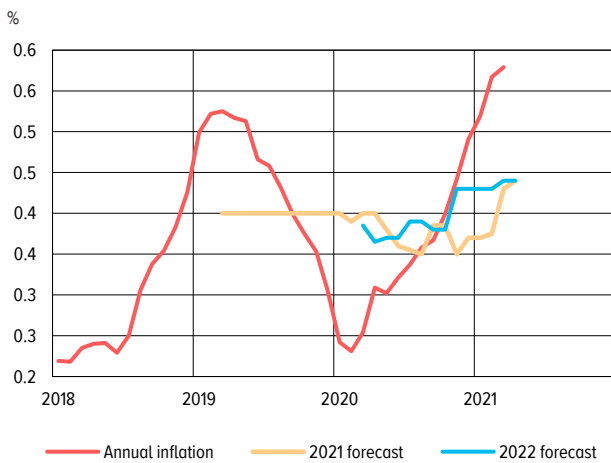
Price expectations grew the most in the consumer sector: in trade and services. The accelerated growth of price expectations in services was facilitated by the catch-up recovery of demand. This sector's recovery started later due to the anti-pandemic restrictions. In trade, both retail and wholesale companies raised their price expectations. The average price growth rate expected by retailers in the next three months equalled 6.8% in annualised terms (vs 8.7% April 2020 when the demand for food products was especially high before the lockdown).

According to *IHS Markit PMI* surveys, price indexes remained close to their highs (Chart 6). Price dynamics in manufacturing made the largest contribution to the slowdown. At the same time, price growth rates remain high in this sector due to increasing transport costs, longer delivery periods, and raw material shortages. Contrastingly, price growth continued to accelerate in services. As in manufacturing, this was driven by rising input prices.

## Implied inflation for OFZ-IN

Implied inflation for OFZ-INs changed diversely in April 2021 (Chart 7). According to Bank of Russia estimates,<sup>3</sup> implied inflation for the next two years declined in April after

<sup>3</sup> The estimates are based on the comparison of expected yields on OFZ-INs and nominal OFZs, 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.

growing in late March, reaching 3.6% by now (vs 4% in the last days of March). Average implied inflation for the two years ahead was 3.8% in the first two weeks of April, which corresponds to the averages of March (Table 1). In April, implied inflation was 4.2% for 2023–2028 (+0.1 pp vs March) and 4.8% for 2028–2030 (+0.2 pp vs March). The diverse dynamics of implied inflation estimates are probably related to increased volatility in the OFZ market in April.

### Analysts' inflation forecast

In March–April 2021, analysts' inflation forecasts for 2021<sup>4</sup> notably increased to 4.2–4.4% (Table 1, Chart 8). Forecasts for 2022 remained virtually unchanged ranging from 4.0% to 4.4%. Forecasts for 2023 remained at 4.0%.

### Bank of Russia's forecast

The Bank of Russia raised its inflation forecast for 2021 to 4.7–5.2%. The balance of risks is shifted towards proinflationary ones. The impact of proinflationary factors may be more prolonged and pronounced amid an outrunning growth of consumer demand compared to the capacity of output expansion. Their effect may also be strengthened by elevated inflation expectations and corresponding secondary effects. Taking into account the monetary policy pursued, annual inflation will return to the Bank of Russia's target close to 4% in the middle of 2022 and remain around this level further on.

<sup>4</sup> Surveys by Interfax, Bloomberg, and Thomson Reuters.

Data cut-off date – 19.04.2021.

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](mailto:svc_analysis@cbr.ru).

This commentary was prepared by the Monetary Policy Department.

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