



Bank of Russia



# INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No. 6 (54) • June 2021

Information and analytical commentary

25 June 2021

## Inflation expectations and consumer sentiment (June 2021)

In June, both households and businesses kept their inflation expectations elevated. Pursuant to the survey by InFOM, households' inflation expectations for a year ahead rose to the April highs. The estimates of companies' short-term price expectations also continued to edge up, as is evident from the findings of the Bank of Russia's monitoring. Two-year implied inflation for inflation-indexed federal government bonds (OFZ-IN) was up in June, while staying close to the Bank of Russia's target. Analysts raised their inflation forecasts for 2021 to 4.8–5.0% and kept them almost unchanged for 2022–2023 close to 4%. According to the Bank of Russia's forecast, given the monetary policy pursued, annual inflation will return to the Bank of Russia's target close to 4% in 2022 H2 and will stay around this rate further on.

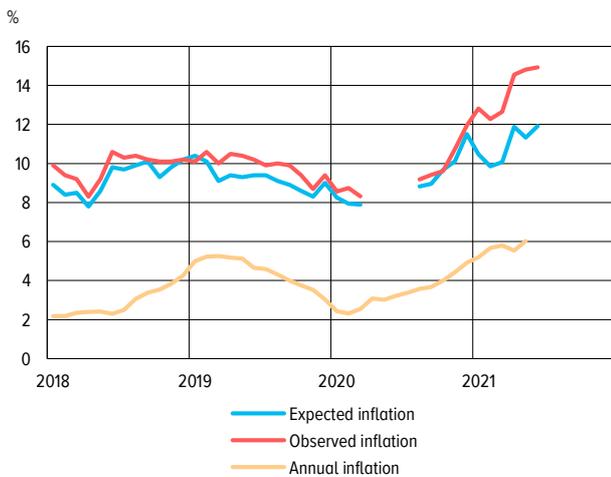
### INFLATION EXPECTATION INDICATORS

Table 1

	Expectation horizon	2018 average	2019 average	2020 average	March 2020	April 2021	Май 2021	June 2021
<b>Inflation, %</b>		2.9	4.5	3.4	2.5	5.5	6.0	
<b>Inflation observed by households, %</b>								
Public Opinion Foundation (median)	past 12 months	9.8	9.9	9.6	8.3	14.5	14.8	14.9
Public Opinion Foundation (subgroup with savings)	past 12 months	9.0	9.1	8.7	7.2	11.8	12.4	12.1
Public Opinion Foundation (subgroup without savings)	past 12 months	10.3	10.4	9.9	8.6	16.4	16.0	16.9
<b>Households' inflation expectations, %</b>								
Public Opinion Foundation (median)	next 12 months	9.3	9.3	9.1	7.9	11.9	11.3	11.9
Public Opinion Foundation (subgroup with savings)	next 12 months	8.4	8.3	8.4	6.9	10.5	10.2	9.7
Public Opinion Foundation (subgroup without savings)	next 12 months	9.7	9.8	9.6	8.5	12.5	11.8	12.9
<b>Companies' price expectations</b>								
Companies, balance of responses	next 3 months	10.6	10.2	16.5	18.1	25.0	26.8	27.4
PMI Manufacturing input prices	current month	65.0	57.8	64.0	59.8	76.2	74.4	
PMI Manufacturing output prices	current month	54.4	53.1	54.2	55.4	67.1	66.9	
PMI Services input prices	current month	58.8	58.0	58.0	61.5	62.2	68.3	
PMI Services output prices	current month	52.8	54.0	51.3	54.2	56.2	60.5	
<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	3.8	3.9	4.1
OFZ-IN 52002, February 2028	next 7-year average		4.1	3.3	4.1	4.0	4.1	4.2
OFZ-IN 52003, July 2030	next 9-year average			3.3		4.2	4.3	4.3
OFZ-IN	2023–2028 average		4.3	3.8	4.5	4.2	4.3	4.3
OFZ-IN	2028–2030 average			3.5		4.7	4.6	4.4
<b>Analysts, %</b>								
2021, Bloomberg	2021				4.0	4.5	4.9	5.0
2021, Interfax	2021				3.8	4.6	4.9	
2021, Reuters	2021				3.9	4.5	4.8	
2021, survey by the Bank of Russia	2021						4.9	
2022, Bloomberg	2022				3.9	4.3	4.0	4.0
2022, Interfax	2022					4.0	3.9	
2022, Reuters	2022				3.9	4.0	3.9	
2022, survey by the Bank of Russia	2022						3.8	
2023, Bloomberg	2023					4.0	4.0	4.0
2023, Reuters	2023					4.0	4.0	
2023, survey by the Bank of Russia	2023						4.0	

INFLATION OBSERVED AND EXPECTED  
BY HOUSEHOLDS (MEDIAN ESTIMATE)

Chart 1



Sources: InFOM, Rosstat.

## Households' inflation expectations

According to InFOM's survey commissioned by the Bank of Russia, households' inflation expectations edged up in June after a decrease in the previous month, returning to the April highs (Table 1, Chart 1). The median estimate of inflation expected in the next 12 months reached 11.9% (+0.6 pp vs May). Inflation observed by households remained almost the same in June, with its median estimate equalling 14.9% (+0.1 pp). Inflation expectations rose only among respondents without savings. Contrastingly, respondents with savings continued to lower their inflation expectations for the second consecutive month (Chart 2). This might be explained by the fact that expectations of respondents with savings are more sensitive to changes in interest rates that started to go up.<sup>1</sup>

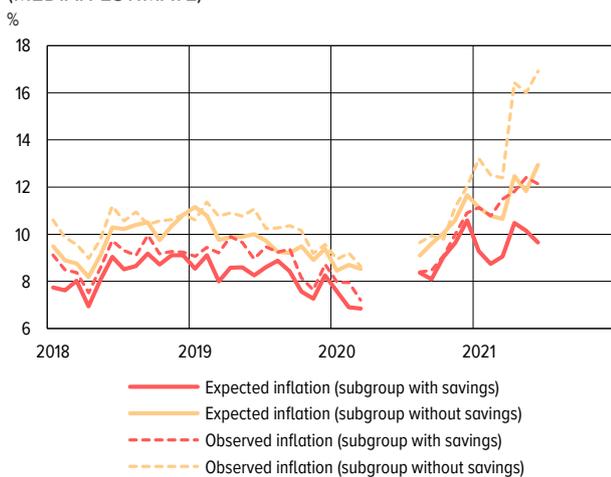
The estimates of observed inflation also increased only among respondents without savings. It was predominantly driven by higher prices for a range of goods frequently purchased by households. Respondents complained about increased prices for construction materials and a range of food products (including meat and milk products) significantly more frequently in June than in the previous month (Chart 3 of the [InFOM Analytical Report](#), June 2021; hereinafter, the Report). Rosstat recorded an accelerated rise in prices for these products this May.<sup>2</sup>

The estimates of the balance of responses to the questions about changes in future inflation trends for one month and one year ahead edged up in June after a reduction in May<sup>3</sup> (Chart 3). The estimates of current inflation for the past year and the past month continued to grow in June.

Households' inflation expectations for the period until the end of 2021 also increased in June. The portion of respondents expecting inflation to significantly exceed 4% by the end

EXPECTED AND OBSERVED INFLATION  
BY RESPONDENT SUBGROUP  
(MEDIAN ESTIMATE)

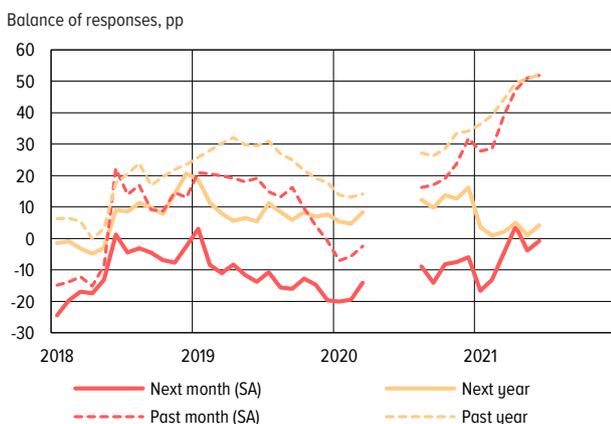
Chart 2



Sources: InFOM, Bank of Russia calculations.

INDICATORS OF PRICE MOVEMENTS\*

Chart 3



\* Balance of responses to the questions 'How prices were/will be changing last/next year?' and 'How did/will prices change last/next month?'; seasonally adjusted.  
Sources: InFOM, Bank of Russia calculations.

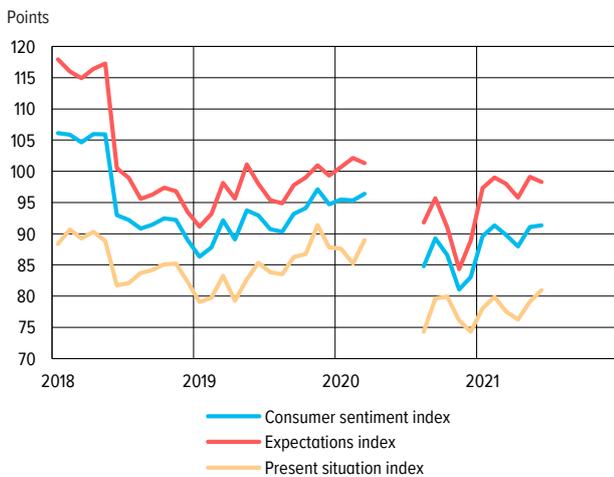
<sup>1</sup> The assessment of the relationship between inflation expectations and household saving behaviour is given in the Box to Monetary Policy Report No. 2 (26), June 2019.

<sup>2</sup> Refer to the information and analytical commentary [Consumer Price Dynamics](#), No. 5 (65), May 2021.

<sup>3</sup> That is, a higher percentage of respondents answered that prices rose/will rise considerably or were/will be rising faster than before/now.

## CONSUMER SENTIMENT INDEX

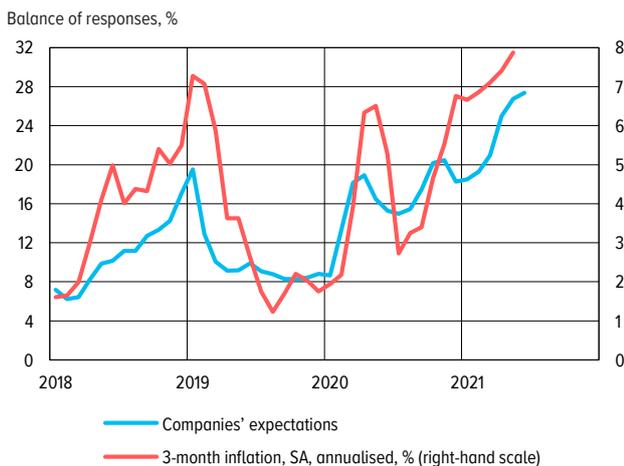
Chart 4



Source: InFOM.

COMPANIES' PRICE EXPECTATIONS  
(BANK OF RUSSIA)

Chart 5



Sources: Bank of Russia, Rosstat.

of the year reached 61% (+3 pp vs May), which is the highest percentage since February 2017 (Chart 8 of the Report). Inflation expectations for the three years ahead remained almost unchanged (Chart 9 of the Report).

## Households' consumer sentiment

The consumer sentiment index changed only slightly in June (+0.3 p vs May), staying close to its highest readings recorded in August 2020 (Chart 4). The expectations index edged down (-0.8 p). Contrastingly, the present situation index rose (+1.9 p), primarily driven by higher estimates of changes in personal financial standing over the year, and reached its maximum level since August 2020.

Respondents tended to demonstrate a slightly higher propensity to save in June. The percentage of those opting to save available cash now increased to 51% (+1 pp vs May), while that of respondents who would prefer to purchase expensive<sup>4</sup> goods lowered to 28% (-3 pp vs May) (Chart 21 of the Report). Furthermore, although deposit rates started to go up, respondents have not yet changed their preferences about types of savings: the portion of people preferring to keep their money in bank accounts remained unchanged compared to May (36%). This percentage is still below its averages recorded in 2019 and early 2020 (Chart 22 of the Report).

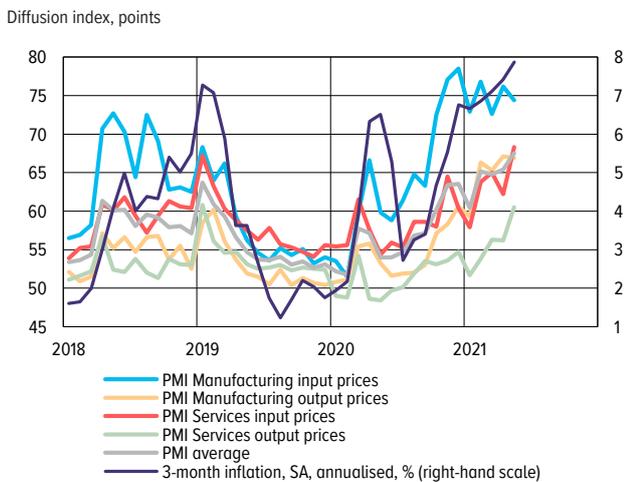
## Companies' price expectations

According to the [monitoring](#) carried out by the Bank of Russia in June 2021, companies continued to raise their price expectations for the next three months (Chart 5) – they stayed above the local peaks of 2019–2020. The average price growth rate expected in the next three months equalled 4.1% in annualised terms (vs 2.1% in June 2020).

<sup>4</sup> Most respondents imply real estate, cars or motorcycles, household appliances, and furniture when speaking of expensive goods (Table 3 of the [InFOM Analytical Report](#), April 2021).

CHANGES IN COMPANIES' PRICES  
(MARKIT PMI)

Chart 6



Sources: IHS Markit PMI, Rosstat.

Price expectations were mostly pushed up by persistently rising costs, which was due to higher prices for raw materials and components in both the domestic and external markets. Businesses somewhat lowered their expectations regarding a future expansion of demand and output. However, in the short run, respondents are going to continue to pass through their increased costs to prices for their products and services.

Price expectations increased the most in trade, most significantly among retailers. The factors influencing price expectations remained unchanged. While the estimates of demand and turnover trends in the next three months stayed moderately positive, rising input prices continued to be the main driver of growing price expectations. Respondents' estimate of costs reached its highest level since July 2002. The average price growth rate expected by retailers in the next three months equalled 6.1% in annualised terms (vs 4.3% in May 2020).

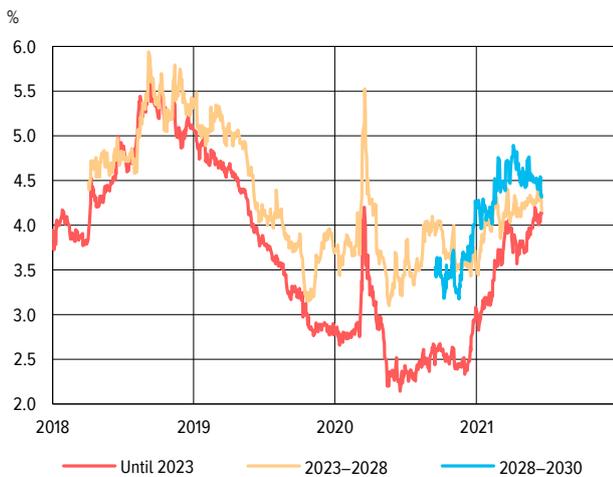
Manufacturing enterprises also complained about higher costs. Expanded demand in both the domestic and external markets amid the uneven recovery in industrial output caused a surge in prices for a whole range of raw materials and components, which became the main reason why respondents expected prices to trend upwards. Being optimistic about demand movements in the coming months, companies are going to raise further prices for their products.

Enterprises in transportation, storage, and services slightly lowered their price expectations, despite the persistent pressure put by higher costs. As the epidemic situation worsened, businesses became less optimistic about the recovery in the demand for services and the volume of provided services in the next three months.

According to [IHS Markit PMI](#) surveys, prices continued to rise fast in May 2021. Price growth stayed close to its highest rates recorded in recent years (Chart 6). Manufacturing recorded a slowdown in price growth, as compared to April, but its rate remained considerably higher than that observed over the previous five years. Companies explain increasing prices by a shortage of resources. Contrastingly, price growth in services accelerated, with input prices

IMPLIED INFLATION FOR OFZ-IN

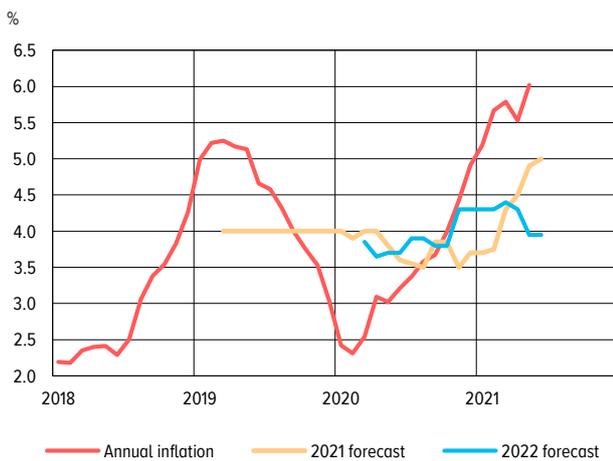
Chart 7



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

BLOOMBERG ANALYSTS' CONSENSUS FORECAST

Chart 8



Sources: Bloomberg, Rosstat.

showing the fastest increase since 2008. The service sector raised output prices due to higher costs and the continuing expansion of demand.

## Implied inflation for OFZ-IN

Implied inflation for inflation-indexed federal government bonds (OFZ-IN) was changing diversely in June 2021 (Chart 7). According to the Bank of Russia's estimates,<sup>5</sup> implied inflation for the next two years edged up, averaging 4.1% over the first half of June (vs 3.9% on average in May) (Table 1). Implied inflation for 2023–2028 remained unchanged as compared to May (4.3%), while its rate for 2028–2030 lowered to 4.4% (-0.2 pp).

## Analysts' inflation forecast

In May–June 2021, analysts<sup>6</sup> significantly raised their inflation forecasts for 2021 to 4.8–5.0% (Table 1, Chart 8). The analysts surveyed by the Bank of Russia expect inflation to equal 4.9% in 2021.<sup>7</sup> Analysts' forecasts for 2022 slightly decreased in May–June to 3.8–4.0%. Forecasts for 2023 stayed at the level of 4.0%.

## The Bank of Russia's forecast

According to the Bank of Russia's assessment, the balance of inflation risks is largely shifted towards proinflationary ones. Inflationary pressure is put by steady factors associated with the persistent rise in demand which exceeds the potential to expand supply. This is the main reason why enterprises more easily pass through higher costs to prices. Elevated inflation expectations bring about the risks of secondary effects. Given the monetary policy pursued, annual inflation will return to the Bank of Russia's target close to 4% in 2022 H2 and will stay around this rate further on.

<sup>5</sup> The estimates are based on the comparison of expected yields on OFZ-IN and nominal OFZ bonds, with account of the lag in the nominal value indexation and seasonally adjusted inflation. [Calculation method](#).

<sup>6</sup> Surveys by Interfax, Bloomberg, Thomson Reuters, and the Bank of Russia.

<sup>7</sup> [Macroeconomic survey by the Bank of Russia](#).

Data cut-off date – 21.06.2021.

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).

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Cover photo: I. Shubin, Bank of Russia

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