



Bank of Russia



# INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No. 1 (61) • January 2022

Information and analytical commentary

2 February 2022

## INFLATION EXPECTATIONS AND CONSUMER SENTIMENT (JANUARY 2022)

According to inFOM survey findings, one-year ahead inflation expectations of households declined following a considerable growth observed in December and January, remaining close to multi-year highs. The median estimate of inflation expected in the next 12 months stood at 13.7% exceeding the November readings. Short-term price expectations of companies were up, overshooting the 2021 highs. Two-year ahead implied inflation for inflation-indexed federal government bonds (OFZ-IN) also grew, exceeding 5%. Analysts' inflation outlook for 2022 was unchanged, ranging from 4.5% to 5.1%. A steady decline in inflation expectations has not yet been observed. These expectations continue to push up consumer demand and price movements. The Bank of Russia takes this fact into account in its monetary policy decisions.

### INFLATION EXPECTATION INDICATORS

Table 1

|  | Expectation horizon  | 2019<br>average | 2020<br>average | 2021<br>average | March<br>2020 | January<br>2021 | November<br>2021 | December<br>2021 | January<br>2022 |
|--|----------------------|-----------------|-----------------|-----------------|---------------|-----------------|------------------|------------------|-----------------|
| Inflation, %   |                      | 4.5             | 3.4             | 6.7             | 2.5           | 5.2             | 8.4              | 8.4              |                 |
| <b>Inflation observed by households, %</b>               |                      |                 |                 |                 |               |                 |                  |                  |                 |
| Public Opinion Foundation (median)                       | past 12 months       | 9.9             | 9.6             | 15.1            | 8.3           | 12.8            | 16.2             | 17.7             | 16.7            |
| Public Opinion Foundation (subgroup with savings)        | past 12 months       | 9.1             | 8.7             | 12.8            | 7.2           | 11.1            | 13.5             | 16.1             | 15.0            |
| Public Opinion Foundation (subgroup without savings)     | past 12 months       | 10.4            | 9.9             | 16.2            | 8.6           | 13.2            | 17.5             | 18.5             | 17.8            |
| <b>Households' inflation expectations, %</b>             |                      |                 |                 |                 |               |                 |                  |                  |                 |
| Public Opinion Foundation (median)                       | next 12 months       | 9.3             | 9.1             | 12.1            | 7.9           | 10.5            | 13.5             | 14.8             | 13.7            |
| Public Opinion Foundation (subgroup with savings)        | next 12 months       | 8.3             | 8.4             | 10.5            | 6.9           | 9.3             | 11.3             | 13.7             | 11.9            |
| Public Opinion Foundation (subgroup without savings)     | next 12 months       | 9.8             | 9.6             | 13.2            | 8.5           | 11.1            | 15.1             | 15.2             | 14.3            |
| <b>Companies' price expectations</b>                     |                      |                 |                 |                 |               |                 |                  |                  |                 |
| Companies, balance of responses                          | next 3 months        | 9.5             | 13.3            | 20.2            | 14.7          | 17.0            | 21.5             | 22.8             | 25.1            |
| PMI Manufacturing input prices                           | current month        | 57.8            | 64.0            | 70.7            | 59.8          | 72.9            | 66.6             | 66.7             |                 |
| PMI Manufacturing output prices                          | current month        | 53.1            | 54.2            | 62.4            | 55.4          | 59.3            | 58.4             | 59.8             |                 |
| PMI Services input prices                                | current month        | 58.0            | 58.0            | 63.4            | 61.5          | 57.9            | 64.9             | 65.8             |                 |
| PMI Services output prices                               | current month        | 54.0            | 51.3            | 56.1            | 54.2          | 51.7            | 56.4             | 56.0             |                 |
| <b>Implied inflation for OFZ-IN (monthly average), %</b> |                      |                 |                 |                 |               |                 |                  |                  |                 |
| OFZ-IN 52001, August 2023                                | next 2-year average  | 3.9             | 2.7             | 4.1             | 3.5           | 3.1             | 5.0              | 4.7              | 5.3             |
| OFZ-IN 52002, February 2028                              | next 6-year average  | 4.1             | 3.3             | 4.2             | 4.1           | 3.6             | 5.1              | 5.1              | 5.6             |
| OFZ-IN 52003, July 2030                                  | next 9-year average  |                 | 3.3             | 4.3             |               | 3.7             | 4.9              | 5.0              | 5.5             |
| OFZ-IN 52004, March 2032                                 | next 10-year average |                 |                 |                 |               |                 | 5.0              | 5.1              | 5.7             |
| OFZ-IN   | 2023–2028 average    | 4.3             | 3.8             | 4.3             | 4.5           | 3.8             | 5.1              | 5.3              | 5.7             |
| OFZ-IN   | 2028–2030 average    |                 | 3.5             | 4.4             |               | 4.1             | 4.5              | 4.8              | 5.3             |
| OFZ-IN   | 2030–2032 average    |                 |                 |                 |               |                 | 5.4              | 5.6              | 6.4             |
| <b>Профессиональные аналитики, %</b>                     |                      |                 |                 |                 |               |                 |                  |                  |                 |
| Bloomberg  | 2022                 |                 |                 | 4.2             | 3.9           | 4.3             | 4.5              | 4.5              | 4.5             |
| Interfax   | 2022                 |                 |                 | 4.3             |               | 3.9             | 5.1              | 5.1              |                 |
| Reuters  | 2022                 |                 |                 | 4.2             | 3.9           | 4.0             | 5.0              | 4.9              |                 |
| Survey by the Bank of Russia                             | 2022                 |                 |                 | 4.2             |               |                 |                  | 4.8              |                 |
| Bloomberg  | 2023                 |                 |                 | 4.0             |               |                 | 4.0              | 4.0              | 4.0             |
| Reuters  | 2023                 |                 |                 | 4.0             |               |                 | 4.0              | 4.0              |                 |
| Survey by the Bank of Russia                             | 2023                 |                 |                 | 4.0             |               |                 |                  | 4.0              |                 |

Sources: Rosstat, inFOM, Bank of Russia, IHS Markit PMI, Interfax, Bloomberg, Reuters.

## Household inflation expectations dropped from record highs

In January 2022, household inflation expectations declined, though remaining close to multi-year highs (according to an InFOM survey commissioned by the Bank of Russia). The median estimate of inflation expected in the next 12 months stood at 13.7% (-1.1 pp vs December). Despite the decrease compared to December, this is 0.2 pp more than the November 2021 level. Inflation observed by households also abated in January. Its median estimate was 16.7% (-1.0 pp vs December) which is 0.5 pp more than in November 2021. Estimates of expected and observed inflation declined among respondents both with and without savings.

Observed and expected inflation was reducing amid a slower increase in the fastest growing goods and services prices. Given the specifics of the perception of price dynamics, such goods and services tend to attract more attention compared to those for which prices are rising moderately or declining. Therefore, personal inflation estimates are always closer to the movements of faster growing goods and services prices than to the average inflation rate for the entire consumer basket.

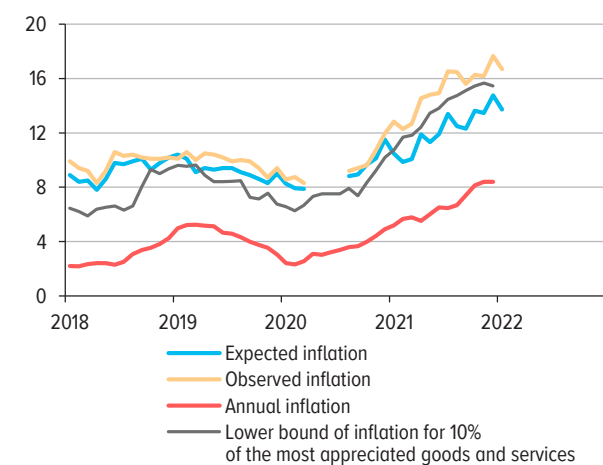
Compared to the December highs, lower inflation expectations and observed inflation were also facilitated by a slowdown in price growth for many 'marker goods', i.e. goods most frequently purchased by the population. Households' perceptions of current and future inflation are shaped by changes in their prices. For example, in January, respondents' concern about a rise in prices for many animal products (meat, eggs, cheese, and sausages) edged down. Rosstat recorded lower growth in prices for these products last December.<sup>1</sup>

Balances of answers to questions about a qualitative change in current and future inflation declined in January.<sup>2</sup> Qualitative indicators of one-month and one-year ahead expected inflation fell back to the levels of September 2021.

Households' long-term inflation expectations also slightly decreased in January. 54% of respondents believe that three-year ahead price growth will be appreciably above 4% (-4 pp vs December), which corresponds to the values of May–September 2021. Nonetheless, with all these indicators remaining close to multi-year highs, we do not have sufficient grounds to speak of a steady decline in inflation expectations.

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

Chart 1

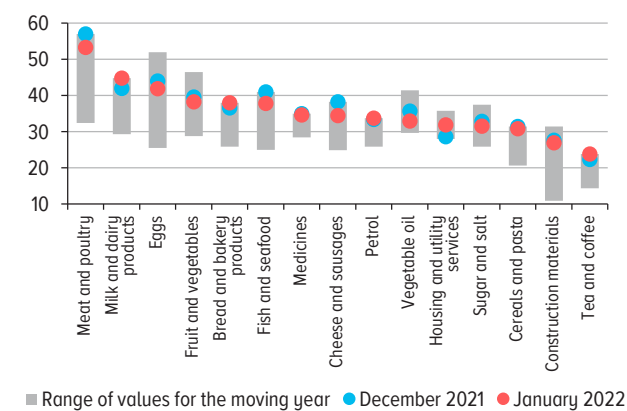


Sources: InFOM, Rosstat, Bank of Russia calculations.

DISTRIBUTION OF RESPONSES TO THE QUESTION 'FOR WHICH MAIN PRODUCTS, GOODS AND SERVICES HAVE PRICES RISEN THE MOST SIGNIFICANTLY OVER THE PAST MONTH?' (% OF ALL RESPONDENTS)

Chart 2

(% OF ALL RESPONDENTS)

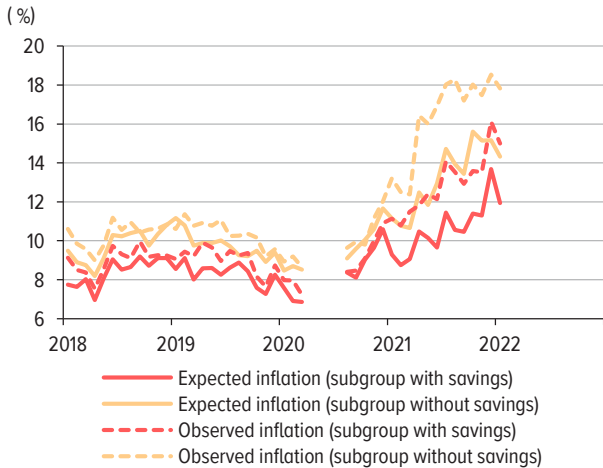


Sources: InFOM, Bank of Russia calculations.

<sup>1</sup> More information about inflation in December is available in the information and analytical commentary [Consumer Price Dynamics, No. 12 \(72\), December 2021](#).

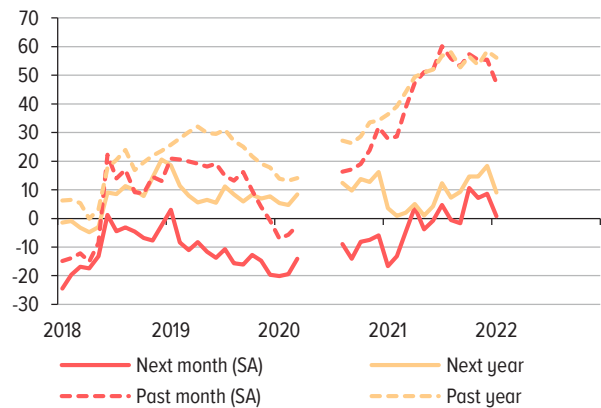
<sup>2</sup> That is, a smaller percentage of respondents answered that prices rose/will rise considerably or were/will be rising faster than before/nov.

**EXPECTED AND OBSERVED INFLATION BY RESPONDENT SUBGROUP (MEDIAN ESTIMATE)** Chart 3



Sources: InFOM, Bank of Russia calculations.

**INDICATORS OF PRICE MOVEMENTS\* (BALANCE OF RESPONSES, PP)** Chart 4



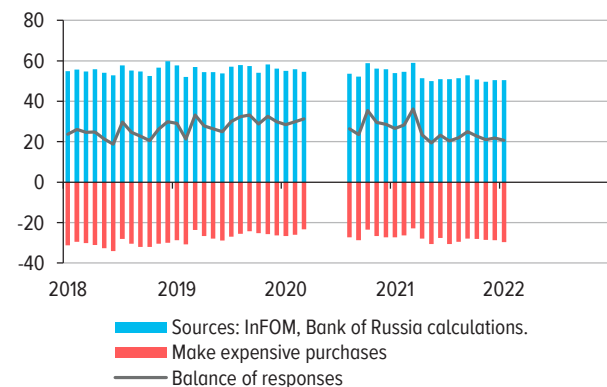
\* Balance of responses to the questions 'How did prices change/will prices change last/next year?' and 'How did prices change/will prices change last/next month?'; seasonally adjusted.  
Sources: InFOM, Bank of Russia calculations.

## Estimates of savings sentiment are close to multi-year lows

Households' propensity to save edged down again in January 2022. The percentage of respondents preferring to spend available cash rather than save it grew to 30%. The balance of responses to the question about better ways to manage available cash remained close to the low values observed since July 2015. As an estimate of the neutral level of this indicator, we can use its average value for 2017–2019, when inflation was in general close to 4% and there were no sharp fluctuations in savings sentiment. The balance of responses averaged 26% over this period, and it was 21% in January 2022. Survey data suggest that the propensity to save has been consistently low since April 2021.

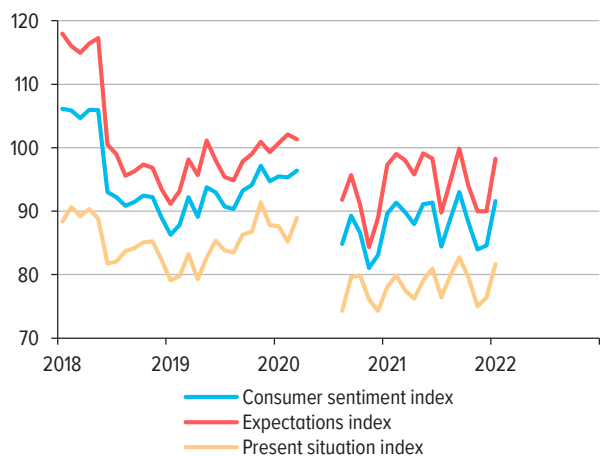
Being shaped by elevated inflationary expectations, its level puts additional pressure on prices via consumer demand. In anticipation of considerable price growth, households seek to purchase durables rapidly, whereas amid moderate inflation these purchases could be postponed. According to the January survey, almost half (46%) of respondents who regularly make large purchases motivated their decisions in this way.

**DISTRIBUTION OF RESPONSES TO THE QUESTION 'WHAT IS YOUR OPINION ABOUT THE BEST WAY TO MANAGE AVAILABLE CASH AT PRESENT: PUT ASIDE, SAVE OR PURCHASE EXPENSIVE GOODS?'** Chart 5  
(% OF ALL RESPONDENTS)



Sources: InFOM, Bank of Russia calculations.

**CONSUMER SENTIMENT INDEX (POINTS)** Chart 6



Source: InFOM.

At the same time, in view of growing interest rates on bank deposits, their attractiveness as a form of savings continued to grow. The percentage of respondents preferring to keep their savings in a bank account increased to 38% in January (+1 pp vs December 2021, + 4 pp vs the August 2020 lows).

In January 2022, the consumer sentiment index was up, reversing to the September 2021 level. It equalled 91.6 p (+7 p vs December). Both the expectations index (+8.2 p) and the present situation index (+5.3 p) posted growth. Despite this growth, the values of the consumer sentiment index and its sub-indices remain significantly below pre-pandemic levels.

## Companies' price expectations continued to go up

According to the [monitoring of businesses](#) carried out by Bank of Russia in January 2022, their three-month ahead price expectations continued to grow. The average price growth rate expected in the next three months equalled 5.8% in annualised terms (vs 3.9% in January 2021). Growing price expectations are conditioned on a considerable increase in costs, which enterprises associated primarily with higher input prices and also the cost of fuels and lubricants. Companies expect that elevated demand will help pass through higher costs to final prices.

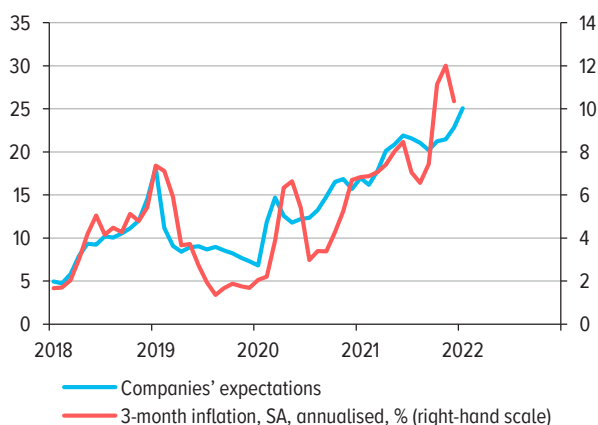
Price expectations were up in the majority of industries, excluding agriculture. Agricultural companies have demonstrated a downward trend in their expectations since October 2021 amid a slowdown in the growth of production costs.

Following a slight drop in late 2021, price expectations increased markedly in trade. Companies reported a pickup in cost growth and higher demand. In January 2022, the average price growth rate expected by retailers in the next three months equalled 9.1% in annualised terms (vs 6.4% in January 2021). A solid increase in price expectations was also noted in the industrial sector, mainly due to mining and quarrying where the increase in costs was especially noticeable.

In December 2021, [IHS Markit PMI price indices](#) changed negligibly. Output price growth picked up slightly in manufacturing industries. Companies attributed this to the transfer of costs that had previously increased due to supply disruptions and a shortage of suppliers. In December, the growth of input prices in manufacturing industries remained almost unchanged. In the services sector, the index of input prices slightly increased. Companies noted a rise in the cost of raw materials due to exchange rate fluctuations, an increase in transportation and wage costs, as well as an increase in subcontractor fees. However, amid limited demand for services due to the pandemic, service

COMPANIES' PRICE EXPECTATIONS\*  
(BANK OF RUSSIA)  
(BALANCE OF RESPONSES, SA)

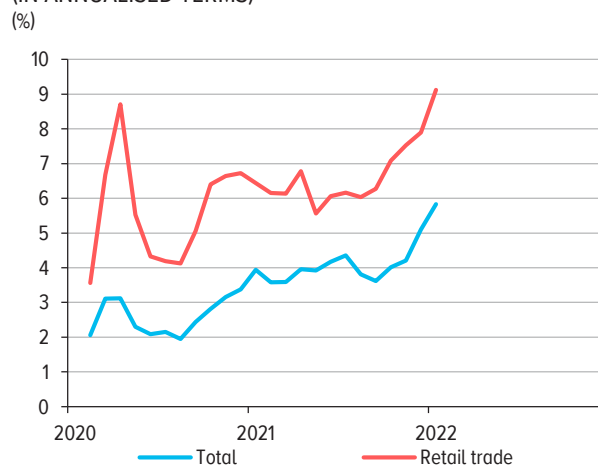
Chart 7



\* Retrospective estimates of companies' price expectations were refined by updating the shares of individual sub-sectors in the structure of the survey sample and GVA.  
Sources: Bank of Russia, Rosstat.

THREE-MONTH AHEAD AVERAGE PRICE GROWTH RATE EXPECTED BY COMPANIES  
(IN ANNUALISED TERMS)

Chart 8

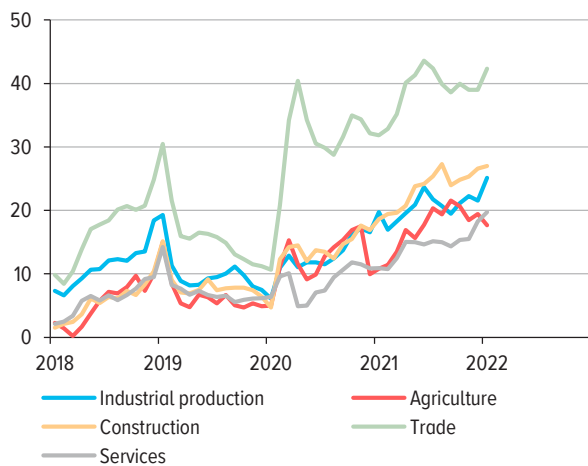


Source: Bank of Russia.



COMPANIES' PRICE EXPECTATIONS BY KEY INDUSTRIES (BANK OF RUSSIA)  
(BALANCE OF RESPONSES, SA %)

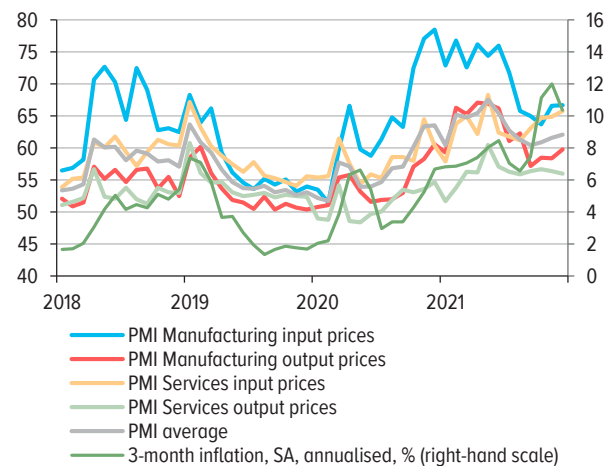
Chart 9



Source: Bank of Russia.

CHANGES IN COMPANIES' PRICES (MARKIT PMI)  
(DIFFUSION INDEX, POINTS)

Chart 10



Sources: IHS Markit PMI, Rosstat.

enterprises had limited opportunities for passing through higher costs to final prices, as the output price index decreased slightly in December.

## Implied inflation exceeded 5%

Two-year ahead implied inflation for inflation-indexed federal government bonds (OFZ-IN) increased in January 2022 after a decline in December. According to Bank of Russia estimates,<sup>3</sup> it averaged 5.3% in January (+0.6 pp vs December). Implied inflation for longer periods was also up in January, reaching 5.7% for 2023–2028 (+0.4 pp vs December) and 5.3% for 2028–2030 (+0.5 pp). The increase in implied inflation in January is in part associated with higher volatility in the OFZ market, which influenced the obtained estimates. OFZ-PDs and OFZ-INS, used to calculate implied inflation, differ in investor structure and liquidity, so their prices change diversely during periods of considerable bond market fluctuations, thereby distorting estimates.

## One-year ahead analysts' forecasts are above 4.5%

In December–January, analysts' inflation forecasts<sup>4</sup> for 2022 remained unchanged. According to Bloomberg, Reuters, and Interfax surveys carried out in late December–January, analysts' consensus forecasts for the end of 2022 ranged from 4.5% to 5.1%. Forecasts for 2023 remained unchanged and consistent with the Bank of Russia's inflation target.

## High inflation expectations exacerbate inflation risks

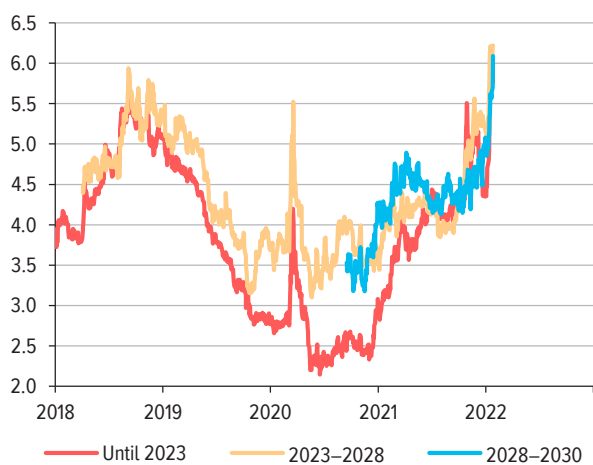
According to Bank of Russia estimates, the contribution of stable factors to inflation remains substantial as demand is growing faster than output expansion capacity. Considering the above and high inflation expectations, the balance of risks for inflation is markedly shifted towards proinflationary ones. This may bring about a more substantial and prolonged upward deviation of inflation from the target. The Bank of Russia takes this fact into account in its monetary policy decisions.

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

<sup>4</sup> Surveys by the Bank of Russia, Interfax, Bloomberg, and Thomson Reuters.

IMPLIED INFLATION FOR OFZ-IN  
(%)

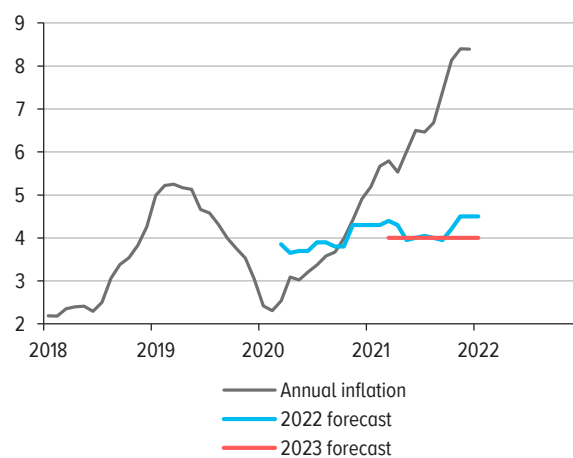
Chart 11



Sources: Bloomberg, Rosstat, Bank of Russia calculations.

BLOOMBERG ANALYSTS' CONSENSUS FORECAST  
(%)

Chart 12



Sources: Bloomberg, Rosstat.

The data cut-off date – 26.01.2022.

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](mailto:svc_analysis@cbr.ru).

This commentary was prepared by the Monetary Policy Department.

Cover photo: Shutterstock/FOTODOM

12 Neglinnaya Street, 107016 Moscow

Bank of Russia website: [www.cbr.ru](http://www.cbr.ru)

© Central Bank of the Russian Federation 2022