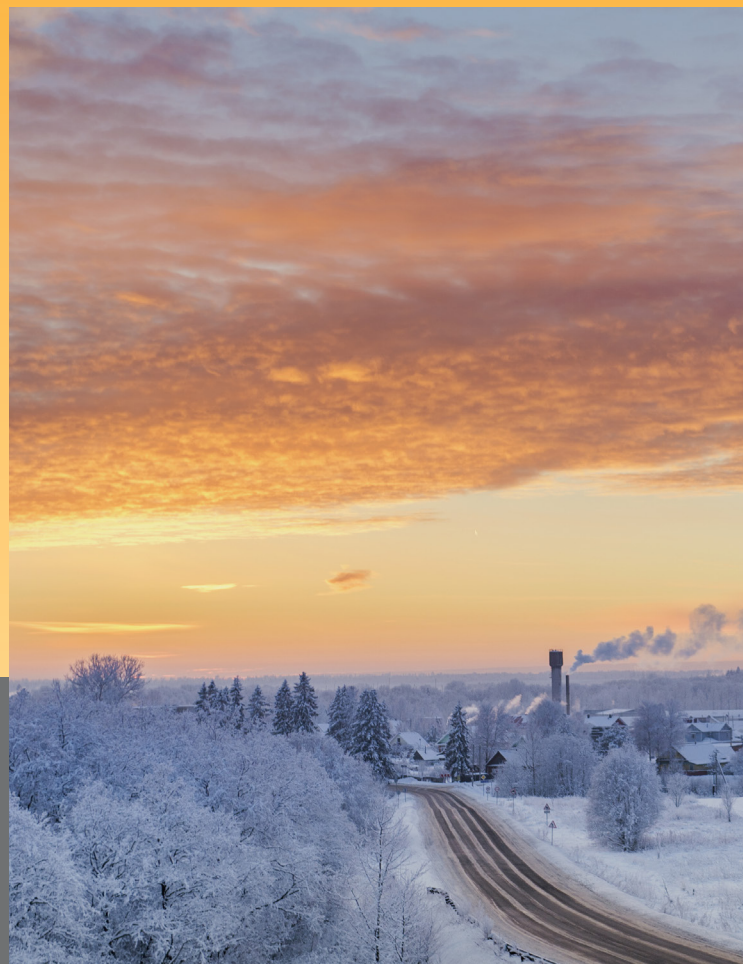




Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

No. 2 (74) • February 2023

Information and analytical commentary

27 February 2023

INFLATION EXPECTATIONS AND CONSUMER SENTIMENT (FEBRUARY 2023)

Households' inflation expectations for a year ahead edged up in February 2023, remaining close to the elevated levels of April 2022–January 2023, as shown by InFOM's survey. The median estimate of inflation expected in the next 12 months reached 12.2%. Companies' short-term price expectations were down. Analysts' inflation forecasts for 2023 and 2024 remained almost unchanged. The Bank of Russia forecasts that given the monetary policy pursued inflation will slow down to 5–7% in 2023 and return to 4% in 2024.

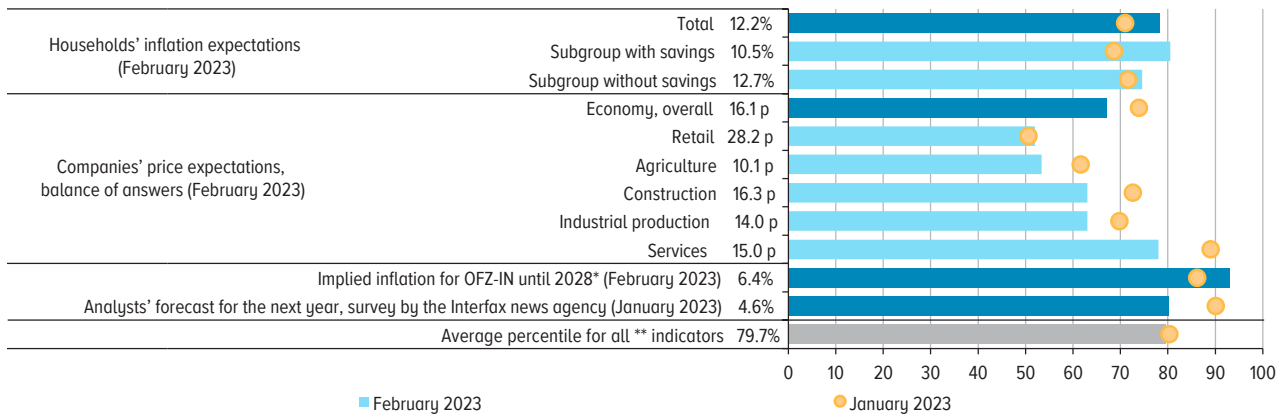
INFLATION EXPECTATION INDICATORS

	Expectation horizon	2020 average	2021 average	2022 average	February 2022	December 2022	January 2023	February 2023
Inflation, %		3.4	6.7	13.8	9.2	11.9	11.8	
Inflation observed by households, %								
Public Opinion Foundation (median)	previous 12 months	9.6	15.1	19.6	17.1	16.3	14.9	15.0
Public Opinion Foundation (subgroup with savings)	previous 12 months	8.7	12.8	16.7	15.6	13.7	13.3	13.3
Public Opinion Foundation (subgroup without savings)	previous 12 months	9.9	16.2	21.9	18.2	18.2	16.0	16.1
Households' inflation expectations, %								
Public Opinion Foundation (median)	next 12 months	9.1	12.1	12.9	13.5	12.1	11.6	12.2
Public Opinion Foundation (subgroup with savings)	next 12 months	8.4	10.5	11.3	12.1	10.3	10.2	10.5
Public Opinion Foundation (subgroup without savings)	next 12 months	9.6	13.2	14.0	14.5	13.0	12.4	12.7
Public Opinion Foundation (proportion of respondents considering that the price growth rate in three years will notably surpass 4%)	next 3 years	48.3	52.7	50.0	57.0	52.3	45.2	
Public Opinion Foundation (median of five-year inflation expectations)	next 5 years						10.9	9.3
Companies' price expectations								
Companies, balance of answers	next 3 months	13.3	20.1	21.8	21.8	19.6	17.4	16.1
Implied inflation for OFZ-IN (monthly average), %								
OFZ-IN 52002, February 2028	next 5-year average	3.3	4.2	6.3	6.4	6.3	6.3	6.4
OFZ-IN 52003, July 2030	next 7.5-year average	3.3	4.3	6.5	6.2	6.6	6.8	7.0
OFZ-IN 52004, March 2032	next 9-year average			6.7	6.5	6.8	6.8	7.0
OFZ-IN	2028–2030 average	3.5	4.4	6.7	6.0	7.2	7.7	8.1
OFZ-IN	2030–2032 average			7.6	7.8	7.3	7.1	7.2
Analysts, %								
Interfax	2023			6.5		6.1	6.2	
Survey by the Bank of Russia	2023		4.0	6.3	4.0	5.8		6.0
Interfax	2024						4.6	
Survey by the Bank of Russia	2024			4.4	4.0	4.2		4.1
Survey by the Bank of Russia	2025			4.0		4.0		4.0

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

INFLATION EXPECTATION INDICATORS IN PERCENTILES RELATIVE TO THE DISTRIBUTION OF VALUES SINCE 2017

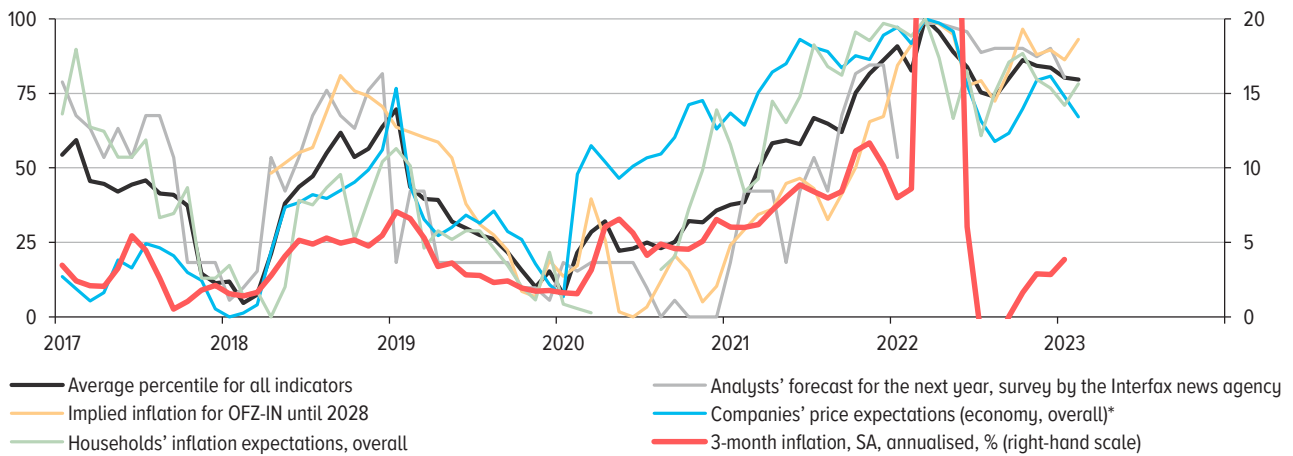
Chart 1



* Percentiles for implied inflation are shown relative to the distribution of values since April 2018.
 ** The average of the percentiles of households' inflation expectations (total), companies' price expectations (economy, overall); implied inflation for OFZ-IN until 2028 and analysts' forecast for the next 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 red marker shows the percentile as of the previous date, and the blue bar – the percentile as of the current date. A shift of the indicator to the left relative to the previous date indicates lower inflation expectations, and its shift to the right – higher inflation expectations.
 Sources: InFOM, Bank of Russia, Interfax, Moscow Exchange.

PERCENTILES OF INFLATION EXPECTATION INDICATORS (RELATIVE TO THE DISTRIBUTION OF VALUES SINCE 2017)

Chart 2



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

Inflation expectations of economic agents impact the effectiveness of monetary policy against inflation.¹ When making consumption, saving and investment decisions, setting prices for goods, loan and deposit rates, businesses, credit institutions and households consider, among other things, their expectations regarding future inflation. In turn, the Bank of Russia's monetary policy results influence inflation expectations. Achieving the inflation target and keeping it at a consistently low level help anchor inflation expectations and reduce their volatility and sensitivity to one-time and short-term spikes in prices for certain goods or services.

Estimates of inflation expectations and observed inflation based on household surveys both in Russia and abroad nearly always exceed actual inflation rates. This discrepancy is related to the peculiarities of perception: rising prices are more likely to get attention and an active response, while declining or stable prices tend to receive less attention. Therefore, people judge inflation to a greater extent by looking at the goods whose prices have increased most. Despite this systematic shift in the absolute values of inflation expectations, their changes and relative level compared to their historical range are very important indicators that make it possible to estimate potential changes in the economic behaviour of households. In turn, these changes determine future sustained inflation.

Unlike households' inflation expectations, businesses' price expectations are measured as the balance of answers to the question about expected changes in selling prices in the next three months rather than the median of the expected price growth in the next 12 months. A rise in price expectations means that a large number of companies are planning to increase prices. However, no assessment can be made as to the value of this increase based on the change in the balance of answers.

¹ For details on the monetary policy transmission mechanism, refer to Appendix 1 to the [Monetary Policy Guidelines for 2023–2025](#).

Households' inflation expectations for a year ahead edged up

In February 2023, inflation expectations increased, returning to the level of November 2022 after three months of their decline, as shown by InFOM's survey. The median estimate of inflation expectations for the next 12 months equalled 12.2% (+0.6 pp vs January 2023; the average for 2017–2019: 9.6%). In February, inflation expectations increased among respondents both with and without savings. Inflation expectations in the subgroup with savings were 10.5% (+0.3 pp vs January 2023). They remain within the 10.2%–10.5% range since September 2022.

Annual inflation observed by households remained almost unchanged in February. Its median estimate was 15.0% (+0.1 pp vs January 2023). Observed inflation estimates remained almost unchanged among respondents both with and without savings.

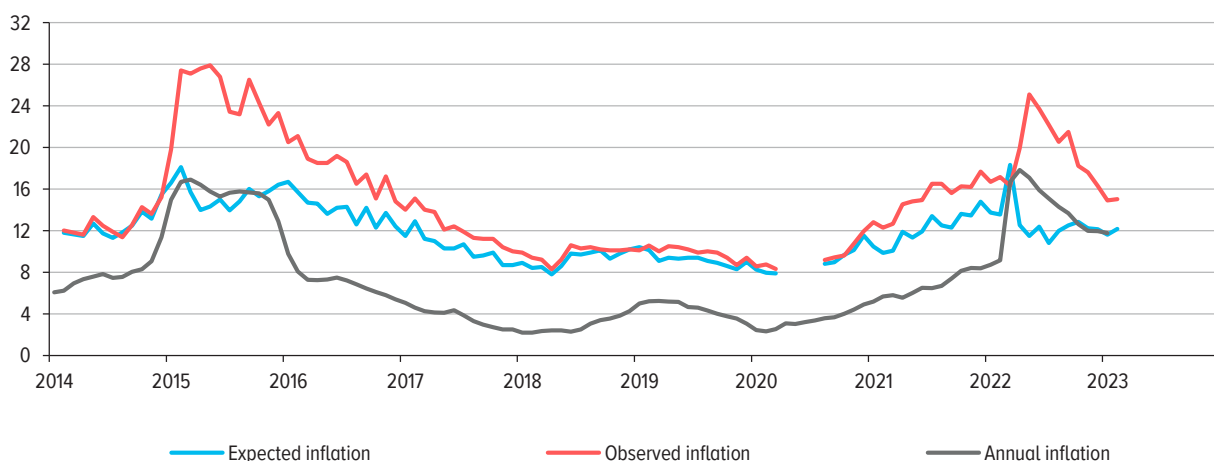
In February, respondents became more concerned about the rise in prices for fruit and vegetables (the growth in prices for fruit and vegetables accelerated in January, according to Rosstat)² and bread and bakery products. Contrastingly, respondents more rarely reported strong increases in prices for the majority of other goods included in the survey. The share of respondents concerned about the increase in prices for tea and coffee (-5 pp), household chemicals (-5 pp), and cheese and sausages (-3 pp) dropped more sharply.

In February, the estimates of inflation trends expected one year ahead and those of actual inflation over the last year declined.³ The estimates of inflation trends expected one month ahead and those of actual inflation increased over the previous month.⁴

In February, long-term inflation expectations declined. The median of five-year inflation expectations was 9.3% (in January 2023 – 10.9%).

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

Chart 3



Sources: InFOM, Rosstat.

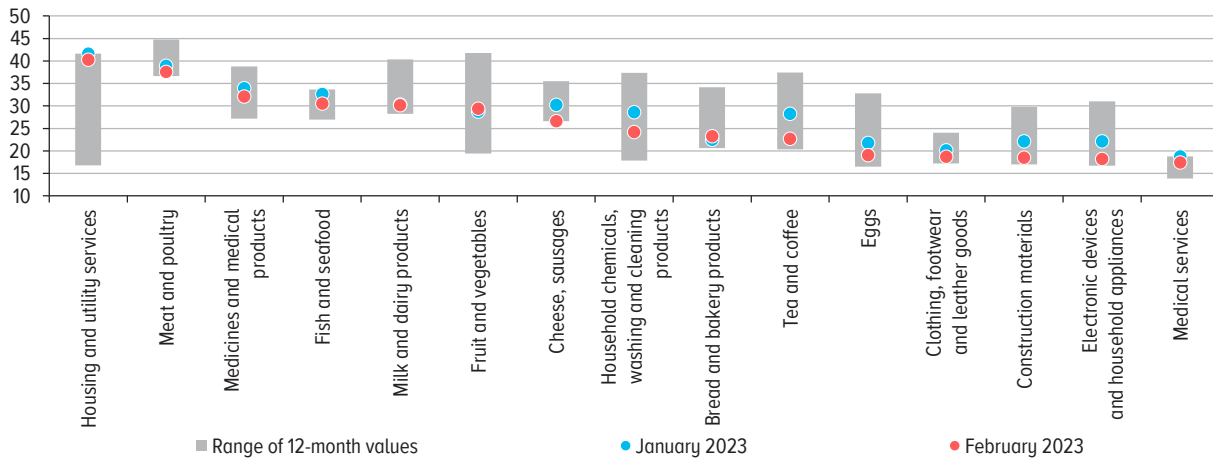
² For details on inflation in January, refer to the information and analytical commentary [Consumer Price Dynamics](#), No. 1 (85), January 2023.

³ That is, a smaller percentage of respondents, as compared to the previous month, answered that prices were rising / will be rising faster than before / now.

⁴ That is, a smaller percentage of respondents, as compared to the previous month, answered that prices rose / will rise considerably.

DISTRIBUTION OF RESPONDENTS' ANSWERS TO THE QUESTION 'WHAT MAIN PRODUCTS AND SERVICES SHOWED VERY HIGH GROWTH RATES OVER THE PAST MONTH?'
(% OF TOTAL RESPONDENTS)

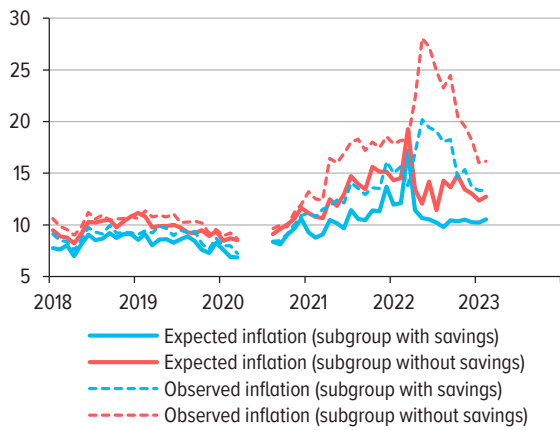
Chart 4



Sources: InFOM, Bank of Russia calculations.

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

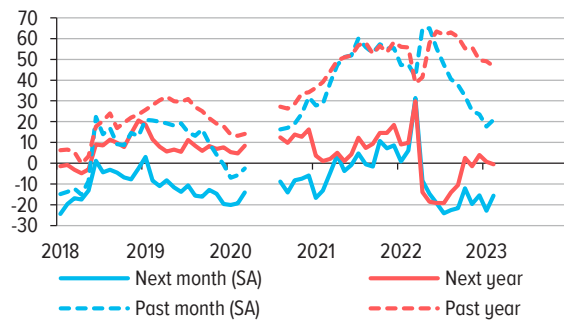
Chart 5



Sources: InFOM, Bank of Russia calculations.

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

Chart 6



* Balance of answers to the questions 'How, in your opinion, were prices changing in general over the last 12 months (last year)?', 'How, in your opinion, will prices be changing in general in the next 12 months (next year)?', 'How, in your opinion, did prices for food products, non-food products and services change in general last month (seasonally adjusted)?', and 'How, in your opinion, prices for food products, non-food products and services will change in general next month (seasonally adjusted)?'.
Sources: InFOM, Bank of Russia calculations.

Estimates of savings sentiment were at their highest for two years

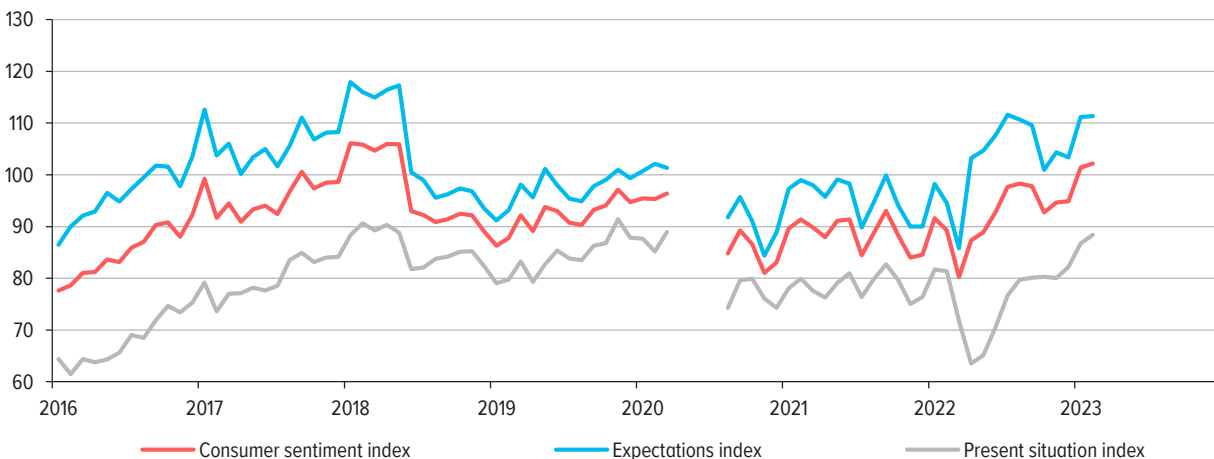
In February, respondents' propensity to save continued to increase. The percentage of respondents preferring to save available funds rather than buy expensive goods was up to 55.9% (+1 pp vs January). The upward trend of this indicator has continued since October 2022, and its current level is the highest since March 2021. In February, the percentage of respondents preferring to keep their savings in cash grew to 34% (+4 pp vs January), returning to the percentage of December 2022.

The consumer sentiment index (CSI) was 102.2 points in February (+0.8 points vs January 2023), hitting a new record high since May 2018. In February, the estimates of the present situation included in the CSI improved, while expectations remained almost unchanged.

The present situation index rose to 88.4 points in February (+1.7 points vs January). The estimates of both its components increased: those of actual changes in personal financial standing over the year and those of the suitability of the current period for large purchases. The expectations index that includes the estimates of changes in personal financial standing for a year ahead and of the country's economic prospects for the next one and five years reached 111.3 points in February (+0.1 points vs January).

CONSUMER SENTIMENT INDEX
(POINTS)

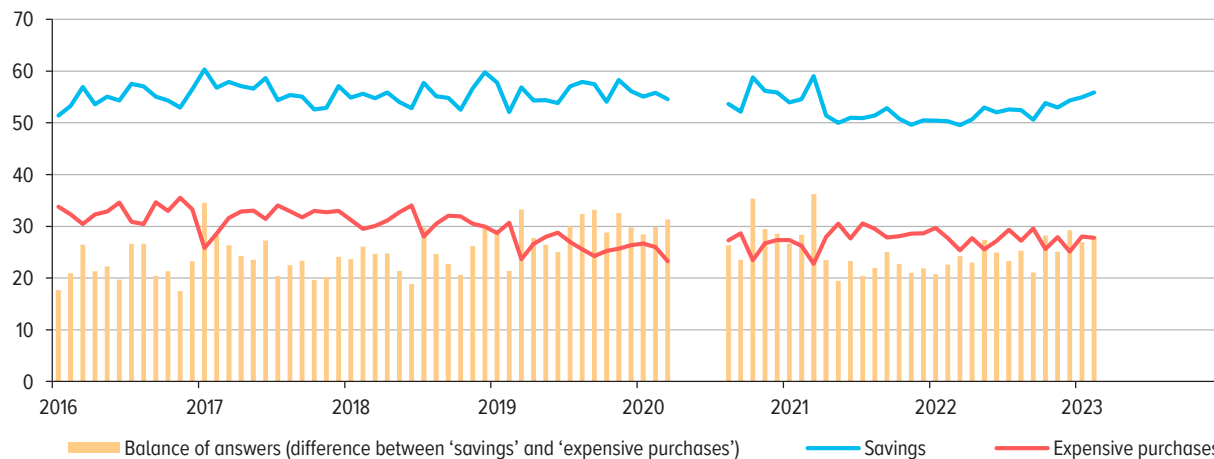
Chart 7



Source: InFOM.

DISTRIBUTION OF ANSWERS 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 8



Sources: InFOM, Bank of Russia calculations.

Companies' price expectations continued to go down

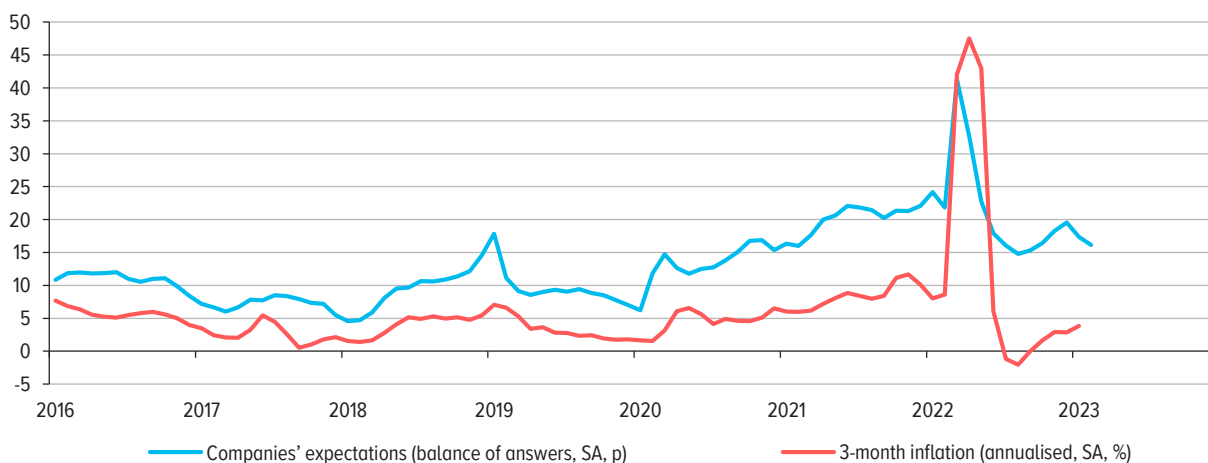
According to the [monitoring](#) carried out by the Bank of Russia in February 2023, companies' price expectations (the balance of answers) for the next three months continued to decline for the second month in a row, but remained elevated. The quantitative indicator of companies' price expectations – the average price growth rate expected in the next three months – equalled 4.5% in annualised terms in February.

The February decrease in price expectations for the next three months in most industries was caused by a slower growth in costs and moderate estimates of current demand. Price expectations edged down most notably in mining and quarrying, including due to the price cap on Russian petroleum products and the embargo on their supplies to the EU.

Price expectations in construction and transport declined amid a slower growth in costs and persistently negative estimates of current demand. Price expectations in agriculture continued to decrease. According to agricultural companies, the growth in costs slowed down as well, and expectations about demand changes in the next three months became less optimistic.

COMPANIES' PRICE EXPECTATIONS

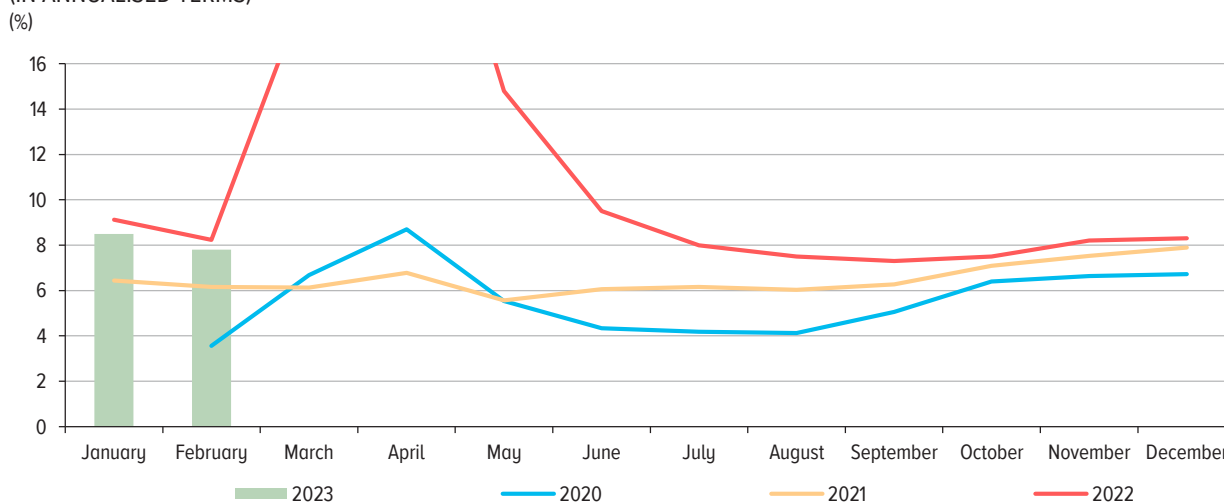
Chart 9



Sources: Bank of Russia, Rosstat.

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

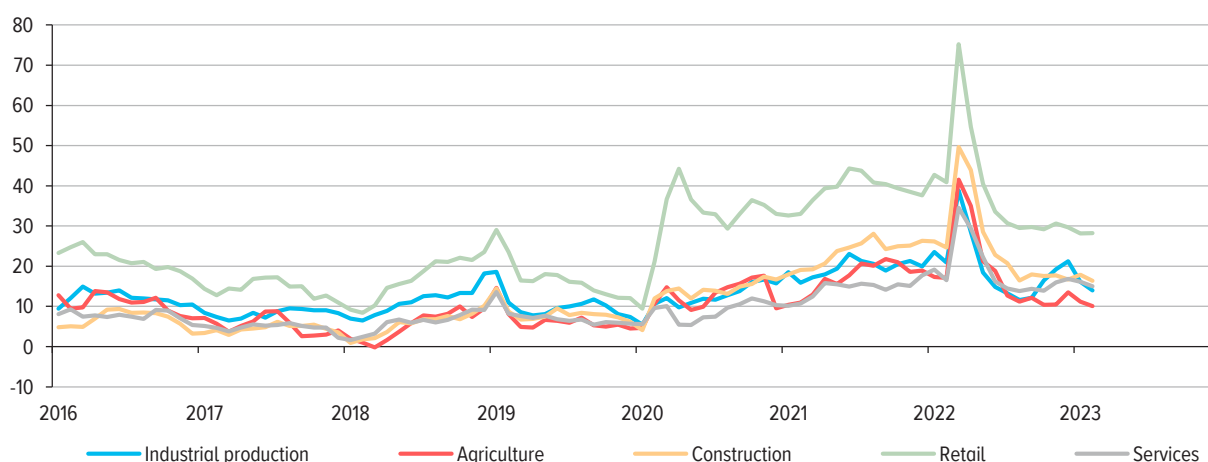
Chart 10



Source: Bank of Russia.

COMPANIES' PRICE EXPECTATIONS, BY KEY INDUSTRY
(BALANCE OF ANSWERS, SA, POINTS)

Chart 11



Source: Bank of Russia.

Unlike other industries, price expectations in trade increased. The growth was observed in the wholesale segment and car trade, whereas price expectations in retail remained unchanged. Trade companies' expectations about future demand improved, although the estimates of current demand remained subdued. The average price growth rate expected by retailers in the next three months equalled 7.8% in annualised terms (vs 8.2% in February 2022).

Over the past 12 months, companies significantly raised the inflation rate in their business plans for a year ahead: the average for 2023 is 9.8%, as compared to 8.2% for 2022 in February 2022.

Implied inflation remained elevated

In February, according to the Bank of Russia's estimates,⁵ average implied inflation for the next five years for inflation-indexed federal government bonds (OFZ-IN) remained almost the same at 6.4% as compared to January (+0.1 pp vs January). Implied inflation for 2028–2030 increased to 8.1% (+0.4 pp vs January), and for 2030–2032, it rose to 7.2% (+0.1 pp vs January).

Analysts expect inflation to slow down to 6.0–6.2% in 2023

In January–early February 2023, analysts' inflation forecasts changed only slightly. According to the findings of [the Bank of Russia's macroeconomic survey](#) carried out in February, analysts' inflation forecast for the end of 2023 equalled 6.0% (+0.2 pp vs December; no survey was carried out in January). Inflation forecasts for 2024 and 2025 remained almost unchanged and stayed close to 4%. According to the survey carried out by the Interfax news agency, in January, analysts' consensus forecast of inflation was 6.2% for the end of 2023 (+0.1 pp vs December) and 4.6% – for the end of 2024.

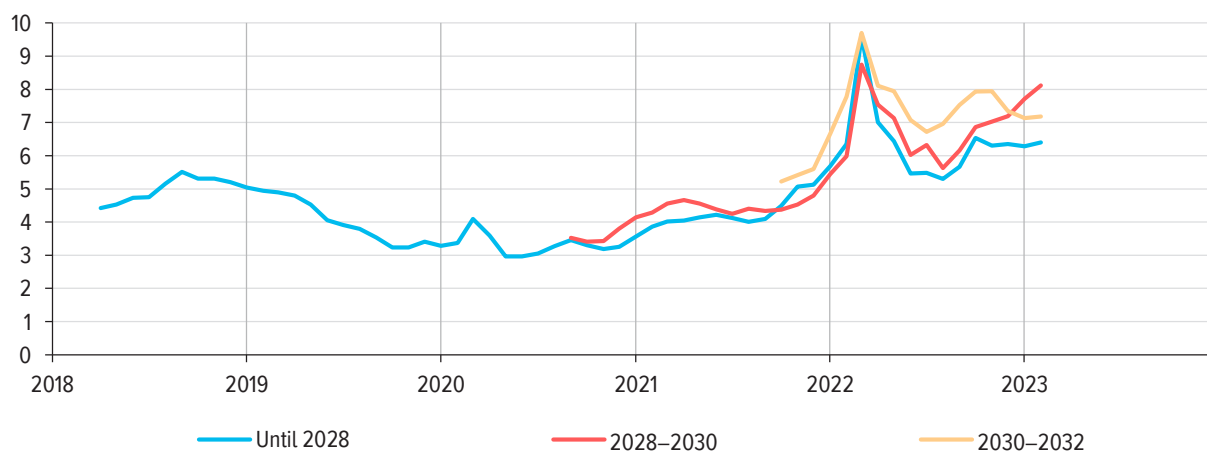
The Bank of Russia forecasts that annual inflation will return to 4% in 2024

According to the Bank of Russia's assessments, the balance of risks is skewed towards proinflationary ones over the medium-term horizon. Short-term proinflationary risks have increased and also exceed disinflationary ones. The Bank of Russia forecasts that given the monetary policy pursued inflation will slow down to 5–7% in 2023 and return to 4% in 2024.

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

IMPLIED INFLATION FOR OFZ-IN
(%)

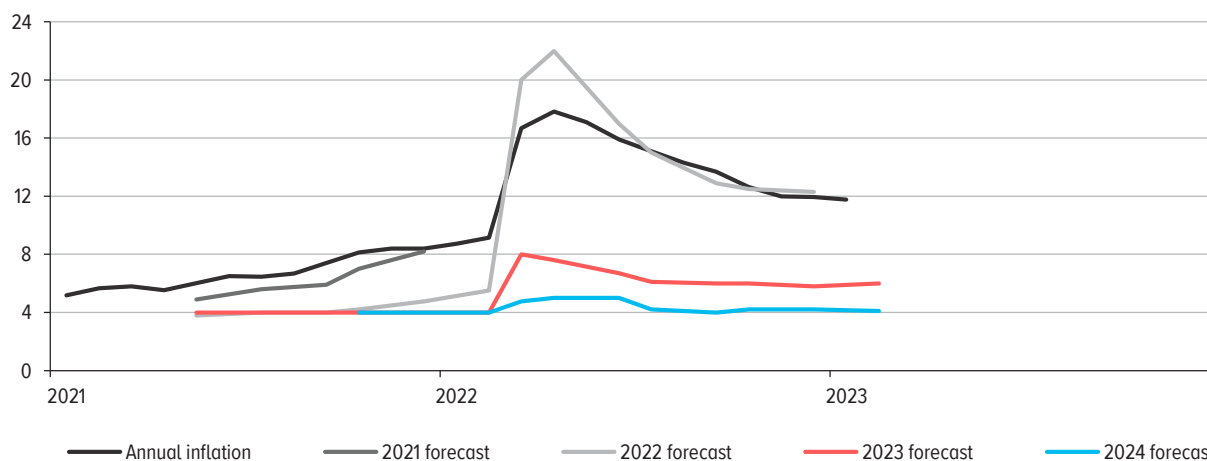
Chart 12



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

RESULTS OF THE BANK OF RUSSIA'S MACROECONOMIC SURVEY
(%)

Chart 13



Sources: Bank of Russia, Rosstat.

The data cut-off date – 17.02.2023.

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 jointly with the Irkutsk Regional Division of the Siberian Main Branch of the Bank of Russia.

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