



Bank of Russia



INFLATION EXPECTATIONS AND CONSUMER SENTIMENT

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Information and analytical commentary

25 July 2023

INFLATION EXPECTATIONS AND CONSUMER SENTIMENT (JULY 2023)

In July, economic agents' expectations regarding future inflation grew, remaining elevated. The median estimate of inflation expected by households in the next 12 months rose to 11.1%, as shown by InFOM's survey. Businesses' price expectations rose to the highest level observed since the beginning of the year. Concurrently, implied inflation for inflation-indexed federal government bonds (OFZ-IN) increased to 7.1% over the next five years. In July, analysts slightly raised their forecasts for 2023 and 2024. According to the Bank of Russia, given the current monetary policy stance, inflation will come in at 5.0–6.5% in 2023, return to 4% in 2024, and will stay at this target level further on.

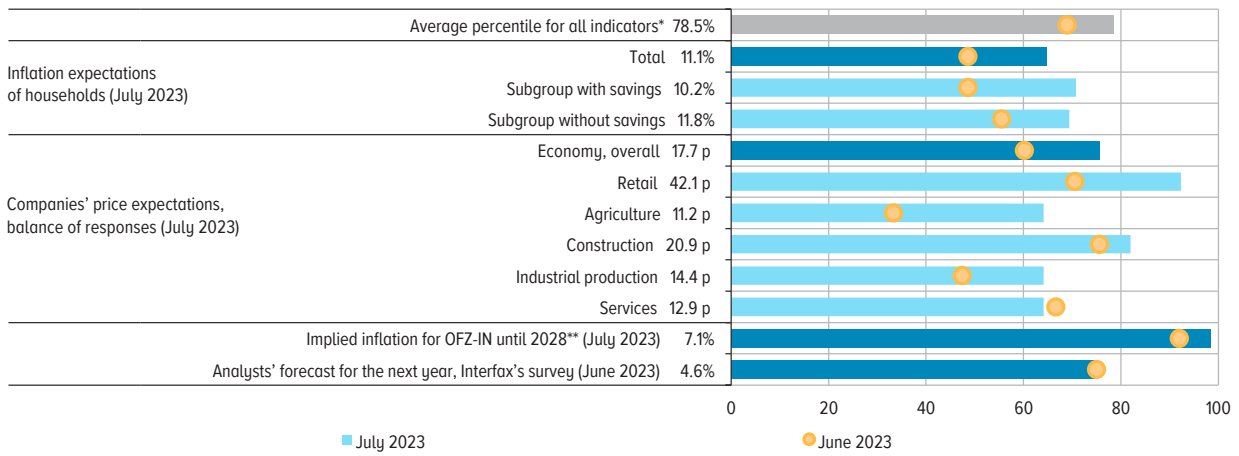
INFLATION EXPECTATION INDICATORS

	Expectation horizon	2020 average	2021 average	2022 average	2023 Q1 average	2023 Q2 average	May 2023	June 2023	July 2023
Inflation, %		3.4	6.7	13.8	8.8	2.7	2.5	3.3	
Inflation observed by households, %									
Public Opinion Foundation (median)	past 12 months	9.6	15.1	19.6	14.7	14.3	14.1	13.9	13.8
Public Opinion Foundation (subgroup with savings)	past 12 months	8.7	12.8	16.7	12.9	12.4	12.1	11.9	12.1
Public Opinion Foundation (subgroup without savings)	past 12 months	9.9	16.2	21.9	16.0	15.8	15.6	15.4	15.2
Households' inflation expectations, %									
Public Opinion Foundation (median)	next 12 months	9.1	12.1	12.9	11.5	10.5	10.8	10.2	11.1
Public Opinion Foundation (subgroup with savings)	next 12 months	8.4	10.5	11.3	10.2	9.5	9.6	9.2	10.2
Public Opinion Foundation (subgroup without savings)	next 12 months	9.6	13.2	14.0	12.1	11.3	11.6	11.1	11.8
Public Opinion Foundation (median of five-year inflation expectations)	next 5 years				10.2	10.7	11.3	10.8	9.5
Companies' price expectations, balance of responses									
Companies, total	next 3 months	13.3	20.1	21.8	16.7	16.4	16.1	15.7	17.7
Retail	next 3 months	31.7	38.8	38.9	29.8	35.3	35.7	35.0	42.1
Implied inflation for OFZ-IN (monthly average), %									
OFZ-IN 52002, February 2028	next 5-year average	3.3	4.2	6.3	6.5	6.6	6.4	6.7	7.1
OFZ-IN 52003, July 2030	next 7-year average	3.3	4.3	6.5	7.0	7.2	7.1	7.2	7.5
OFZ-IN 52004, March 2032	next 9-year average			6.7	7.1	7.6	7.5	7.6	7.8
OFZ-IN	2028–2030 average	3.5	4.4	6.7	8.0	8.3	8.4	8.2	8.3
OFZ-IN	2030–2032 average			7.6	7.6	9.1	9.1	9.2	9.2
Analysts, %									
Survey by the Bank of Russia	2023		4.0	6.3	6.0	5.7		5.5	5.7
Interfax	2023			6.5	6.2	5.8	5.8	5.7	
Survey by the Bank of Russia	2024			4.4	4.1	4.1		4.0	4.3
Interfax	2024				4.6	4.7	4.6	4.6	
Survey by the Bank of Russia	2025			4.0	4.0	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



* 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.

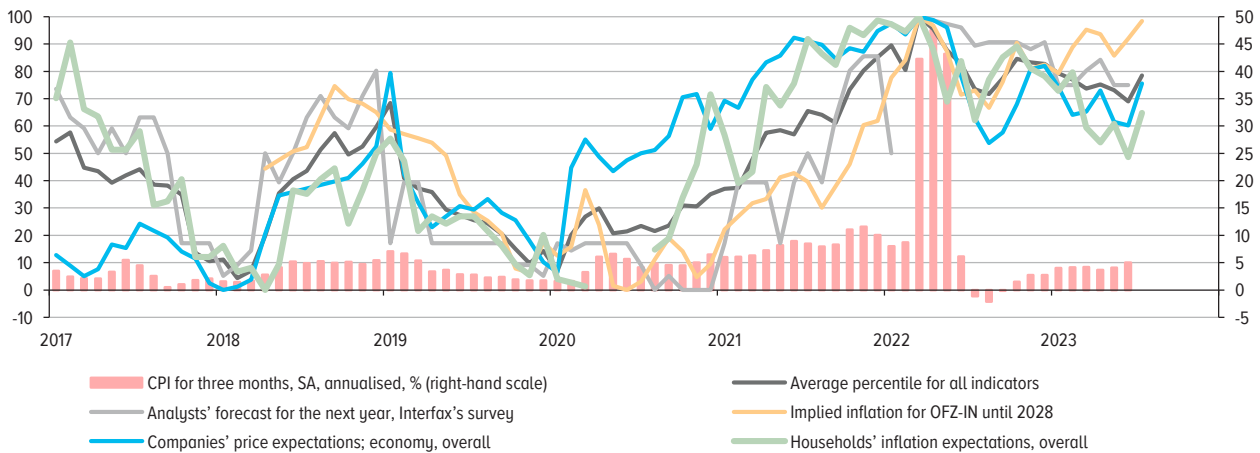
** Percentiles for implied inflation are specified relative to the distribution of values since April 2018.

Note. The chart shows the percentiles of inflation expectation indicators for the current and previous months in the distribution observed since January 2017. The percentile as of the previous date is highlighted in yellow, and the percentile as of the current date is shown as the blue bar. A shift of the indicator to the left relative to the previous date means 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.

Monetary policy and inflation expectations

Economic agents' inflation expectations influence how efficiently monetary policy will be able to control inflation.¹ This is because companies, credit institutions and households make their decisions on consumption, savings and investment, price products, and set credit and deposit rates, being guided by their expectations about future inflation, among other factors. In turn, the Bank of Russia's monetary policy results influence inflation expectations. Achieving the inflation target and maintaining inflation at a steadily low level help anchor inflation expectations and reduce their volatility and responsiveness to one-off and short-term spikes in prices for some products or services.

Inflation expectations and observed inflation measured based on household surveys usually exceed actual inflation rates both in Russia and abroad. 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. Accordingly, people estimate inflation guided primarily by product prices that have increased most significantly. Despite this systematic bias in the absolute values of inflation expectations, their change and relative level compared to the historical range are essential indicators showing possible changes in household economic behaviour. These changes in turn influence future steady inflation.

Unlike household 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 over the next 12 months. Rising price expectations mean that a higher percentage of companies plan to increase prices. However, the extent of the increase cannot be estimated based on the change in the balance of responses.

¹ The monetary policy transmission mechanism is detailed in Appendix 1 to the [Monetary Policy Guidelines for 2023–2025](#).

Household inflation expectations rose

Based on InFOM's survey, in July 2023, the median estimate of household inflation expectations for the next 12 months was 11.1% (+0.9 pp vs June, +0.6 pp vs the 2023 Q2 average) (Annex, Chart 1). Inflation expectations of respondents both with and without savings rose on the back of the ruble depreciation (Annex, Chart 3). The median of inflation expectations of the subgroup with savings was 10.2% in July.

Annual inflation observed by households remained almost unchanged in July. Its median estimate equalled 13.8% (-0.1 pp vs June). The estimates of observed inflation edged up among respondents with savings and declined among those without savings. These estimates are still influenced by the price surge in March–April 2022, which has already dropped out of the annual inflation calculation (CPI: +3.3 YoY in June).

In July, respondents were more concerned about rising prices for most goods included in the survey (Annex, Chart 2). The percentage of respondents who reported a significant growth in prices for petrol (this share was growing for the second month in a row), as well as for electronics and household appliances, increased most noticeably.² However, respondents' concerns about rising prices for fruit and vegetables decreased due to seasonal factors.

Qualitative estimates of expected inflation for one month and one year ahead also increased in July³ (Annex, Chart 4). Qualitative estimates of actual inflation edged up over the previous month,⁴ and edged down over the past year⁵ compared to June.

Long-term inflation expectations declined in July. The percentage of respondents believing that the price growth rate three years after will notably surpass 4%, slightly declined and reached 46% in July (vs 48% in June) (Annex, Chart 5). Inflation expectations median for the next five years⁶ was 9.5% (vs 10.8% in June). Five-year inflation expectations declined among respondents both with and without savings.

Consumer sentiment remains close to its five-year high

The consumer sentiment index (CSI) edged down in July, staying close to its five-year high (Annex, Chart 6). It equalled 102.7 points (-0.4 points vs June). The present situation index included in the CSI edged down to 91.2 points (-0.7 points vs June) due to lower estimates of changes in personal financial standing over the past year. Estimates of the suitability of the current period for making major purchases remained almost unchanged in July. The expectations index included in the CSI, which takes into account the estimates of future changes in economic conditions in the country for one and five years ahead and the estimates of changes in personal financial standing for a year ahead remained virtually the same and equalled 110.4 points (vs 110.6 points in June).

The respondents' propensity to consume slightly declined in July (Annex, Chart 7). The percentage of respondents opting not to save money but to purchase expensive goods decreased to 29.7% (-1.7 pp vs June). The percentage of those who prefer to save edged up to 51.4% (+0.3 pp vs June).

In July, they more often than a month ago demonstrated their preference to keep their money in bank accounts (39% of respondents vs 37% in June), and less often in cash (32% of respondents vs 33% in June).

² For details on inflation in June, refer to the [information and analytical commentary Consumer Price Dynamics](#), No. 6 (90), June 2023

³ That is, a larger percentage of respondents, as compared to the previous month, answered that prices would rise considerably and faster than now.

⁴ That is, a larger percentage of respondents, as compared to the previous month, answered that prices had risen considerably.

⁵ That is, a smaller percentage of respondents, as compared to the previous month, answered that prices rose faster than now.

⁶ The question 'Could you even roughly predict inflation and price growth in Russia in five years?' The proportion of respondents who answered this question (excluding the answers such as 'I have no idea what will happen to prices in Russia in five years' and 'It is hard to say') was 50% in July (vs 53% in June).

Price expectations of businesses edged up

According to the monitoring carried out by the Bank of Russia in July 2023, businesses' price expectations (the balance of responses) for the next three months rose (Annex, Chart 8). The July survey covered 14,571 enterprises. For more details on the monitoring of enterprises, refer to the information and analytical commentary [Monitoring of Businesses: Assessments, Expectations and Comments](#).

The average price growth rate over the next three months,⁷ measuring companies' price expectations, equalled 4.4% in annualised terms in July (vs 3.4% in June).

Higher price expectations of businesses were mainly due to the ruble depreciation, faster growth in costs and greater business risks. More than 25% of companies cited changes in the cost of fuels and lubricants as one of the reasons for their anticipated price growth. There was a rise in price expectations in the majority of industries (Annex, Chart 9).

Price expectations grew the most in the trade sector, largely influenced by the depreciation of the ruble. Price expectations of both wholesale and retail trade segments surged. The average price growth rate expected by retail trade enterprises in the next three months reached 10.5% in annualised terms (Annex, Chart 10).

There was a significant increase in price expectations for the manufacturing industry and agriculture.

Construction companies, on the other hand, reported a slight increase in price expectations. However, the impact of overall proinflationary factors in the construction sector was limited by respondents' more cautious estimates of future demand dynamics.

In mining and quarrying, price expectations remained almost unchanged with a slowdown in cost growth and some improvement in demand expectations.

Price expectations declined in the services sector, influenced by more moderate estimates of current demand and expectations regarding the services to be rendered in the upcoming three months.

Implied inflation for the next five years is estimated at 7.1%

In July, according to the Bank of Russia's estimates,⁸ average implied inflation for the next five years to 2028, calculated on the basis of the ratio between yields on OFZ-PD and OFZ-IN bonds with the same maturity dates, slightly increased to 7.1% (+0.4 pp vs June) (Annex, Chart 11). Implied inflation for longer periods remained almost unchanged. It was 8.3% (+0.1 pp vs June) for 2028–2030 and 9.2% for 2030–2032 (unchanged from June).

Analysts raised their forecasts in July

In June 2023, analysts' inflation forecasts remained almost unchanged, but they increased in July. According to the findings of the [Bank of Russia's macroeconomic survey](#) carried out in July, analysts' inflation forecast for the end of 2023 was 5.7% (+0.2 pp vs June), and it was 4.3% for the end of 2024 (+0.3 pp vs June) (Annex, Chart 12). Analysts surveyed by the Bank of Russia expect inflation to be 4.0% in 2025. In June, according to the survey carried out by Interfax, analysts' consensus forecast of inflation was 5.7% for the end of 2023 (-0.1 pp vs May) and 4.6% for the end of 2024 (unchanged from May).

⁷ Seasonally adjusted data.

⁸ The estimates are based on the comparison of expected yields on OFZ-IN and nominal OFZ (OFZ-PD) bonds, taking into account the lag in the nominal value indexation and seasonally adjusted inflation. [Calculation method](#).

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

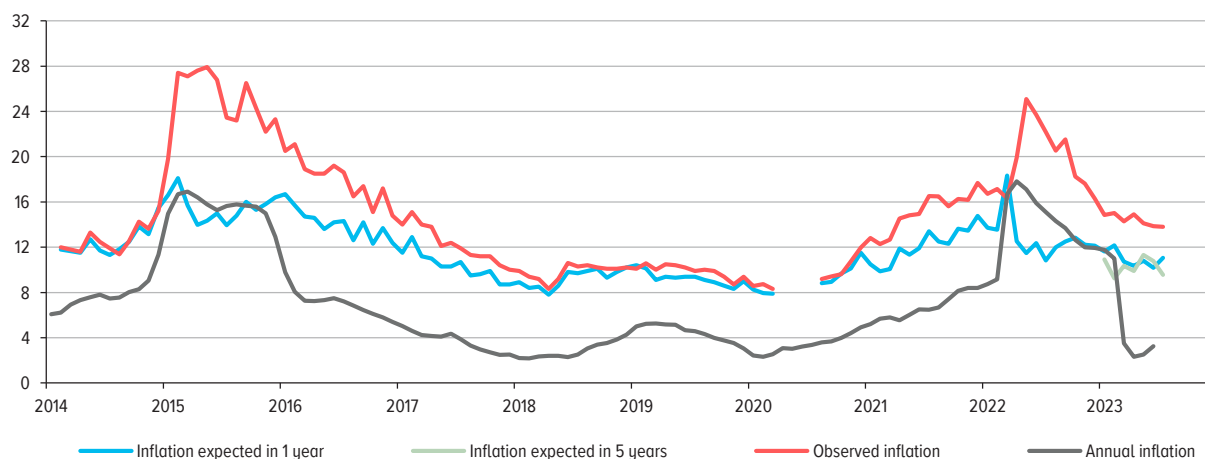
According to the Bank of Russia forecast, annual inflation will continue rising over the coming months as price pressure builds up and low monthly values of summer–autumn 2022 are excluded from the calculation of inflation. Given the monetary policy pursued, annual inflation will be 5.0–6.5% in 2023 and stay close to 4% in 2024 and beyond.

ANNEX

Analytical charts

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

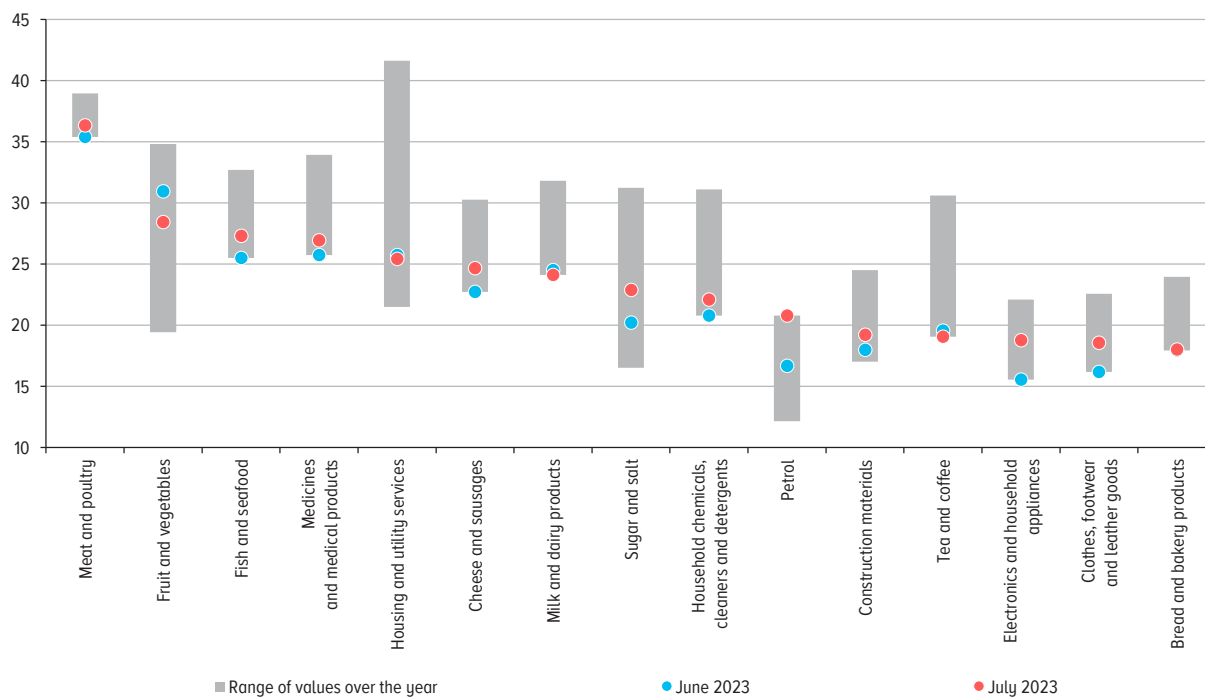
Chart 1



Sources: InFOM, Rosstat.

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

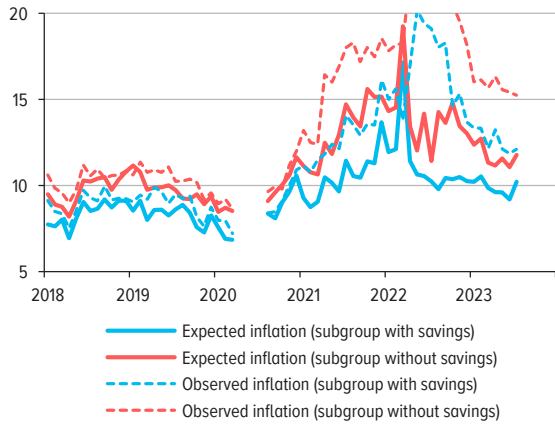
Chart 2



Sources: InFOM, Bank of Russia calculations.

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

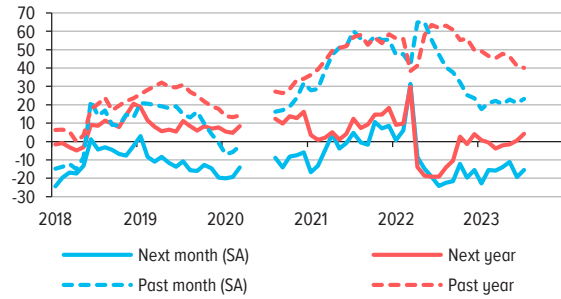
Chart 3



Sources: InFOM, Bank of Russia calculations.

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

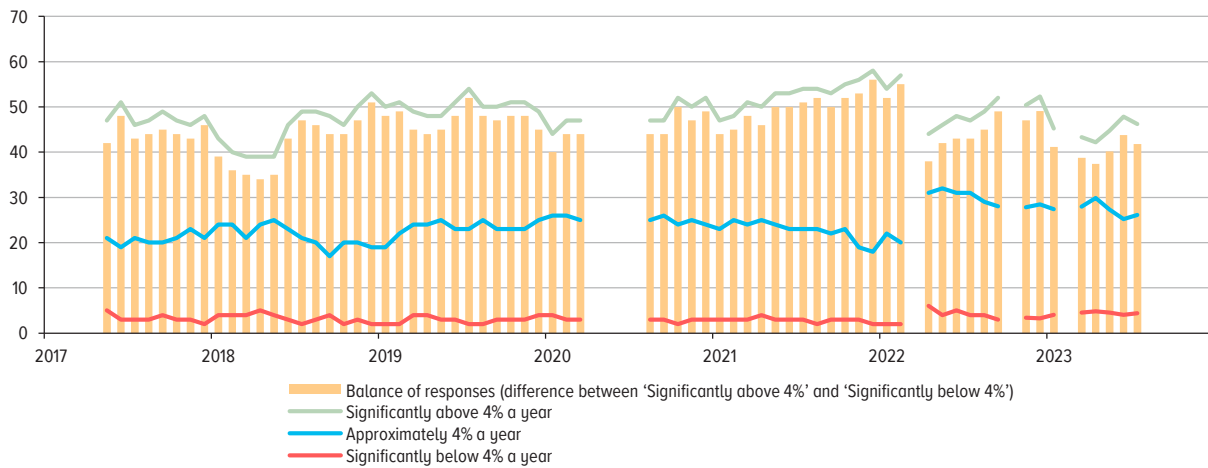
Chart 4



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

DISTRIBUTION OF RESPONSES TO THE QUESTION 'WILL ANNUAL PRICE GROWTH BE ABOVE OR BELOW 4% IN THREE YEARS, IN YOUR OPINION?'
(% OF ALL RESPONDENTS)

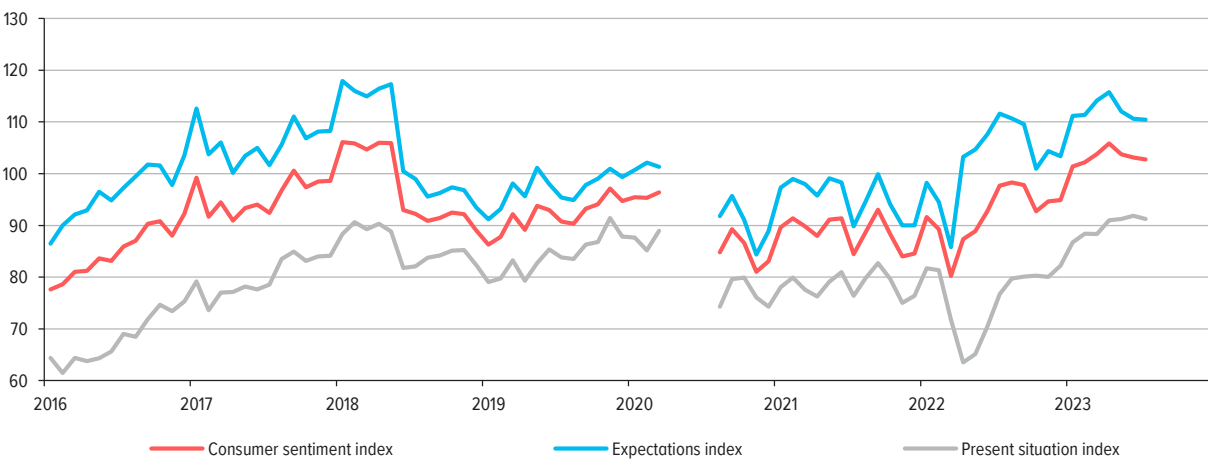
Chart 5



Sources: InFOM, Bank of Russia calculations.

CONSUMER SENTIMENT INDEX (POINTS)

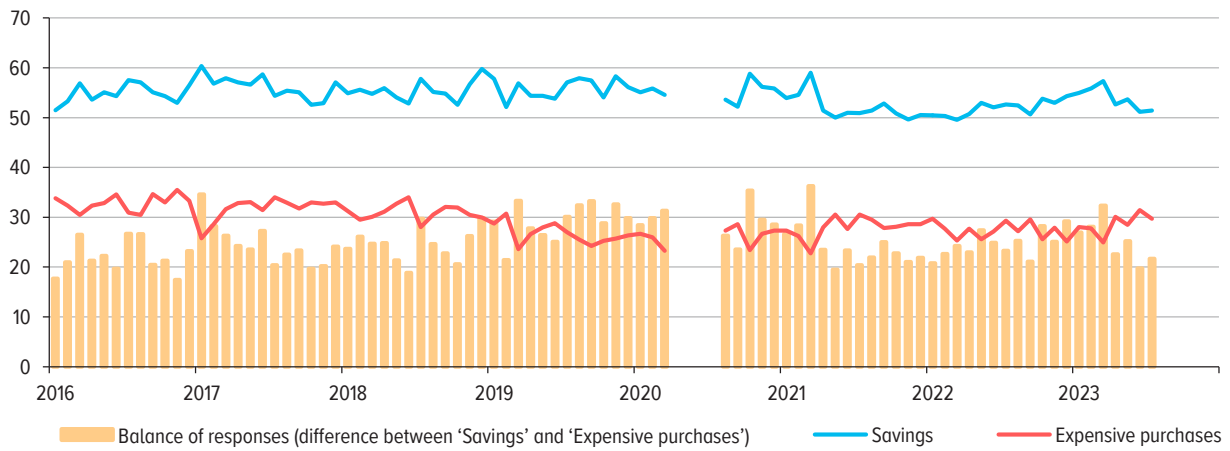
Chart 6



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)

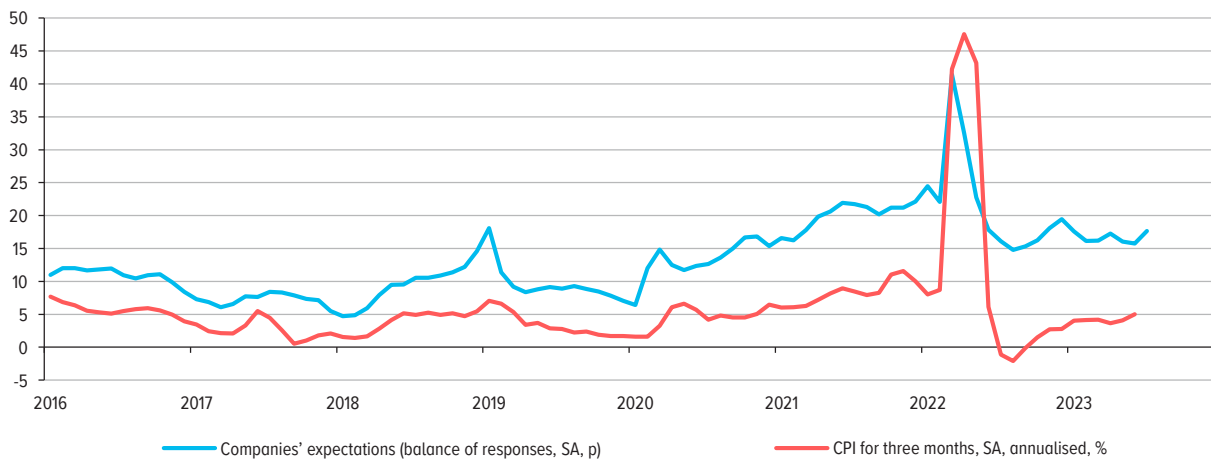
Chart 7



Sources: InFOM, Bank of Russia calculations.

COMPANIES' PRICE EXPECTATIONS

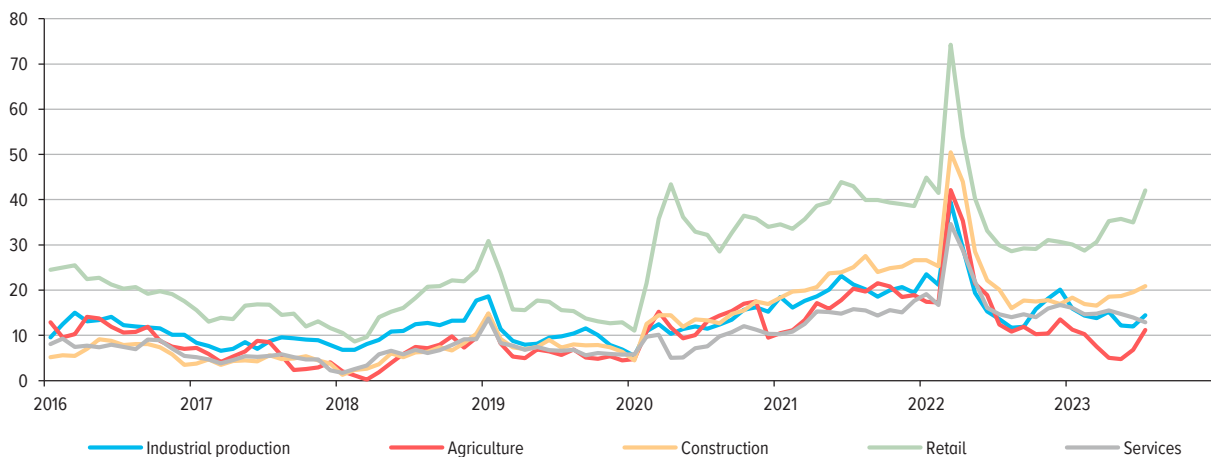
Chart 8



Sources: Bank of Russia, Rosstat.

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

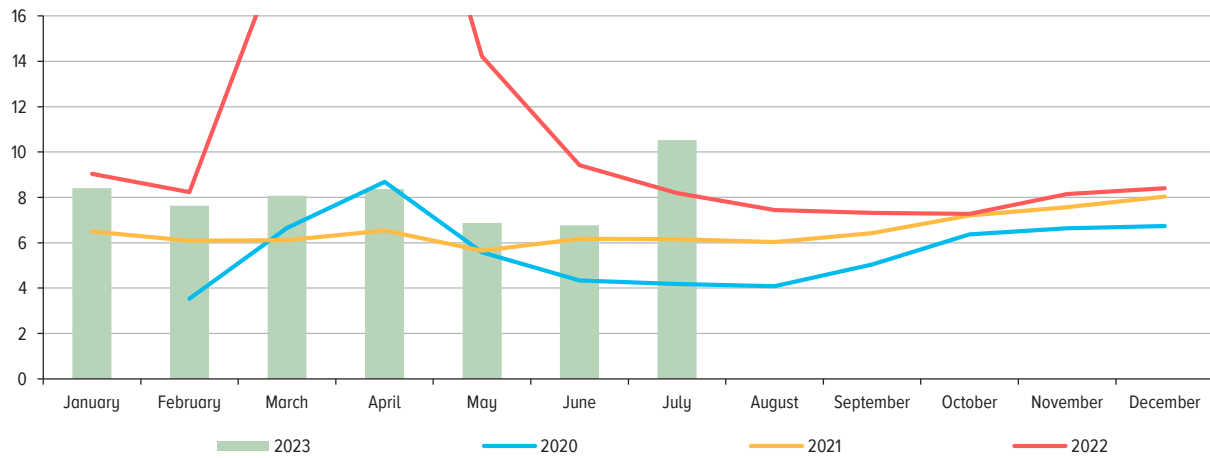
Chart 9



Source: Bank of Russia.

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

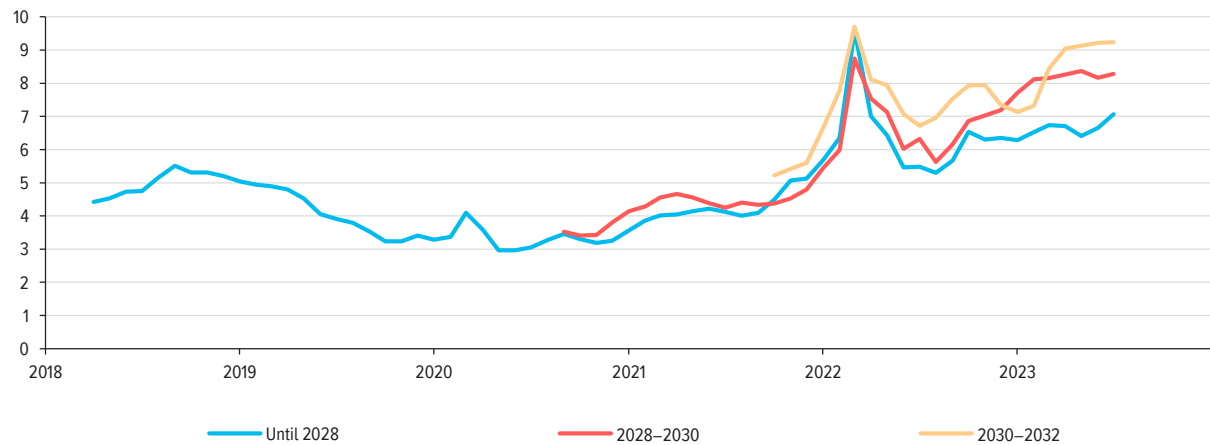
Chart 10



Source: Bank of Russia.

IMPLIED INFLATION FOR OFZ-IN
(%)

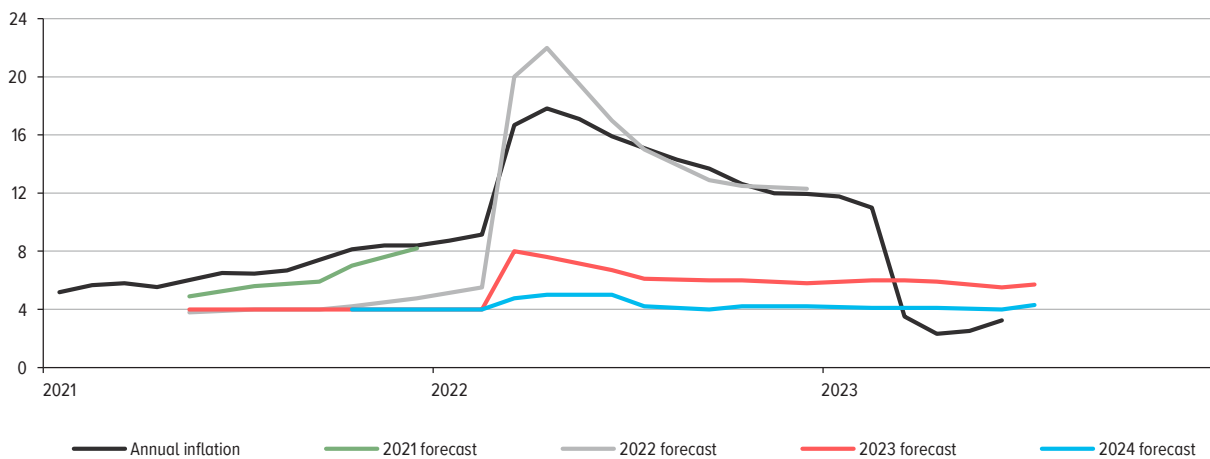
Chart 11



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

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

Chart 12



Sources: Bank of Russia, Rosstat.

Cut-off date – 20.07.2023.

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 Central Bank of the Russian Federation.

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