

Monday, 15 June 2020

Inflation Expectations reach an all-time low in May

In May, before the Federal Government conceded in June that Australia had entered its first recession for three decades, Australians expected inflation of 3.3% annually over the next two years. This was down 0.3% points on April and a significant 0.7% points on the pre-COVID period of February 2020.

Analysing the different Inflation Expectations by home ownership status shows declines across the board over the last few months. The sharpest decreases in Inflation Expectations were for renters, down 1.0% point from February to 3.6% in May.

However, renters still recorded the highest expectations for inflation compared to people who own their homes outright and those who are paying off their homes. Individuals who own their homes outright reported an Inflation Expectation of 3.3% in May, down 0.5% points on February; and mortgagors paying off their homes reported Inflation Expectations of only 2.9%, down 0.8% points on pre-pandemic February.

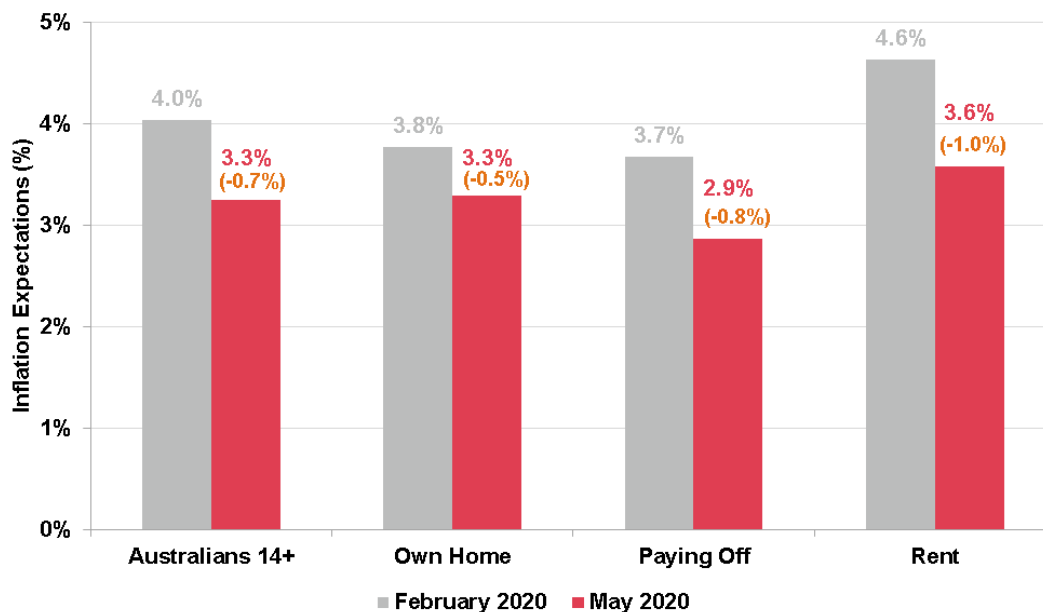
Roy Morgan CEO Michele Levine says with Australia entering a recession, it is not surprising to see marked declines in Inflation Expectations over the last few months.

“In this extremely fragile economy, it is no wonder Australians’ Inflation Expectations have taken a dive in the last few months – down by a large 0.7% points in only three months to a record low of 3.3% in May.

“Analysis by home ownership status shows there have been drops across the board but the largest decline has been for renters, a drop of 1% point to 3.6%. A key to the large drop can be found with a look at the rental market itself.

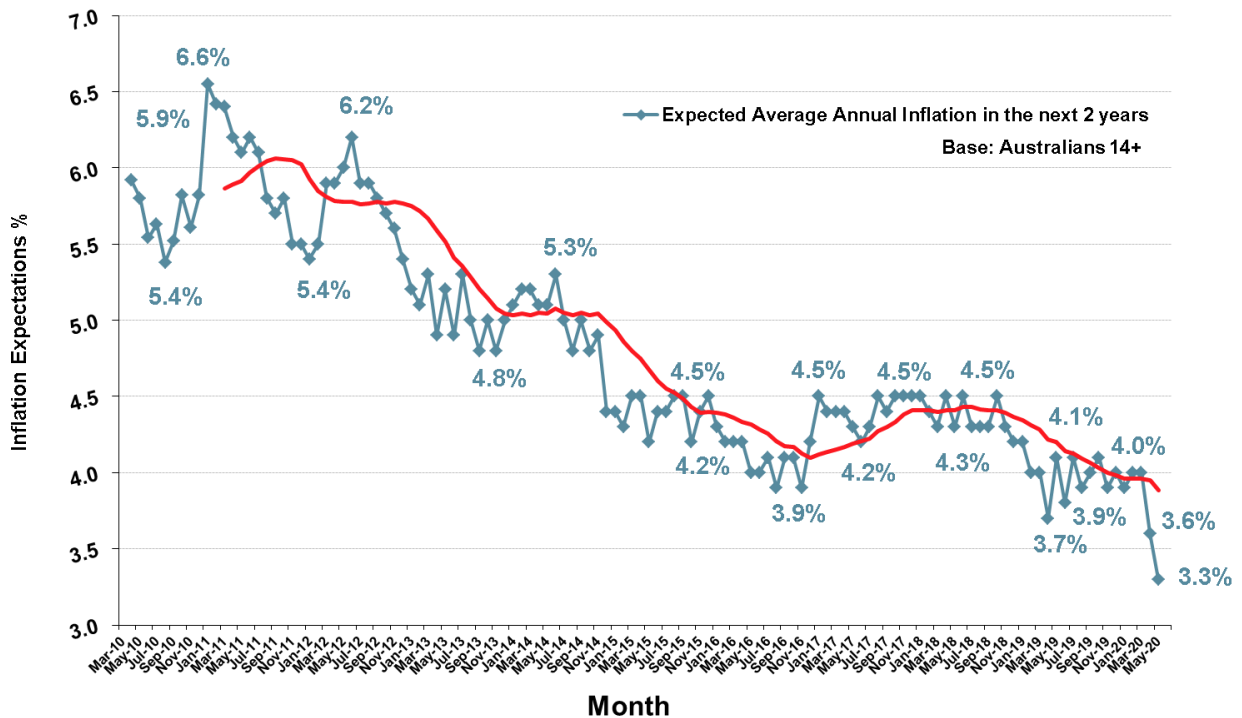
“Pressure in the rental market has been significantly reduced because of COVID-19 with international students and backpackers unable to enter Australia there is more rental stock on the market than ever before. The actions taken to deal with COVID-19 have shifted the power away from landlords and to renters. It is easier than ever for a renter to find cheaper accommodation if their landlord won’t adjust the rental rate.”

Inflation Expectations by Home Ownership status February 2020 cf. May 2020



Source: Roy Morgan Single Source: February 2020, n=4,075 and May 2020, n=6,865. **Base:** Australians aged 14+.

Inflation Expectations Index long-term trend – Expected Annual Inflation in next 2 years



Source: Roy Morgan Single Source: Interviews an average of 4,300 Australians per month aged 14+ (May 2010 – May 2020).

See below for a comprehensive list of RBA interest rate changes during the time period charted above.

At a State based level people in South Australia (3.7%) and New South Wales (3.5%) have the highest Inflation Expectations over the next two years. People in the ACT have the lowest expectations of price increases at 2.4%. Inflation Expectations in other States are clustered around the national average.

Roy Morgan May Inflation Expectations are based on personal interviews with a nationally representative sample of 6,865 Australians aged 14+.

Related research findings

Compiled with data from Roy Morgan’s Single Source survey (the largest of its kind in the world, with 50,000 respondents p.a), these ready-made profiles provide a broad understanding of the target audience, in terms of demographics, attitudes, activities and media usage in Australia.

To learn more about the trends for Inflation Expectations as well as Consumer Confidence for different segments and demographics throughout the Australian community, purchase the [Roy Morgan Consumer Confidence Monthly Report](#).

For comments and information about Roy Morgan’s Inflation Expectations data, please contact:

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The questions used to calculate the Monthly Roy Morgan Inflation Expectations Index.

1) Prices: “During the next 2 years, do you think that prices in general will go up, or go down, or stay where they are now?”

2a) If stay where they are now: “Do you mean that prices will go up at the same rate as now or that prices in general will not go up during the next 2 years?”

2b) If go up or go down: “By about what per cent per year do you expect prices to (go up/ go down) on average during the next 2 years?”

3) “Would that be (x%) per year, or is that the total for prices over the next 2 years?”

The Roy Morgan Inflation Expectations Index is a forward looking indicator unlike the Consumer Price Index (CPI) and is based on continuous (weekly) measurement, and monthly reporting. The Roy Morgan Inflation Expectations Index is current and relevant.

Monthly Roy Morgan Inflation Expectations Index (2010 – 2020)

<u>Year</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Yearly Average</u>
2010	n/a	n/a	n/a	5.9	5.8	5.5	5.6	5.4	5.5	5.8	5.6	5.8	5.7
2011	6.6	6.4	6.4	6.2	6.1	6.2	6.1	5.8	5.7	5.8	5.5	5.5	6.0
2012	5.4	5.5	5.9	5.9	6.0	6.2	5.9	5.9	5.8	5.7	5.6	5.4	5.8
2013	5.2	5.1	5.3	4.9	5.2	4.9	5.3	5.0	4.8	4.9	4.8	5.0	5.0
2014	5.1	5.2	5.2	5.1	5.1	5.3	5.0	4.8	5.0	4.8	4.9	4.4	5.0
2015	4.4	4.3	4.5	4.5	4.2	4.4	4.4	4.5	4.5	4.2	4.4	4.5	4.5
2016	4.3	4.2	4.2	4.2	4.0	4.0	4.1	3.9	4.1	4.1	3.9	4.2	4.1
2017	4.5	4.4	4.4	4.4	4.3	4.2	4.3	4.5	4.4	4.5	4.5	4.5	4.4
2018	4.5	4.4	4.3	4.5	4.3	4.5	4.3	4.3	4.3	4.5	4.3	4.2	4.4
2019	4.2	4.0	4.0	3.7	4.1	3.8	4.1	3.9	4.0	4.1	3.9	4.0	4.0
2020	3.9	4.0	4.0	3.6	3.3								3.8
Monthly Average	4.8	4.8	4.8	4.8	4.8	4.9	4.9	4.8	4.8	4.8	4.7	4.8	4.8

Overall Roy Morgan Inflation Expectations Average: 4.8

RBA interest rates changes during the time period measured: 2010-2020.

RBA – Interest rate increasing cycle (2010):

2010

April 2010: +0.25% to 4.25%; May 2010: +0.25% to 4.75%, November 2010: +0.25% to 5%.

RBA – Interest rate cutting cycle (2011-2013, 2015-2016 & 2019-2020):

2011

November 2011: -0.25% to 4.5%; December 2011: -0.25% to 4.25%.

2012

May 2012: -0.5% to 3.75%; June 2012: -0.25% to 3.5%; October 2012: -0.25% to 3.25%; December 2012: -0.25% to 3%.

2013

May 2013: -0.25% to 2.75%; August 2013: -0.25% to 2.5%.

2014

There were no RBA interest rate changes during 2014.

2015

February 2015: -0.25% to 2.25%; May 2015: -0.25% to 2%.

2016

May 2016: -0.25% to 1.75%; August 2016: -0.25% to 1.5%.

2017

There were no RBA interest rate changes during 2017.

2018

There were no RBA interest rate changes during 2018.

2019

June 2019: -0.25% to 1.25%; July 2019: -0.25% to 1%; October 2019: -0.25% to 0.75%.

2020

March 4, 2020: -0.25% to 0.5% & March 20, 2020: -0.25% to 0.25%.

About Roy Morgan

Roy Morgan is Australia's largest independent Australian research company, with offices in each state, as well as in the U.S. and U.K. A full-service research organisation, Roy Morgan has over 75 years' experience collecting objective, independent information on consumers.

Margin of Error

The margin of error to be allowed for in any estimate depends mainly on the number of interviews on which it is based. Margin of error gives indications of the likely range within which estimates would be 95% likely to fall, expressed as the number of percentage points above or below the actual estimate. Allowance for design effects (such as stratification and weighting) should be made as appropriate.

Sample Size	Percentage Estimate			
	40%-60%	25% or 75%	10% or 90%	5% or 95%
5,000	±1.4	±1.2	±0.8	±0.6
50,000	±0.4	±0.4	±0.3	±0.2