

Friday, 7 August 2020

Inflation Expectations rebound in July to 3.4% as COVID-19 returns

In July Australians expected inflation of 3.4% annually over the next two years, up 0.2% points on the record low in June. Inflation Expectations are down a significant 0.7% points on a year ago.

For much of Australia the month of July began with hope that the COVID-10 pandemic was successfully being dealt with but as the month progressed the virus re-emerged.

This was particularly evident in Melbourne which progressively introduced new restrictions throughout the month including re-entering Stage 3 lockdown on Thursday July 9. Sydney also experienced renewed outbreaks during the month with restrictions being re-imposed to limit gathering sizes at certain venues.

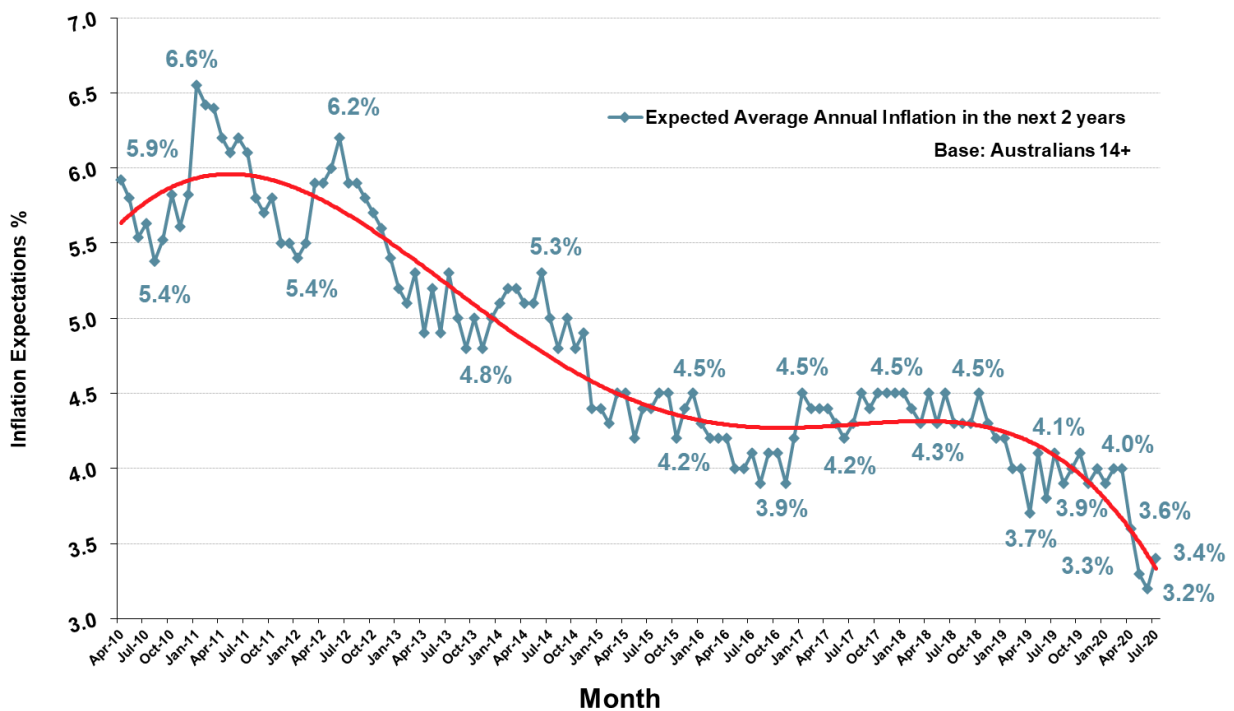
With this in mind the increase in Inflation Expectations in July were driven by increases in Australia's largest cities of Sydney, up 0.1% to 3.4%, Melbourne, up 0.6% to 3.4% and Brisbane, up 0.1% to 3.5%. Tasmania recorded the largest monthly increase, up 0.7% to 3.6%.

In contrast, in cities with relatively few cases, Inflation Expectations declined in July and were down 0.1% to 2.8% in Perth and down 0.6% to 3.1% in Adelaide.

Inflation Expectations are split significantly on gender lines with women expecting annual inflation of 4% over the next two years while men expect inflation of only 2.8%.

There are also clear differences between different age groups with people aged 14-24 (3.6%) and 65+ (3.5%) expecting above average annual inflation over the next two years and those aged 35-49 (3.2%) and 50-64 (3.2%) with below average expectations.

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



Source: Roy Morgan Single Source: Interviews an average of 4,400 Australians per month aged 14+ (May 2010 – July 2020).

FOR IMMEDIATE RELEASE

Roy Morgan CEO Michele Levine says the rebound in Inflation Expectations in July follows three successive declines from April – June and is the largest monthly increase in the measure so far in 2020:

“Australian Inflation Expectations rebounded in July up 0.2% to 3.4% with increases across Australia’s three largest cities Sydney, Melbourne and Brisbane powering the increase while there were declines in the smaller cities of Perth and Adelaide.

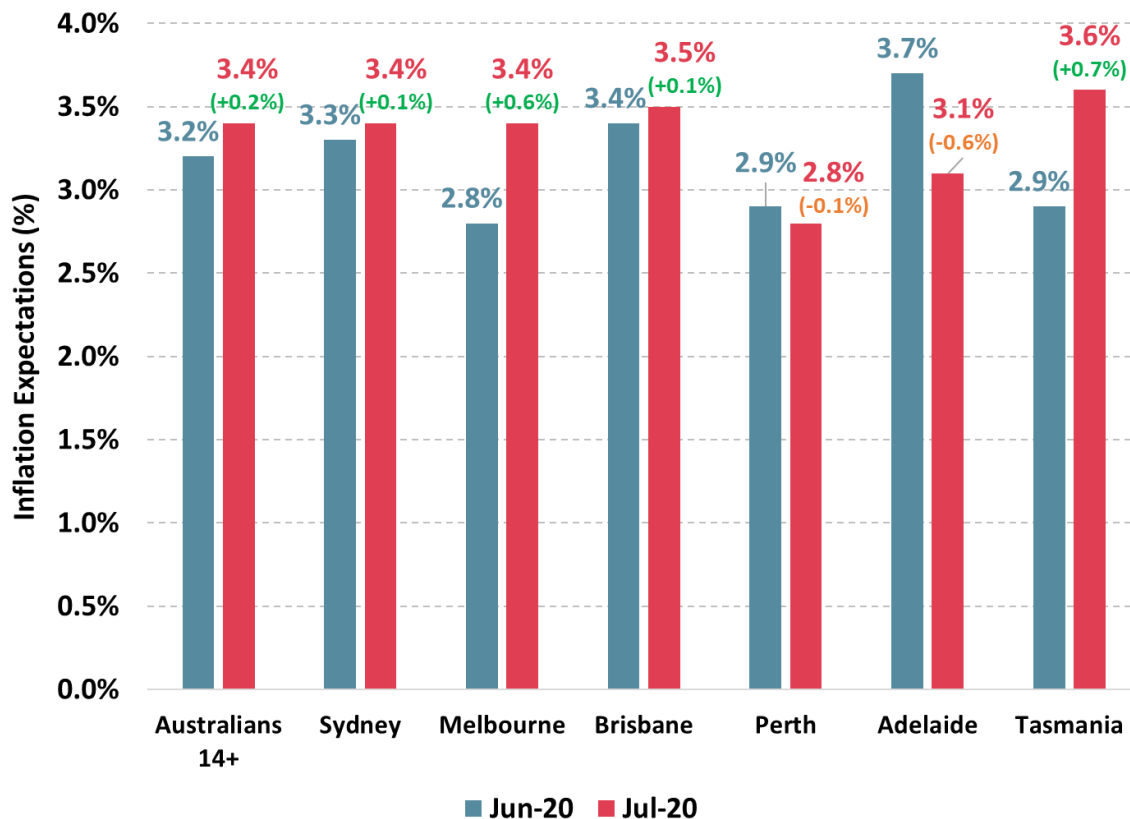
“A number of contrasting factors are driving Inflation Expectations at present which is starkly illustrated by the divergent results in July for women (4%) and men (2.8%).

“Record government spending has included tens of billions of dollars spent on the JobKeeper wage subsidy and a doubled JobSeeker. In addition nearly 3 million Australians have withdrawn up to \$10,000 in superannuation and these factors have boosted retail sales during the last couple of months providing upward pressure on prices after a record dip in April.

“Opposing this upward pressure on prices – which is likely to be short-term as government subsidies and spending is set to be reduced after September – is the downward pressure on asset prices as the economy slows down and unemployment rises. The [latest Roy Morgan unemployment estimate for July shows 12.5% of Australians unemployed \(1.79 million\) and 10.5% under-employed \(1.5 million\)](#) – a total of nearly 1-in-4 of all working Australians.

“These two factors of increased Government spending and high unemployment will provide a continuing tension for Inflation Expectations over the months and years ahead. Keeping a keen eye on the Roy Morgan Inflation Expectations index each month will give an early indicator about which force is exerting a stronger pull on the Australian economy when it (eventually) emerges from the COVID-19 pandemic.”

Inflation Expectations by Capital City June 2020 cf. July 2020



Source: Roy Morgan Single Source: June 2020, n=5,767 and July 2020, n=5,803. Base: Australians aged 14+.

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

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At a State based level people in Queensland (3.7%) and Tasmania (3.6%) have the highest Inflation Expectations over the next two years. People in Western Australia (2.8%) and South Australia (3.1%) have clearly the lowest while those in both Victoria and New South Wales are in line with the national average.

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

Roy Morgan July Inflation Expectations are based on personal interviews with a nationally representative sample of 5,803 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](#).

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.

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	<i>n/a</i>	<i>n/a</i>	<i>n/a</i>	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	3.2	3.4						3.6
Monthly Average	4.8	4.8	4.8	4.8	4.8	4.7	4.8	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%.

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