

Tuesday, 1 February 2022

Inflation Expectations dropped 0.1% points to 4.8% in December; down from seven year high in November

In December 2021 Australians expected inflation of 4.8% annually over the next two years, down 0.1% points from the seven-year high reached in November 2021. The small decline ended a record six straight months of increases from June – November 2021.

Inflation Expectations are now 0.1% points above the long-term average of 4.7% and a large 1.2% points higher than a year ago in December 2020 (3.6%).

Inflation Expectations are up significantly for all five Socio-Economic Quintiles

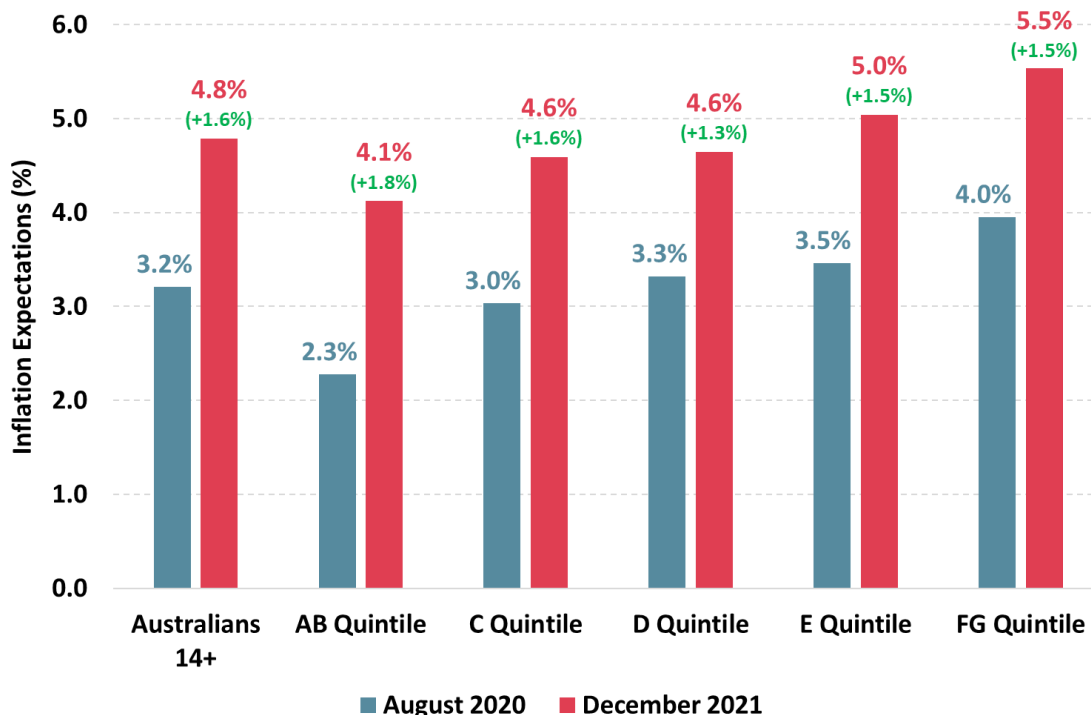
A look at Inflation Expectations by socio-economic quintile shows increases across the board since the measure reached a low in August 2020 during Victoria’s second wave. Australians in the highest ‘AB Quintile’ have experienced the largest increase since mid-2020 with their Inflation Expectations rising 1.8% points to 4.1% in December 2021.

However – this is still significantly lower than all four other socio-economic quintiles.

Inflation Expectations are progressively higher for each subsequent socio-economic quintile including 4.6% (up 1.6% points) for the ‘C Quintile’, 4.6% (up 1.3% points) for the ‘D Quintile’, 5.0% (up 1.5% points) for the ‘E Quintile’ and are highest of all for the ‘FG Quintile’ at 5.5% (up 1.5% points).

The socio-economic quintiles* rank all respondents by considering their education level as well as the income and occupation of the respondent if they’re a full-time worker. See below for further details on how the socio-economic quintiles of the population are calculated.

Inflation Expectations by Socio-Economic Quintile: August 2020 cf. December 2021



Source: Roy Morgan Single Source: August 2020, n=6,119, December 2021, n=7,518. Base: Australians 14+.

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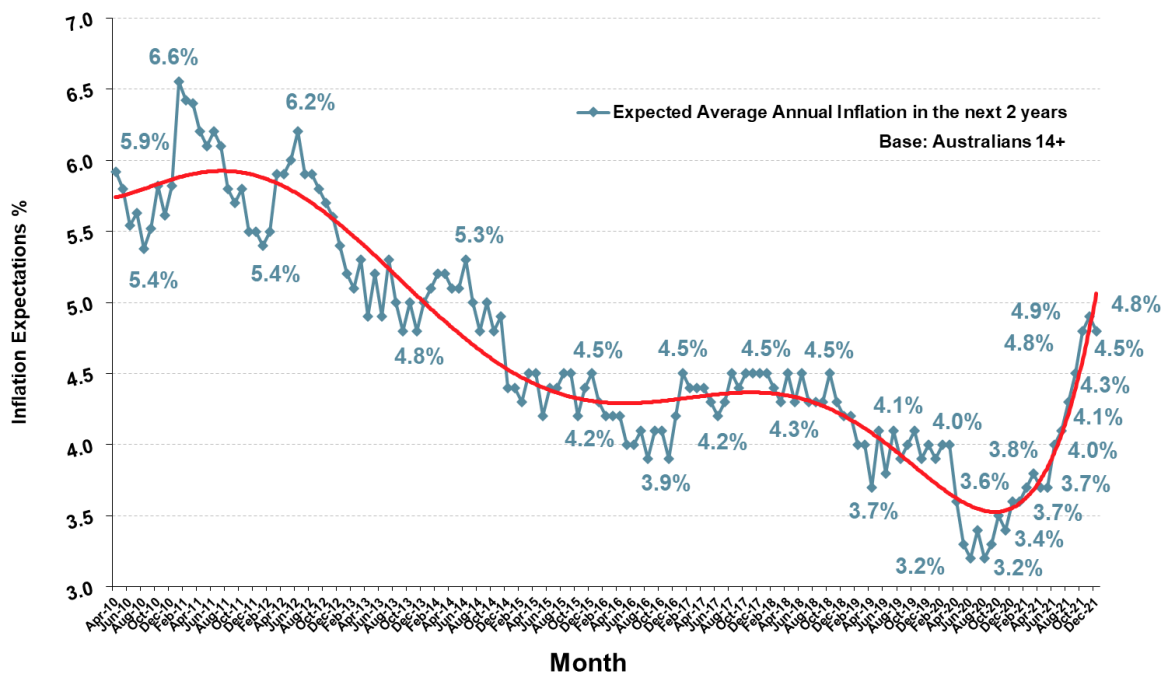
Inflation Expectations are higher in Country Areas (5.0%) than Capital Cities (4.7%)

Inflation Expectations have been consistently higher in Country Areas than Capital Cities since bottoming in mid-2020 during the early stages of the pandemic.

On a State-based level Inflation Expectations were highest in two States with large regional populations led by Tasmania at 5.5% and also well above the national average in Queensland at 5.2%. Queensland is unique as a State with more people living in regional areas than the capital city of Brisbane.

Inflation Expectations were more in line with the national average in New South Wales (4.8%), and Victoria (4.7%). The lowest Inflation Expectations in December were in States with populations heavily concentrated in their respective Capital Cities, in Western Australia (4.5%) and South Australia (4.4%).

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



Source: Roy Morgan Single Source: Interviewing an average of 4,600 Australians aged 14+ per month (April 2010-Dec. 2021). See below for a comprehensive list of RBA interest rate changes during the time-period charted above.

Roy Morgan CEO Michele Levine says the rapid increase in Inflation Expectations over the past year-and-a-half paused in December as a run of six straight monthly increases came to an end:

“Inflation Expectations were at 4.8% in December 2021, just above the long-run average of 4.7%. This result represented a fall of 0.1% points from the seven-year high of 4.9% reached in November 2021 but the measure is still up 1.2% points from a year ago in December 2020 and up 1.6% points since reaching a low point of only 3.2% in August 2020.

“There has been much talk in recent months about increasing inflation forcing the Reserve Bank of Australia (RBA) to raise interest rates for the first time in over a decade. The last interest rate increase was way back in November 2010 when the RBA lifted rates by 25bps to 4.75%.

“However, the RBA has pushed back on the suggestion it should raise interest rates in the next few months and claims there is no urgency to do so until wage inflation in Australia increases significantly.

“According to the latest [ABS quarterly Consumer Price Index Australian inflation rose 3.5% over the 12 months to December 2021](#) and was up 1.3% in the quarter. Although this is one of the higher CPI readings of recent years it is still below the annual rate of 3.8% reached in the 12 months to June 2021 and only half the current rate of inflation in the [United States at an annual pace of 7%](#).

“It’s worth noting that despite the official inflation readings being twice as high in the USA as they are in Australia the Federal Reserve has not commenced raising interest rates yet and is still supporting the US economy by buying around \$60 billion USD of bonds – a significant monthly stimulus.

“In Australia the RBA is currently purchasing \$4 billion AUD government securities a week to support the economy in addition to the record low interest rates. The comparison between the two countries shows that it appears unlikely the RBA will be increasing interest rates anytime soon and according to their own statements they don’t expect to do so until late 2023 at the earliest.

“The moderation of Inflation Expectations in December may only prove short-lived however it does show there is no guarantee the measure will continue to increase in 2022 as supply chain ‘bottlenecks and blockages’ are likely to be progressively resolved during the next few months..

“The extremely contagious ‘Omicron variant’ of COVID-19 has had a huge impact on the Australian economy over the last 5-6 weeks but has already peaked in mid-January and is beginning to rapidly recede. This compares to the spread of the Delta variant which circulated in the community for several months at a relatively high level while much of the population was unvaccinated.

“In Australia there is the added uncertainty surrounding this year’s Federal Election. Most analysts expect the election to be held in May 2022 although it is possible the election could be delayed until September 2022 if the half-Senate and House of Representatives elections were split for any reason.

“The latest [Roy Morgan Poll shows the Morrison Government is starting the year well behind the Opposition with the ALP 56% well ahead of the L-NP 44%](#) on a two-party preferred basis.”

The data for the Inflation Expectations series is drawn from the Roy Morgan Single Source which has interviewed an average of 4,600 Australians aged 14+ per month over the last decade from April 2010 – December 2021 and includes interviews with 7,518 Australians aged 14+ in December 2021.

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

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The Roy Morgan Consumer Confidence Report – Including Inflation Expectations

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 80 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 – 2021)

<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	3.2	3.3	3.5	3.4	3.6	3.5
2021	3.6	3.7	3.8	3.7	3.7	4.0	4.1	4.3	4.5	4.8	4.9	4.8	4.2
Monthly Average	4.7	4.8	4.7	4.7	4.7	4.7	4.7	4.6	4.7	4.7	4.6	4.7	4.7

Overall Roy Morgan Inflation Expectations Average: 4.7

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

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% & November 6, 2020: -0.15% to 0.10%.