

Monday, 19 October 2020

Inflation Expectations up from record low in August to 3.3% in September; highest for lower socio-economic quintiles

In September Australians expected inflation of 3.3% annually over the next two years, up 0.1% points on the record low in August. However, Inflation Expectations are still down a significant 0.7% points on the pre-pandemic month of March 2020.

September marked a second straight month of hard lockdown in Victoria including stringent limits on travel, the compulsory wearing of masks and a night-time curfew that was lifted at the end of the month. Inflation Expectations in Victoria were lower than anywhere else in Australia during the month at only 3%.

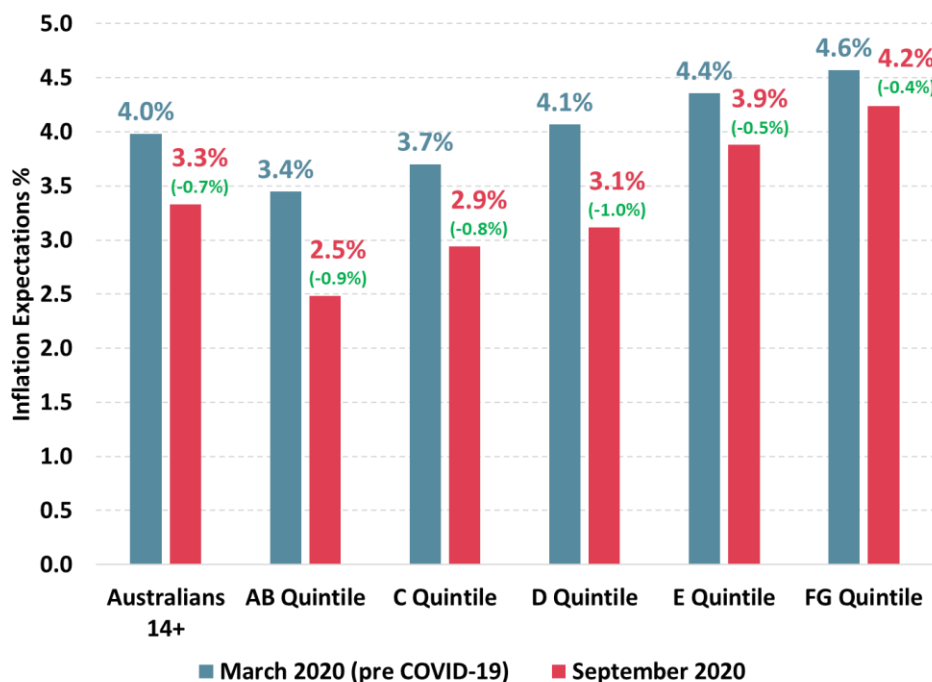
Inflation Expectations have fallen significantly for all Australians during the pandemic, down by 0.7% points since March (pre COVID-19) to 3.3% in September. However, the fall has not been consistent across different socio-economic groups.

Australians in the highest socio-economic AB Quintile have the lowest Inflation Expectations in September at only 2.5%, down 0.9% points since March. The AB Quintile represents Australians in the top 20% of the population based on a combination of the education levels, income and occupation of the respondent

Similarly, Inflation Expectations for the second highest C Quintile, down 0.8% points to 2.9%, and for the mid-ranking D Quintile, down 1% point to 3.1% are both down sharply during the pandemic.

However, there is a different experience for the two lowest socio-economic quintiles. Inflation Expectations for the lowest FG Quintile are down only 0.4% points to 4.2% and down 0.5% points to 3.9% for the second lowest E Quintile. Inflation Expectations for the two lowest quintiles is now well above the national average.

Inflation Expectations by Socio-Economic* Status March 2020 (pre COVID-19) cf. September 2020



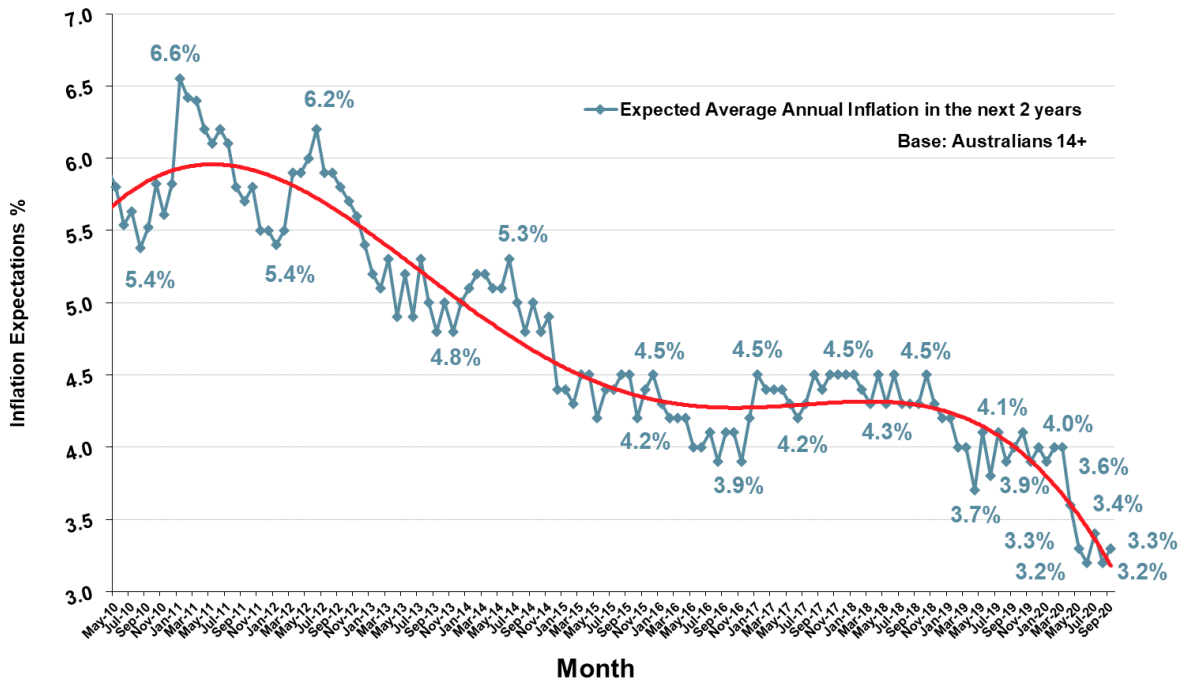
Source: Roy Morgan Single Source: March 2020, n=6,255 and Sept. 2020, n=6,092. **Base:** Australians aged 14+.
*Socio-Economic Status – AB Quintile is the highest with the FG Quintile the lowest. See below for a detailed explanation of how the five Socio-Economic quintiles are calculated.

State-based Inflation Expectations lowest in locked down Victoria

At a State based level Inflation Expectations increased in the smaller States in September but were down 0.2% points to 3% in Victoria, and unchanged at 3.3% in New South Wales.

Inflation Expectations were highest in Tasmania (3.8%) and Queensland (3.7%) and just above the national average in both South Australia (3.5%) and Western Australia (3.4%). This is the first time for over a year that Inflation Expectations in Western Australia have been above the national average.

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+ (April 2010 – Sept. 2020).

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

Roy Morgan CEO Michele Levine says Inflation Expectations in September rebounded from a record low in August but were down in Victoria as the State endured another month of lockdown:

“Australian Inflation Expectations rebounded 0.1% points to 3.3% in September with increases in the smaller population States of Queensland, SA, Tasmania and WA. Inflation Expectations in WA are now above the national average for the first time for more than a year.

“In contrast, Inflation Expectations in locked down Victoria dropped to only 3% and were unchanged in NSW at 3.2%. The news over the weekend is that although several Stage 4 restrictions in Victoria have now been relaxed, the closure of retail and hospitality businesses in Melbourne is set to continue for at least another week and perhaps until the end of October.

“The current lockdown in Victoria began in early July and came only a month after the previous two month lockdown ended at the start of June meaning the State has spent the better part of six months in various stages of lockdown.

“These lockdowns have had a profound impact on Inflation Expectations with falls across the board since the pre-pandemic period. A key challenge for policymakers responding to the economic carnage caused by COVID-19 restrictions and shutdowns is targeting support at those most in need.

“The Federal Government’s emergency actions of increasing JobSeeker by \$550 and implementing the JobKeeper wage subsidy of \$1,500 a fortnight for as many as 3.5 million Australians ([according to the Australian Treasury](#)) – and now extended at a reduced rate until March 2021 – have prevented an even larger economic dislocation.

“A look at the impact of COVID-19 on different socio-economic quintiles in Australian society shows a clear distinction has emerged between those in the top three quintiles compared to those in the two lower quintiles. The five socio-economic quintiles segment Australians based on education, income, and occupation.

“The higher and better-off socio-economic quintiles have experienced large declines in Inflation Expectations of around 1% point since March. In contrast, the Inflation Expectations of the two lowest socio-economic quintiles have only decreased by around 0.5% points.

“Looking forward any inflationary pressures are set to hit the lower socio-economic quintiles hard as government support is progressively reduced over the next six months. These results show that large numbers of lower income Australians are at risk of falling further behind if the economy remains weak and Government stimulus efforts fail to provide a sustained boost to growth.”

Roy Morgan September Inflation Expectations are based on personal interviews with a nationally representative sample of 6,092 Australians aged 14+.

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

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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](#).

***Socio-Economic Status Quintiles**

Each respondent is given a score up to 60 according to their status in each of the following categories:

1. EDUCATION LEVEL OF RESPONDENT

There are twelve levels of education. A score of 5 is given to those who completed only some primary school, 10 to those who finished primary school, and so on up to 60 for those who have a degree or post-graduate degree.

2. INCOME OF RESPONDENT (if respondent is a full-time worker)

There are eighteen income levels. A similar scoring procedure is used giving 2 to those in the lowest income group, up to 60 to those in the highest income group.

3. OCCUPATION OF RESPONDENT (if respondent is a full-time worker)

There are twelve occupation levels. Again, each level is scored at approximately 5-point intervals. Professional people receive the highest score. Note - if the respondent is not a full-time worker, then the status of the main income earner is considered.

The respondent's scores for each of the three categories are then tallied to give a score out of 180.

We then look at the frequency distribution of the scores and divide the population into five even groups of 20%, ie. quintiles.

The AB quintile is the highest level - people in this quintile have the highest scores.

Approximate breakdowns are:

Score

154+ - 5th or AB quintile
 126 – 153 - 4th or C quintile
 104 – 125 - 3rd or D quintile
 81 – 103 - 2nd or E quintile
 11 – 80 - 1st or FG quintile

Note - if the respondent is not a full-time worker, then the status of the main income earner is considered.

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	3.2	3.3				3.5
Monthly Average	4.8	4.8	4.8	4.8	4.8	4.7	4.8	4.7	4.7	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