

Monday, 7 June 2021

Inflation Expectations unchanged at 3.7% in May, but rising faster for homeowners than renters since 2020 record low

In May 2021 Australians expected inflation of 3.7% annually over the next two years, unchanged from April and in-line with the average so far in 2021. However, Inflation Expectations are now 0.4% higher than they were a year ago – the biggest year-over-year increase since November 2017.

Inflation Expectations are still 1% point below their long-term average of 4.7% but have increased by 0.5% points since reaching a record low of only 3.2% in June 2020.

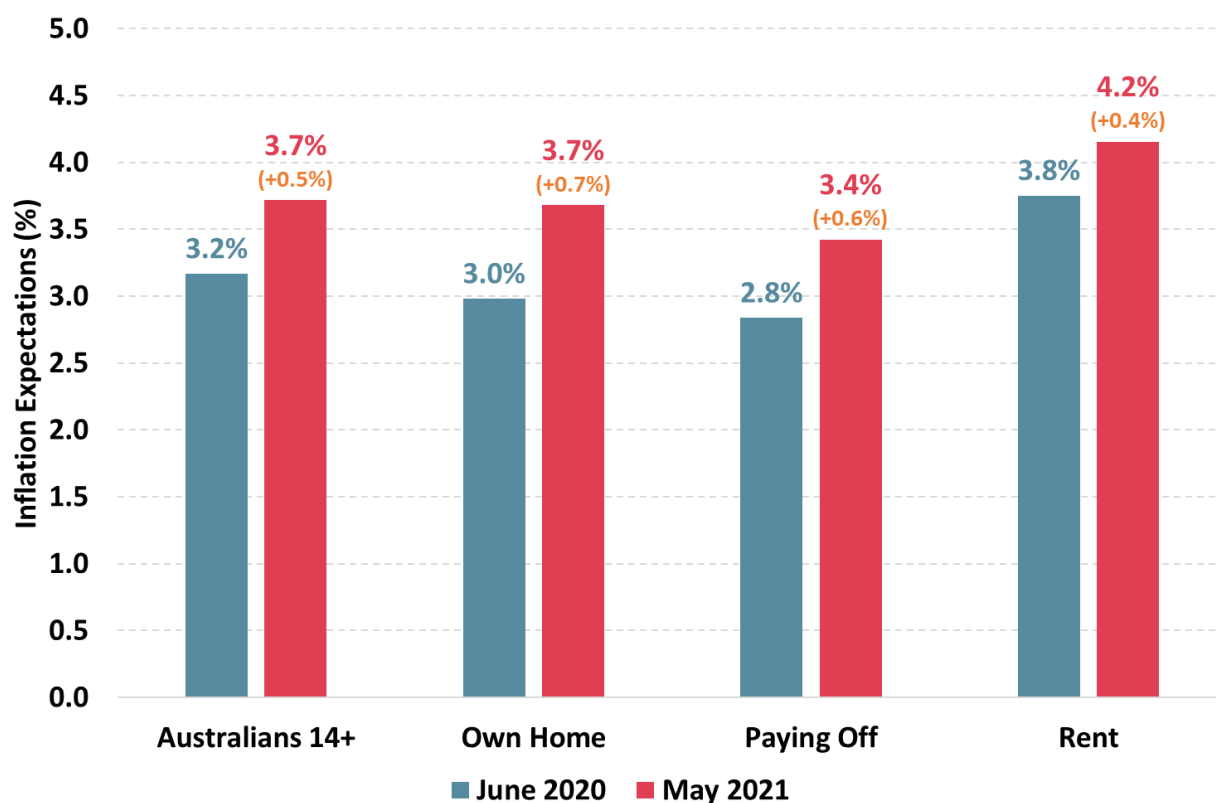
A look at Inflation Expectations by home ownership status usually shows Australians who rent have higher expectations than either homeowners or mortgagors paying off their homes and this relationship is again evident in the latest figures.

The Inflation Expectations of Australians who are renting are at 4.2% in May 2021, but up by only 0.4% points since the low point of June 2020 (3.8%).

Though they are still lower, the Inflation Expectations of homeowners have increased over the same period by a significant 0.7% points to 3.7% to now be in-line with the national average.

Unsurprisingly given the record low interest rates on new mortgages over the last year it is once again mortgagors paying off their home loan who have the lowest Inflation Expectations at 3.4%, although this is up 0.6% points since June 2020 (2.8%).

Inflation Expectations by Home Ownership Status: June 2020 cf. May 2021



Source: Roy Morgan Single Source: June 2020, n=5,767; May 2021, n=6,027. Base: Australians aged 14+.

Inflation Expectations are now highest in South Australia and lowest in Western Australia

On a State-based level Inflation Expectations are now highest in South Australia at 4%, an increase of 0.2% points from April.

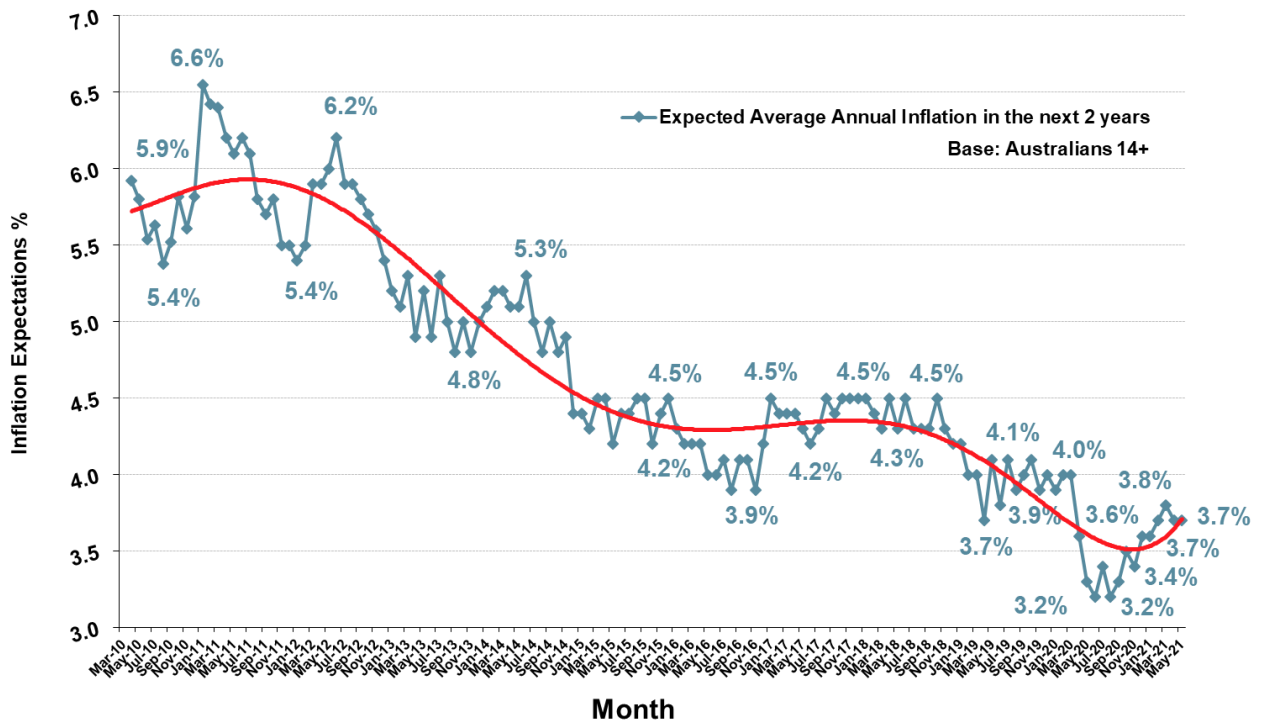
Inflation Expectations are now slightly higher than the national average in both NSW at 3.8% (down 0.2% points from April) and Queensland at 3.8% (up 0.3% points) while they are now in line with the national average in Tasmania at 3.7% (down 0.7% points).

Victorian Inflation Expectations are slightly below the national average at 3.6% in May, down 0.1% points from April while Western Australia has the lowest Inflation Expectations at 3.4%, down by 0.4% points.

The [ANZ-Roy Morgan Consumer Confidence Rating has continued to recover and was at 112.8 for the month of May 2021](#), an increase of 16.5pts (+17.1%) since June 2020.

Consumer Confidence for May was the highest monthly figure for the rating since the month of September 2019 (112.8) more than 18 months ago.

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



Source: Roy Morgan Single Source: Interviewing an average of 4,500 Australians aged 14+ per month (April 2010 – May 2021). 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 were unchanged at 3.7% in May and have now spent six months in a tight range of 3.6-3.8%:

“Inflation Expectations have stabilised at an average of 3.7% so far during 2021, an increase of 0.5% points on the record low reached a year ago in June 2020 of 3.2%. Even so, the average so far in 2021 is only slightly higher than the record low annual average of 3.5% for 2020.

“Comparing Inflation Expectations now to the mid-point of 2020, when the second wave of COVID-19 began in Victoria, shows the increase is broad-based across a range of demographics including people in differing stages of home ownership.

“Renters have easily the highest Inflation Expectations at 4.2% in May, but this is up only 0.4% points since June 2020. The larger rises in Inflation Expectations have been for homeowners, up 0.7% points to 3.7% and for mortgagors paying off their home up 0.6% points to 3.4%.

“The Reserve Bank’s commitment to keeping interest rates at the record low of only 0.1% for the next three years until 2024 is clearly supporting the housing market, keeping market interest rates near record lows and anchoring the Inflation Expectations of mortgagors in particular.

“Those paying off their homes have now had lower Inflation Expectations than homeowners and renters for thirteen straight months since April 2020 when the RBA initially lowered interest rates in response to the outbreak of the pandemic.

“The latest outbreak and extended lockdown of over 5 million people in Melbourne for at least two weeks illustrates why continued support of the economy is necessary while the vaccination of Australians continues and there is an ever-present threat of significant economic disruptions.”

The data for the Inflation Expectations series is drawn from the Roy Morgan Single Source which has interviewed an average of 4,500 Australians aged 14+ per month over the last decade from April 2010 – May 2021 and includes interviews with 6,027 Australians aged 14+ in May 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 79 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 |

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 | 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 | 3.2 | 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 | | | | | | | | 3.7 |
| Monthly Average | 4.7 | 4.8 | 4.7 | 4.7 | 4.7 | 4.7 | 4.8 | 4.7 | 4.7 | 4.7 | 4.7 | 4.6 | 4.7 |

Overall Roy Morgan Inflation Expectations Average: 4.7

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%.