

Monday, 14 September 2020

Inflation Expectations hit record low of 3.2% in August as second wave of COVID-19 forces Victoria into hard lockdown

In August Australians expected inflation of 3.2% annually over the next two years, down 0.2% points on July and equalling the record low in June. Inflation Expectations are now down a significant 0.7% points on a year ago.

The big economic impact in August was the imposition of a hard lockdown in Melbourne including a night-time curfew, stringent limits on travel and the compulsory wearing of masks. There were also repeated low-level outbreaks of COVID-19 in both New South Wales and Queensland throughout the month.

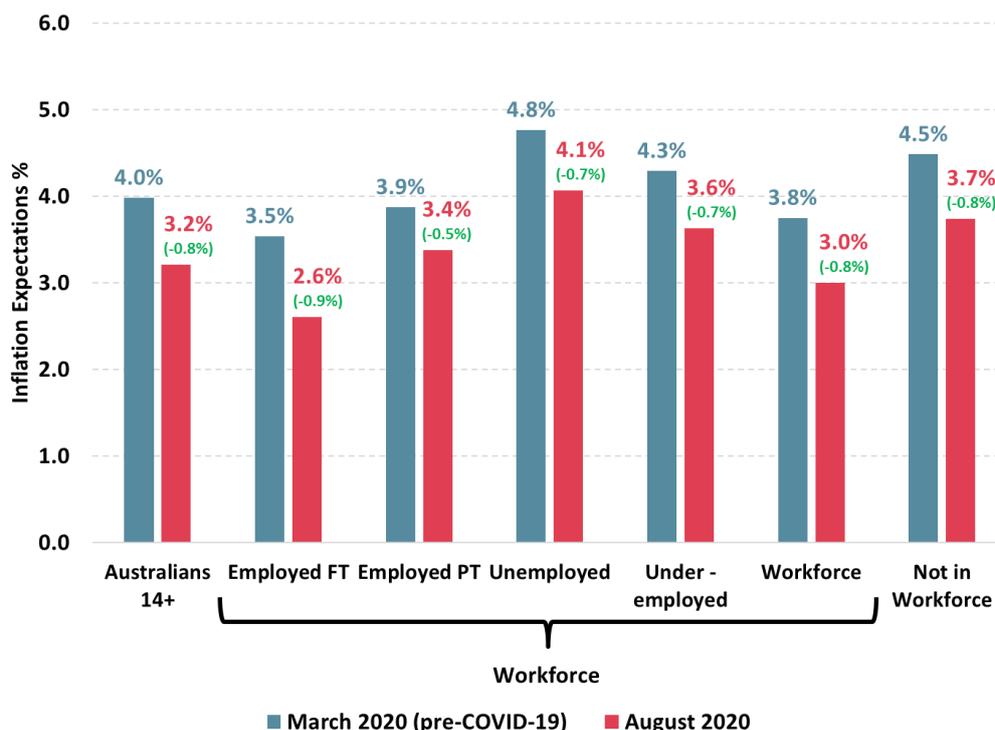
The impact of lockdowns and ongoing restrictions on activities around Australia is having an increasing impact on the employment market which must also deal with reductions in the JobKeeper wage subsidy and the JobSeeker coronavirus supplement at the end of September.

Inflation Expectations have fallen for all employment categories across the board. Those for full-time employees have fallen the most since March (pre COVID-19), down by 0.9% to only 2.6% annually over the next two years - clearly the lowest of any employment category.

In August unemployed Australians again have the highest inflation expectations of 4.1% annually over the next two years, but this is still down by 0.7% since March. People who are employed part-time but looking for more work, the under-employed, expect higher than average inflation of 3.6% (down 0.7% since March).

Australians who are not in the workforce at all, whether retired, on home duties, studying, or simply not working, have higher than average inflation expectations of 3.7%, down a significant 0.8% since March.

Inflation Expectations by Employment Status March 2020 (pre COVID-19) cf. August 2020



Source: Roy Morgan Single Source: March 2020, n=6,255 and August 2020, n=6,119. Base: Australians aged 14+.

FOR IMMEDIATE RELEASE

Roy Morgan CEO Michele Levine says Inflation Expectations dropped to an equal record low of only 3.2% in August as the second wave of COVID-19 forced Victoria into a hard lockdown and led to further restrictions in both New South Wales and Queensland:

“Australian Inflation Expectations turned down again in August, dropping 0.2% points to an equal record low of only 3.2% with declines in the key States of Victoria, New South Wales and Queensland. The declines were driven by drops in the cities of Melbourne to 3.1% (down 0.3%) and Sydney to 3.1% (down 0.2%) whereas country areas in both States were virtually unchanged from July.

“The impact of the changes buffeting the Australian economy from COVID-19, and the associated policy decisions, is keenly felt in the employment market. Although Inflation Expectations have dropped across all employment categories the divergence between different categories of employment is clear.

“Full-time employees have the lowest Inflation Expectations of all at only 2.6% in August, and this is down by 0.9% points since the pre COVID-19 period in March – the largest drop of any employment category.

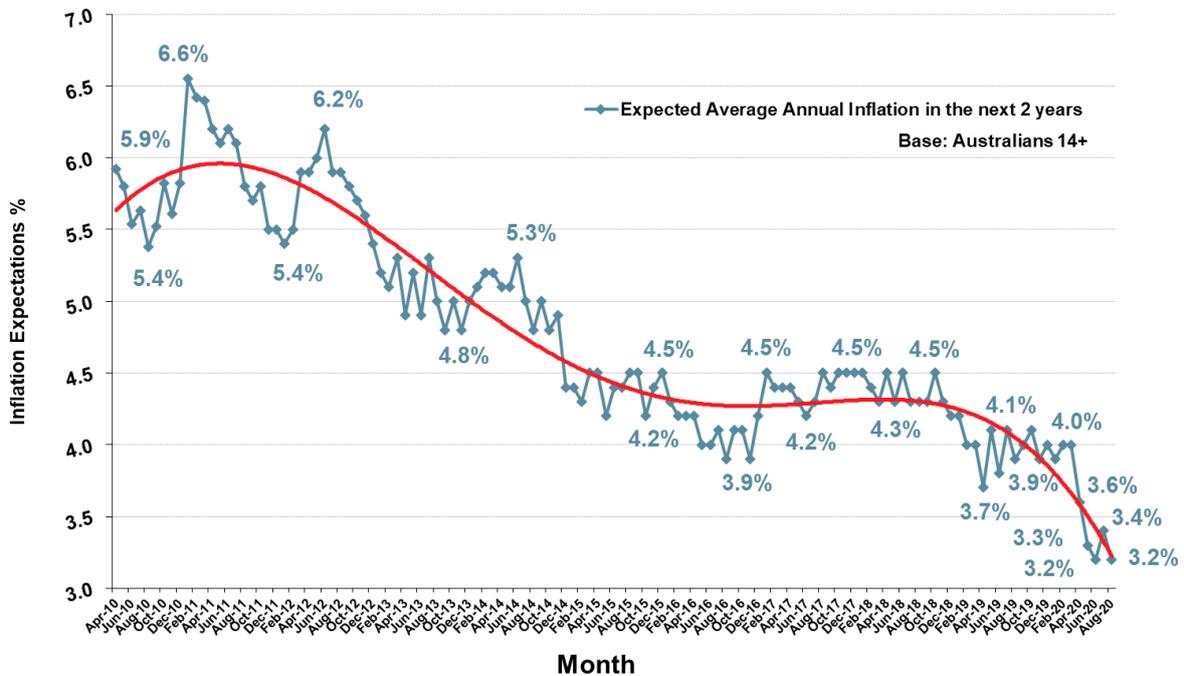
“In contrast part-time employees have Inflation Expectations of 3.4%, down only 0.5% points, and they are at 4.1% for unemployed Australians - higher than any other employment category. These results show how closely the measure is tied to someone’s employment situation and their income.

“Several short-term measures introduced at the start of the pandemic to support the economy are set to expire or be reduced over the next few weeks. Some of the most important are reductions to the JobKeeper wage subsidy and JobSeeker COVID-19 supplement at the end of September and an end to rental eviction bans across most of Australia (with the exceptions of Victoria and Western Australia) in October.

“The reduction in Government spending and support will lower consumer spending power and Inflation Expectations and in turn place more pressure on businesses that have been hardest hit by the pandemic to prove their sustainability going forward as the economy adjusts to a new ‘COVID normal’.

“The plans in place to reduce Government support rely on the broader Australian economy continuing its recovery during the closing months of 2020 but the viral outbreak in Victoria is an ongoing threat to current forecasts. The good news is that new cases of COVID-19 in Victoria are trending down indicating current measures are working and there are reasons to be optimistic about the next few months.”

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 – August 2020).

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

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State-based Inflation Expectations lowest in Western Australia

At a State based level Inflation Expectations are clustered around the national average of 3.2%.

Queensland (3.4%), Tasmania (3.4%) and New South Wales (3.3%) are slightly higher while Victoria (3.2%) and South Australia (3.2%) are right in line with the national figure. The exception is Western Australia which once again has the lowest Inflation Expectations in the nation at only 2.7%.

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

Roy Morgan August Inflation Expectations are based on personal interviews with a nationally representative sample of 6,119 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](#).

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					3.6
Monthly Average	4.8	4.8	4.8	4.8	4.8	4.7	4.8	4.7	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