



FACULTY OF  
BUSINESS &  
ECONOMICS

# Melbourne Institute Survey of Consumer Inflationary Expectations

Monthly Report

August 2014



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## Melbourne Institute Consumer Inflationary Expectations

### August 2014

**Table 1: Inflation**

	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Expected inflation rate (trimmed mean, per cent)	3.7	4.2	4.4	4.0	3.8	3.1
Headline inflation (per cent)*	2.9	2.9	3.0	3.0	na	na
Underlying inflation (per cent)*	2.6	2.7	2.8	2.9	na	na
TD-MI Inflation Gauge (per cent)	2.7	2.8	2.9	3.0	2.6	na

\*Interpolated to monthly. The underlying inflation rate is the 30 per cent trimmed mean measure reported by the ABS.

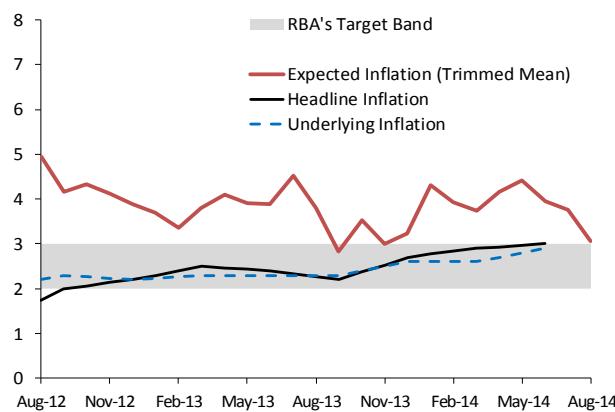
The Melbourne Institute consumer expected inflation rate (30-per-cent trimmed mean measure) fell considerably in August, by 0.7 percentage points to 3.1 per cent from 3.8 per cent in July. The underlying distribution of responses in Table 2 shows a sharp drop in the proportion of responses around expected price change of 10 per cent and rises in the clusters of responses around expected price changes of 1, 2 and 5 per cent.

A closer look at the distribution of responses in Table 2 revealed that the proportion of respondents expecting increases in prices fell to 74.6 per cent from 75.2 per cent in July while the the proportion anticipating no price change rose to 18.9 per cent from 18.0 per cent in July. The proportion of respondents anticipating falls in prices rose to 1.9 per cent from 0.8 per cent in July.

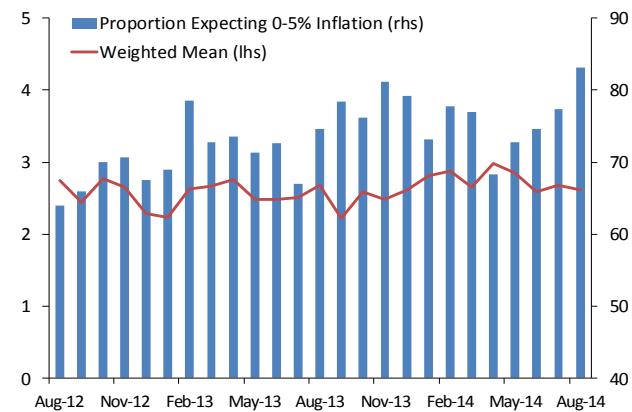
The proportion of survey respondents expecting annual inflation to fall within the RBA target band rose further to 30.6 per cent in August from 28.9 per cent in July. This result is well above the 12-month average of 25.6 per cent.

Table 3 shows that the proportion of respondents (excluding the ‘don’t know’s) expecting the inflation rate to fall within the 0-5 per cent range increased for the fifth consecutive month, to 83.2 per cent in August from 77.4 per cent in July. The weighted mean of responses within the 0-5 per cent range has been around 2.6 per cent over the last three months. This suggests that the majority of respondents expect a moderate inflation rate in the coming months.

**Figure 1: Inflation Rates (Actual and Expected)**



**Figure 2: Expected Price Change in the 0-5% range (Weighted Mean (lhs) and Proportion (rhs))**



**Table 2: Percentage Distribution of Expected Price Changes\***

Response	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Down	3.0	2.3	2.2	2.8	0.8	0.7	1.2	5.5	0.5	0.6	0.8	1.9
Stay the Same	29.8	19.7	23.3	17.3	16.3	17.1	17.5	15.9	15.3	19.2	18.0	18.9
Up	60.0	72.8	67.7	71.1	75.1	76.2	73.7	74.2	79.6	75.9	75.2	74.6
Don't Know	7.2	5.2	6.8	8.7	7.7	6.0	7.6	4.5	4.7	4.3	6.0	4.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<b>Up (percentage)</b>												
1 percent	1.1	2.3	2.2	2.5	1.1	1.7	2.7	0.4	2.3	1.8	1.4	3.7
2 percent	8.1	10.9	12.3	13.5	8.9	8.5	12.1	7.5	8.8	10.9	12.1	13.5
3 percent	11.0	15.1	11.8	14.7	13.0	14.9	12.5	11.5	14.5	15.1	15.4	15.9
4 percent	2.7	4.3	5.0	5.6	7.1	5.1	4.3	5.1	5.5	4.1	5.2	4.9
5 percent	20.0	20.0	21.1	18.6	21.2	25.9	22.1	25.0	23.1	20.2	20.7	22.3
6 percent	0.5	0.5	0.5	0.7	0.7	0.9	0.8	1.5	0.9	1.2	1.0	1.2
7 percent	1.2	2.5	2.3	1.2	1.5	1.1	0.8	2.6	1.4	1.5	0.9	0.5
8 percent	0.9	1.2	0.9	1.0	1.4	1.3	1.1	2.2	2.0	1.7	0.9	0.8
9 percent	0.1	0.0	0.1	0.0	0.0	0.7	0.1	0.1	0.0	0.2	0.1	0.1
10 percent	9.1	10.3	7.4	8.6	14.9	10.0	10.5	13.5	16.0	13.9	11.7	7.2
10+ percent	5.2	5.6	4.2	4.7	5.3	6.0	6.7	4.9	5.0	5.3	5.8	4.4
Total Up	60.0	72.8	67.7	71.1	75.1	76.2	73.7	74.2	79.6	75.9	75.2	74.6
Mean	4.2	4.7	3.9	4.4	5.3	5.4	5.4	4.1	5.3	4.9	4.8	3.9
Trimmed mean	2.8	3.5	3.0	3.2	4.3	3.9	3.7	4.2	4.4	4.0	3.8	3.1

\*The distribution of responses includes the 'don't know's.

**Table 3: Expected Price Changes within the 0 to 5 per cent range**

	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Weighted Mean	2.2	2.6	2.5	2.6	2.8	2.9	2.7	3.0	2.9	2.6	2.7	2.6
Proportion of Responses*	78.4	76.2	81.2	79.2	73.2	77.8	77.0	68.4	72.8	74.6	77.4	83.2

\*Based on the distribution of responses which excludes the 'don't know's.

Released:	14 August 2014	Coverage: persons 18 years and over, all States and the ACT. Stratified by age, gender, and location.
Interview period:	4 Aug – 9 Aug 2014	
Sample size:	1200	

**Melbourne Institute**  
**Survey of Consumer Inflationary Expectations**

The *Melbourne Institute Survey of Consumer Inflationary Expectations* measures are designed to represent the average householder's expected rate of consumer price changes over the coming 12 months.

Consumer inflationary expectations are important because they affect critical household decisions relating to such things as wage demands, saving decisions and spending on consumer durables.

The concept of expectations is highly subjective and prone to inherent difficulties of measurement. Two broad types of inflationary expectations measures exist: direct measures, such as personal forecasts by consumers or business people, and indirect measures, which could be either weighted series of past actual price changes or price expectations as implied by asset and futures markets. Our survey represents a direct measure of inflationary expectations.

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For information on the data contained in the report contact the Melbourne Institute, The University of Melbourne on (03) 8344 2196.

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