THE UNIVERSITY OF MELBOURNE

FACULTY OF BUSINESS & ECONOMICS

Melbourne Institute Survey of Consumer Inflationary Expectations

Monthly Report

November 2014

MELBOURNE INSTITUTE®
of Applied Economic and Social Research

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Melbourne Institute Consumer Inflationary Expectations

November 2014

Table 1: Inflation

	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14
Expected inflation rate (trimmed mean, per cent)	4.0	3.8	3.1	3.5	3.4	4.1
Headline inflation (per cent)*	3.0	2.8	2.5	2.3	na	na
Underlying inflation (per cent)*	2.8	2.7	2.6	2.5	na	na
TD–MI Inflation Gauge (per cent)	3.0	2.5	2.4	2.2	2.3	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) rose in November, by 0.7 percentage points to 4.1 per cent from 3.4 per cent in October. The underlying distribution of responses in Table 2 shows a considerable drop (6.6 percentage points) in the cluster of responses around the expected price change of 2 per cent and a considerable rise (6.8 percentage points) in the collective clusters of responses around the expected price changes of 5 per cent and above.

Despite the above-mentioned distributional shift, a closer look at the distribution of responses in Table 2 revealed that the proportion of respondents expecting increases in prices fell to 73.2 per cent from 75.2 per cent in October while the the proportion anticipating no price change rose to 20.4 per cent from 19.0 per cent in October. The proportion of respondents anticipating falls in prices decreased slightly to 1.5 per cent from 2.0 per cent in October.

The proportion of survey respondents expecting annual inflation to fall within the RBA target band has fallen considerably for the last four months (Figure 1), to 19.0 per cent in November from 25.5 per cent in October, 28.2 per cent in September and 30.6 per cent in August. This result is well below the 12-month average of 25.5 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 decreased sharply to 73.1 per cent from 78.2 per cent in October due to large drops in the clusters of responses around the expected price changes of 1 and 2 per cent (Table 2). The weighted mean of responses within the 0-5 per cent range rose to 2.7 per cent, signalling a shift in the distribution of responses within this range towards the upper end.

Figure 1: Inflation Rates (Actual and Expected)

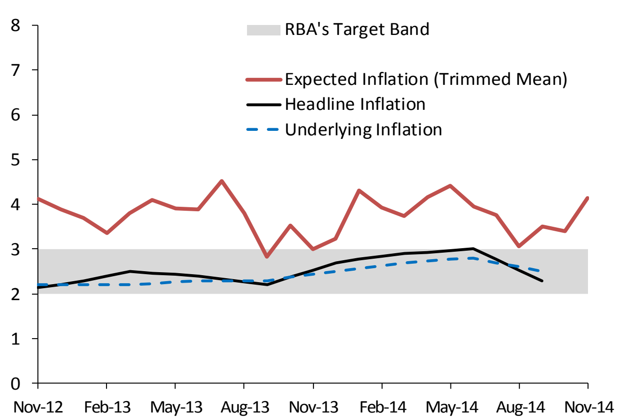

Figure 2: Expected Price Change in the 0-5% range (Weighted Mean (lhs) and Proportion (rhs))

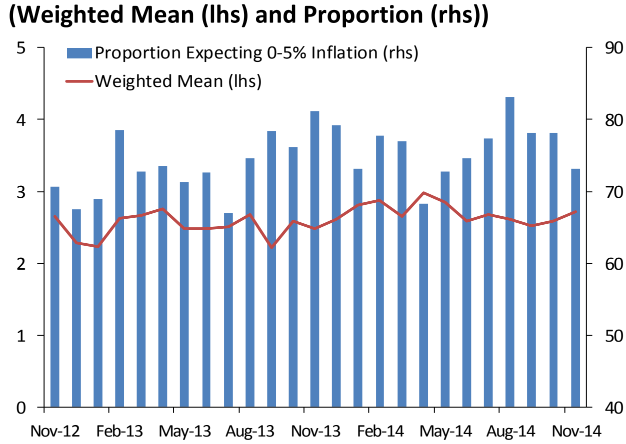

Table 2: Percentage Distribution of Expected Price Changes*

Response	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14
Down	2.8	0.8	0.7	1.2	5.5	0.5	0.6	0.8	1.9	1.3	2.0	1.5
Stay the Same	17.3	16.3	17.1	17.5	15.9	15.3	19.2	18.0	18.9	21.6	19.0	20.4
Up	71.1	75.1	76.2	73.7	74.2	79.6	75.9	75.2	74.6	73.0	75.2	73.2
Don't Know	8.7	7.7	6.0	7.6	4.5	4.7	4.3	6.0	4.5	4.1	3.8	4.9
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
Up (percentage)												
1 per cent	2.5	1.1	1.7	2.7	0.4	2.3	1.8	1.4	3.7	1.4	4.0	1.5
2 per cent	13.5	8.9	8.5	12.1	7.5	8.8	10.9	12.1	13.5	10.8	12.6	6.0
3 per cent	14.7	13.0	14.9	12.5	11.5	14.5	15.1	15.4	15.9	16.8	13.0	12.4
4 per cent	5.6	7.1	5.1	4.3	5.1	5.5	4.1	5.2	4.9	4.3	4.5	5.4
5 per cent	18.6	21.2	25.9	22.1	25.0	23.1	20.2	20.7	22.3	20.1	22.0	23.8
6 per cent	0.7	0.7	0.9	0.8	1.5	0.9	1.2	1.0	1.2	0.7	0.9	0.4
7 per cent	1.2	1.5	1.1	0.8	2.6	1.4	1.5	0.9	0.5	0.5	1.5	1.8
8 per cent	1.0	1.4	1.3	1.1	2.2	2.0	1.7	0.9	0.8	0.7	0.8	1.4
9 per cent	0.0	0.0	0.7	0.1	0.1	0.0	0.2	0.1	0.1	0.0	0.1	0.0
10 per cent	8.6	14.9	10.0	10.5	13.5	16.0	13.9	11.7	7.2	10.4	10.6	14.4
10+ per cent	4.7	5.3	6.0	6.7	4.9	5.0	5.3	5.8	4.4	7.3	5.1	6.0
Total Up	71.1	75.1	76.2	73.7	74.2	79.6	75.9	75.2	74.6	73.0	75.2	73.2
Mean	4.4	5.3	5.4	5.4	4.1	5.3	4.9	4.8	3.9	5.1	4.5	5.1
Trimmed mean	3.2	4.3	3.9	3.7	4.2	4.4	4.0	3.8	3.1	3.5	3.4	4.1

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

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

	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14
Weighted Mean	2.6	2.8	2.9	2.7	3.0	2.9	2.6	2.7	2.6	2.5	2.6	2.7
*Proportion of Responses**	79.2	73.2	77.8	77.0	68.4	72.8	74.6	77.4	83.2	78.1	78.2	73.1

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

Released: 13 November 2014
Interview period: 3 Nov – 8 Nov 2014
Sample size: 1200

Coverage: persons 18 years and over, all States and the ACT. Stratified by age, gender, and location.

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.

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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