

8 November 2022

Summary

- According to survey respondents, the Official Cash Rate (OCR) is expected to rise, on average, by 65 basis points this quarter to 4.15%, increasing to 4.67% at the end of the September 2023 quarter.
- Muted GDP growth expected, at 1.27% growth expected in the coming year.
- One-year-ahead, and two-year-ahead inflation expectations increased to 5.08% and 3.62%, respectively.
- Five- and ten-years-ahead inflation expectations remained within the RBNZ’s target band range of 1 – 3%.
- Wages expected to increase by 5.34% in the coming year.
- Unemployment rate expected to rise to 3.92% in one year, an increase from the current official rate of 3.3%.
- House prices expected to drop further over the coming year but increase in the year after.

OCR expected to be at 4.67% in a year’s time

The October 2022 Survey of Expectations (SOE) found that business’ OCR expectations continued to rise over all time periods. The OCR was last raised by 50 basis points on 5 October 2022 to 3.50%.

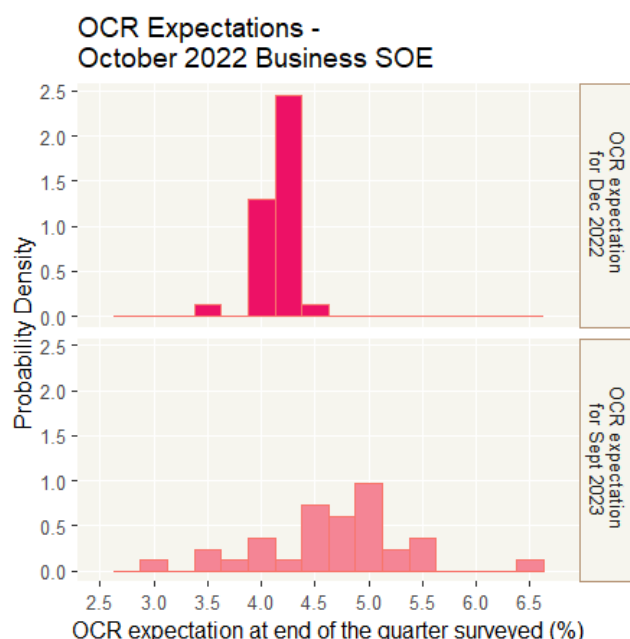
The next *RBNZ Monetary Policy Statement* will be released on 23 November 2022.

One quarter ahead

The mean OCR expectation for the end of the current quarter was 4.15% showing that the majority of respondents expect to see a 65 basis point rate hike from the current level of 3.50%. This is up 115 basis points from last quarter’s mean estimate of 3.00%.

One year ahead

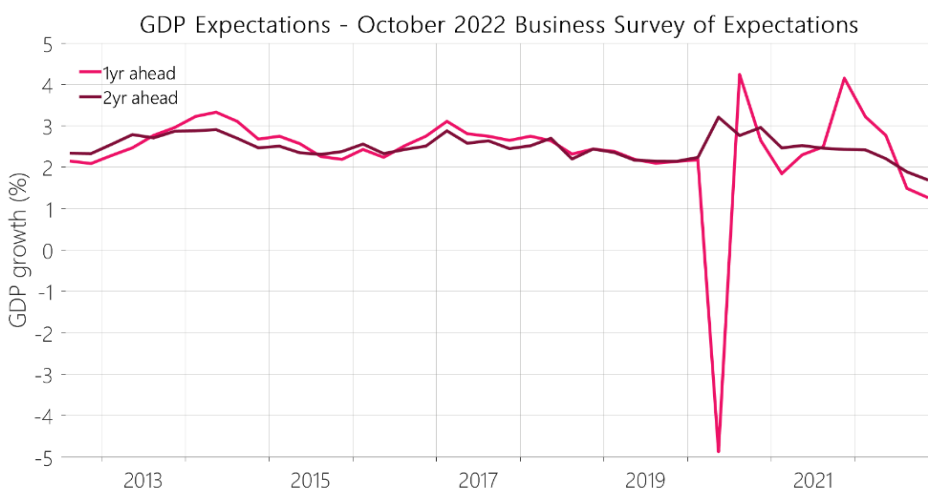
The mean estimate for the OCR one year ahead was 4.67%, up 113 basis points from last quarter’s mean 3.54%. The range increased compared to the one-year-ahead estimate from last quarter’s survey, 3.00% being the lowest response, and 6.50%, the highest.



GDP growth expected to slow in the next year, and increase slightly in the following year

The mean one-year-ahead GDP growth expectation has decreased by 22 basis points to 1.27%, from 1.49% the previous quarter.

The economy is then expected to grow faster in the year after, though still slower than what was previously expected two years ahead. The mean two-year-ahead expectation for GDP growth decreased by 20 basis points, with annual growth expected to be 1.69% in the December 2024 quarter.



Medium-term inflation expectations up, long-term inflation expectations within target band

This quarter's Survey of Expectations went to field following the Stats NZ CPI release on 19 October 2022. The annual CPI inflation for the September 2022 quarter was measured at 7.2%, a slight decline from last quarter's 7.3% annual inflation. One-year-ahead and two-year-ahead inflation expectations have increased, while five and ten year ahead inflation expectations stayed within the 1-3% target inflation band.

One year ahead and Two years ahead

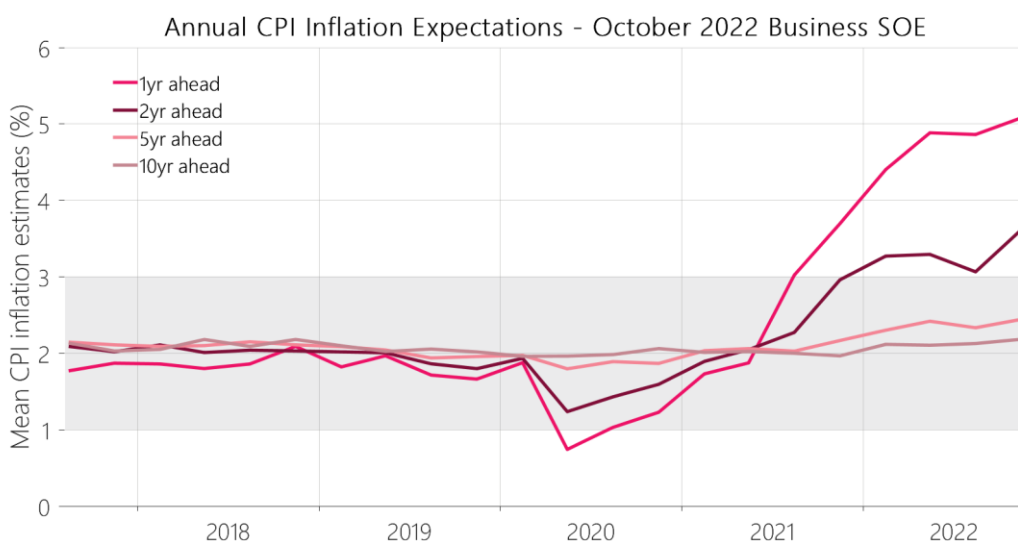
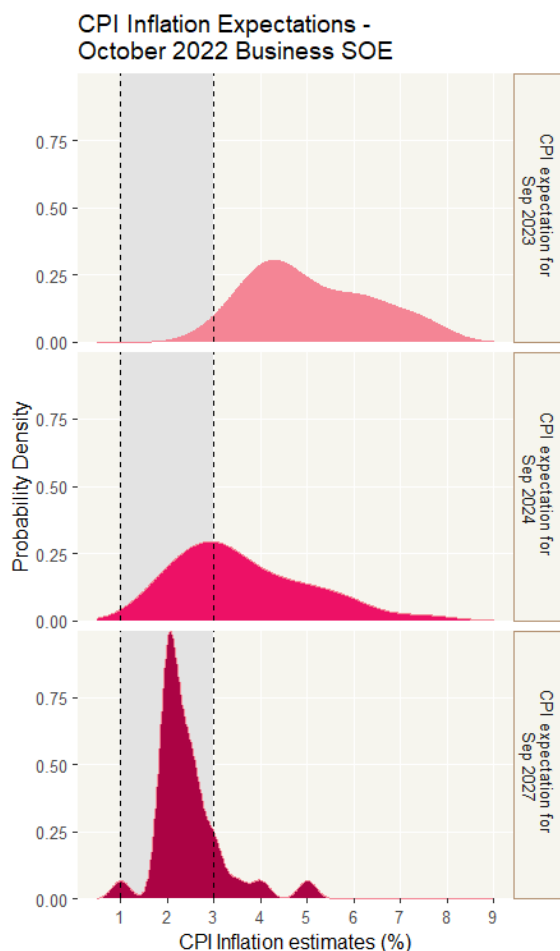
Mean one year ahead inflation expectations increased slightly to 5.08%, up just 22 basis points from 4.86% last quarter.

Mean two year ahead inflation expectations increased to 3.62%, 55 basis points higher than September 2022 figure of 3.07%, and 33 basis points higher than the 3.29% figure in June 2022.

Long-term inflation expectations

Mean five-years-ahead inflation expectations were higher than the September 2022 value of 2.33%, coming in at 2.44%, which is more in line with the June 2022 figure of 2.42%.

The mean ten-years-ahead inflation expectation also increased slightly. The 2.18% figure posted this quarter is a 5 basis point rise from the September 2022 figure of 2.13%.



Wages expected to increase in the next year, with slower wage growth in the year following

We ask respondents their expectations of wage inflation, as measured by the QES hourly wage (private sector, ordinary time).

The mean one-year-ahead response for wage inflation was recorded at 5.34%, and is the highest value since this question was first asked of respondents in 1993 Q4, and exceeds last quarter's record of 5.13%.

However, the mean two-years-ahead wage inflation expectation has decreased slightly from last quarter's survey maximum, coming in at 3.84%, down from the September 2022 value of 3.93%.

Quarter	1Y Ahead (%)	2Y Ahead (%)
Q1 2022	4.36	3.57
Q2 2022	4.81	3.74
Q3 2022	5.13	3.93
Q4 2022	5.34	3.84

Unemployment expectations lift slightly

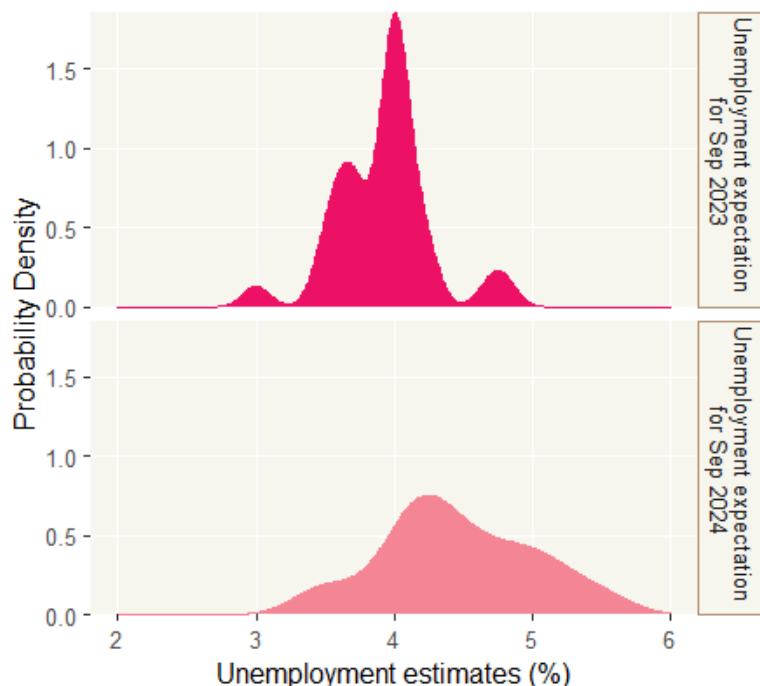
One-year-ahead unemployment expectations have increased to 3.92%, an increase of 15 basis points from the 3.77% posted in the September 2022 quarter.

Similarly, the mean two-year-ahead expectation also lifted by 15 basis points to 4.46% from 4.31%, still roughly on par with pre-COVID figures for two-year-ahead expectations.

Both estimates would indicate further increases in unemployment from the current level of 3.3% published by Stats NZ.

Note: Survey work for this quarter's Survey of Expectations closed on Tuesday 25th October, meaning respondents did not have access to the current Stats NZ unemployment figure which was published on Wednesday 2nd November, showing unemployment rate was unchanged, remaining at 3.3% in the September 2022 quarter.

Unemployment Expectations - October 2022 Business SOE



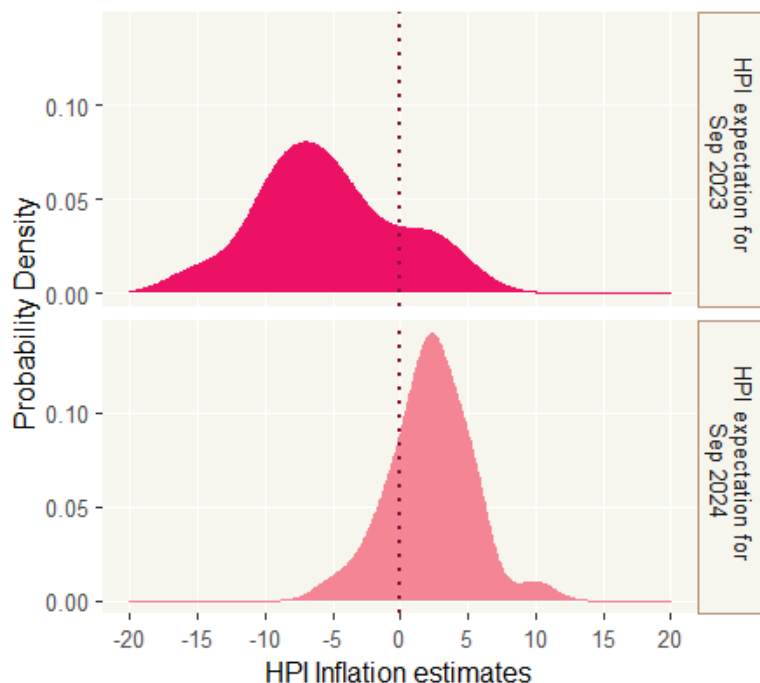
House prices expected to drop further over the coming year but rise in the following year

We ask respondents for their expectations of the annual percentage change in the house price index in the September quarter of 2023 (one year ahead) and 2024 (two years ahead).

Expectations for one-year-ahead house price change had a mean of -5.39%, an increase from last quarter's mean of -5.84%. This is a 45 basis point increase from last quarter's figure, which was a historic low.

Mean two-year-ahead house price changes were higher at 2.22%, which is an increase from last quarter's mean estimate of 1.93%, this 29 basis point increase being the second consecutive increase for two-year-ahead expectations.

HPI Expectations - October 2022 Business SOE



About the Business Survey of Expectations:

The data for this report was obtained from 33 business leaders and professional forecasters by the Nielsen group on behalf of RBNZ. Field work for the survey was run between the 19th and 25th of October 2022. For more information contact: statsunit@rbnz.govt.nz