



Summary

- OCR expectations indicate respondents no longer expect further cuts by RBNZ in the short, medium or long term
- Half of all respondents now estimate RBNZ will reach its target CPI of 2% by 2023
- Non-tradeable goods continue to hold much higher expectations of inflation than tradeable goods as inflation expectations of offshore price growth remains low
- Year ahead unemployment expectations have dropped from 6.9% to 5.8%
- House prices are expected to increase by 8% by this time in 2022

Due to differences in response size between questions in the SOE, the graphs below use probability density on the y axis instead of frequency. They can still be interpreted as a form of smoothed bar chart.

OCR expectations

Short term

All respondents to the January 2021 survey said they expected the OCR to stay unchanged at 0.25 for the remainder of the current quarter.

In the previous three quarters, a small number of respondents forecasted cuts to the OCR, however; this quarter all expectations were consistent with the forward guidance issued by RBNZ in the March 2020 MPS.

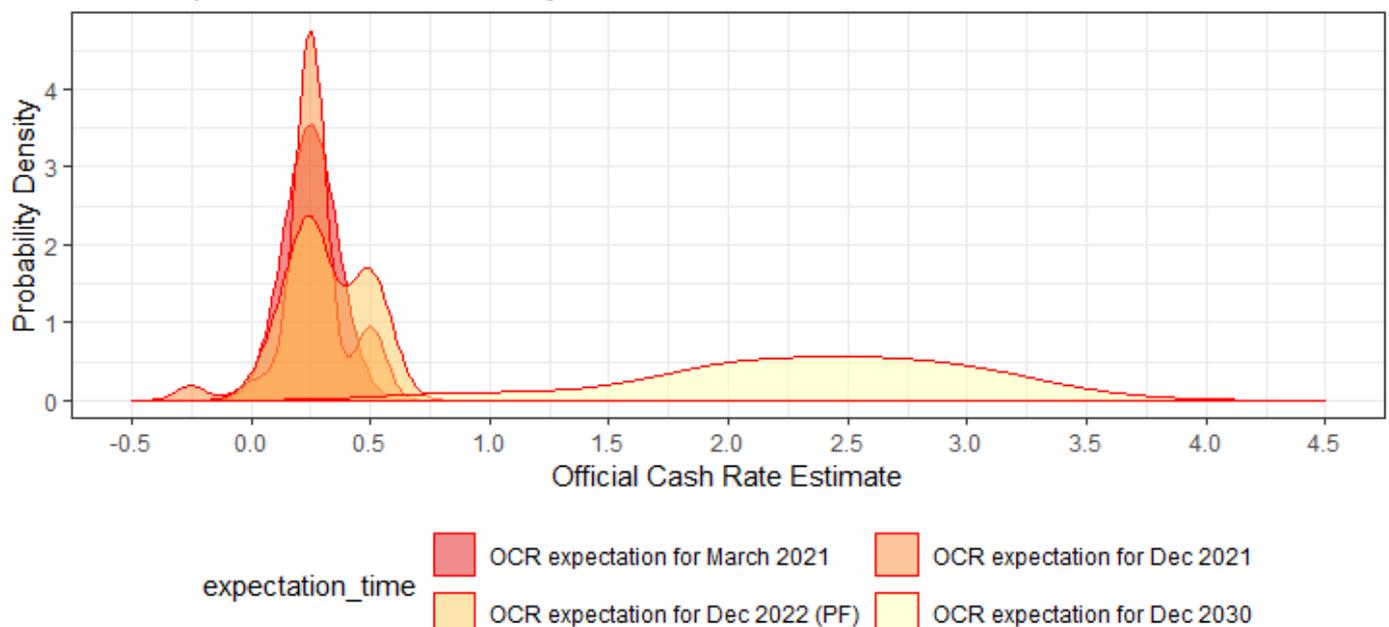
Mid term

Medium term OCR projections showed a similar trend with most respondents indicating they now expect the OCR to remain on hold for the next two years. The previous three surveys found a large proportion of respondents expected the OCR to drop to zero or negative during 2021, but after recent CPI and labour market releases exceeded market expectations, the expected need of further stimulus has reduced.

Long term

OCR expectations for ten years ahead sat higher than previous estimates with a mean of 2.35 which was 19 basis points higher than last quarter's mean 10 year expectation of 2.16.

OCR expectations from January 2021 Business SOE



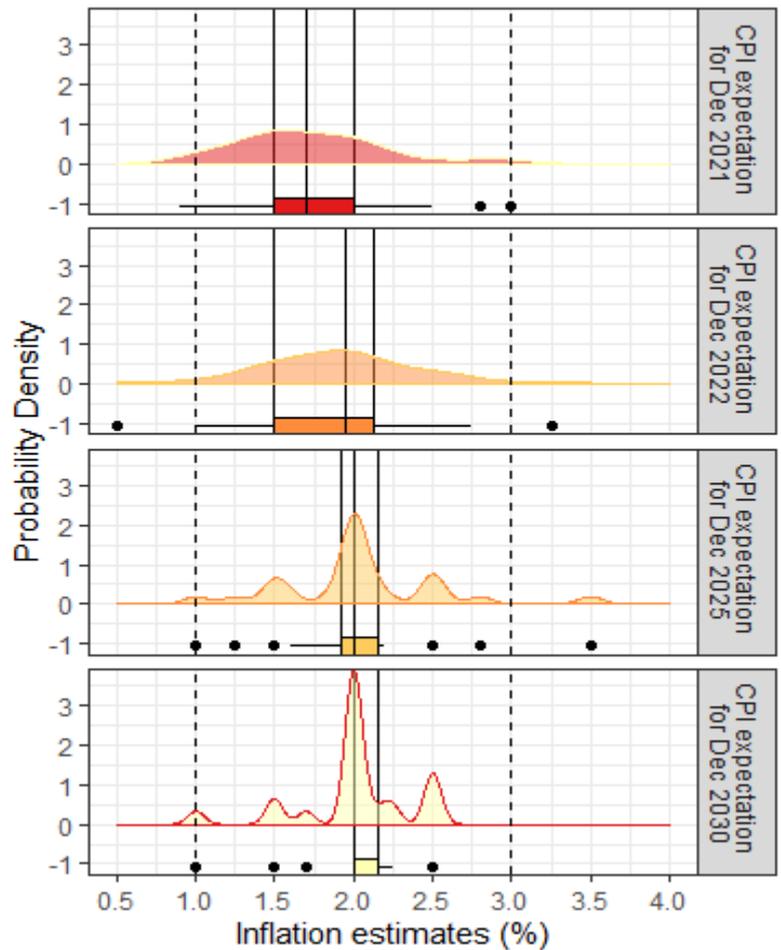
Headline CPI Expectations

Over the last three quarters, inflation expectations have consistently increased across all future time frames given in the survey, with inflation expectations now close to pre-COVID levels (in February 2020 one year ahead inflation expectations had a mean of 1.88%). With the last two CPI releases both coming in higher than market expectations, respondents have shifted to a more optimistic view about price growth. This shift is especially noticeable in the short and medium term.

This quarter, all responses for both the one and two year ahead inflation expectations sat within the 1-3% target band with means of 1.73% and 1.95% respectively. They were clustered slightly lower than the 2% target, though with a relatively wide spread.

Five and ten year inflation expectations sat slightly higher with means of 2.03% and 2.01% respectively, with quite tight spreads around the mean. Each only had one estimate sitting outside the target band.

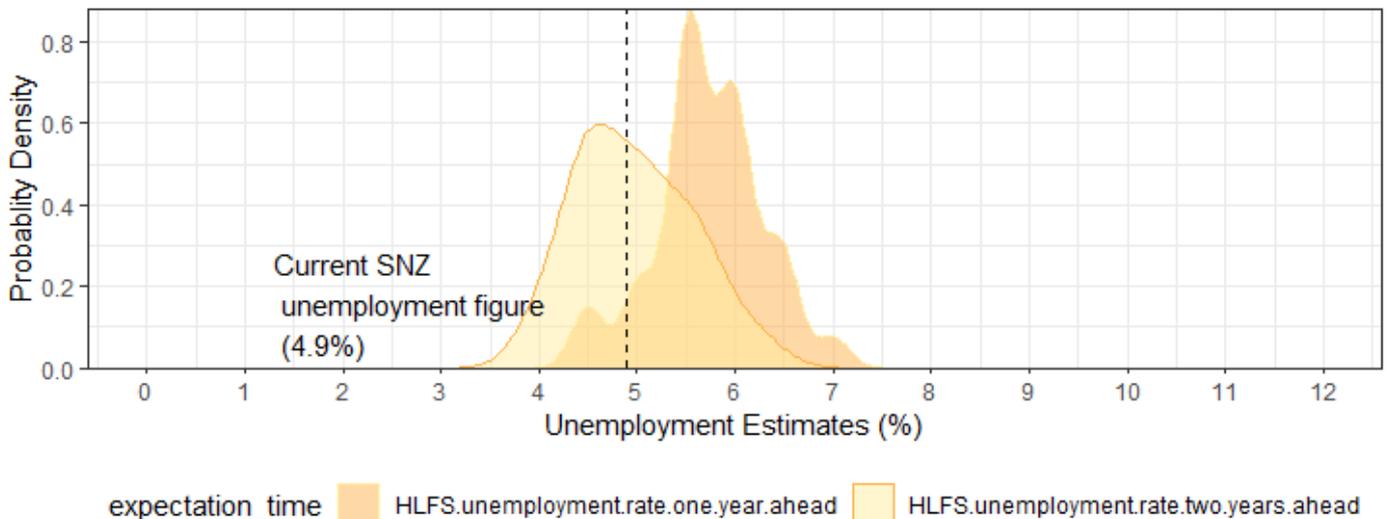
CPI expectations from January 2021 Business SOE



Employment Expectations

Expectations for unemployment softened over the course of the last quarter. One year ahead unemployment was expected to increase to 5.7% which is down from last quarter's estimate of 6.9%, but is still higher than the latest Stats NZ unemployment statistic of 4.9%. Two year ahead employment projections were more optimistic with a mean of 5.0%, only a small increase from the current official figure. Note the survey fieldwork was conducted before the release of the latest unemployment rate publication.

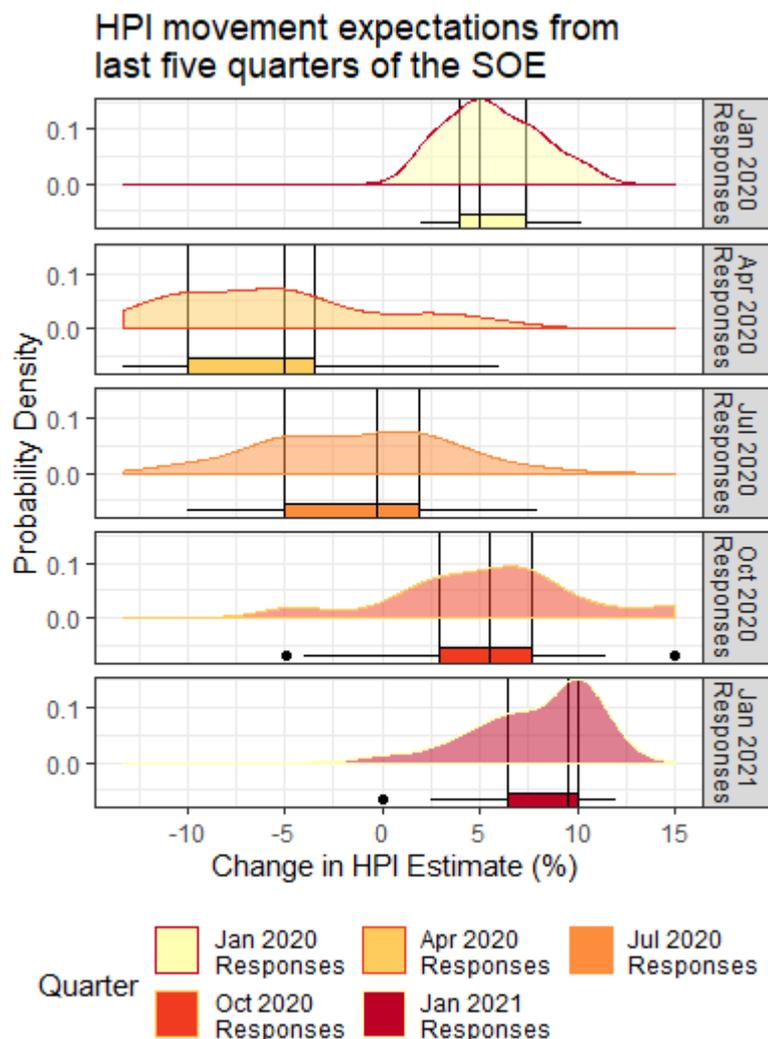
Unemployment Expectations from Jan 2021 Business SOE



Housing Expectations

House Price Index (HPI) inflation expectations have moved significantly over the last four quarters. This time last year most respondents expected house prices to decrease, some predicting falls as large as 10% or more. The July 2020 survey saw a large degree of uncertainty with respondents split almost 50-50 on whether house prices would go up or down, but by September nearly all respondents were forecasting an increase.

This quarter respondents are again forecasting an increase to house prices, this time with a mean year-on-year estimate of 8.0% which is higher than last quarter's expectations of 5.5%.



Tradeable vs Non-tradeable CPI Expectations

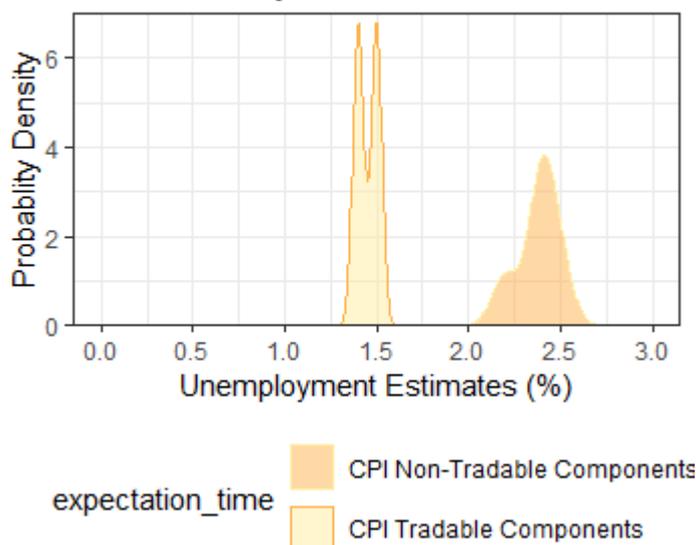
Respondents indicated a very distinct difference in their inflation expectations with regards to the tradeable and non-tradeable components of the CPI.

Tradeable goods are ones that can easily cross borders and therefore tend to be purchased at a 'world price'. Non-tradeable goods are goods such as services that do not easily cross borders, and therefore have much more localised prices.

While prices of non-tradable goods are expected to increase in the range of 2-2.5% by this time next year, tradable goods are expected to only see inflation of about 1.5%.

This is likely due to a difference in how respondents perceive New Zealand's recovery journey from the Covid-19 pandemic versus the rest of the world. Largely the New Zealand economy is perceived to be well on the path of recovery and therefore will experience reasonable price growth locally, while the rest of the world is expected to have a longer road to recovery and therefore will experience more stagnant inflation.

CPI Component Expectations from January 2021 SOE



About the Business Survey of Expectations

The data for this report was obtained from 29 business leaders and professional forecasters by the Nielsen group on behalf of RBNZ

For more information contact statsunit@rbnz.govt.nz