

SUMMARY

Survey respondents reported:

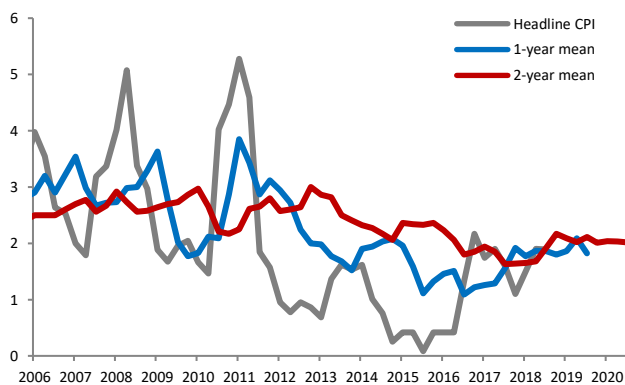
- Inflation expectations for one year ahead have decreased since last quarter from 2.09% to 1.82%. Expectations for two years ahead remain steady.
- GDP is expected to grow at 2.38% and 2.36% for one and two years ahead respectively.
- The expected one year ahead unemployment rate decreased from 4.40% to 4.17%. This follows a decrease in the official unemployment rate from 4.4% to 3.9% (revised to 4.0%) for Q3 2018 as reported by Statistics New Zealand in November 2018.
- House price inflation expectations decreased from 2.86% to 1.91% for one year ahead, and from 2.31% to 2.14% for two years ahead.

ONE YEAR AHEAD INFLATION EXPECTATIONS DOWN

Table 1: Short-term business inflation expectations (annual %)

Quarter	1 year ahead		2 years ahead	
	Mean	Median	Mean	Median
Jun 2018	1.80	1.85	2.01	2.00
Sep 2018	1.86	1.85	2.04	2.00
Dec 2018	2.09	2.00	2.03	2.00
Mar 2019	1.82	1.90	2.02	2.00

Figure 1: Inflation expectations (annual %)



1 year inflation expectations shifted forward four quarters and 2 year inflation expectations shifted forward eight quarters

Median long-term inflation expectations remain at 2.00%

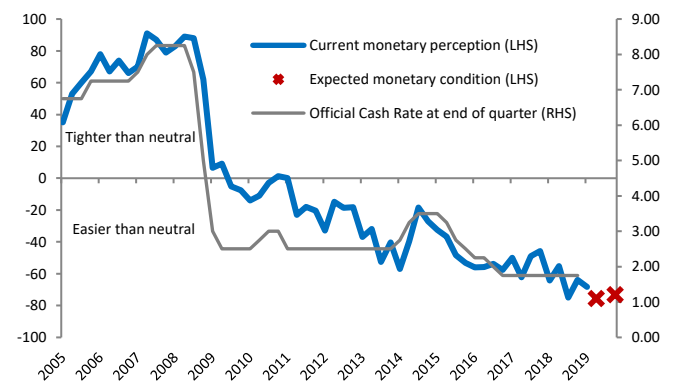
Table 2: Long-term business inflation expectations (annual %)

Quarter	5 years ahead		10 years ahead	
	Mean	Median	Mean	Median
Jun 2018	2.10	2.00	2.18	2.00
Sep 2018	2.15	2.00	2.09	2.00
Dec 2018	2.11	2.00	2.18	2.00
Mar 2019	2.09	2.00	2.10	2.00

MONETARY CONDITIONS EXPECTED TO REMAIN EASIER THAN NEUTRAL

A net 68.3% of respondents believe current monetary conditions are easier than neutral. This is up from a net 63.8% in the previous quarter's survey. A net 75.6% of respondents believe monetary conditions in one year's time will be easier than neutral.

Figure 2: Perception of monetary conditions (net %), with OCR (%)



HOUSE PRICE EXPECTATIONS DECREASE

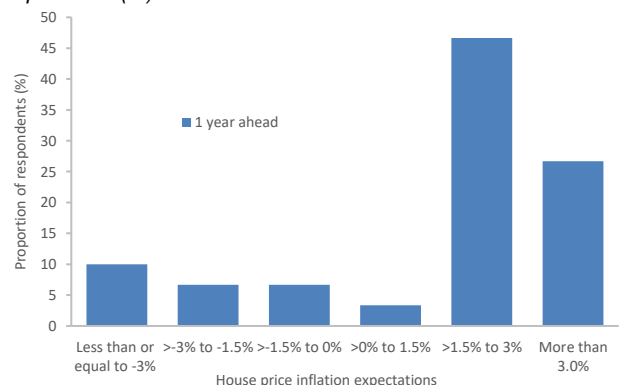
House prices are expected to grow at 1.91% in one year's time. This is a decrease from 2.86% reported in the previous quarter's survey.

Table 3: House-price growth expectations (annual %)

Quarter	1 year ahead		2 years ahead	
	Mean	Median	Mean	Median
Jun 2018	2.74	3.25	2.15	2.50
Sep 2018	2.43	2.50	2.42	2.00
Dec 2018	2.86	3.00	2.31	3.00
Mar 2019	1.91	3.00	2.14	3.00

73.3% of respondents expect one year ahead house price inflation to be more than 1.5%.

Figure 3: House price inflation expectations, proportion of respondents (%)



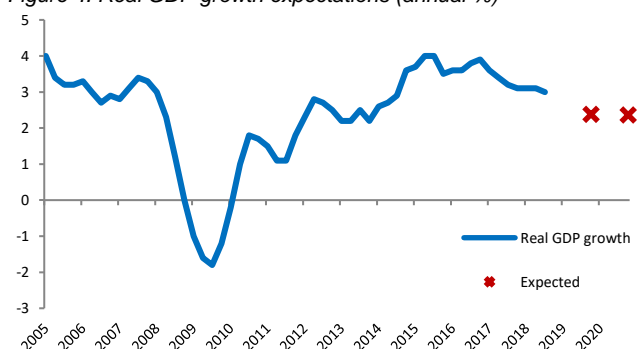
GDP EXPECTATIONS DECREASE

Compared with last quarter, expectations for annual real GDP growth decreased from 2.44% to 2.38% for one year ahead. The September quarter rolling-annual GDP growth reported by Statistics New Zealand was 3.0%.

Table 4: Real GDP growth expectations (annual %)

Quarter	1 year ahead		2 years ahead	
	Mean	Median	Mean	Median
Jun 2018	2.64	2.70	2.70	2.70
Sep 2018	2.32	2.50	2.20	2.50
Dec 2018	2.44	2.60	2.44	2.60
Mar 2019	2.38	2.60	2.36	2.50

Figure 4: Real GDP growth expectations (annual %)



EXPECTED UNEMPLOYMENT RATE LOW

The unemployment rate in one year is expected to be 4.17% and increase to 4.27% two years' time. Statistics New Zealand reported an increase of the seasonally adjusted unemployment rate from 4.0% to 4.3% for the December 2018 quarter (this was released after the survey was completed).

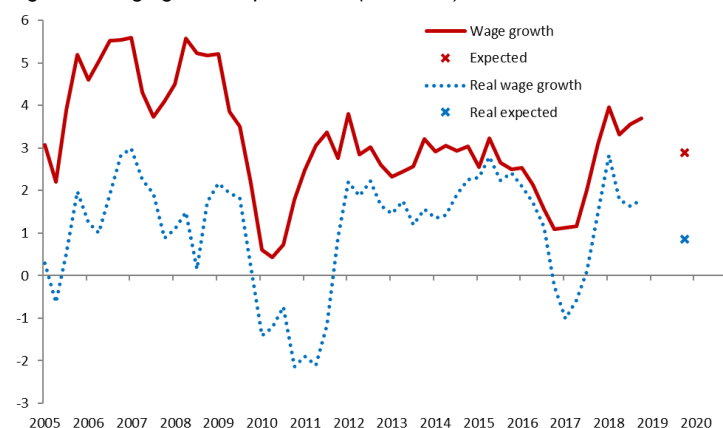
Figure 5: Unemployment rate expectations (%)



One year ahead expectations for annual growth in wages are steady around 2.90%, while two years ahead expectations decreased from 3.04% to 2.86% in the March 2019 reported expectations.

By comparing expectations for wage growth and inflation, we can estimate expectations of the real wage growth. Respondents expect real wage growth to decrease from 0.86% for one year ahead to 0.75% for two years ahead.

Figure 6: Wage growth expectations (annual %)

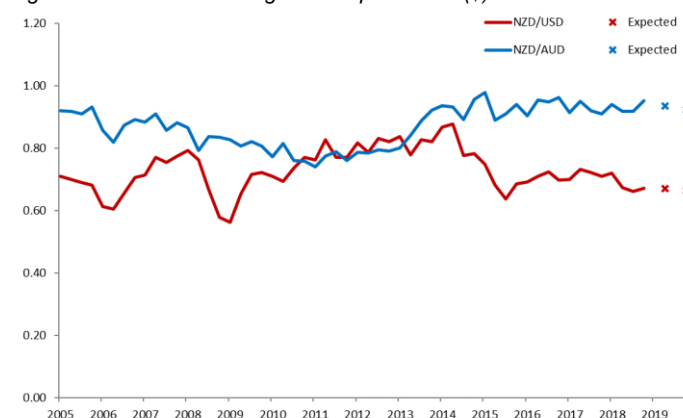


LOWER EXCHANGE RATES EXPECTED

The NZ/US dollar exchange rate is expected to be 0.67 at the end of June 2019, and 0.66 at the end of December 2019. It was at 0.677 when the survey was conducted (23 January 2019).

The NZ/AU dollar exchange rate is expected to be 0.94 at the end of June 2019, and decrease to 0.92 at the end of December 2019. It was at 0.950 when the survey was conducted (23 January 2019).

Figure 7: NZ Dollar exchange rate expectations (\$)



ABOUT THE SURVEY

The Reserve Bank of New Zealand Survey of Expectations is a New Zealand-wide quarterly survey of business managers and professionals. Nielsen conducts the survey on behalf of the Reserve Bank. Respondents are asked for their expectations of future outcomes of a range of key macroeconomic data.

The March 2019 quarter survey was conducted from Wednesday 23 to Thursday 24 January 2019.

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