

SUMMARY

Survey respondents reported:

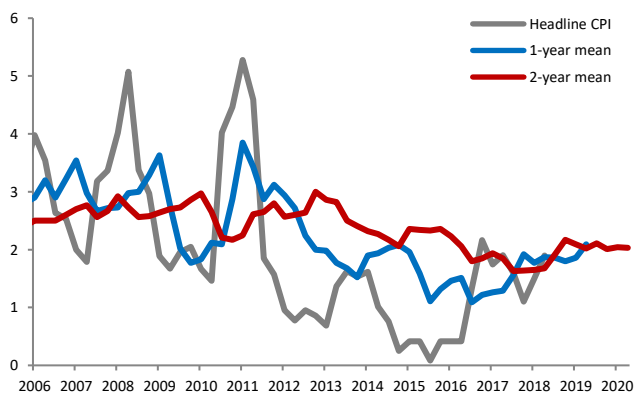
- Inflation expectations for one year ahead have increased since last quarter from 1.86% to 2.09%. Expectations for two years ahead remain steady.
- GDP is expected to grow at 2.44% for one and two years ahead. GDP expectations are up from the previous quarter, but remain below Q2 2018 annual growth of 2.85% as reported by Statistics New Zealand.
- The unemployment rate is expected to increase between one and two years ahead from 4.40% to 4.47%.
- Wage growth is expected to increase between one and two years ahead from 2.92% to 3.04%.

ONE YEAR AHEAD INFLATION EXPECTATIONS UP

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

Quarter	1 year ahead		2 years ahead	
	Mean	Median	Mean	Median
Mar 2018	1.86	1.90	2.11	2.10
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

Figure 1: Inflation expectations (annual %)



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

In September 2017, the Reserve Bank started collecting annual business inflation expectations 5 and 10 years ahead.

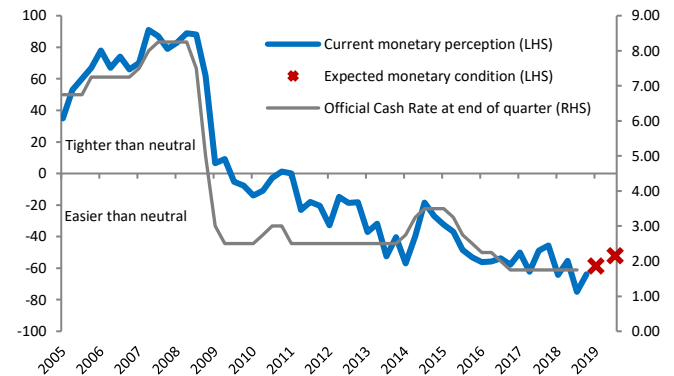
Table 2: Long-term business inflation expectations (annual %)

Quarter	5 years ahead		10 years ahead	
	Mean	Median	Mean	Median
Mar 2018	2.09	2.00	2.05	2.00
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

TIGHTER MONETARY CONDITIONS EXPECTED

A net 63.8% of respondents believe current monetary conditions are easier than neutral. This is down from a net 75.0% in the previous quarter's survey. A net 52.2% of respondents believe monetary conditions in one year's time will be easier than neutral.

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



In September 2017, the Reserve Bank started collecting annual house-price growth expectations for one and two years ahead.

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

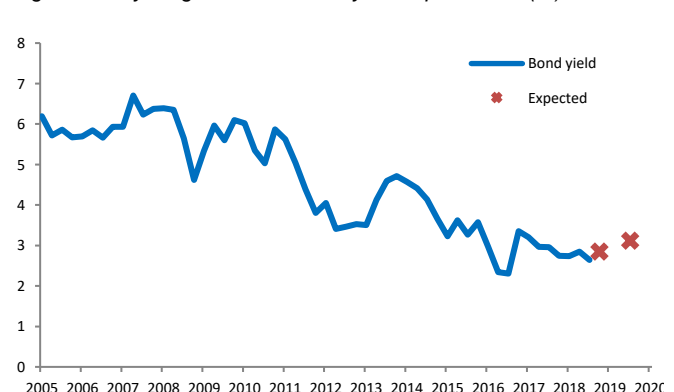
Quarter	1 year ahead		2 years ahead	
	Mean	Median	Mean	Median
Mar 2018	2.45	3.00	2.52	2.30
Jun 2018	2.74	3.25	2.15	2.50
Sep 2018	2.43	2.50	2.42	2.00
Dec 2018	2.86	3.00	2.31	3.00

ONE YEAR AHEAD 10 YEAR GOVERNMENT BOND YIELD EXPECTATIONS INCREASE

Compared with last quarter, one year ahead expectations for 10 year government bond yields increased from 3.09% to 3.12%.

The 10 year benchmark bond yield was 2.69% when the survey was conducted (17 October 2018).

Figure 3: 10 year government bond yield expectations (%)



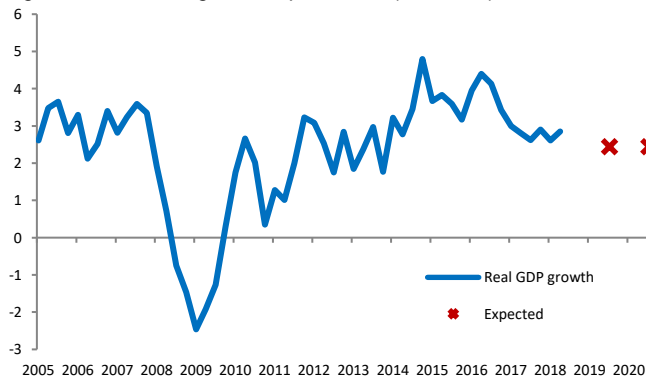
GDP EXPECTATIONS INCREASE

Compared with last quarter, expectations for annual real GDP growth increased from 2.32% to 2.44% for one year ahead and increased from 2.20% to 2.44% for two years ahead. The June quarter annual real GDP growth reported by Statistics New Zealand was 2.85%.

Table 4: Real GDP growth expectations (annual %)

Quarter	1 year ahead		2 years ahead	
	Mean	Median	Mean	Median
Mar 2018	2.75	2.70	2.52	2.60
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

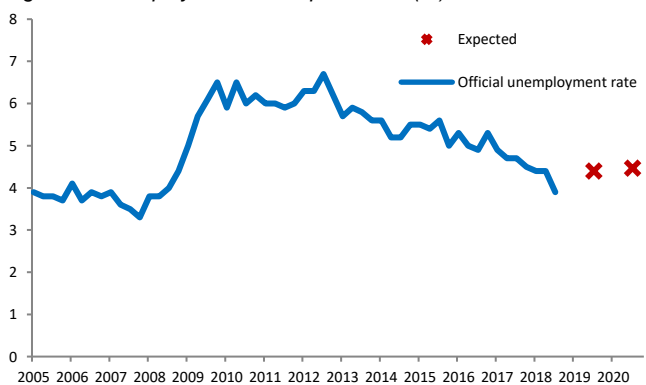
Figure 4: Real GDP growth expectations (annual %)



EXPECTED UNEMPLOYMENT RATE LOW

The unemployment rate in one year is expected to be 4.40% and increase to 4.47% two years' time. The seasonally adjusted official unemployment rate reported by Statistics New Zealand for the September 2018 quarter was 3.9% (this was released after the survey was completed).

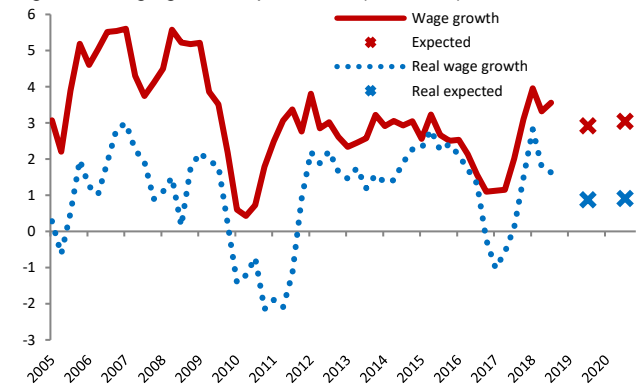
Figure 5: Unemployment rate expectations (%)



One year ahead expectations for annual growth in wages have increased from 2.88% to 2.92%, while two years ahead expectations increased from 2.93% to 3.04% in the December 2018 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 increase from 0.89% for one year ahead to 0.93% for two years ahead.

Figure 6: Wage growth expectations (annual %)

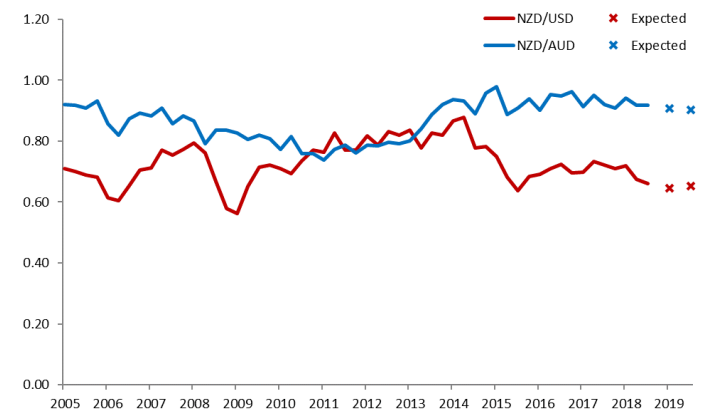


LOWER EXCHANGE RATES EXPECTED

The NZ/US dollar exchange rate is expected to be 0.65 at the end of March 2019, and also at the end of September 2019. It was at 0.66 when the survey was conducted (17 October 2018).

The NZ/AU dollar exchange rate is expected to be 0.91 at the end of March 2019, and decrease to 0.90 at the end of September 2019. It was at 0.92 when the survey was conducted (17 October 2018).

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 December 2018 quarter survey was conducted from Wednesday 17 to Thursday 18 October 2018.

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