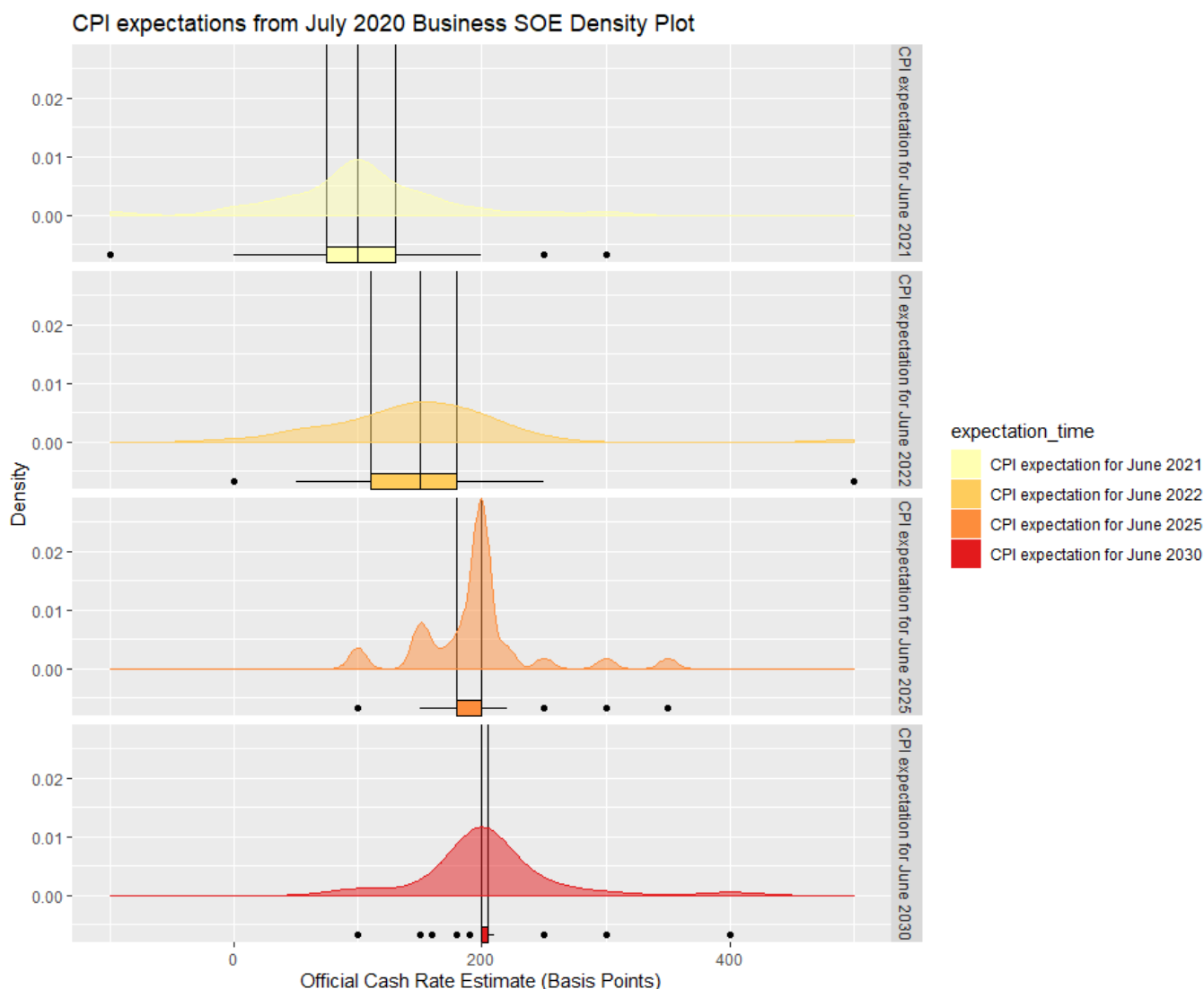


Summary

- Mean inflation expectations returned to RBNZ target range of 1-3% as one year ahead CPI expectations rose from 0.74 to 1.03
- Most respondents expect either one or no cuts to the OCR by the end of 2022
- Business leaders are slightly more optimistic about unemployment than in April
- House price expectations bounce back but still show plenty of uncertainty

Inflation expectations remain low but mostly within target range

Low expectations of inflation remained a theme of the most recent Survey of Business Expectations. Inflation expectations for one quarter ahead were spread reasonably symmetrically around 1% but a wide distribution of responses indicated a lack of certainty in this area. Expectations for two years ahead had a similar spread but shifted up about 50 basis points to 1.5 with the bulk of responses sitting comfortably within the 1 – 3% range. Longer term projections for five and ten years ahead remain more in line with the RBNZ inflation targeting goal as respondents for both metrics were tightly focussed around 2%.

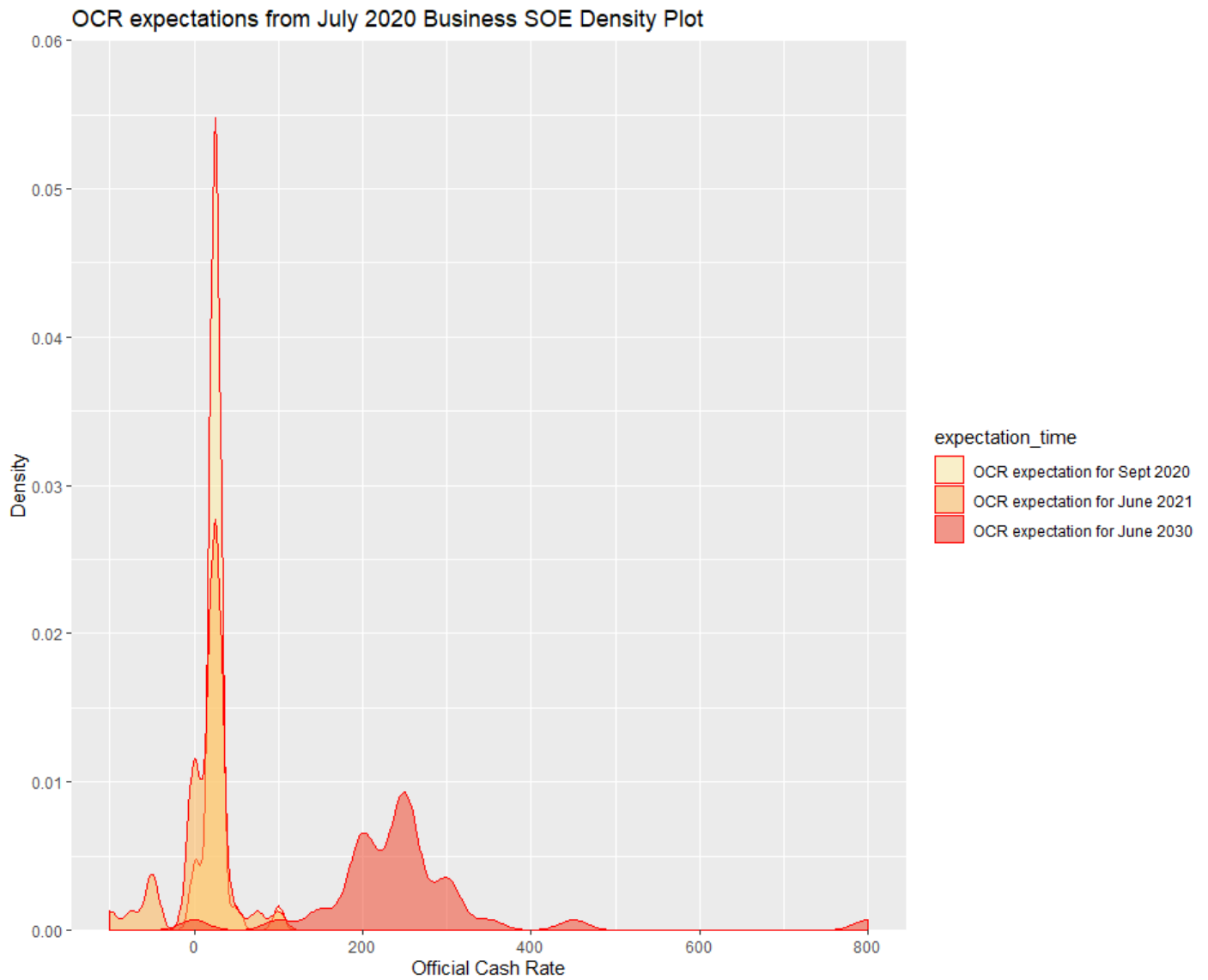


Quarter	1 year ahead		2 years ahead	
	Mean	Median	Mean	Median
Dec-19	1.66	1.7	1.8	1.8
Mar-20	1.88	1.9	1.93	2
Jun-20	0.74	0.9	1.24	1.3
Sep-20	1.03	1	1.43	1.5

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

OCR expectations tighten around 0.25

OCR expectations for the end of this quarter remained almost unchanged from the responses in the last survey. Projections for the OCR at the end of September were all focussed around the current value of 0.25, in line with Monetary Policy Committee forward guidance. OCR expectations for the year ending June 2021 also had a clear mode at 0.25 but tailed to the left indicating that some respondents view an OCR of zero or less as a possibility next year. Estimates for the OCR in 10 years' time were clustered around 2.5 with the bulk of responses sitting between 2 and 3.



Unemployment expected to rise in 2021 then fall slightly in 2022

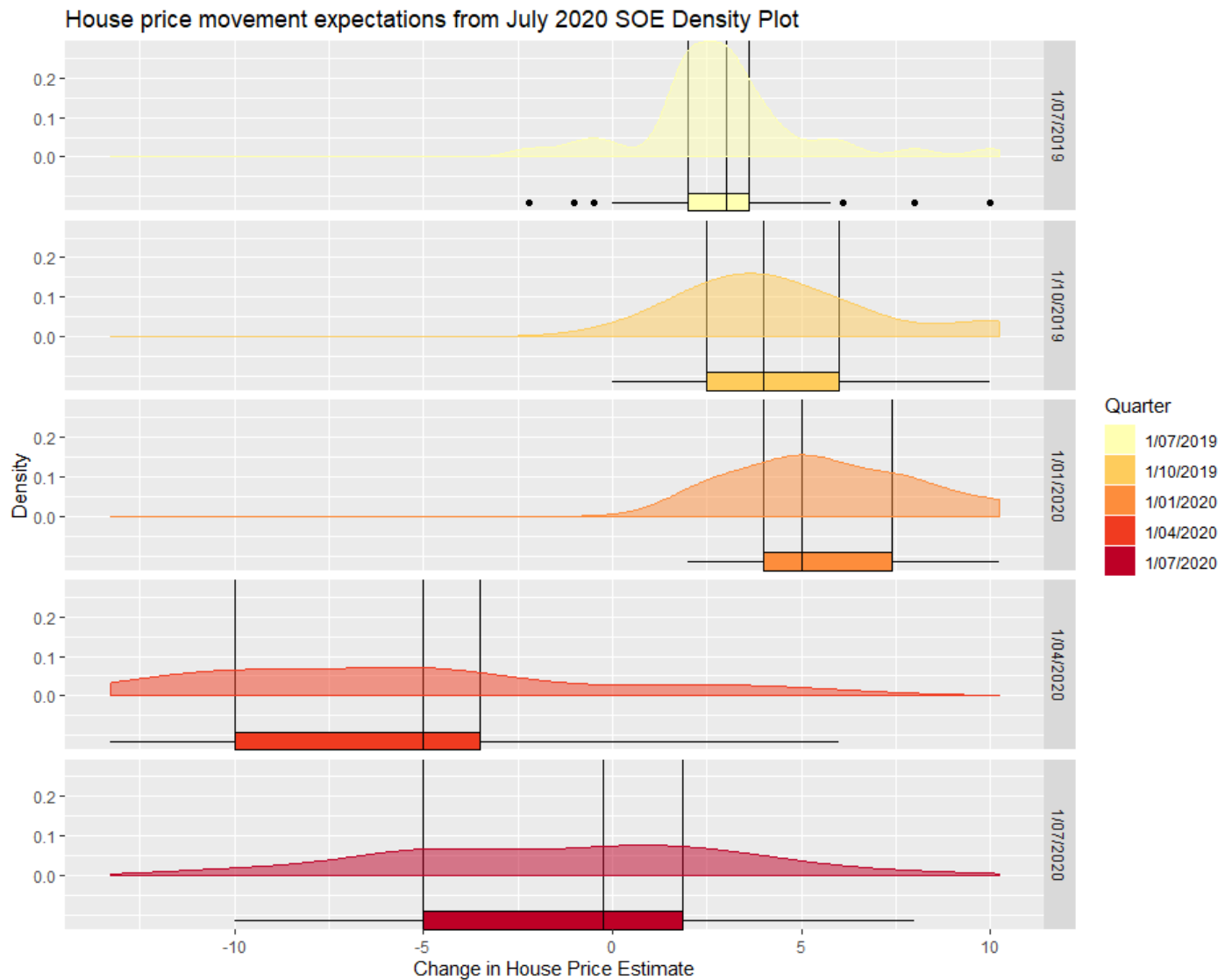
The responses to the July Business Expectations Survey continued last quarter's trend of a very flat and wide distribution of responses to unemployment estimates. Estimates were mostly above current unemployment levels (4%) indicating a level of consensus that unemployment will increase but the wide range of responses shows the uncertainty for how much it will increase by.

Responses typically sat somewhere around 8% but some estimates were as low as 6.5% with others as high as 10%. One thing all respondents tended to agree on is that unemployment will decrease between 2021 and 2022 but projections for two years ahead showed an even wider spread of responses. Most responses were around 6 or 7% and there was near consensus that we will not be back to our current 4% unemployment by June 2022.



House price forecasting looks precarious

Expectations for changes in house prices were mixed in July. With a median of close to zero (-0.25%) there is almost a fifty-fifty split on whether house prices will increase or decrease this quarter showing a large amount of uncertainty with regards to the housing market. A very wide range of responses also helps to show this uncertainty. The distribution is slightly left tailing showing a the more pessimistic respondents expect to see more movement than the optimists do.



Quarter	1 year ahead		2 years ahead	
	Mean	Median	Mean	Median
Dec-19	4.51	4	4.08	4
Mar-20	5.65	5	4.74	4.5
Jun-20	-5.49	-5	3.23	4
Sep-20	-1.38	-0.25	3.19	4

Table 2: House price growth expectations (annual %)

Data for this report is obtained from 39 business leaders and professional forecasters by the Nielsen Group on behalf of RBNZ

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