

Summary

- Official Cash Rate (OCR) expectations continue to rise with a 50 basis point increase expected this quarter
- One year ahead inflation expectations rose further to an 32-year high of 4.88%
- Longer term inflation expectations remain anchored close to or within the RBNZ target band range of 1 – 3%
- One year ahead unemployment expectations remain at all-time low
- House prices are expected to fall over the next year but rise marginally over the next two

OCR expectations continue to rise

The April 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 13 April 2022.

The next RBNZ Monetary Policy Statement will be released on 25 May 2022.

One quarter ahead

The mean OCR expectation for the end of the current quarter was 1.99 showing that the majority of respondents expected to see a 50 basis point rate hike from the current level of 1.5. This is up 94 basis points from last quarter’s mean estimate of 1.05.

One and two years ahead

Mean one year ahead OCR expectations rose by a similar magnitude as shorter term forecasts but had a much wider spread.

The mean estimate for the OCR one year ahead was 2.97, up 86 basis points from last quarter. This would translate to approximately six 25 basis point rate hikes over the Monetary Policy Committee’s next seven scheduled meetings.

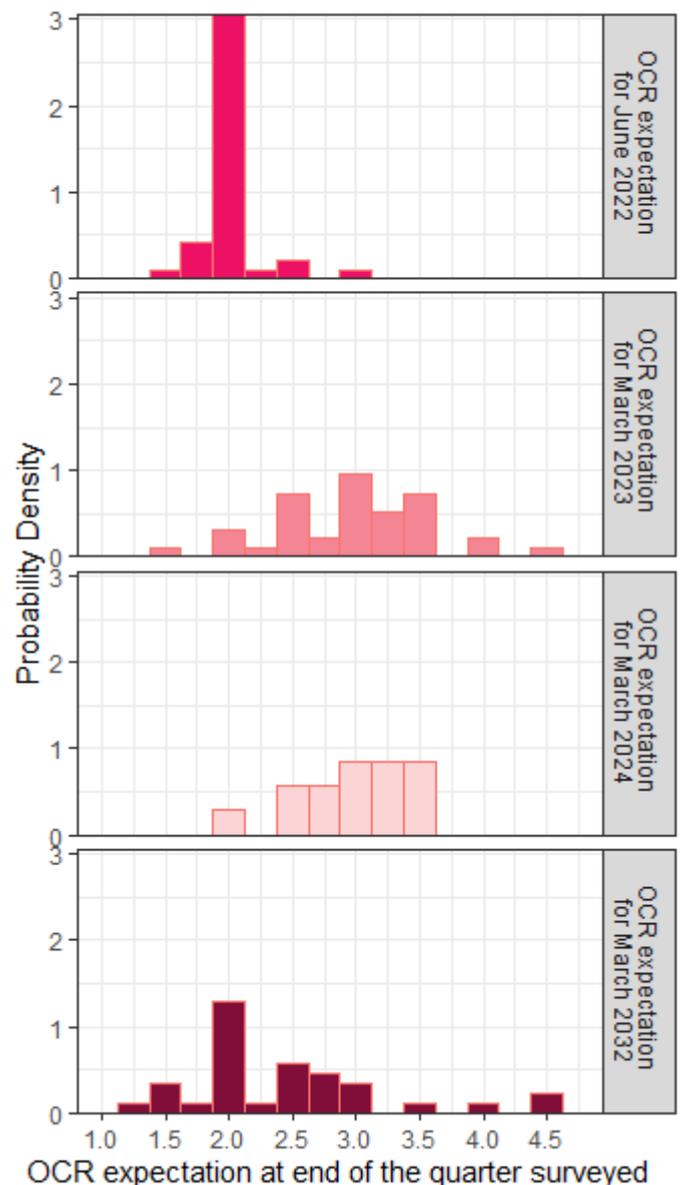
One year ahead OCR expectations had a wide range from 1.5 to 4.5, though no respondents expected to see a net decrease in the OCR over the next 12 months.

Mean two year ahead OCR expectations were 2.98, in line with the mean one year ahead estimate, indicating respondents expected to see the multiple rate hikes in the next 12 months but few if any in the year following.

Ten years ahead

The mean OCR expectation for ten years ahead increased by 3 basis points to 2.4, but had a wider spread than previous quarters.

OCR expectations from April 2022 Business SOE



One year ahead inflation expectations at 32-year high

The June quarter Survey of expectations went to field following the Stats NZ CPI release on 21 April. The annual CPI inflation for the March 2022 quarter was measured at 6.9%, the largest year on year increase in the CPI since 1990. One year out inflation expectations rose but two, five and ten year ahead inflation expectations stayed flat.

One year ahead

Mean one year ahead inflation expectations rose to 4.88%, up from 4.40% last quarter. This is the highest value since the February 1990 survey when actual inflation sat at 7.2%.

While this is a 32-year high for the survey, a 4.88% value for inflation would still represent a 2.02% percentage point drop from the current Stats NZ figure.

Two years ahead

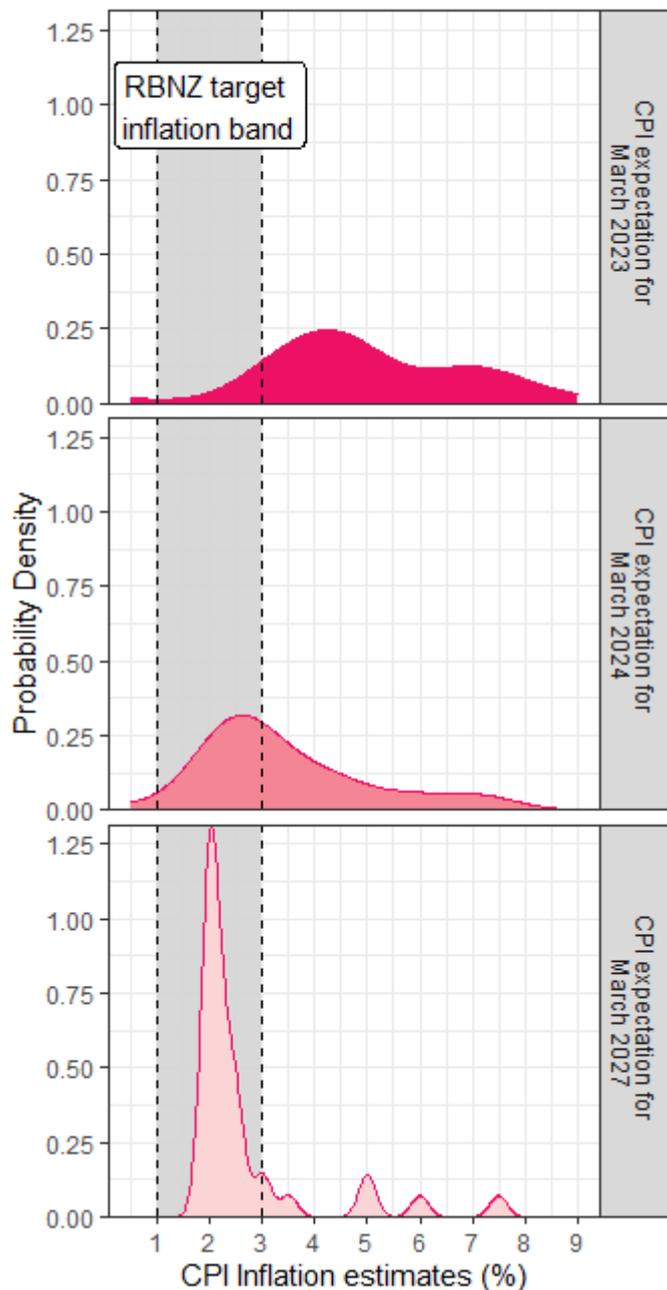
Mean inflation expectations for two years ahead did not change significantly in the last quarter. Mean two year ahead inflation expectations were 3.29%, two basis points higher than the February value of 3.27%.

Five years ahead

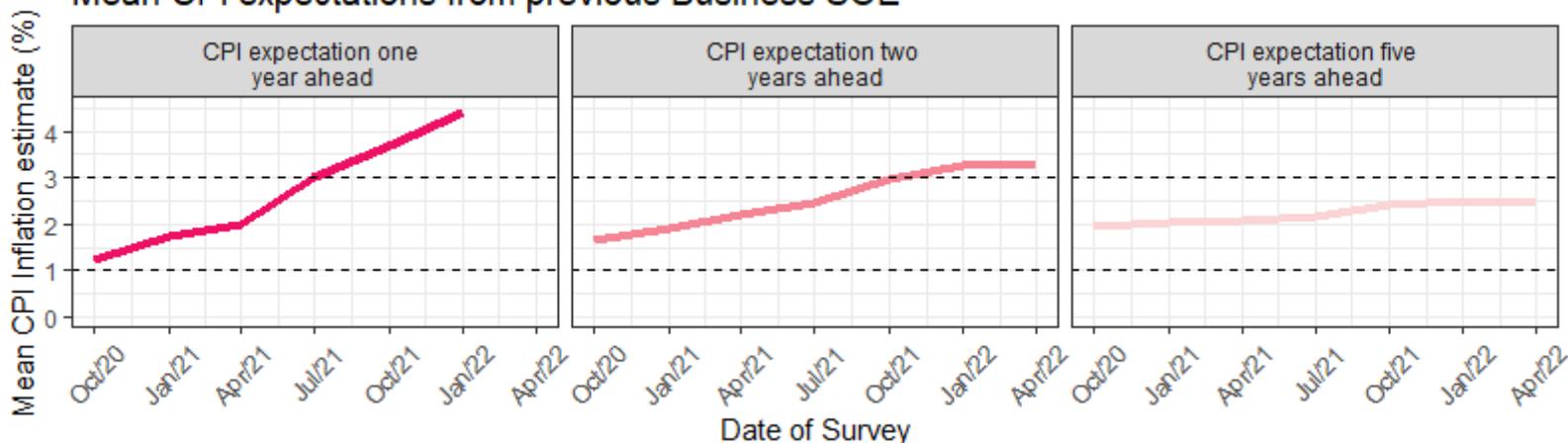
Mean five years ahead inflation expectations were only slightly higher than last quarter at 2.42%. This is a 12 basis point rise from last quarters' value of 2.30%.

While one year inflation expectations are at a 32-year high, those forecasts still sit below the current level of 6.9%

CPI expectations from April 2022 Business SOE



Mean CPI expectations from previous Business SOE



Unemployment expectations remain at all-time lows

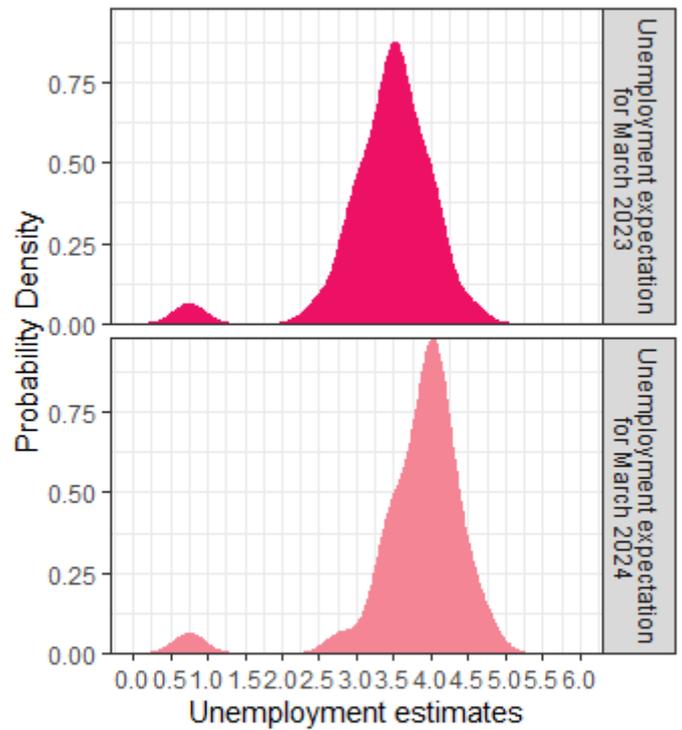
One year ahead unemployment expectations stayed flat at 3.50%, exactly the same as last quarter which was an all-time low for the series.

Mean two year ahead expectations were also flat at 3.92%, only 5 basis points higher than last quarters estimate of 3.87%.

While both of these figures are either at or close to all time lows, both estimates would indicate an increase in unemployment from the current level of 3.2%.

Survey work for this quarter's Survey of Expectations closed on Thursday the 28th of April meaning respondents did not have access to the current Stats NZ unemployment figure which was only published on the 4th of May, showing unemployment remained steady at 3.2% in the March 2022 quarter.

Unemployment expectations from April 2022 Business SOE



House prices expected to drop over one year but rise marginally over two

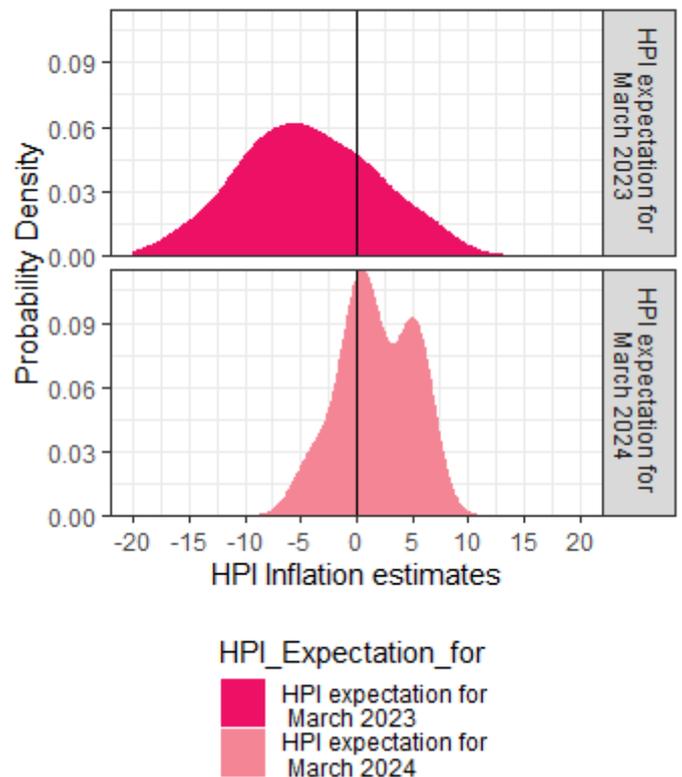
One year ahead house price forecasts had a mean of -4.37%, falling from last quarters mean of -0.39%.

A large majority of respondents expected house prices to fall, but even within this subset there was a wide spread indicating a level of uncertainty over the next twelve months.

Mean two year ahead expectations were higher at 1.74%, though this is still a decrease from last quarter's mean estimate of 2.46%.

House price forecasts were added to the survey in September 2017 and since then one year ahead figures have only been negative on four occasions, June and September 2020 as the New Zealand went into its first COVID lockdown, and the first two quarters of 2022. Two year ahead estimates have never been negative but this quarter's value of 1.74 is the lowest this series has been in the five years since the question was added.

HPI expectations from April 2022 Business SOE



About the Business Survey of Expectations:

The data for this report was obtained from 39 business leaders and professional forecasters by the Nielsen group on behalf of RBNZ. Field work for the survey was run between the 21st and 28th of April 2022.

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