

8 November 2023

Summary

- Expectations for annual inflation one-year-ahead fell 57 basis points, from 4.17% to 3.60%. Two-year-ahead inflation expectations decreased 7 basis points from 2.83% to 2.76%, respectively.
- The five-year-ahead and ten-year-ahead inflation expectations were 2.43% and 2.28%, respectively.
- Expectations for one-year-ahead annual house price inflation had an average of 4.84%, rising 3.42 percentage points from the previous estimate of 1.42%. Two-year-ahead expectations have risen to 6.22%.
- On average, survey respondents expected the Official Cash Rate (OCR) to stay at 5.50% by the end of the December 2023 quarter and decline to 4.99% by the end of September 2024.
- Expectations for annual wage changes have risen to 4.43% one year ahead and to 3.53% two years ahead.
- Survey respondents expected the unemployment rate to rise to 4.51% in one year and increase to 4.66% in two years' time.
- Annual production-based GDP growth was expected to be 1.26% in one year and increase to 2.15% two years ahead.

Short-term and medium-term CPI inflation expectations fall

This quarter, the survey of expectations went into the field on 18th October 2023, following the Stats NZ’s Consumers price index (CPI) release on the 17th October 2023. Annual CPI inflation for the September 2023 quarter was measured at 5.6%, a decline from last quarter’s 6.0% annual inflation.

Respondents’ expectations for one-year-ahead and two-year-ahead annual inflation have declined. The five-year-ahead and ten-year-ahead annual inflation expectations increased from last quarter’s mean estimates and remained within the 1-3% inflation target band (see Figure 1).

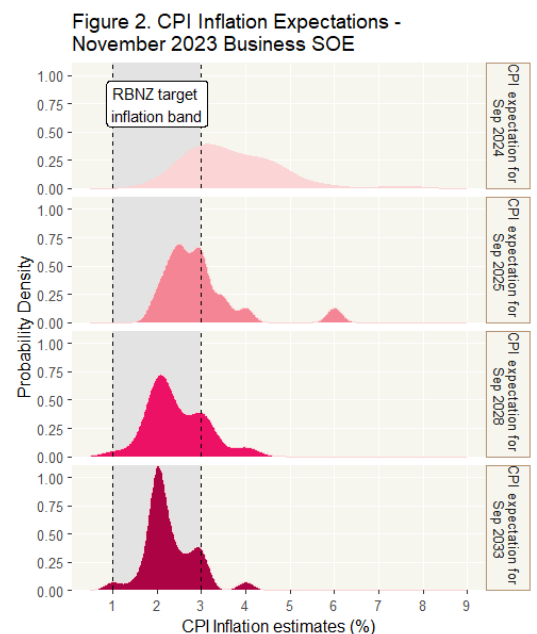


Short-term and medium-term CPI inflation expectations

The mean one-year-ahead annual inflation expectation decreased from 4.17% to 3.60%, a decline of 57 basis points compared to the last quarter. The mean two-year-ahead annual inflation expectation fell slightly by 7 basis points to 2.76% from 2.83% in the previous quarter and stayed in the inflation target band of 1-3% (see Figure 2).

Long-term CPI inflation expectations

The mean five-year-ahead annual inflation expectation was 2.43%, an increase of 18 basis points from last quarter’s mean estimate of 2.25%. The mean ten-year-ahead annual inflation expectation increased by 6 basis points to 2.28% from 2.22% in the previous quarter (see Figure 2).

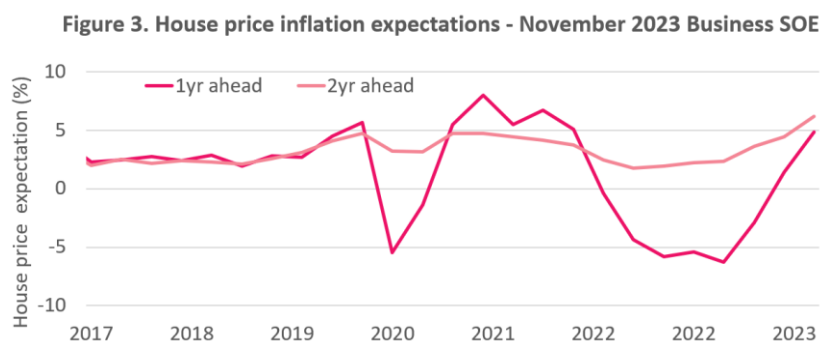


House prices are expected to rise over the next two years

The survey asks respondents for their expectations of the annual percentage change in the house price index in the September quarter of 2024 (one-year-ahead) and 2025 (two-year-ahead).

The mean estimate for annual house price growth one-year-ahead rose 3.42 percentage points to 4.84% from the previous quarter's estimate of 1.42% (see Figure 3).

The mean two-year-ahead expected annual house price change was 6.22%, which was 1.80 percentage points higher than last quarter's mean estimate of 4.42% (see Figure 3).



OCR expected to stay at 5.50% by the end of December quarter, and to decline next year

According to survey respondents, the mean estimate for the Official Cash Rate (OCR) is expected to stay at 5.50% by the end of the December 2023 quarter.

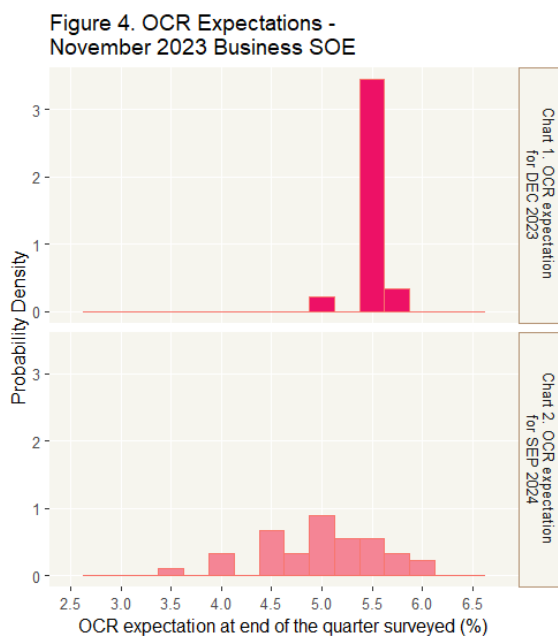
At present, the OCR remains at 5.50% and was last raised by 25 basis points from 5.25% on 24th May 2023. The RBNZ's next *Monetary Policy Statement* will be released on 29th November 2023.

One quarter ahead

Based on the concentrated distribution of survey responses, almost all respondents were expecting the OCR would remain at 5.50% by the end of the December 2023 quarter. The mean expectation decreased by 3 basis points to 5.50% from last quarter's mean estimate of 5.53% (see Chart 1, Figure 4).

One year ahead

The mean estimate for the OCR one-year-ahead was 4.99%, declining 17 basis points from last quarter's estimate of 5.16%. Survey respondents' expectations ranged from 3.50% to 6.00% (see Chart 2, Figure 4).

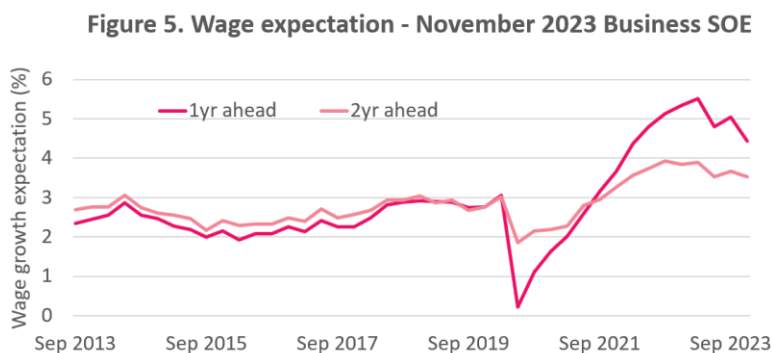


Wage growth expected to slow down

We ask respondents their expectations of the annual percentage change in average hourly wage rates, as measured by Stats NZ's Quarterly Employment Survey (QES) for the private sector (ordinary time).

The mean one-year-ahead expectation for annual wage inflation was 4.43%, a decrease of 61 basis points from 5.04% recorded in the September 2023 quarter (see Figure 5).

The mean two-year-ahead expectation for annual wage inflation decreased by 13 basis points from last quarter's value of 3.66% to 3.53%.



Unemployment rate expected to increase over the next two years

The mean one-year-ahead unemployment rate expectation increased slightly to 4.51% this quarter from 4.47% in the June 2023 quarter.

In contrast, the mean two-year-ahead expectation for the unemployment rate decreased by 2 basis points to 4.66% from 4.68% last quarter.

Note: The Survey of Expectations collection was closed on 26th October 2023. Stats NZ released unemployment statistics the following week, 1st November 2023, showing the seasonally adjusted unemployment rate was 3.9% in the September 2023 quarter, compared with 3.6% in the June quarter.

GDP growth expected to increase over the next one and two years

The survey respondents expected the annual change in real production-based GDP to grow over the next two years. The mean one-year-ahead GDP growth expectation rose by 24 basis points to 1.26% from 1.02% in the previous quarter. The mean two-year-ahead expectation for GDP growth had increased to 2.15% from 1.95% in the previous quarter.

Figure 6. Unemployment Expectations - November 2023 Business SOE

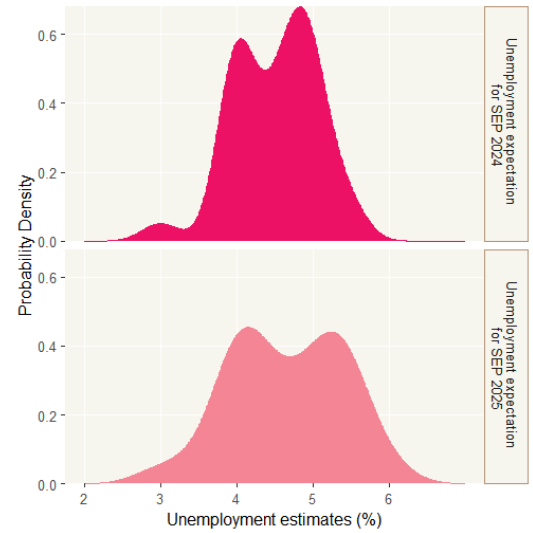
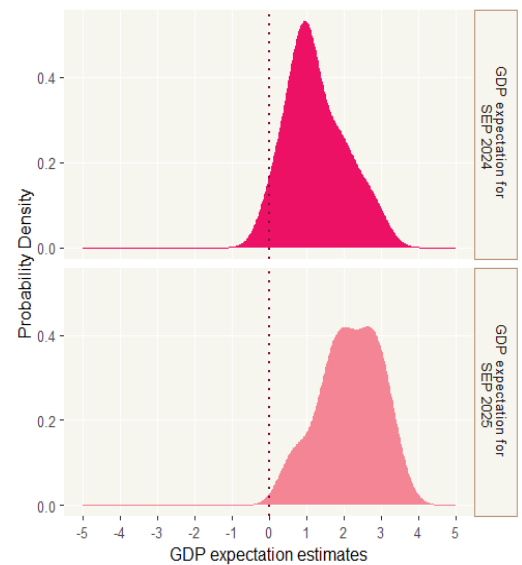


Figure 7. GDP Expectations - November 2023 Business SOE



About the Business Survey of Expectations:

The data for this quarter was obtained from 37 business leaders and professional forecasters by Research New Zealand – Rangahau Aotearoa on behalf of RBNZ. Field work for the survey was run between the 18th and 26th October 2023.

Survey of expectations fieldwork was carried out for the first time by Research New Zealand – Rangahau Aotearoa. The new research provider was selected through a competitive procurement process, as the contract with the previous provider the NielsonIQ expired in September 2023.

We are not making any changes to the survey questionnaire nor panel of respondents at this stage. The time series remain consistent and comparable.

For more information refer to the RBNZ website: Survey of expectations (M14) - Reserve Bank of New Zealand - Te Pūtea Matua (rbnz.govt.nz) or contact: statsunit@rbnz.govt.nz