

14 February 2023

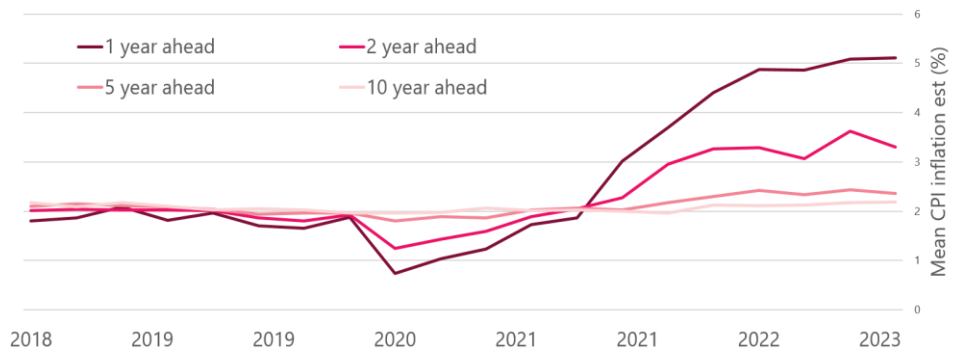
**Summary**

- One-year inflation expectations remained relatively stable this quarter at 5.11% , while two-year ahead expectations dropped to 3.30% this quarter.
- Official Cash Rate (OCR) expectations increased by 74 basis points to 4.89% this quarter and to 5.00% by year's end.
- Annual GDP growth is expected to be 0.79% in a year, and rise to 1.49% the following year.
- Wages are expected to increase by 5.51% in the coming year.
- Unemployment expectations lifted to 4.19% in a year and 4.60% in two year ahead.
- Respondents expect house prices to drop -6.27% over the next year, then rise.

**Short-term inflation expectations remain just above 5%, while medium-term expectations fall to 3.3%**

This quarter's Survey of Expectations went to field following the Stats NZ CPI release on 25 January 2023. For the 12 months to the December 2022 quarter, the CPI inflation rate was 7.2%. According to survey respondents, long-term inflation expectations are within our target band.

**Figure 1. Annual CPI inflation expectation**



**One year ahead**

The mean one year ahead inflation expectations increased slightly to 5.11%, up 3 basis points from 5.08% last quarter. This expectation is similar to the value from the 1990 survey when actual CPI was 7.60%.

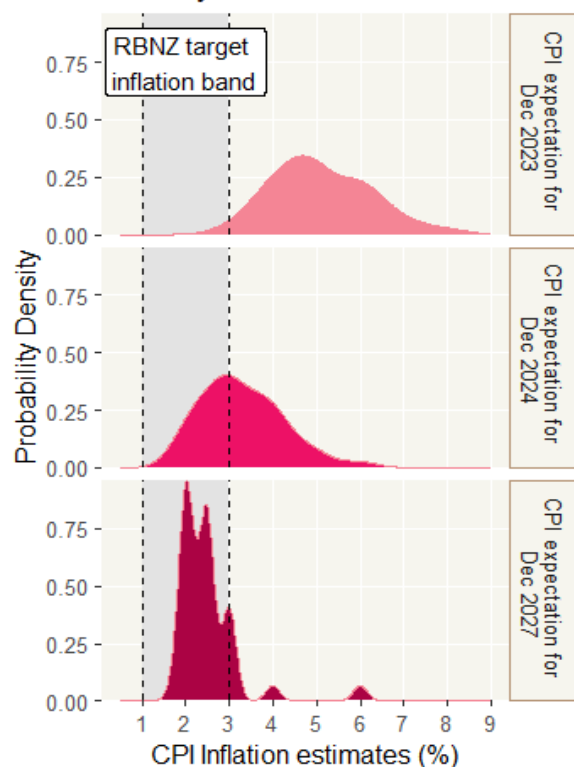
**Two years ahead**

Inflation expectations for two years ahead decreased by 32 basis points to 3.30% from 3.62% in December 2022. The spread narrowed compared with the previous quarter, with no respondent answering below 2.00% or above 6.00%.

**Long-term inflation expectations**

As of December 2022, mean five-years-ahead inflation expectation was 2.36%, an 8 basis point decline from December 2022's value of 2.44%. Mean ten-years-ahead inflation expectation increased by 1 basis point to 2.19% from 2.18% in December.

**Figure 2. CPI Inflation Expectation: January 2023 Business SOE**



## OCR expectations continue to rise

Based on the February 2023 Survey of Expectations (SOE), respondents expect the OCR to increase to 4.89% by the end of this quarter, and rise to 5.00% by the December 2023 quarter. The OCR was last raised by 75 basis points to 4.25% on the 24<sup>th</sup> of November 2022.

The next *RBNZ Monetary Policy Statement* will be released on 22 February 2023.

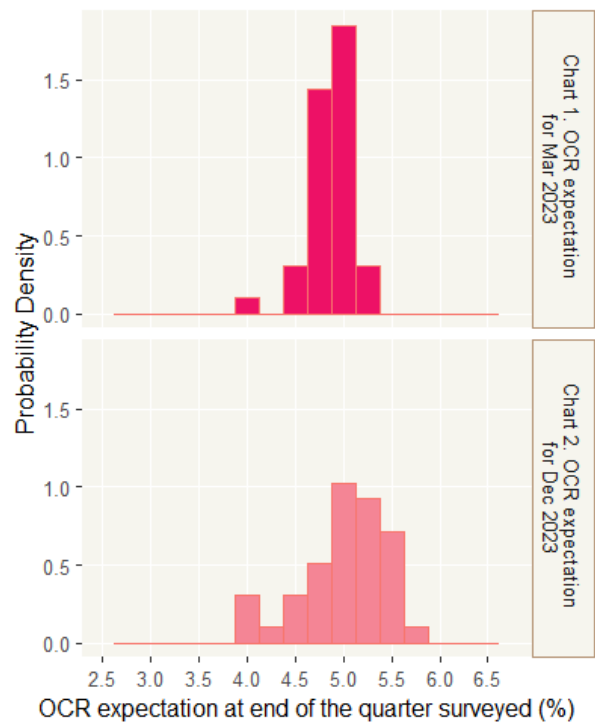
### One quarter ahead

The mean OCR expectation for the end of the current quarter was 4.89% showing that the average respondents expect to see a 64 basis point rate hike from the current level of 4.25%. This is up 74 basis points from last quarter's mean estimate of 4.15%.

### One year ahead

The mean estimate for OCR one year ahead was 5.00%, an increase of 33 basis points from last quarter's mean of 4.67%. As compared to last quarter's survey, the spread narrowed, with no respondent answering below 4.00% or above 5.75% (see chart 2 on Figure 3).

Figure 3. OCR Expectations - February 2022 Business SOE

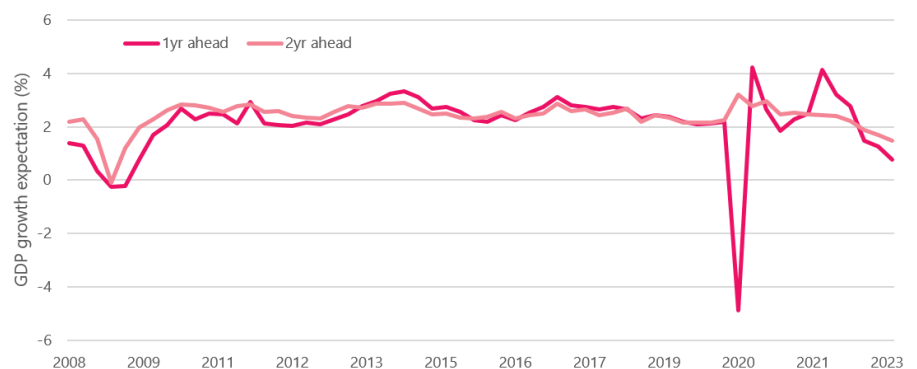


## GDP growth expected to slow in the next year, and increase slightly in the following year

The mean one-year-ahead GDP growth expectation has decreased by 48 basis points to 0.79%, from 1.27% in the previous quarter. The response range was larger than last quarter, with -1.50% being the lowest response and 3.00% being the highest.

The economy is expected to grow faster the following year, although it is expected to be slower than what was expected two years ahead quarter. The mean two-year-ahead expectation for GDP growth declined by 20 basis points to 1.49% from 1.69% in the last quarter.

Figure 4. GDP expectations - February 2023 Business SOE



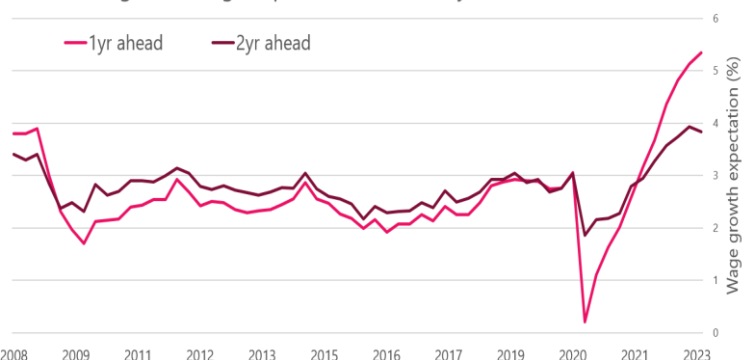
## Wages expected to increase next year and then slow down

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

The mean one-year-ahead response for wage inflation was recorded at 5.51%, and is the highest value since this question was first asked in 1993, and exceeds last quarter's record of 5.34%.

The mean two-years-ahead wage inflation expectation has increased slightly by 5 basis points from last quarter's value of 3.84%, coming to 3.89%, but did not reach the highest value on record, of 3.93% in the September 2022 quarter.

Figure 5. Wage expectation - February 2023 Business SOE



## Unemployment expectations continue to rise

One-year-ahead unemployment expectations continue to increase to 4.19% from the 3.92% posted in the December 2022 quarter.

Similarly, the mean two-year-ahead expectation also lifted by 14 basis points to 4.60% from 4.46%. Respondents answered between 3.00% and 6.00%, a widening of the spread compared with the previous quarter.

Note: The Survey of Expectations collection closed on Wednesday 1st February 2023, the same day Stats NZ released unemployment figure showing unemployment rate was 3.4% in the December 2022 quarter, up from 3.3% in the September quarter.

## House prices expected to fall in one year but rise in two

We ask respondents for their expectations of the annual percentage change in the house price index in the December quarter of 2023 (one year ahead) and 2024 (two years ahead).

One-year-ahead expectations for house price changes were widely varied. Compared with last quarter, house price expectations for one-year-ahead had a mean of -6.27%, down 88 basis points from -5.39%. It is the lowest recorded expectation of one-year-ahead house prices since this question was introduced in September 2017.

Mean two-year-ahead house price change was higher at 2.35%, which is 12 basis-points higher than last quarter's mean estimate of a 2.22% increase.

Figure 6. Unemployment Expectations - February 2023 Business SOE

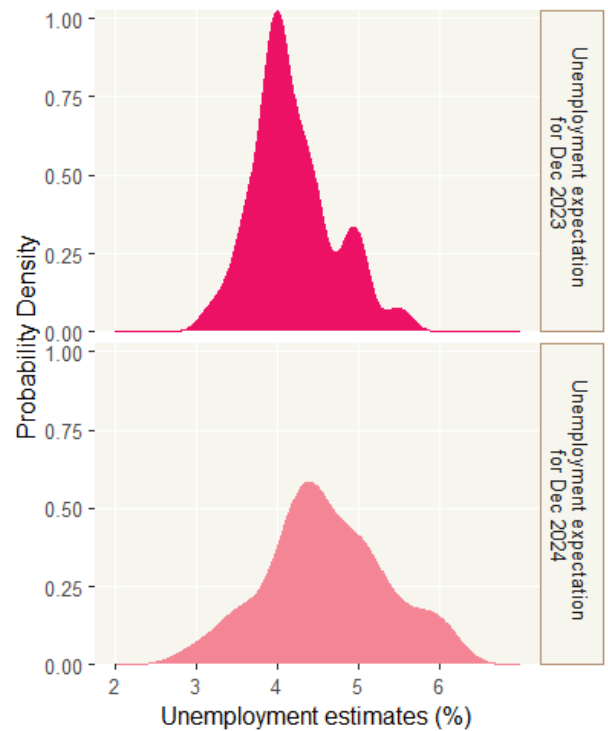
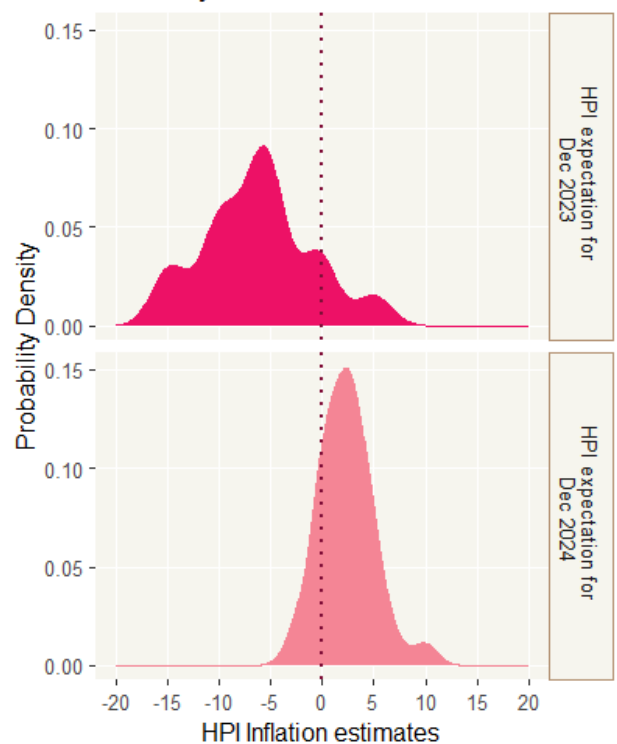


Figure 7. HPI Expectations - February 2023 Business SOE



### 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 26<sup>th</sup> January and 1<sup>st</sup> of February 2023. For more information contact: [statsunit@rbnz.govt.nz](mailto:statsunit@rbnz.govt.nz)