

13 February 2024

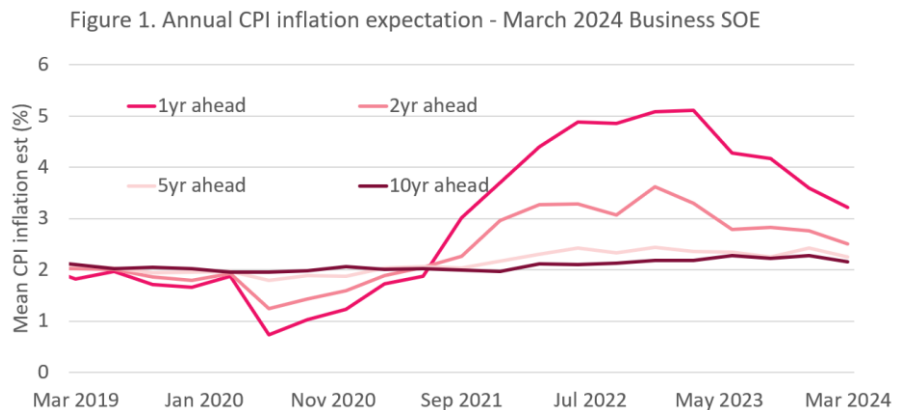
Summary

- Expectations for annual inflation one year ahead decreased 38 basis points from 3.60% to 3.22%, the lowest level since September 2021. Two-year-ahead inflation expectations decreased from 2.76% to 2.50%.
- The five-year-ahead and ten-year-ahead inflation expectations also declined to 2.25% and 2.16%, respectively.
- Expectations for annual wage changes have decreased to 3.73% one year ahead and to 2.99% two years ahead.
- On average, survey respondents expected the Official Cash Rate (OCR) to be 5.46% by the end of the March 2024 quarter and decline to 4.74% by the end of December 2024 quarter.
- Survey respondents expected the unemployment rate to rise to 4.64% in one year and increase to 4.69% in two years' time.
- Annual real production-based GDP growth was expected to remain at 1.26% in one year.
- Expectations for one-year-ahead annual house price inflation had an average of 4.82%, dropping 2 basis points from the previous estimate of 4.84%. Expectations for annual house price inflation in two years' time have declined to 5.78%.

Inflation expectations declined across all horizons surveyed

This quarter, the Survey of Expectations went into the field on 25th January 2024, following the Stats NZ's Consumers Price Index (CPI) release on 24th January 2024. Annual CPI inflation for the December 2023 quarter was measured at 4.7%, a decline from last quarter's 5.6% annual inflation.

Respondents' expectations for CPI inflation have declined across short, medium, and long terms. The two-year-ahead, five-year-ahead and ten-year-ahead annual inflation expectations decreased from last quarter's mean estimates and remained within the 1-3% inflation target band (see Figure 1).



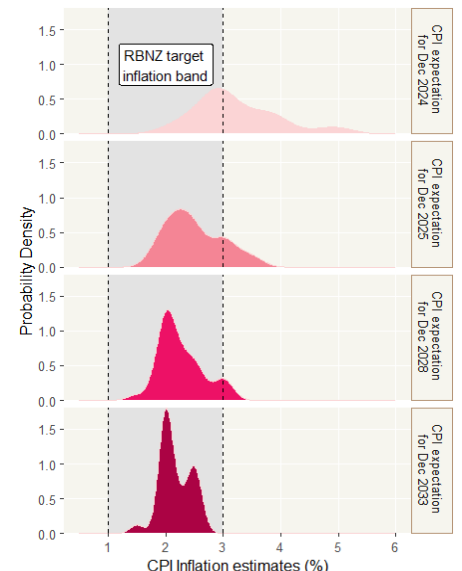
Short-term and medium-term CPI inflation expectations

The mean one-year-ahead annual inflation expectation decreased from 3.60% to 3.22%, a decline of 38 basis points compared to the last quarter. More than half of survey respondents now expect CPI inflation to fall within the 1 to 3 percent target band by the end of 2024. The mean two-year-ahead annual inflation expectation fell by 26 basis points to 2.50% from 2.76% in the previous (see Figure 2).

Long-term CPI inflation expectations

The mean five-year-ahead annual inflation expectation was 2.25%, a decrease of 18 basis points from last quarter's mean estimate of 2.43%. The mean ten-year-ahead annual inflation expectation decreased by 12 basis points to 2.28% from 2.16% in the previous quarter (see Figure 2).

Figure 2. CPI Inflation Expectations - March 2024 Business SOE

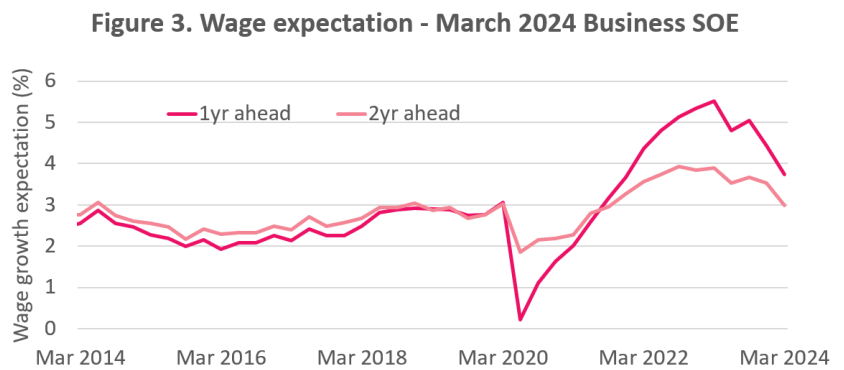


Wage growth expected to slow down

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 3.73%, a decrease of 70 basis points from 4.43% recorded in the December 2023 quarter (see Figure 3).

The mean two-year-ahead expectation for annual wage inflation decreased by 54 basis points from last quarter's estimate of 3.53% to 2.99%.



OCR expected to decline next year

According to survey respondents, the mean estimate for the Official Cash Rate (OCR) is expected to be 5.46% by the end of the March 2024 quarter.

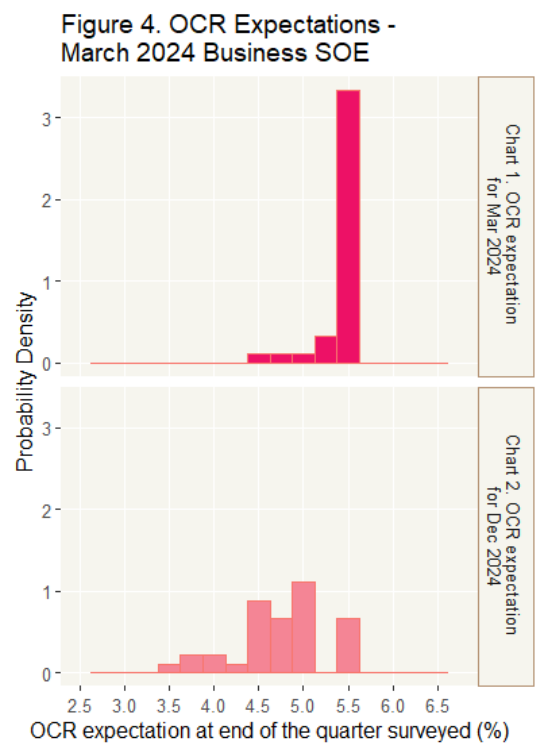
At present, the OCR remains at 5.50% and was last raised by 25 basis points from 5.25% on 24th May 2023. The RBNZ's next *Monetary Policy Statement* will be released on 28th February 2024.

By the end of March quarter

Based on the concentrated distribution of survey responses, most respondents were expecting the OCR would remain at 5.50% by the end of the March 2024 quarter. The mean expectation decreased by 4 basis points to 5.46% from last quarter's mean estimate of 5.50% (see Chart 1, Figure 4).

One year ahead

The mean estimate for the OCR one year ahead was 4.74%, declining 25 basis points from last quarter's estimate of 4.99%. Survey respondents' expectations ranged from 3.50% to 5.50% (see Chart 2, Figure 4).

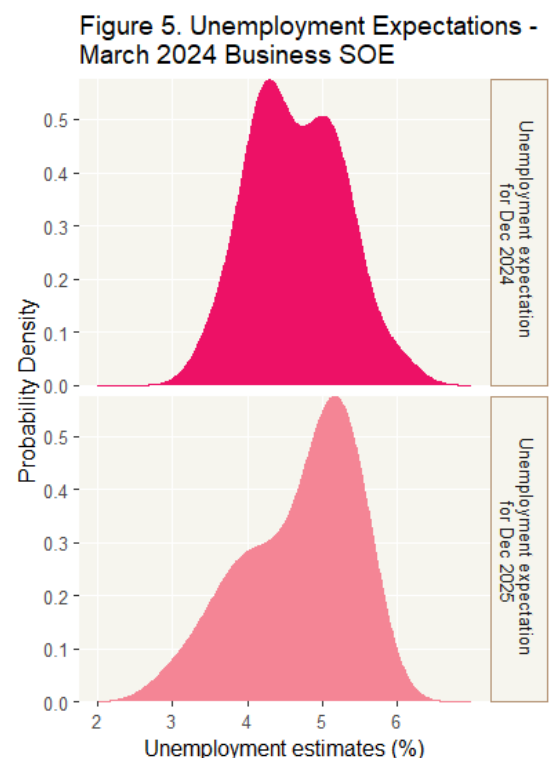


Unemployment rate expected to increase over the next two years

The mean one-year-ahead unemployment rate expectation increased by 13 basis points this quarter to 4.64% from 4.51% last quarter.

The mean two-year-ahead expectation for the unemployment rate increased to 4.69% from 4.66% last quarter.

Note: The Survey of Expectations collection was closed on 31st January 2024. Stats NZ released unemployment statistics the following week, 7th February 2024, showing the seasonally adjusted unemployment rate was 4.0% in the December 2023 quarter, compared with 3.9% in the September 2023 quarter.



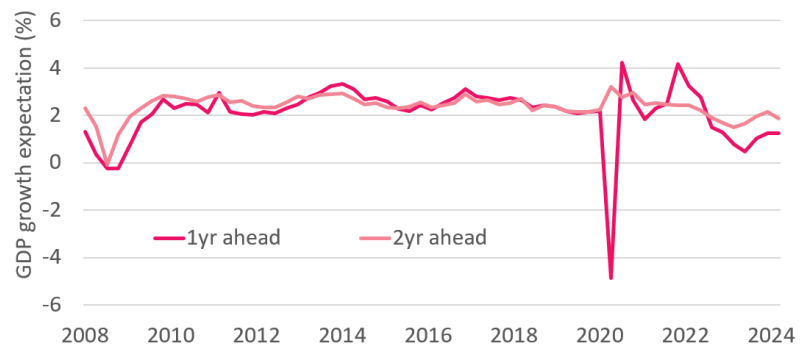
GDP growth expected to remain the same next year

The survey asks respondents for their expectations of the annual percentage change in the real production-based GDP in the December quarter of 2024 (one-year-ahead) and 2025 (two-year-ahead).

The mean one-year-ahead expectation for real production-based GDP growth remained at 1.26% this quarter (see Figure 6).

The mean two-year-ahead expectation for real production-based GDP growth decreased 27 basis points to 1.88% from 2.15% in the previous quarter (see Figure 6).

Figure 6. GDP expectations - March 2024 Business SOE



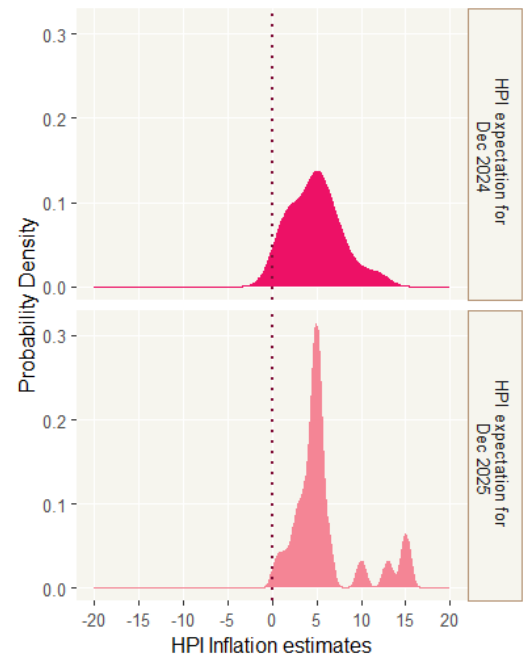
House price inflation expectations have moderated

Survey respondents expected the rate of house price increases to decline slightly at the end of this year and to decline by more in two years' time.

The mean estimate for annual house price growth one year ahead dropped by 2 basis points to 4.82% from the previous quarter's estimate of 4.84%.

The mean two-year-ahead expected annual house price change was 5.78%, with a decrease of 44 basis points from last quarter's mean estimate of 6.22%.

Figure 7. HPI Expectations - March 2024 Business SOE



About the Business Survey of Expectations:

The data for this quarter was obtained from 38 business leaders and professional forecasters by Research New Zealand – Rangahau Aotearoa on behalf of RBNZ. Field work for the survey was run between the 25th and 31st January 2024.

Survey of expectations fieldwork was carried out by Research New Zealand – Rangahau Aotearoa since 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: stats-info@rbnz.govt.nz