NZ firms again lower their inflation expectations, see no RBNZ action this year

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New Zealand businesses have again trimmed their expectations for inflation over the next two years and don't expect the central bank will need to raise interest rates this year.

The consumers price index is seen rising an annual 1.11 percent on a mean basis in the year ahead, down from the 1.59 percent rate seen three months ago, according to the Reserve Bank of New Zealand's survey of expectations. Two year inflation expectations were lowered to 1.8 percent from 2.06 percent and respondents anticipate an increase in the CPI of just 0.04 percent for the March quarter and 0.32 percent for the June quarter.

The survey comes after the Reserve Bank last month dropped its tightening bias and said inflation could turn negative before a return to within the bank's 1 to 3 percent target band that would occur “more gradually that previously anticipated.” The bank tries to keep inflation near the mid-point of its 1 to 3 percent target bank on average, over time.

"With medium term inflation expectations currently below the mid-point of the RBNZ’s target band, the RBNZ is likely to become more sensitive to any further downside surprises in inflation and inflation indicators," said ASB economist Jane Turner. "The next CPI reading (in April) will be a key event for the RBNZ. We continue to expect the RBNZ will leave the OCR on hold for the ‘foreseeable’ future, although weaker inflation expectations slightly increase the near term risk of an OCR cut."

Respondents expectations for real annual growth in gross domestic product were little changed from the last survey three months ago. One year expectations are for GDP growth of 2.75 percent and for two year growth of 2.5 percent. They expect the economy grew 0.8 percent in the fourth quarter of 2014 and slowed to 0.7 percent in the current quarter.

Expectations for hourly earnings growth one year ahead fell to 2.27 percent from 2.47 percent. Unemployment is seen at 5.4 percent one year out and 5.3 percent in two years.

The 90 day bank bill rate is expected to be 3.62 percent at the end of March, close to the rate when the survey was taken and to have gained to 3.67 percent nine months later.

The kiwi dollar is expected to be about 73 US cents at the end of June and to have fallen about one cent by the end of the year. It was about 74 US cents when the survey was taken. The kiwi is expected to be about 93 Australian cents by the end of the year.

The survey of 81 business managers and professionals was conducted on Feb. 11-12.