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Rate and See: Household Interest Rate Expectation Formation in Australia

CAMA Working Paper 76/2026
September 2026

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Abstract

Households' expectations for future interest rates influence their decisions and play a key role in the transmission of monetary policy, yet they remain understudied. Our paper analyses household survey microdata for Australia. Firstly, using a regression discontinuity design, we show that household interest rate expectations respond to monetary policy announcements. This finding differs from previous literature finding no effect of announcements in the United States. Secondly, we document how household interest rate expectations develop over time and differ across demographic groups. We show that household expectations differ greatly from that of market participants and professional forecasters, with the largest gaps among young people, lower-income earners, and renters. Household recall of, and attention to, economic news plays an important role in their expectations, and this differs across time and groups in a way somewhat consistent with rational inattention models.

Keywords

expectation formation, interest rate expectations, monetary policy announcements

JEL Classification

D84, E43, E52

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ISSN 2206-0332

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August 2026

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Thanks to Peter Rickards and Ben Wang, as well as seminar and conference participants at the RBA, E61 Institute and the 8th Behavioural Macroeconomics Workshop at TU Wien for their comments. The views are those of the authors and not necessarily the Reserve Bank of Australia. This is a preliminary and incomplete draft. All errors are our own.

DRAFT

GENERAL

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GENERAL

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1. Introduction

Households' expectations for future interest rates influence their behaviour today by shaping their decisions around consumption, saving, borrowing and investment. As such, they represent a key channel of monetary policy pass-through: by shaping interest rate expectations, the central bank can significantly impact economic outcomes.

There is a substantial literature examining interest rate expectations for financial market participants and professional forecasters, and the behaviour of inflation expectations for households. However, household interest rate expectations, how they differ across groups and the central bank's ability to influence those expectations, remains relatively understudied. For example, while a number of papers have studied how well people understand the role of the central bank (e.g. see Binder (2017) for a summary), studies of the evolution of household interest rate expectations over time, how they are formed and update, and how this differs across groups, are far more limited. And while some studies have examined the ability of central banks' actual policy announcements to influence household interest rate expectations (e.g. Lamla and Vinogradov (2019) and De Fiore, Lombardi and Schuffels (2021), these studies are relatively limited in terms of the periods and countries considered, and consideration of how effects could differ across groups.

We contribute to this literature by studying the formation of household interest rate expectations in Australia using the Melbourne Institute's (MI's) Consumer Attitudes, Sentiments and Expectations (CASiE) survey. This survey contains information on Australian households' short-term (12-month) interest rate expectations over the period 2016–2026, as well as rich demographic and other information. Beyond the quality of the data, Australia is an interesting case study as most mortgages and deposits use floating interest rates, so households may pay more attention to interest rates than in peer economies.

Specifically, this paper makes two contributions to this literature. First, it examines the extent to which central bank policy announcements influence households' expectations for future interest rates. While this has been explored previously, we are able to explore this question for a much longer period, as well as exploring heterogeneity across demographic groups to provide a richer picture of the effects. We do so using a regression discontinuity design (RDD) that exploits the survey's five-day monthly fieldwork window, which frequently spans the Reserve Bank of Australia's (RBA's) policy decision. This design allows us to compare the expectations of respondents interviewed immediately before and after the decision, thereby isolating the announcement's immediate effect. As such, this should give us a clean estimate of the causal effect of central bank policy announcements. These estimates have direct implications for the transmission of monetary policy through household expectations and informs central bank communication strategies.

Second, we document how household interest rate expectations develop over time and differ across demographic groups. This can provide valuable insights into the nature of household interest rate expectations formation. In turn this can tell us about how transmission of policy through interest rate expectations works and how it could change over time, as well as inform central bank communication strategies. For example, if households pay more attention when inflation is high and interest rates are rising – consistent with expectations being formed in a rational inattention framework – this could make policy transmission stronger during such periods. Or if some groups

pay less attention, this could provide indications of where central bank communication should, or should not, focus.

To preview our findings, we find that households' interest rate expectations respond to the RBA's policy decisions with larger effects for unexpected decisions. Announcements are also associated with an increase in recall of economic and monetary policy news, consistent with the messages diffusing to at least some households quite quickly. This contrasts with Lamla and Vinogradov (2019), who find little evidence that FOMC press conferences affected average household inflation or interest rate beliefs, despite increasing reported exposure to monetary policy news. Our results are closer to De Fiore, Lombardi and Schuffels (2021), who find that FOMC decisions affected households' expectations for interest rates on savings accounts, especially among respondents with higher financial and numerical literacy.

Turning to the evolution of expectations over time, we report four main findings. First, in any given month, many households expect rate increases, even when financial markets and all market economists expect decreases. This contributes to average expectations being biased upwards. This dynamic is particularly notable amongst some demographic groups, such as younger, lower income and renter households, perhaps due to lower financial literacy or financial experience. Second, there is a large degree of disagreement in expectations between households. Part of this reflects differences across demographic groups. But much of the disagreement is also within groups, suggesting the observable demographic factors are not enough to explain differences in expectations alone. Third, attention and news recall appear to be an important dimension of the differences across groups and households. The groups that report lower recall of economic news are also those who tend to have more biased expectations, and even within groups those paying attention have more accurate expectations. Fourth, recall of news (attention) varies over time and across groups in a way that is somewhat consistent with models of rational inattention. For example, homeowners tend to pay more attention, and mortgagors' attention increased particularly notably during the early 2020s rate hiking cycle.

Taken together, our empirical findings paint a rich picture of household interest rate expectation formation. While a formal model of such expectations is beyond the scope of this paper, they do suggest that elements from multiple frameworks would be needed to fully capture the observed dynamics.

The remainder of the paper is structured as follows. Section 2 reviews the related literature on household expectations. Section 3 describes the data. Section 4 presents evidence on how monetary policy decisions affect households' interest rate expectations using a regression discontinuity design. Section 5 documents heterogeneity in interest rate expectations and their evolution over time. Section 6 concludes.

2. Literature Review

This paper builds on the literature on household expectation formation, focusing in two aspects: how central bank announcements move household expectations; how households form interest rate expectations, and how this differs across groups and time.

On the former literature, direct evidence on changes in household interest rate expectations around central bank announcements is confined to two US studies, who use similair technique to our paper. Lamla and Vinogradov (2019), survey US households shortly before and after US Federal Open Markets Committee (FOMC) press conferences over 2015-2018 to examine whether central bank announcements affect inflation and interest rate expectations. They find that announcements have no measurable effect on average interest rate expectations, although they do increase the share of households reporting that they have received monetary policy related news, suggesting that central bank communication reaches households in some form. In contrast, De Fiore, Lombardi and Schuffels (2021) compare Survey of Consumer Expectations responses before and after FOMC meetings over 2013-2019 and find that FOMC decisions affect households' expectations of interest rates on savings accounts, particularly among respondents with high financial and numerical literacy. Relative to this work, our Australian setting provides evidence from a different institutional environment and a different period that spans cuts, holds and hikes.

A related literature studies how monetary policy announcements affect expectations for other variables, including confidence, inflation expectations, home-price expectations and other macroeconomic beliefs.[1] Notably, Claus and Nguyen (2020) also use the CASiE survey data to study household expectations in Australia. However, they use a different methodology (a latent factor model) and study the effect on expectations for other variables (economic conditions, unemployment, family finances and readiness to spend).

On the latter literature, the literature the formation of household interest rate expectations is relatively spare, particularly compared to that examining inflation expectations. For inflation, a mature literature documents that household expectations are upward-biased, dispersed, volatile and sluggish to update, with disagreement pervasive among households and professionals. Expectations also differ significantly across observable demographic factors of households such as age and education (see D'Acunto, Malmendier and Weber 2023 for an overview). No comparable set of facts exists for interest rate expectations, and we contribute by building out some of these facts.

What evidence we have to date does suggest that household expectations are formed with some information frictions. For example, Carvalho and Nechio (2014) show that only around half of US households form expectations in a way that is consistent with Taylor-type rules, with this understanding being weaker among low-income and less educated households. They also show that the share varies over time, rising when labour market conditions are weak. Drager, Lamla and Pfajfar (2016) conduct a related exercise using survey data for consumers and professionals, examining whether expectations are consistent with the Fisher equation, the Taylor rule and the Phillips curve. They find that a substantial share of respondents do not hold theory-consistent expectations, and that consistency varies over time, with evidence that central bank communication and monetary policy news help explain some of this variation. Coibion *et al* (2023) find that providing information on interest rates tends to move inflation expectations in the same way, inconsistent with theory.

1 See, for instance, Lewis, Makridis and Mertens (2020), Binder, Campbell and Ryngaert (2024), and Arteaga (2025).

3. Data

3.1 Household survey data

We use unit-record data from the Melbourne Institute's CASiE survey. The survey is conducted as a repeated cross section conducted monthly. Fieldwork is generally conducted over five days each month and frequently spans the RBA's monetary policy announcement. Since August 2016, the survey has combined online and telephone interviews. Online respondents are recruited through Dynata's online survey panel, while telephone respondents are recruited using randomly generated telephone numbers based on Australian state numbering plans. The survey is designed to be broadly representative of the Australian adult population through targets based on age, gender and location.

The dataset includes respondent weights that adjust the completed sample to represent the target population of Australian residents aged 18 and over. Respondent weights are calculated using age, gender and location, based on Australian Census population benchmarks. Our regression estimates, local randomisation RD estimates are unweighted. We leave these estimates unweighted because the econometric analysis aims to estimate conditional or local sample relationships rather than unconditional population moments, for which survey weighting is not automatically warranted and may reduce precision (Solon, Haider and Wooldridge 2015). We use these weights for descriptive statistics, except those that involve before and after comparisons, which are analogous to the local randomisation estimates. Weighting descriptive statistics ensures they reflect the composition of the target population rather than that of the realised CASiE sample.

The survey covers a broad range of topics. It contains detailed information on the demographics of the respondent such as education, occupation, household income, work status and home ownership status. It also collects a large range of sentiment indicators (e.g. economic conditions, buying conditions and family finances), and economic engagement indicators (e.g. recall of economic/interest rate news), which we make use of in our analysis.

Our main focus is on household expectations for interest rates. The specific question that we use is: "Over the next 12 months do you expect standard variable mortgage interest rates to …". Respondents are asked to choose from one of the categorical responses listed in the 'Category' column of 'Table 1). This question was first introduced quarterly into the CASiE survey in 2016 and has been asked on a monthly basis since 2020. Our analysis uses data from August 2016 to May 2026.

In several parts of the analysis, we convert the categorical responses to household rate expectations into a linear scale ranging from -1 to 1 (Table 1). This transformation allows us to calculate summary statistics such as average expectations and standard deviations, both at the aggregate level and across demographics.

Table 1: Survey Question Responses

"Over the next 12 months do you expect standard variable mortgage interest rates to…"

Category	Linear encoding
Rise by more than 1%	1
Rise by 0 to 1%	0.5
Stay the same	0
Fall by 0 to 1%	-0.5
Fall by more than 1%	-1
Don't know/no opinion	NA

Two things are worth noting about the question. First, it asks about how the mortgage rate will change over the next 12 months, instead of asking about the level. As such we focus on directional changes in rates. Second, the question is about mortgage rates, not the RBA's policy rate (the cash rate). In most periods, this distinction is unlikely to be important, as spreads between mortgage rates and the cash rate tend to be relatively stable. Still, the spreads can be affected by changes in banks' funding costs, risk premia and competitive conditions (Brown *et al* 2010); (Deans and Stewart 2012). This distinction may be especially relevant when the cash rate is near its effective lower bound and monetary policy operates through other tools, such as bond purchases and forward guidance

3.2 Cash rate outcomes and market expectations

We consider two other measures of interest rate expectations:

- We use 1-year-ahead expectations for the cash rate from Overnight Index Swaps (OIS). We obtain daily frequency OIS closing prices from Bloomberg. Because OIS contracts directly reference the cash rate and are frequently traded at short maturities, they provide a useful source of market-implied cash rate expectations, particularly out to around one year (Finlay and Olivan 2012).

- We use the RBA Market Economist survey, which is a quarterly survey of market economists conducted by the Reserve Bank of Australia. The survey was first released publicly in 2024, but the published historical data extends back to 2005. For each survey round, the RBA publishes the mean, median, minimum, maximum and number of responses for forecasts of the target cash rate. In this paper, we focus on forecasts of the target cash rate four quarters (approximately one year) ahead. For these four-quarter-ahead forecasts, the number of respondents per survey ranges from 17 to 40, with an average of 25.7 responses.

4. How do monetary policy decisions affect household interest-rate expectations?

In this section, we examine how monetary policy decisions after households' interest rate expectations, the extent to which these effects vary across households, and the role of media consumption in shaping expectation updates. Understanding these mechanisms is important for

assessing how central bank announcements influence the transmission of monetary policy through household expectations.

To analyse how households update their interest-rate expectations in response to the RBA's monetary policy decisions, we exploit daily data in the CASiE survey to compare household interest-rate expectations just before and after monetary policy decisions between 2016 and 2025. Table 2 summarises the CASiE survey observations that took place during the week of a monetary policy decision. Because the survey is typically conducted from Monday to Friday and RBA policy decisions are almost always announced on Tuesdays, for most months we have one day of observations prior to each decision and three days of observations following the decision. This allows us to identify changes in households' interest rate expectations in the immediate aftermath of a policy announcement. This is the first Australian evidence on this topic. Moreover, we (i) consider a time period that includes the 2022/23 hiking cycle, which may be of particular interest given the sharp moves in interest rates, and (ii) directly consider the nature of the decision (i.e. hike vs hold; expected vs unexpected).

We separate Board decisions across two dimensions. The first is cut versus hold, and the second is whether the decision was expected or unexpected. We do not observe whether each decision was expected by households, so instead we consider whether decisions were expected by markets. We measure 'expectedness' by measuring the difference between the cash rate change priced into the 1-month OIS the day before the meeting ($t-1$), and the actual cash rate after the meeting (t).[2] We characterise meetings as a 'hawkish surprise' if the actual cash rate is more than 12.5 bps greater than expected, as a 'dovish surprise' if more than 12.5 bps smaller, and as 'expected' otherwise). Table 2 reports the number of Board meetings for which the CASiE survey week overlaps with the meeting date, together with the corresponding number of observations. These counts are reported separately by meeting type (Table 2).

Table 2: RBA Meetings Examined
By meeting type

Meeting outcome	Number of meetings	Number of respondents
Hike, of which		
Dovish surprise	1	861
Expected	7	6,620
Hawkish surprise	4	3,623
Hold, of which		
Expected	28	25,203
Hawkish surprise	1	977
Cut, of which		
Expected	2	1,888

Note: (a) Summarises CASiE survey observations that took place during the week of a monetary policy decision. Expectedness of each decision is derived from OIS market pricing. We characterise meetings as a 'hawkish surprise' if the actual cash rate is more than 12.5 bps greater than expected, and 'dovish surprise' if more than 12.5 bps smaller (and no shock otherwise).

2 The high-frequency identification literature would tend to compare 1-month OIS just before and after the decision. However, as we are working with daily, not intraday, data we take this approach since 1-month OIS the day after the meeting may already be incorporating the next meeting and therefore capture more than just the action shock.

4.1 Graphical Analysis

Figure 1 shows on average how expectations change across the days around the meeting. On average expectations for future rates tend to fall after the meeting, with the share of "Same" responses increasing while the share of "Increase" tends to fall (Figure 1). But this masks offsetting impacts of hike, hold and cut meetings. Focusing only on hold meetings, there appears to be a small downward revision in expectations on average, while hike meetings are associated with a small increase (Figure 2, left panel). This latter finding is particularly surprising given mechanically a hike should likely, all else equal, decrease expectations for changes in interest rates over the next 12-months. For example, suppose that prior to the meeting, households expected 75 basis points of hikes over the next 12 months, and one of those hikes has now occurred. Then after the meeting, only 50 basis points of future hikes are needed to achieve the terminal rate they had in mind.[3]

3 Households are asked about the change in standard variable mortgage rates, not the cash rate itself. Australian banks often announce changes in their variable mortgage rates shortly after the RBA announces a cash rate change, often on the same day. However, the changes in mortgage rates typically do not take effect for a week or more. Hence, the level of variable mortgage rates in effect will be the same for respondents surveyed in the days before or after the RBA announcement. If households have in mind the level of mortgage rates currently in effect when answering this question, then the mechanical effect described here will not affect our estimates.

Figure 1:

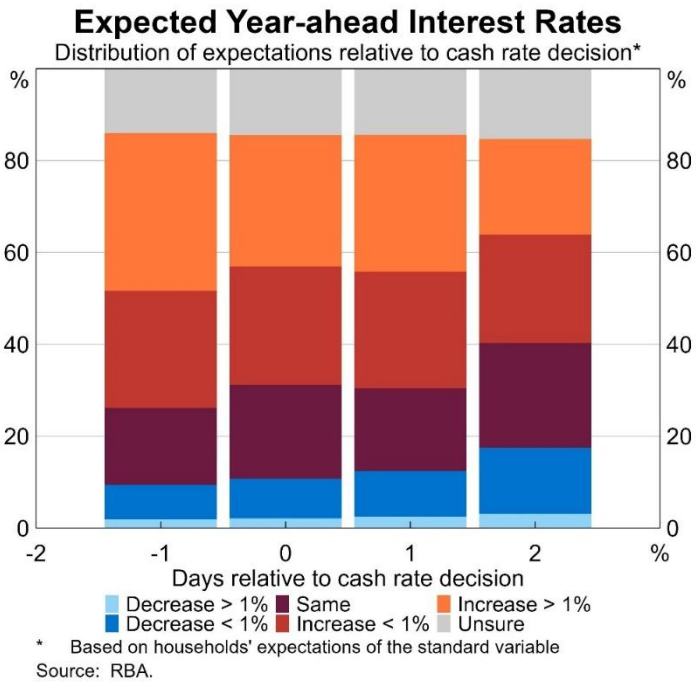
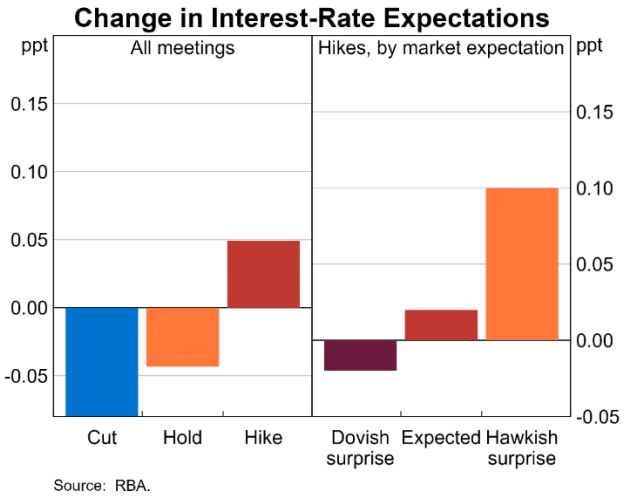


Figure 2:



To build on the above, we group decisions based on both their direction and expectedness (Figure 2 right panel). We show results for cuts, holds and hikes, though all cuts and holds were expected so they are not split by expectedness.[4] Over our sample, unexpected hikes ('hawkish surprises') tend to lead to large upward revisions in interest-rate expectations, so households do tend to take signal from these unexpected changes about the path of future rates.[5] A 'dovish surprise' hike (i.e. a hike smaller than expected by the market) also leads to a small fall in interest rate expectations. These

4 Even amongst hikes we only have visibility over one 'hawkish surprise' hike and one 'dovish surprise' hike.

5 The question asks about increases over the next 12 months. As such, one interpretation of this finding might be that not only do households take signal from the rise, but they extrapolate further increases into the future on top of the existing change. However, given the questions asks about standard variable mortgage rates, which may take some days after the cash rate decision to reset and so may not have changed yet, we should be careful with this interpretation.

findings are as might be expected and suggest that households are paying attention to the RBA's decisions (though the samples are small).

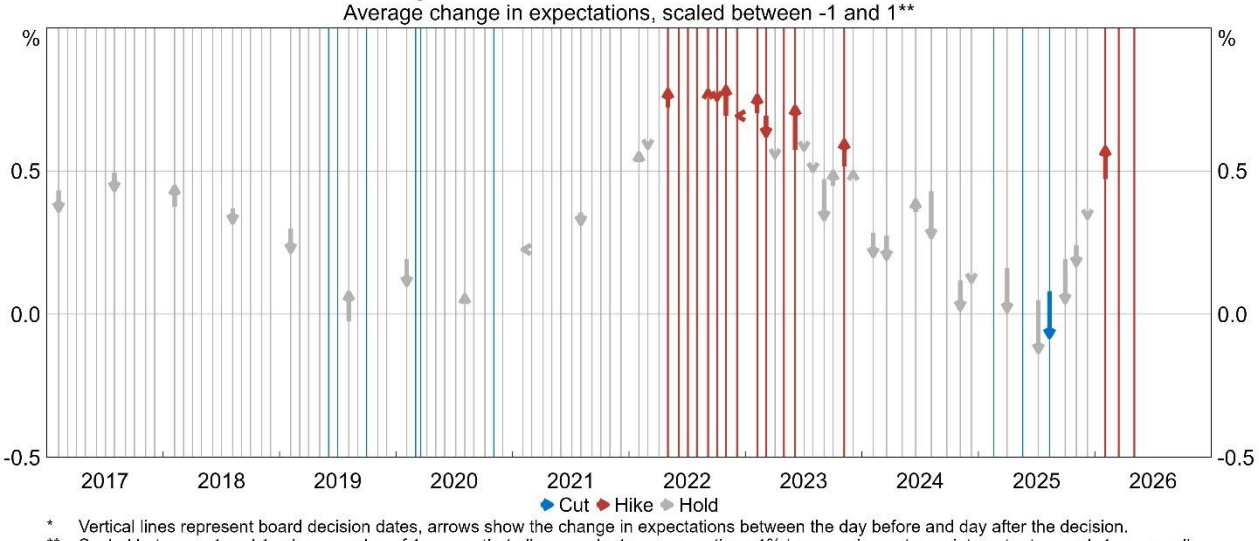
Still, households appear to be responding to some expected changes as well. In particular, expectations fall on average after holds, all of which were expected.

Finally, Figure 3 looks at the responses on a meeting by meeting basis to provide more of a sense of the outcomes across meetings.[6] The start-point of each arrow is the average interest-rate expectation for households surveyed before the board meeting (encoded as in Table 1), and the endpoint is the average for households surveyed after the board meeting. The arrow lengths therefore show the size of the average change in expectations.

Figure 3:

Interest Rate Expectations Before and After Board Decisions*

Average change in expectations, scaled between -1 and 1**



* Vertical lines represent board decision dates, arrows show the change in expectations between the day before and day after the decision.
** Scaled between -1 and 1, where a value of 1 means that all respondents are expecting >1% increase in mortgage interest rates, and -1 means all respondents are expecting >1% decrease in rates.
Source: RBA.

The results reinforce the findings above. Hiking meetings are, for the most part, associated with increases in expectations for the path of rates, while hold meetings tend to be associated with declines. Lastly the one cut meeting in our sample led to a decrease in expectations. We can also see that the magnitudes vary significantly, with the largest increase occurring for the unexpected hike in June 2023, while other hikes resulted in only small increases or even a fall in expectations after the dovish hike in October 2022.

Overall, these results indicate that households' expectations respond to the RBA's monetary policy decisions, and at least part of this occurs quite quickly. Unexpected actions have a far larger effect on expectations, though even seemingly anticipated actions can affect expectations..

4.2 Formal RDD tests

4.2.1 Method

While the above results are instructive, it is difficult to draw too strong a conclusion without formal tests. To test whether the above findings are statistically significant, we use an RDD approach, which formally tests for differences in expectations for households surveyed just before and just after the monetary policy decision. RDDs typically assume a continuous running variable. The continuity assumption is not appropriate for a discrete running variable with few discrete 'mass points', such as is the case with our daily data. As such, we use a local randomisation RDD. This approach assumes that the day a household is surveyed is random within a small region around the board decision date (Cattaneo, Nicolas and Titiunik 2014). We allow the local randomisation regression to pick the smallest window that balances covariates (gender, education, employment, and home ownership) before and after the decision. In general, this is from the day before the meeting to the day after (see Appendix A). Our findings are fairly robust to the window choice (see Appendix C).

4.2.2 Results

The RDD results tend to reinforce the previous findings. The average hold meeting leads to a decrease in expectations for the path of interest rates over the sample (Table 3). Again, this finding is surprising, as all of these decisions were expected, at least by financial markets. Still as noted above it is quite possible that these decisions were not actually expected by households, or potentially they contained some extra information about the path of rates.

Table 3: RDD Regression Results
By meeting type

	Mean of Controls	Mean of Treated	Diff-in-Means Statistic	p-value
All meetings	0.482	0.409	–0.073**	0.000
Cut meetings	0.073	0.013	–0.060*	0.081
Hold meetings	0.362	0.296	–0.035***	0.000
Hike meetings	0.708	0.705	–0.002	0.806
Hikes, of which				
Dovish surprise[(b)]	0.772	0.756	–0.016	0.592
Expected[(b)]	0.742	0.740	–0.002	0.852
Hawkish surprise	0.658	0.701	0.043**	0.015

(a) Statistical significance indicated by * , **, and *** for 90%, 95%, and 99% respectively.
(b) These subsamples results are for a larger window (including an additional day after the announcement) in order to pass the covariate test on demographics. Results remain insignificantly different from zero when tested with the smaller [-1,1] window

The estimated effect of the single cut meeting in our sample is negative, consistent with a decline in interest rate expectations, but is not statistically significant; this lack of precision is likely because the sample contains only one cut observation.

In general, hikes had no significant effect on expectations. But the one hawkish surprise in our sample led to a significant increase in the expected path of rates. Again, this should be considered in the context hikes potentially mechanically reducing expectations for future interest rate increases.

Overall, then, there is strong evidence that households are adjusting their expectations in response to RBA decisions, with at least part of the response occurring quickly. Moreover, as might be expected, the adjustments are larger when the decision was not expected, consistent with households having some existing sense of the path of policy. This stands in contrast to (Lamla and Vinogradov 2019) who found no statistically significant response in household interest rate expectations immediately following US Federal Reserve monetary policy announcements.

4.2.3 Robustness

One concern with comparing expectations for individuals surveyed before and after the cash rate decision is that these individuals may be systematically different, and these systematic differences might drive differences in their expectations. For example, if households with mortgages have lower interest-rate expectations and are also more likely to be surveyed before the cash rate decision, comparing those surveyed before and after may incorrectly suggest that expectations rise after the decision, when this simply reflects differences in the samples. While households are sampled quasi-randomly during the 5-day sample period it is useful to check for systematic differences.

We test this assumption in two ways. First, we verify that households are not significantly different across days based on observable characteristics (e.g. gender, education, employment, and home ownership), by testing whether these observable characteristics are on average the same across the groups. We find no evidence of differences (see Appendix A).

Still, we may be concerned that there are other, unobservable characteristics that make the samples different. As a second test, we compare our results, which are based on months where the 5-day window includes the cash rate decision, to results from a placebo sample of months where no cash rate decision occurred in the survey window. We find some evidence of an average downward bias in the placebo months – rate expectations fall between the early and late days of the sample even when there is no meeting. However, this bias only exists during 2024 and 2025, a period from which only a small share of our RDD sample was drawn (see Graph B1 in Appendix B).[7]

This may suggest there is some inherent bias in the sampling which affects our main results – people sampled on later days may tend to have lower rate expectations. But given the concentrated nature of the apparent bias, it may also reflect some other special factor occurring during this period. Moreover, even if it is a bias, its concentrated nature may mean the effects on our main results are limited..

Nevertheless, we can assess the potential effects of the bias by adjusting our results by the average change in placebo months. Doing so if anything reinforces our main findings above. Notably, it would mean that hikes, including expected hikes, would now have a larger positive effect on rates (see Appendix B for the quantitative impact).

7 Note that from 2024 onwards the RBA moved from monthly to six-weekly meetings. This led to a larger share of survey windows not covering the monetary policy decision.

4.2.4 The role of demographic differences

After finding that average households' expectations do appear to respond to the RBA's monetary policy decisions, a natural question is: do all households respond similarly? This is important as it can help us think about how and to whom central bank messages disseminate.

Most demographic groups increase their expectations on average when the board announces a hike (**Error! Reference source not found.**) and decrease their expectations when the board holds the c ash rate constant (Figure 5).

Figure 4:

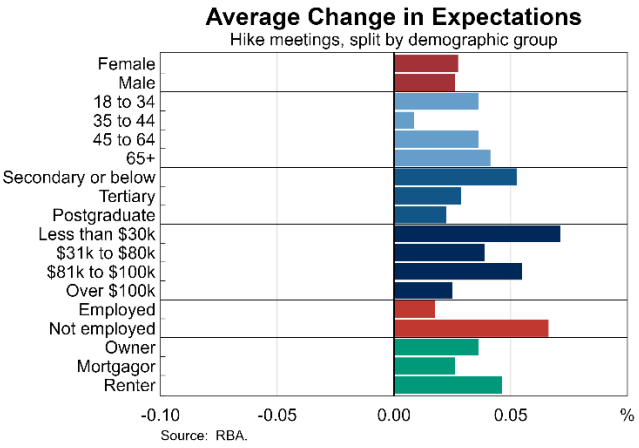
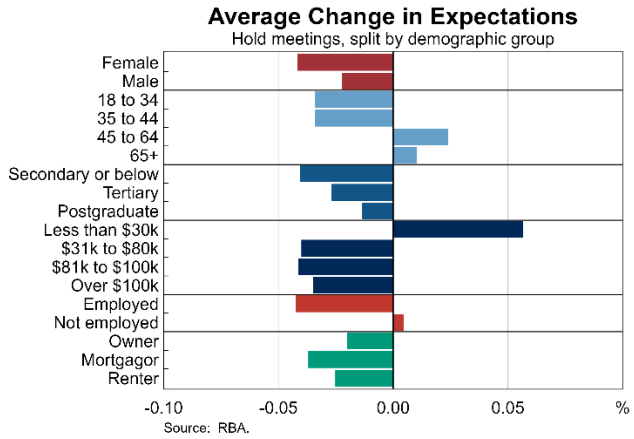


Figure 5:



To formalise these results, we again use an RDD, splitting the sample by group. The decreases in average interest-rate expectations after hold meetings are statistically significant for most demographics and reinforce the graphical results. But the effects of hike meetings, while generally positive, tend not to be statistically significant apart from for renters and some age groups. The lack of significance for hike meetings may be driven by the smaller sample of hike meetings relative to hold meetings. Further, placebo month analysis suggests there may be a downward bias in the expectations of participants surveyed on later days, which could diminish the true effect (appendix B). Overall though, these findings suggest that updating is similar across groups, in contrast to the findings in De Fiore, Lombardi and Schuffels (2021) who find stronger updating for more financially literate households.

4.3 The role of economic news exposure?

We also consider the role of economic news and media in the passthrough of the information. This is valuable in understanding how the monetary policy news passes through.

To do so we leverage a question on household recall of economic news – either interest-rate-related or other – and consider how responses change from before to after the announcement. Survey respondents are first asked if they saw any news about economic conditions and then asked to specify up to two topics of news they consumed, which is manually categorised by the surveyor. The recall of interest rate news variable is best viewed as a measure of whether the respondent has seen interest rate news and found it salient enough to mention instead of other news.

In aggregate, there is a moderate increase in the share of households recalling economic news following monetary policy decisions (Figure 6). This is consistent with the finding that households do pay attention to announcements as well as with Lamla and Vinogradov (2019) findings for the US.

This increase in recall of economic and interest-rate related news after board decisions is more evident for females, as well as mortgagors (Figure 7). The former have lower recall going in, suggesting a role for economic literacy. The latter already pay more attention than renters. Their higher attention could be consistent with the more direct impact of rates on their mortgage payments (see Figure A2 for other groupings).

Figure 6:
Share Recalling Economic Media
Before and after meetings

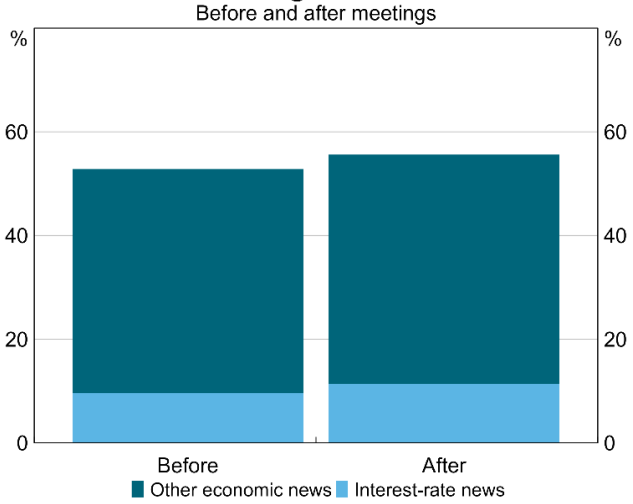
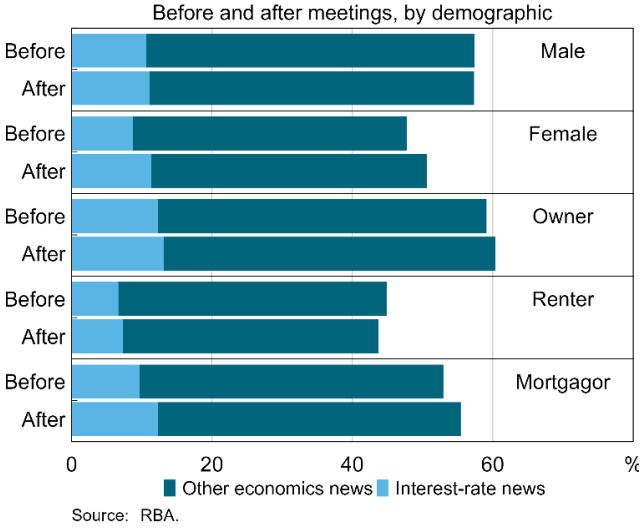


Figure 7:
Share Recalling Economic Media
Before and after meetings, by demographic



Source: RBA.

5. How do household interest rate expectations change over time?

The above results highlight the fact that central bank decisions about policy affect some consumers' expectations quickly. To understand more generally how households form their interest rates expectations we next examine how those expectations change over time and across groups.

In performing this analysis, we use some series as benchmarks: OIS-implied market expectations and market economist expectations. While the rationality of such sources of forecasts is disputed (e.g. Goodhart and Bin Lim (2008), Friedman (1980), Miah, Khalifa and Hammoudeh (2016)), these still represent useful comparison points.

5.1 Full sample results

Figure 8 shows the share of households expecting rates over the next 12 months to rise, fall or stay the same (top panel) compared to the shares of market economists (bottom panel). We find that in most periods, a large share of households expect interest rates to rise. This was even the case

during COVID-19 (2020-2021) when almost no market economists forecasted an increase in interest rates and the RBA employed forward guidance that rates would remain low, 20 per cent of households believed rates would rise. Similarly, after the peak of the post-COVID hiking cycle a large share of households still expected rate rises. This suggests that some portion of households do not update their expectations in response to economic conditions, rather keeping them fixed in this case as expecting rate rises.[8] If households act on these expectations this would significantly blunt the expectations channel of monetary policy passthrough and indicate that these households may be having poor outcomes in terms of welfare due to making sub-optimal decisions.

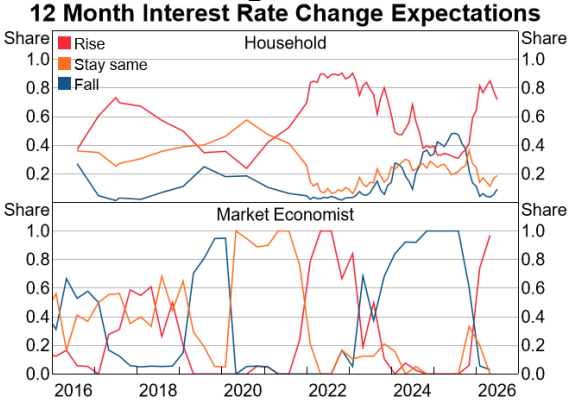
Still, a large share of households seem to pay attention to central bank decisions and communication. Households appeared to respond to the RBA's forward guidance with the share expecting constant rates rising to around 60 per cent at the peak of the COVID pandemic.

There also appears to be a lot more disagreement in household expectations, compared to market economist expectations for the cash rate. While market economists expectations tend to cluster around one or two potential outcomes for future rates, households tend to be more consistently dispersed amongst the outcomes. This greater disagreement could reflect more variation in information across households than professionals (all of whom are well-informed), or greater variation in the way households form expectations given their information set.

We next study average encoded household interest rate expectations and compare them to OIS-implied expectations, and the realised cash rate 12 months ahead (Figure 9). Household interest rate expectations are less responsive than both benchmarks, partly reflecting the fact that in every month, many households expect a rise even if economic conditions do not appear to warrant it. Households also appear to be slower to update their expectations. This is particularly evident during the 2022 hiking cycle where mean household interest rate expectations peaked later than both the OIS implied market expectations as well as the 12 months ahead change in the target cash rate. This implies households may be somewhat backward looking and extrapolative in their expectation formation.

8 As CASiE is a repeated cross-section, we cannot track individual households over time to see how often they update. This leaves room for alternative explanations. For example, perhaps all households update their expectations in every period, but when they do, their expectations are upwardly biased.

Figure 8:
12 Month Interest Rate Change Expectations

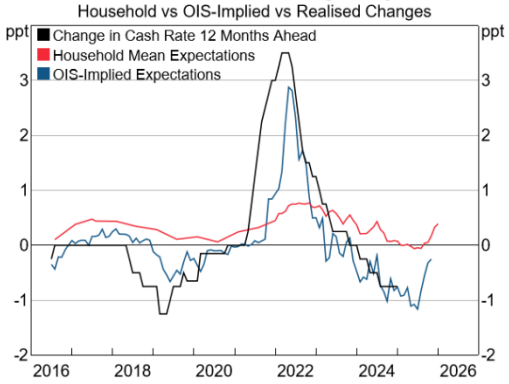


* Household expectations are for the change in standard variable mortgage interest rates and are used as a proxy for cash rate expectations

** Household expectations are weighted by respondent-level survey weights

Sources: Consensus Forecasts; RBA; Westpac-Melbourne Institute Survey.

Figure 9:
12 Month Interest Rate Change Expectations
Household vs OIS-Implied vs Realised Changes



* The horizontal axis is the date when the household forecast was made

** Household expectations are weighted by respondent-level survey weights

Sources: RBA; Westpac-Melbourne Institute Survey.

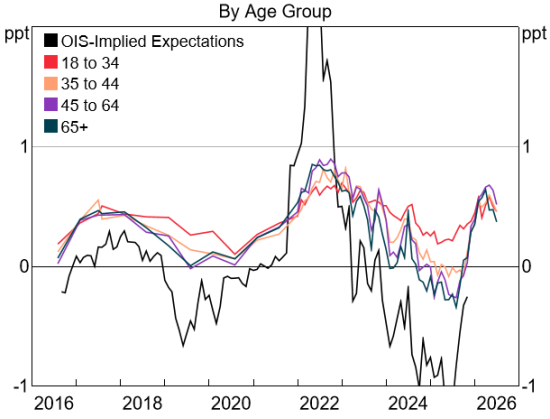
So, overall we can take several lessons. First, a sizable share of households do not appear to update their interest rate expectations for new information. Second, even abstracting from this, there is greater heterogeneity in expectations across households, compared to our benchmarks. And third, household interest rate expectations appear somewhat more backward looking that the our benchmark.

5.2 How do household interest rate expectations change over time by demographic groups

To better understand these dynamics, we next explore heterogeneity in household interest rate expectations over time and across demographic groups. Understanding whether the patterns noted above are widespread or specific to some groups is important for several reasons. First, it could have implications for how monetary policy passes through to the economy: if those with consumers who do not update their expectations are also less likely to act on those expectations, such as low-income households who may be liquidity constrained and off their Euler question, the implications for policy passthrough may be smaller. Second, these differences could tell us something about when and why certain groups pay attention to interest rates, which could help us understand whether monetary policy transmission via expectations could differ over time. Third, understanding these differences could help us think about our communication strategies, and who they are 'missing'. Finally,

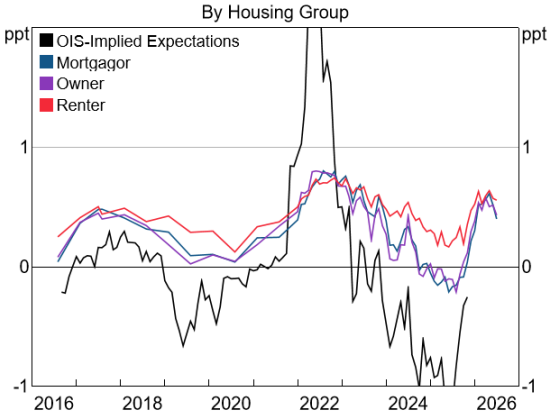
understanding these patterns could help us to understand the nature of expectation formation more generally, and what implications this would have for the economy.

Figure 10:
Household Expectations for the Change in Interest Rates
By Age Group



* The horizontal axis is the date when the household forecast was made
** Weighted by respondent-level survey weights
Sources: RBA; Westpac-Melbourne Institute Survey.

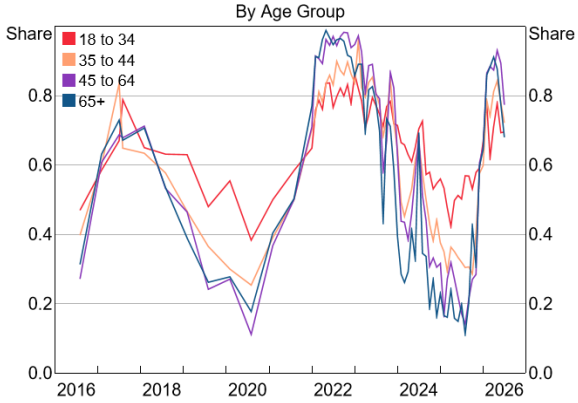
Figure 11:
Household Expectations for the Change in Interest Rates
By Housing Group



* The horizontal axis is the date when the household forecast was made
** Weighted by respondent-level survey weights
Sources: RBA; Westpac-Melbourne Institute Survey.

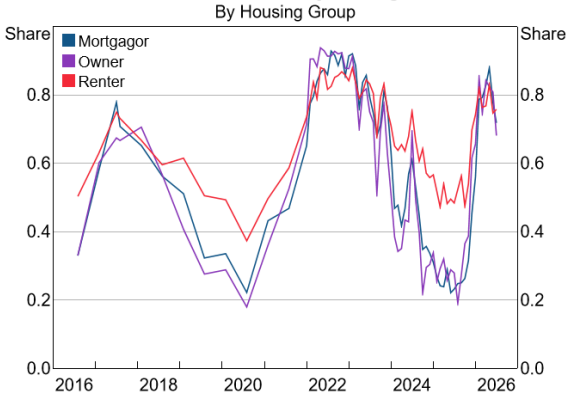
First, we can see that expectations for future interest rates are consistently higher and less responsive for younger age groups and renters, relative to older age groups or homeowners (Figure 10 and Figure 11). In part, this reflects a particularly large and persistent share of people expecting rate rises in those groups, relative to other groups. For example, even at the start of COVID around 40 per cent of young and renter households still reported expectations that rates would rise, compared to more like 20 per cent amongst other age or housing tenure groups (Figure 12 and Figure 13). The former finding may reflect differences in financial literacy across groups, with previous research showing younger households tend to have lower financial literacy (Lusardi and Mitchell 2023). The latter finding, particularly relative to mortgage-holders, may be consistent with a rational inattention framework. Changes in mortgage rates have a larger impact on mortgagors through the cash flow channel, so they may pay more attention, compared to renters. Still, the two findings could overlap: younger households are more likely to be renters.

Figure 12:
Share of Households Expecting Rate Rises
By Age Group



* The horizontal axis is the date when the household forecast was made
** Weighted by respondent-level survey weights
Sources: RBA; Westpac-Melbourne Institute Survey.

Figure 13:
Share of Households Expecting Rate Rises
By Housing Group



* The horizontal axis is the date when the household forecast was made
** Weighted by respondent-level survey weights
Sources: RBA; Westpac-Melbourne Institute Survey.

To try to separate these potential explanations, as well as considering other factors, we regress individual expectations on household demographic characteristics, controlling for time effects (equation 1). We also estimate a regression using the absolute deviation of household expectations from the OIS benchmark (equation 2).

$$H_{i,t} = X'_{i,t}\beta + \delta_t + \varepsilon_{i,t} \quad (1)$$

$$\left|H_{i,t} - O_{i,t}\right| = X'_{i,t}\gamma + \delta_t + v_{i,t} \quad (2)$$

Here, i indexes respondents and $t$indexes survey months. $H_{i,t}$is respondent i's encoded expectation for the change in mortgage interest rates over the next 12 months, and $O_{i,t}$is the OIS-implied change matched to the date on which the respondent completed the survey. $X_{i,t}$ is a vector of respondent characteristics, and δ_t are monthly fixed effects that strip out any aggregate changes over time.

Consistent with earlier findings, younger, and renter households tend to have systematically higher expectations for future rates that are further from the benchmark (Table 4). Given both age and

housing tenure appear important simultaneously, it suggests both of the above explanations could be important: literacy and exposure to rates.

Those with higher levels of education and higher incomes also have lower and more accurate expectations, again suggesting economic literacy could be important. This is consistent with previous RBA work focusing on inflation expectations Shabalina & Tzaawa-Krenzler (forthcoming), and other work showing such groups tend to have higher financial literacy (Lusardi and Mitchell 2023). This finding is potentially important in thinking about the passthrough of expectations to actions. Lower income consumers are more likely to be hand-to-mouth and liquidity constrained. As such their consumption behaviour may be less related to their expectations. If they are driving some of the bias and 'irrationality' in household expectations, the implications for aggregate outcomes may be slightly more limited than they would be otherwise.

Table 4: Regression of Interest Rate Expectations on Demographics

Dependent variable:	Expected change in interest rates	Absolute deviation from OIS
	Age (relative to 35-44)	
18-34	0.062***	0.08 ***
(s.e.)	(0.007)	(0.006)
45-64	-0.029***	-0.09 ***
(s.e.)	(0.007)	(0.006)
65+	-0.10***	-0.165***
(s.e.)	(0.009)	(0.009)
	Income (relative to $31k - $80k)	
<$30K	0.035 ***	0.037***
(s.e.)	(0.009)	(0.008)
$81K - $100K	-0.009	-0.006
(s.e.)	(0.008)	(0.07)
$100K+	-0.075***	-0.054***
(s.e.)	(0.008)	(0.006)
	Housing (relative to renters)	
Mortgagor	-0.117***	-0.092***
(s.e.)	(0.007)	(0.006)
Own outright	0.082***	-0.062***
(s.e.)	(0.008)	(0.007)
Other	-0.040	0.041
(s.e.)	(0.03)	(0.02)
	Education (relative to secondary school or less)	
Tertiary	-0.033***	-0.032***
(s.e.)	(0.0061)	(0.006)
Postgraduate	-0.076***	-0.043***
(s.e.)	(0.009)	(0.008)
Adjusted R2	0.233	0.430

Note: Statistical significance indicated by *, **, *** for 90%, 95%, and 99% respectively. Regressions include time fixed effects. Standard errors are heteroskedasticity-robust. Observations = 51,511

Taken together, the results suggest that there is significant heterogeneity in household expectations across groups. The lack of updating appears to be much more concentrated in certain demographic groups – though we still see it in other groups. More generally, the deviations from rationality appear larger in certain groups. This suggests that any model of expectations trying to match the observed outcomes would need either variation in the information sets of different groups, or variation in the way different groups form expectations given their information. These patterns cannot be explained by models in which all agents are ex-ante identical, such as models where all agents form rational expectations given their information, and all agents receive noisy signals from the same distribution.

We decompose the variation in household interest rate expectations using a two-way ANOVA of demographic cohort and survey month, including their interaction. Cohorts are defined by the complete combination of age group, housing tenure, education and income group. Equivalently, the

model estimates a separate mean expectation for each cohort-month cell. Differences in these cell means account for 37 per cent of the overall respondent-level variation in expectations, while the remaining 63 per cent occurs among respondents within the same cohort and month.[9] Overall then, while observables account for a sizable share of variation in expectations, the majority reflect heterogeneity unrelated to their observable characteristics.

5.3 Are differences in household interest-rate expectations driven by differences in economic news exposure?

One natural question is, do these apparently differing sets of expectations reflect differing exposure to news. This can be important in thinking about the nature of the formation mechanism: is what we are seeing reflective of different extents of information gathering, or different ways of interpreting that information?

To consider this, we look at the share of households that report encountering news about economic conditions over the last three months. First, we note that some groups are much less attentive: females tend to have less news recall, as do renters, while outright owners consistently have the highest recall (Figure **14**).

News exposure also appears to vary over time in a way that is potentially consistent rational inattention. For example, attention appears to increase across all groups in times of heighted economic uncertainty and volatility, such as COVID and the recent inflation period that coincided with a sharp hiking cycle (Figure **14**). The increase during the high-inflation period was particularly notable for mortgagors, who closed the recall gap with outright owners. Models of rational inattention would predict some of these patterns, as these are times when failing to pay attention could lead to large forecast misses and so larger costs. These results also suggests that the passthrough of monetary policy to household interest rate expectations may vary over time, which might mean time-varying policy effectiveness.

To better link these news exposure results to rate expectations, we plot cohort-level average interest rate expectations over the sample, against their average rate of attention. We can see that there is a clear pattern where groups who tend to have low recall tend to have higher expectations (Figure 15). So there does appear to be a strong link between attention/recall and expectations, with those paying more attention having lower and less biased expectations.

9 The model can be written as $H_{i,t} = \alpha_{c(i),t} + \varepsilon_{i,t}$, where $c(i)$denotes respondent i's demographic cohort and $\alpha_{c(i),t}$is the mean expectation for that cohort in survey month t. The unadjusted R^2 is 37 per cent.

Figure 14:

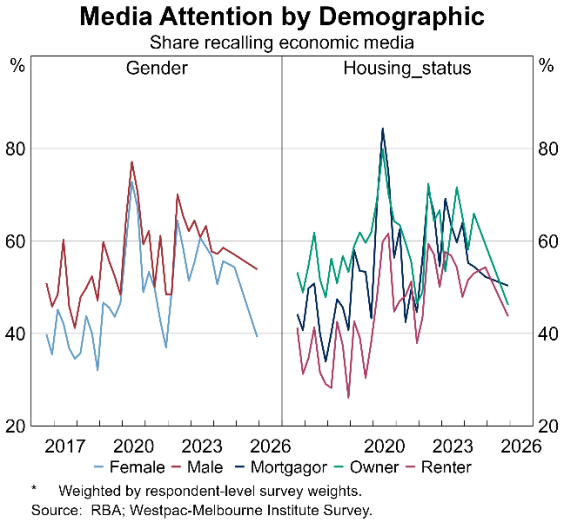
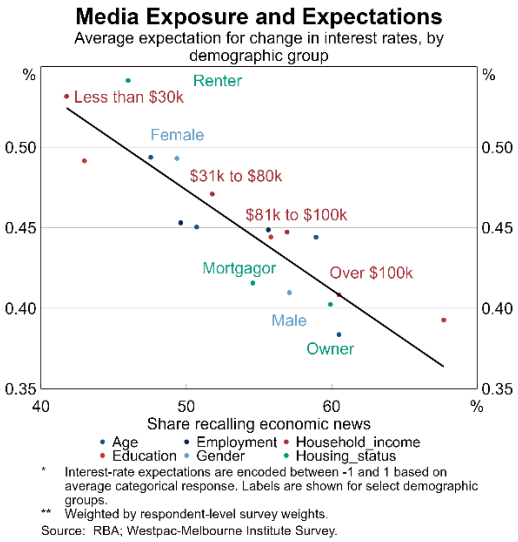


Figure 15:



To test this more formally we test whether exposure to economic media increases the likelihood of households having the same categorical interest rate expectation as OIS-implied market expectations using the following regression:

$$Same\ categorical\ expectation\ as\ market_{it} = \mathbf{demographics_i} + \beta_2 news\ recall_i + \lambda_t + \varepsilon \quad (4)$$

Where $Same\ categorical\ expectation\ as\ market_{it}$ is a dummy variable equal to 1 if market and household categorical expectations are the same, $\mathbf{demographics_i}$ is a vector of dummy variables for each demographic group, $news\ recall_i$ is a dummy variable for who recalls seeing news about changes in economic conditions, and λ_t are time fixed effects at the month level.

Table 5: Regression of Whether Expectations Match Market on New Recall

	No controls	Time fixed effect	Demographic controls	Both time fixed effects and demographic controls
News recall	0.0842***	0.0662***	0.0709	0.0514**

Note: (a) Statistical significance indicated by *, **, *** for 90%, 95%, and 99% respectively.

First, if we just include recall with no demographic controls (columns 1 and 2) we find that the coefficient (β_2) on news recall is positive and significant. Households paying more attention are 6-8 percentage points more likely to have the same categorical expectations as the benchmark. When we account for demographics, the coefficient fall 5-7 percentage points. So there is notable variation in whether people pay attention within demographic groups, and this remains an important predictor of the rationality of predictions.

We can take several insights from these results. First, it appears that attention is associated with more rational interest rate expectations. This suggests that the time variation in attention observed earlier should be associated with variation in the rationality of expectations, and therefore potentially in the strength of policy passthrough via the expectations channel. Second, the patterns in attention across groups and over time are somewhat consistent with models of rational inattention, so such a framework would appear to be an important element of any model trying to match the observed patterns. Third, even within demographic groups there is significant variation in attention. Ideally any model of expectations would need to be able to match that. Taken all together, we believe that the findings that households increase their media consumption during periods of uncertainty in conjunction with the fact that households exposed to economic news having expectations closer to our benchmark is consistent with a rational inattention expectation formation framework – though this alone would not account for the variation in attention within groups.

6. Conclusion

We document several new facts about the formation and updating of household interest rate expectations in Australia. Firstly, we find strong evidence that monetary policy decisions feed through to household expectations for interest rates quickly, with households appearing to understand at least some of the key messages. This contrasts with some of the previous literature that has found limited attention or updating of beliefs. This has important implications for central bank communications. It suggests that households are listening and absorbing the information that is being put out there, either directly or indirectly via media. So communication at the time of announcements can be an effective tool for policy transmission.

Secondly, we find that household expectations differ greatly from financial markets and market economist expectations, with slower adjustment in average expectations to new information and a noticeable fraction expecting hikes in all periods even when this is very unlikely, suggesting some households may rarely or never update their expectations. The deviations from market expectations are greatest for younger, lower income and renter households. This will make the job of the central bank harder, and may suggest alternative approaches are needed to reach these households. That said, many of these groups are more likely to be financially constrained, meaning their expectations are less important for their actions, which could limit the importance of this finding. Moreover, even within cohorts there is significant heterogeneity in rate expectations, something any model of expectations formation would need to capture.

Finally, we find evidence that attention matters, with households and groups who pay more attention tending to have more rational forecasts. Attention differs over time in a way consistent with rational expectations: attention rose during the COVID crisis, and from 2022 as inflation picked up quickly and interest rates rose. This implies that policy transmission through the expectations channel could

be time-varying. Moreover, it suggests that the returns to communication effort could also very substantially over time, which could be considered in communications strategies.

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Appendix A: Covariate balancing

Our RDD compares respondents surveyed immediately before and after an RBA Board decision. For this comparison to identify the effect of the decision, respondents on either side of the decision date need to be similar in characteristics that are not affected by the decision. Otherwise, changes in measured expectations could reflect differences in sample composition rather than the announcement itself.

We therefore test whether observable respondent characteristics are balanced across the pre- and post-decision samples. In this context, covariates are sufficiently balanced when predetermined characteristics are not statistically different across the two sides of the cutoff within the estimation window. We judge covariates to be balanced when the minimum p-value from the covariate balance test is at least 0.14. The samples need not be identical; rather, any differences should be small enough that we cannot reject the assumption that respondents were effectively assigned to survey days at random within the local window.

The balance test uses gender, education, employment status and home ownership status. These characteristics should not respond contemporaneously to the Board decision, so imbalance in these variables would suggest that the estimated change in expectations may reflect differences in who was surveyed before and after the meeting.

The preferred sample excludes three survey months in which observable demographics were not sufficiently balanced across survey days. After these exclusions, the remaining sample passes the covariate balance checks. Table A1**Error! Reference source not found.** reports the final number of meetings and respondents included in the estimation sample.

Table A1: Meetings Included in RDD sample

	Number of meetings	Number of respondents
Hike, of which		
Dovish surprise	1	861
Expected	7	6,295
Hawkish surprise	1	992
Hold	24	21,392

Appendix B: Placebo tests

As an additional robustness check, we test whether interest-rate expectations tend to change across survey days even when there is no RBA Board decision. This helps assess whether the RDD estimates could partly reflect a day-of-survey effect, rather than the effect of the policy announcement itself. For example, if respondents surveyed later in the CASiE fieldwork period tend to report lower interest-rate expectations regardless of whether a Board meeting occurs, the estimated effect of a Board decision would be biased downwards.

To test this, we construct a placebo sample using months in which there was no monetary policy decision. For these months, we compare respondents surveyed earlier and later in the five-day survey window, using the same pre/post structure as in the main RDD analysis. Since no policy decision occurred in these months, any systematic change in expectations provides an estimate of the underlying survey-day bias.

The placebo estimates suggest that expectations tend to fall slightly across the survey window in non-decision months (Graph B1). This pattern is concentrated in the 2024/25 surveys and is affected by one large outlier in April 2024. The average placebo change is around -0.05 on the encoded expectations scale, or around -0.03 when the April 2024 outlier is excluded.

We use this placebo estimate to construct a simple bias-adjusted estimate of the effect of board decisions. Specifically, we estimate a difference-in-differences regression comparing the change in expectations around actual board decisions with the change observed in placebo months:

$$Expected\ Interest\ Rate\ Change = \alpha + \beta_1 Meeting + \beta_2 Post + \beta_3 Meeting \times Post + \varepsilon$$

Where meeting equals one for observations in months with an RBA Board decision and zero for placebo months. Post equals one for respondents surveyed after the board decision or placebo decision date. The coefficient on $Meeting \times Post$ is the bias-adjusted estimate. It measures whether expectations changed by more around actual board decisions than they did over comparable survey days in non-decision months.

The bias adjustment changes the interpretation of some results (Table B2). In particular, the negative estimated effect of hold decisions in the main RDD appears to be more than accounted for by the downward placebo bias. By contrast, the estimated effect of hike decisions becomes larger after adjustment, suggesting that the main RDD estimates may understate the extent to which households revised expectations following hikes. These results should be interpreted cautiously, since the adjustment is based on a simple placebo comparison and the statistical significance does not account for the generated placebo adjustment. Nevertheless, the placebo test suggest that the main conclusion is robust, particularly when those decisions involve rate increases or surprises.

Graph B1

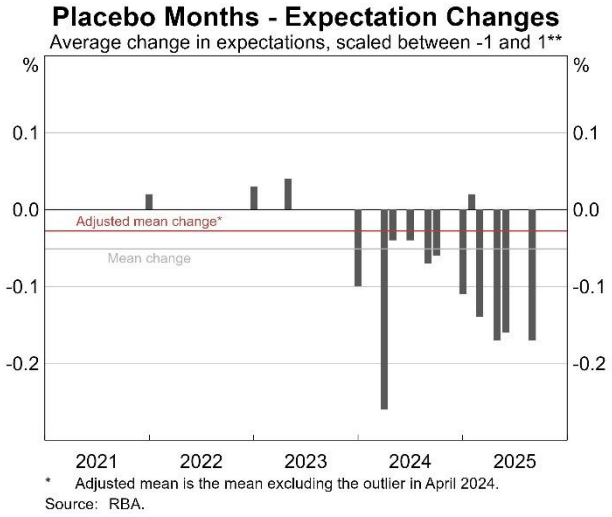

Table B2: Bias-adjusted RDD Results

	Unadjusted difference-in-means statistic	Bias-adjusted difference-in-means statistic[(a)]
All meetings, of which	–0.07**	0.004
Hold meetings	–0.035**	0.038***
Hike meetings, of which	0.013	0.114***
Dovish surprise	–0.016	0.101*
Expected	–0.002	0.114***
Hawkish surprise	0.057**	0.150***

Note: (a) The adjustments are estimated using a simple difference-in-difference framework. Significance indicated by: ***p <0.001, ** p<0.005, *p<0.01. Significance does not account for generated regressor.

Appendix C: Robustness to the RDD Window

The baseline RDD estimates compare respondents surveyed one day before and one day after an RBA Board decision. This narrow window is useful because it limits the scope for other news or changes in economic conditions to affect respondents' expectations. However, it also reduces the number of observations used in each estimate, particularly for the smaller subsamples. As a robustness check, we re-estimate the main RDD specifications using wider windows around the Board decision.

Specifically, we compare the preferred [-1,1] window with a wider alternative. We extend the post-decision window by one day, [-1,2]. This wider windows increase the number of observations but may also include responses that are further from the policy announcement, where other information could have influenced expectations.

The results are reported in (Table C3). Overall, the main findings are robust to increasing the window size. Hold decisions continue to be associated with lower expected interest rates, while hike decisions are associated with higher expected interest rates. The estimated effects of hike decisions are generally larger when the window is expanded, consistent with the possibility that some households update their expectations with a short delay. The estimates for surprise hikes remain positive, while the estimates for dovish-surprise hikes remain weaker and less precisely estimated.

These results suggest that the baseline findings are not driven by the particular choice of the narrow one-day window. At the same time, the preferred specification remains the narrower [-1,1] window because it provides the cleanest comparison of respondents surveyed immediately before and after the Board decision.

Table C3: RDD Window Robustness Test

RDD Effects of Survey Day on Interest Rate Change Expectations

Subset of meetings:	Mean of Controls	Mean of Treated	Diff-in-Means Statistic	p-value
All meetings	0.482	0.363	-0.119***	0
Cut meetings	0.073	-0.018	-0.091***	0.003
Hold meetings	0.362	0.275	-0.087***	0
Hike meetings	0.708	0.698	-0.009	0.28
Hikes, by surprise				
Dovish surprise	0.772	0.749	-0.022	0.432
Expected	0.742	0.733	-0.009	0.408
Hawkish surprise	0.658	0.685	0.027	0.113

(a) Statistical significance indicated by * , **, and *** for 90%, 95%, and 99% respectively.