

SURVEY OF EXPECTATIONS

This article prepared by Fiona Cairns and Bryan Chapple presents the results from the December quarter 1990 Reserve Bank of New Zealand Survey of Expectations.

INTRODUCTION

The RBNZ Survey of Expectations for the December quarter 1990 was conducted on Wednesday, 14 November 1990. Note that the results of the survey represent expectations held by respondents and in no way represent views or forecasts of the Reserve Bank.

SAMPLE COMPOSITION

The response rate for this quarter was 72 per cent, with 185 of the 256 respondents in this quarter's sample having returned their completed questionnaires by the cut-off date.

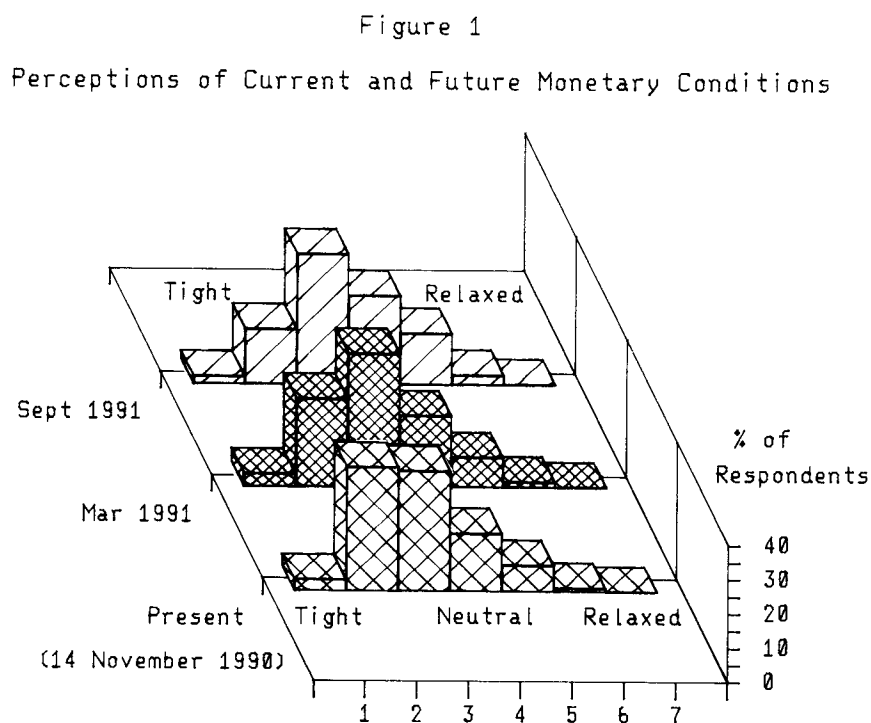
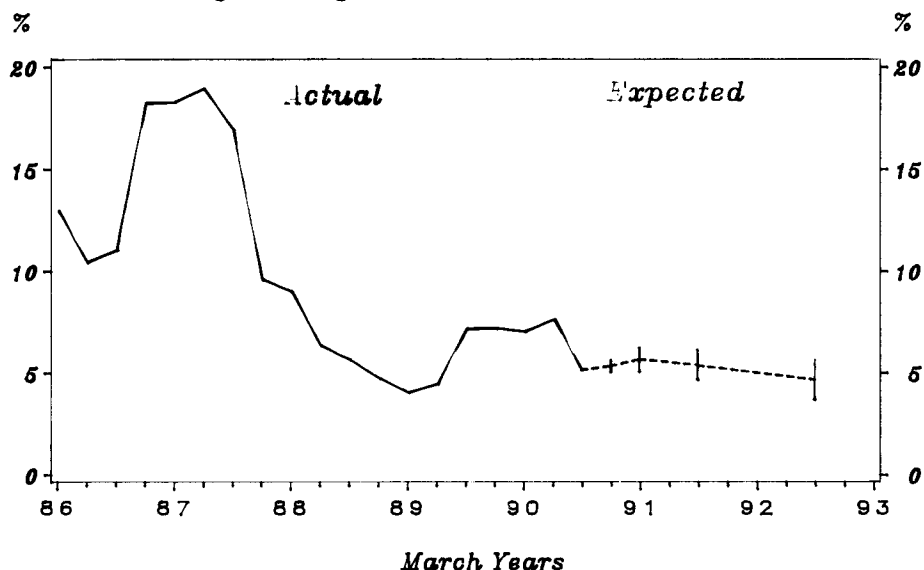


Figure 2
Actual And Surveyed Expectations Of The
Annual Percentage Change In The Consumers Price Index



Note: 25% of Expectations fell above and below the band shown

Of the respondents whose completed questionnaires were received by the cut-off date, the distribution across activity groups was:

Financial	..	67
Business	..	70
Agricultural	..	23
Labour	..	7
Other	..	18
TOTAL:		185

SUMMARY OF RESULTS

- **Perceptions of easier monetary conditions**

Monetary conditions are currently perceived to be tighter than neutral by 74 per cent of respondents, down from 94 per cent in the last survey. Respondents expect conditions to ease slightly over the coming year with 68 per cent of respondents anticipating conditions will be tighter than neutral by the end of March 1991, compared to 81 per cent who expected this to be the case for the quarter ahead in the September survey. For the year ahead, some 56 per cent of respondents expect conditions to be tighter than neutral by the end of September 1991, whereas 66 per cent of respondents in the last survey expected conditions to remain tight over the year ahead.

Expected M3 growth, over both the current year and the year ahead, has increased slightly since the September quarter survey. In the year to December 1990, M3 is expected to increase by 5.7 per cent, and then to rise by 5.4 per cent in the year to September 1991.

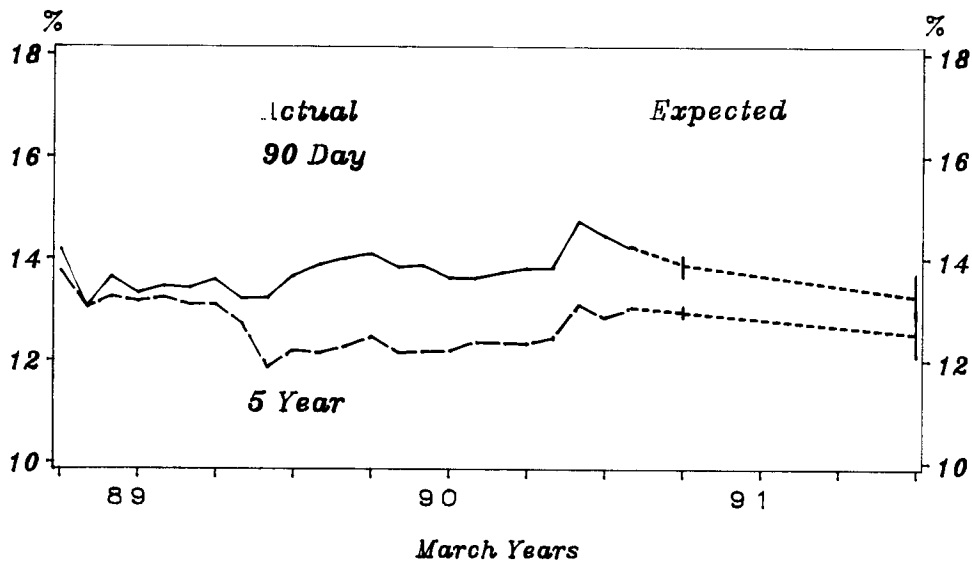
- **Inflation expectations rise**

The ongoing conflict in the Middle East appears to have contributed to an increase in inflation expectations. Respondents now expect the Consumer Price Index (CPI) to increase by 1.4 per cent in the December quarter, and by 1.3 per cent in the March quarter 1991. These increases imply annual rates of inflation of 5.2 per cent and 5.6 per cent in the years ending in December 1990 and March 1991 respectively. In the year to September 1991, inflation is expected to be 5.2 per cent, up from the 4.7 per cent year ahead expectation in the September quarter survey. Inflation in the year to September 1992 is expected to fall to 4.5 per cent, only slightly above the last survey's two year ahead inflation expectation of 4.4 per cent.

- **Interest rates expected to fall**

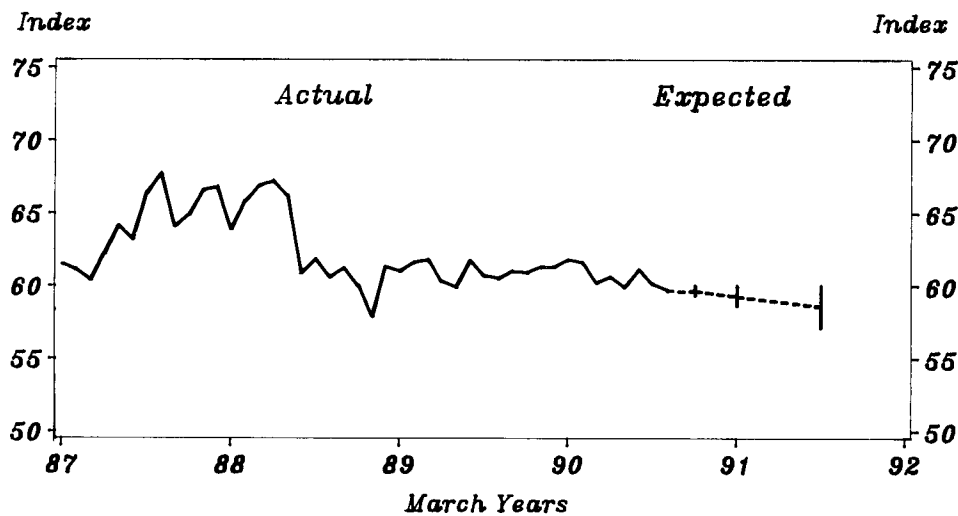
Short-term interest rates are expected to fall from 13.9 per cent by the end of December 1990, to 13.1 per cent by the end of September 1991 - a lower level than was expected in the September quarter survey. However, subsequent to the oil shock, government stock rates are expected to remain at a higher level than was anticipated in the last

Figure 3
*Actual And Surveyed Expectations Of 90 Day
 Bank Bill And Five Year Government Stock Interest Rates*



Note: 25% of Expectations fell above and below the band shown.

Figure 4
Actual And Surveyed Expectations Of The
RBNZ Trade Weighted Exchange Rate Index



Note: 25% of Expectations fell above and below the band shown

survey, with respondents expecting rates to fall from 12.9 per cent by the end of December 1990 to 12.4 per cent by the end of September 1991. As a result, the expected yield curve has flattened when compared to that anticipated in the last survey. The yield gap is now expected to fall from 1.0 per cent at the end of December 1990 to 0.7 per cent by the end of September 1991. In the September quarter survey, the corresponding figures were 1.5 per cent and 1.2 per cent respectively.

- **Some exchange rate depreciation expected**

Depreciations are anticipated against all major currencies in the coming year, and this is reflected in expected declines in the Trade Weighted Index (TWI) of 0.6 per cent in both the December 1990 and March 1991 quarters. In comparison, quarterly depreciations of 0.1 per cent and 0.5 per cent were expected for the current and for the next quarter respectively in the September quarter survey. Over the year to September 1991, the TWI is expected to decline by 2.3 per cent, compared to an anticipated fall of 1.6 per cent for the year ahead in the last survey.

- **Little growth in real activity expected**

Real Gross Domestic Product (GDP) is expected to decline slightly over both the September and December 1990 quarters, in contrast to the small quarterly increases anticipated in the September quarter survey. Respondents now expect quarterly falls in real GDP of 0.3 per cent in September and 0.1 per cent in December. In the year to September 1991, real GDP is expected to increase by only 0.2 per cent, down markedly from the year ahead growth of 1.3 per cent recorded in the last survey.

- **Worsening in current account expectations**

The current account deficit for the year ended December 1990 is expected to be \$4 billion, up from the \$3.3 billion expected for the September year in the last survey. Over the year ahead, the deficit is expected to fall slightly to \$3.8 billion, whereas the previous survey recorded an expected year ahead deficit of \$3.0 billion.

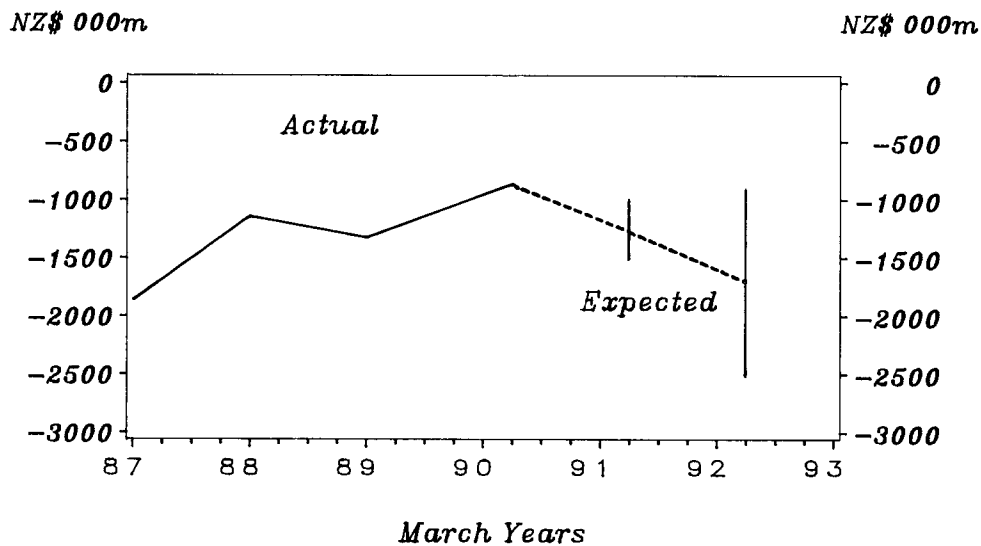
- **Fiscal position expected to deteriorate significantly**

A Government financial deficit of \$1.3 billion is expected for the current financial year. This is an increase for the current financial year. This is an increase from the deficit figure of \$0.4 billion recorded in the September quarter survey, and follows recent announcements by the Government on the fiscal outlook. A further increase to a deficit of \$1.7 billion is now expected in the year ended June 1992, up from the \$1.2 billion expected for that year in the last survey.

- **Lower average wage increase expected**

Following the recent path of settlements in the current wage round, respondents now expect an increase of 3.3 per cent in the prevailing weekly wage rate index in the year to September 1991, down from 4.3 per cent in the last survey.

Figure 5
Actual And Surveyed Expectations Of
The Budget Balance




Note: 25% of Expectations fell above and below the band shown

- **Unemployment rate expected to increase further**

Respondents expect the official Household Labour Force Survey (HLFS) unemployment rate to be 7.8 per cent in the December 1990 quarter, increasing to 8.1 per cent in the September 1991 quarter. In the last survey, the unemployment rate was expected to fall slightly from 7.6 per cent in the June 1990 quarter to 7.5 per cent in the March 1991 quarter.

The next RBNZ Survey of Expectations is tentatively scheduled for 13 February 1991, with the results to be published in the March issue of the *Bulletin*.



SURVEY OF EXPECTATIONS HISTORICAL RESULTS¹

Monetary Conditions:

Q.1 What is your perception of monetary conditions at the present moment?

Survey Qtr	Very Tight			Neutral			Very Relaxed
	1	2	3	4	5	6	7
Dec. 1989	3.9	24.2	42.7	18.0	9.6	1.7	0.0
Mar. 1990	1.7	24.7	48.3	20.1	4.0	1.1	0.0
June 1990	2.5	23.4	45.6	22.2	5.7	0.6	0.0
Sept. 1990	23.0	44.7	26.7	4.3	0.6	0.6	0.0
Dec. 1990	3.3	36.1	35.0	16.9	7.7	1.1	0.0

Q.2 What expectation do you have for monetary conditions at the end of (reference quarter):

Survey Qtr	Reference Qtr	Very Tight			Neutral			Very Relaxed
		1	2	3	4	5	6	7
Dec. 1989	Mar. 1990	2.8	10.7	43.3	28.7	12.4	2.2	0.0
Mar. 1990	June 1990	0.6	13.2	47.7	23.0	14.9	0.6	0.0
June 1990	Sept. 1990	1.3	13.3	47.5	24.7	11.4	1.9	0.0
Sept. 1990	Dec. 1990	6.2	35.4	39.1	13.7	5.6	0.0	0.0
Dec. 1990	Mar. 1991	3.8	25.7	38.8	20.8	8.7	1.6	0.5
Sept. 1990	June 1990	1.6	3.7	24.6	41.7	24.6	3.2	0.5
Dec. 1989	Sept. 1990	0.0	7.3	30.9	39.3	19.1	3.4	0.0
Mar. 1990	Dec. 1990	1.1	7.5	40.2	37.4	12.1	1.1	0.6
Jun. 1990	Mar. 1990	1.9	10.8	39.9	31.6	12.7	3.2	0.0
Sept. 1990	June 1990	5.0	16.1	44.7	22.4	10.6	1.2	0.0
Dec. 1990	Sept. 1991	2.2	15.9	37.9	25.8	14.8	2.7	0.5

Q.3 What is your expectation of the annual % change in the M3 money supply for the year to (reference quarter):

Survey Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Reference Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	5.6	5.9	4.0	4.6	5.7
Reference Qtr	Sept. 90	Dec. 90	Mar. 91	June 91	Sept. 91
Mean	5.8	6.0	4.6	5.1	5.4

Prices

Q.4 What quarterly % change do you expect in the Consumers Price Index (CPI) for the (reference quarter):

Survey Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Reference	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	1.5	1.1	1.1	1.0	1.4
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	1.3	1.2	1.0	1.2	1.3

1. The survey quarter refers to the quarter in which the survey was undertaken, while the reference quarter refers to the quarter (period ended or the quarter itself) for which the expectation was held.
2. Results for questions 1 and 2 are in the form of percent of total responses in each category, while the remainder of the questions report the mean expectation.

Q.5 What annual change do you expect in the Consumers Price Index (CPI) for the year to (reference quarter):

Survey Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Reference Qtr	Sept. 90	Dec. 90	Mar. 91	June 91	Sept. 91
Mean	5.5	4.9	4.4	4.7	5.2
Reference Qtr	Sept. 91	Dec. 91	Mar. 92	June 92	Sept. 92
Mean	4.8	4.4	4.0	4.4	4.5

Interest Rates

Q.6 What do you expect the 90-day Bank Bill market yield to be at the end of the (reference quarter):

Survey Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Reference Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	13.5	13.5	13.4	14.1	13.9
Reference Qtr	Sept. 90	Dec. 90	Mar. 91	June 91	Sept. 91
Mean	12.5	12.8	12.7	13.3	13.1

Q.7 What do you expect the 5-year Government Security market yield to be at the end of (reference quarter):

Survey Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Reference Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	12.4	12.0	12.3	12.6	12.9
Reference Qtr	Sept. 90	Dec. 90	Mar. 91	June 91	Sept. 91
Mean	11.7	11.6	11.7	12.1	12.4

Exchange Rates

Q.8 Relative to the following currencies, what spot exchange rate do you expect for the New Zealand dollar and the end of (reference quarter):

Survey Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
US Dollar					
Reference Qtr	Dec. 89	Mar. 89	June 90	Sept. 90	Dec. 90
Mean	0.587	0.588	0.573	0.593	0.605
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	0.584	0.584	0.568	0.585	0.595
Reference Qtr	Sept. 90	Dec. 90	Mar. 91	June 91	Sept. 91
Mean	0.579	0.582	0.566	0.575	0.587
Australian Dollar					
Reference Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	0.753	0.782	0.760	0.756	0.779
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	0.759	0.782	0.763	0.757	0.774
Reference Qtr	Sept. 90	Dec. 90	Mar. 91	June 91	Sept. 91
Mean	0.767	0.782	0.768	0.755	0.768
Pound Sterling					
Reference Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	0.370	0.350	0.346	0.323	0.312
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	0.369	0.348	0.346	0.323	0.310
Reference Qtr	Sept. 90	Dec. 90	Mar. 91	June 91	Sept. 91
Mean	0.365	0.365	0.348	0.323	0.311

Japanese Yen					
Reference Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	83.8	84.6	89.7	89.1	79.1
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	82.8	83.6	88.5	88.4	78.1
Reference Qtr	Sept. 90	Dec. 90	Mar. 91	June 91	Sept. 91
Mean	81.8	82.7	88.0	87.4	77.6

Q.9 What quarterly % change do you expect in the Reserve Bank Trade Weighted Index (TWI) for the (reference) quarter):

Survey Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Reference Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	0.1	-0.2	-0.4	-0.1	-0.6
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	0.1	-0.4	-0.5	-0.5	-0.6

Q.10 What annual % change do you expect in the Reserve Bank Trade Weighted Index (TWI) for the year to (reference quarter):

Survey Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Reference Qtr	Sept. 90	Dec. 90	Mar. 91	June 91	Sept. 91
Mean	0.0	-0.6	-0.7	-1.6	-2.3

Others:

Q.11 What is your expectation of the seasonally adjusted quarterly % change in the real Gross Domestic Product (GDP) index for the (reference quarter):

Survey Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Reference Qtr	Sept. 89	Dec. 89	Mar. 90	June 90	Sept. 90
Mean	0.0	0.4	0.3	0.3	-0.3
Reference Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	0.4	0.4	0.4	0.3	-0.1

Q.12 What is your expectation of the annual average % change in the real Gross Domestic Product (GDP) index for the year to (reference quarter):

Survey Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Reference Qtr	Sept. 90	Dec. 90	Mar. 91	June 90	Sept. 91
Mean	1.3	1.3	1.4	0.8	0.2

Q.13 What is your expectation of the External Balance of Payments on Current Account (in \$ billions) for the year to (reference quarter):

Survey Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Reference Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	-0.8	-2.1	-3.4	-3.3	-4.0
Reference Qtr	Sept. 90	Dec. 90	Mar. 91	June 91	Sept. 91
Mean	-0.7	-2.0	-2.7	-3.0	-3.8

Q.14 What is your expectation of the Government Financial Balance (in \$ billions) for the fiscal year to:

Survey Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Reference Qtr	June 90	June 90	June 90	June 91	June 91
Mean	-0.4	-0.4	-0.5	-0.4	-1.3
Reference Qtr	June 91	June 91	June 91	June 92	June 92
Mean	-0.2	-0.2	-0.2	-1.2	-1.7

Q.15 What is your expectation of the annual % change in the prevailing weekly wage rates index for the year to (reference quarter):

Survey Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Reference Qtr	Sept. 90	Dec. 90	Mar. 91	June 91	Sept. 91
Mean	5.0	4.7	4.2	4.3	3.3

Q.16 What is your expectation of the official HLFS unemployment rate for the:

Survey Qtr		Sept. 90	Dec. 90
Reference Qtr		June 90	Dec. 90
Mean		7.6	7.8
Reference Qtr		Mar. 91	Sept. 91
Mean		7.5	8.1