

SURVEY OF EXPECTATIONS

This article prepared by Bryan Chapple and Robin Clements, presents the results from the September quarter 1990 Reserve Bank of New Zealand Survey of Expectations.

INTRODUCTION

The RBNZ Survey of Expectations for the September quarter 1990 was conducted on Wednesday, 8 August 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.

Last quarter's survey included an additional question on the official Household Labour Force Survey (HLFS) unemployment rate. For this survey the HLFS question appears as question 16, which formerly concerned registered unemployment.

SAMPLE COMPOSITION

The response rate for this quarter was 65 per cent, with 162 of the 249 respondents in this quarter's sample having returned their completed questionnaires by the cut-off date.

Figure 1
Perceptions of Current and Future Monetary Conditions

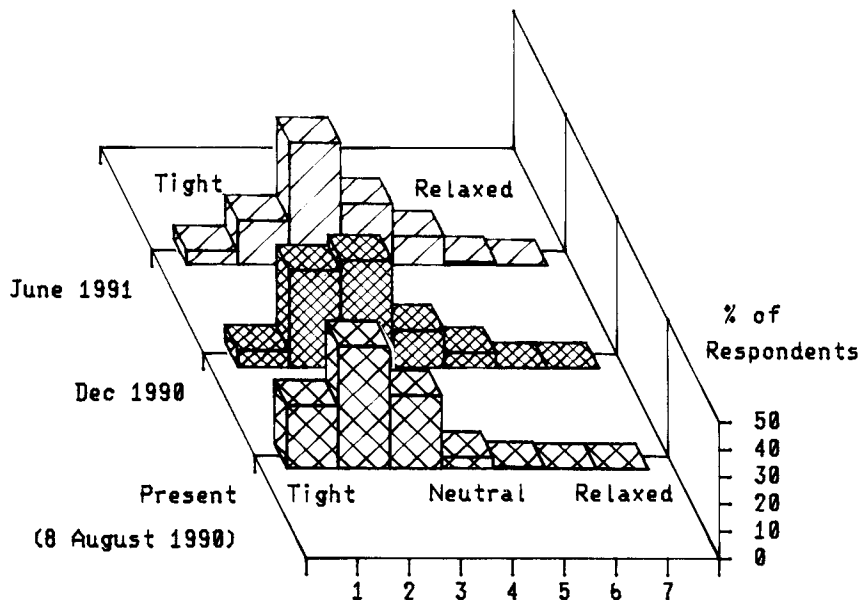
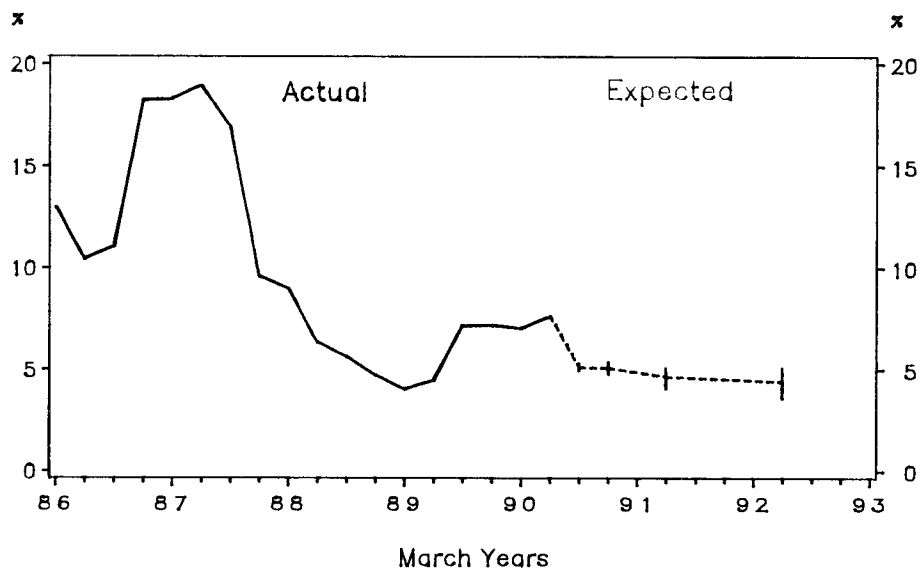


Figure 2
Actual And Surveyed Expectations Of The
Annual Percentage Change In The Consumers Price Index



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	..	51
Agricultural	..	21
Labour	..	7
Other	..	16
TOTAL:		<hr/> 162

SUMMARY OF RESULTS

● Monetary conditions perceived to be significantly tighter

There has been a notable movement towards perceptions of tighter monetary conditions since the June quarter survey. Some 94 per cent of respondents consider that current monetary conditions are tighter than neutral; up from 72 per cent in the last survey. Although monetary conditions are expected to ease over the coming year, both the one quarter ahead and year ahead perceptions indicate conditions are expected to remain tighter than previously anticipated. Over 80 per cent of respondents expect monetary conditions to be tighter than neutral by the end of December 1990, while 66 per cent expect this to still be the case by the end of June 1991. In the June quarter

survey, the corresponding figures were 62 per cent and 53 per cent.

There has been a slight increase in expectations of M3 growth rates for both the current year and the year ahead. M3 is now expected to increase by 4.6 per cent in the year to September 1990 and to rise by 5.1 per cent in the year ahead.

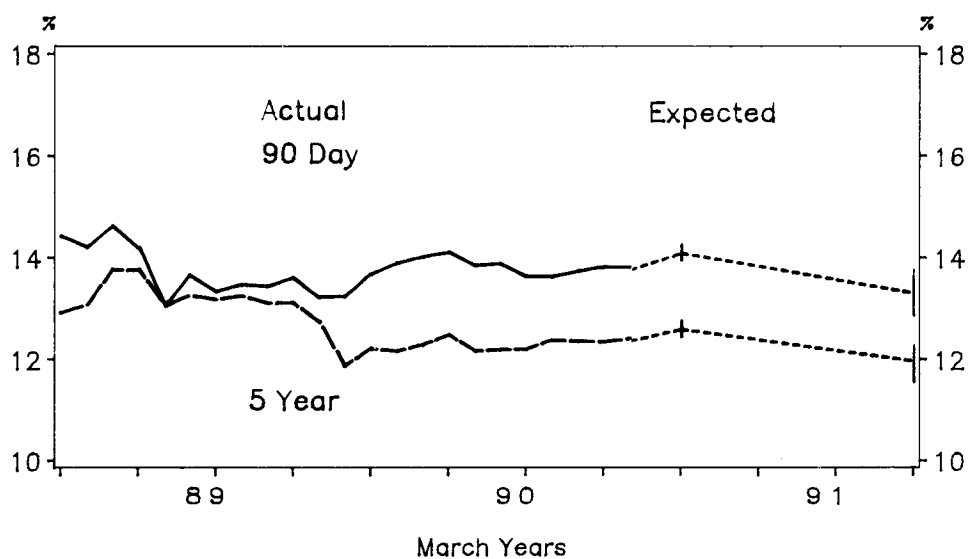
● **Long term inflation expectations rise slightly**

Expected quarterly increases in the CPI of 1 per cent in the September 1990 quarter and 1.2 per cent in the December quarter imply expected annual rates of inflation of 5 per cent for the years ending in these quarters. The current conflict in the Middle East, and subsequent oil price rises, are likely to have had some impact on inflation expectations with the one and two year ahead figures showing the first increases recorded this year. In the year to June 1991 inflation is expected to be 4.7 per cent, up from the 4.4 per cent year ahead expectation in the previous survey. Inflation is then expected to fall to 4.4 per cent in the year to June 1992, compared to last survey's two year ahead inflation expectation of 4 per cent.

● **Higher interest rates expected to persist**

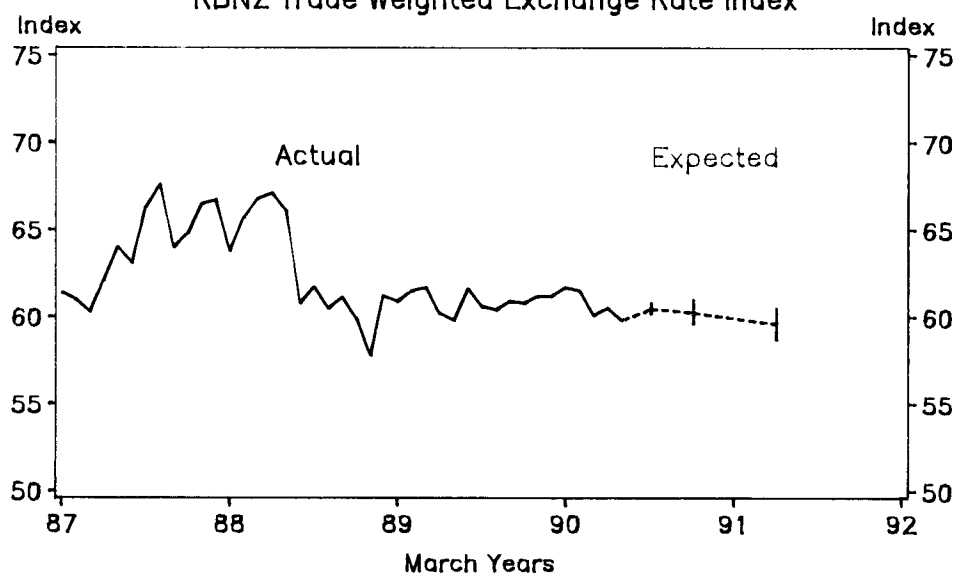
Although interest rates are still expected to decline over the coming year, their anticipated level is now higher than in the June quarter survey. These expectations are consistent with the tighter monetary conditions that are expected to prevail and the slight deterioration in the expected inflation outlook. Short-term interest rates are

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

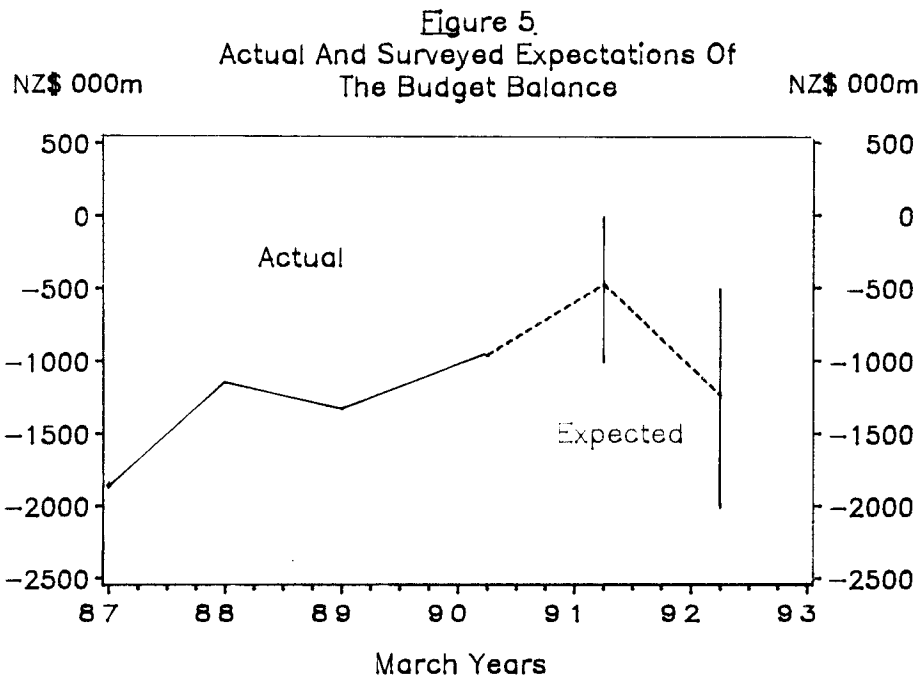
expected to fall from 14.1 per cent at the end of September 1990 to 13.3 per cent by the end of June 1991. Government stock rates are expected to decline by 0.5 percentage points to 12.1 per cent between September 1990 and June 1991. As a result, the yield gap is now expected to fall from 1.5 per cent at the end of September 1990 to 1.2 per cent by the end of June 1991. Both these figures represent increases in the expected yield gap over their June quarter counterparts; which is consistent with the anticipation of tighter monetary conditions.

● **Exchange rate expected to depreciate**

The cross rates against the Australian dollar and the pound are expected to be at lower levels than in the previous survey but are anticipated to remain stable over the coming year. Against the US dollar and the Yen, depreciations are expected over the year ahead. While a stronger depreciation in the TWI is expected in the coming year, compared with the year ahead expectation in the previous survey, little change is expected by the end of the current quarter. The TWI is now expected to depreciate by 1.6 per cent in the year to June 1991, as opposed to an anticipated decline of 0.7 per cent over the year ahead in the June quarter survey.

● **Little change in expectations of real activity**

Growth in real GDP is expected to be 0.3 per cent for both the June and September 1990 quarters, similar to the quarterly increases expected in the June quarter survey. Real GDP is expected to grow by 1.3 per cent in the year to June 1991, slightly lower than the 1.4 per cent increase previously expected.



● **Little current account improvement expected**

In contrast to the June quarter survey, respondents now expect little improvement in the current account deficit over the coming year. The deficit in the year to September 1990 is expected to be \$3.3 billion, falling to an expected level of \$3 billion in the year ending June 1991. In the previous survey a deficit of \$3.4 billion was expected for the current year, improving to \$2.7 billion in the year ahead.

● **Deterioration in fiscal position anticipated**

A deficit of \$0.4 billion in the Government's financial balance is expected in the year to June 1991, slightly higher than the result for the June 1991 year in the last survey. In the year to June 1992, respondents now expect the deficit to increase to \$1.2 billion, whereas in June a further improvement in the fiscal position was expected.

● **Average wage increase of 4.3 per cent expected**

Survey respondents expect an increase in the prevailing weekly wage rate index of 4.3 per cent in the year to June 1991. In the June quarter survey, an increase of 4.2 per cent was expected for the year ahead.

● **Slight increase in expectations of the unemployment rate**

The official HLFS unemployment rate was expected to be 7.6 per cent in the June quarter 1990, slightly above the actual result of 7.5 per cent which was released on 14 August 1990. At the end of March 1991, 7.5 per cent of the labour force are expected to be unemployed. This is slightly up on the 7.4 per cent expectation for the year ahead question in the last survey.

The next RBNZ Survey of Expectations is tentatively scheduled for 14 November 1990, with the results to be published in the December issue of the Bulletin.

SURVEY OF EXPECTATIONS HISTORICAL RESULTS¹

Monetary Conditions:²

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
Sept. 1989	1.6	11.8	42.8	31.0	11.2	1.6	0.0
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

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
Sept. 1989	Dec 1989	1.1	7.5	36.4	41.2	12.3	1.6	0.0
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
June 1989	Mar. 1990	1.1	8.0	31.4	38.9	17.1	3.4	0.0
Sept. 1989	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

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

Survey Qtr	Sept. 89	Dec. 89	Mar. 90	June 90	Sept. 90
Reference Qtr	Sept. 89	Dec. 89	Mar. 90	June 90	Sept. 90
Mean	5.6	5.6	5.9	4.0	4.6
Reference Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	6.4	5.8	6.0	4.6	5.1

Prices

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

Survey Qtr	Sept. 89	Dec. 89	Mar. 90	June 90	Sept. 90
Reference Qtr	Sept. 89	Dec. 89	Mar. 90	June 90	Sept. 90
Mean	2.5	1.5	1.1	1.1	1.0
Reference Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	1.4	1.3	1.2	1.0	1.2

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 (C.P.I.) for the year to (reference quarter):

Survey Qtr	Sept. 89	Dec. 89	Mar. 90	June 90	Sept. 90
Reference Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	6.2	5.5	4.9	4.4	4.7
Reference Qtr	June 91	Sept. 91	Dec. 91	Sept. 90	June 92
Mean	4.6	4.8	4.4	4.0	4.4

Interest Rates

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

Survey Qtr	Sept. 89	Dec. 89	Mar. 90	June 90	Sept. 90
Reference Qtr	Sept. 89	Dec. 89	Mar. 90	June 90	Sept. 90
Mean	12.7	13.5	13.5	13.4	14.1
Reference Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	11.9	12.5	12.8	12.7	13.3

Q7 What do you expect the 5-year Government Security market yield to be at the end of (reference quarter):

Survey Qtr	Sept. 89	Dec. 89	Mar. 90	June 90	Sept. 90
Reference Qtr	Sept. 89	Dec. 89	Mar. 90	June 90	Sept. 90
Mean	12.2	12.4	12.0	12.3	12.6
Reference Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	11.5	11.7	11.6	11.7	12.1

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	Sept. 89	Dec. 89	Mar. 90	June 90	Sept. 90
US Dollar					
Reference Qtr	Sept. 89	Dec. 89	Mar. 89	June 90	Sept. 90
Mean	0.593	0.587	0.588	0.573	0.593
Reference Quarter	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	0.590	0.584	0.584	0.568	0.585
Reference Qt	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	0.582	0.579	0.582	0.566	0.575
Australian Dollar					
Reference Qtr	Sept. 89	Dec. 89	Mar. 90	June 90	Sept. 90
Mean	0.779	0.753	0.782	0.760	0.756
Reference Qt	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	0.784	0.759	0.782	0.763	0.757
Reference Qt	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	0.780	0.767	0.782	0.768	0.755
Pound Sterling					
Reference Qtr	Sept. 89	Dec. 89	Mar. 90	June 90	Sept. 90
Mean	0.362	0.370	0.350	0.346	0.323
Reference Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	0.360	0.369	0.348	0.346	0.323
Reference Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	0.355	0.365	0.365	0.348	0.323

Japanese Yen					
Reference Qtr	Sept. 89	Dec. 89	Mar. 90	June 90	Sept. 90
Mean	82.2	83.8	84.6	89.7	89.1
Reference Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	81.6	82.8	83.6	88.5	88.4
Reference Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	80.5	81.8	82.7	88.0	87.4

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

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

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

Survey Qtr	Sept. 89	Dec. 89	Mar. 90	June 90	Sept. 90
Reference Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	-0.8	0.0	-0.6	-0.7	-1.6

Others:

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

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

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

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

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	Sept. 89	Dec. 89	Mar. 90	June 90	Sept. 90
Reference Qtr	Sept. 89	Dec. 89	Mar. 90	June 90	Sept. 90
Mean	-1.1	-0.8	-2.1	-3.4	-3.3
Reference Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	-1.0	-0.7	-2.0	-2.7	-3.0

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

Survey Qtr	Sept. 89	Dec. 89	Mar. 90	June 90	Sept. 90
Reference Qtr	June 90	June 90	June 90	June 90	June 91
Mean	-0.8	-0.4	-0.4	-0.5	-0.4
Reference Qtr	June 91	June 91	June 91	June 91	June 92
Mean	-0.4	-0.2	-0.2	-0.2	-1.2

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	Sept. 89	Dec. 89	Mar. 90	June 90	Sept. 90
Reference Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	4.9	5.0	4.7	4.2	4.3

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

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