

RESERVE BANK OF NEW ZEALAND SURVEY OF EXPECTATIONS

The results from the September 1987 quarter Reserve Bank survey of expectations are presented below:

Introduction

The second quarterly RBNZ Survey of Expectations was conducted by MRL Research Group on 26 August 1987 and covered 175 influential New Zealanders involved in finance and business. (Note that the results of the survey reflect expectations held by survey respondents and in no way represent the views of the Reserve Bank.)

The distribution of respondents across the activity categories was:

Financial	80
Business	58
Agricultural	19
Labour	4
Other	14
	175

After briefly discussing the basis for determining the date on which each quarter's survey is conducted, the results for the September quarter survey are summarised.

Survey Date

The survey date (here, 26 August) is determined so as to attempt to avoid any anticipated announcements or other news that could influence expectations. This date

will generally be the Wednesday of the second week of the middle month of each quarter. Occasionally, the actual survey date will differ from this general guideline because of the timing of particular events such as, in this case, the recent General Election. Respondents are requested to complete the questionnaire as close as possible to the time and date specified in order to minimise the possibility of respondents having different information available depending on exactly when the questionnaire was filled out. If, for example, a significant economic event occurred on the survey date, respondents who completed the questionnaire prior to the event might have expectations different from those who completed it afterwards. Such an outcome would make interpretation of the results particularly difficult. Respondents are asked to record the time and date at which the questionnaire is completed, in case some announcement occurs at a critical time. (Note that the date of the present survey preceded the Reserve Bank's announcement in early September of a reduction in the cash target to \$20 million.)

Summary of the September 1987 Quarter's Survey Results

- **Present monetary conditions are seen as neutral to tight and are expected to remain so until June 1988.**

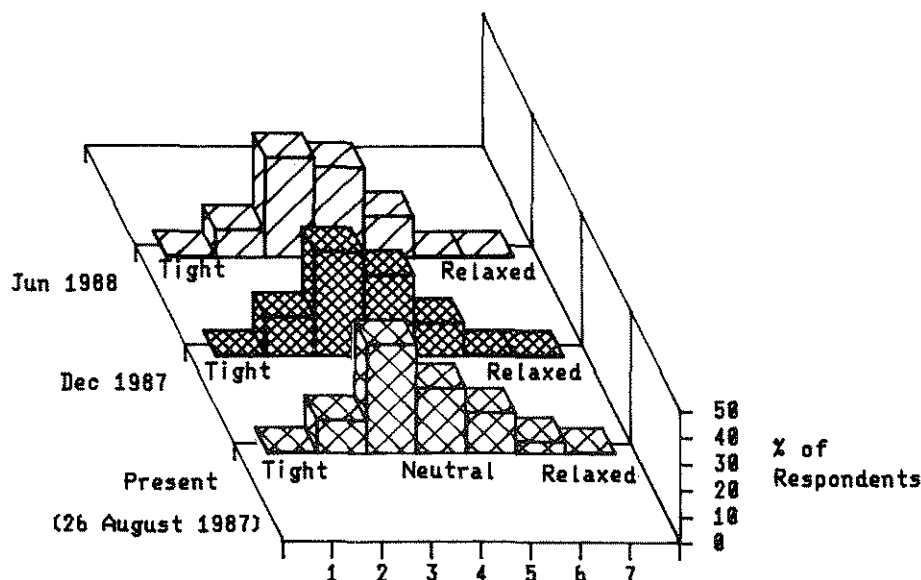
Around 66 per cent of respondents perceived present monetary conditions (ie. on 26 August) to be neutral or slightly tighter than neutral with this perception remaining for the period to June 1988. (Refer Figure 1.) The rate of M3 growth is expected to decline over the same period to reach an annual rate of 13.1 per cent by June 1988. (Note that the numbers referred to are the mean expectation unless otherwise stated.)

- **Annual CPI inflation is expected to be 9.8 per cent by June 1988.**

The quarterly change in the Consumers Price Index for September is expected to be 2.3 per cent, up marginally on the 2.2 per cent expected for the September quarter in the June survey. With a 2.2 per cent quarterly change expected for December, an implied 10.5 per cent annual rate is expected for the year to December 1987. The annual rate

Figure 1

Current Perception of Present and Future Monetary Conditions



of CPI inflation is then expected to fall to 9.8 per cent by June 1988 and 8.3 per cent by June 1989. The profile expected for the annual rate of CPI inflation is shown in Figure 2.

- **Long-term interest rates are expected to fall to 14.5 per cent by the end of June 1988.**

The five year government security market yield is expected to decline to 16.2 per cent by the end of September 1987 and fall further to 14.5 per cent by the end of June 1988. At the shorter end of the yield curve, 90-day prime commercial bill market yields are expected to fall to 17.9 per cent by the end of September 1987 and 15.7 per cent by the end of June 1988. The closing of the yield gap (i.e. the difference between long-term and short-term interest rates) resulting from these respective five year and 90-day yield expectations is shown in Figure 3.

- **The exchange rate is expected to appreciate over the September quarter but to fall by 2.4 per cent for the year to June 1988.**

The Reserve Bank Trade Weighted Index (a measure of the general movement in exchange rates) is expected to rise by 0.4 per cent over the September quarter and to fall by 1.4 per cent over the December quarter. A decline of 2.4 per cent is expected for the index for the year to June 1988 (refer Figure 4 for the implied index levels). The individual cross rates for the New Zealand dollar are expected to depreciate against the major currencies by 4-6 per cent between the end of September 1987 and the end of June 1988.

- **Real Gross Domestic Product is expected to be largely unchanged over the June and September 1987 quarters but to rise by nearly 1 per cent in the year to June 1988.**

Real GDP is expected to stay constant over the June 1987 quarter and to increase by 0.2 per cent over the September 1987 quarter. An increase of 0.8 per cent is expected for the full year to June 1988.

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

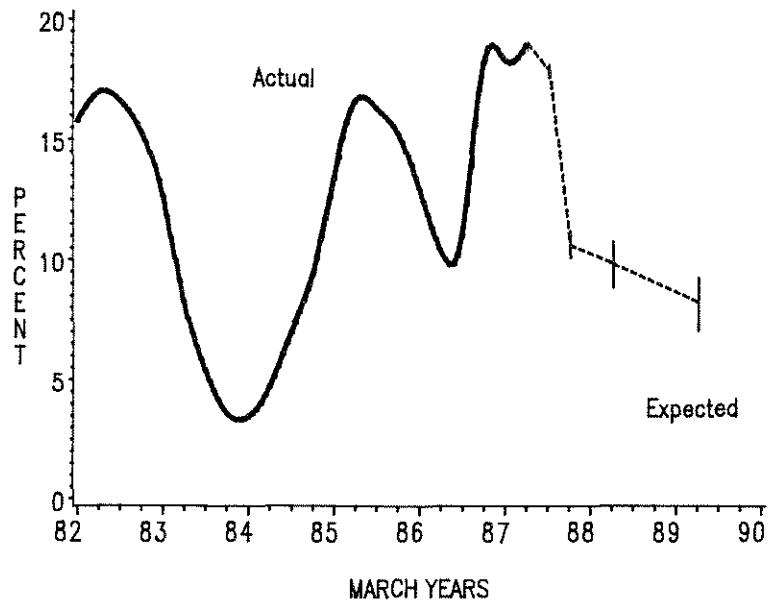
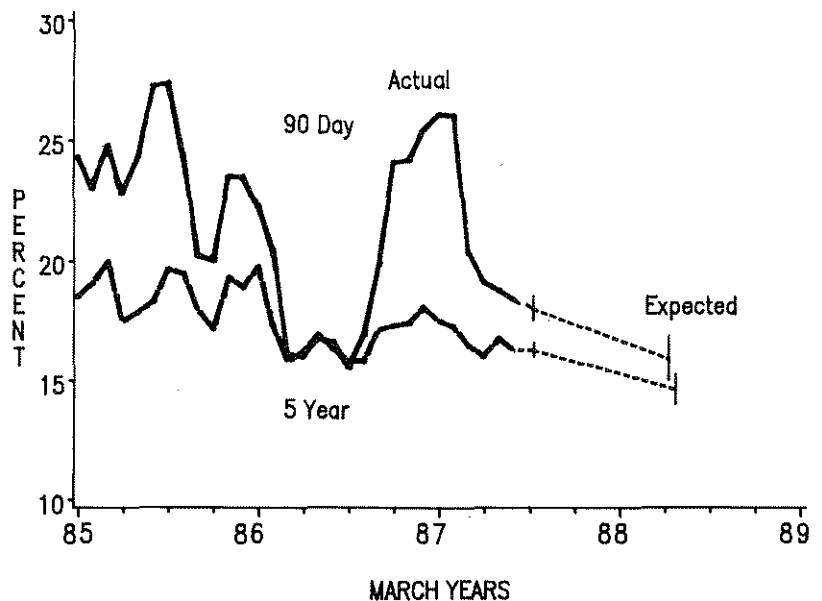


Figure 3
Actual And Surveyed Expectations Of 90 Day Commercial Bill And Five Year Government Stock Interest Rates



- **The current account balance is expected to continue to improve over the year to June 1988.**

A deficit of \$1.8 billion is expected for the external balance of payments on current account for the year to September 1987. The deficit is then expected to improve further to \$1.6 billion for the year to June 1988. Figure 5 shows the trend expected for the current account.

- **The Government budget deficit is expected to fall in the next financial year but to remain in deficit for both the 1988 and 1989 financial years.**

For the current financial year (to March 1988) the Budget Table 2 deficit is expected to be \$0.5 billion with a fall to \$0.3 billion expected for the financial year to March 1989.

- **Wage rates are expected to rise by 8.7 per cent for the year to June 1988.**

The annual percentage change in the prevailing weekly wage rates index for the year to June 1988 is expected to be 8.7 per cent.

- **The level of registered unemployment is expected to worsen over the year to June 1988.**

By September 1987 the number of unemployed persons registered with the Labour Department (excluding special work schemes and vacation workers) is expected to be 89,200. This total is expected to increase to 95,000 by June 1988. (The range of responses to this question suggests the results should be treated with some caution.)

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

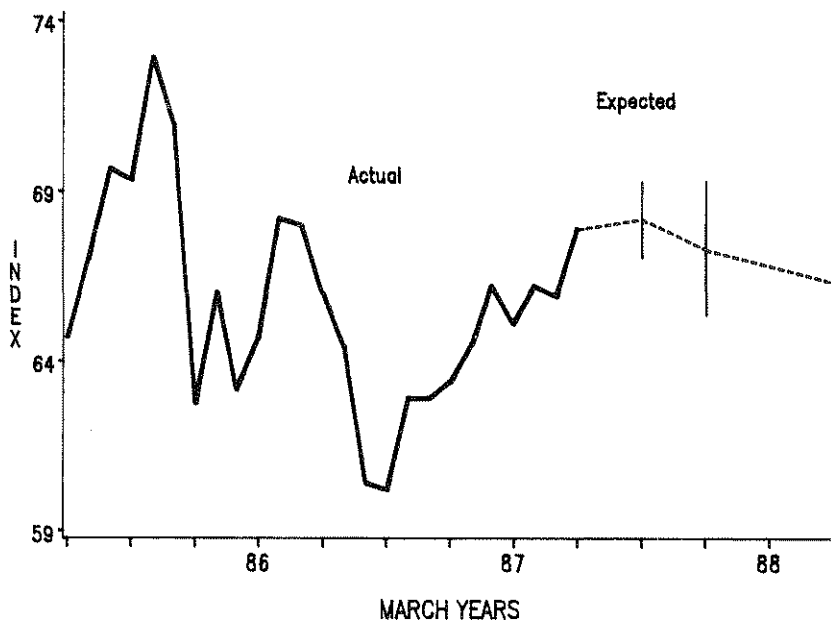


Figure 5
Actual And Surveyed Expectations Of The
Annual Current Account Balance

