

RESERVE BANK OF NEW ZEALAND SURVEY OF EXPECTATIONS

This article, prepared by Andrew McDouall and Robin Clements, presents the results from the December 1988 quarter Reserve Bank Survey of Expectations.

Introduction

The RBNZ Survey of Expectations for the December quarter was conducted on Wednesday 2 November 1988. As always, the results of the survey represent expectations held by respondents and in no way represent views or forecasts of the Reserve Bank.

It should also be noted that the survey was conducted prior to the political turmoil on 4 November which culminated in the dismissal of Mr Prebble from Cabinet on 5 November.

The distribution of respondents across the various activity groups covered by the December 1988 survey was:

Financial.....	81
Business.....	65
Agricultural.....	20
Labour.....	9
Other.....	16
TOTAL	191

After briefly describing the question design used in this survey, the

results for the December quarter are summarised. In addition, the current quarters' results, along with the four previous quarters' full survey results, are reported in the tables following this article.

Question Design

There are two main types of question design that can be utilised in business surveys: qualitative questions; and quantitative questions. The qualitative type of questions are most commonly used in determining trends in business opinion and usually consist of various derivatives of 'up/down/no change' choices. The major drawback of this type of question is that there is no effective means of converting the responses into a quantitative figure for use in analysis and research. The fundamental problem is that these questions obtain an indication of the direction of movement expected but give no information about the magnitude of the movement.

Primarily for this reason, but also because the pilot survey taken in

early 1987 suggested that respondents preferred this option, this survey uses quantitative questions asking for specific numeric responses. This particular aspect differentiates the RBNZ Survey of Expectations from most other business surveys undertaken in New Zealand.

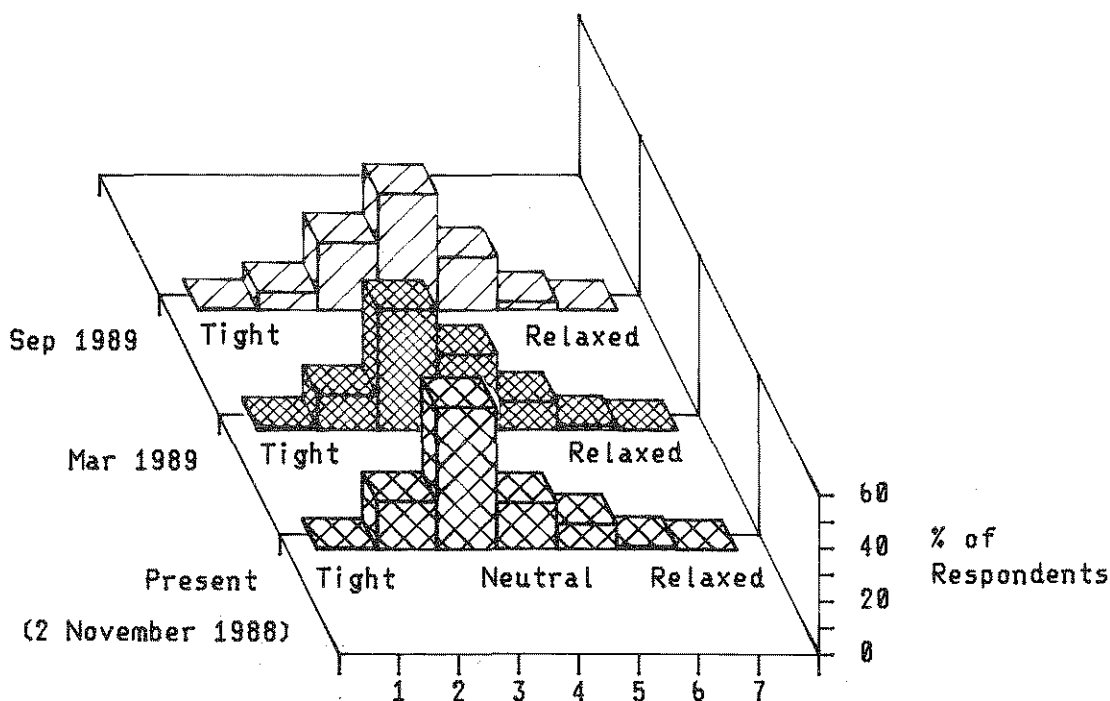
Summary of Results

- Perceptions are that monetary conditions remain tight but slightly less so than in the previous survey.

Some 72 per cent of respondents consider monetary conditions to be tighter than neutral but, while this response is virtually unchanged from the September quarter result, there has been some lessening in the degree of tightness perceived. Monetary conditions are expected to ease by the end of March 1989 and to be fairly neutral by the end of September 1989. Expectations for annual M3 growth rates show that the current quarter's expectations

Figure 1

Perceptions of Current and Future Monetary Conditions



are more than 1 percentage point lower than that previously surveyed but that there has been little change in the one year out expectation.

- Little change in inflationary expectations despite the recent depreciation in the exchange rate.

Expected quarterly increases in the CPI of 1.1 per cent in both the December and March quarters imply annual rates of inflation of 4.7 per cent and 3.9 per cent in the years ending in these quarters. An implicit rise in the rate of inflation is then anticipated, with an annual figure to September 1989 of 4.8 per cent which then remains essentially unchanged in the year to September 1990, when a rate of 4.7 per cent is expected. Both annual expectations are practically the same as those in the September quarter survey, despite the recent exchange rate depreciation.

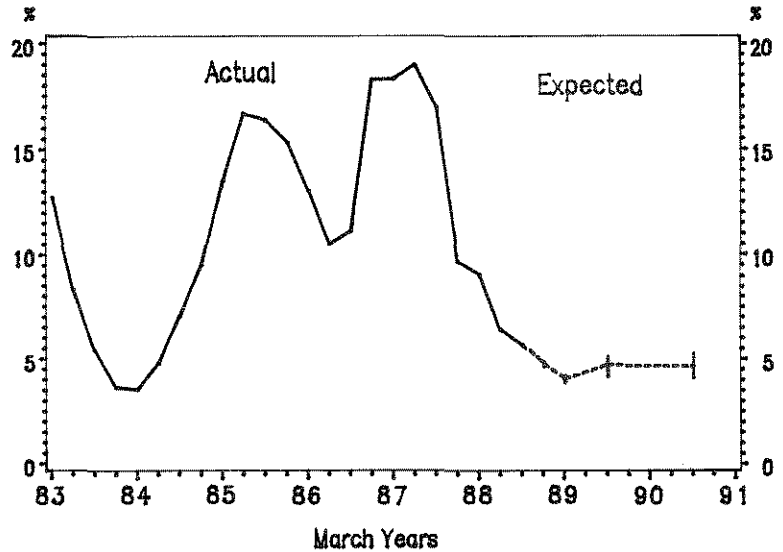
- No change in expectations for long term interest rates.

While the expectation for the 90-day Bank bill rate by the end of this quarter is down on September's survey result, all of the other interest rate expectations are virtually unaltered. The market yield for Bank bills is expected to be 13.9 per cent by the end of December 1988 and 12.6 per cent by the end of September 1989. The 5-year Government Security market yield is expected to be 12.6 per cent by the end of December 1988 and to fall to 11.6 per cent by the end of September 1989.

- The exchange rate is still expected to depreciate over the coming year despite being at a lower level.

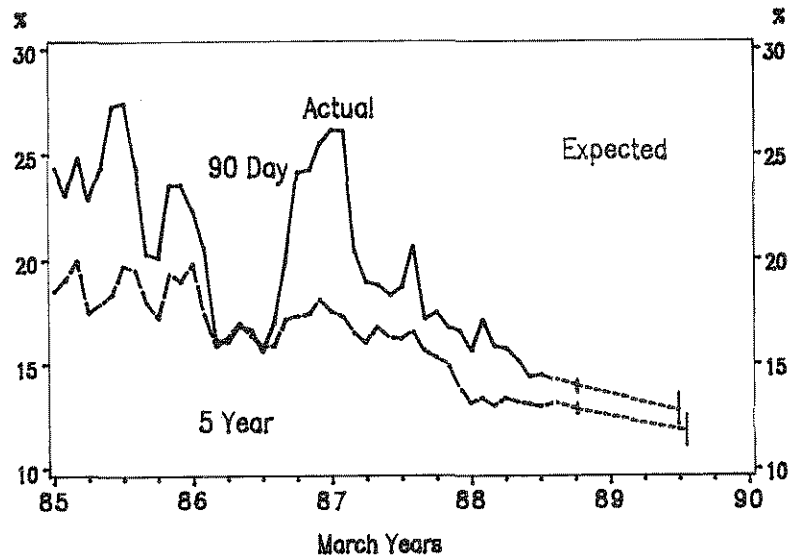
Even though the exchange rate was some 10 per cent lower than it was at the time of the last survey, the decline anticipated over the next year is nevertheless similar to that expected in the last survey. The Reserve Bank's trade weighted index is expected to depreciate by 0.5 per cent over both the December and March quarters, and by 2.5 per cent in the year to September 1989.

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

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

- Some growth in real GDP is expected over the next twelve months. A seasonally adjusted fall in real Gross Domestic Product of 0.2 per

cent is expected for the September 1988 quarter, while a slight rise of 0.1 per cent is anticipated over the December quarter. Overall growth for real GDP of 0.3 per cent is ex-

pected for the year to September 1989. This result, while being rather tentative, is somewhat more positive than the results of the previous survey, which indicated a year ahead decline in real GDP of 0.1 per cent.

- Improvements in the current account balance expected to be sustained.

A deficit of \$1.5 billion is expected for the External Balance of Payments on Current Account for the year ended December 1988 and little change is then anticipated for the year to September 1989, with a deficit of \$1.4 billion being expected.

- Reduced confidence in the Government's ability to achieve Table 2 surpluses in the next two financial years.

Government Budget Table 2 surpluses of \$0.3 billion and \$0.2 billion are expected in the current and next financial years respectively. These values are down on the corresponding values from the previous survey of \$0.7 billion and \$0.6 billion.

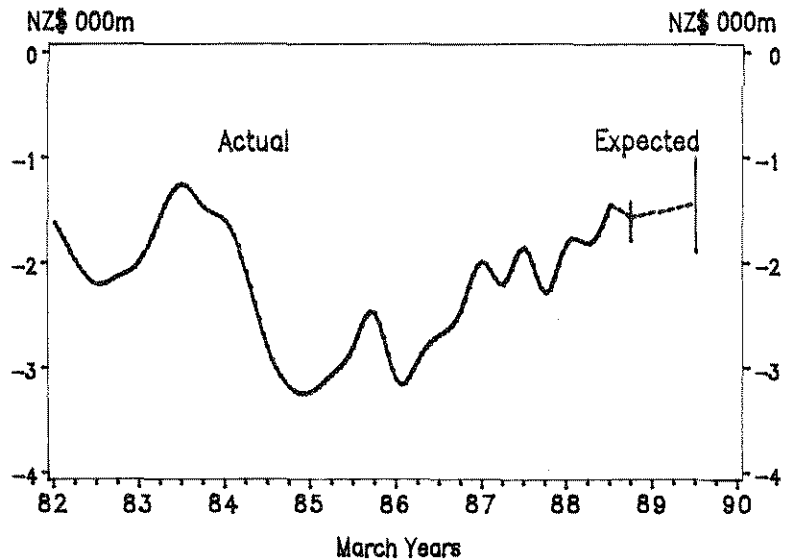
- Average wage rate rises of 4.7 per cent are expected in the year to September 1989.

The annual percentage change in the prevailing weekly wage rates index for the year to September 1989 is expected to be 4.7 per cent, slightly higher than the 4.5 per cent figure from the previous survey, but still considerably lower than increases previously expected.

- Expectations for unemployment levels in one year's time are lower than the previous survey for the first time.

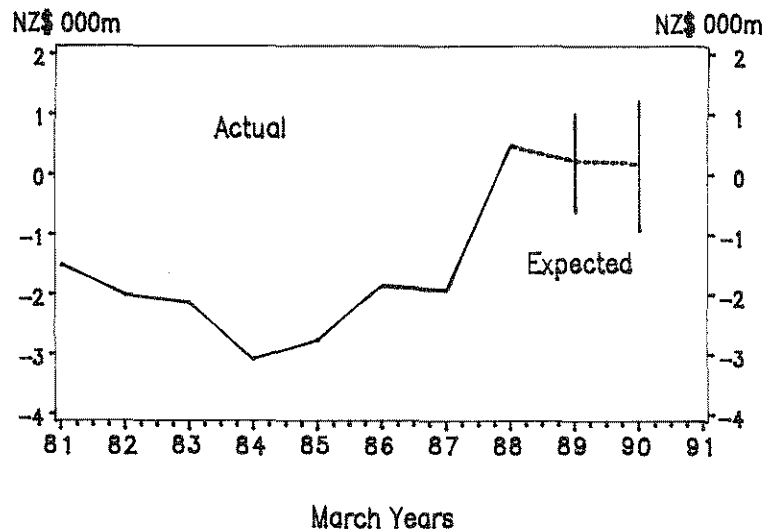
Whereas expected unemployment numbers have moved up from survey to survey since the survey's inception, the level of unemployment expected in one year from now has declined on last survey's result for the first time. It is anticipated that the number of unemployed persons registered with the Labour Department (excluding special work schemes and vacation workers) will be 141,000 by the end of December 1988 and will increase to 145,000 by

Figure 4
Actual And Surveyed Expectations Of The Annual Current Account Balance



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

Figure 5
Actual And Surveyed Expectations Of The Government Budget Balance



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

the end of September 1989. However, this latter figure compares with 154,000 expected by the end of June 1989 in the September quarter survey.

The next survey of expectations is tentatively scheduled for 8 February 1989, with the results to be presented in the March issue of the *Bulletin*.

**SURVEY OF EXPECTATIONS
HISTORICAL RESULTS¹**

Monetary Conditions²:

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	
Dec. 1987	1.1	20.2	26.4	18.5	29.8	3.4	0.6
Mar. 1988	1.6	14.1	30.8	27.0	22.7	2.7	1.1
June 1988	7.2	44.2	40.9	3.9	3.3	0.0	0.6
Sept. 1988	4.0	25.3	40.9	17.7	10.6	1.5	0.0
Dec. 1988	0.5	18.0	53.4	17.5	9.5	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	
Dec. 1987	Mar. 1988	0.6	15.1	36.3	23.5	18.4	5.0	1.1
Mar. 1988	June 1988	0.5	6.0	32.4	30.8	23.6	5.5	1.1
June 1988	Sept. 1988	1.6	17.0	58.2	18.7	3.8	0.0	0.5
Sept. 1988	Dec. 1988	2.0	17.7	41.9	24.2	12.1	2.0	0.0
Dec. 1988	Mar. 1989	1.1	13.2	45.3	28.4	10.5	1.6	0.0
Mar. 1988	Dec. 1988	0.5	6.0	23.1	37.9	21.4	9.3	1.6
June 1988	Mar. 1989	2.2	8.9	36.1	41.1	8.3	2.8	0.6
Sept. 1988	June 1989	2.0	6.1	33.3	35.7	19.4	3.6	0.0
Dec. 1988	Sept. 1989	0.5	6.9	25.4	43.9	20.1	3.2	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	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Reference Qtr	Dec. 87	Mar. 87	June 88	Sept. 88	Dec. 88
Mean	15.5	14.1	12.0	10.7	9.3
Reference Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Mean	12.8	11.8	9.9	8.7	8.5

Prices:

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

Survey Qtr	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Reference Qtr	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Mean	2.1	1.8	1.4	1.0	1.1
Reference Qtr	Mar. 88	June 88	Sept. 88	Dec. 88	Mar. 89
Mean	1.9	1.7	1.4	1.1	1.1

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

Survey Qtr	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Reference Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Mean	8.9	7.7	6.6	4.9	4.8
Reference Qtr	Sept. 89	Dec. 89	Mar. 90	June 90	Sept. 90
Mean	7.4	6.7	5.6	4.6	4.7

Interest Rates:

Q.6 What do you expect the 90-day Bank Bill market yield to be at the end of (reference quarter)³:

Survey Qtr	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Reference Qtr	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Mean	17.7	16.3	15.9	14.6	13.9
Reference Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Mean	15.2	14.2	13.8	12.8	12.6

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

Survey Qtr	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Reference Qtr	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Mean	15.6	14.6	13.1	12.7	12.6
Reference Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Mean	13.7	13.0	11.8	11.5	11.6

Exchange Rates:

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

Survey Qtr	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
US Dollar					
Reference Qtr	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Mean	0.600	0.653	0.675	0.658	0.616
Reference Qtr	Mar. 88	June 88	Sept. 88	Dec. 88	Mar. 89
Mean	0.583	0.631	0.660	0.644	0.608
Reference Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Mean	0.565	0.609	0.640	0.623	0.597

Australian Dollar

Reference Qtr	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Mean	0.888	0.920	0.882	0.830	0.757
Reference Qtr	Mar. 88	June 88	Sept. 88	Dec. 88	Mar. 89
Mean	0.870	0.901	0.865	0.815	0.749
Reference Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Mean	0.850	0.879	0.851	0.799	0.744

Pound Sterling

Reference Qtr	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Mean	0.345	0.367	0.361	0.387	0.353
Reference Qtr	Mar. 88	June 88	Sept. 88	Dec. 88	Mar. 89
Mean	0.338	0.357	0.352	0.373	0.348
Reference Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Mean	0.331	0.347	0.342	0.361	0.342

Japanese Yen

Reference Qtr	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Mean	82.3	84.4	84.3	88.0	78.5
Reference Qtr	Mar. 88	June 88	Sept. 88	Dec. 88	Mar. 89
Mean	80.1	82.7	82.4	86.1	77.2
Reference Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Mean	78.1	80.2	80.8	83.9	75.9

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

Survey Qtr	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Reference Qtr	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Mean	-1.5	-0.1	0.5	-0.4	-0.5
Reference Qtr	Mar. 88	June 88	Sept. 88	Dec. 88	Mar. 89
Mean	-1.4	-1.8	-1.2	-1.2	-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	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Reference Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Mean	-4.2	-3.7	-2.0	-2.6	-2.5

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	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Reference Qtr	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Mean	0.0	-0.2	-0.2	-0.4	-0.2
Reference Qtr	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Mean	-0.2	-0.4	-0.2	-0.3	0.1

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)⁴:

Survey Qtr	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Reference Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Mean	-0.1	-0.4	-0.2	-0.1	0.3

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. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Reference Qtr	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Mean	-1.8	-2.0	-1.9	-1.6	-1.5
Reference Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Mean	-1.6	-1.9	-1.8	-1.5	-1.4

Q.14 What is your expectation of the Government Budget Table 2 balance (in \$ billions) for the year to (reference quarter):

Survey Qtr	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Current financial year	Mar. 88	Mar. 88	Mar. 89	Mar. 89	Mar. 89
Mean	-0.6	-0.5	0.3	0.7	0.3
Next financial year	Mar. 89	Mar. 89	Mar. 90	Mar. 90	Mar. 90
Mean	-0.5	-0.2	0.3	0.6	0.2

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	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Reference Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Mean	7.7	7.0	6.2	4.5	4.7

Q.16 What do you expect the number of unemployed persons registered with the Labour Department (excluding special work schemes and vacation workers, in 000's) to be at the end of (reference quarter):

Survey Qtr	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Reference Qtr	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Mean	97	105	113	128	141
Reference Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Mean	110	122	126	154	145

¹ The survey quarter refers to the quarter in which the survey was undertaken, with the actual survey dates being: 26 August 1987; 11 November 1987; 10 February 1988; 11 May 1988; 10 August 1988; 2 November 1988. 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.

³ Prior to the March quarter 1988 survey this question referred to the 90-day Prime Commercial Bill market yield.

⁴ This question was changed for the December quarter 1987 survey to ask for the annual *average* % change from the previous question which had asked for the annual % change.