

RESERVE BANK OF NEW ZEALAND SURVEY OF EXPECTATIONS

This article, by Robin Clements, presents the results from the March 1988 quarter Reserve Bank survey of expectations

Introduction

The RBNZ Survey of Expectations for the March quarter was conducted on Wednesday, 10 February 1988. This was the fourth survey and marks the completion of the survey's first year of operation. Note that the results of the survey represent expectations held by survey respondents and in no way represent the views of the Reserve Bank.

The distribution of respondents across the activity groups was:

Financial.....	84
Business.....	59
Agricultural.....	18
Labour.....	10
Other.....	15
Total:.....	186

The announcement by the Minister of Finance of additional details concerning the implementation of the 17 December 1987 economic package came just prior to the survey's target completion time of 3 p.m. on 10 February 1988. As a

consequence, interpretation of the results must take into account that the overall survey results consist of around a third of responses made before the announcement and two-thirds after.

Summary of Results

– Present monetary conditions are seen as being relatively tight but are expected to ease by December 1988.

Perceptions of current monetary conditions are similar to those in the December 1987 quarter survey with some 47 per cent of respondents regarding present monetary conditions to be tighter than neutral. However, unlike the previous survey where conditions were then expected to firm slightly, only 30 per cent of respondents expect monetary conditions to be tighter than neutral by the end of December 1988. The annual growth rates expected for M3 are both down on those previously surveyed with a

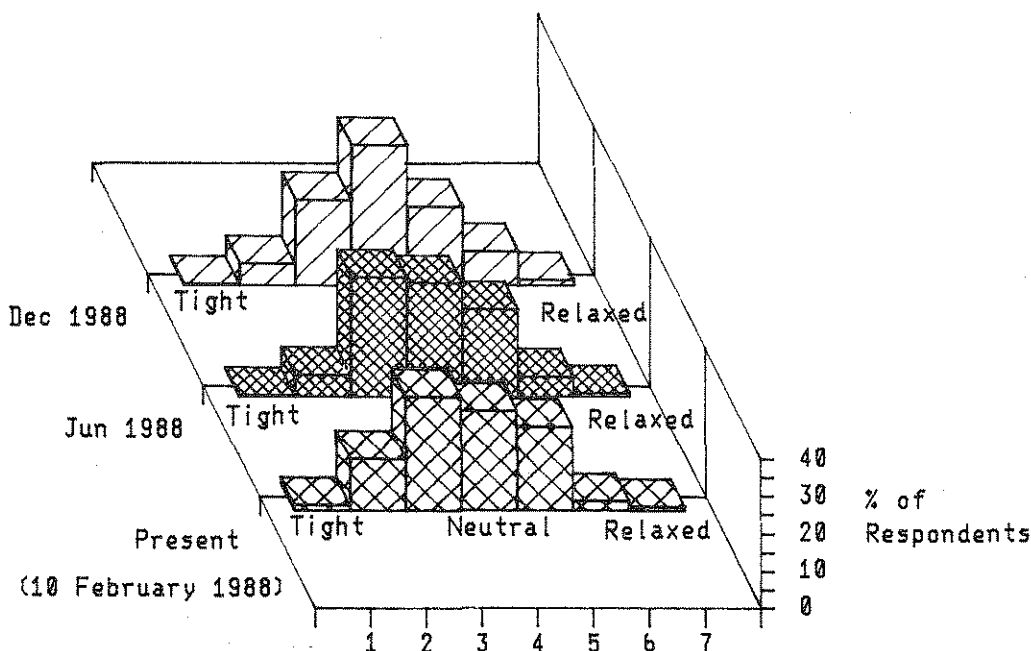
14.1 per cent increase expected in the year to March 1988 and 11.8 per cent for the year to December 1988. (Note that the numbers used in the text refer to the mean expectation unless otherwise stated.)

– Year ahead inflationary expectations have fallen by more than 2 percentage points since September 1987.

The consumers price index is expected to increase by 1.8 per cent in the March quarter and 1.7 per cent in the June quarter. Figure 1 illustrates that, by using these results, an implied 9 per cent annual rate is expected for the year to the March quarter 1988 and 7.4 per cent by the June quarter. The annual rate of CPI inflation expected for the year to December 1988 is marginally higher at 7.7 per cent which, given the March and June quarter expectations, implies an average increase of around 2 per cent for the September and December quarters. The year ahead expected annual in-

Figure 1

Perceptions of Current and Future Monetary Conditions



flation rate of 7.7 per cent is 2.1 percentage points below the year ahead inflation expectation in the September survey. By December 1989 the annual inflation rate is expected to have declined to 6.7 per cent.

– Long-term interest rates of 13 per cent are expected by the end of December 1988.

The 90-day Bank bill market yield is expected to fall to 16.3 per cent by the end of March 1988 and 14.2 per cent by the end of December 1988. In line with the fall in inflationary expectations, the 5-year government security market yield is expected to decline to 14.6 per cent by the end of March 1988 and to continue to fall to 13 per cent by the end of December 1988. As shown in figure 2, these expectations imply a closing of the yield gap (i.e. the difference between short-term and long-term interest rates), from 1.7 percentage points to 1.2 percentage points, consistent with the anticipated easing of monetary conditions.

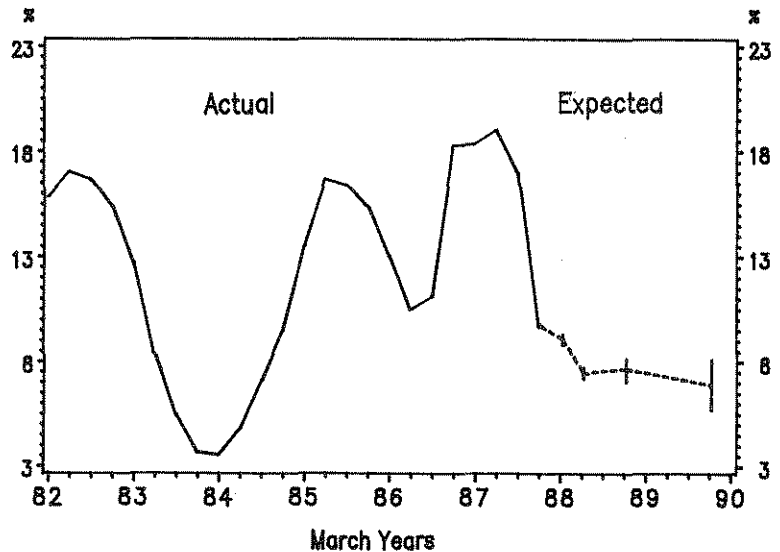
– The exchange rate is expected to depreciate by 3.7 per cent in the year to December 1988.

The Reserve Bank Trade Weighted Index is expected to be virtually unchanged over the March quarter, then to depreciate by 1.8 per cent in the June quarter and 3.7 per cent for the year to December 1988. The New Zealand dollar is expected to depreciate against each of the major currencies with the greatest depreciations, between the end of March 1988 and the end of December 1988, expected against the US dollar and the pound.

– An average decline in Real Gross Domestic Product of 0.4 per cent is expected for the year to December 1988.

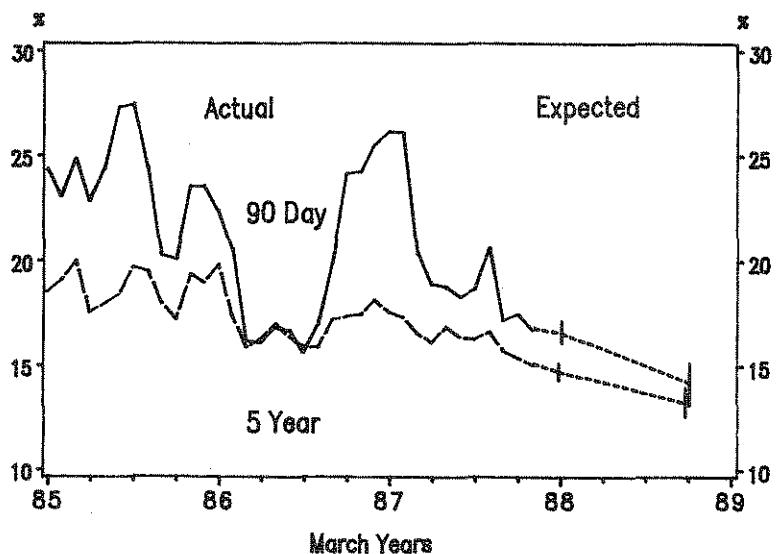
Real GDP is expected to fall by 0.2 per cent and 0.4 per cent in seasonally adjusted terms for the December 1987 and March 1988 quarters respectively, while an aver-

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

age decrease of 0.4 per cent is expected for the full year to December 1988.

- No significant improvement in the current account balance is expected in the year to December 1988.

A deficit of \$2 billion is expected for the External Balance of Payments on Current Account for the year ended March 1988 and little change in the deficit is expected for the year to December 1988 at \$1.9 billion.

- Although the expected Government Budget Balance for the next two financial years has improved, it is still expected to remain in deficit for both 1988 and 1989.

For the current financial year (to March 1988), the Table 2 Budget balance is expected to be \$0.5 billion in deficit compared with a \$0.6 billion deficit expected in the December survey. A \$0.2 billion deficit is expected for the financial year to March 1989, whereas a deficit of \$0.5 billion was previously expected.

- Wage rates are expected to rise by 7 per cent for the year to December 1988.

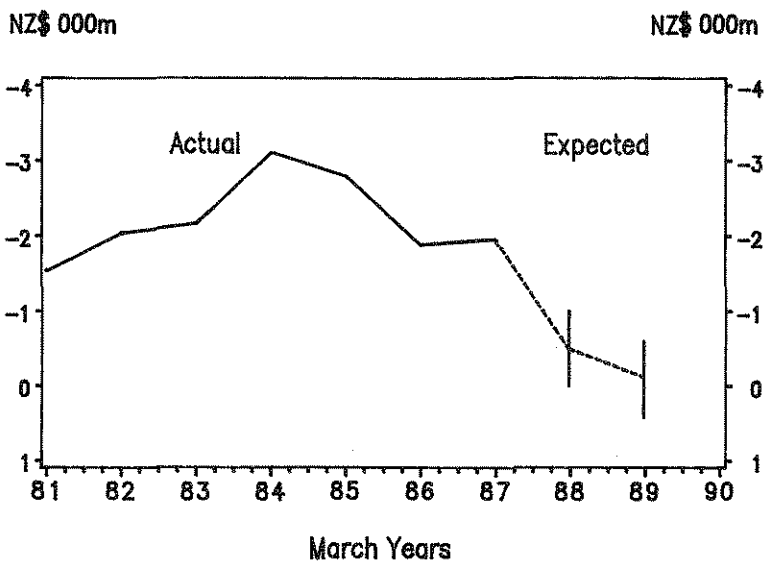
The annual percentage change in the prevailing weekly wage rates index for the year to December 1988 is expected to be 7 per cent, down on the 7.7 per cent expected for the year to September 1988.

- The level of registered unemployment is expected to worsen significantly over the year to December 1988.

The number of unemployed persons registered with the Labour department (excluding special work schemes and vacation workers) is expected to be 105,000 by the end of March 1988 and to increase to 122,000 by the end of December 1988. (The range of responses to this question still suggests the results should be treated with some caution.)

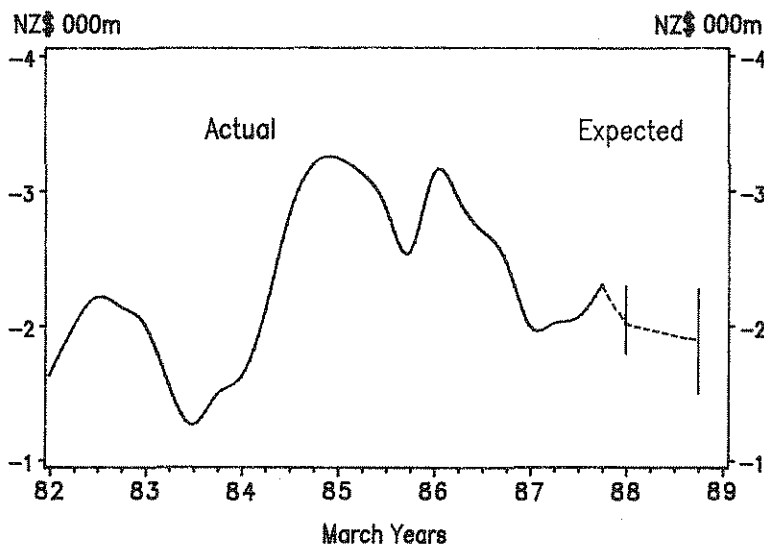
The next survey of expectations is

Figure 4
Actual And Surveyed Expectations Of
The Government Budget Balance



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

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



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

tentatively scheduled for 11 May 1988, with the results to be presented in the June quarter 1988 issue of this Bulletin.