

# RESERVE BANK OF NEW ZEALAND SURVEY OF EXPECTATIONS

*This article, prepared by Robin Clements, presents the results from the September 1988 quarter Reserve Bank Survey of Expectations.*

## Introduction

The RBNZ Survey of Expectations for the September quarter was conducted by MRL Research Group on Wednesday, 10 August 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.

The recent interest rate and exchange rate movements have resulted in some of the expectations contained in this report being already surpassed. While this situation certainly does not invalidate the reported expectations (given that they were formed on the basis of information available on the survey day), it does mean that expectations could have been quite different if the survey had been conducted a week later. Therefore, some of the results for interest and exchange rates should be interpreted with this in mind.

Of the respondents whose completed questionnaires were received by the cut-off date, the distribution

across the activity groups was:

Financial.....	87
Business.....	63
Agricultural.....	26
Labour.....	11
Other.....	14
Total.....	201

The results for the September quarter are summarised below and, in addition, the current quarter's results, along with the last four quarters' full survey results, are reported in the tables following this article. The tables include the text of the question actually asked and the mean response for each survey listed.

## Summary of Results

- Present monetary conditions are still considered to be tight, although some easing is anticipated.

While still perceiving monetary conditions to be tight, the 70 per cent of respondents regarding present monetary conditions to be

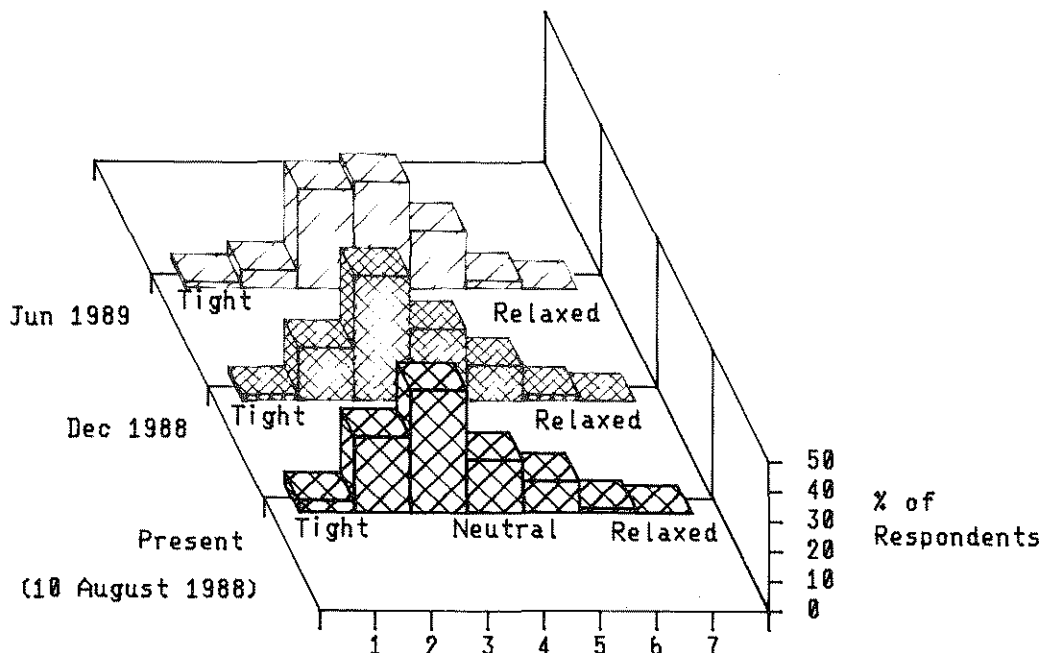
tighter than neutral is somewhat less than the 90 per cent recorded in the previous survey. Some easing in monetary conditions is then expected by December 1988 with a further relaxation anticipated by June 1989. Expected annual M3 growth rates are both down by over 1 percentage point on those previously surveyed.

- Inflation is now expected to fall below 5 per cent by June 1989.

With quarterly increases in the Consumer Price Index (CPI) of 1 per cent and 1.1 per cent expected for the September and December quarters respectively, figure 1 illustrates that these quarterly changes imply annual rates of CPI inflation of 5.7 per cent by September and 4.8 per cent by December. This expectation for inflation is then anticipated to remain virtually unchanged with an inflation rate of 4.9 per cent predicted by June 1989. This year ahead expectation is 1.7 percentage points below that surveyed in the June quarter 1988 and exactly half the comparable rate recorded in the

**Figure 1**

**Perceptions of Current and Future Monetary Conditions**



June quarter 1987 survey. Only a small further improvement is anticipated by June 1990 when the annual inflation rate is expected to have declined to 4.6 per cent.

- Long term interest rates are expected to fall to 11.5 per cent by June 1989.

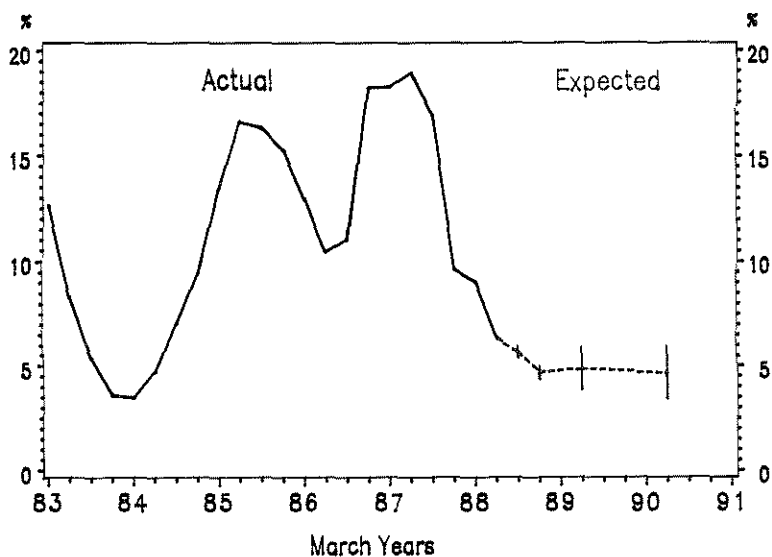
The market yield for 90-day Bank Bills is expected to be 14.6 per cent by the end of September 1988 and 12.8 per cent by the end of June 1989. The 5-year Government Security market yield is expected to be 12.7 per cent by the end of September 1988 and to fall to 11.5 per cent by the end of June 1989. Figure 2 shows that these expectations imply a closing of the expected yield gap, from 1.9 to 1.3 percentage points.

The difference between the expected 5-year government stock yields and the relevant inflation expectations can be used as a measure of anticipated 'real' interest rates. This measure produces real rates of 7 per cent and 6.6 per cent by September 1988 and June 1989 respectively and compares with rates of 6.1 per cent and 5.2 per cent from the June survey. Because the anticipated real rates have risen this implies that there is an expectation that the projected lower rates of inflation will not be reflected fully in nominal interest rates.

- The exchange rate is expected to depreciate in each of the next two quarters and by 2.6 per cent in the year to June 1989.

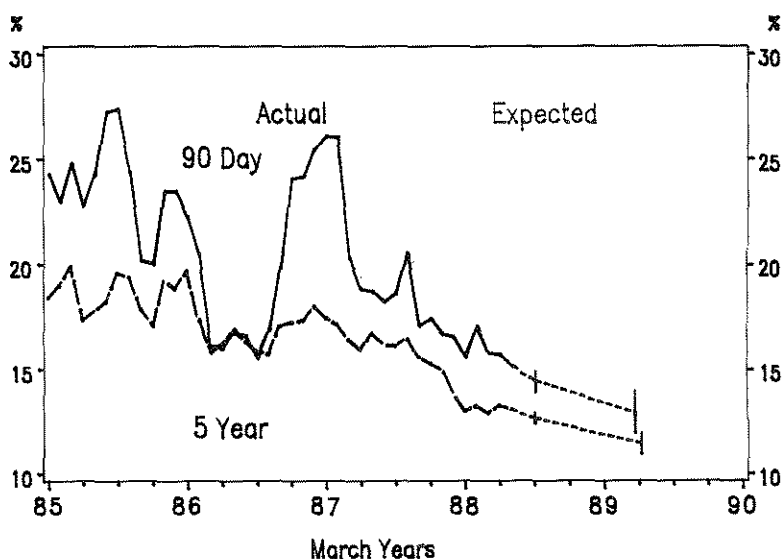
The Reserve Bank's Trade Weighted Index (TWI) is expected to depreciate by 0.4 per cent over the September quarter and 1.2 per cent over the December quarter. In the year to June 1989 the TWI is expected to have depreciated by 2.6 per cent. On the cross-rates against the major currencies, the New Zealand dollar is expected to sustain the greatest depreciations, of over 5 per cent, against the US dollar and the pound between the end of September 1988 and the end of June 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

- A decline in real Gross Domestic Product (GDP) is expected in the next half year and on average for the year to June 1989.

A seasonally adjusted fall in real GDP of 0.4 per cent is expected for the June 1988 quarter, while a decrease of 0.3 per cent is expected for the September quarter. The average level of real GDP in the year to June 1989 is expected to be 0.1 per cent lower than the previous year.

- Continued improvement in the current account balance still expected.

A deficit of \$1.6 billion is expected for the External Balance of Payments on Current Account for the year ended September 1988 with, more or less, no change then anticipated for the year to June 1989.

- An increasing acceptance of Government Budget Table 2 surpluses over the next two financial years.

After respondents expected a Table 2 surplus for the first time in the June survey, the current financial year (to March 1989) is now expected to produce a Table 2 Budget surplus of \$0.7 billion compared with the \$0.3 billion surplus expected in the June survey. A \$0.6 billion surplus is then expected for the financial year to March 1990.

- A wage rate rise of around 4.5 per cent is expected for the year to June 1989.

The annual percentage change in the prevailing weekly wage rates index for the year to June 1989 is expected to be 4.5 per cent, down on the 6.2 per cent expected in the previous survey and well below the year ahead expectation of an 8.8 per cent rise recorded in the June quarter 1987 survey.

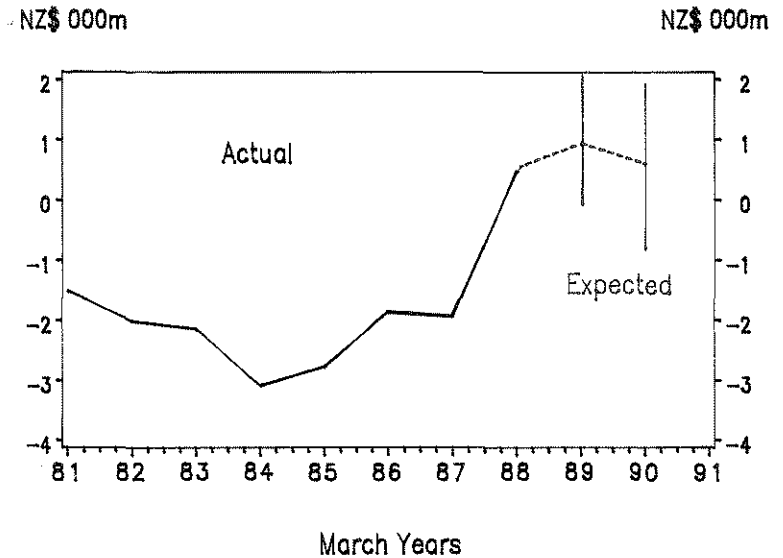
- Registered unemployed numbers are expected to rise considerably over the year to June 1989.

The number of unemployed persons registered with the Labour Department (excluding special work schemes and vacation workers) is expected to be 128,000 by the end

of September 1988 and to increase to 154,000 by the end of June 1989. The expected numbers are some 15,000 and 28,000 above those in the June quarter results.

**Figure 4**

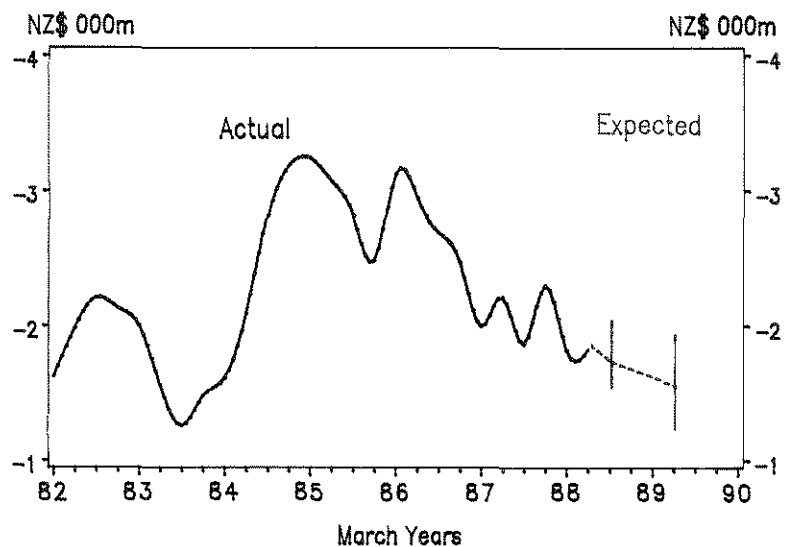
Actual And Surveyed Expectations Of The Government Budget Balance



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

The next survey of expectations is tentatively scheduled for 9 November 1988, with the results to be presented in the December issue of the *Bulletin*.

**SURVEY OF EXPECTATIONS  
HISTORICAL RESULTS<sup>1</sup>**

**Monetary Conditions<sup>2</sup>:**

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. 1987	0.6	12.6	41.4	24.7	15.5	4.6	0.6
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

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. 1987	Dec. 1987	0.6	14.9	39.7	31.0	12.6	0.6	0.6
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
Sept. 1987	June 1988	0.6	10.5	37.8	34.3	15.7	0.6	0.6
Dec. 1987	Sept. 1988	0.6	8.4	31.8	34.6	19.0	4.5	1.1
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

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

Survey Qtr	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Reference Qtr	Sept. 87	Dec. 87	Mar. 87	June 88	Sept. 88
Mean	16.0	15.5	14.1	12.0	10.7
Reference Qtr	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Mean	13.1	12.8	11.8	9.9	8.7

**Prices:**

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

Survey Qtr	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Reference Qtr	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Mean	2.3	2.1	1.8	1.4	1.0
Reference Qtr	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Mean	2.2	1.9	1.7	1.4	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	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Reference Qtr	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Mean	9.8	8.9	7.7	6.6	4.9
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	8.3	7.4	6.7	5.6	4.6

**Interest Rates:**

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

Survey Qtr	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Reference Qtr	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Mean	17.9	17.7	16.3	15.9	14.6
Reference Qtr	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Mean	15.7	15.2	14.2	13.8	12.8

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

Survey Qtr	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Reference Qtr	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Mean	16.2	15.6	14.6	13.1	12.7
Reference Qtr	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Mean	14.5	13.7	13.0	11.8	11.5

**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	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
<b>US Dollar</b>					
Reference Qtr	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Mean	0.593	0.600	0.653	0.675	0.658
Reference Qtr	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Mean	0.581	0.583	0.631	0.660	0.644
Reference Qtr	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Mean	0.559	0.565	0.609	0.640	0.623

**Australian Dollar**

Reference Qtr	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Mean	0.832	0.888	0.920	0.882	0.830
Reference Qtr	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Mean	0.818	0.870	0.901	0.865	0.815
Reference Qtr	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Mean	0.802	0.850	0.879	0.851	0.799

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**Pound Sterling**

Reference Qtr	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Mean	0.364	0.345	0.367	0.361	0.387
Reference Qtr	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Mean	0.355	0.338	0.357	0.352	0.373
Reference Qtr	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Mean	0.344	0.331	0.347	0.342	0.361

**Japanese Yen**

Reference Qtr	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Mean	85.3	82.3	84.4	84.3	88.0
Reference Qtr	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Mean	83.6	80.1	82.7	82.4	86.1
Reference Qtr	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Mean	81.0	78.1	80.2	80.8	83.9

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

Survey Qtr	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Reference Qtr	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Mean	0.4	-1.5	-0.1	0.5	-0.4
Reference Qtr	Dec. 87	Mar. 88	June 88	Sept. 88	Dec. 88
Mean	-1.4	-1.4	-1.8	-1.2	-1.2

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

Survey Qtr	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Reference Qtr	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Mean	-2.4	-4.2	-3.7	-2.0	-2.6

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. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Reference Qtr	June 87	Sept. 87	Dec. 87	Mar. 88	June 88
Mean	0.0	0.0	-0.2	-0.2	-0.4
Reference Qtr	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Mean	0.2	-0.2	-0.4	-0.2	-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)<sup>4</sup>:

Survey Qtr	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Reference Qtr	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Mean	0.8	-0.1	-0.4	-0.2	-0.1

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

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

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

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. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Reference Qtr	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Mean	8.7	7.7	7.0	6.2	4.5

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	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Reference Qtr	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Mean	89	97	105	113	128
Reference Qtr	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Mean	95	110	122	126	154

<sup>1</sup> 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. The reference quarter refers to the quarter (period ended or the quarter itself) for which the expectation was held.

<sup>2</sup> 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.

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

<sup>4</sup> 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.