

SURVEY OF EXPECTATIONS

This article, prepared by Andrew McDouall and Robin Clements, presents the results from the June 1989 quarter Reserve Bank of New Zealand Survey of Expectations.

Introduction

The RBNZ Survey of Expectations for the June quarter 1989 was conducted on Wednesday 10 May 1989. Note that the results of the survey represent *expectations held by respondents* and in no way represent views or forecasts of the Reserve Bank.

The June quarter survey included an additional question on the Government Financial Balance and the discussion of the results from this question is included below.

Sample Composition

The response rate for this quarter was 64 per cent, with 177 of the 277 respondents in this quarter's sample having returned their completed questionnaires to MRL Research Group by the cut-off date.

Of the respondents whose completed questionnaires were received by the cut-off date, the distribution across the activity groups was:

Financial	77
Business	59
Agricultural	17
Labour	7
Other	17
TOTAL	177

Summary of Results

● Present monetary conditions are seen as being tighter than in the previous survey but some easing is still expected before March 1990.

Some 83 per cent of respondents consider monetary conditions to be tighter than neutral (15 per cent more than the March quarter result), which represents a perception that monetary conditions have tightened since the March 1989 survey. Some easing of monetary conditions is then expected by the end of September 1989, with a further easing expected by March 1990.

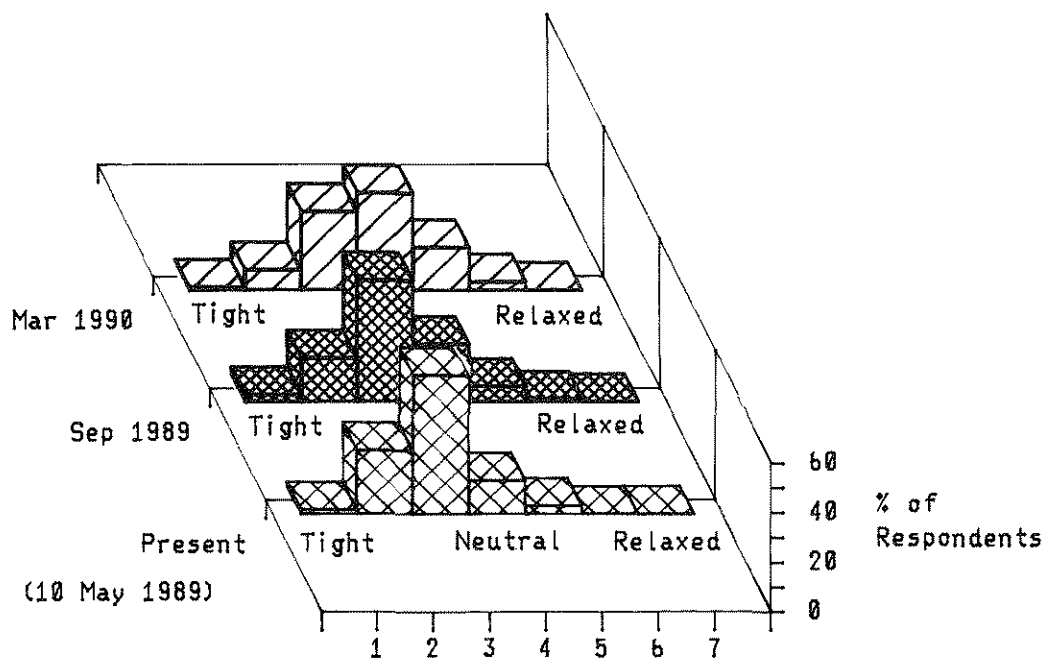
Expectations of the current quarter annual M3 growth rate are a further 2.4 percentage points lower than in the previous survey and are now 4.6 percentage points lower than in the December 1988 survey. The expected year ahead M3 growth rate is 1.5 percentage points lower than the year ahead figure expected in the March 1989 survey.

● Short term inflation expectations have risen but in the long term inflation is still expected to be under 5 per cent.

The expected increase in the Consumers Price Index (CPI) of 1.2 per cent for the June quarter, and 2.3 per cent in the September quarter, imply year-to-date inflation rates of 4.4 per cent and 6 per cent, respectively, for these quarters. The June quarter figure is slightly less than that expected for the quarter in the March survey but the increase in the CPI expected for the September quarter is substantially higher reflecting the

Figure 1

Perceptions of Current and Future Monetary Conditions



anticipated impact of the increase in GST to 12.5 per cent on 1 July 1989. While the increase in GST has boosted the year ahead expected inflation rate to 6 per cent, the two year ahead expectation has fallen slightly on the last survey's result, to 4.7 per cent.

- Little change in expectations for interest rates.

Interest rate expectations have remained largely unchanged from those surveyed in the March quarter with only small increases being recorded for the year ahead 90-day bank bill rate and both 5-year bond rates. These movements imply that there has been a further closing of the yield gap (difference between the 90-day bank bill rate and 5-year bond rate) expected to prevail at these times.

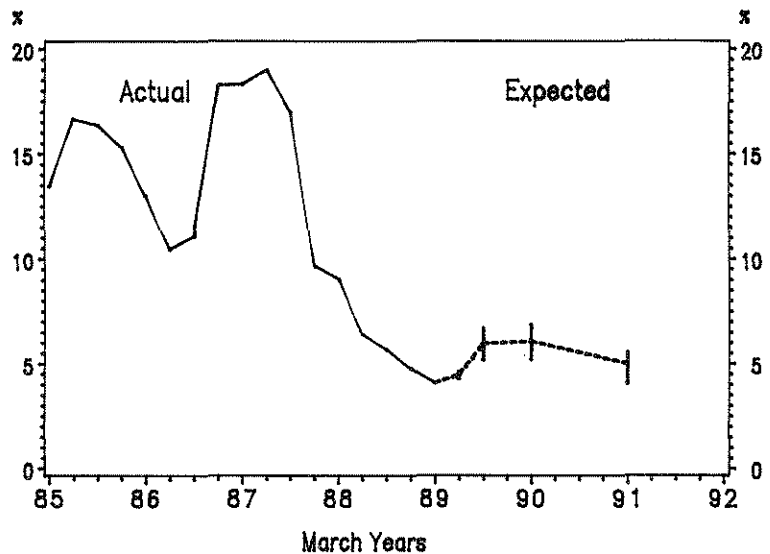
- The exchange rate is expected to remain at a higher level than previously anticipated.

Expectations of all the cross rates against the major currencies are higher than those surveyed in the March quarter, with the exchange rate against the Australian dollar showing the biggest rise; averaging 11 per cent higher than the March quarter results. This change is also reflected in the trade weighted index expectations where the June quarter is expected to appreciate by 0.6 per cent while the index is anticipated to remain unchanged over the full year to March 1990 (compared to a 2 per cent depreciation expected for the year ahead in the March quarter survey).

- Higher output growth now expected in the next twelve months.

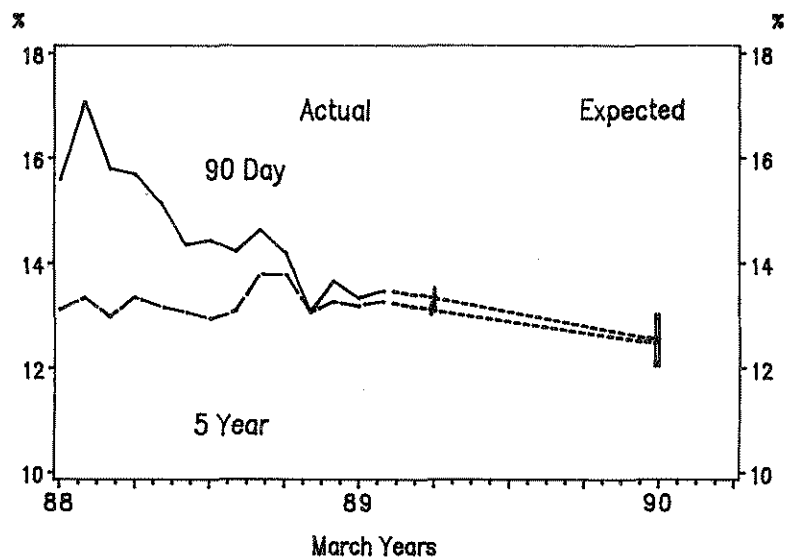
The real GDP index is expected to rise by 0.2 per cent over the March 1989 quarter, up slightly on the expectation for that quarter in the March survey. The June quarter expectation is for a pick-up in the growth rate to 0.4 per cent, while the year ahead expected increase in aggregate activity of 1 per cent in aggregate activity is the most optimistic expectation in the history of the survey and represents a marked improvement over expectations held in the previous survey.

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

- Current account balance still expected to improve.

Although the June quarter results have deteriorated somewhat from the March quarter to show a relatively flat profile for the expected current account (around a \$0.8 billion deficit) for the next twelve months, this still represents a substantial improvement on the December quarter survey results. These expectations also indicate that respondents still expect the current account to improve markedly from presently recorded levels.

- Better Government Budget Table 2 outcomes now expected.

After having deteriorated in each of the last two survey rounds, the expectations of the Budget Table 2 balance for the next two fiscal years (on a June year basis) have improved, perhaps reflecting a return of confidence following the March Economic Statement. Expectations are now that the Government Budget Table 2 will be in surplus by \$0.5 billion for the June 1990 fiscal year and that this balance will fall to a \$0.3 billion surplus in the 1991 fiscal year.

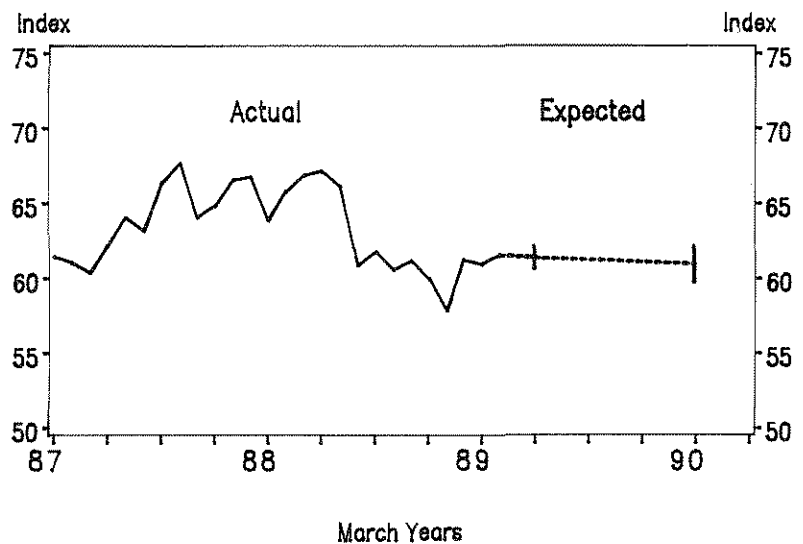
- Average wage rates are expected to rise by 4.5 per cent in the year to March 1990.

The annual percentage change in the prevailing weekly wage rates index for the year to March 1990 is expected to be 4.5 per cent, slightly higher than the 4.3 per cent figure from the previous survey but still lower than increases previously expected.

- Unemployment expected to level off over the coming year.

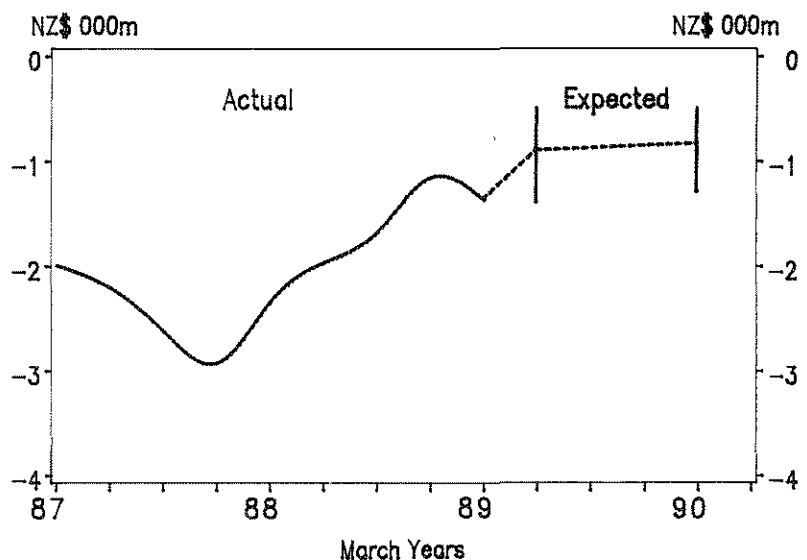
The number of unemployed persons registered with the Labour Department (excluding special work schemes and vacation workers) is expected to climb to 161,000 by the end of June 1989 but to then remain essentially unchanged at this level until March 1990. The one quarter ahead expectation is the same as surveyed last quarter, while the 1,000 increase in unemployment expected over the following quarters is now the lowest expected increase recorded by the survey.

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

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



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

Additional Question

The June quarter survey included an additional question to introduce the Financial Balance as an alternative measure of the Government's fiscal position.

● Definition

The Financial Balance is derived from the Government Financial Statistics (GFS) and is the difference between government revenue (excluding net lending transactions) and current plus capital expenditure. Thus, it principally excludes the effect of asset sales and debt repayments from the SOE's to government which tend to distort interpretation of the Budget Table 2 balance.


Commentators have generally moved to favour the Financial Balance measure of the Government's fiscal position (as opposed to the Table 2 Balance) because of uncertainty relating to the size and timing of asset sales, and because the Financial Balance gives a more accurate indication of the impact that the Government's fiscal position has on financial markets.

● Results

The average expectation for the June 1990 fiscal year was for a \$1.1 billion deficit which represents near 1.6 per cent of GDP, somewhat more than the Minister of Finance's target of 1 per cent of GDP. In the following fiscal year, to June 1991, a financial

deficit of \$0.8 billion is expected, an improvement on the previous year's expectation but still some 1.1 per cent of GDP.

The next survey of expectations is tentatively scheduled for 9 August 1989, with the results to be presented in the September 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	
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
Mar. 1989	0.5	11.2	56.3	17.0	13.6	1.0	0.5
June 1989	1.7	25.6	55.7	13.6	3.4	0.0	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	
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. 1989	June 1989	1.0	8.3	34.6	35.1	15.1	5.4	0.5
June 1989	Sept. 1989	2.8	17.6	48.9	23.3	6.3	1.1	0.0
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
Mar. 1989	Dec. 1990	1.5	4.9	24.4	38.5	23.9	5.4	1.5
June 1989	Mar. 1990	1.1	8.0	31.4	38.9	17.1	3.4	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	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Reference Qtr	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Mean	12.0	10.7	9.3	7.1	4.7
Reference Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Mean	9.9	8.7	8.5	7.6	6.1

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.

Prices:

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

Survey Qtr	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Reference Qtr	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Mean	1.4	1.0	1.1	1.2	1.2
Reference Qtr	Sept. 88	Dec. 88	Mar. 89	Dec. 89	Sept. 89
Mean	1.4	1.1	1.1	1.3	2.3

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

Survey Qtr	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Reference Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Mean	6.6	4.9	4.8	4.8	6.0
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	5.6	4.6	4.7	4.9	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):

Survey Qtr	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Reference Qtr	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Mean	15.9	14.6	13.9	13.3	13.3
Reference Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Mean	13.8	12.8	12.6	12.4	12.5

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

Survey Qtr	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Reference Qtr	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Mean	13.1	12.7	12.6	12.8	13.0
Reference Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Mean	11.8	11.5	11.6	12.1	12.3

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	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
US Dollar					
Reference Qtr Mean	June 88 0.675	Sept. 88 0.658	Dec. 88 0.616	Mar. 89 0.605	June 89 0.617
Reference Qtr Mean	Sept. 88 0.660	Dec. 88 0.644	Mar. 89 0.608	June 89 0.596	Sept. 89 0.611
Reference Qtr Mean	Mar. 89 0.640	June 89 0.623	Sept. 89 0.597	Dec. 89 0.587	Mar. 90 0.603

Australian Dollar

Reference Qtr Mean	June 88 0.882	Sept. 88 0.830	Dec. 88 0.757	Mar. 89 0.690	June 89 0.773
Reference Qtr Mean	Sept. 88 0.865	Dec. 88 0.815	Mar. 89 0.749	June 89 0.692	Sept. 89 0.775
Reference Qtr Mean	Mar. 89 0.851	June 89 0.799	Sept. 89 0.744	Dec. 89 0.702	Mar. 90 0.775

Pound Sterling

Reference Qtr Mean	June 88 0.361	Sept. 88 0.387	Dec. 88 0.353	Mar. 89 0.348	June 89 0.365
Reference Qtr Mean	Sept. 88 0.352	Dec. 88 0.373	Mar. 89 0.348	June 89 0.344	Sept. 89 0.359
Reference Qtr Mean	Mar. 89 0.342	June 89 0.361	Sept. 89 0.342	Dec. 89 0.343	Mar. 90 0.356

Japanese Yen

Reference Qtr Mean	June 88 84.3	Sept. 88 88.0	Dec. 88 78.5	Mar. 89 78.5	June 89 82.3
Reference Qtr Mean	Sept. 88 82.4	Dec. 88 86.1	Mar. 89 77.2	June 89 77.1	Sept. 89 81.2
Reference Qtr Mean	Mar. 89 80.8	June 89 83.9	Sept. 89 75.9	Dec. 89 75.9	Mar. 90 80.0

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

Survey Qtr	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Reference Qtr Mean	June 88 0.5	Sept. 88 -0.4	Dec. 88 -0.5	Mar. 89 -1.2	June 89 0.6
Reference Qtr Mean	Sept. 88 -1.2	Dec. 88 -1.2	Mar. 89 -0.5	June 89 -0.5	Sept. 89 -0.3

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

Survey Qtr	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Reference Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Mean	-2.0	-2.6	-2.5	-2.0	0.0

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

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	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Reference Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Mean	-0.2	-0.1	0.3	0.4	1.0

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	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Reference Qtr	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Mean	-1.9	-1.6	-1.5	-0.5	-0.8
Reference Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Mean	-1.8	-1.5	-1.4	-0.4	-0.7

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

Survey Qtr	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Reference Qtr	Mar. 89	Mar. 89	Mar. 89	Mar. 89	June 90
Mean	0.3	0.7	0.3	0.1	0.5
Reference Qtr	Mar. 90	Mar. 90	Mar. 90	Mar. 90	June 91
Mean	0.3	0.6	0.2	-0.1	0.3

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	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Reference Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Mean	6.2	4.5	4.7	4.3	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	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Reference Qtr	June 88	Sept. 88	Dec. 88	Mar. 89	June 89
Mean	113	128	141	161	161
Reference Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Mean	126	154	145	165	162



RESERVE BANK ECONOMIC FORECASTS¹

This article summarises the economic forecasts prepared by the Economic Department for release on 6 April 1989.

INTRODUCTION

These forecasts update those released in December 1988 and incorporate information from the economic announcement made by the Minister of Finance on 21 March 1989.

The main assumptions underlying the forecasts relate to the exchange rate and government policy. Specifically, the real exchange rate is assumed to remain constant, based on an average trade weighted index for the March 1989 quarter of 59.4. In addition, the forecasts assume that monetary policy will continue to be targeted at 0-2 per cent inflation by the early 1990s and that no further policy changes will occur beyond those announced on 21 March 1989.

FORECAST SUMMARY

Gradual growth in real GDP

Real GDP is forecast to rise by 1.4 per cent in 1989/90 and 1.8 per cent in 1990/91. The growth in real GDP over 1989/90 is expected to be largely derived from the positive effect of retailers/wholesalers ceasing to run-down stock levels and beginning to reorder goods. Export volumes also contribute to the growth in real GDP over 1989/90. Improvements in private consumption and exports, combined with some stockbuilding, are again the major contributors to growth in 1990/91, while private investment also begins to expand.

Recovery in consumption

A downturn of 0.4 per cent in real private consumption is expected for the 1988/89 year overall, with a slight recovery projected for the two

SUMMARY OF ECONOMIC FORECASTS

(Annual Percentage Changes Of Annual Totals Or Averages)

March years	ACTUALS		FORECASTS	
	1987/88	1988/89	1989/90	1990/91
Real Expenditures on GDP				
Final consumption				
– private	1.8	-0.4	1.0	1.4
– public authority	1.0	-2.5	-3.4	-0.4
– Total	1.6	-0.8	0.1	1.0
Gross fixed capital information				
– private: residential	0.4	-1.5	4.6	1.4
business	16.2	-3.5	-1.7	3.1
– public authority	-8.3	0.1	3.6	1.7
– Total	6.6	-2.3	0.6	2.5
Final Domestic Expenditure	2.9	-1.2	0.2	1.4
Stockbuilding ¹	-2.0	-0.4	1.8	0.4
Gross National Expenditure	0.9	-1.4	2.0	1.7
Exports of goods and services	3.8	3.3	2.2	3.9
Imports of goods and services	12.9	-2.6	3.6	3.7
EXPENDITURE ON GDP	-2.4	0.9	1.4	1.8
Government Accounts				
Financial balance (\$M) ²	-1300	-1100	-900	0
as a % of GDP ²	-2.2	-1.8	-1.3	0.0
Cyclically adjusted % of GDP ²	-1.8	-0.9	-0.7	0.4
External Account				
BOP current account balance (\$M)	-2340	-1190	-1640	-1440
as a % of GDP	-3.9	-1.9	-2.5	-2.1
Terms of trade	10.9	4.1	-1.1	-1.1
Incomes				
Real household disposable income	-0.2	1.3	1.1	1.3
Prices				
Consumer price inflation ³	9.0	4.1	6.3	3.1
PPI inputs	5.8	5.4	3.8	2.6
Labour Market				
Total employment ³	-1.6	-5.0	0.7	2.1
HLFS Jobseekers unemployment rate (%) ³	6.2	8.1	8.0	7.3
HLFS Official unemployment rate (%)	5.0	6.7	6.9	6.0
Registered unemployed (000's) ³	101.8	157.2	165.4	154.1

¹ These forecasts are produced primarily for use within the Bank and do not represent official Reserve Bank forecasts.

² Percentage point contribution to growth rate in GDP

³ June years for 1989/90 and 1990/91.

³ March quarter to March quarter % changes or rate/level as at March quarter.

forecast years. This recovery is expected to emanate from moderate increases in real household disposable income in conjunction with a stable household savings rate.

Investment to improve only slowly

After strong growth in 1987/88 was partially offset by a decline over 1988/89, private business investment is expected to fall by a further 1.7 per cent in 1989/90, before expanding by 3.1 per cent in 1990/91. The fall in 1989/90 reflects continued declines in commercial building activity, along with little change in investment in plant and machinery, and transport equipment. Public investment is forecast to expand strongly in 1989/90, mainly due to sizeable investments planned by state owned corporations. Residential investment is forecast to rise in both 1989/90 and 1990/91 as a result of continued increases in real personal disposable incomes and a declining trend in mortgage interest rates.

Financial deficit of \$900 million projected for 1989/90

The financial deficit for the 1988/89 March year is estimated to be \$1.1 billion. A potential deterioration in the fiscal position is averted by the 21 March package, which is expected to result in a financial deficit of \$900 million for the June 1989/90 year, or 0.7 per cent of GDP in cyclically adjusted terms.

Balance of payments deteriorates with stronger activity

The fall off in imports, and higher export returns, have combined to produce a much improved current account balance for 1988/89. However, imports are expected to increase as domestic activity picks up and, in combination with a slight decline in the terms of trade, this development is forecast to lead to a worsening in the current account balance in 1989/90. An expanding rate of export volume growth then contributes to an improvement in the 1990/91 year.

Inflation rises to over 6 per cent with GST effect before falling back to 3 per cent by March 1991

The increase in GST to 12.5 per cent is expected to result in year-to-date CPI inflation of 6.3 per cent by December 1989; the GST increase is partially offset by cuts in excise taxes. Once the GST effect passes through, and assuming monetary policy restricts any flow on into wages, inflation is forecast to return to its declining trend, reaching 3.1 per cent by March 1991.

Unemployment expected to peak in late 1989

Total employment is forecast to rise slowly in response to real GDP growth in 1989/90, but not at a rate sufficient to offset the expected labour forecast growth. Once employment growth picks up in late 1989, then unemployment is expected to peak and begin to decline through 1990/91.

