

RESERVE BANK OF NEW ZEALAND SURVEY OF EXPECTATIONS

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

Introduction

The RBNZ Survey of Expectations for the March 1989 quarter was conducted by MRL Research on Wednesday, 8 February 1989. As always the results of the survey represent expectations held by respondents and in no way represent the views or forecasts of the Reserve Bank.

This survey represents the eighth RBNZ Survey of Expectations and marks the completion of two years of operation. As a result, it is now becoming possible to conduct analysis on the series of expectations. A supplement, which focuses on inflation expectations using both the full set of results for this survey and a separate MRL Research survey of households, follows this article.

The distribution of respondents across the various activity groups covered by the March 1989 survey was:

Financial	89
Business	73
Agricultural	22
Labour	7
Other	16
	—
	207
	—

In addition to the following summary of the results of the March quarter survey, the current quarter's results, along with the four previous quarters' survey results are reported in the tables following.

Summary of Results

- Monetary conditions are perceived as remaining tight but less so than in the previous survey.

Some 68 per cent of respondents consider monetary conditions to be tighter than neutral; 5 per cent less than the December quarter result

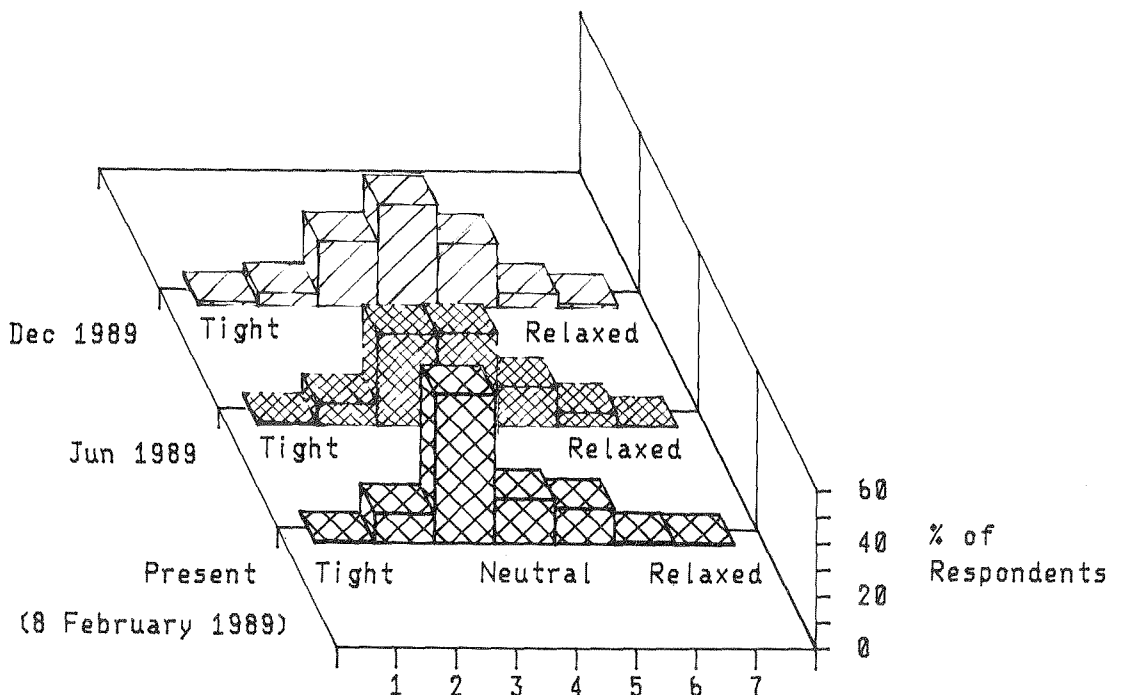
and representing a moderate shift towards the neutral perception. Some easing of monetary conditions is expected by the end of June 1989, easing further by the end of December 1989 when the largest share of respondents expect monetary conditions to be neutral. Expectations for annual M3 growth rates show that the current quarter expectation is more than 2 percentage points lower than in the previous survey and more than 1 percentage point lower for the one year ahead expectation. However, the expected year ahead M3 growth rate is above that expected for the current quarter, whereas for all previous surveys it has been lower.

- Inflation expectations rose slightly but long term inflationary expectations remain below 5 per cent.

Expected quarterly increases in the Consumer Price Index (CPI) of

Figure 1

Perceptions of Current and Future Monetary Conditions



1.2 per cent for the March quarter and 1.3 per cent for the June quarter imply annual inflation rates of 4.1 per cent and 4.7 per cent respectively for these quarters. The March quarter figure is only marginally above the expectation for that quarter in the December survey, despite the depreciation in the exchange rate over the last six months. No further reductions in the annual rate of inflation are anticipated in the next two years with the annual inflation rate expected to be 4.8 per cent in the year to December 1989 and 4.9 per cent in the year to December 1990. This represents a slight increase in longterm inflation rate expectations over the December quarter survey.

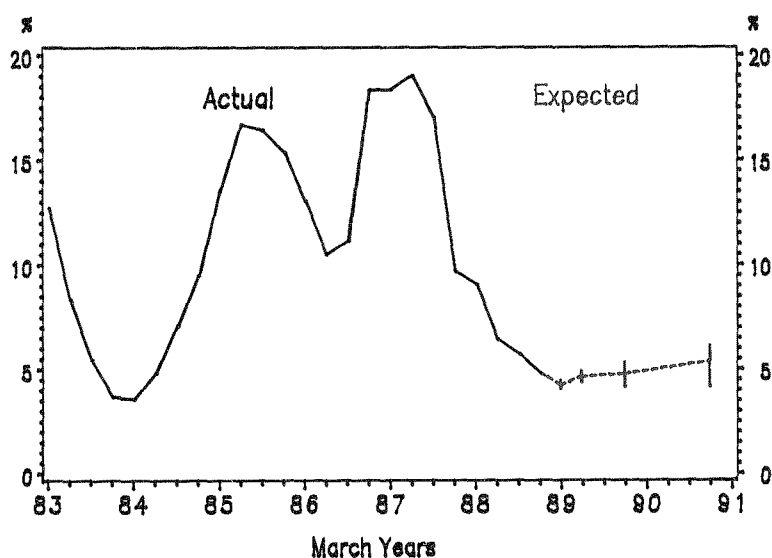
• Little change in expectations for longterm interest rates.

A fall in the end of quarter bank bill interest rate and 5-year government stock rate is expected between the end of March 1989 and December 1989. However, while both the expected bank bill rates and the current quarter's 5-year rate are below those surveyed in December 1988, the year ahead expectation for the 5-year rate is 0.5 per cent above that previously surveyed. A narrowing of the yield gap between the bank bill and government stock rate to 0.3 percentage points is anticipated by the end of December 1989, down from the 0.5 percentage point gap expected by the end of March. This represents a significant change in the expectations from the December quarter when yield gaps were expected to be at least 1 percentage point for both the end of quarter and the year ahead periods. While the overall trend in both the 90-day bank bill and the 5-year government stock interest rates show a decline, this decline is less than that expected in the year ahead projections made in the December quarter survey.

• Further declines in the exchange rate are expected in both the short and medium terms.

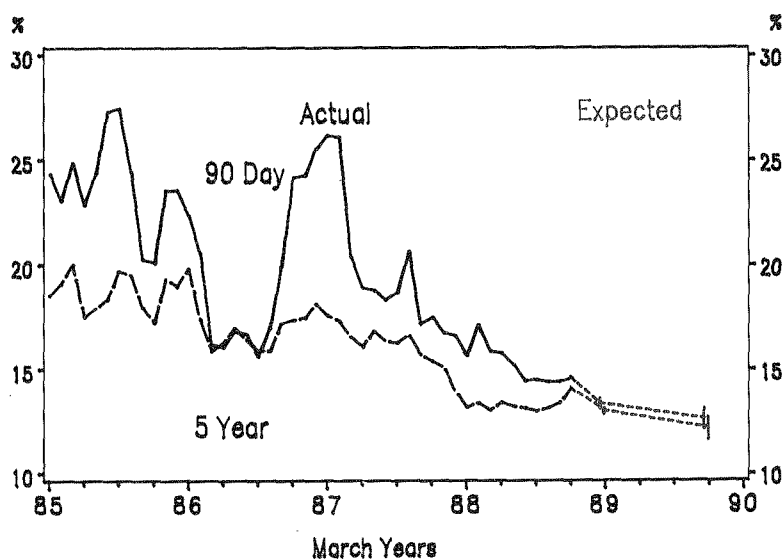
The overall decline in the exchange rate is expected to continue in all cross rates except against the

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

Australian dollar, where the New Zealand dollar is expected to firm slightly in the year ahead. The Reserve Bank trade weighted index is expected to depreciate by 1.2 per cent over the March quarter, by 0.5 per cent in the June quarter and by 2 per cent in the year to December 1989.

- Little growth in real Gross Domestic Product (GDP) expected over the next twelve months.

Despite a decline in expectations for the December quarter change in the real GDP index, compared to that in the December survey, a slight increase in the year ahead growth rate is expected. A seasonally adjusted fall in real GDP of 0.2 per cent is expected for the December 1988 quarter, while a slight rise of 0.1 per cent is anticipated over the March quarter. Overall growth in real GDP of 0.4 per cent is expected for the year to December 1989.

- Substantially improved current account balance is expected to remain.

A deficit of \$0.5 billion is expected for the external balance of payments on current account for the year ended March 1989 and \$0.4 billion for the year to December 1989. This represents a \$1 billion improvement in both expectations over the comparable figures in the December quarter survey.

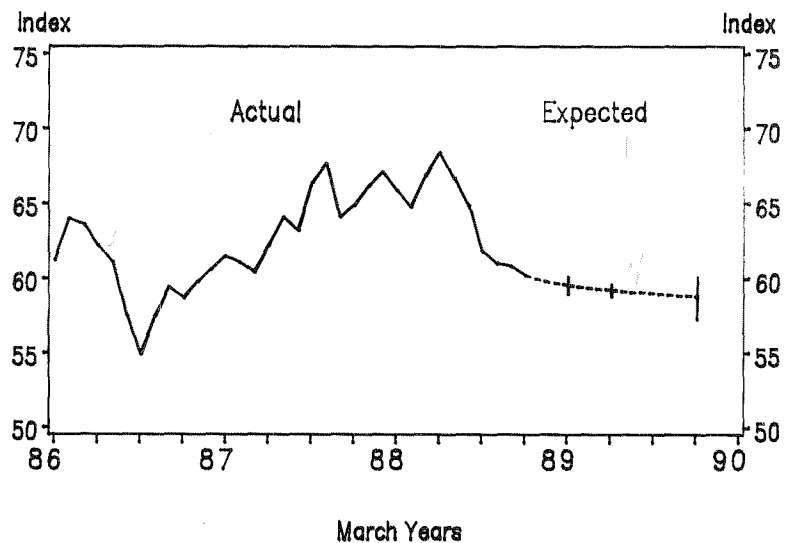
- A further fall in confidence that the Government can achieve Table 2 surpluses in the next two financial years.

For the third quarter in a row there has been a reduction in the balances expected on Budget Table 2, with a surplus value of \$0.1 billion expected for the year to March 1989 and a deficit of \$0.1 billion expected in the following fiscal year.

- Average wage rates are expected to rise by 4.3 per cent in the year to December 1989.

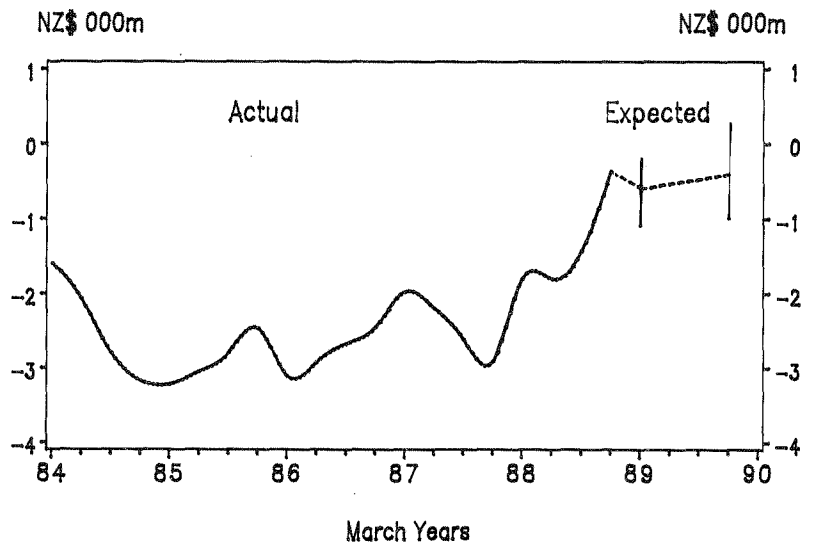
The annual percentage change in the prevailing weekly wage rates

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

index for the year to December 1989 is expected to be 4.3 per cent, lower than the 4.7 per cent figure from the previous survey and considerably lower than increases previously expected.

- **Higher level of unemployment expected before levelling off.**

The number of unemployed per-

sons registered with the Labour Department (excluding special work schemes and vacation workers) is expected to climb to 161,000 by the end of March 1989 but then little further increase is expected by the end of 1989 when unemployment is expected to be 165,000. Both these expectations show a marked increase over the December survey

results.

The next survey of expectations is tentatively scheduled for 10 May 1989, with the results to be published in the June issue of the Bulletin.

