

SURVEY OF EXPECTATIONS

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

Introduction

The RBNZ Survey of Expectations for the September quarter 1989 was conducted on Wednesday 9 August 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 September quarter survey once again included the additional question first introduced in the June quarter on the Government financial balance and the discussion of this question, with the results, is included below.

Sample Composition

The response rate for this quarter was 69 per cent, with 189 of the 272 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	63
Agricultural	20
Labour	11
Other	18
TOTAL	189

Summary of Results

- Monetary conditions are perceived as having eased, with further easing expected in the year ahead.

Some 56 per cent of respondents consider monetary conditions to be tighter than neutral (27 per cent less than in the June quarter and the lowest figure for at least the last

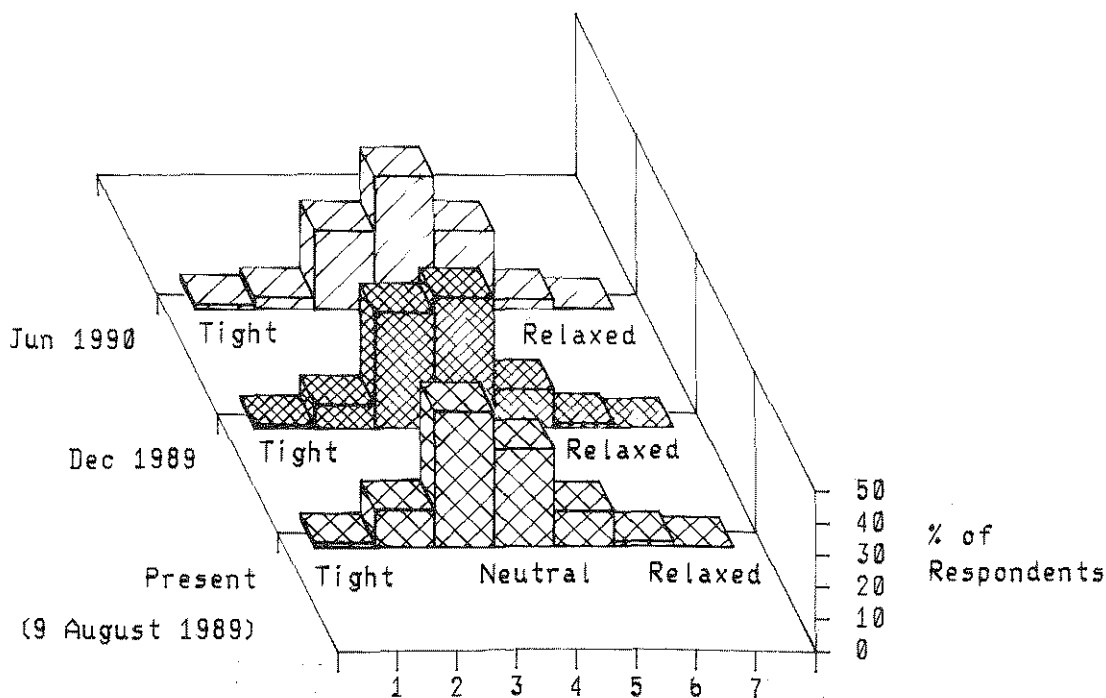
twelve months), which represents a perception that monetary conditions have eased since the June quarter survey. Some further easing is expected over the year ahead, with nearly 42 per cent of respondents expecting monetary conditions to be neutral by June 1990. Expectations for annual M3 growth rates show that the current quarter expectation is nearly 1 percentage point higher than in the previous survey, while the annual M3 growth rate in the year ahead is expected to be 0.3 percentage points higher than the comparable figure in the June quarter survey.

- Long-term inflationary expectations remain unchanged with inflation still expected to fall below 5 per cent.

The expected rise in the CPI for the September quarter of 2.5 per cent is slightly higher than the 2.3 per cent expected for this quarter in the June survey and implies an

Figure 1

Perceptions of Current and Future Monetary Conditions



annual rate of 6.1 per cent for the year to September. The increase expected for the December quarter is 1.4 per cent which would take the annual rate of inflation to 6.3 per cent. The year ahead and two year ahead inflation expectations remain almost unchanged from the previous survey at 6.2 per cent and 4.6 per cent respectively. (Note that these inflation expectations were formed prior to the release of the July Food Price Index on 10 August.)

- Expected interest rate levels fall and continued declines anticipated.

Expectations for both government stock and bank bill interest rates by the end of the quarter are significantly lower than those previously surveyed and further declines in both interest rates are anticipated over the coming year. The 90-day bank bill rate is expected to reach 11.9 per cent by June 1990, while the 5-year bond yield is expected to fall to 11.5 per cent. The expected yield gap, which is slightly larger than in the June survey, is projected to remain around 0.5 percentage points.

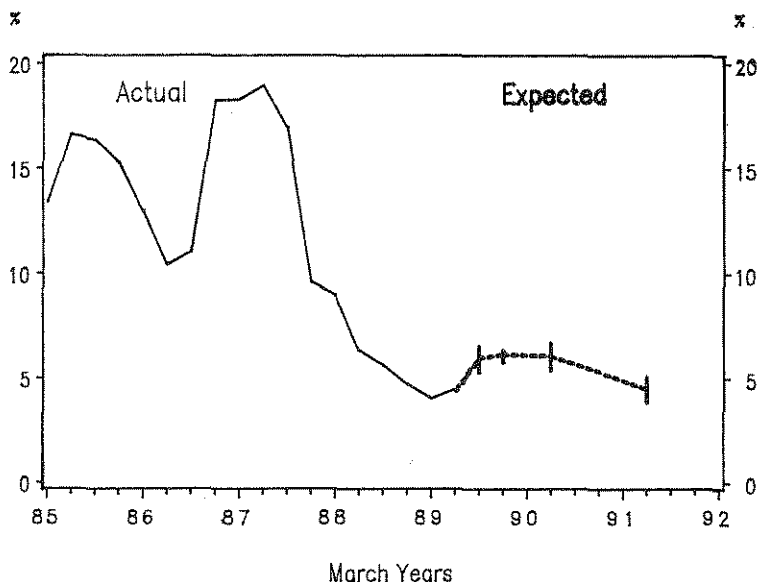
- US dollar exchange rate expected to remain at lower level.

Expectations for the major cross rates have remained stable compared to those of the June survey, with the exception of the US dollar exchange rate for which each expectation is now 3.5 per cent lower than the previous expectation. A depreciation is anticipated for all major cross rates over the next twelve months. The (TWI) Trade Weighted Index is expected to increase by 0.4 per cent over the September 1989 quarter, before falling in the following quarter by 0.1 per cent and 0.8 per cent in the year ahead.

- More optimistic expectations for real growth.

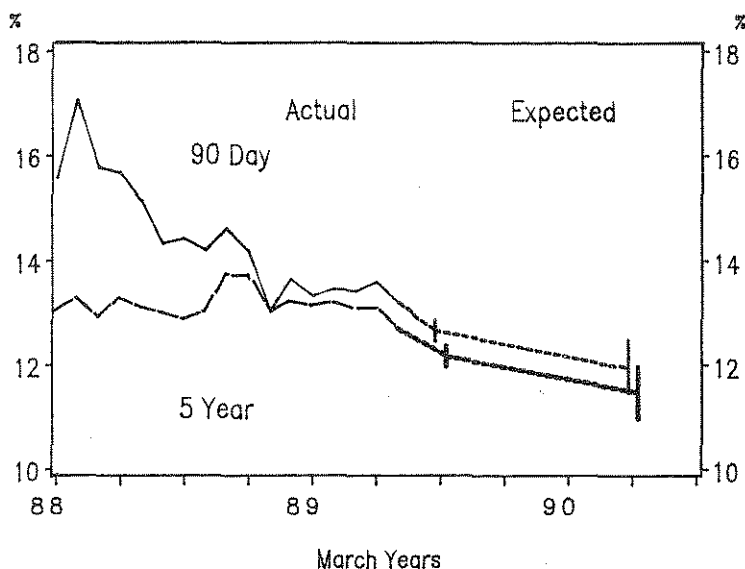
Despite a largely unchanged expected quarterly growth rate, the annual average percentage change in real (GDP) Gross Domestic Product for the year ending June 1990 is expected to be 1.3 per cent; continu-

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

ing the improvement in the level of optimism shown in the June quarter survey. The 1.3 per cent expected real growth rate surpasses the 1 per cent recorded in the June survey to become the most optimistic year ahead projection recorded by the survey to date.

• **Slight deterioration in current account expectations.**

A deficit of \$1.1 billion is expected for the balance of payments on current account in the year ended September 1989, improving marginally to an expected \$1 billion deficit for the year ending June 1990. These figures represent a deterioration on the quarter and year ahead projections from the June survey of \$0.3 billion. (Note that these expectations were formed before the latest revision of the balance of payments statistics was announced.)

• **Larger Government Budget Table 2 surpluses now anticipated.**

Over 90 per cent of respondents now believe that the Government will achieve Table 2 Government Budget surpluses in both of the next two years. The surplus expected for the 1990 fiscal year has risen by \$1.1 billion on the June quarter expectation while the 1991 year expectation has improved by \$0.9 billion.

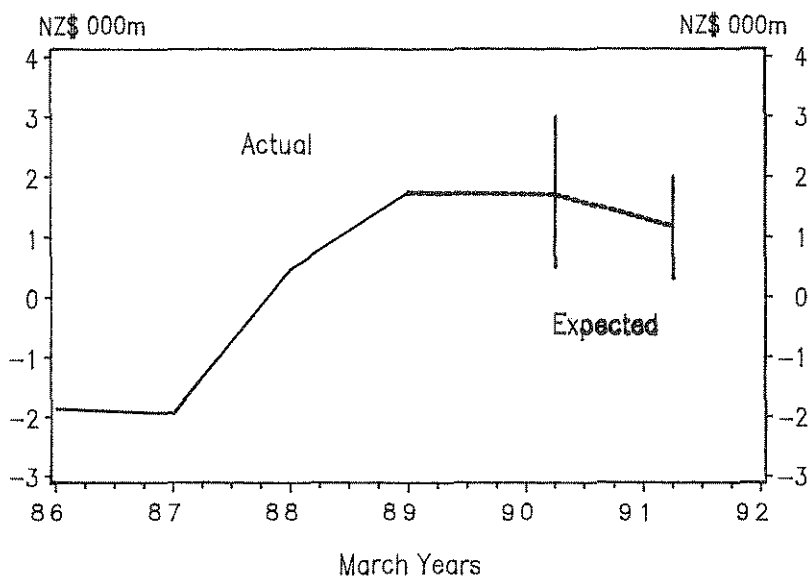
• **Average wage rates are expected to rise by 4.9 per cent in the year to December 1989.**

The annual percentage change in the prevailing weekly wage rates index for the year to June 1990 is expected to be 4.9 per cent, up on the 4.5 per cent figure expected in the June quarter survey.

• **Fall in unemployment now expected.**

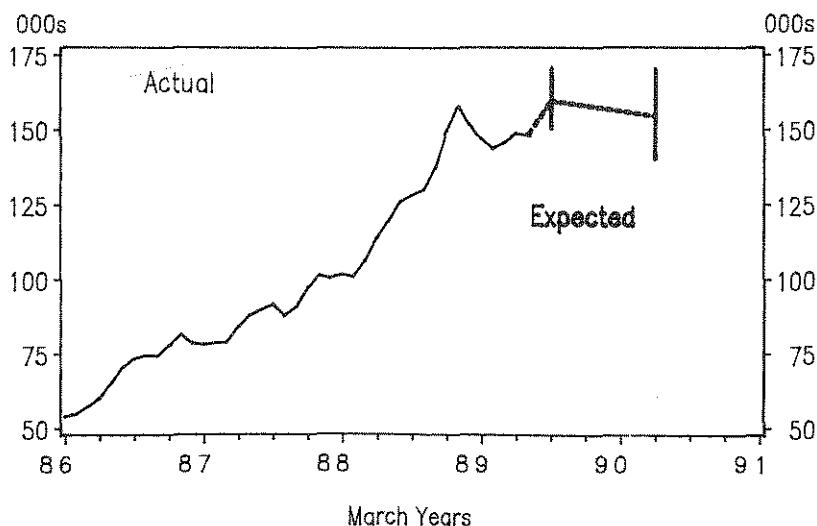
The number of unemployed persons registered with the Labour Department (excluding special work schemes and vacation workers) is expected to be 157,000 by the end of September 1989 but to then fall over the year ahead. By June 1990 registered unemployment is expected to have declined to 152,000, the first fall in expected unemployment recorded by the survey. Both these

Figure 4
Actual And Surveyed Expectations Of
The Government Table 2 Budget Balance



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

Figure 5
Actual And Surveyed Expectations of the number of
Unemployed Persons registered with the Labour Department



Excludes persons on Special work schemes and vacation workers
Note: 25% of Expectations fell above and below the band shown

expectations show a marked decrease on the expectations of the June quarter survey, with the year ahead expectation some 10,000 lower than three months ago.

Additional Results

The September quarter survey once again included the additional question first introduced in the June quarter on the Government financial balance.

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 SOEs 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 an \$0.8 billion deficit, with an improvement expected in the fiscal year to June 1991 when a \$0.4 billion deficit is expected. Both the expectation for the June 1990 and the June 1991 fiscal year show a \$0.4 billion improvement in the deficit from the expectations formed in the June survey.



**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	
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
Sept. 1989	1.6	11.8	42.8	31.0	11.2	1.6	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	
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. 1989	Dec. 1989	1.1	7.5	36.4	41.2	12.3	1.6	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
Sept. 1989	June 1990	1.6	3.7	24.6	41.7	24.6	3.2	0.5

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

Survey Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Reference Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Mean	10.7	9.3	7.1	4.7	5.6
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	8.7	8.5	7.6	6.1	6.4

Prices:

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

Survey Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Reference Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Mean	1.0	1.1	1.2	1.2	2.5
Reference Qtr	Dec. 88	Mar. 89	Dec. 89	Sept. 89	Dec. 89
Mean	1.1	1.1	1.3	2.3	1.4

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. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	4.9	4.8	4.8	6.0	6.2
Reference Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	4.6	4.7	4.9	4.7	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):

Survey Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Reference Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Mean	14.6	13.9	13.3	13.3	12.7
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	12.8	12.6	12.4	12.5	11.9

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

Survey Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Reference Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Mean	12.7	12.6	12.8	13.0	12.2
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	11.5	11.6	12.1	12.3	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. 88	Dec. 88	Mar. 89	June 89	Sept. 89
US Dollar					
Reference Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Mean	0.658	0.616	0.605	0.617	0.593
Reference Qtr	Dec. 88	Mar. 89	June 89	Sept. 89	Dec. 89
Mean	0.644	0.608	0.596	0.611	0.590
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	0.623	0.597	0.587	0.603	0.582

Australian Dollar

Reference Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Mean	0.830	0.757	0.690	0.773	0.779
Reference Qtr	Dec. 88	Mar. 89	June 89	Sept. 89	Dec. 89
Mean	0.815	0.749	0.692	0.775	0.784
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 89
Mean	0.799	0.744	0.702	0.775	0.780

Pound Sterling

Reference Qtr Mean	Sept. 88 0.387	Dec. 88 0.353	Mar. 89 0.348	June 89 0.365	Sept. 89 0.362
Reference Qtr Mean	Dec. 88 0.373	Mar. 89 0.348	June 89 0.344	Sept. 89 0.359	Dec. 89 0.360
Reference Qtr Mean	June 89 0.361	Sept. 89 0.342	Dec. 89 0.343	Mar. 90 0.356	June 90 0.355

Japanese Yen

Reference Qtr Mean	Sept. 88 88.0	Dec. 88 78.5	Mar. 89 78.5	June 89 82.3	Sept. 89 82.2
Reference Qtr Mean	Dec. 88 86.1	Mar. 89 77.2	June 89 77.1	Sept. 89 81.2	Dec. 89 81.6
Reference Qtr Mean	June 89 83.9	Sept. 89 75.9	Dec. 89 75.9	Mar. 90 80.0	June 90 80.5

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

Survey Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Reference Qtr Mean	Sept. 88 -0.4	Dec. 88 -0.5	Mar. 89 -1.2	June 89 0.6	Sept. 89 0.4
Reference Qtr Mean	Dec. 88 -1.2	Mar. 89 -0.5	June 89 -0.5	Sept. 89 -0.3	Dec. 89 -0.1

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

Survey Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Reference Qtr Mean	June 89 -2.6	Sept. 89 -2.5	Dec. 89 -2.0	Mar. 90 0.0	June 90 -0.8

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. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Reference Qtr Mean	June 88 -0.4	Sept. 88 -0.2	Dec. 88 -0.2	Mar. 89 0.2	June 89 0.3
Reference Qtr Mean	Sept. 88 -0.3	Dec. 88 0.1	Mar. 89 0.1	June 89 0.4	Sept. 89 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	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	-0.1	0.3	0.4	1.0	1.3

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	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Reference Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Mean	-1.6	-1.5	-0.5	-0.8	-1.1
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	-1.5	-1.4	-0.4	-0.7	-1.0

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

Survey Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Reference Qtr	Mar. 89	Mar. 89	Mar. 89	June 90	June 90
Mean	0.7	0.3	0.1	0.5	1.6
Reference Qtr	Mar. 90	Mar. 90	Mar. 90	June 91	June 91
Mean	0.6	0.2	-0.1	0.3	1.2

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	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	4.5	4.7	4.3	4.5	4.9

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. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Reference Qtr	Sept. 88	Dec. 88	Mar. 89	June 89	Sept. 89
Mean	128	141	161	161	157
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	154	145	165	162	152

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.