

# SURVEY OF EXPECTATIONS

This article, prepared by Bryan Chapple and Robin Clements, presents the results from the March quarter 1990 Reserve Bank of New Zealand Survey of Expectations.

## Introduction

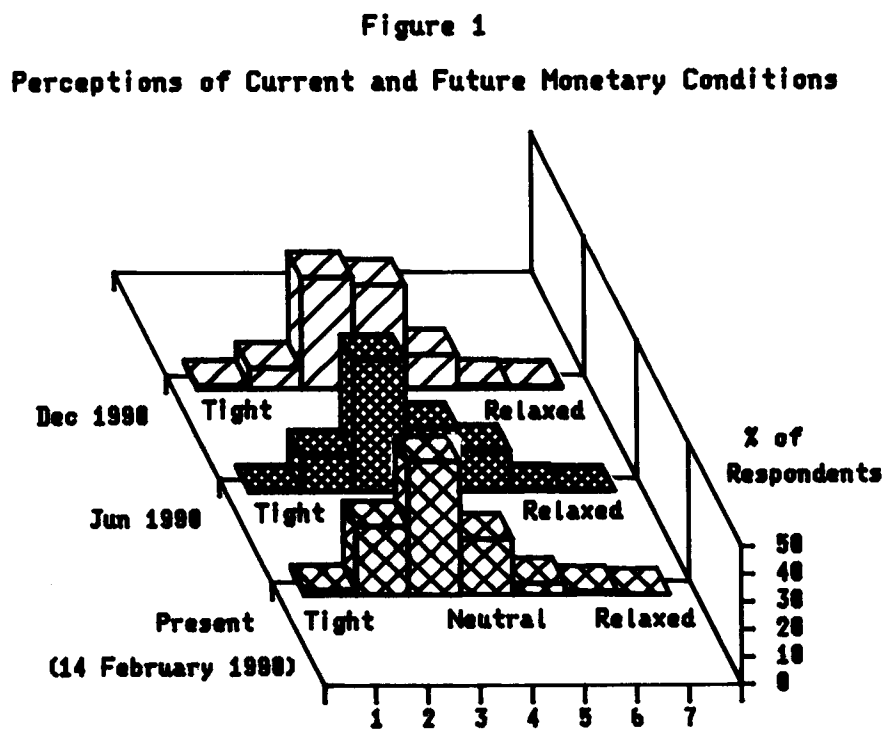
The RBNZ Survey of Expectations for the March quarter 1990 was conducted by MRL Research Group on Wednesday, 14 February 1990. Note that the results of the survey represent expectations held by *respondents* and in no way represent views or forecasts of the Reserve Bank.

## Sample Turnover

Turnover of the sample arises only in the case where a respondent ceases to participate in the survey. In this situation, the respondent's response history is preserved and the regular maintenance of the sample adds a new respondent to the sample (provided suitable replacements are available). Where a respondent changes their place of employment, but continues to participate in the survey, the respondent continues with their existing response history.

## Sample Composition

The response rate for this quarter was 69 per cent, with 175 of the 252 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	76
Business	57
Agricultural	20
Labour	7
Other	15
TOTAL:	<hr/> 175

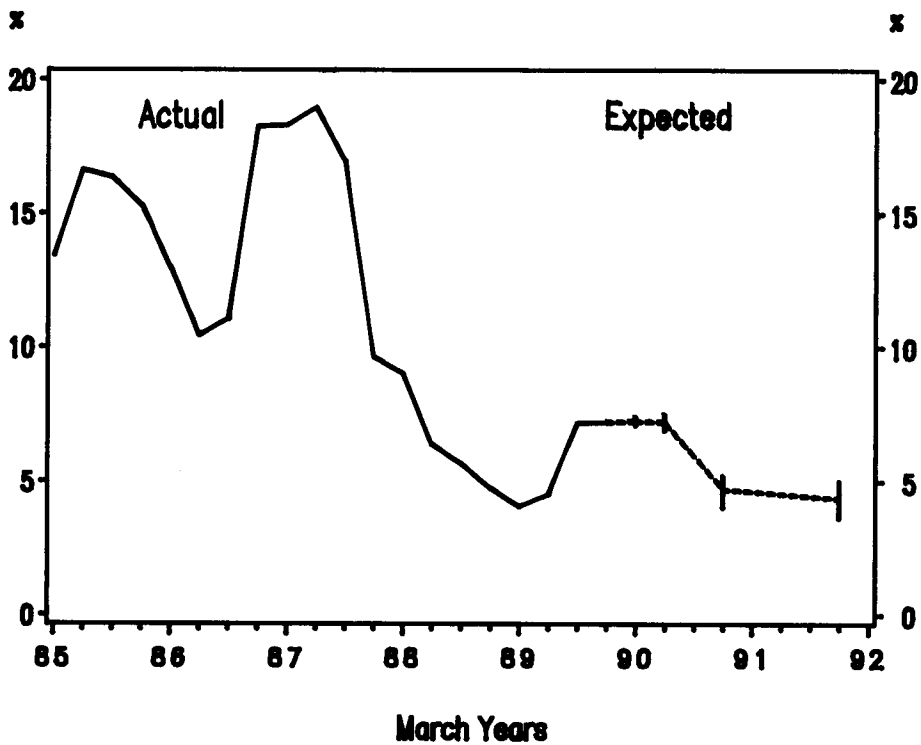
## Summary of Results

- Perceptions that tighter monetary conditions will remain.

There has been some movement from the last survey towards perceptions of tighter monetary conditions in each of the time periods surveyed. While perceptions of current monetary conditions, and those expected to prevail at the end of the next quarter, have tightened only slightly since the previous survey, a significant movement is evident in the year ahead expectations. Expectations of monetary conditions for the end of December 1990 suggest there is now less of a perception that monetary conditions will ease during the coming year. Some 49 per cent of respondents expect monetary conditions to be tighter than neutral by December 1990, up on the level of 38 per cent for the year ahead question in the December 1989 survey.

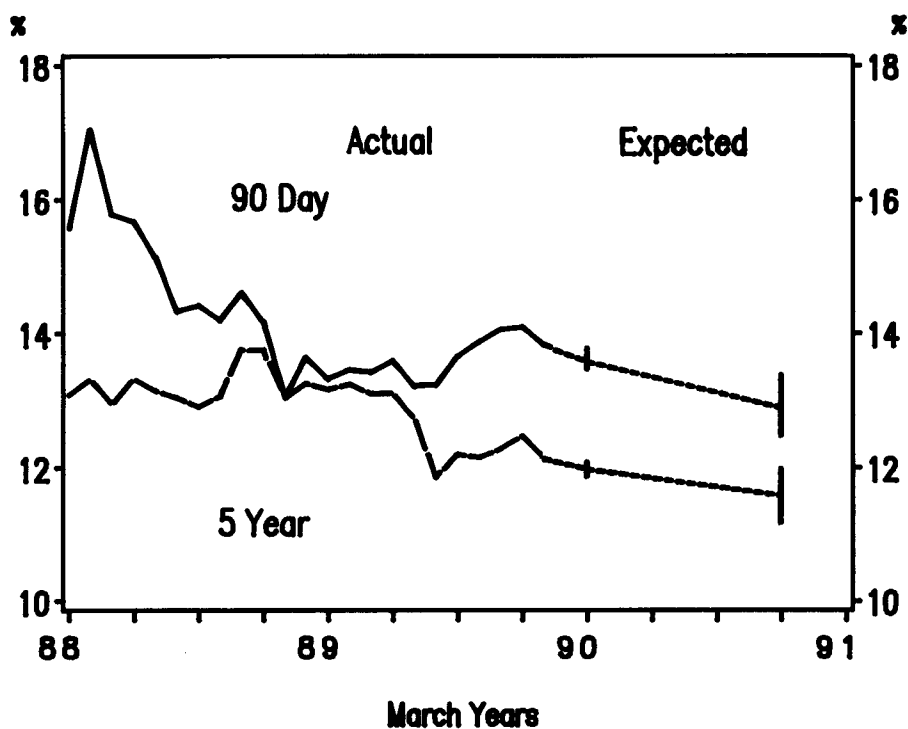
Expectations for the current quarter and the year ahead M3 growth rates have risen slightly, with M3 growth in the year ended March 1990 anticipated to be 5.9 per cent, while the expected M3 growth rate in the year ahead is 6.0 per cent.

**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**

- **Inflationary expectations fall to record low.**

The CPI is expected to rise by 1.1 per cent in the March 1990 quarter and 1.2 per cent in the June 1990 quarter, implying that the annual inflation rate is expected to remain at 7.2 per cent for both quarters. Inflation is expected to fall to 4.9 per cent in the year to December 1990 and then to fall slightly further to 4.4 per cent in the year to December 1991. These outcomes are below those of the previous survey which recorded results of 5.5 per cent for the year ahead and 4.8 per cent for the two year ahead inflation expectation. The expectation of 4.4 per cent inflation for the year to December 1991 is the lowest annual inflation expectation recorded by the survey and continues the downward trend in expectations which was temporarily reversed in the last quarter of 1989.

- **Little decline in interest rates anticipated.**

In line with the drop in expected inflation, expectations for long-term interest rates have fallen slightly from the December 1989 survey, with the government stock yield anticipated to end the current quarter at 12.0 per cent; down on a rate of 12.4 per cent in the previous survey. However, rates are expected to decline only slightly over the year ahead to reach 11.6 per cent by December 1990. The expected yield gap for March 1990 is 1.5 per cent, a rise on the 1.1 per cent gap in the December quarter survey and consistent with the perception of slightly tighter monetary conditions. The yield gap is then expected to drop back to 1.2 per cent by December 1990.

- Trade weighted exchange rate expected to depreciate.

Depreciations of around 1-2 per cent are expected to occur against each of the major cross rates over the year to December 1990, with the exception of the Australian dollar rate which is expected to remain stable. The TWI is now expected to depreciate by 0.6 per cent in the year ahead, in contrast to the December 1989 survey where the index was expected to be unchanged over the coming year.

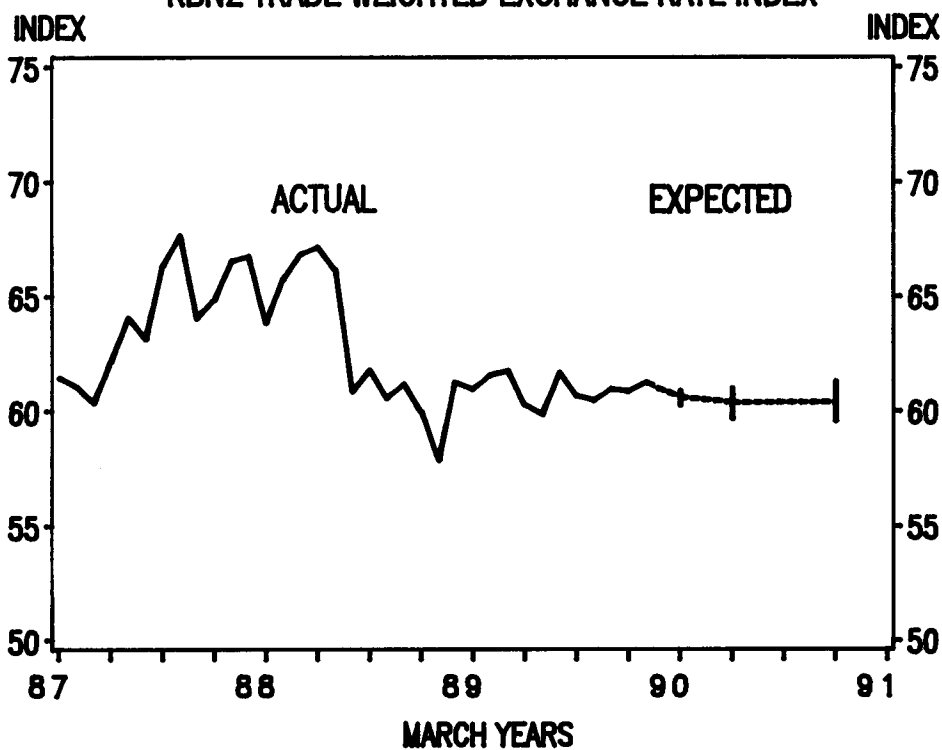
- Slow real growth in activity expected.

Growth in real GDP is expected to be 0.4 per cent for both the December 1989 and the March 1990 quarters, with the estimate for the December quarter remaining unchanged from that indicated in the previous survey. Real GDP growth in the 1990 calendar year is expected to be 1.3 per cent, which is the same as the year ahead rate recorded in the December 1989 quarter survey.

- Current account expectations deteriorate markedly.

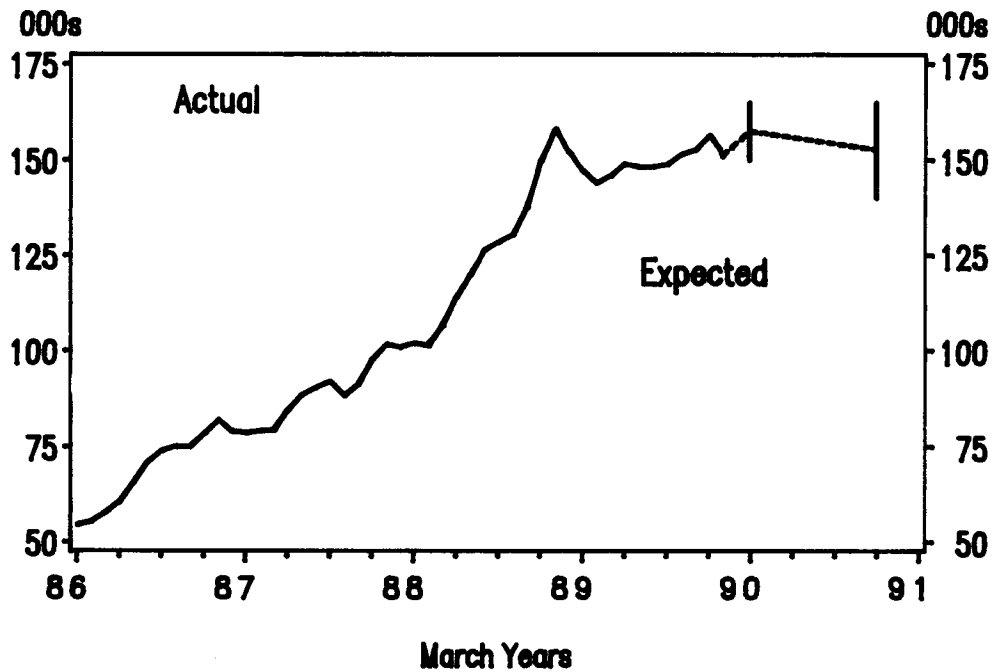
The September quarter balance of payments figures, announced on the day following the survey date, indicated a sizeable deterioration in the current account position, confirming expectations of a deterioration foreshadowed by earlier merchandise trade data. These worsening expectations are reflected in the survey results which show that the expected deficit has now risen from \$0.8 billion in the year to December 1989 to \$2.1 billion in the year to March 1990. The anticipated year ahead deficit on the current account has also risen, from \$0.7 billion in the December survey to a deficit of \$2.0 billion in this 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 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 of an improved fiscal position are unchanged.

The Government financial deficits expected in this survey are the same for both fiscal years as recorded in the December 1989 survey. In the year ending June 1990 the deficit is expected to be \$0.4 billion, while in the fiscal year ending June 1991 an improvement to a \$0.2 billion deficit is anticipated.

- Wage rates are expected to rise by 4.7 per cent over the year.

The annual percentage change in the prevailing weekly wage rates index for the coming year is expected to be 4.7 per cent, down on the result of 5.0 per cent expected in the December 1989 quarter survey.

- Slight worsening of expectations for unemployment.

The number of unemployed persons registered with the Labour Department (excluding special work schemes and vacation workers) is expected to be 158,000 by the end of March 1990; just above the end of quarter expectation of the previous survey. While continuing to indicate an expected fall in unemployment levels, the December 1990 unemployment expectation is also up slightly on the corresponding December 1989 quarter survey result, with 153,000 persons now expected to be registered as unemployed by the end of the year.

The next RBNZ Survey of Expectations is tentatively scheduled for 9 May 1990, with the results to be published in the June 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	
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
Dec. 1989	3.9	24.2	42.7	18.0	9.6	1.7	0.0
Mar. 1990	1.7	24.7	48.3	20.1	4.0	1.1	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	
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
Dec. 1989	Mar. 1990	2.8	10.7	43.3	28.7	12.4	2.2	0.0
Mar. 1990	June 1990	0.6	13.2	47.7	23.0	14.9	0.6	0.0
Mar. 1989	Dec. 1989	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
Dec. 1989	Sept. 1990	0.0	7.3	30.9	39.3	19.1	3.4	0.0
Mar. 1990	Dec. 1990	1.1	7.5	40.2	37.4	12.1	1.1	0.6

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

Survey Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Reference Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Mean	7.1	4.7	5.6	5.6	5.9
Reference Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	7.6	6.1	6.4	5.8	6.0

**Prices:**

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

Survey Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Reference Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Mean	1.2	1.2	2.5	1.5	1.1
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	1.3	2.3	1.4	1.3	1.2

<sup>1</sup> 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.

<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.

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

Survey Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Reference Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	4.8	6.0	6.2	5.5	4.9
Reference Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Mean	4.9	4.7	4.6	4.8	4.4

**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	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Reference Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Mean	13.3	13.3	12.7	13.5	13.5
Reference Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	12.4	12.5	11.9	12.5	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	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Reference Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Mean	12.8	13.0	12.2	12.4	12.0
Reference Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	12.1	12.3	11.5	11.7	11.6

**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	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
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**US Dollar**

Reference Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Mean	0.605	0.617	0.593	0.587	0.588
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	0.596	0.611	0.590	0.584	0.584
Reference Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	0.587	0.603	0.582	0.579	0.582

**Australian Dollar**

Reference Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Mean	0.690	0.773	0.779	0.753	0.782
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	0.692	0.775	0.784	0.759	0.782
Reference Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	0.702	0.775	0.780	0.767	0.782

**Pound Sterling**

Reference Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Mean	0.348	0.365	0.362	0.370	0.350
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	0.344	0.359	0.360	0.369	0.348
Reference Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	0.343	0.356	0.355	0.365	0.348

**Japanese Yen**

Reference Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Mean	78.5	82.3	82.2	83.8	84.6
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	77.1	81.2	81.6	82.8	83.6
Reference Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	75.9	80.0	80.5	81.8	82.7

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

Survey Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Reference Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Mean	-1.2	0.6	0.4	0.1	-0.2
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	-0.5	-0.3	-0.1	0.1	-0.4

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

Survey Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Reference Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	-2.0	0.0	-0.8	0.0	-0.6

**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	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Reference Qtr	Dec. 88	Mar. 89	June 89	Sept. 89	Dec. 89
Mean	-0.2	0.2	0.3	0.0	0.4
Reference Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Mean	0.1	0.4	0.4	0.4	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	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Reference Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	0.4	1.0	1.3	1.3	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	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Reference Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Mean	-0.5	-0.8	-1.1	-0.8	-2.1
Reference Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	-0.4	-0.7	-1.0	-0.7	-2.0



Q.14 What is your expectation of the Government Financial Balance (in \$ billions) for the fiscal year to:

Survey Qtr	June 89	Sept. 89	Dec. 89	Mar. 90
Reference Qtr	June 90	June 90	June 90	June 90
Mean	-1.1	-0.8	-0.4	-0.4
Reference Qtr	June 91	June 91	June 91	June 91
Mean	-0.8	-0.4	-0.2	-0.2

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	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Reference Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	4.3	4.5	4.9	5.0	4.7

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	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Reference Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Mean	161	161	157	157	158
Reference Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	165	162	152	151	153