

SURVEY OF EXPECTATIONS

This article, prepared by Rozanna Kolijn and Sean Comber, presents the results from the December quarter 1991 Reserve Bank of New Zealand Survey of Expectations.

Introduction

The RBNZ Survey of Expectations for the December quarter 1991 was conducted on Wednesday, 30 October 1991. 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 Composition

The response rate for this quarter was 67 per cent, with 169 of the 253 respondents in this quarter's sample having returned their completed questionnaires by the cut-off date.

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

Financial	..	57
Business	..	66
Agriculture	..	22
Labour	..	8
Other	..	16
TOTAL	..	169

Summary of Results

- **Perceptions of easier monetary conditions.**

Following the announced easing of monetary policy by the Reserve Bank on 25 September, there has been a marked movement towards perceptions of easier monetary conditions in each of the periods covered in the December 1991 survey. Some 31 per cent of respondents now consider current monetary conditions to be tighter than neutral, down from 54 per cent in the previous survey. Respondents expect monetary conditions to ease over the coming

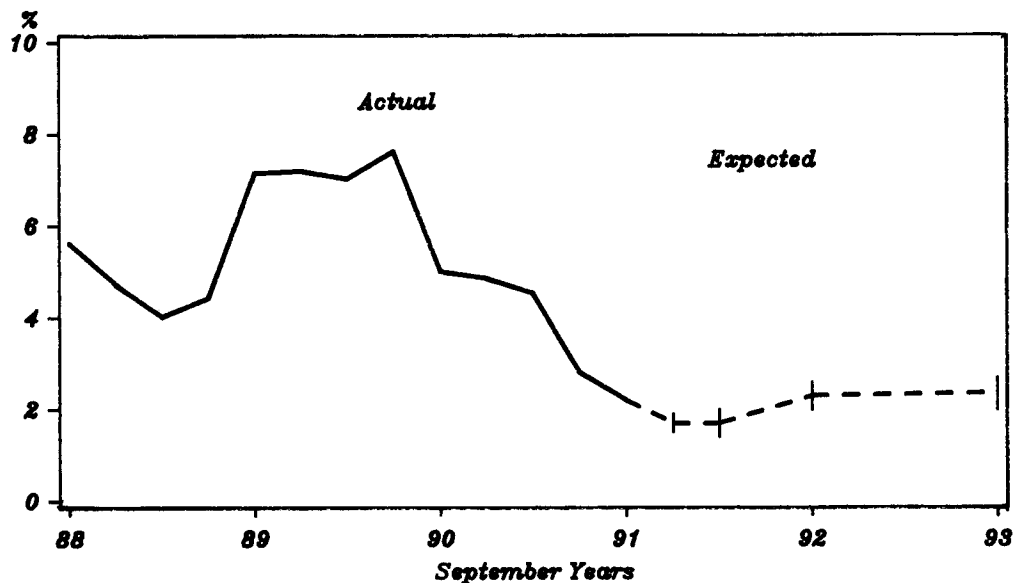
quarter, with 20 per cent of respondents expecting conditions to be tighter than neutral by the end of March 1992, compared with the 36 per cent of respondents who expected conditions to remain firm over the quarter ahead in the September survey. Some 18 per cent of respondents expect conditions to be tighter than neutral by the end of September 1992.

Expectations for M3 growth have eased slightly since the September survey. Respondents now expect M3 to increase by 5.1 per cent in both the current year and the year ahead, compared with growth rates of 6.7 per cent and 5.5 per cent respectively in the previous survey.

- **Year-ahead inflation expectations fall slightly.**

Respondents expect the Consumer Price Index (CPI) to rise by 0.6 per cent in both the December 1991 and March 1992 quarters, implying that the annual inflation rate is expected to remain at 1.7 per cent for both quarters. Despite the

Figure 1.
Actual and Surveyed Expectations of the Annual Percentage Change in the Consumer Price Index



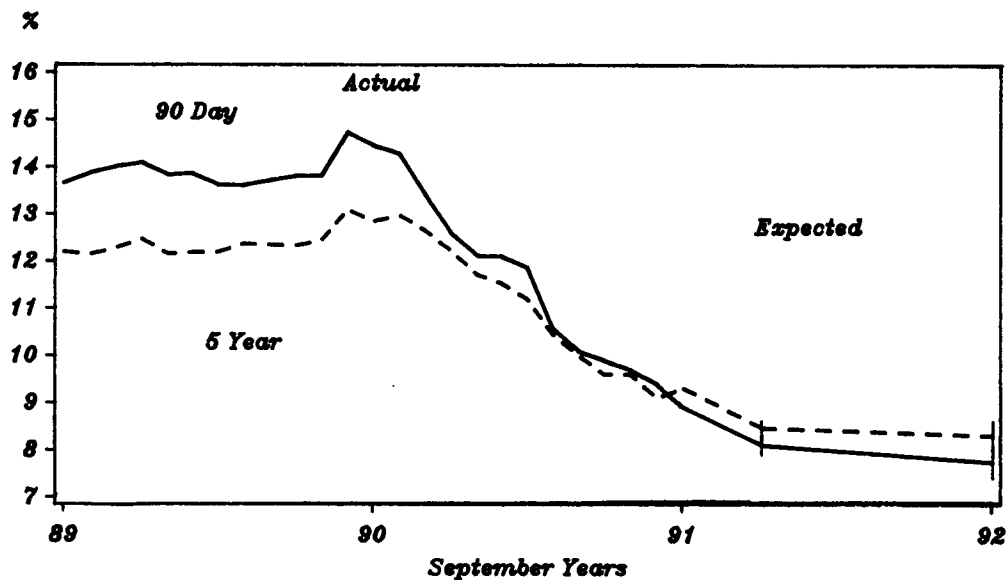
Note: 25% of expectations fell above and below the band shown.

recent exchange rate depreciation, inflation expectations for the year ahead have fallen slightly since the previous survey. CPI inflation is now expected to be 2.3 per cent in the year to September 1992, compared to a year-ahead inflation expectation of 2.5 per cent in the September quarter survey. In the year to September 1993, inflation is, however, expected to increase slightly to 2.4 per cent.

- **More positive yield gap expected over coming year.**

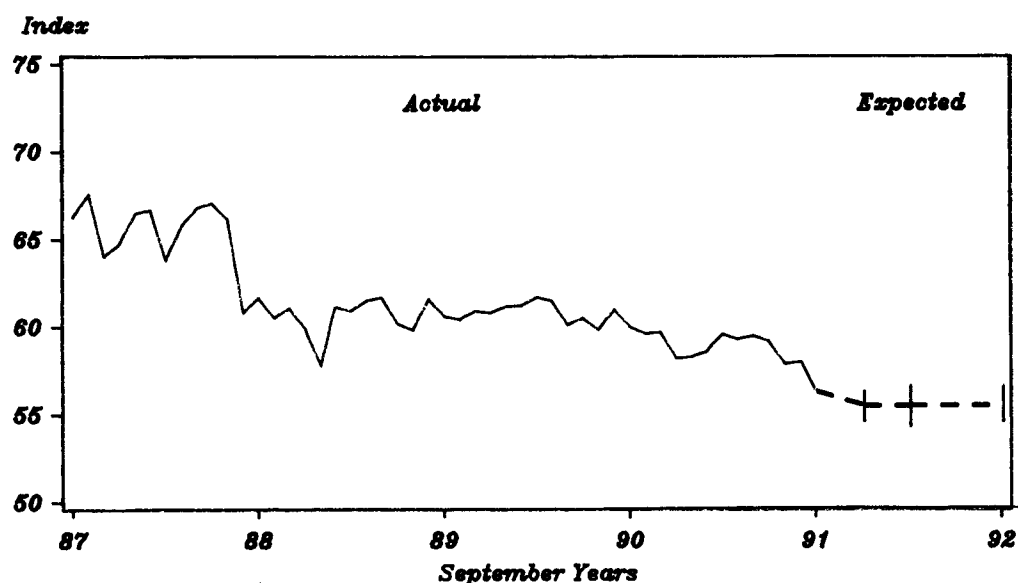
Despite the recent reduction in interest rates, respondents expect further modest declines in both short and long-term interest rates over the coming year. Rates for 90-day bills are expected to fall from 8.1 per cent at the end of December 1991 to 7.8 per cent by the end of September 1992, and government stock rates to decline from 8.5 per cent to 8.3 per cent over the same period. As a result, respondents expect a positive yield gap of 0.4 per cent at the end of December 1991 and a further widening to 0.5 per cent by the end of September 1992.

Figure 2.
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.

Figure 3.
Actual and Surveyed Expectations of
the RBNZ Trade Weighted Index



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

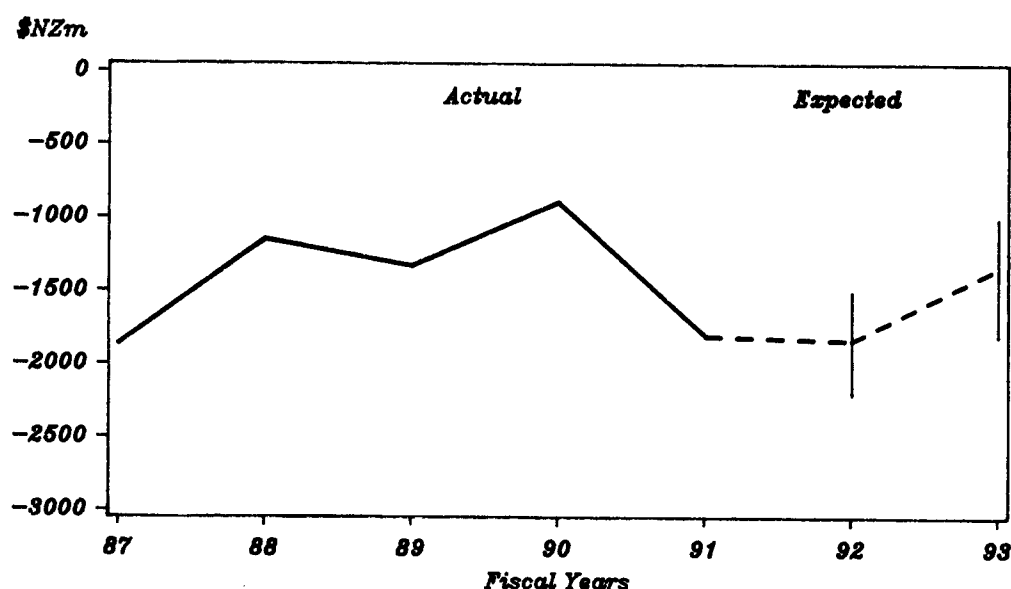
- Exchange rate expected to stabilise over the coming year.

The New Zealand dollar is expected to depreciate further against most major currencies over the coming year, although this is largely offset by a strong anticipated appreciation against the Australian dollar. Respondents expect the Trade Weighted Index (TWI) to decline by 1.5 per cent over the December quarter 1991, and remain stable at this level over the March quarter 1992. An expected decline of 1.4 per cent for the year to September 1992 implies little further change in the TWI over both the June and September quarters of 1992.

- Little growth in real GDP expected over the coming year.

Respondents expect real Gross Domestic Product (GDP) to have declined by 0.4 per cent in seasonally adjusted terms over the September quarter 1991, and to remain unchanged over the December quarter. In the year to September 1992, real GDP is expected to increase by 0.2 per cent, close to the 0.1 per cent year-ahead increase expected in the September survey.

Figure 4.
Actual and Surveyed Expectations of
the Budget Balance



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

- Continued improvement in the current account still expected.

The current account deficit for the year to December 1991 is expected to be \$1.8 billion, down from the \$2.1 billion deficit previously anticipated for the year to September 1991. Expectations for the year-ahead have also declined, with respondents now anticipating a current account deficit of \$1.5 billion in the year to September 1992, compared to the year-ahead deficit of \$1.7 billion expected in the previous survey.

- Expectations of an improved fiscal deficit unchanged.

Expectations for the Government financial deficit for both the current fiscal year and the year to June 1993 remain largely unchanged from the September survey. The fiscal deficit is now expected to be \$1.8 billion in the year to June 1992, reducing to \$1.2 billion in the year to June 1993.


- **Expectations of future wage increases fall slightly.**

An increase in the prevailing weekly wage rates index of 1.7 per cent is anticipated over the year to September 1992. This is slightly lower than the 1.9 per cent year-ahead increase expected in the September survey.

- **Sharp rise in unemployment expectations.**

Respondents expect the Household Labour Force Survey (HLFS) unemployment rate to be 11 per cent in the December quarter 1991, higher than the 10.4 per cent expected in the September survey. A further deterioration is expected over the coming year, with respondents anticipating a rise in the unemployment rate to 11.6 per cent in the September quarter 1992.

The next RBNZ Survey of Expectations is tentatively scheduled for 12 February 1992, with results to be published in the March issue of the *Bulletin*.



SURVEY OF EXPECTATIONS HISTORICAL RESULTS ¹

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	7	
Dec. 1990	3.3	36.1	35.0	16.9	7.7	1.1	0.0	
Mar. 1991	0.6	12.5	37.5	30.7	16.5	1.7	0.6	
June 1991	1.0	7.1	37.1	34.5	15.2	4.6	0.5	
Sept. 1991	1.1	10.9	42.3	26.9	17.1	1.7	0.0	
Dec. 1991	1.2	2.4	27.5	37.7	27.5	3.6	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	7	
Dec. 1990	Mar. 1991	3.8	25.7	38.8	20.8	8.7	1.6	0.5	
Mar. 1991	June 1991	0.6	8.5	33.0	33.5	22.7	1.7	0.0	
June 1991	Sept. 1991	1.0	3.6	30.5	32.5	25.9	6.1	0.5	
Sept. 1991	Dec. 1991	1.1	9.1	26.3	33.7	24.6	5.1	0.0	
Dec. 1991	Mar. 1992	0.6	3.0	16.2	38.3	34.7	6.6	0.6	
Dec. 1990	Sept. 1991	2.2	15.9	37.9	25.8	14.8	2.7	0.5	
Mar. 1991	Dec. 1991	0.6	6.3	25.0	42.0	21.6	4.5	0.0	
June 1991	Mar. 1992	0.0	3.6	20.3	41.6	24.9	9.1	0.5	
Sept. 1991	June 1992	1.1	3.4	23.4	33.7	30.3	6.9	1.1	
Dec. 1991	Sept. 1992	0.6	3.6	13.3	42.2	30.7	8.4	1.2	

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

Survey Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Reference Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Mean	5.7	6.7	7.0	6.7	5.1
Reference Qtr	Sept. 91	Dec. 91	Mar. 92	June 92	Sept. 92
Mean	5.4	5.6	5.9	5.5	5.1

Prices:

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

Survey Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Reference Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Mean	1.4	1.0	0.6	0.6	0.6

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

Reference Qtr	Mar. 91	June 91	Sept. 91	Dec. 91	Mar. 92
Mean	1.3	0.9	0.7	0.6	0.6

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

Survey Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Reference Qtr	Sept. 91	Dec. 91	Mar. 92	June 92	Sept. 92
Mean	5.2	4.2	3.0	2.5	2.3
Reference Qtr	Sept. 92	Dec. 92	Mar. 93	June 93	Sept. 93
Mean	4.5	3.7	2.7	2.5	2.4

Interest Rates:

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

Survey Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Reference Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Mean	13.9	11.8	10.3	9.3	8.1
Reference Qtr	Sept. 91	Dec. 91	Mar. 92	June 92	Sept. 92
Mean	13.1	11.2	9.6	8.8	7.8

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

Survey Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Reference Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Mean	12.9	11.4	10.2	9.5	8.5
Reference Qtr	Sept. 91	Dec. 91	Mar. 92	June 92	Sept. 92
Mean	12.4	11.0	9.7	9.2	8.3

Exchange Rates:

Q.8 Relative to the following currencies, what spot exchange rate do you expect for the New Zealand dollar and the end of (reference quarter):

Survey Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
US Dollar					
Reference Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Mean	0.605	0.600	0.584	0.571	0.555
Reference Qtr	Mar. 91	June 91	Sept. 91	Dec. 91	Mar. 92
Mean	0.595	0.592	0.579	0.568	0.552

Reference Qtr Mean	Sept. 91 0.587	Dec. 91 0.584	Mar. 92 0.573	June 92 0.565	Sept. 92 0.549
Australian Dollar					
Reference Qtr Mean	Dec. 90 0.779	Mar. 91 0.768	June 91 0.754	Sept. 91 0.735	Dec. 91 0.710
Reference Qtr Mean	Mar. 91 0.774	June 91 0.767	Sept. 91 0.753	Dec. 91 0.738	Mar. 92 0.713
Reference Qtr Mean	Sept. 91 0.768	Dec. 91 0.765	Mar. 92 0.752	June 92 0.741	Sept. 92 0.715
Pound Sterling					
Reference Qtr Mean	Dec. 90 0.312	Mar. 91 0.304	June 91 0.337	Sept. 91 0.337	Dec. 91 0.325
Reference Qtr Mean	Mar. 91 0.310	June 91 0.304	Sept. 91 0.333	Dec. 91 0.336	Mar. 92 0.324
Reference Qtr Mean	Sept. 91 0.311	Dec. 91 0.304	Mar. 92 0.329	June 92 0.334	Sept. 92 0.324
Japanese Yen					
Reference Qtr Mean	Dec. 90 79.1	Mar. 91 77.3	June 91 80.6	Sept. 91 78.2	Dec. 91 73.5
Reference Qtr Mean	Mar. 91 88.4	June 91 76.8	Sept. 91 79.9	Dec. 91 78.2	Mar. 92 73.2
Reference Qtr Mean	Sept. 91 77.6	Dec. 91 76.5	Mar. 92 79.0	June 92 78.1	Sept. 92 73.1

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

Survey Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Reference Qtr Mean	Dec. 90 -0.6	Mar. 91 -0.4	June 91 -0.4	Sept. 91 -0.4	Dec. 91 -1.5
Reference Qtr Mean	Mar. 91 -0.6	June 91 -0.6	Sept. 91 -0.6	Dec. 91 -0.3	Mar. 92 0.0

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

Survey Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Reference Qtr Mean	Sept. 91 -2.3	Dec. 91 -2.0	Mar. 92 -1.7	June 92 -0.6	Sept. 92 -1.4

Others:

Q.11 What is your expectation of the seasonally adjusted quarterly % change in the real Gross Domestic Product (GDP) index for the (reference quarter):

Survey Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Reference Qtr	Sept. 90	Dec. 90	Mar. 91	June 91	Sept. 91
Mean	-0.3	-0.1	-0.2	-0.3	-0.4
Reference Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Mean	-0.1	-0.1	0.0	-0.1	0.0

Q.12 What is your expectation of the annual average % change in the real Gross Domestic Product (GDP) index for the year to (reference quarter):

Survey Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Reference Qtr	Sept. 91	Dec. 91	Mar. 92	June 92	Sept. 92
Mean	0.2	0.1	0.5	0.1	0.2

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	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Reference Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Mean	-4.0	-0.4	-2.6	-2.1	-1.8
Reference Qtr	Sept. 91	Dec. 91	Mar. 92	June 92	Sept. 92
Mean	-3.8	-3.8	-2.2	-1.7	-1.5

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

Survey Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Reference Qtr	June 91	June 91	June 91	June 92	June 92
Mean	-1.3	-1.5	-1.7	-1.9	-1.8
Reference Qtr	June 92	June 92	June 92	June 93	June 93
Mean	-1.7	-1.3	-1.4	-1.2	-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	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Reference Qtr	Sept. 91	Dec. 91	Mar. 92	June 92	Sept. 92
Mean	3.3	2.8	2.0	1.9	1.7

Q.16 What is your expectation of the official HLFS unemployment rate for the (reference quarter):

Survey Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Reference Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Mean	7.8	8.8	9.6	10.4	11.0
Reference Qtr	Sept. 91	Dec. 91	Mar. 92	June 92	Sept. 92
Mean	8.1	9.3	9.9	11.2	11.6

