

SURVEY OF EXPECTATIONS

This article, prepared by Fiona Cairns and Bryan Chapple, presents the results from the June quarter 1991 Reserve Bank of New Zealand Survey of Expectations.

Introduction

The RBNZ Survey of Expectations for the June quarter 1991 was conducted on Wednesday 8 May 1991, with the exception of Questions 4 and 5 relating to CPI inflation, which were conducted on Wednesday 15 May. 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 80 per cent, with 202 of the 253 respondents in this 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	..	76
Business	..	80
Agriculture	..	21
Labour	..	8
Other	..	17
TOTAL		202

Summary of Results

- **Perceptions of slightly easier monetary conditions.**

Monetary conditions are now perceived to be slightly easier than was the case in the March 1991 survey, and are expected to ease further over the coming year. Some 45 per cent of respondents consider that current monetary conditions are tighter than neutral, down from 51 per cent in the previous survey. Over the coming quarter, conditions are expected to ease

slightly, with 35 per cent of respondents expecting conditions to be tighter than neutral by the end of September 1991. A further easing in monetary conditions is expected by the end of March 1992, with some 24 per cent of respondents expecting conditions to be tighter than neutral.

Respondents continue to anticipate a slowing in M3 growth over the coming year, with M3 expected to increase by 7.0 per cent in the year to June 1991, and by 5.9 per cent in the year to March 1992.

- **Sharp fall in inflation expectations.**

Recent favourable inflation out-turns, and continuing reductions in mortgage interest rates, appear to have contributed to a sharp fall in inflation expectations since the March quarter survey was conducted, with annual inflation expectations falling to a new low. Respondents now expect the CPI to increase by 0.6 per cent and 0.7 per cent in the June and September 1991 quarters respectively, implying annual inflation rates of 3.3 per cent in the year to June and 3.0 per cent in the year to September 1991. Inflation is expected to remain at 3.0 per cent in the year to March 1992, down from the year ahead expectation of 4.2 per cent in the March quarter survey. In the year to March 1993, inflation is expected to be 2.7 per cent, compared to a two year ahead inflation expectation of 3.7 per cent in the last survey.

Figure 1
Perceptions of Current and Future Monetary Conditions

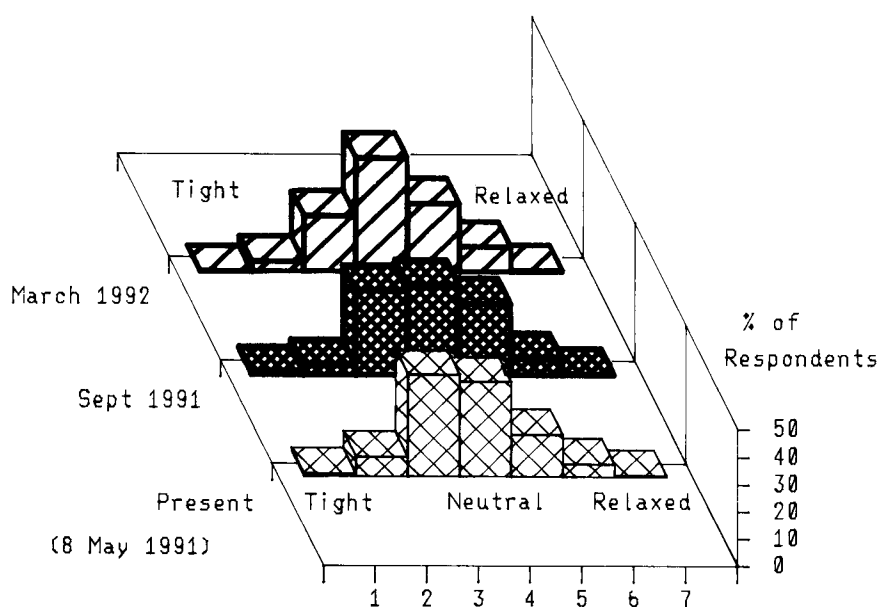
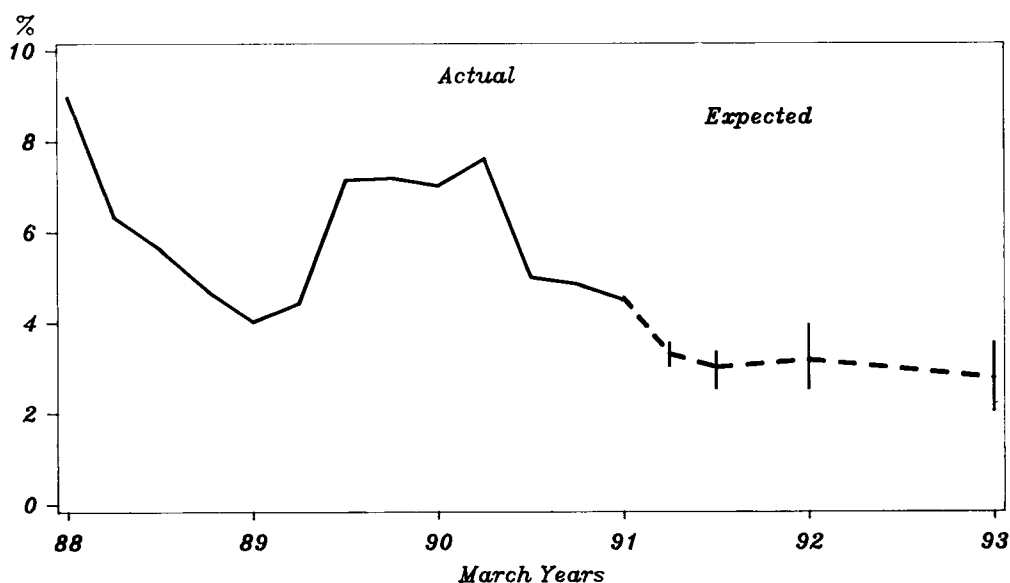


Figure 2.
*Actual and Surveyed Expectations of the
 Annual Percentage Change in the Consumer Price Index*



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

- **Positive yield gap now expected over coming year.**

Further reductions in both short and long term interest rates were anticipated by respondents at the time the survey was conducted, with both rates expected to fall below 10 per cent by March 1992. Respondents expect 90-day bill rates to fall from 10.3 per cent at the end of June 1991 to 9.6 per cent by the end of March 1992, and Government stock rates to decline from 10.2 per cent to 9.7 per cent over the same period. As a result, respondents expected a negative yield gap of 0.1 per cent in June 1991 to move to a positive yield gap of 0.1 per cent by March 1992. In the March quarter survey, respondents expected the yield gap to narrow from negative 0.4 per cent to negative 0.2 per cent over the year ahead.

- **Exchange rate expected to depreciate.**

Respondents expect the New Zealand dollar to depreciate against all major currencies over coming quarters and, as a consequence, the Trade Weighted Index (TWI) is expected to decline by 0.4 per cent over the June quarter and by 0.6 per cent in the September quarter 1991. A slightly smaller depreciation in the TWI is anticipated over the coming year than was expected in the March quarter survey, with a decline of 1.7 per cent in the index expected in the year to March 1992, compared to an expected year ahead depreciation of 2.0 per cent in the last survey.

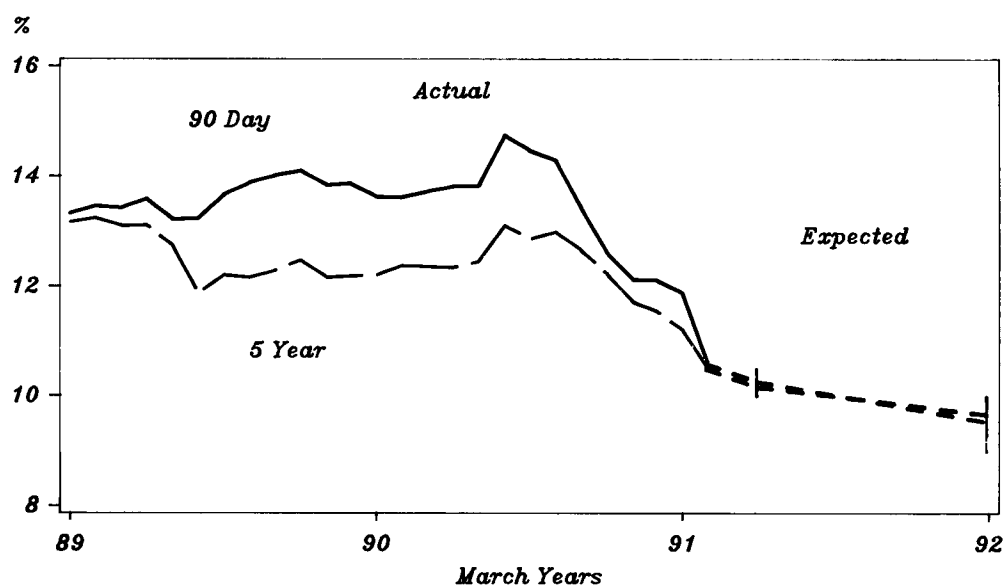
- **Slightly stronger GDP growth expected over the year ahead.**

Real Gross Domestic Product (GDP) is expected to have fallen slightly in seasonally adjusted terms over the March quarter of this year, and to remain unchanged over the June quarter. Slightly stronger growth in real GDP is expected over the coming year, with an increase of 0.5 per cent expected in the year to March 1992, up from the 0.1 per cent year ahead growth anticipated in the last survey.

- **Improvement in current account expectations.**

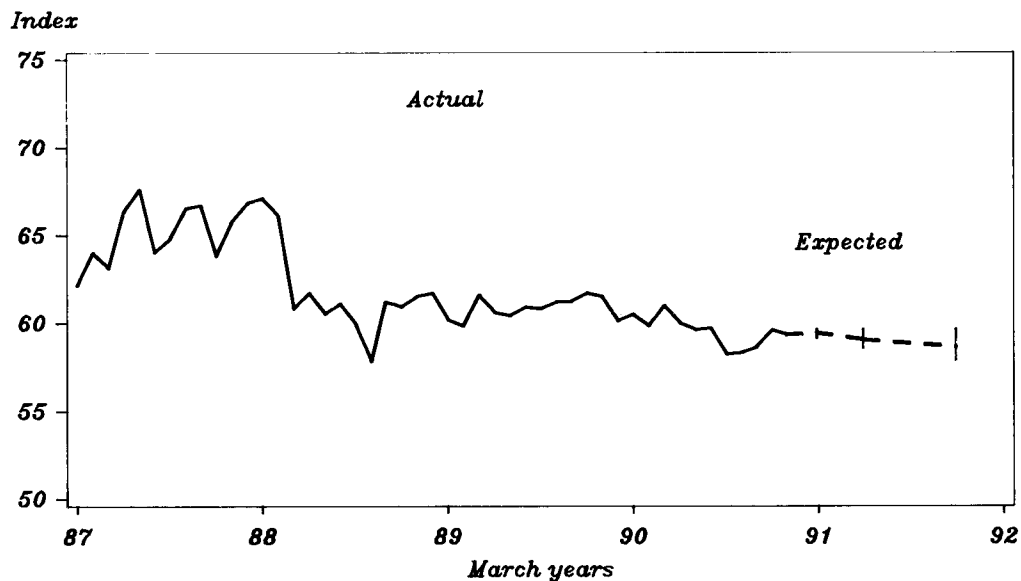
Following the announcement of the early estimate of the Balance of Payments revision by the Department of Statistics, respondents had significantly lower expectations for the current account deficit than in recent surveys. A current account deficit of \$2.6 billion was anticipated for the year to June 1991, with a small improvement expected over the June 1992 year to a deficit of \$2.2 billion. In the March quarter survey, deficits of \$4.0 and \$3.8 billion were anticipated for the corresponding periods.

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.

Figure 4.
Actual and Surveyed Expectations of
The RBNZ Trade Weighted Index



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

- **Slightly higher fiscal deficit expectations.**

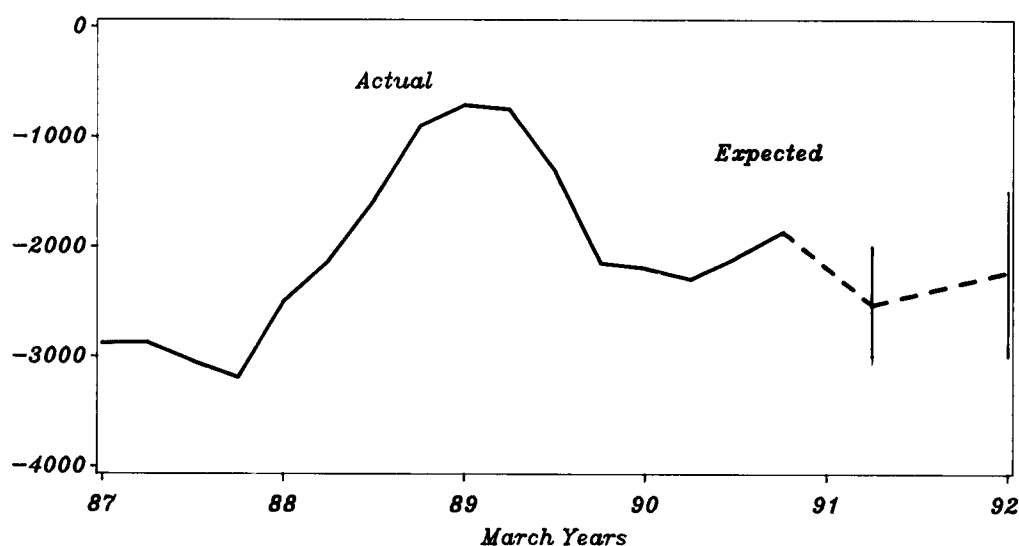
The Government financial deficit is now expected to be \$1.7 billion in the current fiscal year, a marginal increase from the deficit of \$1.5 billion anticipated in the March quarter survey. Some improvement in the fiscal position is expected in the following year, with a deficit of \$1.4 billion anticipated in the year to June 1992, compared to a year ahead expectation of \$1.3 billion in the previous survey.

- **Sharp fall in wage expectations.**

Respondents now expect a significantly lower increase in wage rates over the coming year than was anticipated in the last survey. The prevailing weekly wage rate index is expected to rise by 2.0 per cent in the March 1992 year, down from the 2.8 per cent increase anticipated in the last survey, and from year ahead rises of 4.2 per cent in the June 1990 survey one year ago.

Figure 5.
Actual and Survey Expectations of the
Annual Current Account Balance

\$NZ Million



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

- **Increase in unemployment expected.**

Respondents expect the official Household Labour Force Survey (HLFS) unemployment rate to increase from 9.6 per cent in the June quarter 1991 to 9.9 per cent in the March quarter 1992. In the March 1991 survey, unemployment was expected to increase from 8.8 per cent to 9.3 per cent.

The next RBNZ Survey of Expectations is tentatively scheduled for 14 August 1991, with results to be published in the September 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
June 1990	2.5	23.4	45.6	22.2	5.7	0.6	0.0
Sept. 1990	23.0	44.7	26.7	4.3	0.6	0.6	0.0
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

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
June 1990	Sept. 1990	1.3	13.3	47.5	24.7	11.4	1.9	0.0
Sept. 1990	Dec. 1990	6.2	35.4	39.1	13.7	5.6	0.0	0.0
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
June 1990	Mar. 1990	1.9	10.8	39.9	31.6	12.7	3.2	0.0
Sept. 1990	June 1990	5.0	16.1	44.7	22.4	10.6	1.2	0.0
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

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

Survey Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Reference Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	4.0	4.6	5.7	6.7	7.0
Reference Qtr	Mar. 91	June 91	Sept. 91	Dec. 91	Mar. 92
Mean	4.6	5.1	5.4	5.6	5.9

Prices:

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

Survey Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Reference Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	1.1	1.0	1.4	1.0	0.6
Reference Qtr	Sept. 90	Dec. 90	Mar. 91	June 91	Sept. 91
Mean	1.0	1.2	1.3	0.9	0.7

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

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

Survey Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Reference Qtr	Mar. 91	June 91	Sept. 91	Dec. 91	Mar. 92
Mean	4.4	4.7	5.2	4.2	3.0
Reference Qtr	Mar. 92	June 92	Sept. 92	Dec. 92	Mar. 93
Mean	4.0	4.4	4.5	3.7	2.7

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	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Reference Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	13.4	14.1	13.9	11.8	10.3
Reference Qtr	Mar. 91	June 91	Sept. 91	Dec. 91	Mar. 92
Mean	12.7	13.3	13.1	11.2	9.6

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

Survey Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Reference Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	12.3	12.6	12.9	11.4	10.2
Reference Qtr	Mar. 91	June 91	Sept. 91	Dec. 91	Mar. 92
Mean	11.7	12.1	12.4	11.0	9.7

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	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
US Dollar					
Reference Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	0.573	0.593	0.605	0.600	0.584
Reference Qtr	Sept. 90	Dec. 90	Mar. 91	June 91	Sept. 91
Mean	0.568	0.585	0.595	0.592	0.579
Reference Qtr	Mar. 91	June 91	Sept. 91	Dec. 91	Mar. 92
Mean	0.566	0.575	0.587	0.584	0.573
Australian Dollar					
Reference Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	0.760	0.756	0.779	0.768	0.754
Reference Qtr	Sept. 90	Dec. 90	Mar. 91	June 91	Sept. 91
Mean	0.763	0.757	0.774	0.767	0.753
Reference Qtr	Mar. 91	June 91	Sept. 91	Dec. 91	Mar. 92
Mean	0.768	0.755	0.768	0.765	0.752
Pound Sterling					
Reference Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	0.346	0.323	0.312	0.304	0.337
Reference Qtr	Sept. 90	Dec. 90	Mar. 91	June 91	Sept. 91
Mean	0.346	0.323	0.310	0.304	0.333
Reference Qtr	Mar. 91	June 91	Sept. 91	Dec. 91	Mar. 92
Mean	0.348	0.323	0.311	0.304	0.329

Japanese Yen						
Reference Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91	
Mean	89.7	89.1	79.1	77.3	80.6	
Reference Qtr	Sept. 90	Dec. 90	Mar. 91	June 91	Sept. 91	
Mean	88.5	88.4	78.1	76.8	79.9	
Reference Qtr	Mar. 91	June 91	Sept. 91	Dec. 91	Mar. 92	
Mean	88.0	87.4	77.6	76.5	79.0	

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

Survey Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Reference Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	-0.4	-0.1	-0.6	-0.4	-0.4
Reference Qtr	Sept. 90	Dec. 90	Mar. 91	June 91	Sept. 91
Mean	-0.5	-0.5	-0.6	-0.6	-0.6

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

Survey Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Reference Qtr	Mar. 91	June 91	Sept. 91	Dec. 91	Mar. 92
Mean	-0.7	-1.6	-2.3	-2.0	-1.7

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	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	0.3	0.3	-0.3	-0.1	-0.2
Reference Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	0.4	0.3	-0.1	-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	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Reference Qtr	Mar. 91	June 90	Sept. 91	Dec. 91	Mar. 92
Mean	1.4	0.8	0.2	0.1	0.5

Q.13 What is your expectation of the External Balance of Payments on Current Account (in \$ billions) for the year to (reference quarter):

Survey Qt	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Reference Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	-3.4	-3.3	-4.0	-0.4	-2.6
Reference Qtr	Mar. 91	June 91	Sept. 91	Dec. 91	Mar. 92
Mean	-2.7	-3.0	-3.8	-3.8	-2.2

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

Survey Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Reference Qtr	June 90	June 91	June 91	June 91	June 91
Mean	-0.5	-0.4	-1.3	-1.5	-1.7
Reference Qtr	June 91	June 92	June 92	June 92	June 92
Mean	-0.2	-1.2	-1.7	-1.3	-1.4

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 90	Sept. 90	Dec. 90	Mar. 91	June 91
Reference Qtr	Mar. 91	June 91	Sept. 91	Dec. 91	Mar. 92
Mean	4.2	4.3	3.3	2.8	2.0

Q.16 What is your expectation of the official HLFS unemployment rate for the:

Survey Qtr		Sept. 90	Dec. 90	Mar. 91	June 91
Reference Qtr		June 90	Dec. 90	Mar. 91	June 91
Mean		7.6	7.8	8.8	9.6
Reference Qtr		Mar. 91	Sept. 91	Dec. 91	Mar. 92
Mean		7.5	8.1	9.3	9.9