

SURVEY OF EXPECTATIONS

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

Introduction

The RBNZ Survey of Expectations for the March quarter 1991 was conducted on Wednesday, 13 February 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 69 per cent, with 177 of the 256 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	..	67
Business	..	67
Agricultural	..	20
Labour	..	7
Other	..	16
TOTAL	..	177

Summary of Results

- **Perceptions of easier monetary conditions**

There has been a movement towards perceptions of easier monetary conditions in each of the periods surveyed in the March 1991 survey. Some 51 per cent of respondents consider that current monetary conditions are tighter than neutral, down from 74 per cent in the December 1990 quarter survey. Respondents expect monetary conditions to ease slightly over the coming quarter, with 42 per cent expecting conditions to be tighter than neutral by the end of June 1991, compared to 68 per cent who expected conditions to remain firm over the quarter ahead in the December survey. By the end of 1991, some 32 per cent of respondents expect conditions to be tighter than neutral, whereas 56 per cent of respondents in the last survey expected this to be the case.

Respondents now anticipate slightly higher M3 growth over coming months, with M3 expected to increase by 6.7 percent in the year to March 1991, up from a quarter ahead expectation of 5.7 per cent in the previous survey. In the year to December 1991, M3 is expected to rise by 5.6 per cent.

- **Record low for inflation expectations**

The favourable December quarter CPI out-turn and recent easing in oil price pressures appear to have contributed to a significant reduction in inflation expectations over the survey horizon. Respondents now expect quarterly increases in the CPI of 1.0 per cent and 0.9 per cent in the March and June 1991 quarters respectively. These quarterly movements imply expected annual inflation rates of 4.9 per cent in the year to March 1991, and 4.0 per cent in the year to June 1991. In the year to December 1991 inflation is expected to be 4.2 per cent, falling to 3.7 per cent by the end of 1992. These annual inflation expectations are the lowest recorded since the survey began in 1987, and represent a return to the downward trend that was temporarily reversed following sharp increases in oil prices towards the end of 1990.

Figure 1
Perceptions of Current and Future Monetary Conditions

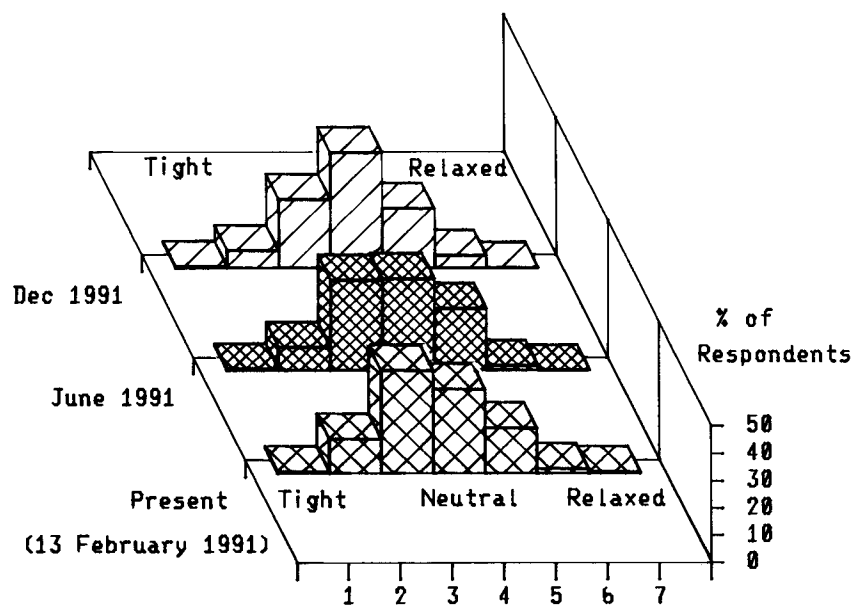
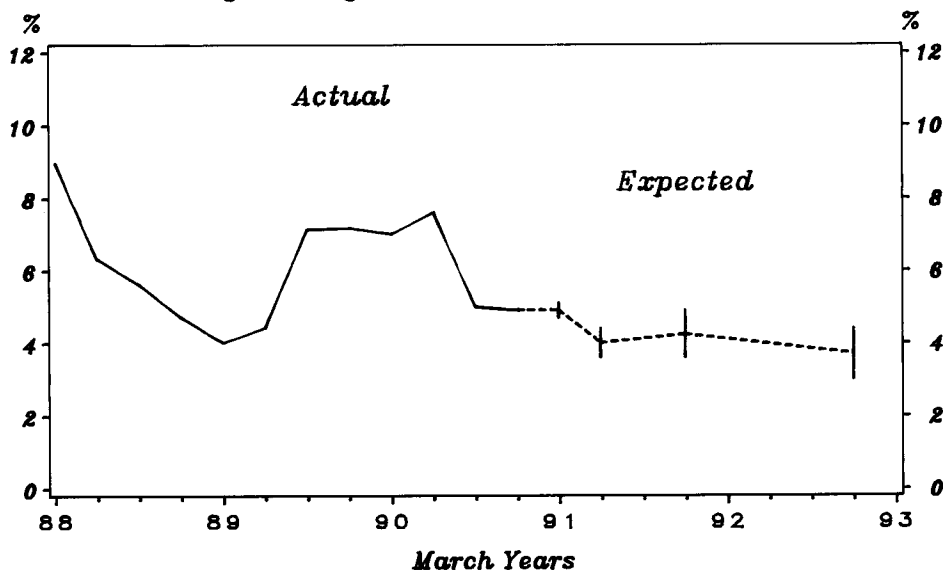


Figure 2
Actual And Surveyed Expectations Of The
Annual Percentage Change In The Consumers Price Index



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

- **Significant reduction in interest rate expectations**

Respondents expect interest rates to fall over the coming year, and both short and long term rates are expected to reach lower levels than anticipated in the December quarter survey. Short-term rates are expected to ease from 11.8 per cent at the end of March 1991 to 11.2 per cent by the end of the year, while Government stock rates are expected to fall from 11.4 per cent to 11.0 per cent over the same period. These lower expectations for short term rates, in particular, have led to a narrowing in the expected yield gap from that anticipated in the last survey. The yield gap is now expected to remain at 0.4 per cent in March 1991, and to fall to 0.2 per cent by the end of June. In the December survey, the corresponding figures were 1.0 per cent and 0.7 per cent respectively.

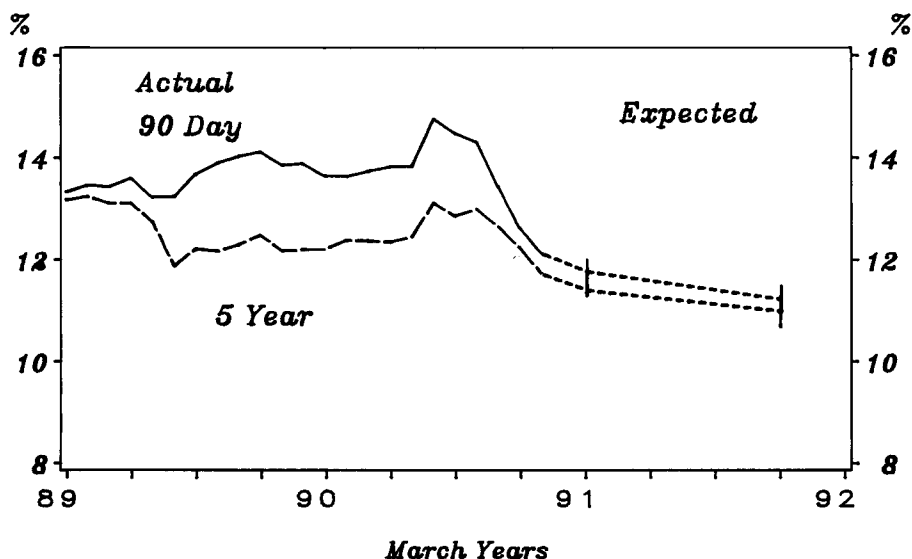
- **Trade weighted exchange rate expected to depreciate**

The New Zealand dollar is expected to depreciate against all major currencies over the year ahead, with the expectation of the pound sterling where the cross rate is expected to remain stable. The trade weighted index (TWI) is expected to decline by 0.4 per cent and 0.6 per cent in the March and June quarters respectively, compared to anticipated declines of 0.6 per cent for both the current subsequent quarters in the December 1990 survey. In the year to December 1991, the TWI is expected to depreciate by 2.0 per cent slightly less than the 2.3 per cent anticipated in the previous survey.

- **Little change in GDP expectations**

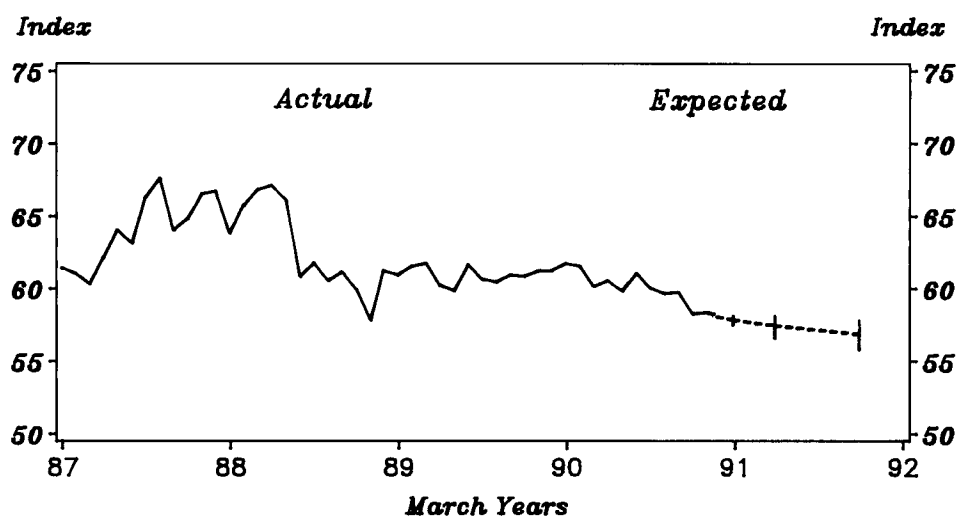
As in the December 1990 survey, real gross domestic product (GDP) is expected to have declined slightly over both the previous and current quarters, with falls of 0.1 per cent expected over both the December 1990 and March 1991 quarters. In the year to December 1991, real GDP is expected to increase by 0.1 per cent, close to the 0.2 per cent year ahead increase expected in the December survey.

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 Exchange Rate Index



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

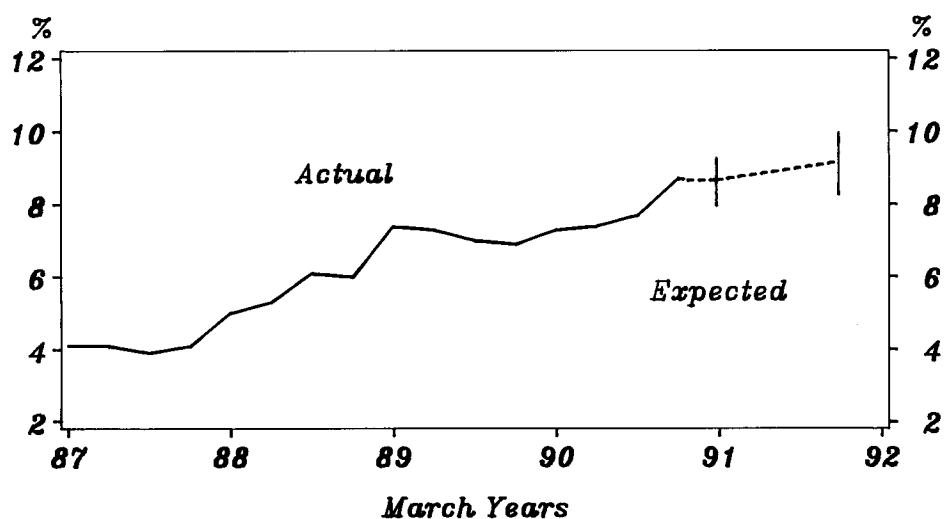
- **Unchanged current account expectations**

The current account deficit for the year ending March 1991 is expected to be \$4 billion, the same current year deficit expected in the previous survey. The year ahead expectation for the current account deficit is also unchanged from the December quarter survey, with respondents expecting the deficit to fall slightly to \$3.8 billion over the 1991 year.

- **Some improvement expected in the fiscal position**

A Government financial deficit of \$1.5 billion is expected for the current fiscal year, slightly higher than the deficit figure of \$1.3 billion anticipated in the previous survey. Over the fiscal year ending June 1992, respondents expect a small improvement to a deficit of \$1.3 billion. In the December quarter survey, the fiscal position was expected to deteriorate to a deficit of \$1.7 billion in the June 1992 year.

Figure 5
Actual and Surveyed Expectations of
HLFS Unemployment



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

- **Lower average wage movements anticipated**

Respondents now expect a smaller movement in wage rates over 1991 than was expected in the December survey. The prevailing weekly wage rate index is expected to rise by 2.8 per cent in the December 1991 year, down from the 3.3 per cent increase anticipated in December 1990.

- **Significantly higher unemployment now expected**

Official unemployment, as measured by the Household Labour Force Survey, is expected to reach 8.8 per cent in the March quarter 1991, and to increase to 9.3 per cent by the end of 1991. In comparison, unemployment was anticipated to increase from 7.8 per cent to 8.1 per cent in the December quarter survey.

The next RBNZ Survey of Expectations is tentatively scheduled for 8 May 1991, with the results to be published in the June 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	
Mar. 1990	1.7	24.7	48.3	20.1	4.0	1.1	0.0	
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	

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	
Mar. 1990	June 1990	0.6	13.2	47.7	23.0	14.9	0.6	0.0	
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	
Mar. 1990	Dec. 1990	1.1	7.5	40.2	37.4	12.1	1.1	0.6	
Jun. 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	

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

Survey Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	5.9	4.0	4.6	5.7	6.7
Reference Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Mean	6.0	4.6	5.1	5.4	5.6

Prices

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

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

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	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Reference Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Mean	4.9	4.4	4.7	5.2	4.2
Reference Qtr	Dec. 91	Mar. 92	June 92	Sept. 92	Dec. 92
Mean	4.4	4.0	4.4	4.5	3.7

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	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	13.5	13.4	14.1	13.9	11.8
Reference Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Mean	12.8	12.7	13.3	13.1	11.2

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

Survey Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	12.0	12.3	12.6	12.9	11.4
Reference Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Mean	11.6	11.7	12.1	12.4	11.0

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	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
US Dollar					
Reference Qtr	Mar. 89	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	0.588	0.573	0.593	0.605	0.600
Reference Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	0.584	0.568	0.585	0.595	0.592
Reference Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Mean	0.582	0.566	0.575	0.587	0.584
Australian Dollar					
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	0.782	0.760	0.756	0.779	0.768
Reference Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	0.782	0.763	0.757	0.774	0.767
Reference Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Mean	0.782	0.768	0.755	0.768	0.765
Pound Sterling					
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	0.350	0.346	0.323	0.312	0.304
Reference Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	0.348	0.346	0.323	0.310	0.304
Reference Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Mean	0.365	0.348	0.323	0.311	0.304

Japanese Yen					
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	84.6	89.7	89.1	79.1	77.3
Reference Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	82.8	88.5	88.4	78.1	76.8
Reference Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Mean	82.7	88.0	87.4	77.6	76.5

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

Survey Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	-0.2	-0.4	-0.1	-0.6	-0.4
Reference Qtr	June 90	Sept. 90	Dec. 90	Mar. 91	June 91
Mean	-0.4	-0.5	-0.5	-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	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Reference Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Mean	-0.6	-0.7	-1.6	-2.3	-2.0

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	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Reference Qtr	Dec. 89	Mar. 90	June 90	Sept. 90	Dec. 90
Mean	0.4	0.3	0.3	-0.3	-0.1
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	0.4	0.4	0.3	-0.1	-0.1

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	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Reference Qtr	Dec. 90	Mar. 91	June 90	Sept. 91	Dec. 91
Mean	1.3	1.4	0.8	0.2	0.1

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. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	-2.1	-3.4	-3.3	-4.0	-0.4
Reference Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Mean	-2.0	-2.7	-3.0	-3.8	-3.8

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

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

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. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Reference Qtr	Dec. 90	Mar. 91	June 91	Sept. 91	Dec. 91
Mean	4.7	4.2	4.3	3.3	2.8

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

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