

SURVEY OF EXPECTATIONS

This article, prepared by Michael Reddell and Sean Comber, presents the results from the June quarter 1992 Reserve Bank of New Zealand Survey of Expectations.

Introduction

The RBNZ Survey of Expectations for the June quarter 1992 was conducted on Wednesday, 13 May 1992. 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 63 per cent, with 158 of the 249 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	..	60
Business	..	54
Agriculture	..	20
Labour	..	5
Other	..	19
TOTAL		158

Summary of Results

- **Easing in perceived monetary conditions.**

Monetary conditions now are perceived to be significantly easier than they were at the time of the February survey. A net 19 per cent of respondents believe conditions to be easier than neutral, compared with a net 2 per cent who felt conditions in February were tighter than neutral. Only a modest further easing is expected over the year to March 1993; a net 22 per cent of respondents expect conditions to be easier than neutral by March 1993.

- **Inflation expectations little changed.**

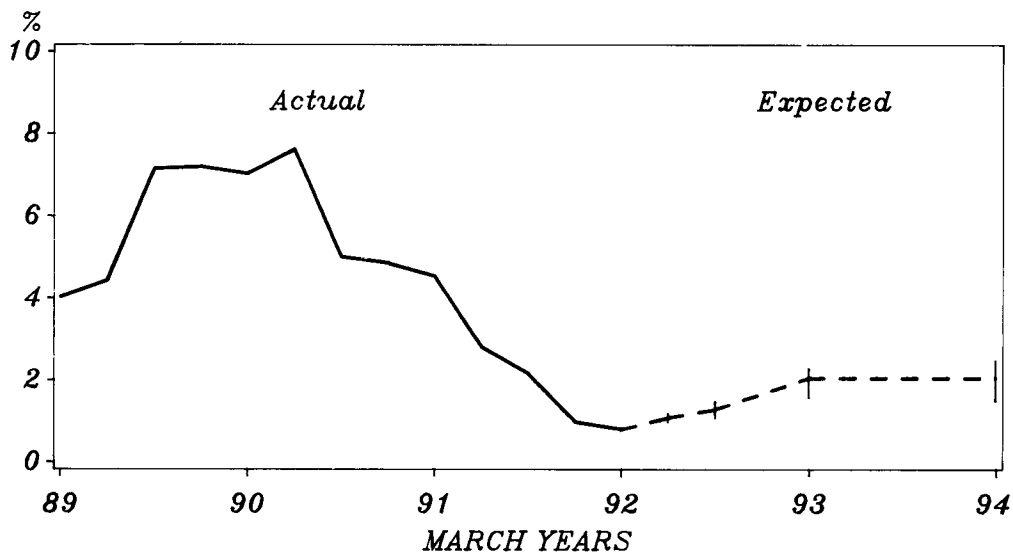
Respondents expect the CPI to rise by 0.4 per cent and 0.5 per cent in the June and September quarters respectively (implicitly, 1.1 per cent and 1.2 per cent in the years to June and September respectively). By contrast, in the February survey the CPI was expected to rise by 0.6 per cent in the June quarter. For the year to March 1993, respondents expect CPI inflation of 2.3 per cent, with a 2.2 per cent inflation rate the following year. These expectations are virtually unchanged from those in the February survey.

- **Bond rates expected to fall further.**

Expectations of the 90 day bill rate have fallen considerably since February. However, respondents do not expect further falls over the year ahead, with 90 day rates levelling out at around 6.8 per cent. Modest further falls in bond yields are expected, to around 8 per cent by March 1993. As a result, respondents expect the yield gap to narrow from around 1.5 percentage points when the survey was taken, to around 1.2 percentage points by March 1993.

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.

- **Stronger GDP growth expected.**

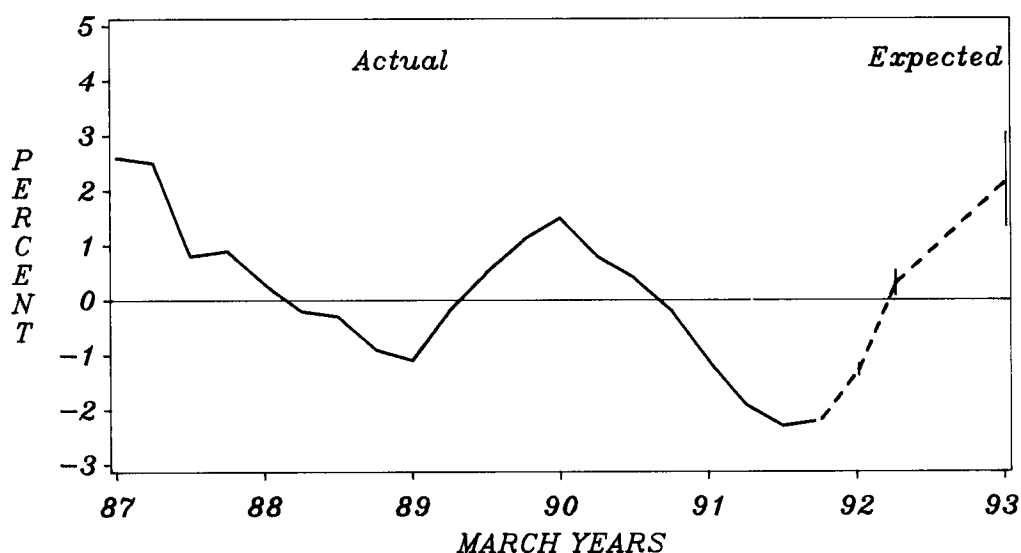
Respondents expect real GDP to have risen by 0.6 per cent in the March 1992 quarter (the same as their expectation in February) and by a further 0.8 per cent in the June quarter. In the year to March 1993 respondents expect GDP growth of 2.1 per cent, up from the 1.3 per cent growth in the year to December 1992 expected at the time of the February survey.

- **Current account expectations improve further.**

Respondents now expect a \$100 million current account deficit in the year to June 1992, and a \$100 million surplus in the year to March 1993. Much larger deficits were expected in previous surveys, but those surveys were taken before the latest revisions to the official data.

Figure 2.

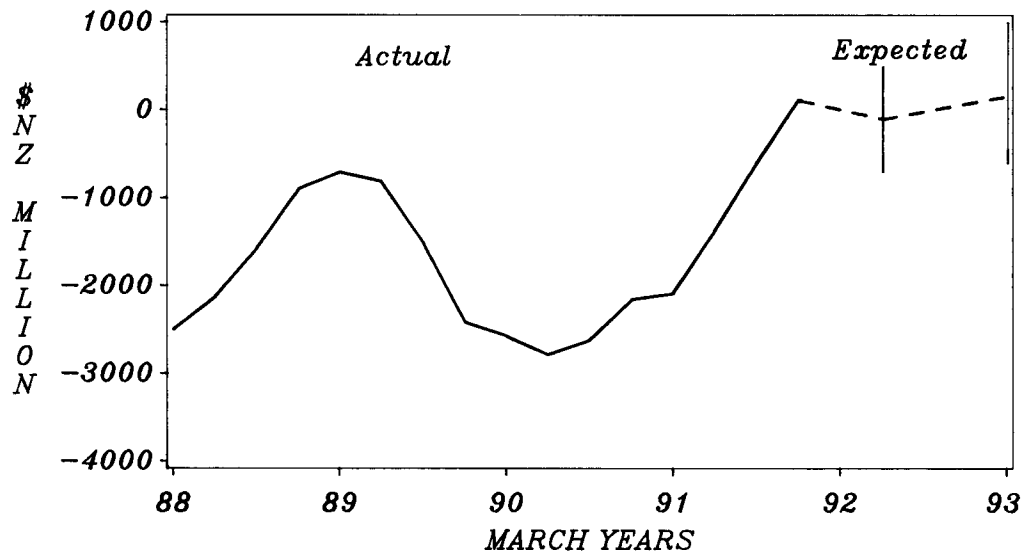
Actual and Expected Expectations of the Annual Average % Change in Production Based GDP



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

Figure 3.

Actual and Surveyed Expectations of the Annual Current Account Balance



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

- **Exchange rate expected to firm slightly.**

Respondents continue to expect the New Zealand dollar to appreciate against all major currencies over the coming year. The TWI is expected to rise by 0.4 per cent over the year to March 1993. These results are little changed from those in the February survey.

- **Government financial deficit expectations worsen.**

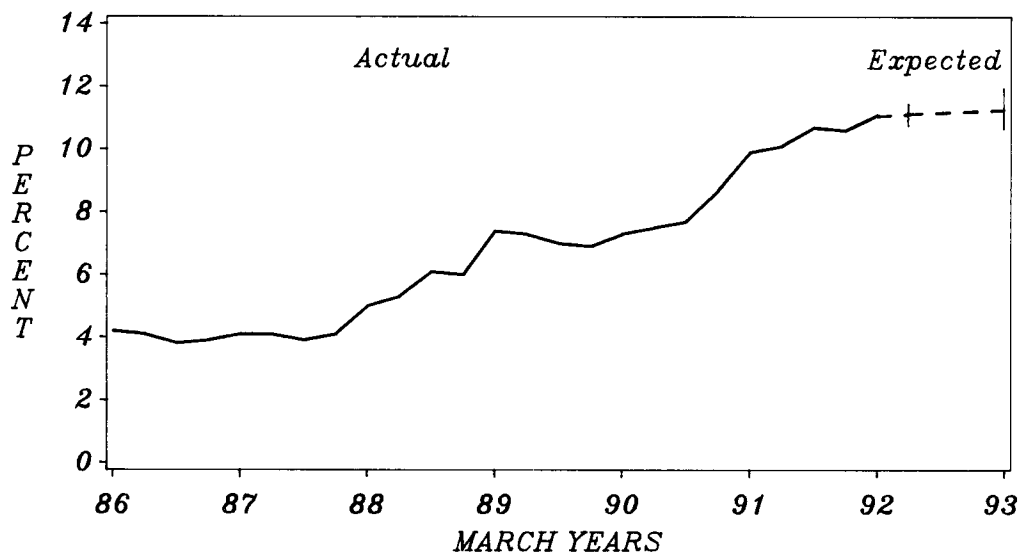
The government financial deficit is now expected to be \$3.1 billion in the year to June 1992, and \$2.5 billion the following year. These expectations are both significantly worse than those in the February survey, when deficits of \$2.3 billion and \$1.8 billion were expected for 1991/92 and 1992/93 respectively.

- **Wage inflation expected to remain low.**

Expected growth in prevailing wages continues to edge down, with a 1.5 per cent rise expected in the year to March 1993, compared with a 1.6 per cent rise expected in February for the year to December 1992.

Figure 4.

*Actual and Surveyed Expectations of the
HLFS Unemployment Rate*



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

- **Unemployment expected to level out.**

Respondents expect the HLFS unemployment rate to rise to 11.2 per cent in June 1992, and to still be at that level in March 1993. This would represent only a very slight rise from the 11.1 per cent HLFS unemployment rate actually recorded in March. In the February survey unemployment had been expected to reach 11.4 per cent by December 1992.

The next RBNZ Survey of Expectations is tentatively scheduled for 12 August 1992 with results 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 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
Mar. 1992	0.0	5.1	24.1	43.7	24.7	1.9	0.6
June 1992	0.6	2.5	18.5	38.2	35.7	3.8	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
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
Mar. 1992	June 1992	0.0	3.8	17.8	45.9	29.3	3.2	0.0
June 1992	Sept. 1992	0.6	1.9	14.6	42.7	34.4	5.1	0.6
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
Mar. 1992	Dec. 1992	0.0	4.4	15.2	46.2	25.3	8.9	0.0
June 1992	Mar. 1993	0.6	1.3	16.6	40.8	31.2	8.9	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	June 91	Sept. 91	Dec. 91	Mar. 92	June 92
Reference Qtr	June 91	Sept. 91	Dec. 91	Mar. 92	June 92
Mean	7.0	6.7	5.1	4.6	6.4
Reference Qtr	Mar. 92	June 92	Sept. 92	Dec. 92	March 93
Mean	5.9	5.5	5.1	4.8	6.1

Prices:

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

Survey Qtr	June 91	Sept. 91	Dec. 91	Mar. 92	June 92
Reference Qtr	June 91	Sept. 91	Dec. 91	Mar. 92	June 92
Mean	0.6	0.6	0.6	0.5	0.4

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 Mean	Sept. 91 0.7	Dec. 91 0.6	Mar. 92 0.6	June 92 0.6	Sept. 92 0.5
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Q.5 What annual change do you expect in the Consumers Price Index (CPI) for the year to (reference quarter):

Survey Qtr	June 91	Sept. 91	Dec. 91	Mar. 92	June 92
Reference Qtr Mean	Mar. 92 3.0	June 92 2.5	Sept. 92 2.3	Dec. 92 2.2	Mar. 92 2.3
Reference Qtr Mean	Mar. 93 2.7	June 93 2.5	Sept. 93 2.4	Dec. 93 2.2	Mar. 94 2.2

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 91	Sept. 91	Dec. 91	Mar. 92	June 92
Reference Qtr Mean	June 91 10.3	Sept. 91 9.3	Dec. 91 8.1	Mar. 92 7.4	June 92 6.8
Reference Qtr Mean	Mar. 92 9.6	June 92 8.8	Sept. 92 7.8	Dec. 92 7.3	Mar. 93 6.8

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

Survey Qtr	June 91	Sept. 91	Dec. 91	Mar. 92	June 92
Reference Qtr Mean	June 91 10.2	Sept. 91 9.5	Dec. 91 8.5	Mar. 92 8.6	June 92 8.1
Reference Qtr Mean	Mar. 92 9.7	June 92 9.2	Sept. 92 8.3	Dec. 92 8.4	Mar. 93 8.0

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	June 91	Sept. 91	Dec. 9	Mar. 92	June 92
US Dollar Reference Qtr Mean	June 91 0.584	Sept. 91 0.571	Dec. 91 0.555	Mar. 92 0.542	June 92 0.535
Reference Qtr Mean	Sept. 91 0.579	Dec. 91 0.568	Mar. 92 0.552	June 92 0.542	Sept. 92 0.535

Reference Qtr Mean	Mar. 92 0.573	June 92 0.565	Sept. 92 0.549	Dec. 92 0.544	Mar. 93 0.537
Australian Dollar Reference Qtr Mean	June 91 0.754	Sept. 91 0.735	Dec. 91 0.710	Mar. 92 0.723	June 92 0.713
Reference Qtr Mean	Sept. 91 0.753	Dec. 91 0.738	Mar. 92 0.713	June 92 0.727	Sept. 92 0.715
Reference Qtr Mean	Mar. 92 0.752	June 92 0.741	Sept. 92 0.715	Dec. 92 0.729	Mar. 93 0.720
Pound Sterling Reference Qtr Mean	June 91 0.337	Sept. 91 0.337	Dec. 91 0.325	Mar. 92 0.300	June 92 0.298
Reference Qtr Mean	Sept. 91 0.333	Dec. 91 0.336	Mar. 92 0.324	June 92 0.305	Sept. 92 0.301
Reference Qtr Mean	Mar. 92 0.329	June 92 0.334	Sept. 92 0.324	Dec. 92 0.308	Mar. 93 0.306
Japanese Yen Reference Qtr Mean	June 91 80.6	Sept. 91 78.2	Dec. 91 73.5	Mar. 92 68.7	June 92 70.6
Reference Qtr Mean	Sept. 91 79.9	Dec. 91 78.2	Mar. 92 73.2	June 92 68.7	Sept. 92 70.9
Reference Qtr Mean	Mar. 92 79.0	June 92 78.1	Sept. 92 73.1	Dec. 92 69.0	Mar. 93 71.3

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

Survey Qtr	June 91	Sept. 91	Dec. 91	Mar. 92	June 92
Reference Qtr Mean	June 91 -0.4	Sept. 91 -0.4	Dec. 91 -1.5	Mar. 92 0.0	June 92 -0.4
Reference Qtr Mean	Sept. 91 -0.6	Dec. 91 -0.3	Mar. 92 0.0	June 92 0.3	Sept. 92 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 91	Sept. 91	Dec. 91	Mar. 92	June 92
Reference Qtr Mean	Mar. 92 -1.7	June 92 -0.6	Sept. 92 -1.4	Dec. 92 0.2	Mar. 92 0.4

Others:

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

Survey Qtr	June 91	Sept. 91	Dec. 91	Mar. 92	June 92
Reference Qtr	Mar. 91	June 91	Sept. 91	Dec. 91	Mar. 92
Mean	-0.2	-0.3	-0.4	0.5	0.6
Reference Qtr	June 91	Sept. 91	Dec. 91	Mar. 92	June 92
Mean .	0.0	-0.1	0.0	0.6	0.8

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 91	Sept. 91	Dec. 91	Mar. 92	June 92
Reference Qtr	Mar. 92	June 92	Sept. 92	Dec. 92	Mar. 93
Mean	0.5	0.1	0.2	1.3	2.1

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	June 91	Sept. 91	Dec. 91	Mar. 92	June 92
Reference Qtr	June 91	Sept. 91	Dec. 91	Mar. 92	June 92
Mean	-2.6	-2.1	-1.8	-1.0	-0.1
Reference Qtr	Mar. 92	June 92	Sept. 92	Dec. 92	Mar. 93
Mean	-2.2	-1.7	-1.5	-0.6	0.1

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

Survey Qtr	June 91	Sept. 91	Dec. 91	Mar. 92	June 92
Reference Qtr	June 91	June 92	June 92	June 92	June 92
Mean	-1.7	-1.9	-1.8	-2.3	-3.1
Reference Qtr	June 92	June 93	June 93	June 93	Jne 93
Mean	-1.4	-1.2	-1.2	-1.8	-2.5

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 91	Sept. 91	Dec. 91	Mar. 92	June 92
Reference Qtr	Mar. 92	June 92	Sept. 92	Dec. 92	Mar. 93
Mean	2.0	1.9	1.7	1.6	1.5

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

Survey Qtr	June 91	Sept. 91	Dec. 91	Mar. 92	June 92
Reference Qtr	June 91	Sept. 91	Dec. 91	Mar. 92	June 92
Mean	9.6	10.4	11.0	11.2	11.2
Reference Qtr	Mar. 92	June 92	Sept. 92	Dec. 92	Mar. 93
Mean	9.9	11.2	11.6	11.4	11.2