

Survey of Expectations

This article, prepared by Christopher Green and Graham Howard, presents the results from the November 1993 Reserve Bank of New Zealand Survey of Expectations.

Introduction

The latest RBNZ Survey of Expectations was conducted on Wednesday 27 October 1993. 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 64 percent, with 159 of the 250 respondents in this quarter's sample having returned their completed questionnaires by the cut-off date.

The distribution across activity groups was:

Financial	..	54
Business	..	61
Agriculture	..	21
Labour	..	9
Other	..	14
TOTAL		159

Summary of Results

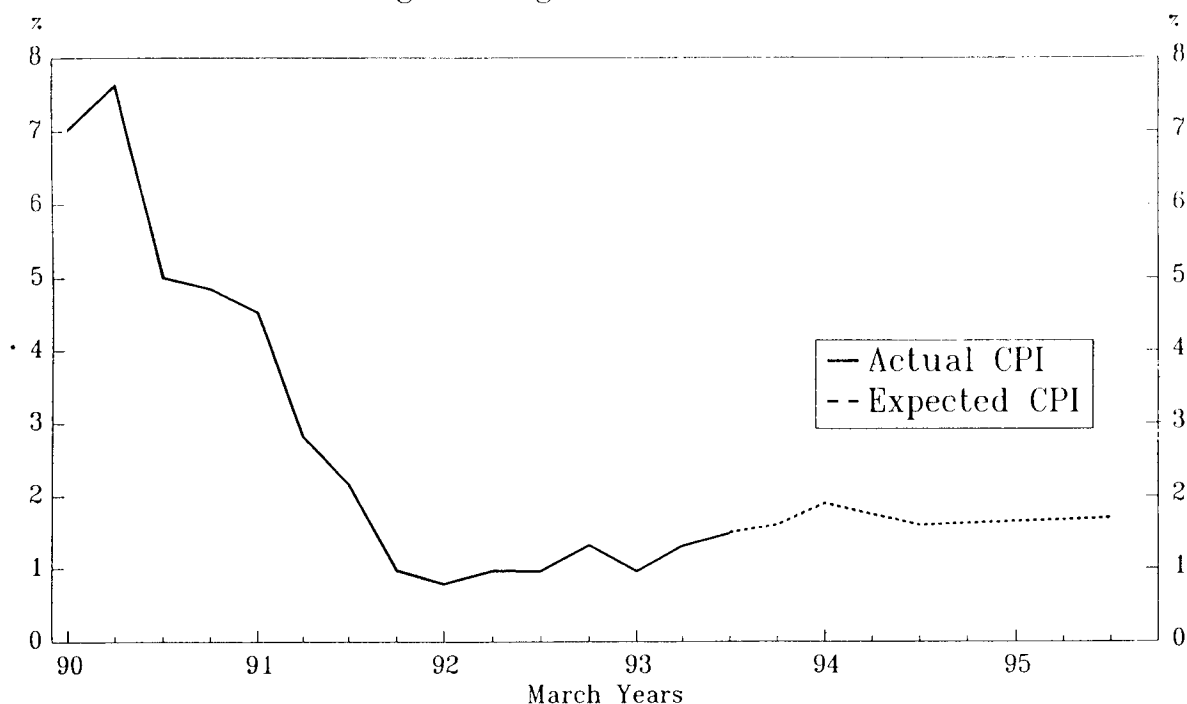
- **Monetary conditions perceived to be unchanged.**

Monetary conditions are perceived unchanged since the August survey, with a net 20 percent of respondents believing conditions to be easier than neutral. Respondents expect monetary conditions to tighten over the year, with a net 1 percent expecting conditions to be tighter than neutral by September 1994.

- **Inflation expectations remain low.**

Respondents expect the CPI inflation rate to rise by 0.4 percent in both the December and March quarters (implicitly 1.6 percent and 1.9 percent in the years to December and March respectively). Inflation expectations for the December quarter are slightly lower than in the August survey, when the CPI was expected to rise by 0.5 percent. For the year to September 1994, CPI inflation is expected to be 1.6 percent, slightly higher than the one-year-ahead inflation expectations recorded in August. A 1.7 percent increase in the CPI is expected for the year to September 1995.

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



- **Labour costs expected to rise.**

The labour cost index is expected to rise by 1.8 percent in the year to September 1994, with an anticipated further rise of 2.2 percent in the year to September 1995.

- **Interest rates expected to decline.**

Respondents expect both short and long term interest rates to reach lower levels over the next year than anticipated in the August survey. At the end of September 1994 the 90 day bill rate and the five year government stock rate are expected to be 5.2 percent and 5.6 percent respectively. This implies an expected positive yield gap of 0.4 percent at the end of September 1994.

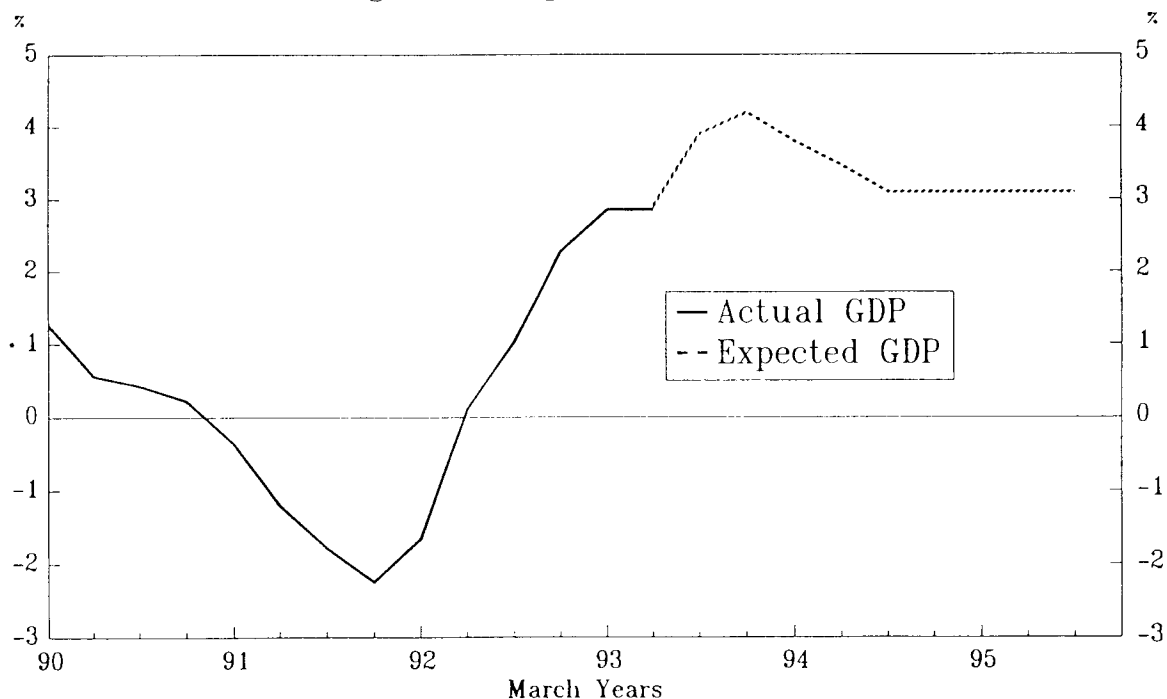
- **Trade weighted exchange rate expected to appreciate.**

Respondents expect the New Zealand dollar to appreciate against the major currencies over the coming year. The TWI is expected to be at 56.4 at the end of the March 1994 quarter and appreciate to 56.6 by the end of the September 1994 quarter.

- **Slightly stronger GDP growth expectations.**

Respondents expect increases of 0.8 and 0.9 percent in real GDP to be recorded for the September and December quarters respectively. For the year to September 1994 respondents expect GDP growth of 3.1 percent, up for the 2.7 percent growth for the year to June 1994 expected at the time of the August survey. A further 3.1 percent increase in GDP is expected for the year to September 1995.

Figure 2.
Actual and Surveyed Expectations of the
Annual Average % Change in Production Based GDP



- **Fiscal deficit expected to fall.**

Expectations for the government financial deficit have improved. The financial deficit is now expected to be \$1.4 billion in the year to June 1994, compared with \$1.6 billion expected in the previous survey. A further improvement to \$0.9 billion is expected in the following year.

- **Lower current account deficit expected.**

The current account deficit for the year ended December 1993 is expected to be \$700 million, lower than the \$800 million deficit expected for the year to September 1993 in the August survey. Respondents expect the current account deficit to narrow to \$400 million over the year to September 1994.

- **Unemployment expectations decline.**

The HLFS unemployment rate is expected to be 9.7 percent in the September quarter 1994, slightly lower than the 9.8 percent expected for the June quarter at the time of the previous survey. A further slight improvement to 9.2 percent is expected by September 1995.

The next RBNZ Survey of Expectations is tentatively scheduled for 9 February 1994, with results to be published in the March issue of the Bulletin.

Figure 3.
Actual and Surveyed Expectations of the
Annual Current Account Balance

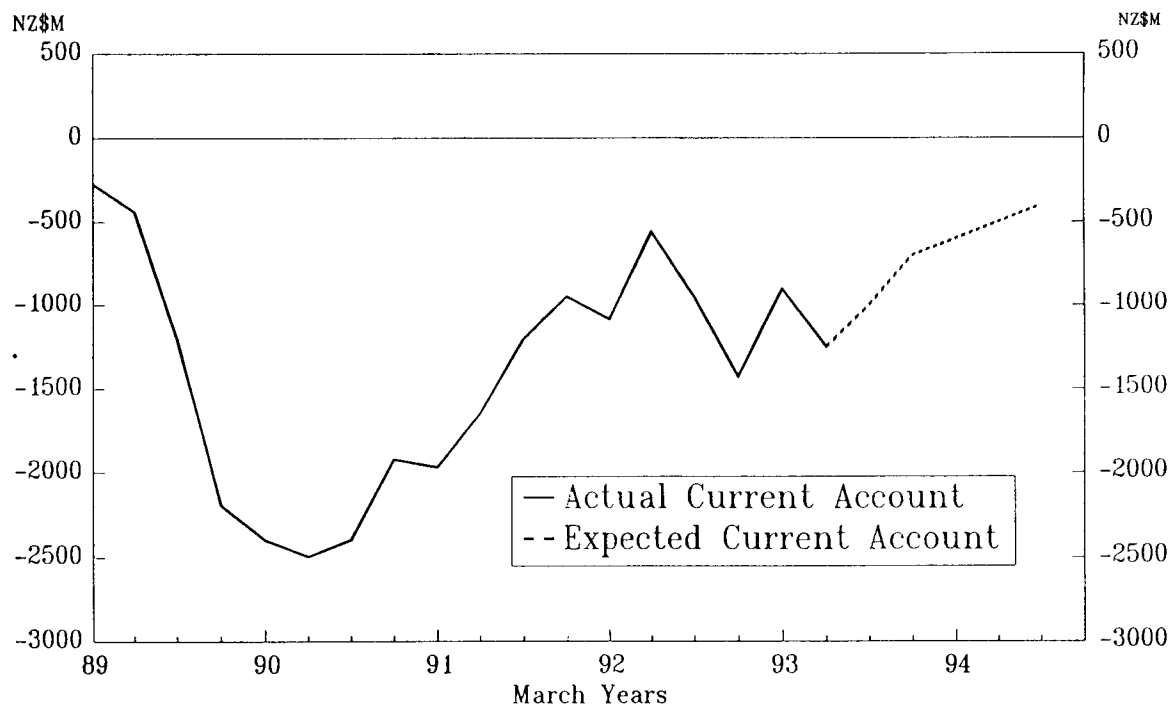
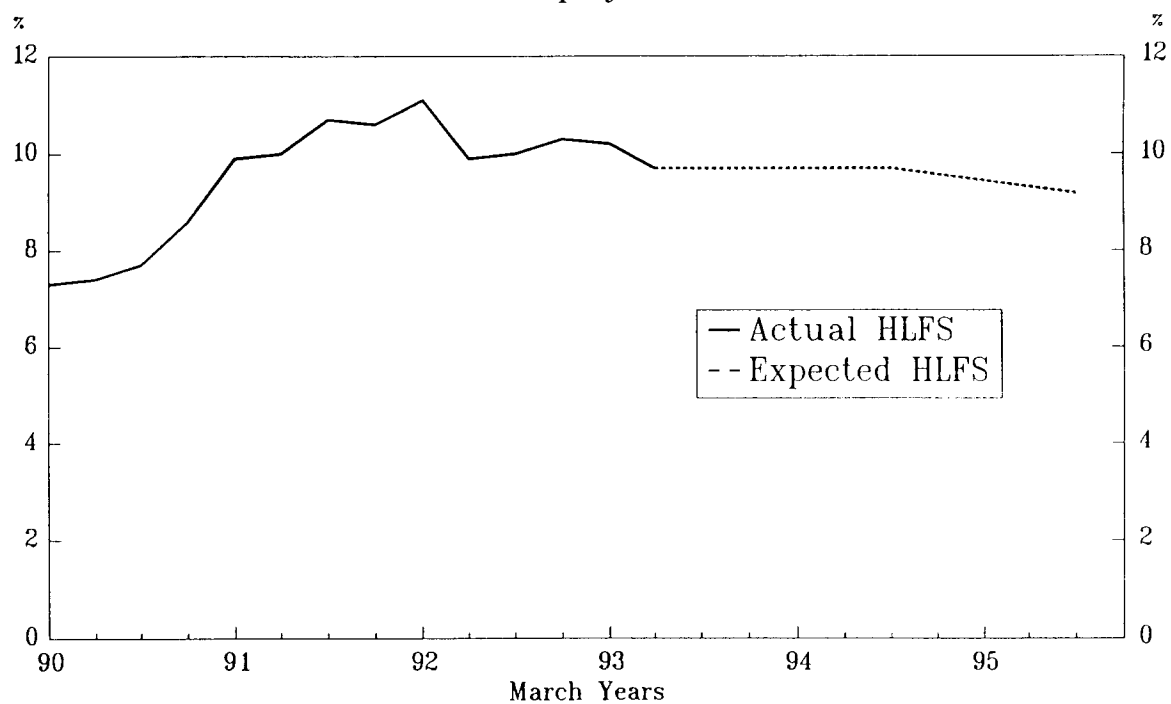


Figure 4.
Actual and Surveyed Expectations of the
HLFS Unemployment Rate



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	
Dec. 1992	0.0	3.0	17.2	50.3	24.9	3.6	1.2
Mar. 1993	1.7	13.3	34.7	33.5	15.6	1.2	0.0
June 1993	0.6	4.3	25.8	47.2	19.6	2.5	0.0
Sept. 1993	0.6	2.3	13.6	47.5	31.6	4.0	0.6
Dec. 1993	0.0	0.6	14.6	49.0	29.9	5.7	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	
Dec. 1992	Mar. 1993	0.0	1.2	21.9	47.3	24.9	3.0	1.8
Mar. 1993	June 1993	1.7	6.4	27.7	40.5	21.4	2.3	0.0
June 1993	Sept. 1993	0.6	4.3	25.2	43.6	21.5	4.9	0.0
Sept. 1993	Dec. 1993	0.6	1.7	15.3	51.4	27.7	3.4	0.0
Dec. 1993	Mar. 1994	0.0	2.5	15.3	47.1	32.5	2.5	0.0
Dec. 1992	Sept. 1993	0.0	1.2	19.5	42.6	32.0	3.0	1.8
Mar. 1993	Dec. 1993	1.7	5.2	17.9	52.0	20.2	2.9	0.0
June 1993	Mar. 1994	0.6	2.5	22.7	50.3	20.2	3.1	0.6
Sept. 1993	June 1994	1.1	1.1	18.1	53.1	23.7	2.8	0.0
Dec. 1993	Sept. 1994	0.0	1.3	26.3	45.5	23.1	3.8	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.	Dec. 92	Mar. 93	June 93	Sept. 93	Dec. 93
Reference Qtr.	Dec. 92	Mar. 93	June 93	Sept. 93	Dec. 93
Mean	6.2	5.7	5.4	4.6	4.8
Reference Qtr.	Sept. 93	Dec. 93	Mar. 94	June 94	Sept. 94
Mean	5.9	5.7	5.4	5.1	5.2

Prices:

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

Survey Qtr.	Dec. 92	Mar. 93	June 93	Sept. 93	Dec. 93
Reference Qtr.	Dec. 92	Mar. 93	June 93	Sept. 93	Dec. 93
Mean	0.5	0.6	0.5	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.	Mar. 93	June 93	Sept. 93	Dec. 93	Mar. 94
Mean	0.5	0.6	0.4	0.5	0.4

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

Survey Qtr.	Dec. 92	Mar. 93	June 93	Sept. 93	Dec. 93
Reference Qtr.	Sept 93	Dec. 93	Mar 94	June 94	Sept. 94
Mean	1.7	1.8	1.5	1.5	1.6
Reference Qtr.	Sept. 94	Dec. 94	Mar. 95	June 95	Sept. 95
Mean	1.9	1.9	1.7	1.7	1.7

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.	Dec. 92	Mar. 93	June 93	Sept. 93	Dec. 93
Reference Qtr.	Dec. 92	Mar. 93	June 93	Sept. 93	Dec. 93
Mean	6.1	7.2	6.6	5.7	5.3
Reference Qtr.	Sept. 93	Dec. 93	Mar. 94	June 94	Sept. 94
Mean	6.1	6.8	6.4	5.6	5.2

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

Survey Qtr.	Dec. 92	Mar. 93	June 93	Sept. 93	Dec. 93
Reference Qtr.	Dec. 92	Mar. 93	June 93	Sept. 93	Dec. 93
Mean	7.1	7.5	7.0	6.4	5.7
Reference Qtr.	Sept. 93	Dec. 93	Mar. 94	June 94	Sept. 94
Mean	7.0	7.3	6.9	6.2	5.6

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. 92	Mar. 93	June 93	Sept. 93	Dec. 93
US Dollar					
Reference Qtr.	Mar. 93	June 93	Sept. 93	Dec. 93	Mar. 94
Mean	0.538	0.518	0.542	0.549	0.557
Reference Qtr.	Sept. 93	Dec. 93	Mar. 94	June 94	Sept. 94
Mean	0.541	0.521	0.544	0.552	0.560
Australian Dollar					
Reference Qtr.	Mar. 93	Jun. 93	Sept. 93	Dec. 93	Mar. 94
Mean	0.754	0.761	0.769	0.805	0.834

Reference Qtr.	Sept. 93	Dec. 93	Mar. 94	June 94	Sept. 94
Mean	0.756	0.762	0.772	0.806	0.836

Q.9 What is your expectation of the level of the Reserve Bank Trade Weighted Index (TWI) at the end of (reference quarter):

Survey Qtr. Dec. 93

Reference Qtr. Mar. 94
Mean 56.4

Q.10 What is your expectation of the level of the Reserve Bank Trade Weighted Index (TWI) at the end of (reference quarter):

Survey Qtr. Dec. 93

Reference Qtr. Sept. 94
Mean 56.6

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. Dec. 92 Mar. 93 June 93 Sept. 93 Dec. 93

Reference Qtr. Sept. 92 Dec. 92 Mar. 93 June 93 Sept. 93
Mean 0.6 0.8 0.8 0.8 0.8

Reference Qtr. Dec. 92 Mar. 93 June 93 Sept. 93 Dec. 93
Mean 0.8 0.9 0.9 0.8 0.9

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. 92 Mar. 93 June 93 Sept. 93 Dec. 93

Reference Qtr. Sept. 93 Dec. 93 Mar. 94 June 94 Sept. 94
Mean 2.5 2.4 2.7 2.7 3.1

Reference Qtr. Sept. 95
Mean - - - - 3.1

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. Dec. 92 Mar. 93 June 93 Sept. 93 Dec. 93

Reference Qtr. Dec. 92 Mar. 93 June 93 Sept. 93 Dec. 93
Mean -0.3 -1.1 -1.1 -0.8 -0.7

Reference Qtr. Sept. 93 Dec. 93 Mar. 94 June 94 Sept. 94
Mean 0.0 -0.9 -0.9 -0.5 -0.4

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

Survey Qtr.	Dec. 92	Mar. 93	June 93	Sept. 93	Dec. 93
Reference Qtr.	June 93	June 93	June 93	June 94	June 94
Mean	-2.6	-2.5	-1.9	-1.6	-1.4
Reference Qtr.	June 94	June 94	June 94	June 95	June 95
Mean	-1.8	-2.2	-1.6	-1.3	-0.9

Q.15 What is your expectation of the annual % change in the Labour Cost Index (covering all surveyed labour costs) for the year to (reference quarter):

Survey Qtr.	Dec. 92	Mar. 93	June 93	Sept. 93	Dec. 93
Reference Qtr.	Sept. 93	Dec. 93	Mar. 94	June 94	Sept. 94
Mean	1.5	1.6	1.7	1.7	1.8
Reference Qtr.		Dec. 94	Mar. 95	June 95	Sept. 95
Mean	-	2.0	2.1	2.1	2.2

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

Survey Qtr.	Dec. 92	Mar. 93	June 93	Sept. 93	Dec. 93
Reference Qtr.	Sept. 93	Dec. 93	Mar. 94	June 94	Sept. 94
Mean	10.5	10.4	10.1	9.8	9.7
Reference Qtr.					Sept. 95
Mean	-	-	-	-	9.2