

Survey of Expectations

This article, prepared by Christopher Green and Erika Rosell, presents the results from the May 1993 Reserve Bank of New Zealand Survey of Expectations.

Introduction

The latest RBNZ Survey of Expectations was conducted on Wednesday 12 May 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 164 of the 257 who returned their completed questionnaires by the cut-off date.

The distribution across activity groups was:

Financial	..	53
Business	..	59
Agriculture	..	22
Labour	..	10
Other	..	20
TOTAL		164

Summary of Results

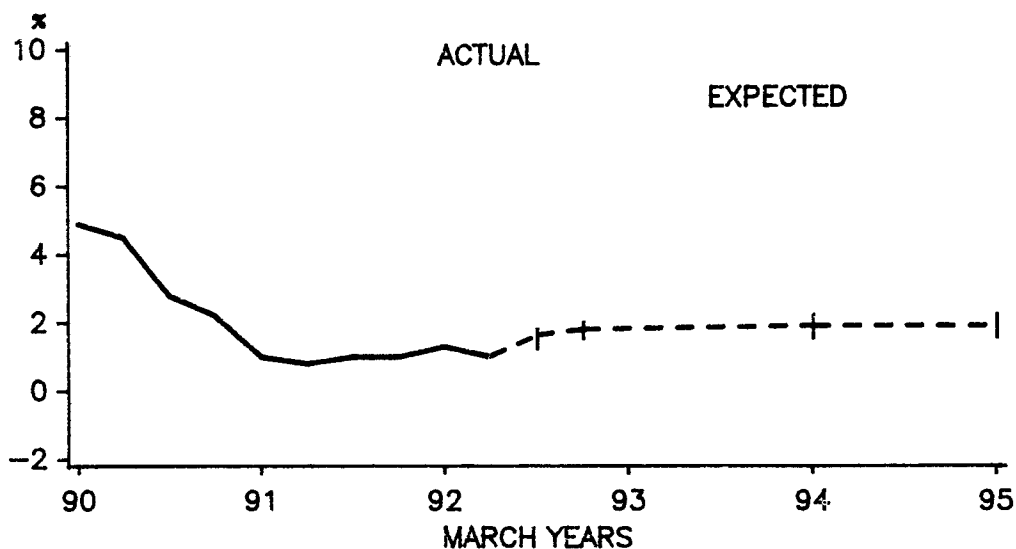
- **Easing in perceived monetary conditions.**

Monetary conditions now are perceived to be easier than they were at the time of the February survey. A net 9 percent of respondents believe conditions to be tighter than neutral, compared with a net 33 percent who felt conditions in February were tighter than neutral. Respondents expect monetary conditions to ease slightly over the year, with a net 2 percent expecting conditions to be tighter than neutral by March 1994.

- **Inflation expectations fall further.**

Respondents expect the CPI inflation rate to rise by 0.5 percent and 0.4 percent in the June and September quarters respectively (implicitly 1.2 percent and 1.3 percent in the years to June and September respectively). By contrast, in the February survey the CPI was expected to rise by 0.6 percent in the June quarter. For the year to March 1994, respondents expect CPI inflation of 1.5 percent, slightly lower than one-year-ahead inflation expectations of 1.8 percent recorded in February. A 1.7 percent increase in the CPI is expected for the year to March 1995.

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.

- **Interest rates expected to fall.**

Respondents expect both short and long term rates to reach lower levels over the next year than anticipated in the February survey. The 90 day bill rate is expected to be 6.4 percent at the end of March 1994, while the five year government stock rate is expected to fall to 6.9 percent. This implies an expected positive yield gap of 0.5 percent at the end of March 1994.

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

Respondents expect the New Zealand dollar to appreciate marginally against all major currencies over the coming year. The TWI is expected to rise by 1.3 percent over the year to March 1994, compared with a year-ahead expected strengthening of 1.1 percent in February.

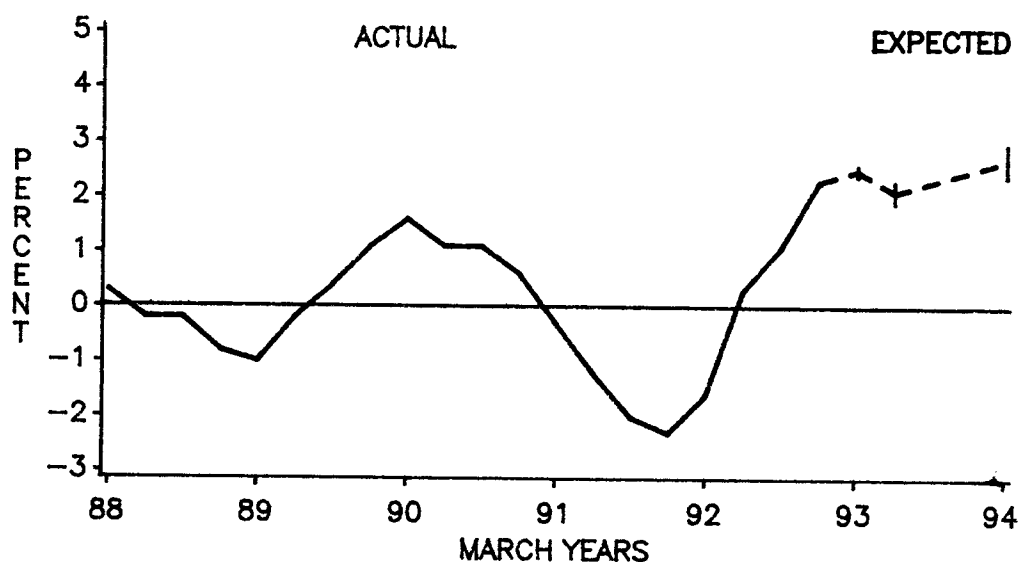
- **Slightly stronger GDP growth expected.**

Respondents expect real GDP to have risen by 0.8 percent in the March 1993 quarter (the same as their expectations in February) and by a further 0.9 percent in the June quarter. In the year to March 1994 respondents expect GDP growth of 2.7 percent, up from the 2.4 percent growth in the year to December 1993 expected at the time of the February survey.

- **Fiscal deficit expected to fall.**

Expectations for the government financial deficit have improved. The financial deficit is now expected to be \$1.9 billion in the year to June 1993, compared with \$2.5 billion expected in our previous survey. A further improvement is expected in the following year, with a deficit of \$1.6 billion expected for the year to June 1994.

Figure 2
ACTUAL AND SURVEYED EXPECTATIONS OF THE
ANNUAL AVERAGE % CHANGE IN PRODUCTION BASED GDP



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

- **Unchanged current account expectations.**

The current account deficit for the year ended June 1993 is expected to be \$1.1 billion, unchanged from the year-to-March 1993 expectations recorded in the previous survey. The year-ahead expectations for the current account deficit are also unchanged from the February survey, with respondents expecting the deficit to fall slightly to \$900 million for the year to March 1994.

- **Wage expectations slightly higher.**

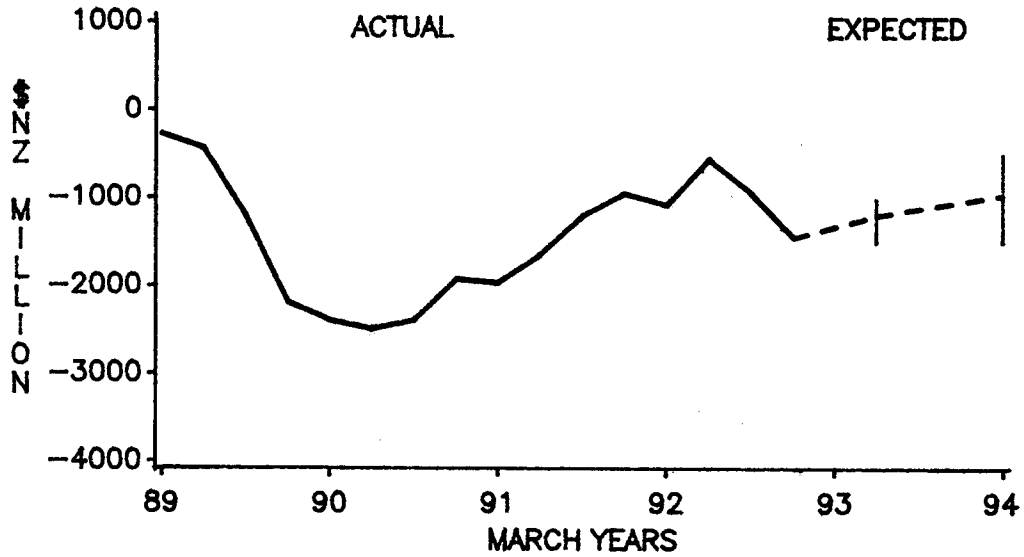
The Prevailing Weekly Wage Rates index is expected to rise by 1.7 percent in the year to March 1994, slightly higher than the 1.6 percent year-ahead increase expected in the February survey. A 2.1 percent increase in prevailing weekly wages is expected for the year to March 1995, compared to the corresponding expectation of 2 percent in the previous survey.

- **Unemployment expected to decline slowly.**

The HLFS unemployment rate is expected to be 10.4 percent in the June quarter 1993, slightly lower than the 10.6 percent expected for the March quarter at the time of the previous survey. A further slight improvement is expected by March 1994, with respondents expecting the unemployment rate to be 10.1 percent. In the February survey unemployment had been expected to fall to 10.4 percent by December 1993.

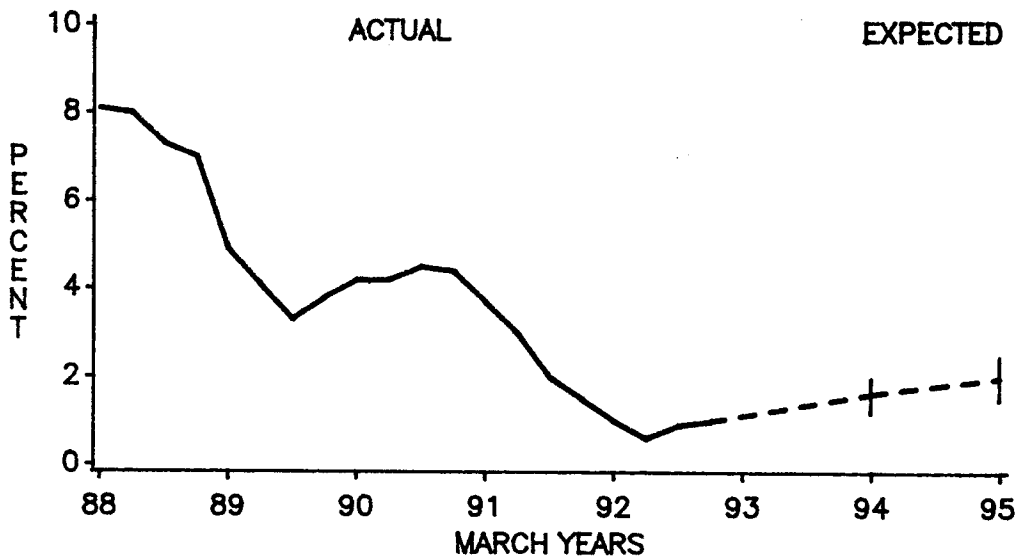
The next RBNZ Survey of Expectations is tentatively scheduled for 11 August 1993, with the results to be published in the September issue of the Bulletin.

Figure 3
ACTUAL AND SURVEYED EXPECTATIONS OF THE
ANNUAL CURRENT ACCOUNT BALANCE



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

Figure 4
ACTUAL AND SURVEYED EXPECTATIONS OF THE
ANNUAL PERCENTAGE CHANGE IN THE PREVAILING WEEKLY WAGE RATE INDEX



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

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 1992	0.6	2.5	18.5	38.2	35.7	3.8	0.6	
Sept. 1992	0.6	4.9	17.3	43.2	30.2	3.7	0.0	
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	

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 1992	Sept. 1992	0.6	1.9	14.6	42.7	34.4	5.1	0.6	
Sept. 1992	Dec. 1992	0.6	5.0	16.1	41.0	32.3	5.0	0.0	
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	
June 1992	Mar. 1993	0.6	1.3	16.6	40.8	31.2	8.9	0.6	
Sept. 1992	June 1993	0.6	3.1	18.0	44.7	26.7	6.8	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	

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

Survey Qtr	June 92	Sept. 92	Dec. 92	Mar. 93	June 93
Reference Qtr	June 92	Sept. 92	Dec. 92	Mar. 93	June 93
Mean	6.4	6.2	6.2	5.7	5.4
Reference Qtr	March 93	June 93	Sept. 93	Dec. 93	Mar. 94
Mean	6.1	5.8	5.9	5.7	5.4

Prices:

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

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

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	Sept. 92	Dec. 92	Mar. 93	Jun. 93	Sept. 93
Mean	0.5	0.5	0.5	0.6	0.4

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

Survey Qtr	June 92	Sept. 92	Dec. 92	Mar. 93	June 93
Reference Qtr	Mar. 93	June 93	Sept. 93	Dec. 93	Mar. 94
Mean	2.3	1.8	1.7	1.8	1.5
Reference Qtr	Mar. 94	June 94	Sept. 94	Dec. 94	Mar. 95
Mean	2.2	2.1	1.9	1.9	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	June 92	Sept. 92	Dec. 92	Mar. 93	June 93
Reference Qtr	June 92	Sept. 92	Dec. 92	Mar. 93	June 93
Mean	6.8	6.1	6.1	7.2	6.6
Reference Qtr	Mar. 93	June 93	Sept. 93	Dec. 93	Mar. 94
Mean	6.8	6.1	6.1	6.8	6.4

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

Survey Qtr	June 92	Sept. 92	Dec. 92	Mar. 93	June 93
Reference Qtr	June 92	Sept. 92	Dec. 92	Mar. 93	June 93
Mean	8.1	7.2	7.1	7.5	7.0
Reference Qtr	Mar. 93	June 93	Sept. 93	Dec. 93	Mar. 94
Mean	8.0	7.2	7.0	7.3	6.9

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 92	Sept. 92	Dec. 92	Mar. 93	June 93
US Dollar					
Reference Qtr	June 92	Sept. 92	Dec. 92	Mar. 93	June 93
Mean	0.535	0.542	0.537	0.515	0.542
Reference Qtr	Sept. 92	Dec. 92	Mar. 93	June 93	Sept. 93
Mean	0.535	0.544	0.538	0.518	0.542

Reference Qtr Mean	Mar. 93 0.537	June 93 0.545	Sept. 93 0.541	Dec. 93 0.521	Mar. 94 0.544
Australian Dollar Reference Qtr Mean	June 92 0.713	Sept. 92 0.740	Dec. 92 0.751	Mar. 93 0.760	June 93 0.768
Reference Qtr Mean	Sept. 92 0.715	Dec. 92 0.743	Mar. 93 0.754	Jun. 93 0.761	Sept. 93 0.769
Reference Qtr Mean	Mar. 93 0.720	June 93 0.748	Sept. 93 0.756	Dec. 93 0.762	Mar. 94 0.772
Pound Sterling Reference Qtr Mean	June 92 0.298	Sept. 92 0.284	Dec. 92 0.333	Mar. 93 0.350	June 93 0.350
Reference Qtr Mean	Sept. 92 0.301	Dec. 92 0.287	Mar. 93 0.335	June 93 0.351	Sept. 93 0.350
Reference Qtr Mean	Mar. 93 0.306	June 93 0.293	Sept. 93 0.336	Dec. 93 0.352	Mar. 94 0.352
Japanese Yen Reference Qtr Mean	June 92 70.6	Sept. 92 69.4	Dec. 92 66.3	Mar. 93 63.1	June 93 60.5
Reference Qtr Mean	Sept. 92 70.9	Dec. 92 69.6	Mar. 93 66.3	June 93 63.1	Sept. 93 60.3
Reference Qtr Mean	Mar. 93 71.3	June 93 70.0	Sept. 93 66.8	Dec. 93 63.1	Mar. 94 60.3

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

Survey Qtr	June 92	Sept. 92	Dec. 92	Mar. 93	June 93
Reference Qtr Mean	June 92 -0.4	Sept. 92 0.4	Dec. 92 0.5	Mar. 93 0.6	June 93 0.9
Reference Qtr Mean	Sept. 92 0.6	Dec. 92 0.5	Mar. 93 0.5	June 93 0.4	Sept. 93 0.3

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 92	Sept. 92	Dec. 92	Mar. 93	June 93
Reference Qtr Mean	Mar. 93 0.4	June 93 1.1	Sept. 93 1.3	Dec. 93 1.1	Mar. 94 1.3

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 92	Sept. 92	Dec. 92	Mar. 93	June 93
Reference Qtr	Mar. 92	June 92	Sept. 92	Dec. 92	Mar. 93
Mean	0.6	0.6	0.6	0.8	0.8
Reference Qtr	June 92	Sept. 92	Dec. 92	Mar. 93	June 93
Mean	0.8	0.7	0.8	0.9	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	June 92	Sept. 92	Dec. 92	Mar. 93	June 93
Reference Qtr	Mar. 93	June 93	Sept. 93	Dec. 93	Mar. 94
Mean	2.1	2.4	2.5	2.4	2.7

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 92	Sept. 92	Dec. 92	Mar. 93	June 93
Reference Qtr	June 92	Sept. 92	Dec. 92	Mar. 93	June 93
Mean	-0.1	0.2	-0.3	-1.1	-1.1
Reference Qtr	Mar. 93	June 93	Sept. 93	Dec. 93	Mar. 94
Mean	0.1	0.4	0.0	-0.9	-0.9

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

Survey Qtr	June 92	Sept. 92	Dec. 92	Mar. 93	June 93
Reference Qtr	June 92	June 93	June 93	June 93	June 93
Mean	-3.1	-2.8	-2.6	-2.5	-1.9
Reference Qtr	June 93	June 94	June 94	June 94	June 94
Mean	-2.5	-2.4	-1.8	-2.2	-1.6

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

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

Survey Qtr	June 92	Sept. 92	Dec. 92	Mar. 93	June 93
Reference Qtr Mean	June 92 11.2	Sept. 92 11.3	Dec. 92 10.9	Mar. 93 10.6	June 93 10.4
Reference Qtr Mean	Mar. 93 11.2	June 93 11.1	Sept. 93 10.5	Dec. 93 10.4	Mar. 94 10.1