

Survey of Expectations

This article, prepared by Christopher Green and Sean Comber, presents the results from the February 1993 Reserve Bank of New Zealand Survey of Expectations.

Introduction

The latest RBNZ Survey of Expectations was conducted by MRL Research Group on Wednesday, 10 February 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 68 percent, with 174 of the 257 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	..	61
Business	..	62
Agriculture	..	22
Labour	..	9
Other	..	20
TOTAL		174

Summary of Results

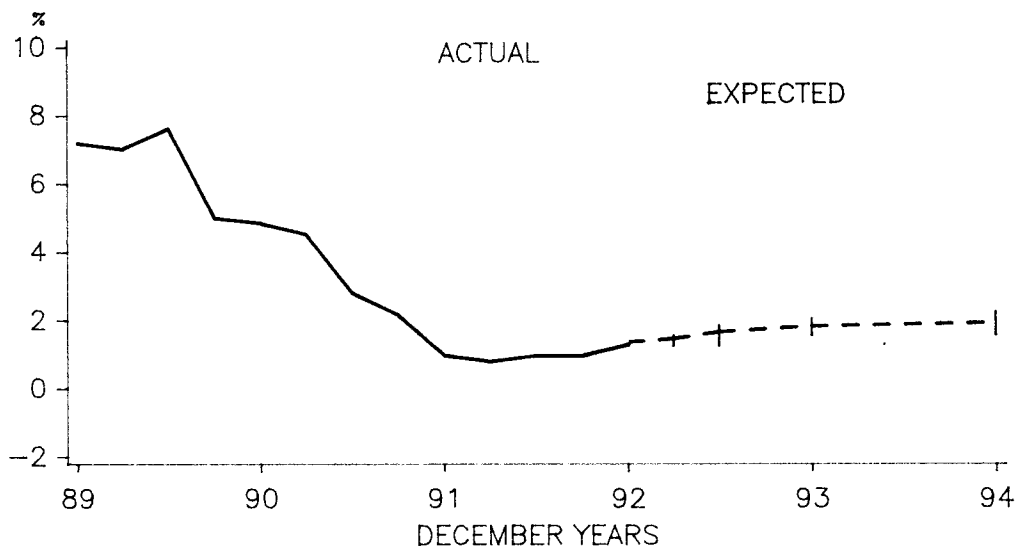
- **Monetary conditions perceived tighter.**

Monetary conditions are perceived to be significantly tighter than they were at the time of the November survey. A net 33 percent of respondents believe conditions to be tighter than neutral, compared with a net 10 percent who felt conditions in November were easier than neutral. Respondents expect monetary conditions to ease over the year, with a net 2 percent expecting conditions to be tighter than neutral by December 1993.

- **Inflation expectations remain low.**

Respondents expect the CPI inflation rate to be 0.6 percent in both the March and June quarters (implicitly, 1.5 percent and 1.8 percent in the years to March and June respectively). Inflation expectations for the March quarter are slightly higher than in the November survey, where the CPI was expected to rise by 0.5 percent in the March quarter. In the year to December 1993, CPI inflation is expected to be 1.8 percent, slightly higher than one year-ahead inflation expectations of 1.7 percent recorded in November. A 1.9 percent increase in the CPI is expected in the year to December 1994.

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.**

After the recent rise in interest rates, respondents expect rates to fall over the rest of 1993. The 90 day bill rate is expected to be 7.2 percent and 6.8 percent at the end of March 1993 and December 1993 respectively (compared with year-ahead expectations of 6.1 percent at the time of the November survey). Government stock rates are expected to be at 7.5 percent and 7.3 percent at the end of March 1993 and December 1993 respectively. As a result, respondents expect a positive yield gap of 0.3 percent at the end of March 1993 to widen slightly to 0.5 percent by end of December 1993.

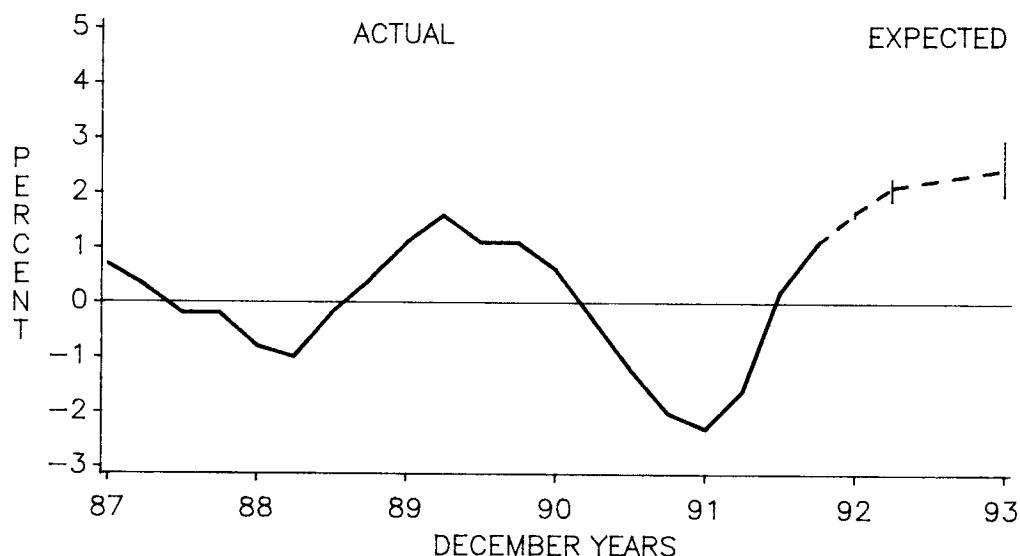
- **NZ dollar expected to strengthen slightly.**

Respondents expect the New Zealand dollar to appreciate marginally against all major currencies over the coming year. The TWI is expected to rise by 1.1 percent over the year to December 1993, compared with a year-ahead expected strengthening of 1.3 percent in November.

- **Solid GDP growth expected.**

Respondents expect real GDP to have risen by 0.8 percent in the December 1992 quarter (unchanged from their expectation in November) and to rise by a further 0.9 percent in the March quarter. Recent rises in interest rates appear to have had little impact, with respondents expecting GDP growth of 2.4 percent over the year to December 1993, little changed from year-ahead expectations of 2.5 percent growth at the time of the November survey.

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.

- **Fiscal deficit expected to fall.**

Expectations for the government financial deficit have improved slightly. The financial deficit is now expected to be \$2.5 billion in the year to June 1993, compared with \$2.6 billion expected in our previous survey. A further improvement is expected in the following year, with a deficit of \$2.2 billion expected in the year to June 1994.

- **Larger current account deficit expected.**

There has been a significant increase in current account deficit expectations. A current account deficit of \$1,100 million is expected in the year to March 1993, significantly larger than the \$300 million deficit previously expected for the year to December. Respondents expect the current account deficit to narrow to \$900 million over the year to December 1993. (By contrast, in the November survey, the current account had been expected to be in balance by late 1993.)

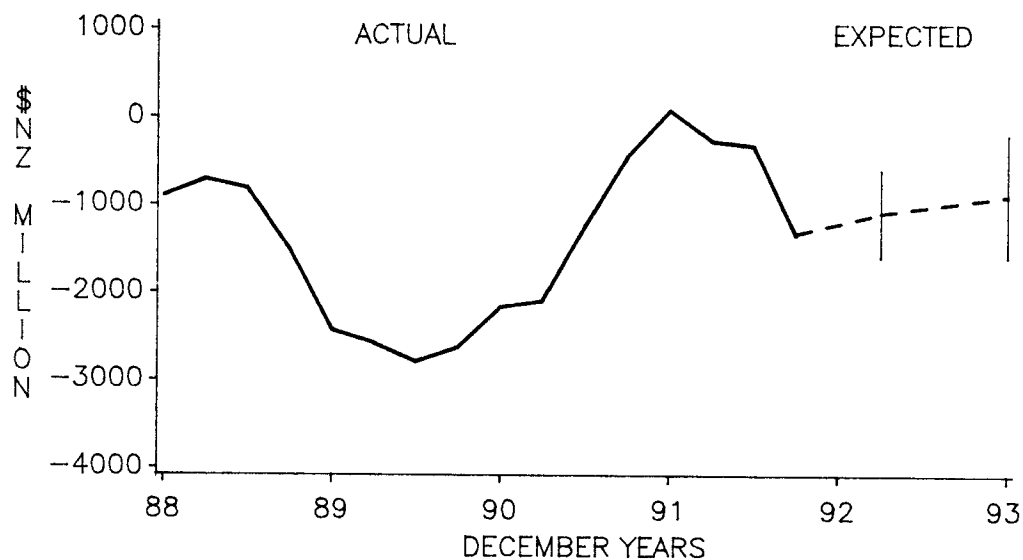
- **Year-ahead wage expectations largely unchanged.**

The prevailing weekly wage rates index is expected to rise by 1.6 percent in the year to December 1993, continuing the run of very low year-ahead expectations. A 2 percent increase in the prevailing weekly wage rates index is expected in the year to December 1994, unchanged from the two year-ahead wage expectations in the previous survey.

- **Unemployment expectations fall.**

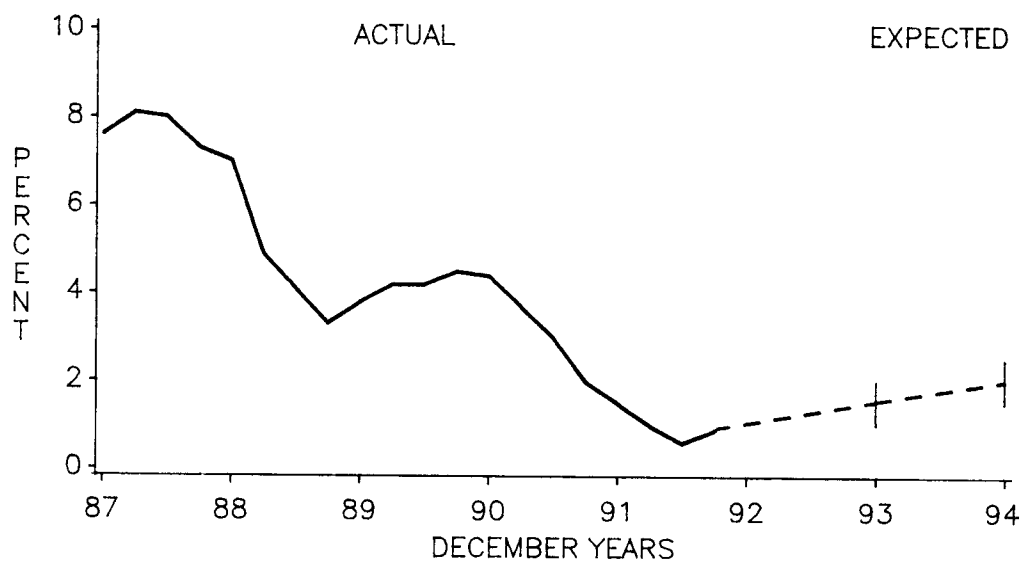
The HLFS unemployment rate is expected to be 10.6 percent in March 1993, lower than the 10.9 percent expected in November. Over 1993 the unemployment rate is expected to slowly decline, reaching 10.4 percent by December 1993. In the November survey, unemployment was expected to measure 10.5 percent by September 1993.

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.

The next RBNZ survey of Expectations is tentatively scheduled for 12 May 1993, 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	
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
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

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	
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
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
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
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

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

Survey Qtr	Mar. 92	June 92	Sept. 92	Dec. 92	Mar. 93
Reference Qtr	Mar. 92	June 92	Sept. 92	Dec. 92	Mar. 93
Mean	4.6	6.4	6.2	6.2	5.7
Reference Qtr	Dec. 92	March 93	June 93	Sept. 93	Dec. 93
Mean	4.8	6.1	5.8	5.9	5.7

Prices:

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

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

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

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

Survey Qtr	Mar. 92	June 92	Sept. 92	Dec. 92	Mar. 93
Reference Qtr	Dec. 92	Mar. 93	June 93	Sept 93	Dec. 93
Mean	2.3	2.3	1.8	1.7	1.8
Reference Qtr	Dec. 93	Mar. 94	June 94	Sept. 94	Dec. 94
Mean	2.2	2.2	2.1	1.9	1.9

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. 92	June 92	Sept. 92	Dec. 92	Mar. 93
Reference Qtr	Mar. 92	June 92	Sept. 92	Dec. 92	Mar. 93
Mean	7.4	6.8	6.1	6.1	7.2
Reference Qtr	Dec. 92	Mar. 93	June 93	Sept. 93	Dec. 93
Mean	7.3	6.8	6.1	6.1	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	Mar. 92	June 92	Sept. 92	Dec. 92	Mar. 93
Reference Qtr	Mar. 92	June 92	Sept. 92	Dec. 92	Mar. 93
Mean	8.6	8.1	7.2	7.1	7.5
Reference Qtr	Dec. 92	Mar. 93	June 93	Sept. 93	Dec. 93
Mean	8.4	8.0	7.2	7.0	7.3

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

Reference Qtr Mean	Dec. 92 0.544	Mar. 93 0.537	June 93 0.545	Sept. 93 0.541	Dec. 93 0.521
Australian Dollar					
Reference Qtr Mean	Mar. 92 0.723	June 92 0.713	Sept. 92 0.740	Dec. 92 0.751	Mar. 93 0.760
Reference Qtr Mean	June 92 0.727	Sept. 92 0.715	Dec. 92 0.743	Mar. 93 0.754	Jun. 93 0.761
Reference Qtr Mean	Dec. 92 0.729	Mar. 93 0.720	June 93 0.748	Sept. 93 0.756	Dec. 93 0.762
Pound Sterling					
Reference Qtr Mean	Mar. 92 0.300	June 92 0.298	Sept. 92 0.284	Dec. 92 0.333	Mar. 93 0.350
Reference Qtr Mean	June 92 0.305	Sept. 92 0.301	Dec. 92 0.287	Mar. 93 0.335	June 93 0.351
Reference Qtr Mean	Dec. 92 0.308	Mar. 93 0.306	June 93 0.293	Sept. 93 0.336	Dec. 93 0.352
Japanese Yen					
Reference Qtr Mean	Mar. 92 68.7	June 92 70.6	Sept. 92 69.4	Dec. 92 66.3	Mar. 93 63.1
Reference Qtr Mean	June 92 68.7	Sept. 92 70.9	Dec. 92 69.6	Mar. 93 66.3	June 93 63.1
Reference Qtr Mean	Dec. 92 69.0	Mar. 93 71.3	June 93 70.0	Sept. 93 66.8	Dec. 93 63.1

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

Survey Qtr	Mar. 92	June 92	Sept. 92	Dec. 92	Mar. 93
Reference Qtr Mean	Mar. 92 0.0	June 92 -0.4	Sept. 92 0.4	Dec. 92 0.5	Mar. 93 0.6
Reference Qtr Mean	June 92 0.3	Sept. 92 0.6	Dec. 92 0.5	Mar. 93 0.5	June 93 0.4

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. 92	June 92	Sept. 92	Dec. 92	Mar. 93
Reference Qtr Mean	Dec. 92 0.2	Mar. 93 0.4	June 93 1.1	Sept. 93 1.3	Dec. 93 1.1

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	Mar. 92	June 92	Sept. 92	Dec. 92	Mar. 93
Reference Qtr	Dec. 91	Mar. 92	June 92	Sept. 92	Dec. 92
Mean	0.5	0.6	0.6	0.6	0.8
Reference Qtr	Mar. 92	June 92	Sept. 92	Dec. 92	Mar. 93
Mean	0.6	0.8	0.7	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	Mar. 92	June 92	Sept. 92	Dec. 92	Mar. 93
Reference Qtr	Dec. 92	Mar. 93	June 93	Sept. 93	Dec. 93
Mean	1.3	2.1	2.4	2.5	2.4

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. 92	June 92	Sept. 92	Dec. 92	Mar. 93
Reference Qtr	Mar. 92	June 92	Sept. 92	Dec. 92	Mar. 93
Mean	-1.0	-0.1	0.2	-0.3	-1.1
Reference Qtr	Dec. 92	Mar. 93	June 93	Sept. 93	Dec. 93
Mean	-0.6	0.1	0.4	0.0	-0.9

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

Survey Qtr	Mar. 92	June 92	Sept. 92	Dec. 92	Mar. 93
Reference Qtr	June 92	June 92	June 93	June 93	June 93
Mean	-2.3	-3.1	-2.8	-2.6	-2.5
Reference Qtr	June 93	June 93	June 94	June 94	June 94
Mean	-1.8	-2.5	-2.4	-1.8	-2.2

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

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

Survey Qtr	Mar. 92	June 92	Sept. 92	Dec. 92	Mar. 93
Reference Qtr	Mar. 92	June 92	Sept. 92	Dec. 92	Mar. 93
Mean	11.2	11.2	11.3	10.9	10.6
Reference Qtr	Dec. 92	Mar. 93	June 93	Sept. 93	Dec. 93
Mean	11.4	11.2	11.1	10.5	10.4