

# Survey of Expectations

Graham Howard and David Hargreaves, Economics Department

This article, prepared by Graham Howard and David Hargreaves, presents the results from the November 1994 Reserve Bank of New Zealand Survey of expectations.

## Introduction

The latest RBNZ Survey of expectations was conducted on Wednesday 9 November 1994. Note that the results of the survey represent expectations held by respondents, not the views or forecasts of the Reserve Bank.

## Sample composition

The response rate for this quarter was 60 percent, with 151 of the 254 respondents in this quarter's sample having returned their completed questionnaires by the cut-off date.

The distribution across activity groups was:

Financial	..	58
Business	..	53
Agriculture	..	18
Labour	..	9
Other	..	13
TOTAL		151

## Summary of results

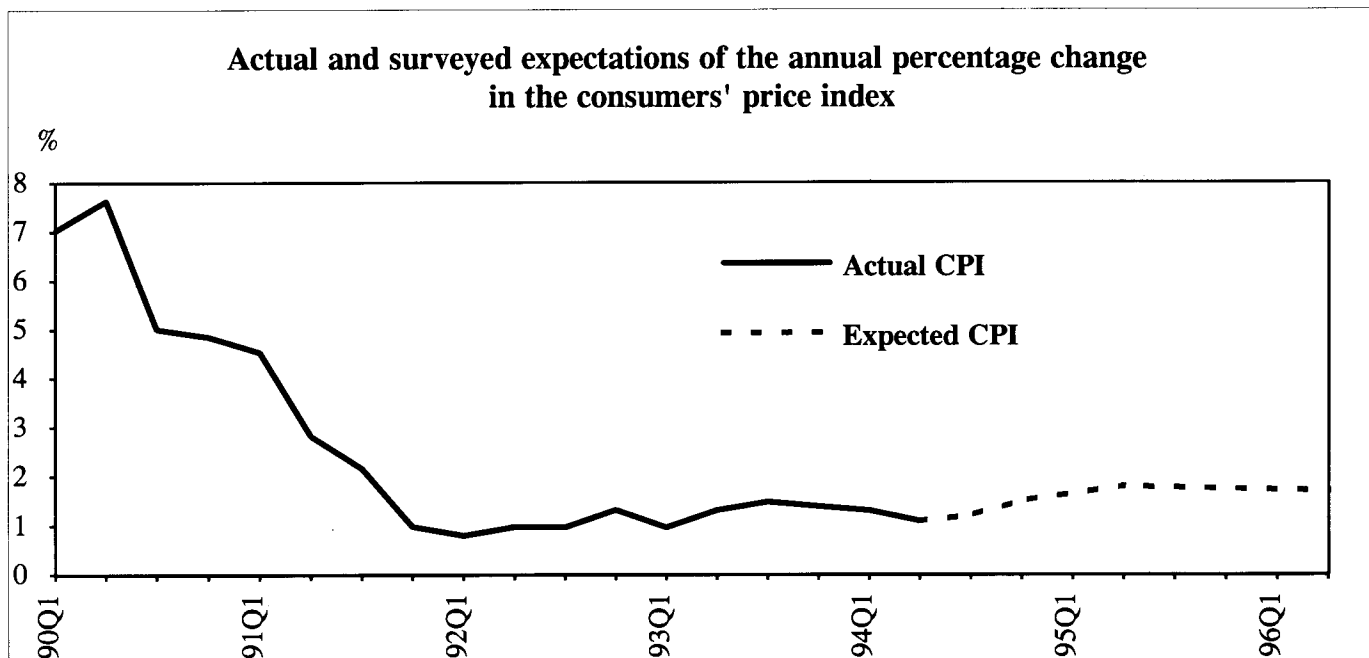
- **Monetary conditions are perceived to be tighter.**

Monetary conditions are perceived to be tighter than in our August survey, with a net 62 percent of respondents believing conditions to be tighter than neutral. The corresponding figure for the August survey was 42 percent, compared to only a net 11 percent in the May survey. Respondents expect monetary conditions to further tighten by the end of March 1995, but to ease slightly by September 1995.

- **Inflation expectations have increased.**

Respondents expect the Consumers' Price Index (CPI) to rise by 0.8 percent in the December quarter and 0.7 percent in the March 1995 quarter (implicitly, 2.4 percent and 3.1 percent in the years to December and March respectively). In the August survey, December quarter inflation was expected to be 0.5 percent. For the year to September 1995, CPI inflation (the "headline rate") is expected to be 2.5 percent, compared with 1.8 percent one-year-ahead expectation recorded in August. CPI inflation is expected to fall to 2.0 percent by September 1996.

Figure 1



- **Labour costs expectations are also slightly higher.**

The labour cost index is expected to rise by 2.3 and 2.4 percent in the years to September 1995 and 1996 respectively. The corresponding figures for the last survey were increases of 2.1 and 2.3 percent for the years to June 1995 and June 1996.

- **Interest rates expectations have risen.**

Respondents expect both short and long term interest rates to reach higher levels over the next year than anticipated in the August survey. At the end of September 1995, the 90 day bill rate and the five year government stock rate are expected to be 8.1 percent and 8.6 percent respectively. This implies an expected positive yield gap of 0.5 percent.

- **The New Zealand dollar is 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 58.6 at the end of the March 1995 quarter and appreciate to 59.0 by the end of the September 1995 quarter.

- **GDP growth expectations remain strong.**

Respondents expect real GDP to increase by 1.3 percent in both the September and December 1994 quarters. For the year to September 1995, respondents expect GDP growth of 4.6 percent, up slightly from the 4.2 percent growth for the year to June 1995 expected at the time of

the August survey. A 4.0 percent increase in GDP is expected for the year to September 1996.

- **Fiscal surplus expectations have been revised upwards.**

A financial surplus of \$1.4 billion is expected in the year to June 1995, up from \$1.0 billion expected in the August survey. An increase in the surplus to \$2.1 billion is expected for the following year, up from \$1.8 billion in the August survey.

- **Expectations of the current account deficit are little changed.**

The current account deficit for the year ended September 1994 is expected to be \$1.4 billion, compared with an expectation of \$1.2 billion for the year to June recorded in the August survey. Respondents expect the current account deficit to narrow to \$1.0 billion over the year to September 1995.

- **Unemployment is expected to fall.**

The HLFS unemployment rate is expected to be 8.1 percent in the September quarter 1995, down from 8.8 percent anticipated for the June quarter 1995 in the August survey. An improvement to 7.7 percent is expected by September 1996.

The next RBNZ Survey of Expectations is tentatively scheduled for 8 February 1994, with results to be published in the March 1995 issue of the Bulletin.

**Figure 2**

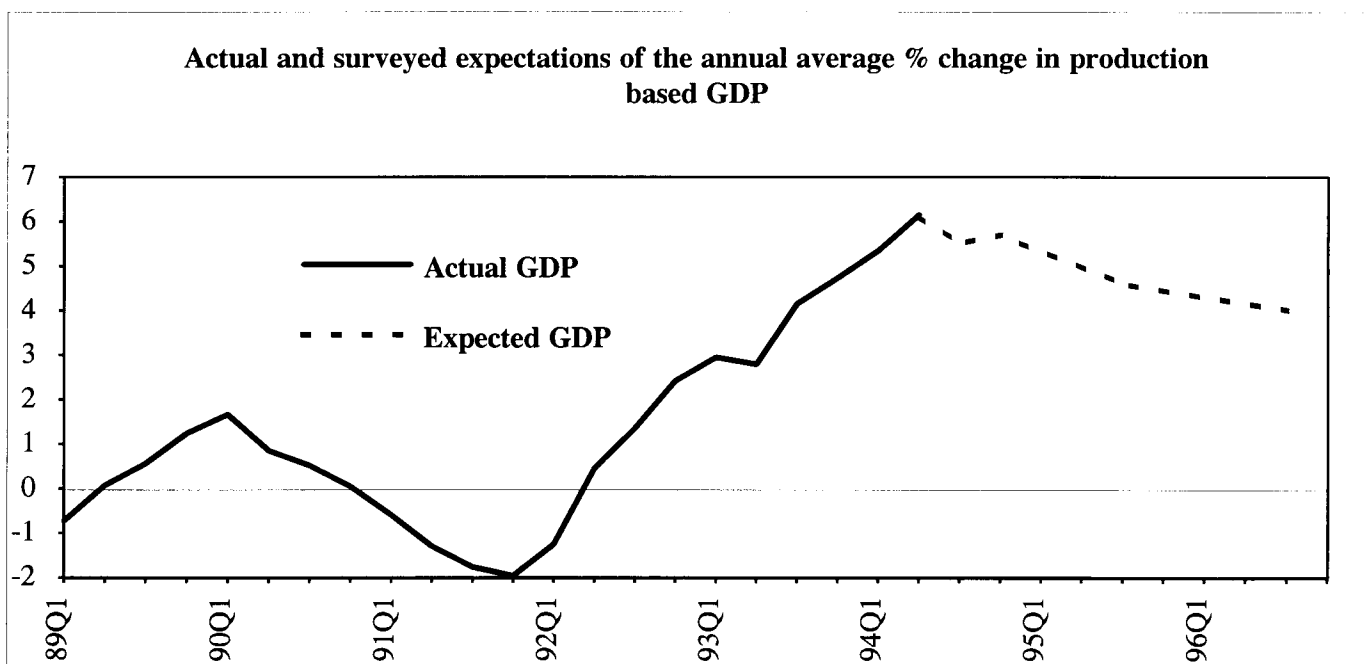


Figure 3

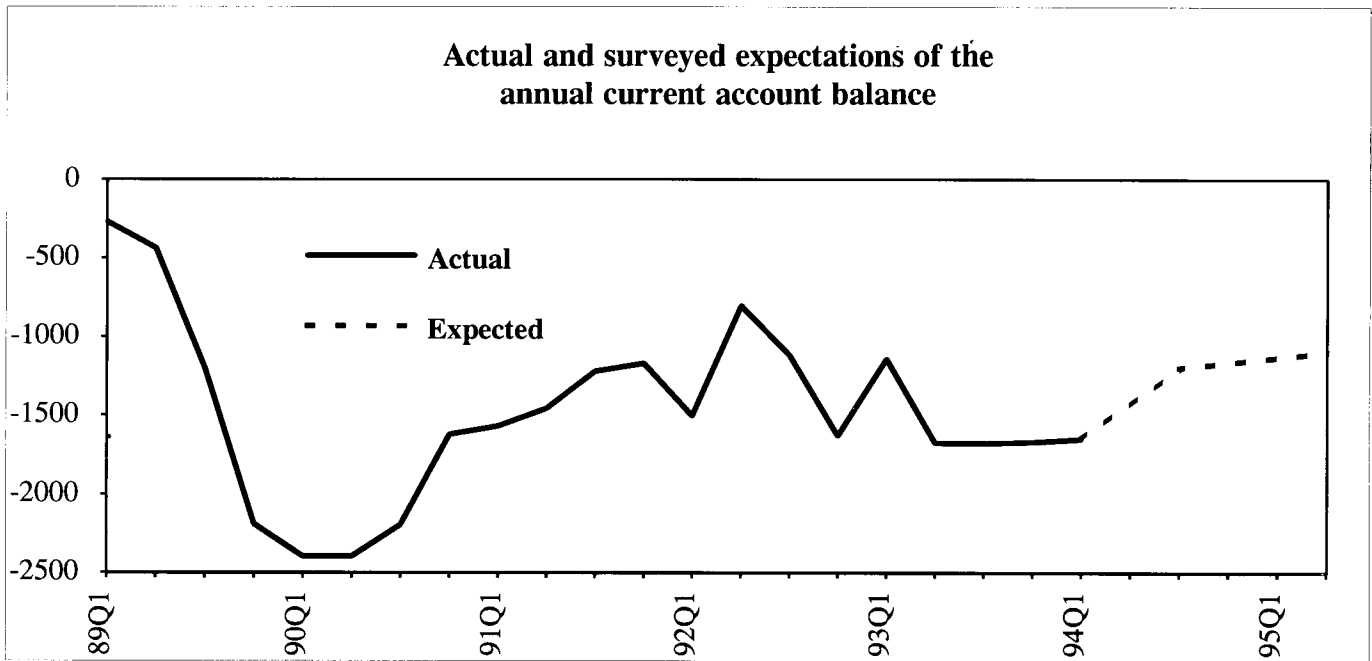
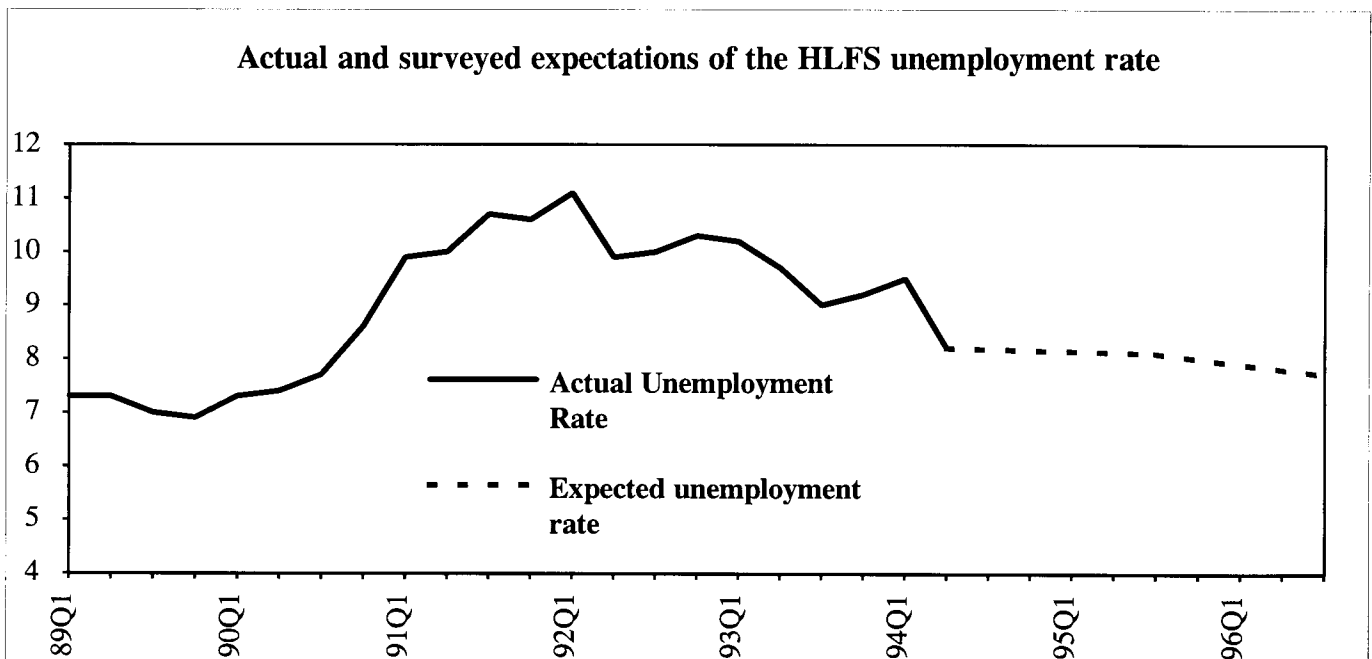


Figure 4



**Survey of expectations  
historical results<sup>1</sup>**

**Monetary conditions:<sup>2</sup>**

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. 1993	0.0	0.6	14.6	49.0	29.9	5.7	0.0
Mar. 1994	0.7	2.6	11.8	43.1	34.6	7.2	0.0
June 1994	0.0	2.8	30.1	44.8	18.2	3.5	0.7
Sept 1994	0.0	8.5	44.8	35.2	10.9	0.6	0.0
Dec. 1994	0.0	16.8	32.3	23.5	6.0	1.3	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. 1993	Mar. 1994	0.0	2.5	15.3	47.1	32.5	2.5	0.0
Mar. 1994	June 1994	0.0	2.6	16.3	45.1	34.0	2.0	0.0
June 1994	Sept. 1994	0.0	2.1	30.1	47.6	17.5	2.1	0.7
Sept. 1994	Dec. 1994	0.6	22.4	43.6	24.8	7.3	1.2	0.0
Dec. 1994	Mar. 1995	3.4	34.2	40.9	16.1	4.0	1.3	0.0
Dec. 1993	Sept. 1994	0.0	1.3	26.3	45.5	23.1	3.8	0.0
Mar. 1994	Dec. 1994	0.7	3.9	30.1	39.2	25.5	0.7	0.0
June 1994	Mar. 1995	0.7	7.0	30.8	46.2	12.6	1.4	1.4
Sept. 1994	June 1995	1.2	20.0	40.0	27.9	9.7	1.2	0.0
Dec 1994	Sept. 1995	0.7	16.1	47.7	31.5	3.4	0.7	0.0

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

Survey Q	Dec. 93	Mar. 94	June 94	Sept. 94	Dec. 94
Reference Qtr.	Dec. 93	Mar. 94	June 94	Sept. 94	Dec. 94
Mean	4.8	4.7	5.6	6.6	6.6
Reference Qtr.	Sept. 94	Dec. 94	Mar. 95	June 95	Sept. 95
Mean	5.2	4.9	5.5	6.4	6.3

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

**Prices:**

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

Survey Qtr.	Dec. 93	Mar. 94	June 94	Sept. 94	Dec 94
Reference Qtr.	Dec. 93	Mar. 94	June 94	Sept. 94	Dec 94
Mean	0.4	0.3	0.4	0.6	0.8
Reference Qt	Mar. 94	June 94	Sept. 94	Dec. 94	Mar. 94
Mean	0.4	0.4	0.4	0.5	0.7

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

Survey Qtr.	Dec. 93	Mar. 94	June 94	Sept. 94	Dec. 94
Reference Qtr.	Sept. 94	Dec. 94	Mar. 95	June 94	Sept. 95
Mean	1.6	1.4	1.4	1.8	2.5
Reference Qtr.	Sept. 95	Dec. 95	Mar. 96	June 94	Sept. 96
Mean	1.7	1.7	1.6	1.7	2.0

**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. 93	Mar. 94	June 94	Sept. 94	Dec. 94
Reference Qtr.	Dec. 93	Mar. 94	June 94	Sept. 94	Dec. 94
Mean	5.3	4.5	6.0	7.0	8.4
Reference Qtr.	Sept. 94	Dec. 94	Mar. 95	June 95	Sept.95
Mean	5.2	4.7	6.0	7.0	8.1

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

Survey Qtr.	Dec. 93	Mar 94	June 94	Sept. 94	Dec. 94
Reference Qtr.	Dec. 93	Mar. 94	June 94	Sept. 94	Dec. 94
Mean	5.7	5.2	6.8	7.8	8.9
Reference Qtr.	Sept. 94	Dec. 94	Mar. 95	June 95	Sept. 95
Mean	5.6	5.3	6.7	7.7	8.6

**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. 93	Mar. 94	June 94	Sept. 94	Dec. 94
US Dollar					
Reference Qtr.	Mar. 94	June 94	Sept. 94	Dec. 94	Mar. 95
Mean	0.557	0.570	0.578	0.605	.623
Reference Qtr.	Sept. 94	Dec. 94	Mar. 95	June 95	Sept. 95
Mean	0.560	0.571	0.583	0.612	.628
Australian Dollar					
Reference Qtr.	Mar. 94	June 94	Sept. 94	Dec. 94	Mar. 95
Mean	0.834	0.802	0.804	0.812	.825
Reference Qtr.	Sept. 94	Dec. 94	Mar. 94	June 95	Sept. 95
Mean	0.836	0.802	0.808	0.814	.828

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.	Mar. 94	June 94	Sept. 94	Dec. 94
Reference Qtr.	June 94	Sept. 94	Dec. 94	Mar. 95
Mean	57.0	57.0	57.8	58.6

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.	Mar 94	June 94	Sept. 94	Dec. 94
Reference Qtr.	Dec. 94	Mar. 95	June 95	Sept.95
Mean	57.2	57.5	58.4	59.0

**Other questions:**

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. 93	Mar. 94	June 94	Sept. 94	Dec. 94
Reference Qtr.	Sept. 93	Dec. 93	Mar. 94	June 94	Sept. 94
Mean	0.8	1.2	1.1	1.2	1.3
Reference Qtr.	Dec. 93	Mar. 94	June 94	Sept. 94	Dec. 94
Mean	0.9	1.2	1.0	1.1	1.3

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. 93	Mar. 94	June 94	Sept. 94	Dec 94
Reference Qtr. Mean	Sept. 94 3.1	Dec. 94 4.1	Mar. 95 3.8	June 95 4.2	Sept. 95 4.6
Reference Qtr. Mean	Sept. 95 3.1	Dec. 95 3.8	Mar. 96 3.5	June 96 3.9	Sept 96 4.0

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. 93	Mar. 94	June 94	Sept. 94	Dec. 94
Reference Qtr. Mean	Dec. 93 -0.7	Mar. 94 -0.9	June 94 -1.2	Sept. 94 -1.2	Dec. 94 -1.4
Reference Qtr. Mean	Sept. 94 -0.4	Dec 94 -0.6	Mar. 95 -1.0	June 95 -1.1	Sept. 95 -1.0

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

Survey Qtr.	Dec. 93	Mar. 94	June 94	Sept.94	Dec. 94
Reference Qtr. Mean	June 94 -1.4	June 94 -0.8	June 94 0.2	June 95 1.0	June 95 1.4
Reference Qtr. Mean	June 95 -0.9	June 94 -0.2	June 95 0.9	June 96 1.8	June 96 2.1

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. 93	Mar. 94	June 94	Sept. 94	Dec. 94
Reference Qtr. Mean	Sept 94 1.8	Dec 94 1.8	Mar. 95 1.9	June 95 2.1	Sept. 95 2.3
Reference Qtr. Mean	Sept. 95 2.2	Dec 94 2.2	Mar. 96 2.2	June 96 2.3	Sept 96 2.4

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

Survey Qtr.	Dec. 93	Mar 94	June 94	Sept. 94	Dec. 94
Reference Qtr.	Sept. 94	Dec 94	Mar. 95	June 95	Sept. 95
Mean	9.7	9.1	8.8	8.8	8.1
Reference Qt	Sept. 95	Dec 94	Mar. 96	June 96	Sept. 96
Mean	9.2	8.5	8.3	8.2	7.7