

# Survey of Expectations

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*This article, prepared by Murray Scott and Graham Howard, presents the results from the May 1994 Reserve Bank of New Zealand Survey of Expectations.*

## Introduction

The latest RBNZ Survey of Expectations was conducted on Wednesday 11 May 1994. 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 58 percent, with 146 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	..	55
Business	..	53
Agriculture	..	18
Labour	..	10
Other	..	10
TOTAL		146

## Summary of Results

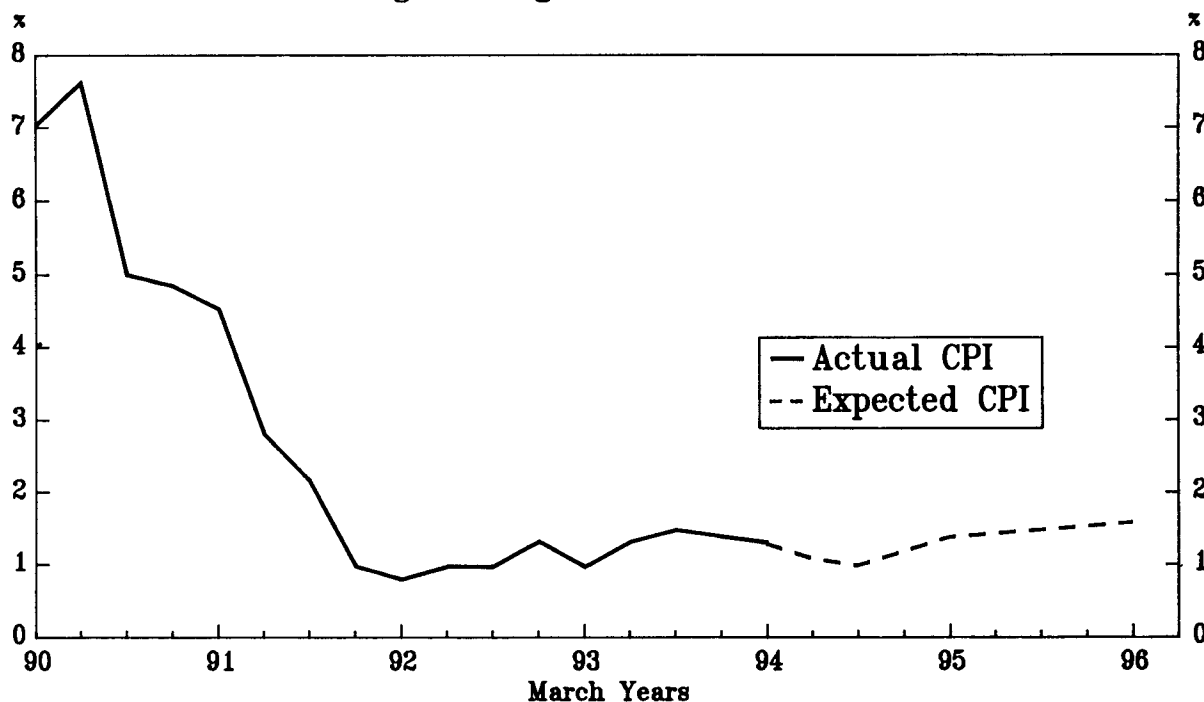
- **Monetary conditions perceived to be looser.**

Monetary conditions are perceived to be tighter than in our February survey, with a net 11 percent of respondents believing conditions to be tighter than neutral. The corresponding figure for the last survey was a net 27 percent of respondents believing conditions to be easier than neutral. Respondents expect monetary conditions to further tighten over the year, with a net 23 percent expecting conditions to be tighter than neutral by March 1995.

- **Inflation expectations remain low.**

Respondents expect the CPI inflation rate to rise by 0.4 percent in each of the June and September quarters (implicitly, 1.1 percent and 1.0 percent in the years to June and September respectively). Inflation expectations for the June quarter are unchanged from the February survey, when the CPI was also expected to rise by 0.4 percent. For the year to March 1995, CPI inflation is expected to be 1.4 percent, the same as the one-year-ahead expectation recorded in February. A 1.6 percent increase in the CPI is expected for the year to March 1996.

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



- **Labour costs expectations slightly higher.**

The labour cost index is expected to rise by 1.9 and 2.2 percent in the years to March 1995 and 1996 respectively. The corresponding figures for the last survey were 1.8 percent and 2.2 percent.

- **Interest rates expectations rise.**

Respondents expect both short and long term interest rates to reach higher levels over the next year than anticipated in the February survey. At the end of March 1995 the 90 day bill rate and the five year government stock rate are expected to be 6.0 percent and 6.7 percent respectively. This implies an expected positive yield gap of 0.7 percent.

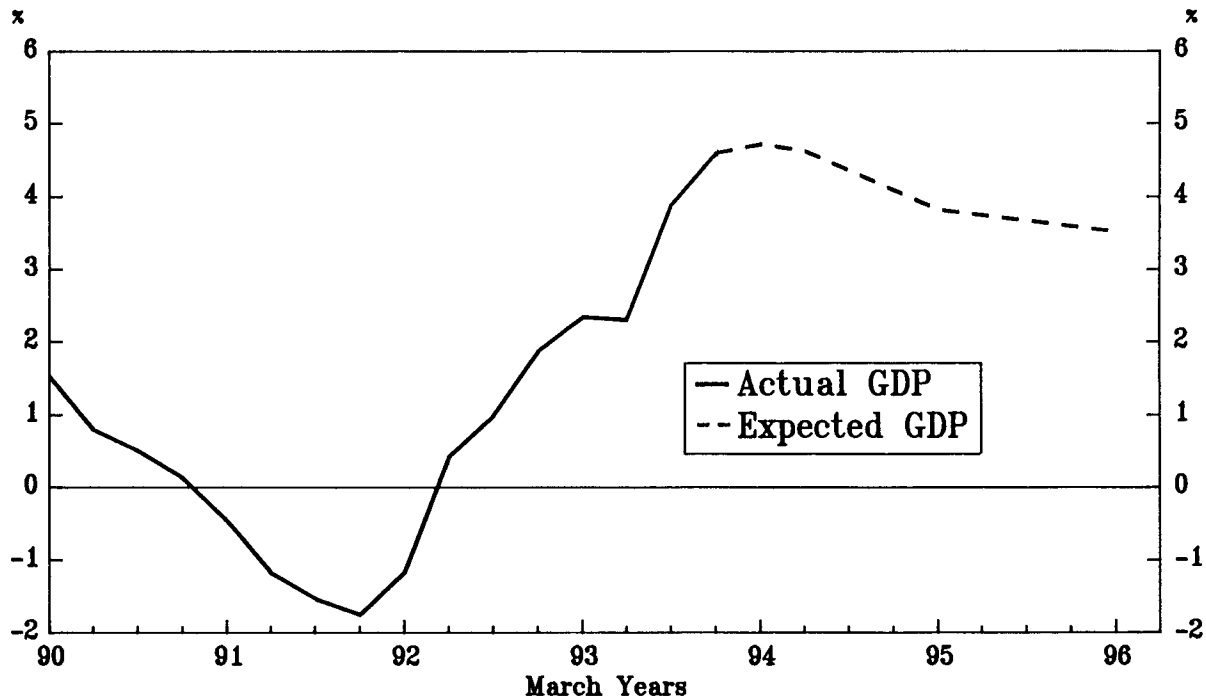
- **Trade weighted exchange rate expected to appreciate.**

Respondents expect the New Zealand dollar to appreciate against the major currencies over the coming year. The TWI is expected to be at 57.0 at the end of the September 1994 quarter and appreciate to 57.5 by the end of the March 1995 quarter.

- **Strong GDP growth expectations.**

Respondents expect real GDP to increase by 1.1 percent in the March 1994 quarter and by 1.0 percent in the June 1994 quarter. For the year to March 1995 respondents expect GDP growth of 3.8 percent, down from the 4.1 percent growth for the year to December 1994 expected at the time of the February survey. A 3.5 percent increase in GDP is expected for the year to March 1996.

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



- **Fiscal surplus expected.**

Expectations for the government financial balance have improved. A financial surplus of \$200 million is expected in the year to June 1994, compared with an expected \$800 million deficit in the previous survey. A further improvement in the surplus to \$900 million is expected for the following year.

- **Higher current account deficit expected.**

The current account deficit for the year ended June 1994 is expected to be \$1.2 billion, higher than the \$900 million deficit expected for the year to March 1994 in the February survey. Respondents expect the current account deficit to narrow to \$1.0 billion over the year to March 1995.

- **Unemployment expectations decline.**

The HLFS unemployment rate is expected to be 8.8 percent in the March quarter 1995, lower than the 9.1 percent expected for the December quarter at the time of the previous survey. A further improvement to 8.3 percent is expected by March 1996.

The next RBNZ Survey of Expectations is tentatively scheduled for 10 August 1994, with results to be published in the September issue of the Bulletin.

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

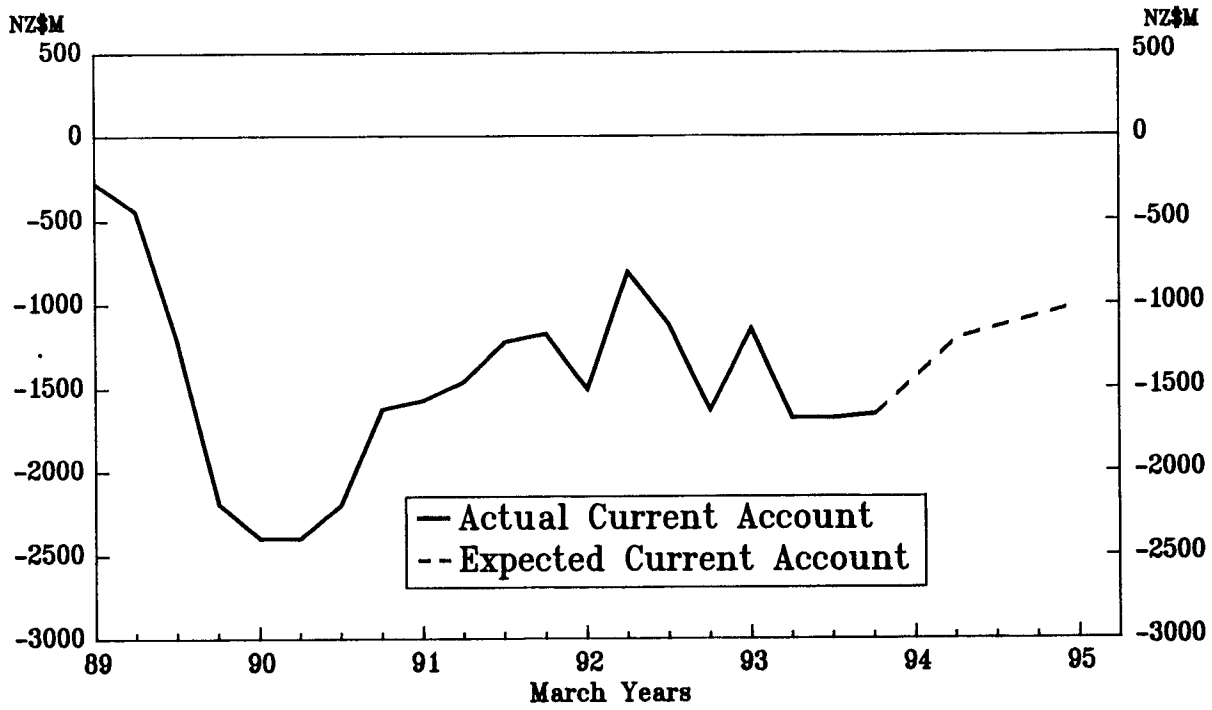
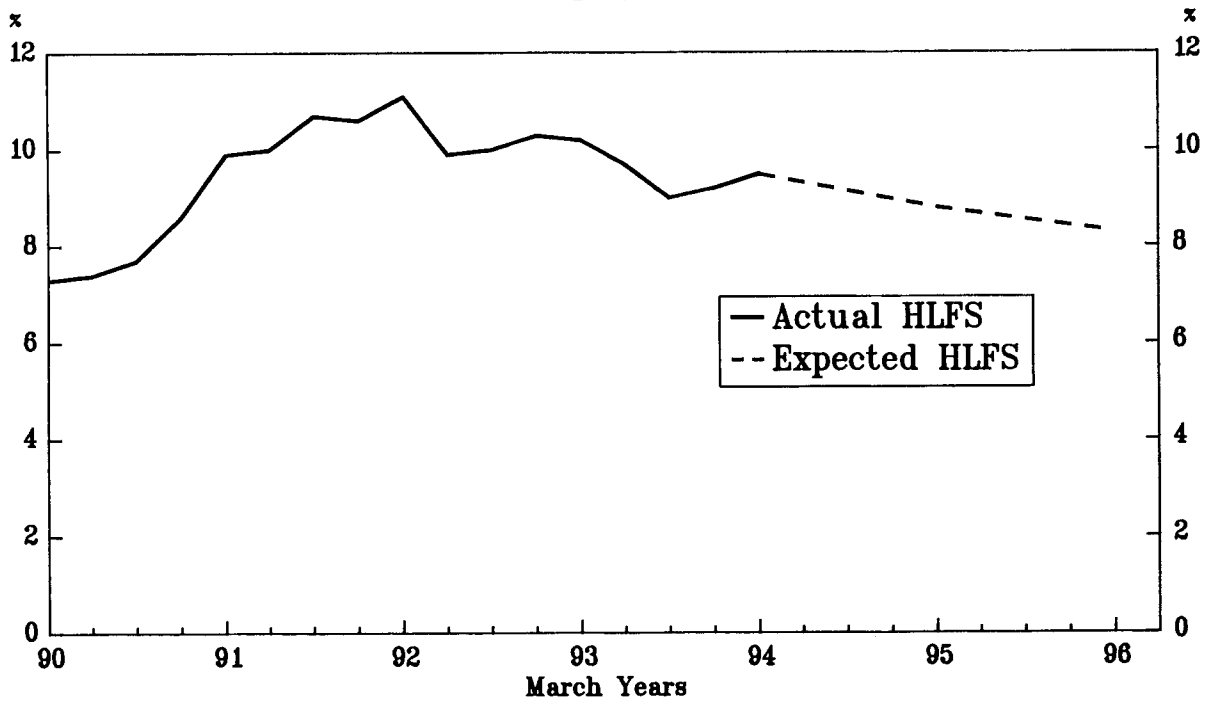


Figure 4.  
Actual and Surveyed Expectations of the  
HLFS Unemployment Rate



## SURVEY OF EXPECTATIONS HISTORICAL RESULTS <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	
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
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

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	
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
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
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
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

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

Survey Qtr.	June 93	Sept. 93	Dec. 93	Mar. 94	June 94
Reference Qtr.	June 93	Sept. 93	Dec. 93	Mar 94	June 94
Mean	5.4	4.6	4.8	4.7	5.6
Reference Qtr.	Mar. 94	June 94	Sept. 94	Dec 94	Mar. 95
Mean	5.4	5.1	5.2	4.9	5.5

### Prices:

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

Survey Qtr.	June 93	Sept. 93	Dec. 93	Mar. 94	June 94
Reference Qtr.	June 93	Sept. 93	Dec. 93	Mar. 94	June 94
Mean	0.5	0.5	0.4	0.3	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 Qt	Sept. 93	Dec. 93	Mar 94	June 94	Sept 94
Mean	0.4	0.5	0.4	0.4	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 93	Sept. 93	Dec. 93	Mar 94	June 94
Reference Qtr.	Mar 94	June 94	Sept. 94	Dec 94	Mar. 95
Mean	1.5	1.5	1.6	1.4	1.4
Reference Qtr.	Mar. 95	June 95	Sept. 95	Dec 95	Mar. 96
Mean	1.7	1.7	1.7	1.7	1.6

### 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 93	Sept. 93	Dec. 93	Mar. 94	June 94
Reference Qtr.	June 93	Sept. 93	Dec. 93	Mar. 94	June 94
Mean	6.6	5.7	5.3	4.5	6.0
Reference Qtr.	Mar. 94	June 94	Sept. 94	Dec 94	Mar. 95
Mean	6.4	5.6	5.2	4.7	6.0

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

Survey Qtr.	June 93	Sept. 93	Dec. 93	Mar 94	June 94
Reference Qtr.	June 93	Sept. 93	Dec. 93	Mar. 94	June 94
Mean	7.0	6.4	5.7	5.2	6.8
Reference Qtr.	Mar. 94	June 94	Sept. 94	Dec 94	Mar. 95
Mean	6.9	6.2	5.6	5.3	6.7

### Exchange Rates:

Q.8 Relative to the following currencies, what spot exchange rate do you expect for the New Zealand dollar at the end of (reference quarter):

Survey Qtr.	June 93	Sept. 93	Dec. 93	Mar 94	June 94
US Dollar					
Reference Qtr.	Sept. 93	Dec. 93	Mar. 94	June 94	Sept. 94
Mean	0.542	0.549	0.557	0.570	0.578
Reference Qtr.	Mar. 94	June 94	Sept. 94	Dec 94	Mar. 95
Mean	0.544	0.552	0.560	0.571	0.583
Australian Dollar					
Reference Qtr.	Sept. 93	Dec. 93	Mar. 94	June 94	Sept 94
Mean	0.769	0.805	0.834	0.802	0.804

Reference Qtr.	Mar. 94	June 94	Sept. 94	Dec 94	Mar. 95
Mean	0.772	0.806	0.836	0.802	0.808

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	Mar 94	June 94
Reference Qtr.	Mar. 94	June 94	Sept. 94
Mean	56.4	57.0	57.0

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	Mar 94	June 94
Reference Qtr.	Sept. 94	Dec 94	Mar 95
Mean	56.6	57.2	57.5

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

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 93	Sept. 93	Dec. 93	Mar. 94	June 94
Reference Qtr.	Mar. 94	June 94	Sept. 94	Dec 94	Mar. 95
Mean	2.7	2.7	3.1	4.1	3.8
Reference Qtr.			Sept. 95	Dec 95	Mar. 96
Mean	-	-	3.1	3.8	3.5

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 93	Sept. 93	Dec. 93	Mar. 94	June 94
Reference Qtr.	June 93	Sept. 93	Dec. 93	Mar. 94	June 94
Mean	-1.1	-0.8	-0.7	-0.9	-1.2
Reference Qtr.	Mar. 94	June 94	Sept. 94	Dec 94	Mar. 95
Mean	-0.9	-0.5	-0.4	-0.6	-1.0

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

Survey Qtr.	June 93	Sept. 93	Dec. 93	Mar. 94	June 94
Reference Qtr. Mean	June 93 -1.9	June 94 -1.6	June 94 -1.4	June 94 -0.8	June 94 0.2
Reference Qtr. Mean	June 94 -1.6	June 95 -1.3	June 95 -0.9	June 95 -0.2	June 95 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.	June 93	Sept. 93	Dec. 93	Mar. 94	June 94
Reference Qtr. Mean	Mar. 94 1.7	June 94 1.7	Sept 94 1.8	Dec 94 1.8	Mar. 95 1.9
Reference Qtr. Mean	Mar. 95 2.1	June 95 2.1	Sept. 95 2.2	Dec 95 2.2	Mar. 96 2.2

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

Survey Qtr.	June 93	Sept. 93	Dec. 93	Mar 94	June 94
Reference Qtr. Mean	Mar. 94 10.1	June 94 9.8	Sept. 94 9.7	Dec 94 9.1	Mar. 95 8.8
Reference Qtr. Mean	-	-	Sept. 95 9.2	Dec 95 8.5	Mar 96 8.3

