

Survey of Expectations

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This article presents the results from the December 1995 quarter Reserve Bank of New Zealand Survey of Expectations

Introduction

The latest RBNZ Survey of Expectations was conducted on Wednesday 8 November 1995. 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 65 percent, with 164 of the 251 respondents in this quarter's sample having returned their completed questionnaires by the cut-off date.

The distribution across activity groups was:

Financial	..	60
Business	..	61
Agriculture	..	19
Labour	..	11
Other	..	13
TOTAL		164

Summary of results

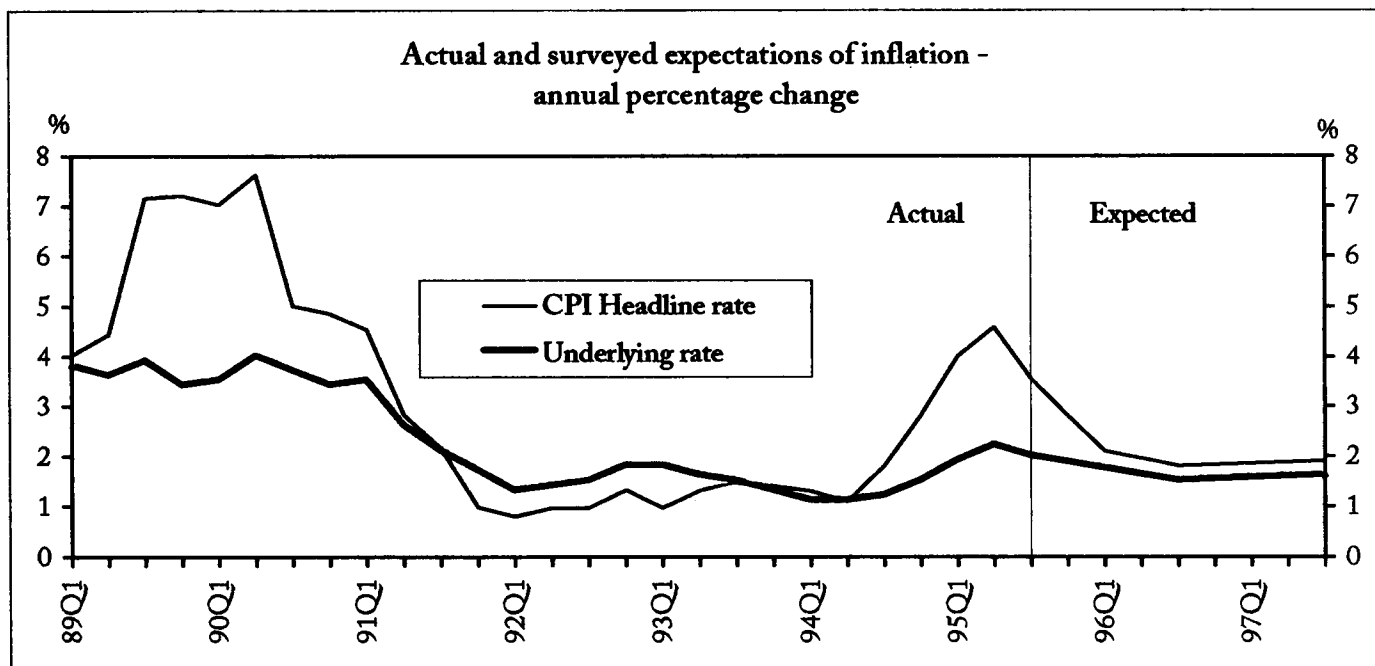
- **Monetary conditions are still perceived to be tight.**

Although monetary conditions are perceived to have eased somewhat since our August survey, a net 44.1 percent of respondents still believe conditions to be tighter than neutral. The corresponding figure for the August survey was 68 percent, while for the May survey the figure was 77 percent. Respondents expect monetary conditions to have eased further by the end of March 1996, with a net 19.1 percent of respondents expecting monetary conditions to be tighter than neutral at that time.

- **One year-ahead inflation expectations have fallen.**

Respondents expect the Consumers' Price Index (CPI) to rise by 0.5 percent in the December 1995 quarter (unchanged from the previous survey), and by 0.4 percent in the March 1996 quarter (implicitly, 2.8 percent and 2.1 percent in the years to December and March respectively).

Figure 1



In the year to September 1996, CPI inflation is expected to be 1.8 percent, compared with a 2.0 percent one-year-ahead expectation recorded in August. However, CPI inflation is expected to rise to 1.9 percent by September 1997.

- **One year-ahead underlying inflation expectations have fallen.**

Underlying inflation is expected to be 1.5 percent in the year to September 1996, and to rise to 1.6 percent by the end of September 1997. The one and two year-ahead underlying inflation expectations recorded in the August survey were 1.8 percent and 1.6 percent respectively.

- **Labour cost expectations are unchanged.**

The labour cost index is expected to rise by 2.4 in both the years to September 1996 and September 1997, unchanged from the August survey.

- **Short-term interest rates are expected to fall.**

At the end of December 1995, the 90 Day Bank Bill rate is expected to be 8.2 percent, a little lower than the rate prevailing at the time the survey was completed by respondents. By September 1996 respondents expect the 90 Day bank bill rate to have fallen to 7.8 percent, unchanged from the one year-ahead expectation recorded in August. Respondents expect the 10 year Government Security yield to have fallen to 7.1 percent by the end of

September 1996. This implies an expected negative yield gap of 0.7 percent.

- **A moderate rise in the trade weighted exchange rate is expected.**

The trade-weighted exchange rate index of the New Zealand dollar (TWI) is expected to be at 62.1 at the end of the March 1995 quarter and to rise to 62.4 by the end of the September 1996 quarter.

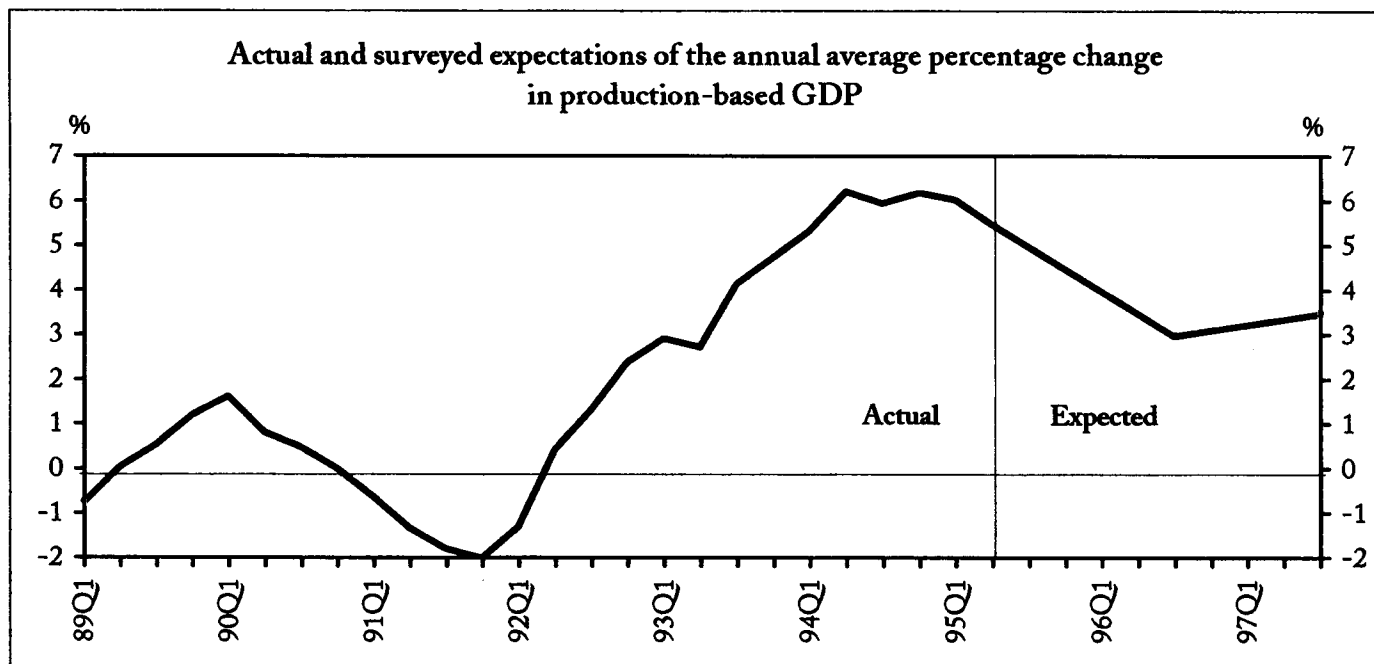
- **One year-ahead GDP growth is expected to be weaker.**

Respondents expect real GDP to increase by 0.7 percent in both the September 1995 and December 1995 quarters. For the year ending September 1996, respondents expect GDP growth of 3.0 percent, down from 3.4 percent recorded in the last survey for the year to June 1996. A 3.5 percent increase in GDP is expected for the year to September 1997.

- **The fiscal surplus is expected to remain stable.**

A financial surplus of \$3.0 billion is expected in the year to June 1996, unchanged from the August survey. A surplus of \$3.1 billion is predicted for the year to June 1997.

Figure 2



- A reduction in the current account deficit is expected.

- Unemployment is expected to increase slightly and then fall.

The current account deficit for the year ended December 1995 is expected to be \$2.4 billion, compared with an expectation of \$2.1 billion for the year to September 1995 recorded in the previous survey. Respondents expect the current account deficit to narrow to \$2.0 billion over the year to September 1996.

The Household Labour Force Survey (HLFS) unemployment rate is expected to be 6.5 percent in the September 1996 quarter. An improvement to 6.2 percent is expected by September 1997.

The next RBNZ Survey of Expectations is tentatively scheduled for 7 February 1995, with results to be published in the March 1996 issue of the Bulletin.

Figure 3

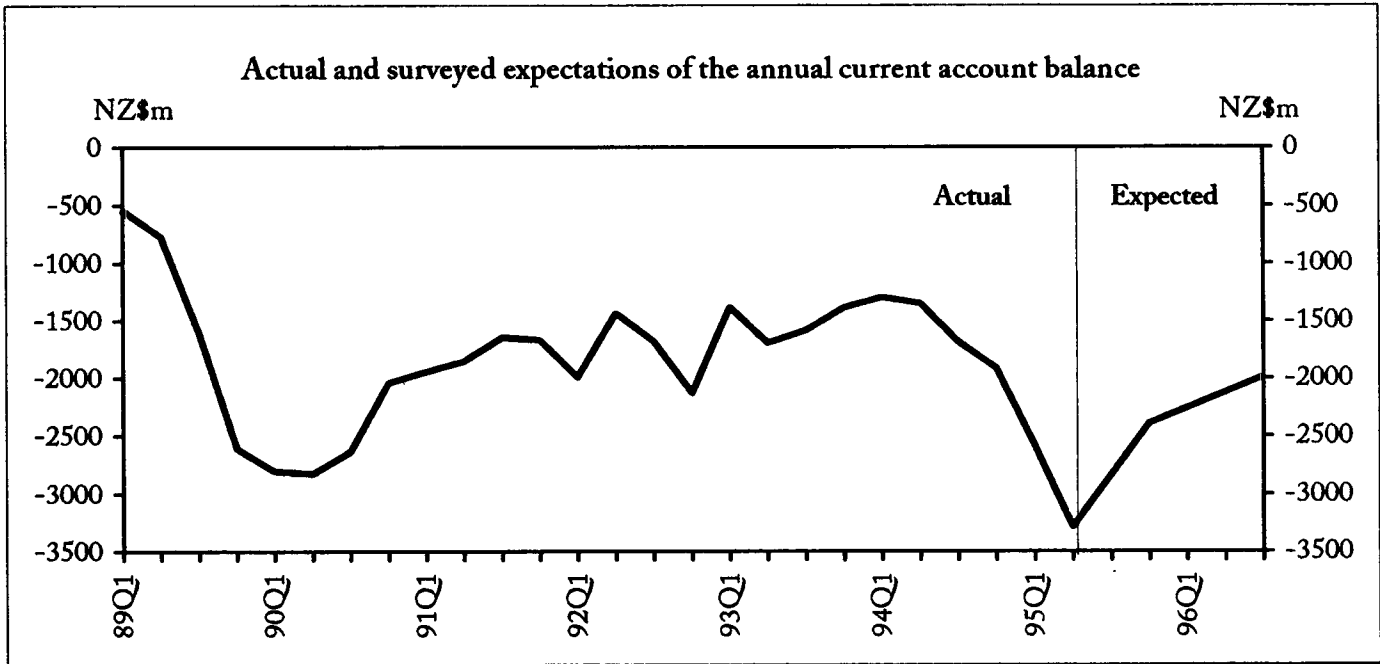
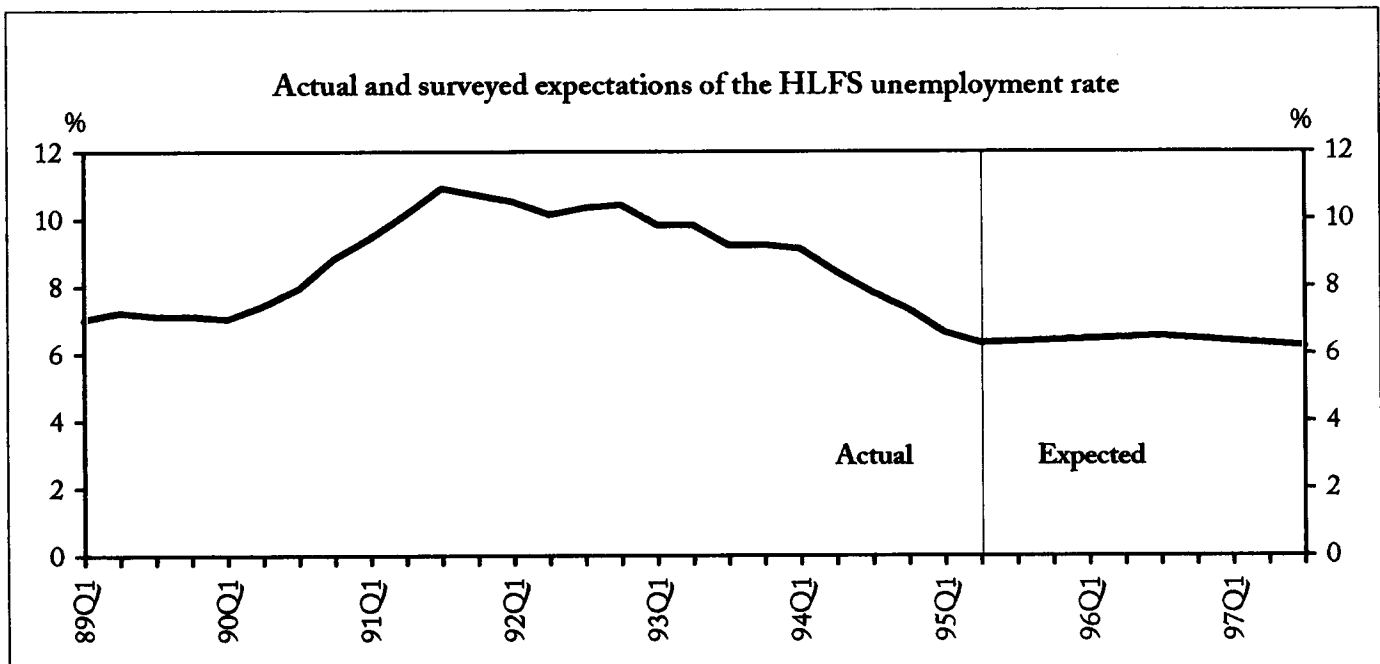


Figure 4



Survey of expectations historical results¹

Monetary conditions:

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	
Dec. 1994	0.0	16.8	52.3	23.5	6.0	1.3	0.0	
Mar. 1995	2.1	36.3	46.6	11.0	4.1	0.0	0.0	
June 1995	2.3	28.0	53.8	8.3	6.8	0.8	0.0	
Sept. 1995	1.4	26.2	49.7	13.1	9.0	0.7	0.0	
Dec. 1995	0.0	14.7	47.2	20.2	16.6	0.6	0.6	

Q.2 *What expectation to 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	
Dec. 1994	Mar. 1995	3.4	34.2	40.9	16.1	4.0	1.3	0.0	
Mar. 1995	June 1995	4.1	37.7	43.8	11.0	2.7	0.7	0.0	
June 1995	Sept. 1995	0.0	16.7	62.1	13.6	6.8	0.8	0.0	
Sept. 1995	Dec. 1995	0.0	9.6	47.9	26.7	14.4	1.4	0.0	
Dec. 1995	Mar. 1996	0.0	5.6	37.0	34.0	21.0	1.9	0.6	
Dec. 1994	Sept. 1995	0.7	16.1	47.7	31.5	3.4	0.7	0.0	
Mar. 1995	Dec. 1995	0.7	12.3	52.1	28.1	6.2	0.7	0.0	
June 1995	Mar. 1996	0.0	1.5	31.5	49.2	16.2	1.5	0.0	
Sept. 1995	June 1996	0.0	2.1	22.4	53.8	18.9	2.8	0.0	
Dec. 1995	Sept. 1996	0.0	7.5	30.6	38.8	20.0	2.5	0.6	

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

Survey Qtr.	Reference Quarter (Mean)							
	Dec. <u>1994</u>	Mar. <u>1995</u>	June <u>1995</u>	Sept. <u>1995</u>	Dec. <u>1995</u>	Mar. <u>1996</u>	June <u>1996</u>	Sept. <u>1996</u>
Dec. 1994	6.6			6.3				
Mar. 1995		6.3			6.1			
June 1995			6.1			5.7		
Sept. 1995				6.5			5.9	
Dec. 1995					6.8			6.0

¹ In the tables of results 'survey quarter' refers to the quarter in which a survey was undertaken, while 'reference quarter' refers to the quarter (period ended or the quarter itself) for which the expectation was held.

Results for questions 1 and 2 are percentages of total responses in each category, while the remainder of the questions report the mean expectation.

Prices:

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

Survey Qtr.	Reference Quarter (Mean)					
	Dec.	Mar.	June	Sept	Dec.	Mar.
	<u>1994</u>	<u>1995</u>	<u>1995</u>	<u>1995</u>	<u>1995</u>	<u>1996</u>
Dec. 1994	0.8	0.7				
Mar. 1995		1.0	0.8			
June 1995			0.9	0.7		
Sept. 1995				0.7	0.5	
Dec. 1995					0.5	0.4

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

Survey Qtr.	Reference Quarter (Mean)								
	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.
	<u>1995</u>	<u>1995</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1997</u>	<u>1997</u>	<u>1997</u>
Dec. 1994	2.5				2.0				
Mar. 1995		2.8				2.1			
June 1995			2.6				1.9		
Sept. 1995				2.0				1.8	
Dec. 1995					1.8				1.9

Q.5b What annual percentage change do you expect in the Underlying Inflation Rate for the year to (reference quarter)?

Survey Qtr.	Reference Quarter (Mean)								
	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	
	<u>1995</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1997</u>	<u>1997</u>	<u>1997</u>	
Mar. 1995	1.9				1.7				
June 1995		1.8				1.6			
Sept. 1995			1.8				1.6		
Dec. 1995				1.5				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.	Reference Quarter (Mean)							
	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.
	<u>1994</u>	<u>1995</u>	<u>1995</u>	<u>1995</u>	<u>1995</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>
Dec. 1994	8.4			8.1				
Mar. 1995		9.4			8.9			
June 1995			9.1			8.2		
Sept. 1995				8.7			7.8	
Dec. 1995					8.2			7.8

Q.7 What do you expect the 10-year Government Security market yield to be at the end of (reference quarter)?

Survey	Reference Quarter							
					(Mean)			
	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.
Qtr.	<u>1995</u>	<u>1995</u>	<u>1995</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1997</u>
June 1995	7.8			7.5				
Sept. 1995		7.8			7.4			
Dec. 1995			7.3			7.1		

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

Survey	Reference Quarter						
				(Mean)			
	Mar.	June	Sept.	Dec.	Mar.	June	Sept.
Qtr.	<u>1995</u>	<u>1995</u>	<u>1995</u>	<u>1995</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>
<i>US Dollar</i>							
Dec. 1994	0.623		0.628				
Mar. 1995		0.638		0.644			
June 1995			0.671		0.674		
Sept. 1995				0.664		0.665	
Dec. 1995					0.656		0.658
<i>Australian Dollar</i>							
Dec. 1994	0.825		0.828				
Mar. 1995		0.839		0.843			
June 1995			0.915		0.917		
Sept. 1995				0.905		0.910	
Dec. 1995					0.876		0.882

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

Survey	Reference Quarter				
	(Mean)				
	Mar.	June	Sept.	Dec.	Mar.
Qtr.	<u>1995</u>	<u>1995</u>	<u>1995</u>	<u>1995</u>	<u>1996</u>
Dec. 1994	58.6				
Mar. 1995		60.2			
June 1995			61.3		
Sept. 1995				61.7	
Dec. 1995					62.1

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

Survey	Reference Quarter				
	(Mean)				
Qtr.	Sept	Dec.	Mar.	June	Sept.
	<u>1995</u>	<u>1995</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>
Dec. 1994	59.0				
Mar. 1995		60.7			
June 1995			61.8		
Sept. 1995				62.0	
Dec. 1995					62.4

Other questions:

Q.11 What is your expectation of the seasonally adjusted quarterly percentage change in the real Gross Domestic Product (GDP) index for (reference quarter)?

Survey	Reference Quarter				
	(Mean)				
Qtr.	Dec.	Mar.	June	Sept.	Dec.
	<u>1994</u>	<u>1995</u>	<u>1995</u>	<u>1995</u>	<u>1995</u>
Dec. 1994	1.3				
Mar. 1995	1.5	1.3			
June 1995		1.1	0.9		
Sept. 1995			0.9	0.8	
Dec. 1995				0.7	0.7

Q.12 What is your expectation of the annual average percentage change in the real Gross Domestic Product (GDP) index for the year to (reference quarter)?

Survey	Reference Quarter								
	(Mean)								
Qtr.	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.
	<u>1995</u>	<u>1995</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1997</u>	<u>1997</u>	<u>1997</u>
Dec.1994	4.6				4.0				
Mar.1995		4.7				4.0			
June1995			3.9				3.5		
Sept.1995				3.4				3.4	
Dec.1995					3.0				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	Reference Quarter							
	(Mean)							
Qtr.	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.
	<u>1994</u>	<u>1995</u>	<u>1995</u>	<u>1995</u>	<u>1995</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>
Dec.1994	-1.4			-1.0				
Mar.1995		-1.8			-1.5			
June1995			-1.7			-1.5		
Sept.1995				-2.1			-1.8	
Dec.1995					-2.4			-2.0

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

Survey Qtr.	Reference Quarter (Mean)							
	Sept. 1995	Dec. 1995	Mar. 1996	June 1996	Sept. 1996	Dec. 1996	Mar. 1997	June 1997
Dec. 1994	1.4				2.1			
Mar. 1995	2.1				2.9			
June 1995	2.5				3.1			
Sept. 1995					3.0			3.0
Dec. 1995					3.0			3.1

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

Survey Qtr.	Reference Quarter (Mean)								
	Sept. 1995	Dec. 1995	Mar. 1996	June 1996	Sept. 1996	Dec. 1996	Mar. 1997	June 1997	Sept. 1997
Dec. 1994	2.3				2.4				
Mar. 1995		2.6				2.6			
June 1995			2.6				2.6		
Sept. 1995				2.4				2.4	
Dec. 1995					2.4				2.4

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

Survey Qtr.	Reference Quarter (Mean)								
	Sept. 1995	Dec. 1995	Mar. 1996	June 1996	Sept. 1996	Dec. 1996	Mar. 1997	June 1997	Sept. 1997
Dec. 1994	8.1				7.7				
Mar. 1995		7.6				7.2			
June 1995			7.2				6.9		
Sept. 1995				6.7				6.4	
Dec. 1995					6.5				6.2