

Survey of expectations

Graham Howard, Economics Department

This article presents the results from the June 1995 Reserve Bank of New Zealand Survey of Expectations.

Introduction

The latest RBNZ Survey of Expectations was conducted on Wednesday 10 May 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 52 percent, with 133 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	49
Business	50
Agriculture	18
Labour	8
Other	8
Total	133

Summary of results

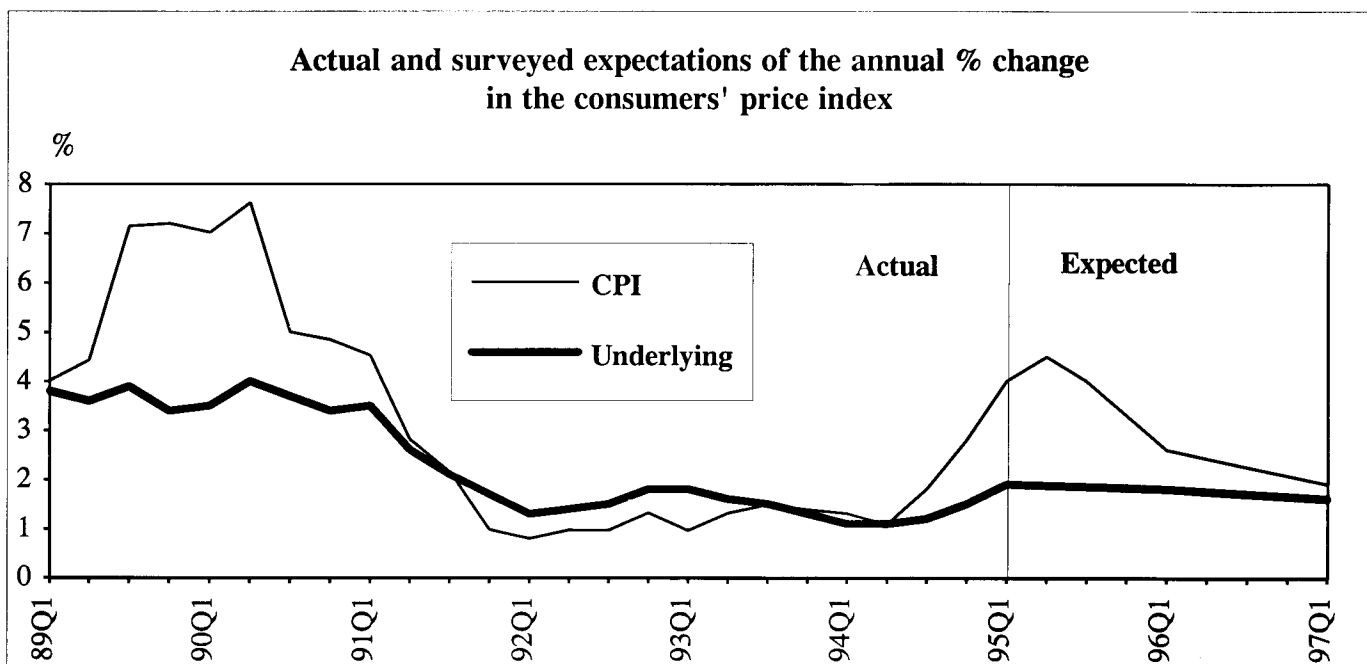
- **Monetary conditions are perceived to be tight.**

Monetary conditions are perceived to be slightly looser than in our February survey, with a net 77 percent of respondents believing conditions to be tighter than neutral. The corresponding figure for the February survey was 81 percent, while for the November 1994 survey the figure was 62 percent. Respondents expect monetary conditions to have eased slightly by the end of September 1995. However, by March 1996 respondents expect monetary conditions to have eased significantly, with only a net 15.3 percent expecting monetary conditions to be tighter than neutral.

- **Headline inflation expectations are down slightly.**

Respondents expect the Consumers' Price Index (CPI) to rise by 0.9 percent in the June 1995 quarter (previously 1.0 percent) and by 0.7 percent in the September 1995 quarter (implicitly, 4.5 percent and 4.0 percent in the

Figure 1



years to June and September respectively). For the year to March 1996, CPI inflation is expected to be 2.6 percent, compared with a 2.8 percent one-year-ahead expectation recorded in February. CPI inflation is expected to fall to 1.9 percent by March 1997.

- **Underlying inflation is expected to fall.**

Underlying inflation is expected to be 1.8 percent for the year to March 1996, and to fall to 1.6 percent by the end of March 1997, down from 1.9 percent and 1.7 percent in the last survey.

- **Labour costs expectations are unchanged.**

The labour cost index is expected to rise by 2.6 in both the years to March 1996 and March 1997, unchanged from the February survey.

- **Short and long term interest rate expectations have fallen.**

Expectations of short and long term interest rates have fallen since the February survey. At the end of June 1995, the 90 Day Bank Bill rate is expected to be 9.1 percent, compared with 9.4 percent in February.

By March 1996 respondents expect the 90 Day Bank Bill rate to have fallen to 8.2 percent. Respondents expect the 10-year Government Security yield to be 7.5 percent at the end of March 1996. This implies an expected negative yield gap of 0.7 percent.

- **Trade weighted exchange rate 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 61.3 at the end of the September 1995 quarter and to appreciate to 61.8 by the end of the March 1996 quarter.

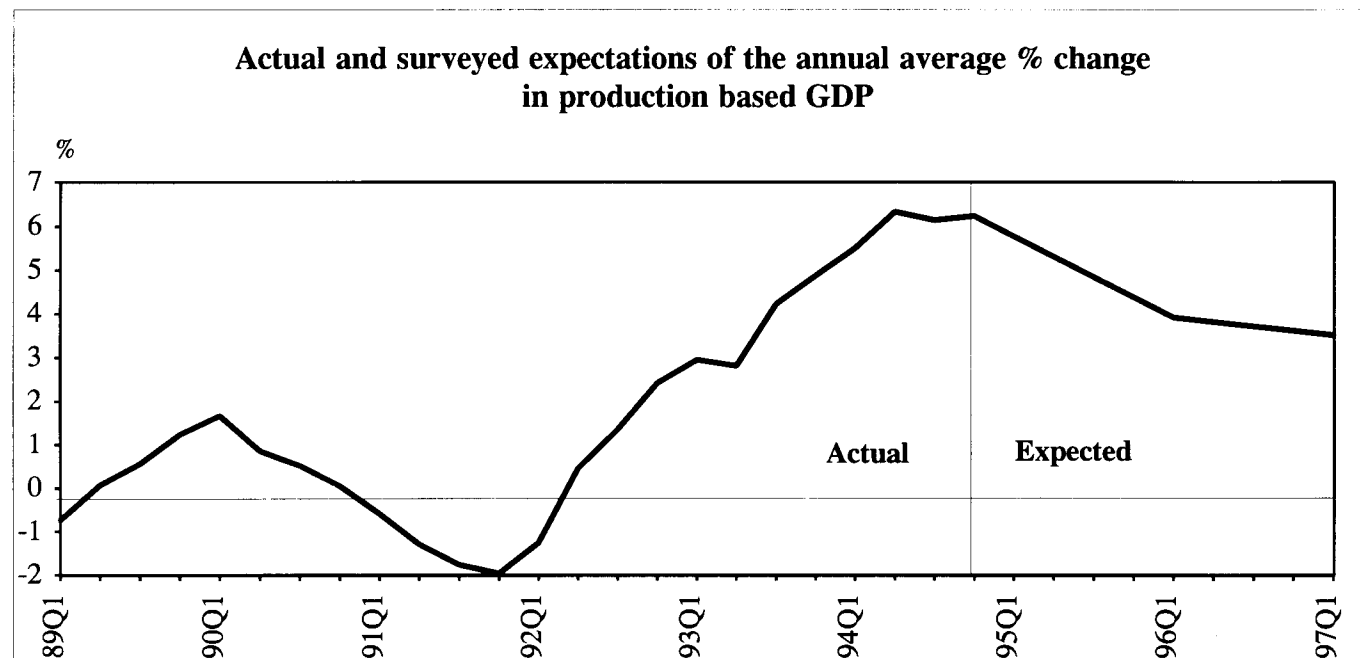
- **GDP growth expectations are weaker.**

Respondents expect real GDP to increase by 1.1 percent in the March 1995 quarter, and by 0.9 percent in the June 1995 quarter. For the year ending March 1996, respondents expect GDP growth of 3.9 percent, down from 4.7 percent recorded in the last survey for the year to December 1995. A 3.5 percent increase in GDP is expected for the year to March 1997.

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

A financial surplus of \$2.5 billion is expected in the year to June 1995, up from \$2.1 billion expected in the February survey. An increase in the surplus to \$3.1 billion is expected for the following year, up from \$2.9 billion previously.

Figure 2



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

The current account deficit for the year ended June 1995 is expected to be \$1.7 billion, compared with an expectation of \$1.8 billion for the year to March recorded in the previous survey. Respondents expect the current account deficit to narrow to \$1.5 billion over the year to March 1996.

- **Unemployment expectations have declined.**

The HLFS unemployment rate is expected to be 7.2 percent in the March quarter 1996. A further improvement to 6.9 percent is expected by March 1997.

The next RBNZ Survey of Expectations is tentatively scheduled for 9 August 1995, with results to be published in the September 1995 issue of the Bulletin.

Figure 3

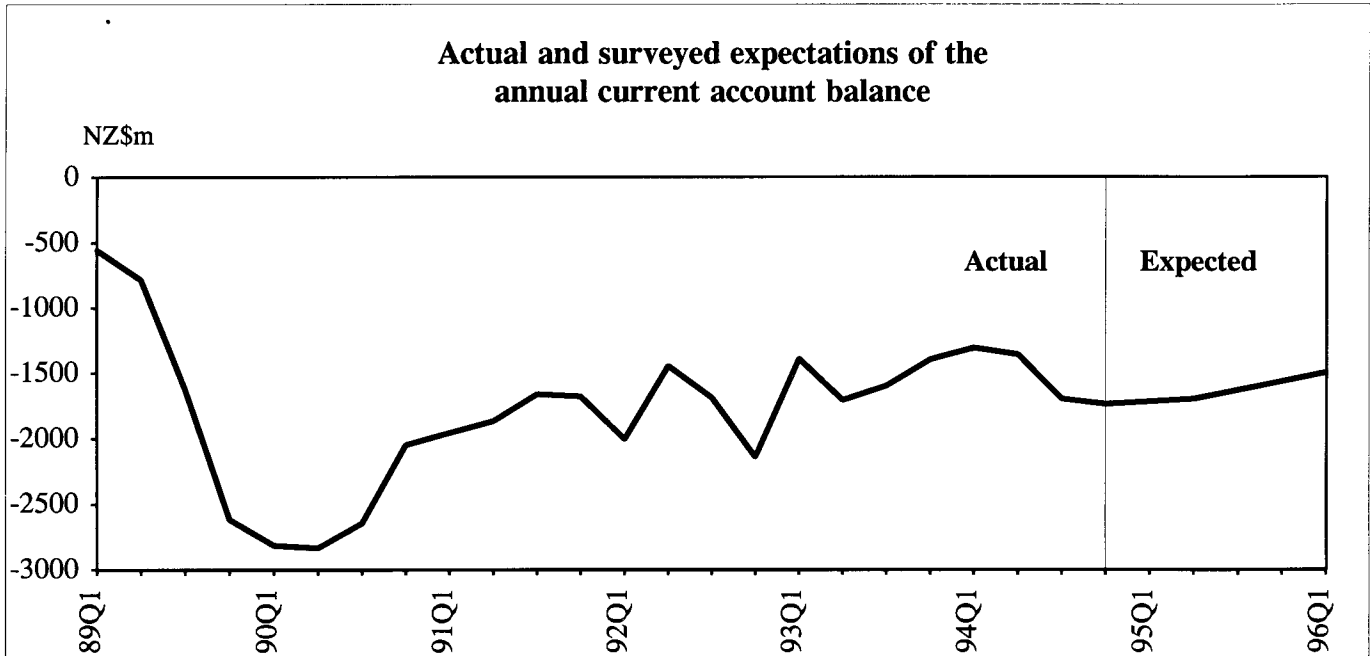
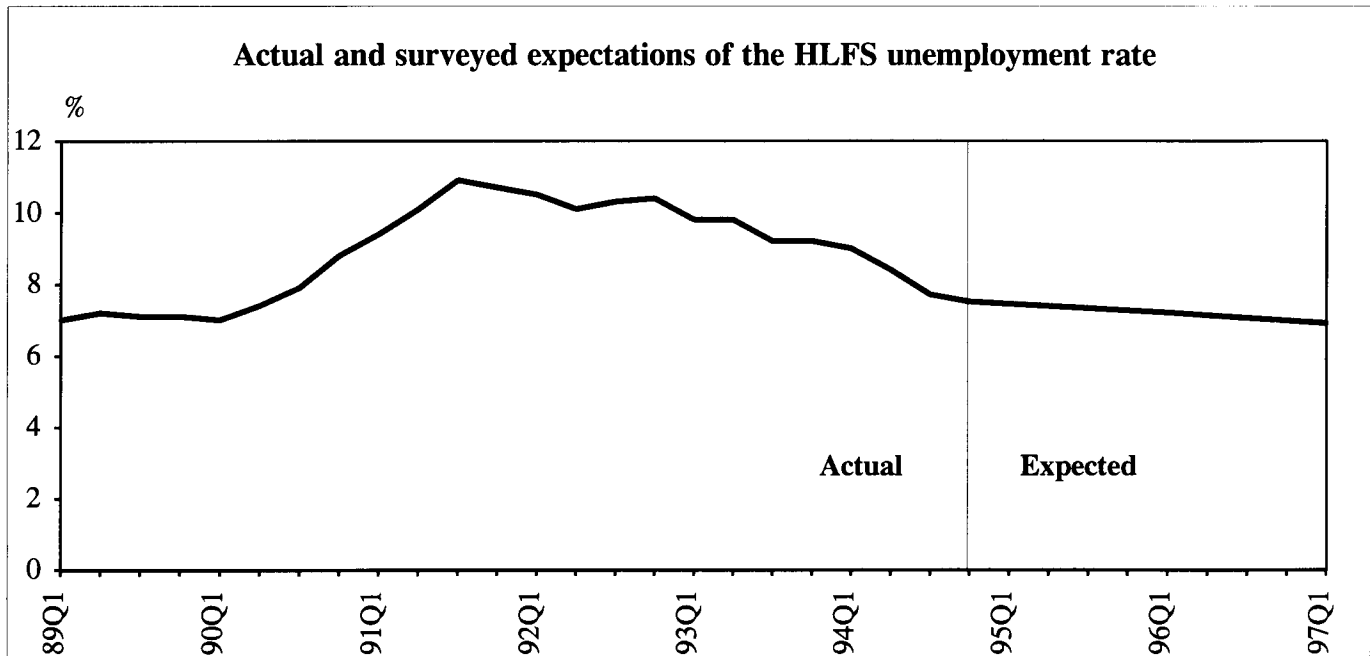


Figure 4



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	
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
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

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 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
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
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
Mar. 1995	Dec. 1995	0.7	12.3	52.1	28.1	6.2	0.7	0.0
June 1995	Mar. 1995	0.0	1.5	31.5	49.2	16.2	1.5	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.	June 94	Sept. 94	Dec. 94	Mar. 95	June 95
Reference Qtr.	June 94	Sept. 94	Dec. 94	Mar. 95	June 95
Mean	5.6	6.6	6.6	6.3	6.1
Reference Qtr.	Mar. 95	June 95	Sept. 95	Dec. 95	Mar. 96
Mean	5.5	6.4	6.3	6.1	5.7

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

3 New question commencing March 1995.

4 Question changed from 5 year to 10 year, commencing June 1995.

Prices:

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

Survey Qtr.	June 94	Sept. 94	Dec 94	Mar. 95	June 95
Reference Qtr.	June 94	Sept. 94	Dec 94	Mar. 95	June 95
Mean	0.4	0.6	0.8	1.0	0.9
Reference Qtr.	Sept. 94	Dec 94	Mar. 95	June 95	Sept. 95
Mean	0.4	0.5	0.7	0.8	0.7

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

Survey Qtr.	June 94	Sept. 94	Dec. 94	Mar. 95	June 95
Reference Qtr.	Mar. 95	June 95	Sept. 95	Dec 95	Mar. 96
Mean	1.4	1.8	2.5	2.8	2.6
Reference Qtr.	Mar. 96	June 96	Sept. 96	Dec 96	Mar. 97
Mean	1.6	1.7	2.0	2.1	1.9

Q.5b What annual % change do you expect in the Underlying Inflation Rate for the year to (reference quarter)³:

Survey Qtr				Mar. 95	June 95
Reference Qtr.				Dec. 95	Mar. 96
Mean				1.9	1.8
Reference Qtr.				Dec. 96	Mar. 97
Mean				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 94	Sept. 94	Dec. 94	Mar. 95	June 95
Reference Qtr.	June 94	Sept. 94	Dec. 94	Mar. 95	June 95
Mean	6.0	7.0	8.4	9.4	9.1
Reference Qtr.	Mar. 95	June 95	Sept.95	Dec. 95	Mar. 96
Mean	6.0	7.0	8.1	8.9	8.2

Q.7 What do you expect the 10-year Government Security market yield to be at the end of (reference quarter)³:

Survey Qtr.					June 95
Reference Qtr.					June 95
Mean					7.8
Reference Qtr.					Mar. 96

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 94	Sept. 94	Dec. 94	Mar. 95	June 95
US Dollar					
Reference Qtr.	Sept. 94	Dec. 94	Mar. 95	June 95	Sept. 95
Mean	0.578	0.605	0.623	0.638	0.671
Reference Qtr.	Mar. 95	June 95	Sept. 95	Dec. 95	Mar. 96
Mean	0.583	0.612	0.628	0.644	0.674
Australian Dollar					
Reference Qtr.	Sept. 94	Dec. 94	Mar. 95	June 95	Sept. 95
Mean	0.804	0.812	0.825	0.839	0.915
Reference Qtr.	Mar. 95	June 95	Sept. 95	Dec. 95	Mar. 96
Mean	0.808	0.814	0.828	0.843	0.917

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.	June 94	Sept. 94	Dec. 94	Mar. 95	June 95
Reference Qtr.	Sept. 94	Dec. 94	Mar. 95	June. 95	Sept. 95
Mean	57.0	57.8	58.6	60.2	61.3

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.	June 94	Sept. 94	Dec. 94	Mar. 95	June 95
Reference Qtr.	Mar. 95	June 95	Sept.95	Dec. 95	Mar. 96
Mean	57.5	58.4	59.0	60.7	61.8

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.	June 94	Sept. 94	Dec. 94	Mar. 95	June 95
Reference Qtr.	Mar. 94	June 94	Sept. 94	Dec. 94	Mar. 95
Mean	1.1	1.2	1.3	1.5	1.1
Reference Qtr.	June 94	Sept. 94	Dec. 94	Mar. 95	June 95
Mean	1.0	1.1	1.3	1.3	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 94	Sept. 94	Dec 94	Mar. 95	June 95
Reference Qtr.	Mar. 95	June 95	Sept. 95	Dec. 95	Mar. 96
Mean	3.8	4.2	4.6	4.7	3.9
Reference Qtr.	Mar. 96	June 96	Sept 96	Dec. 96	Mar. 97
Mean	3.5	3.9	4.0	4.0	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 Qtr.	June 94	Sept. 94	Dec. 94	Mar. 95	June 95
Reference Qtr.	June 94	Sept. 94	Dec. 94	Mar. 95	June 95
Mean	-1.2	-1.2	-1.4	-1.8	-1.7
Reference Qtr.	Mar. 95	June 95	Sept. 95	Dec. 95	Mar. 96
Mean	-1.0	-1.1	-1.0	-1.5	-1.5

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

Survey Qtr.	June 94	Sept.94	Dec. 94	Mar. 95	June 95
Reference Qtr.	June 94	June 95	June 95	June 95	June 95
Mean	0.2	1.0	1.4	2.1	2.5
Reference Qtr.	June 95	June 96	June 96	June 96	June 96
Mean	0.9	1.8	2.1	2.9	3.1

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.	June 94	Sept. 94	Dec. 94	Mar. 95	June 95
Reference Qtr.	Mar. 95	June 95	Sept. 95	Dec. 95	Mar. 96
Mean	1.9	2.1	2.3	2.6	2.6
Reference Qtr.	Mar. 96	June 96	Sept 96	Dec. 96	Mar. 97
Mean	2.2	2.3	2.4	2.6	2.6

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

Survey Qtr.	June 94	Sept. 94	Dec. 94	Mar. 95	June 95
Reference Qtr.	Mar. 95	June 95	Sept. 95	Dec. 95	Mar. 96
Mean	8.8	8.8	8.1	7.6	7.2
Reference Qtr.	Mar. 96	June 96	Sept. 96	Dec 96	Mar. 97
Mean	8.3	8.2	7.7	7.2	6.9