

Survey of Expectations

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This article, prepared by Graham Howard and David Hargreaves, presents the results from the March 1995 Reserve Bank of New Zealand Survey of Expectations.

Introduction

The latest RBNZ Survey of Expectations was conducted on Wednesday 8 February 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 58 percent, with 148 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	..	55
Business	..	52
Agriculture	..	20
Labour	..	9
Other	..	12
TOTAL		148

Summary of results

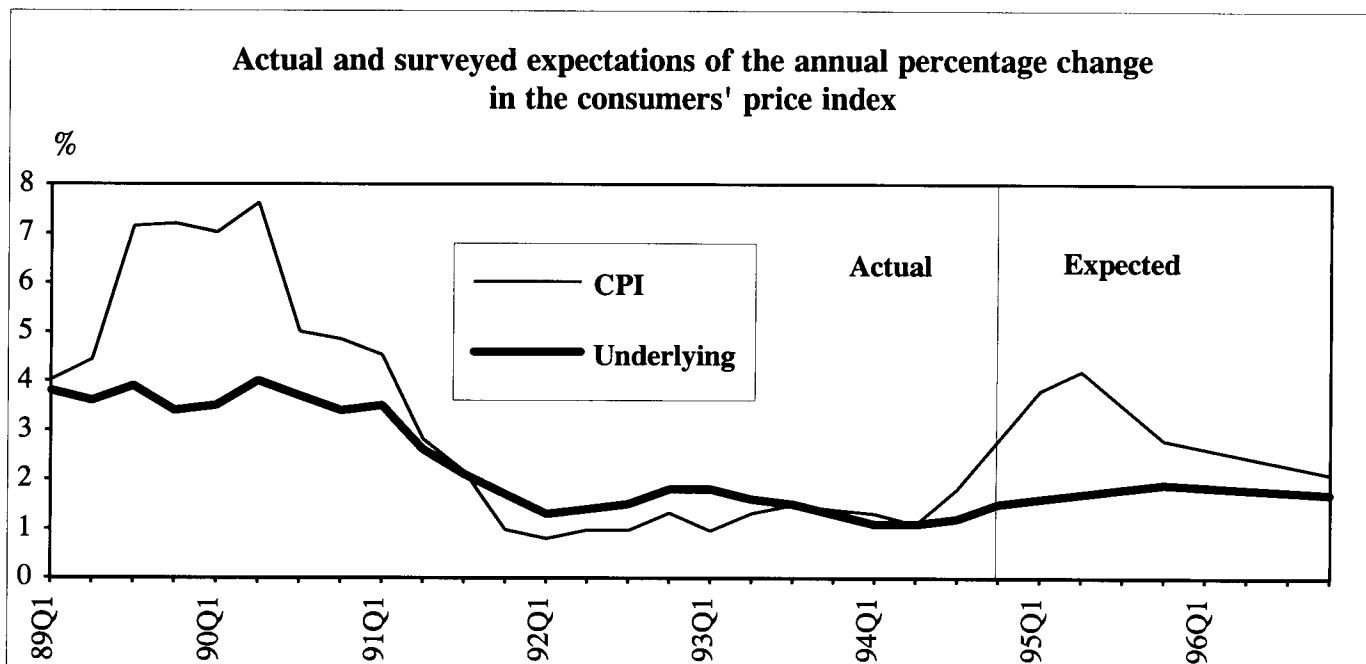
• Monetary conditions are perceived to be tighter.

Monetary conditions are perceived to be tighter than in our November survey, with a net 81 percent of respondents believing conditions to be tighter than neutral. The corresponding figure for the November survey was 62 percent, while for the August survey the figure was 42 percent. Respondents expect monetary conditions to still be tight at the end of June 1995, but to have eased by December 1995.

• Headline inflation expectations increase.

Respondents expect the Consumers' Price Index (CPI) to rise by 1.0 percent in the March quarter 1995 (previously 0.7 percent) and by 0.8 percent in the June 1995 quarter (implicitly, 3.8 percent and 4.2 percent in the years to March and June respectively). For the year to December 1995, CPI inflation is expected to be 2.8 percent, compared with 2.5 percent one-year-ahead expectation recorded in November. CPI inflation is expected to fall to 2.1 percent by December 1996.

Figure 1



Underlying inflation is expected to rise.

For the first time, the survey included a question on underlying inflation. It is expected to increase to 1.9 percent for the year to December 1995, and then fall to 1.7 percent by the end of December 1996.

Labour costs expectations are slightly higher.

The labour cost index is expected to rise by 2.6 in both the years to December 1995 and December 1996. The corresponding figures for the last survey were increases of 2.3 and 2.4 percent for the years to September 1995 and September 1996.

Short term interest rate expectations have risen

Expectations of short term interest rates have risen since the November survey, while expectations for long term interest rates have fallen marginally. At the end of December 1995, the 90 Day Bank Bill rate is expected to be 8.9 percent, while the 5 Year Government Security market yield is expected to be 8.5 percent. This implies an expected negative yield gap of 0.4 percent. In comparison, in the November survey, the 90 Day Bank Bill rate and the 5 Year Government Stock rate were expected to be 8.1 percent and 8.6 percent respectively at the end of September 1995.

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 60.2 at the end of the June 1995 quarter and to appreciate to 60.7 by the end of the December 1995 quarter.

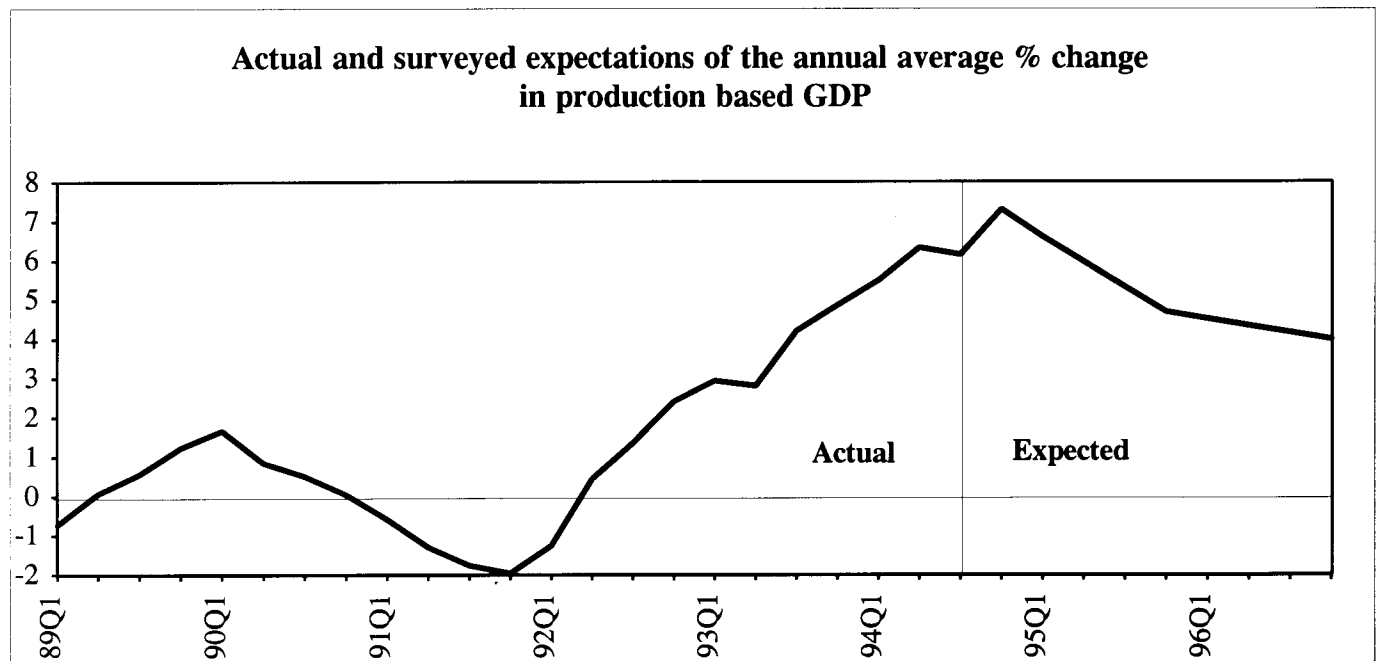
GDP growth expectations remain strong.

Respondents expect real GDP to increase by 1.5 percent in the December 1994 quarter, and by 1.3 percent in the March 1995 quarter. For the year ending December 1995, respondents expect GDP growth of 4.7 percent, up slightly from the last survey. A 4.0 percent increase in GDP is expected for the year to December 1996.

Fiscal surplus expectations have been revised upwards.

A financial surplus of \$2.1 billion is expected in the year to June 1995, up from \$1.4 billion expected in the November survey. An increase in the surplus to \$2.9 billion is expected for the following year, up from \$2.1 billion previously.

Figure 2



Expectations of the current account deficit worsen.

The current account deficit for the year ended March 1995 is expected to be \$1.8 billion, compared with an expectation of \$1.4 billion for the year to December recorded in the previous survey. Respondents expect the current account deficit to narrow to \$1.5 billion over the year to December 1995.

Unemployment is expected to fall.

The HLFS unemployment rate is expected to be 7.6 percent in the December quarter 1995. A further improvement to 7.2 percent is expected by December 1996.

The next RBNZ Survey of Expectations is tentatively scheduled for 10 May 1995, with results to be published in the June 1995 issue of the Bulletin.

Figure 3

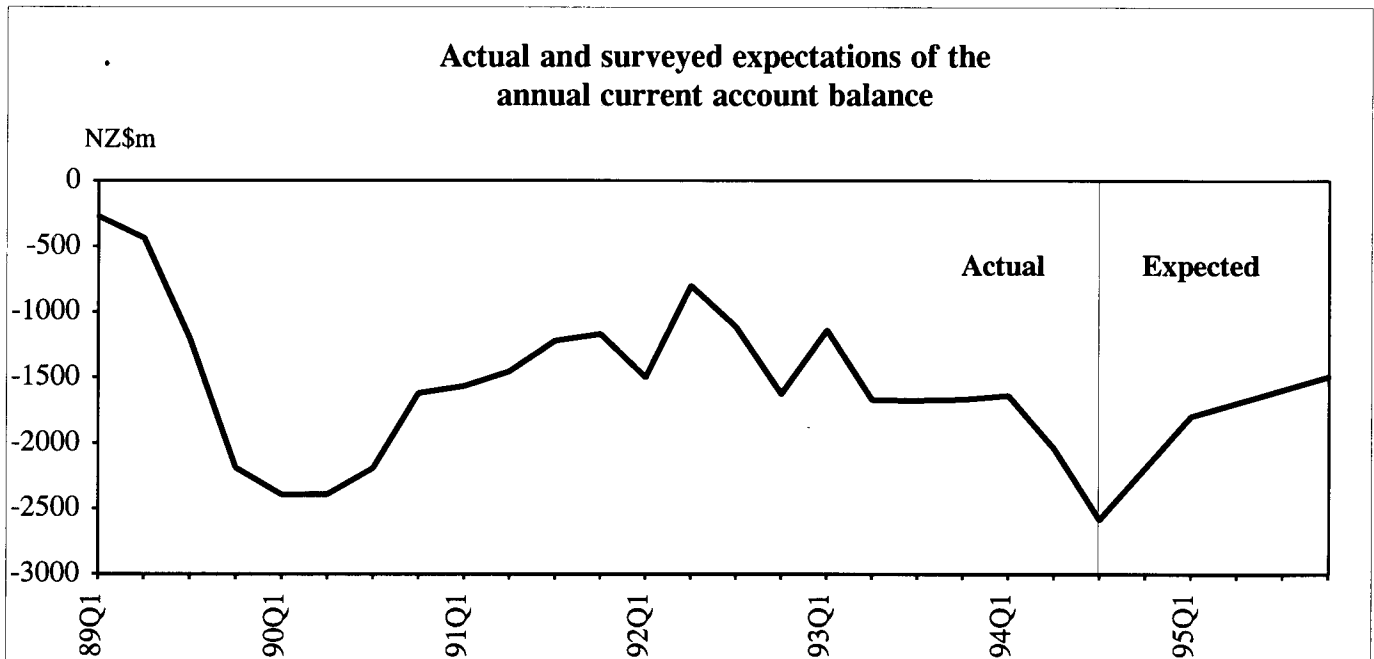
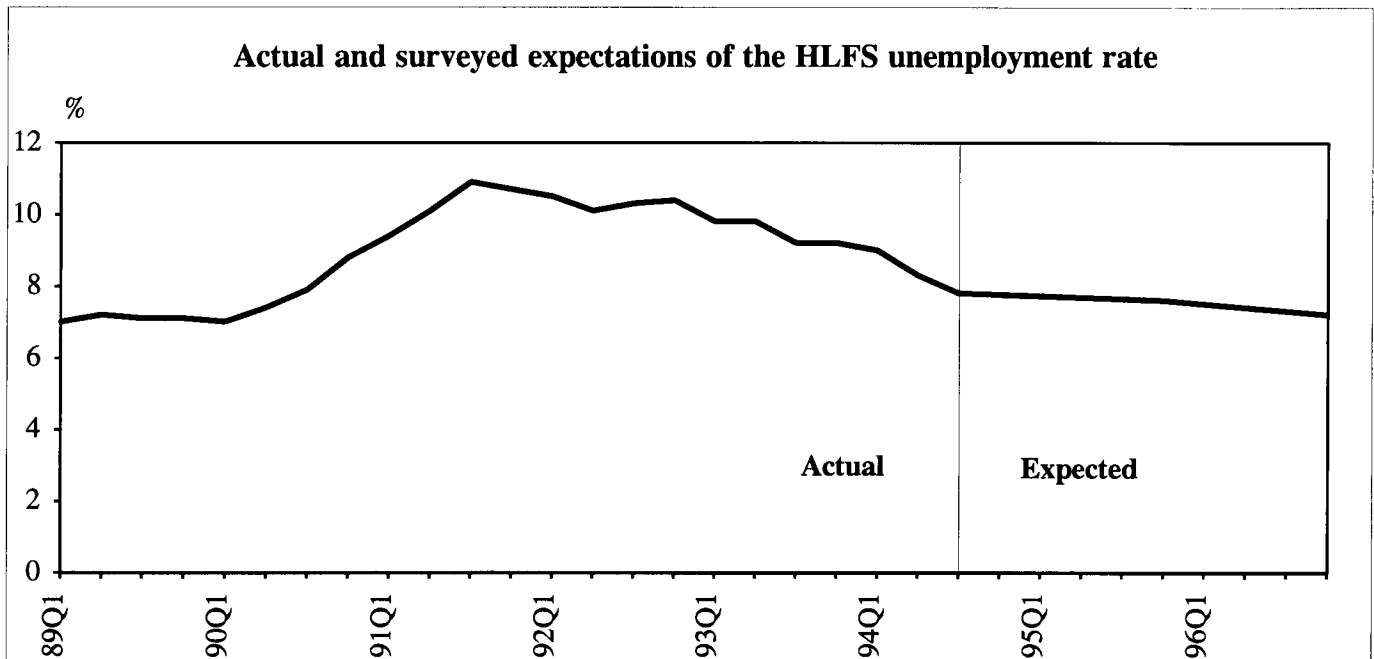


Figure 4



**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	
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
Mar. 1995	2.1	36.3	46.6	11.0	4.1	0.0	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. 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
Mar. 1995	June 1995	4.1	37.7	43.8	11.0	2.7	0.7	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
Mar. 1995	Dec. 1995	0.7	12.3	52.1	28.1	6.2	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 Qtr.	Mar. 94	June 94	Sept. 94	Dec. 94	Mar. 95
Reference Qtr.	Mar. 94	June 94	Sept. 94	Dec. 94	Mar. 95
Mean	4.7	5.6	6.6	6.6	6.3
Reference Qtr.	Dec. 94	Mar. 95	June 95	Sept. 95	Dec. 95
Mean	4.9	5.5	6.4	6.3	6.1

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.	Mar. 94	June 94	Sept. 94	Dec 94	Mar. 95
Reference Qtr.	Mar. 94	June 94	Sept. 94	Dec 94	Mar. 95
Mean	0.3	0.4	0.6	0.8	1.0
Reference Qt	June 94	Sept. 94	Dec 94	Mar. 95	June 95
Mean	0.4	0.4	0.5	0.7	0.8

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

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

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

Survey Qtr					Mar. 95
Reference Qtr.					Dec. 95
Mean					1.9
Reference Qtr.					Dec. 96
Mean					1.7

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. 94	June 94	Sept. 94	Dec. 94	Mar. 95
Reference Qtr.	Mar. 94	June 94	Sept. 94	Dec. 94	Mar. 95
Mean	4.5	6.0	7.0	8.4	9.4
Reference Qtr.	Dec. 94	Mar. 95	June 95	Sept.95	Dec. 95
Mean	4.7	6.0	7.0	8.1	8.9

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

Survey Qtr.	Mar 94	June 94	Sept. 94	Dec. 94	Mar. 95
Reference Qtr.	Mar. 94	June 94	Sept. 94	Dec. 94	Mar. 95
Mean	5.2	6.8	7.8	8.9	8.8
Reference Qtr.	Dec. 94	Mar. 95	June 95	Sept. 95	Dec. 95
Mean	5.3	6.7	7.7	8.6	8.5

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. 94	June 94	Sept. 94	Dec. 94	Mar. 95
US Dollar					
Reference Qtr.	June 94	Sept. 94	Dec. 94	Mar. 95	June 95
Mean	0.570	0.578	0.605	0.623	0.638
Reference Qtr.	Dec. 94	Mar. 95	June 95	Sept. 95	Dec. 95
Mean	0.571	0.583	0.612	0.628	0.644
Australian Dollar					
Reference Qtr.	June 94	Sept. 94	Dec. 94	Mar. 95	June 95
Mean	0.802	0.804	0.812	0.825	0.839
Reference Qtr.	Dec. 94	Mar. 95	June 95	Sept. 95	Dec. 95
Mean	0.802	0.808	0.814	0.828	0.843

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

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	Mar. 95
Reference Qtr.	Dec. 94	Mar. 95	June 95	Sept. 95	Dec. 95
Mean	57.2	57.5	58.4	59.0	60.7

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.	Mar. 94	June 94	Sept. 94	Dec. 94	Mar. 95
Reference Qtr.	Dec. 93	Mar. 94	June 94	Sept. 94	Dec. 94
Mean	1.2	1.1	1.2	1.3	1.5
Reference Qtr.	Mar. 94	June 94	Sept. 94	Dec. 94	Mar. 95
Mean	1.2	1.0	1.1	1.3	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.	Mar. 94	June 94	Sept. 94	Dec 94	Mar. 95
Reference Qtr.	Dec. 94	Mar. 95	June 95	Sept. 95	Dec. 95
Mean	4.1	3.8	4.2	4.6	4.7
Reference Qtr.	Dec. 95	Mar. 96	June 96	Sept 96	Dec. 96
Mean	3.8	3.5	3.9	4.0	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.	Mar. 94	June 94	Sept. 94	Dec. 94	Mar. 95
Reference Qtr.	Mar. 94	June 94	Sept. 94	Dec. 94	Mar. 95
Mean	-0.9	-1.2	-1.2	-1.4	-1.8
Reference Qtr.	Dec 94	Mar. 95	June 95	Sept. 95	Dec. 95
Mean	-0.6	-1.0	-1.1	-1.0	-1.5

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

Survey Qtr.	Mar. 94	June 94	Sept.94	Dec. 94	Mar. 95
Reference Qtr.	June 94	June 94	June 95	June 95	June 95
Mean	-0.8	0.2	1.0	1.4	2.1
Reference Qtr.	June 95	June 95	June 96	June 96	June 96
Mean	-0.2	0.9	1.8	2.1	2.9

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.	Mar. 94	June 94	Sept. 94	Dec. 94	Mar. 95
Reference Qtr.	Dec 94	Mar. 95	June 95	Sept. 95	Dec. 95
Mean	1.8	1.9	2.1	2.3	2.6
Reference Qtr.	Dec 95	Mar. 96	June 96	Sept 96	Dec. 96
Mean	2.2	2.2	2.3	2.4	2.6

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

Survey Qtr.	Mar 94	June 94	Sept. 94	Dec. 94	Mar. 95
Reference Qtr.	Dec 94	Mar. 95	June 95	Sept. 95	Dec. 95
Mean	9.1	8.8	8.8	8.1	7.6
Reference Qt	Dec 95	Mar. 96	June 96	Sept. 96	Dec 96
Mean	8.5	8.3	8.2	7.7	7.2