

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 9 August 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 147 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	..	56
Business	..	51
Agriculture	..	20
Labour	..	9
Other	..	11
TOTAL		147

Summary of results

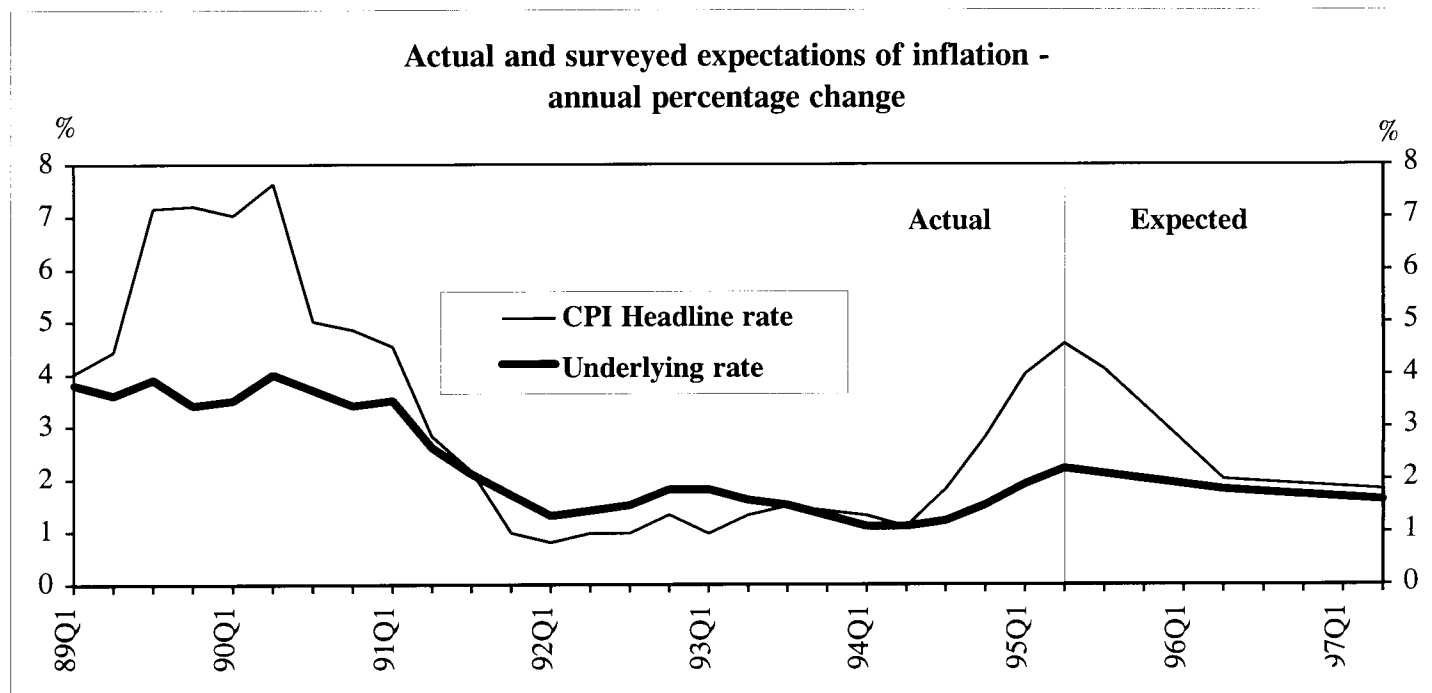
• Monetary conditions are perceived to be tight.

Monetary conditions are perceived to be slightly looser than in our May survey, with a net 68 percent of respondents believing conditions to be tighter than neutral. The corresponding figure for the May survey was 77 percent, while for the February survey the figure was 81 percent. Respondents expect monetary conditions to have eased slightly by the end of December 1995. However, respondents expect monetary conditions to have eased significantly by June 1996, with only a net 3 percent expecting monetary conditions to be tighter than neutral.

• Headline inflation expectations have fallen.

Respondents expect the Consumers' Price Index (CPI) to rise by 0.7 percent in the September 1995 quarter (unchanged from the May survey) and by 0.5 percent in the December 1995 quarter (implicitly, 4.1 percent and 3.4 percent in the years to September and December respectively). In the year to June 1996, CPI inflation is expected to be 2.0 percent, compared with a 2.6 percent one-year-

Figure 1



ahead expectation recorded in May. CPI inflation is expected to fall to 1.8 percent by June 1997.

- **Underlying inflation expectations are unchanged.**

Underlying inflation is expected to be 1.8 percent in the year to June 1996, and to fall to 1.6 percent by the end of June 1997, unchanged from the one and two year-ahead expectations recorded in the May survey.

- **Labour costs expectations have dropped slightly.**

The labour cost index is expected to rise by 2.4 in both the years to June 1996 and June 1997, down from 2.6 percent in the May survey.

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

Expectations of short term interest rates have fallen since May. At the end of September 1995, the 90 Day Bank Bill rate is expected to be 8.7 percent, compared with an expectation of 9.1 at the end of June, recorded in May. By June 1996 respondents expect the 90 Day Bank Bill rate to have fallen to 7.8 percent. Respondents expect the 10-year Government Security yield to be 7.4 percent at the end of June 1996. This implies an expected negative yield gap of 0.4 percent.

- **The trade weighted exchange rate is expected to rise.**

Respondents expect the New Zealand dollar to appreciate against the major currencies over the coming year. The trade-weighted exchange rate index of the New Zealand dollar (TWI) is expected to be at 61.7 by the end of the December 1995 quarter and to rise to 62.0 by the end of the June 1996 quarter.

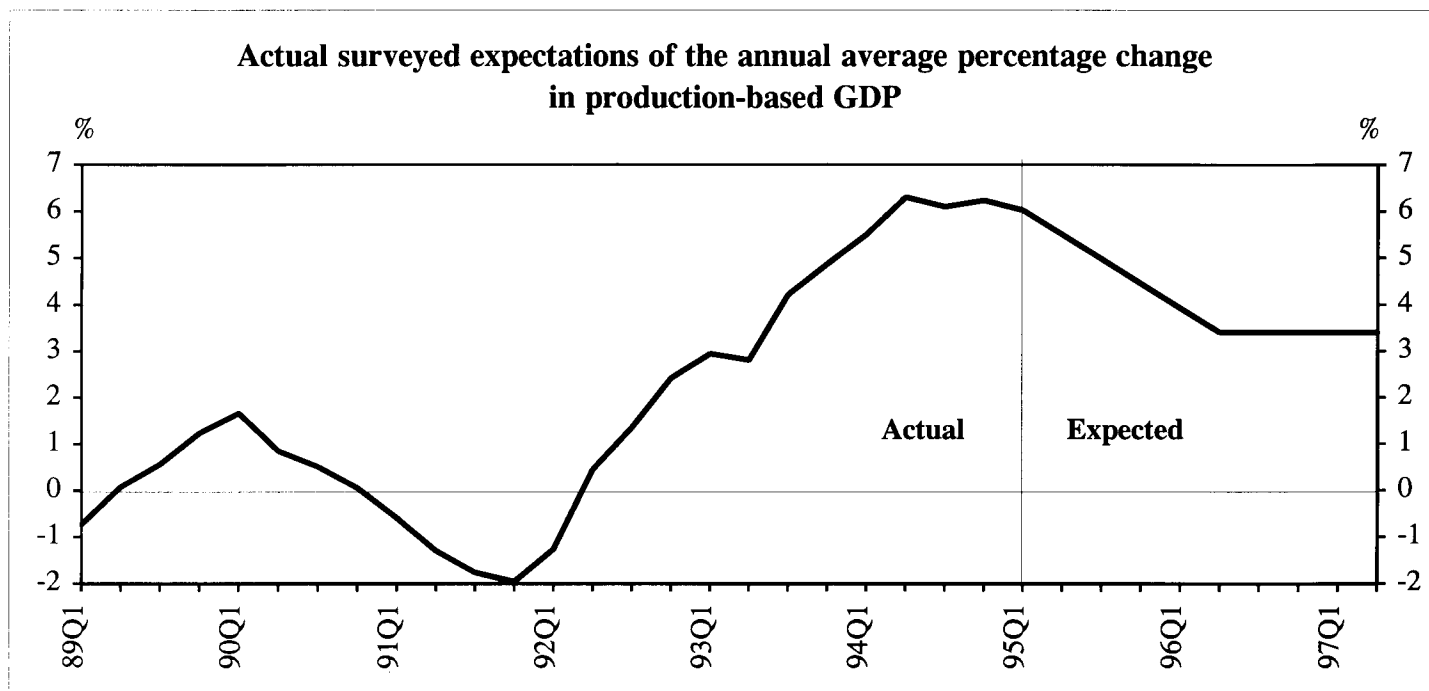
- **GDP growth expectations are lower.**

Respondents expect real GDP to increase by 0.9 percent in the June 1995 quarter, and by 0.8 percent in the September 1995 quarter. For the year ending June 1996, respondents expect GDP growth of 3.4 percent, down from 3.9 percent recorded in the last survey for the year to March 1996. A 3.4 percent increase in GDP is also expected for the year to June 1997.

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

A financial surplus of \$3.0 billion is expected in the year to June 1996 and June 1997. In the May survey, a surplus of \$3.1 billion was predicted for the year to June 1996.

Figure 2



- **The current account deficit is expected to diminish.**

The current account deficit for the year ended September 1995 is expected to be \$2.1 billion, compared with an expectation of \$1.7 billion for the year to June recorded in the previous survey. Respondents expect the current account deficit to narrow to \$1.8 billion over the year to June 1996.

- **Unemployment expectations have declined.**

The HLFS unemployment rate is expected to be 6.7 percent in the June quarter 1996. An improvement to 6.4 percent is expected by June 1997.

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

Figure 3

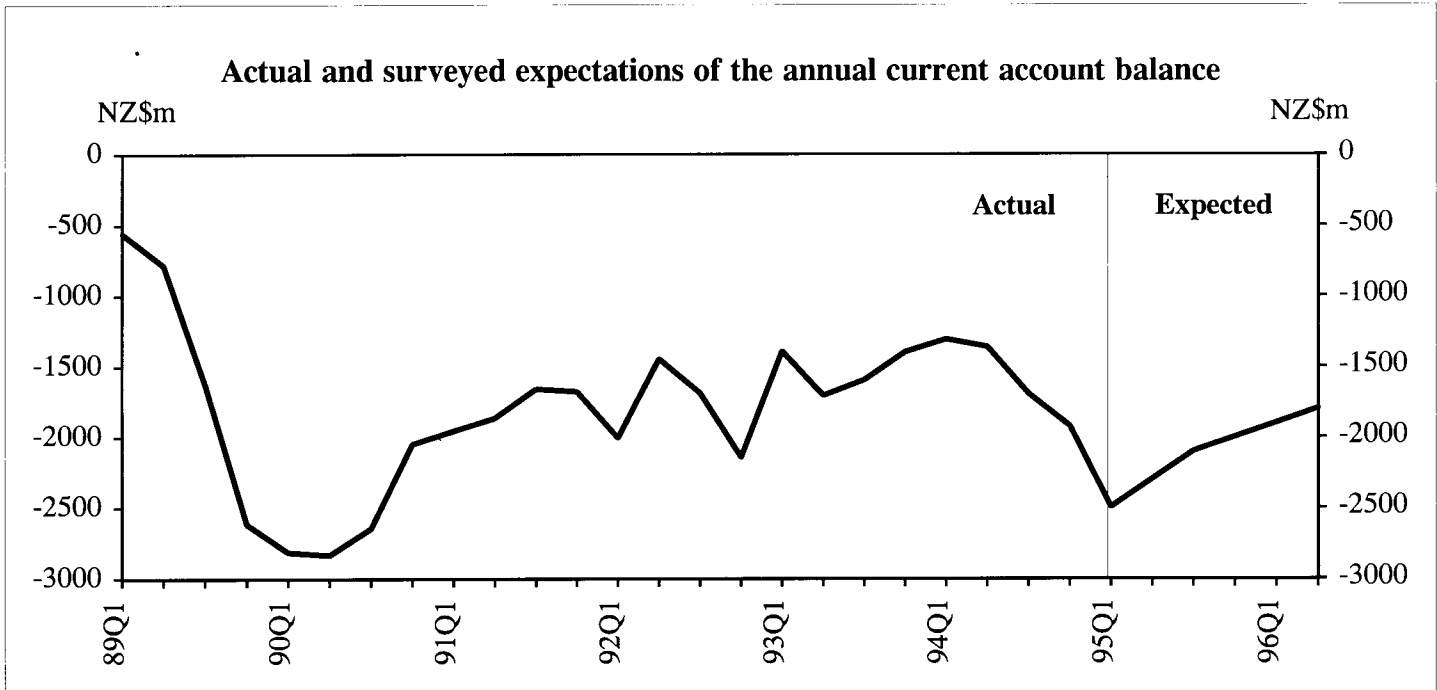
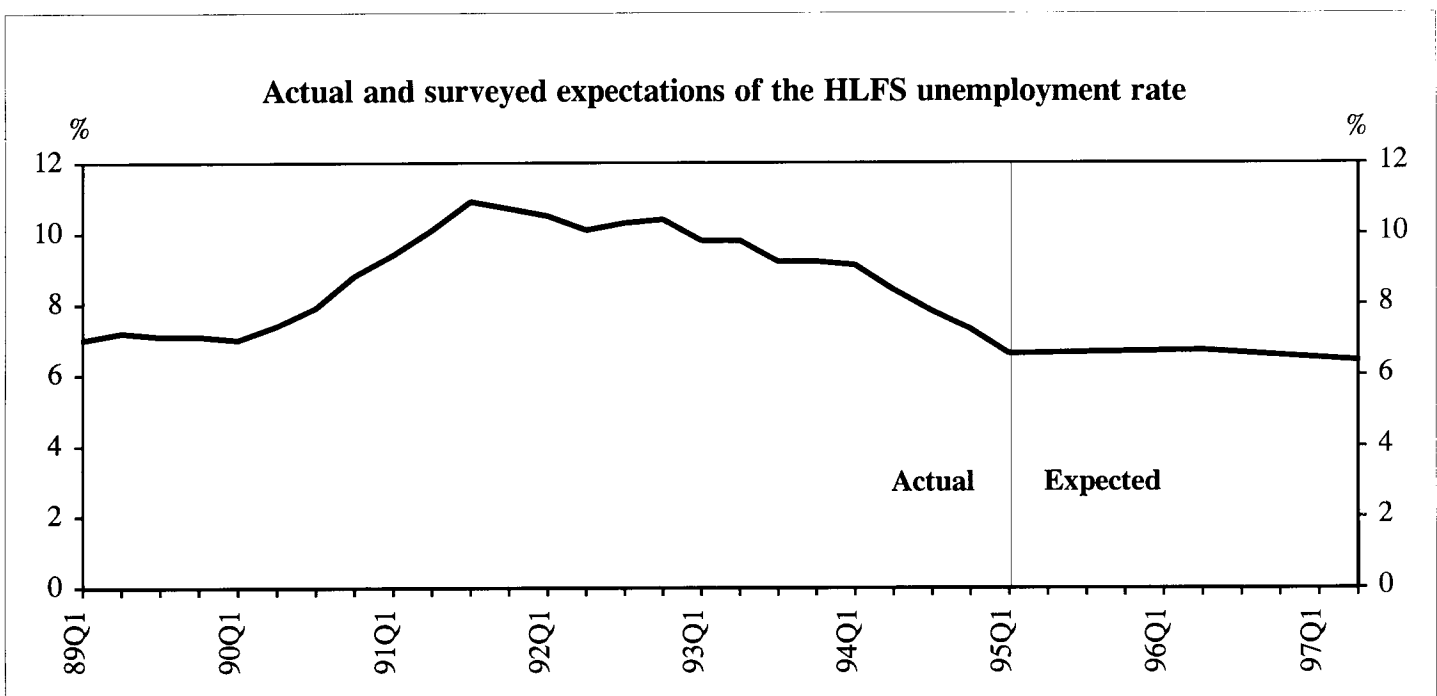


Figure 4



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
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
Sept. 1995	1.4	26.2	49.7	13.1	9.0	0.7	0.0

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
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
Sept. 1995	Dec. 1995	0.0	9.6	47.9	26.7	14.4	1.4	0.0
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. 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

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)							
	Sept. 1994	Dec. 1994	Mar. 1995	June 1995	Sept. 1995	Dec. 1995	Mar. 1996	June 1996
Sept. 1994	6.6			6.4				
Dec. 1994		6.6			6.3			
Mar. 1995			6.3			6.1		
June 1995				6.1			5.7	
Sept. 1995					6.5			5.9

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	Reference Quarter					
	(Mean)					
Qtr.	Sept. 1994	Dec. 1994	Mar. 1995	June 1995	Sept. 1995	Dec. 1995
Sept. 1994	0.6	0.5	0.7			
Dec. 1994		0.8	1.0	0.8		
Mar. 1995				0.9	0.7	
June 1995					0.7	
Sept. 1995						0.5

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

Survey	Reference Quarter								
	(Mean)								
Qtr.	June 1995	Sept. 1995	Dec. 1995	Mar. 1996	June 1996	Sept. 1996	Dec. 1996	Mar. 1997	June 1997
Sept. 1994	1.8				1.7				
Dec. 1994		2.5				2.0			
Mar. 1995			2.8				2.1		
June 1995				2.6				1.9	
Sept. 1995					2.0				1.8

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

Survey	Reference Quarter					
	(Mean)					
Qtr.	Dec. 1995	Mar. 1996	June 1996	Sept. 1996	Dec. 1996	Mar. 1997
Mar. 1995	1.9				1.7	
June 1995		1.8				1.6
Sept. 1995			1.8			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	Reference quarter							
	(Mean)							
Qtr.	Sept. 1994	Dec. 1994	Mar. 1995	June 1995	Sept. 1995	Dec. 1995	Mar. 1996	June 1996
Sept. 1994	7.0			7.0				
Dec. 1994		8.4			8.1			
Mar. 1995			9.4			8.9		
June 1995				9.1			8.2	
Sept. 1995					8.7			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)								
Qtr.	June 1995	Sept. 1995	Dec. 1995	Mar. 1996	June 1996	Sept. 1996	Dec. 1996	Mar. 1997	June 1997
June 1995	7.8			7.5					
Sept. 1995		7.8			7.4				

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 Qtr.	Reference Quarter (Mean)							
	Sept. 1994	Dec. 1994	Mar. 1995	June 1995	Sept. 1995	Dec. 1995	Mar. 1996	June 1996
<i>US Dollar</i>								
Sept. 1994		0.605		0.612				
Dec. 1994			0.623		0.628			
Mar. 1995				0.638		0.644		
June 1995					0.671		0.674	
Sept. 1995						0.664		0.665
<i>Australian Dollar</i>								
Sept. 1994		0.812		0.814				
Dec. 1994			0.825		0.828			
Mar. 1995				0.839		0.843		
June 1995					0.915		0.917	
Sept. 1995						0.905		0.910

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.	Reference Quarter (Mean)					
	Sept. 1994	Dec. 1994	Mar. 1995	June 1995	Sept 1995	Dec. 1995
Sept. 1994		57.8				
Dec. 1994			58.6			
Mar. 1995				60.2		
June 1995					61.3	
Sept. 1995						61.7

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.	Reference Quarter (Mean)					
	Mar. 1995	June 1995	Sept 1995	Dec. 1995	Mar. 1996	June 1996
Sept. 1994		58.4				
Dec. 1994			59.0			
Mar. 1995				60.7		
June 1995					61.8	
Sept. 1995						62.0

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 Qtr.	Reference Quarter (Mean)					
	June 1994	Sept. 1994	Dec. 1994	Mar. 1995	June 1995	Sept. 1995
Sept. 1994	1.2	1.1				
Dec. 1994		1.3	1.3			
Mar. 1995			1.5	1.3		
June 1995				1.1	0.9	
Sept. 1995					0.9	0.8

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 Qtr.	Reference Quarter					Reference Quarter (Mean)				
	June 1995	Sept. 1995	Dec. 1995	Mar. 1996	June 1996	Sept. 1996	Dec. 1996	Mar. 1997	June 1997	
Sept. 1994	4.2				3.9					
Dec. 1994		4.6				4.0				
Mar. 1995			4.7				4.0			
June 1995				3.9				3.5		
Sept. 1995					3.4				3.4	

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.	Reference Quarter					Reference Quarter (Mean)				
	Sept. 1994	Dec. 1994	Mar. 1995	June 1995	Sept. 1995	Dec. 1995	Mar. 1996	June 1996		
Sept. 1994	-1.2			-1.1						
Dec. 1994		-1.4			-1.0					
Mar. 1995			-1.8			-1.5				
June 1995				-1.7			-1.5			
Sept. 1995					-2.1			-1.8		

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

Survey Qtr.	Reference Quarter					Reference Quarter (Mean)				
	June 1995	Sept. 1995	Dec. 1995	Mar. 1996	June 1996	Sept. 1996	Dec. 1996	Mar. 1997	June 1997	
Sept. 1994		1.0				1.8				
Dec. 1994		1.4				2.1				
Mar. 1995		2.1				2.9				
June 1995		2.5				3.1				
Sept. 1995						3.0			3.0	

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					Reference Quarter (Mean)				
	June 1995	Sept. 1995	Dec. 1995	Mar. 1996	June 1996	Sept. 1996	Dec. 1996	Mar. 1997	June 1997	
Sept. 1994	2.1				2.3					
Dec. 1994		2.3				2.4				
Mar. 1995			2.6				2.6			
June 1995				2.6				2.6		
Sept. 1995					2.4				2.4	

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

Survey Qtr.	Reference Quarter								
	June 1995	Sept. 1995	Dec. 1995	Mar. 1996	June 1996	Sept. 1996	Dec. 1996	Mar. 1997	June 1997
Sept. 1994	8.8				8.2				
Dec. 1994		8.1				7.7			
Mar. 1995			7.6				7.2		
June 1995				7.2				6.9	
Sept. 1995					6.7				6.4