

Survey of Expectations

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This article presents the results from the December 1996 quarter Reserve Bank of New Zealand Survey of Expectations

I Introduction

The latest RBNZ Survey of Expectations was conducted on Wednesday 6 November 1996. Note that the results of the survey represent expectations held by respondents and in no way represent views or forecasts of the Reserve Bank.

II Sample composition

The response rate for this quarter was 57 percent, with 144 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	..50
Business	..57
Agriculture	..16
Labour	..9
Other	..12
TOTAL	144

III Summary of results

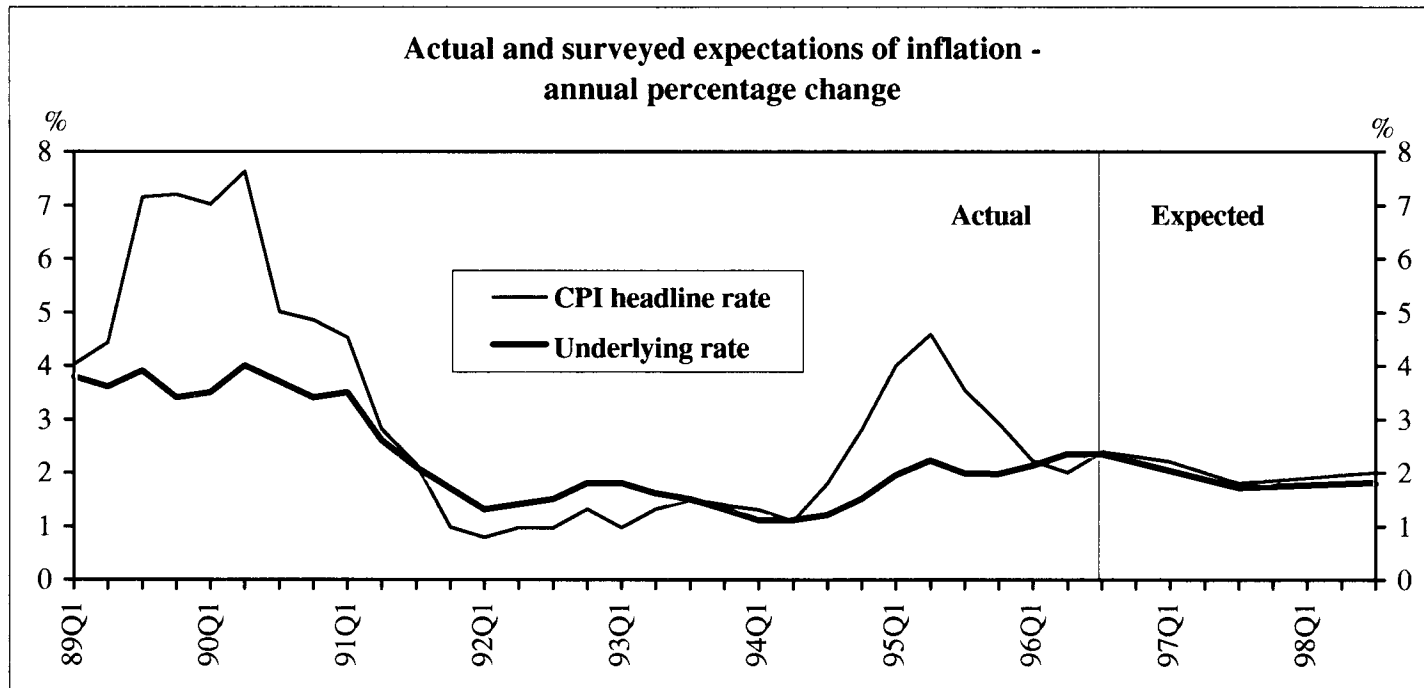
- **Monetary conditions are perceived to have loosened.**

Monetary conditions are perceived to have loosened since the August survey. A net 63 percent of respondents believed conditions to be tighter than neutral, compared with 89 percent in the August survey and 85 percent in the May survey. Respondents anticipate monetary conditions will ease further by the end of March 1996, with a net 32 percent of respondents expecting monetary conditions to be tighter than neutral at that time. By September 1997, 22 percent of respondents expect conditions to be tighter than neutral.

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

Respondents expect the Consumers' Price Index (CPI) to

Figure 1



rise by 0.5 percent in the December 1996 quarter (unchanged from the previous survey), and by 0.4 percent in the March 1997 quarter (implicitly 2.3 percent and 2.2 percent for the years to December and March respectively). For the year to September 1997, CPI inflation is expected to be 1.8 percent, compared with a 1.9 percent one-year-ahead expectation recorded in August. CPI inflation is expected to rise to 2.0 percent by September 1998. The two-year-ahead inflation expectation in the August survey was 1.7 percent.

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

Underlying inflation is expected to be 1.7 percent in the year to September 1997, and to rise to 1.8 percent by September 1998. The one and two-year-ahead underlying inflation expectations recorded in the August survey were 1.8 and 1.6 percent respectively.

- **One-year-ahead labour cost expectations are unchanged.**

The labour cost index is expected to increase by 2.6 percent in the year to September 1997 and by a further 2.6 percent in the following year. In the August survey, one and two-year-ahead expectations were 2.6 percent and 2.4 percent.

- **A fall in interest rates is expected next year.**

At the end of December 1996 the 90-day bank bill rate is expected to be 8.8 percent, a little lower than the rate prevailing at the time the survey was completed. Respondents expect the 90-day bank bill rate to have fallen to 8.2 percent by the end of September 1997. Ten-year Government Security yields are expected to be 7.3 percent by the end of September 1997. This implies an expected negative yield gap of 0.9 percentage points in September 1997.

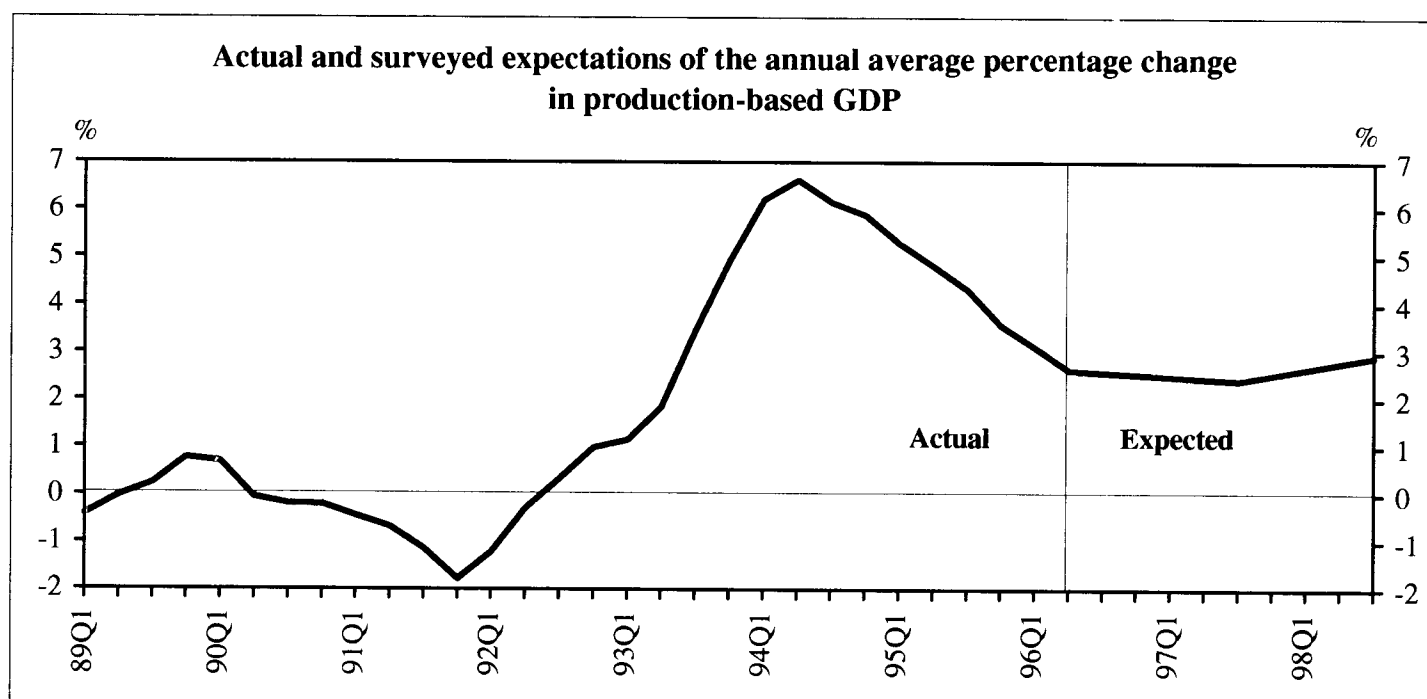
- **The trade-weighted exchange rate is expected to fall.**

The trade-weighted exchange rate index of the New Zealand dollar (TWI) is expected to be 66.7 at the end of March 1997, and to be 66.5 by the end of September 1997. The TWI at the time the survey was taken was 67.9.

- **GDP growth expectations are largely unchanged.**

Respondents expect real GDP to have increased by 0.5 percent in the September 1996 quarter and by 0.6 percent in the December 1996 quarter. For the year ending September 1997, respondents expect GDP growth of 2.4 percent, unchanged from the last survey. A 2.9 percent increase in GDP is expected for the year to September 1998.

Figure 2



- **The fiscal surplus is expected to diminish.**

A financial surplus of \$2.5 billion is expected in the year to June 1997, compared with \$2.8 billion in the August survey. A surplus of \$2.1 billion is predicted for the year to June 1998.

- **The current account deficit is expected to narrow slightly.**

The current account deficit for the year ended December 1996 is expected to be \$3.4 billion, a little lower than the

\$3.7 billion deficit recorded for the year to June 1996. Respondents expect the current account deficit to narrow to \$3.5 billion for the year to September 1997.

- **Unemployment is expected to increase slightly.**

The Household Labour Force Survey unemployment rate is expected to be 6.4 percent in both the September 1997 and the September 1998 quarters.

The next RBNZ Survey of Expectations is tentatively scheduled for 12 February 1996, with results to be published in the March 1996 issue of the Bulletin.

Figure 3

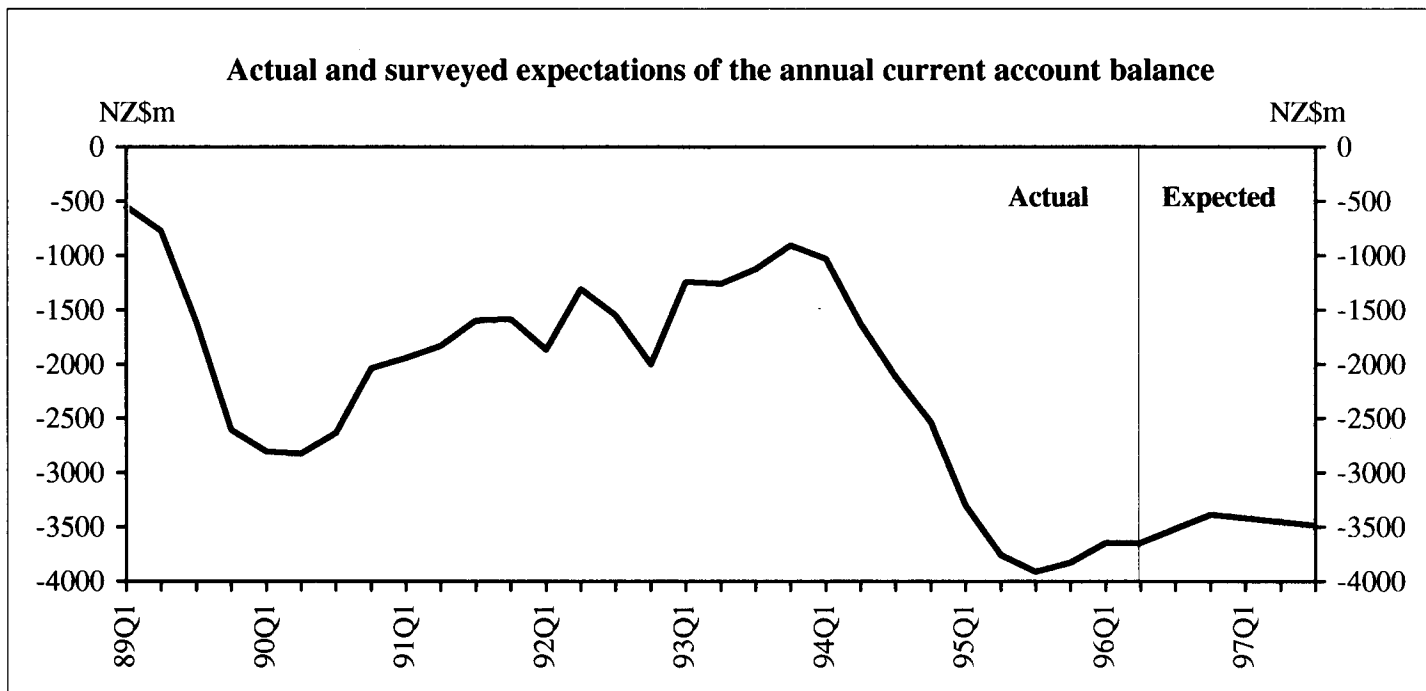
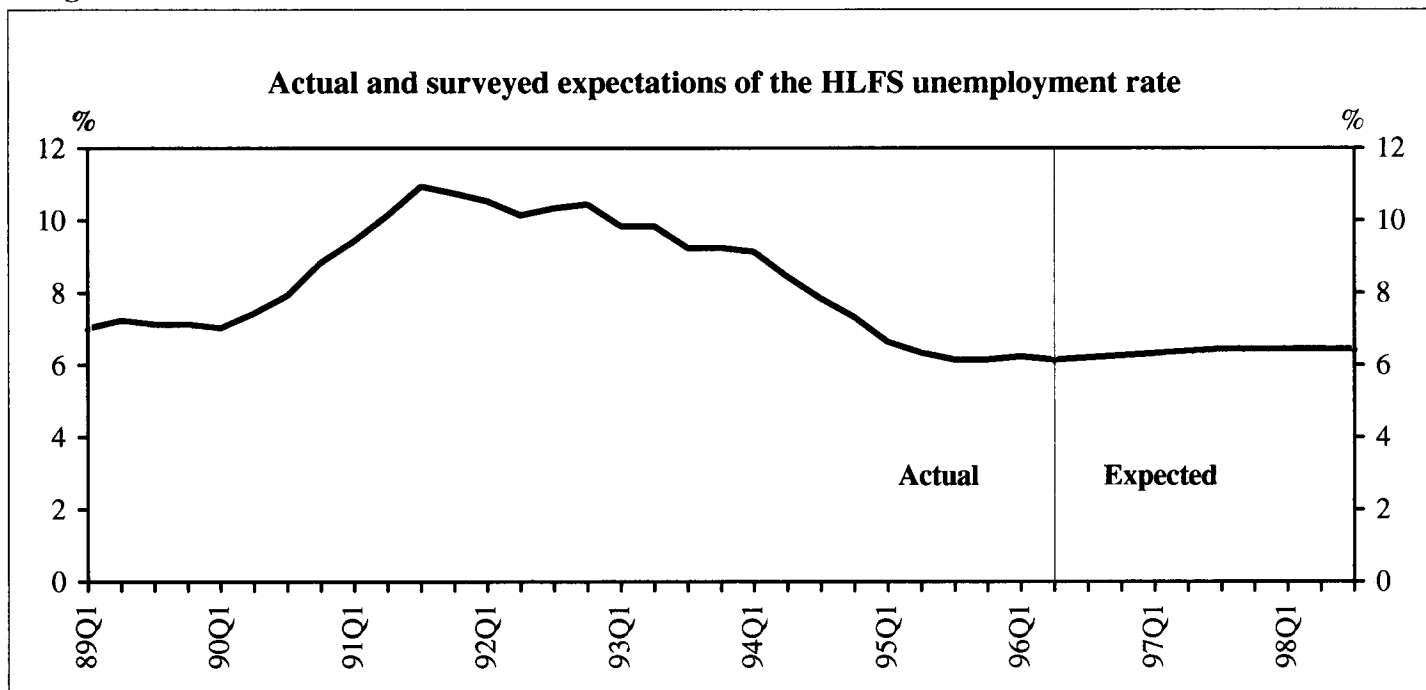


Figure 4



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 1995	0.0	14.7	47.2	20.2	16.6	0.6	0.6	
Mar 1996	7.2	33.8	38.8	14.4	5.0	0.7	0.0	
June 1996	19.7	42.3	29.6	2.1	2.8	2.8	0.7	
Sept 1996	11.0	44.5	37.0	4.1	2.7	0.7	0.0	
Dec 1996	9.9	31.7	33.8	12.7	11.3	0.7	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	7	
Dec 1995	Mar 1996	0.0	5.6	37.0	34.0	21.0	1.9	0.6	
Mar 1996	June 1996	2.2	25.9	46.0	20.1	5.0	0.7	0.0	
June 1996	Sept 1996	4.9	34.5	40.1	14.1	5.6	0.0	0.7	
Sept 1996	Dec 1996	2.7	21.9	48.6	19.2	7.5	0.0	0.0	
Dec 1996	Mar 1997	2.8	3.5	40.1	38.7	13.4	1.4	0.0	
Dec 1995	Sept 1996	0.0	7.5	30.6	38.8	20.0	2.5	0.6	
Mar 1996	Dec 1996	0.7	13.0	44.2	35.5	6.5	0.0	0.0	
June 1996	Mar 1997	0.7	10.0	42.9	35.7	8.6	1.4	0.7	
Sept 1996	June 1997	1.4	4.9	43.8	35.4	12.5	2.1	0.0	
Dec 1996	Sep 1997	2.8	4.3	34.0	39.7	17.0	2.1	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)							
	Dec 1995	Mar 1996	June 1996	Sept 1996	Dec 1996	Mar 1997	June 1997	Sep 1997
Dec 1995	6.8			6.0				
Mar 1996		7.1			6.0			
June 1996			8.2			6.5		
Sept 1996				8.7			7.1	
Dec 1996					8.7			8.0

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 <u>1995</u>	Mar <u>1996</u>	June <u>1996</u>	Sept <u>1996</u>	Dec <u>1996</u>	Mar <u>1997</u>
Dec 1995	0.5	0.4				
Mar 1996		0.5	0.4			
June 1996			0.5	0.5		
Sept 1996				0.6	0.5	
Dec 1996					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 <u>1996</u>	Dec <u>1996</u>	Mar <u>1997</u>	June <u>1997</u>	Sept <u>1997</u>	Dec <u>1997</u>	Mar <u>1998</u>	June <u>1998</u>	Sep <u>1998</u>
Dec 1995	1.8				1.9				
Mar 1996		1.9				1.8			
June 1996			1.8				1.7		
Sept 1996				1.9				1.7	
Dec 1996					1.8				2.0

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 <u>1996</u>	Mar <u>1997</u>	June <u>1997</u>	Sept <u>1997</u>	Dec <u>1997</u>	Mar <u>1998</u>	June <u>1998</u>	Sept <u>1998</u>	
Mar 1996	1.6				1.5				
June 1996		1.6				1.5			
Sept 1996			1.8				1.6		
Dec 1996				1.7				1.8	

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 <u>1995</u>	Mar <u>1996</u>	June <u>1996</u>	Sept <u>1996</u>	Dec <u>1996</u>	Mar <u>1997</u>	June <u>1997</u>	Sept <u>1997</u>
Dec 1995	8.2			7.8				
Mar 1996		8.2			8.0			
June 1996			9.5			8.7		
Sept 1996				9.8			8.7	
Dec 1996					8.8			8.2

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

Survey qtr	Reference quarter (mean)						
	Mar <u>1996</u>	June <u>1996</u>	Sept <u>1996</u>	Dec <u>1996</u>	Mar <u>1997</u>	June <u>1997</u>	Sep <u>1997</u>
Mar 1996	7.1			7.1			
June 1996		8.5			8.0		
Sept 1996			8.4			7.8	
Dec 1996				7.4			7.3

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)						
	Mar <u>1996</u>	June <u>1996</u>	Sept <u>1996</u>	Dec <u>1996</u>	Mar <u>1997</u>	June <u>1997</u>	Sep <u>1997</u>
<i>US dollar</i>							
Dec 1995	0.656		0.658				
Mar 1996		0.669		0.669			
June 1996			0.676		0.675		
Sept 1996				0.681		0.682	
Dec 1996					0.696		0.693
<i>Australian dollar</i>							
Dec 1995	0.876		0.882				
Mar 1996		0.896		0.900			
June 1996			0.860		0.860		
Sept 1996				0.876		0.875	
Dec 1996					0.888		0.883

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)				
	Mar <u>1996</u>	June <u>1996</u>	Sept <u>1996</u>	Dec <u>1996</u>	Mar <u>1997</u>
Dec 1995	62.1				
Mar 1996		64.5			
June 1996			64.2		
Sept 1996				65.0	
Dec 1996					66.7

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)				
	Sept <u>1996</u>	Dec <u>1996</u>	Mar <u>1997</u>	June <u>1997</u>	Sep <u>1997</u>
Dec 1995	62.4				
Mar 1996		64.5			
June 1996			64.3		
Sept 1996				64.9	
Dec 1996					66.5

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)				
	Dec <u>1995</u>	Mar <u>1996</u>	June <u>1996</u>	Sept <u>1996</u>	Dec <u>1996</u>
Dec 1995	0.7				
Mar 1996	0.6	0.7			
June 1996		0.5	0.5		
Sept 1996			0.5	0.5	
Dec 1996				0.5	0.6

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 (mean)								
	Sept <u>1996</u>	Dec <u>1996</u>	Mar <u>1997</u>	June <u>1997</u>	Sept <u>1997</u>	Dec <u>1997</u>	Mar <u>1998</u>	June <u>1998</u>	Sep <u>1998</u>
Dec 1995	3.0				3.5				
Mar 1996		3.0				3.4			
June 1996			2.6				3.2		
Sept 1996				2.4				3.0	
Dec 1996					2.4				2.9

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 (mean)							
	Dec <u>1995</u>	Mar <u>1996</u>	June <u>1996</u>	Sept <u>1996</u>	Dec <u>1996</u>	Mar <u>1997</u>	June <u>1997</u>	Sep <u>1997</u>
Dec 1995	-2.4			-2.0				
Mar 1996		-2.9			-2.7			
June 1996			-3.5			-3.4		
Sept 1996				-3.4			-3.3	
Dec 1996					-3.4			-3.5

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)									
	June <u>1996</u>	Sept <u>1996</u>	Dec <u>1996</u>	Mar <u>1997</u>	June <u>1997</u>	Sept <u>1997</u>	Dec <u>1997</u>	Mar <u>1998</u>	June <u>1998</u>	Sept <u>1998</u>
Dec 1995	3.0				3.1					
Mar 1996	2.9				2.9					
June 1996	3.3				2.6					
Sept 1996					2.8					2.5
Dec 1996					2.5					2.1

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 <u>1996</u>	Dec <u>1996</u>	Mar <u>1997</u>	June <u>1997</u>	Sept <u>1997</u>	Dec <u>1997</u>	Mar <u>1998</u>	June <u>1998</u>	Sept <u>1998</u>	Dec <u>1998</u>
Dec 1995	2.4				2.4					
Mar 1996		2.4				2.4				
June 1996			2.6				2.6			
Sept 1996				2.6				2.4		
Dec 1996					2.6					2.6

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

Survey qtr	Reference quarter (mean)									
	Sept <u>1996</u>	Dec <u>1996</u>	Mar <u>1997</u>	June <u>1997</u>	Sept <u>1997</u>	Dec <u>1997</u>	Mar <u>1998</u>	June <u>1998</u>	Sept <u>1998</u>	Dec <u>1998</u>
Dec 1995	6.5				6.2					
Mar 1996		6.3				6.1				
June 1996			6.4				6.4			
Sept 1996				6.6				6.4		
Dec 1996					6.4					6.4