

Survey of expectations

Graham Howard, Economics Department

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

Introduction

The latest RBNZ Survey of Expectations was conducted on Wednesday 8 May 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.

Sample composition

The response rate for this quarter was 58 percent, with 146 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	..	51
Business	..	55
Agriculture	..	22
Labour	..	11
Other	..	7
TOTAL		146

Summary of results

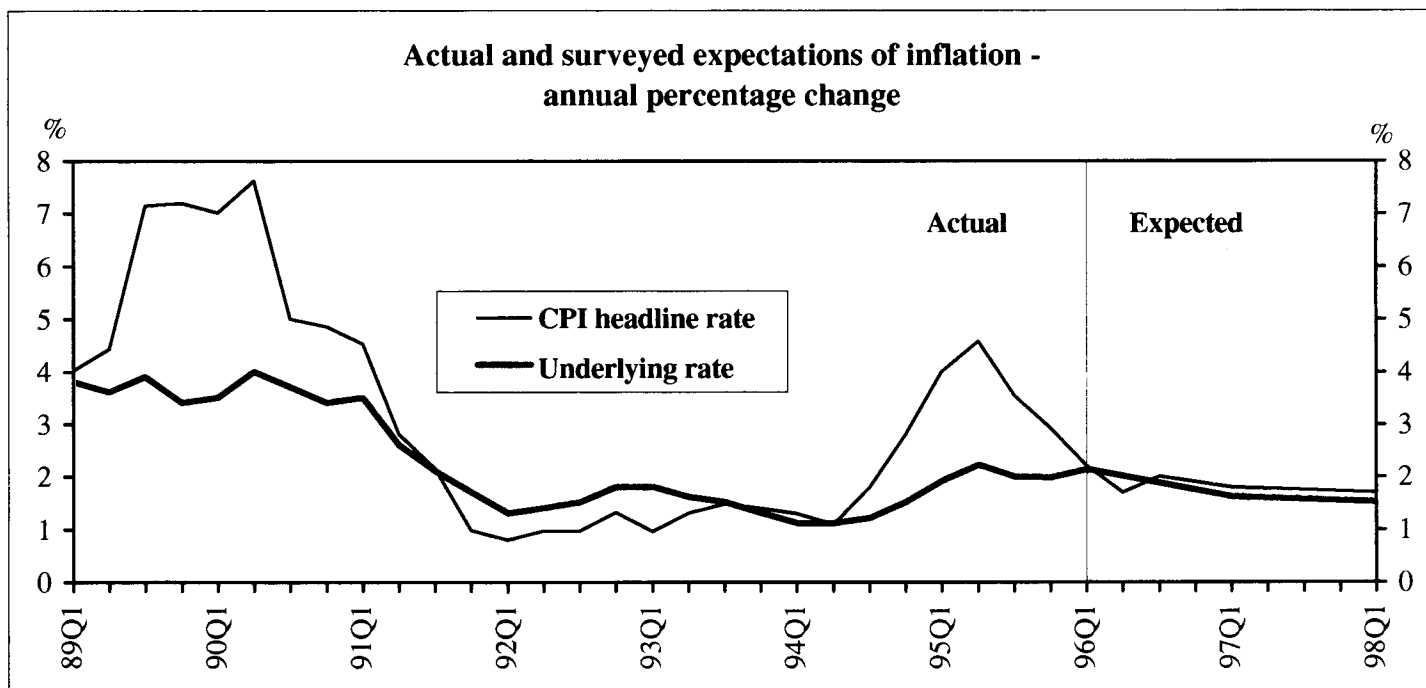
- **Monetary conditions are perceived to have tightened.**

Monetary conditions are perceived to have tightened further since the February survey, with a net 85 percent of respondents believing conditions to be tighter than neutral. The corresponding figure for the February survey was 74 percent, while for the November survey the figure was 44 percent. Respondents anticipate monetary conditions will have eased somewhat by the end of September 1996, with a net 73 percent of respondents expecting monetary conditions to be tighter than neutral at that time. By March 1997, 43 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 rise by 0.5 percent in the June 1996 quarter (up from 0.4 percent in the previous survey), and also by 0.5 percent in the September 1996 quarter (implicitly, 1.7 percent and 2.0 percent in the years to June and September respectively). For the year to March 1997, CPI inflation is expected to be 1.8 percent, compared with a 1.9 percent one-

Figure 1



year-ahead expectation recorded in February. CPI inflation is expected to have fallen to 1.7 percent by March 1998.

- **Underlying inflation expectations are unchanged.**

Underlying inflation is expected to be 1.6 percent in the year to March 1997, and to reduce marginally to 1.5 percent by March 1998, unchanged from the one and two year-ahead underlying inflation expectations recorded in the February survey.

- **Labour cost expectations have risen a little.**

The labour cost index is expected to rise by 2.6 percent in both the years to March 1997 and March 1998, up from 2.4 percent recorded in the February survey.

- **Interest rates are expected to fall.**

At the end of June 1996, the 90 Day Bank Bill rate is expected to be 9.5 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 8.7 percent by the end of March 1997. 10-year Government Security yields are expected to be 8.0 percent by the end of March 1997. This implies an expected negative yield gap of 0.7 percent.

- **The trade weighted exchange rate is not expected to increase any further over the next year.**

The trade-weighted exchange rate index of the New Zealand dollar (TWI) is expected to be at 64.2 at the end of September 1996 and to be at 64.3 by the end of March 1997 quarter.

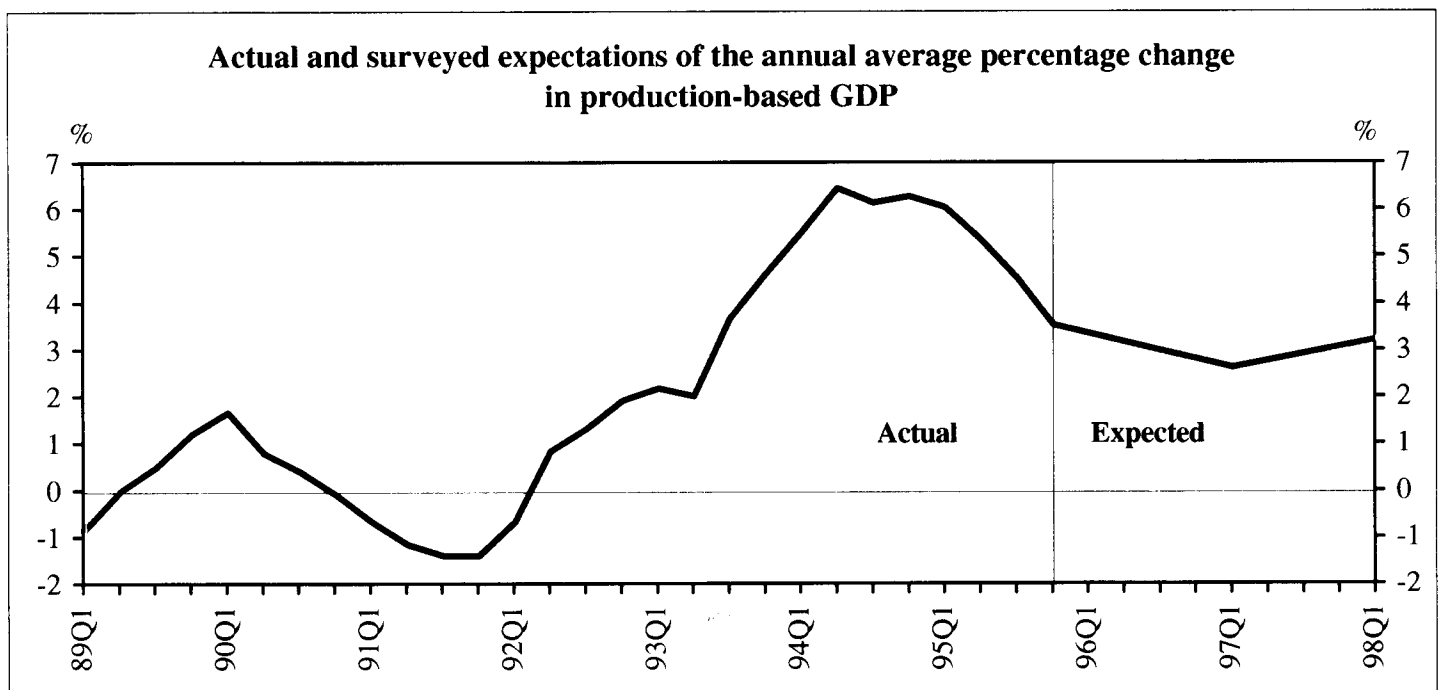
- **GDP growth expectations have fallen.**

Respondents expect real GDP to have increased by 0.5 percent in the March 1996 quarter and also by 0.5 percent in the June 1996 quarter. For the year ending March 1997, respondents expect GDP growth of 2.6 percent, down from the 3 percent expected for the year to December 1996 in the last survey. A 3.2 percent increase in GDP is expected for the year to March 1998.

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

A financial surplus of \$3.3 billion is expected in the year to June 1996, compared with 2.9 billion in the February survey. A surplus of \$2.6 billion is predicted for the year to June 1997.

Figure 2



- A reduction in the current account deficit is expected.

The current account deficit for the year ended June 1996 is expected to be \$3.5 billion, a little lower than the current level. This compares with an expectation of \$2.9 billion for the year to March recorded in the previous survey. Respondents expect the current account deficit to narrow to \$3.4 billion over the year to March 1997.

- Unemployment is expected to increase slightly.

The HLFS unemployment rate is expected to be 6.4 per cent in both the March 1997 and March 1998 quarters.

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

Figure 3

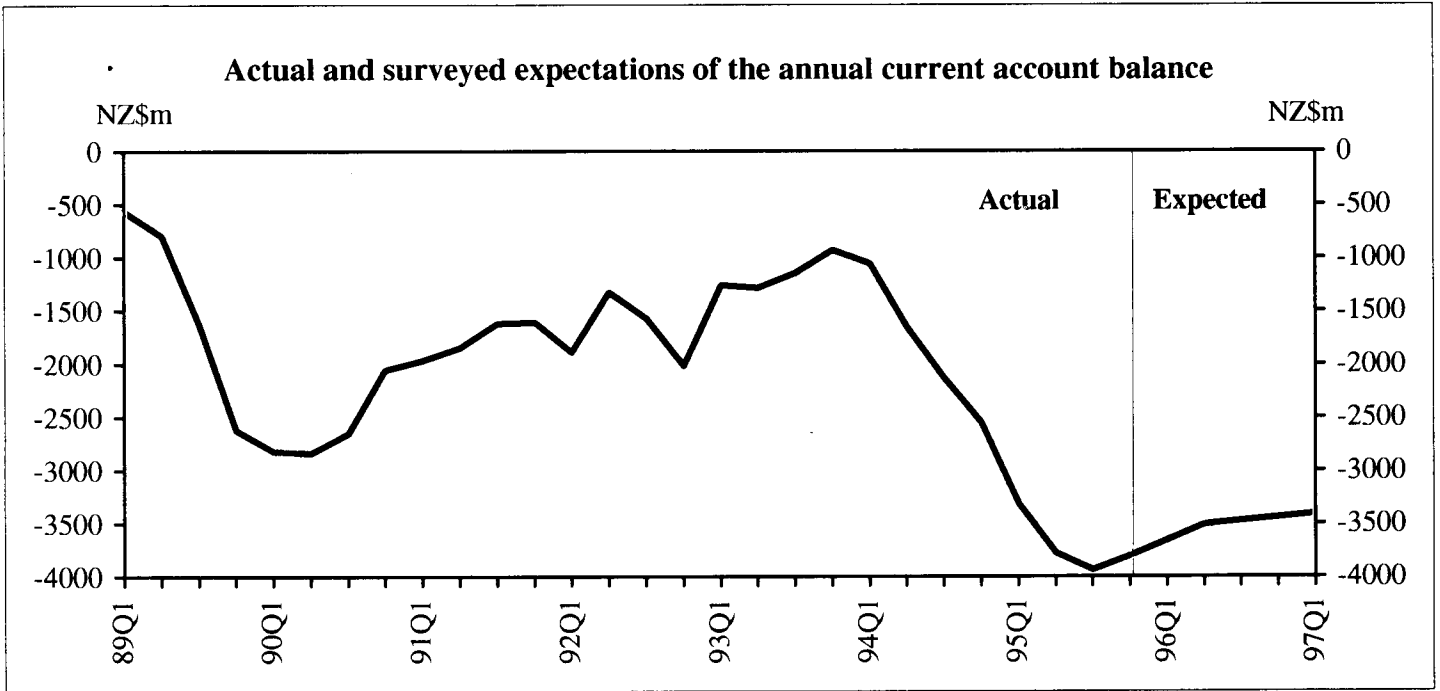
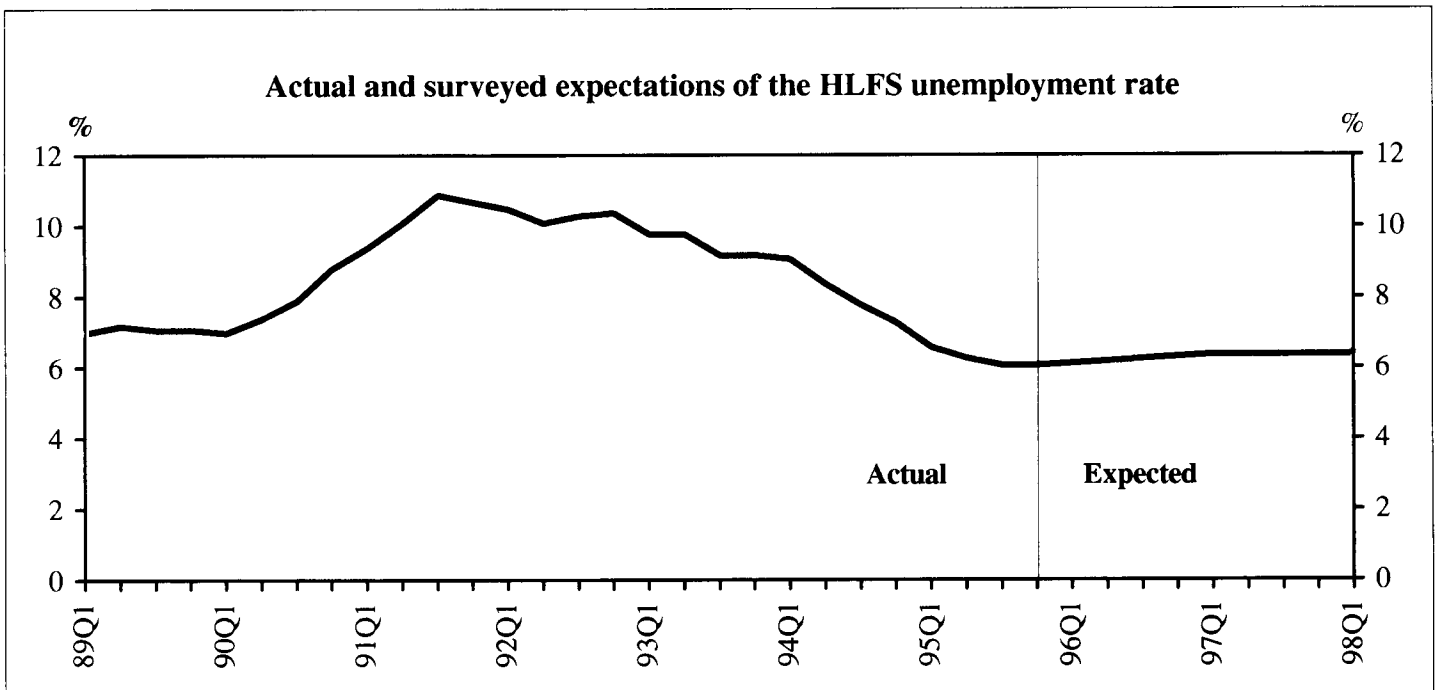


Figure 4



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	
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	
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	

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	
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	
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	
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	
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	

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)							
	June 1995	Sept. 1995	Dec. 1995	Mar. 1996	June 1996	Sept. 1996	Dec. 1996	March 1997
June 1995	6.1			5.7				
Sept. 1995		6.5			5.9			
Dec. 1995			6.8			6.0		
Mar. 1996				7.1			6.0	
June 1996					8.2			6.5

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.	June	Sept.	Dec.	Mar.	June	Sept.
	<u>1995</u>	<u>1995</u>	<u>1995</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>
June 1995	0.9	0.7				
Sept. 1995		0.7	0.5			
Dec. 1995			0.5	0.4		
Mar. 1996				0.5	0.4	
June 1996					0.5	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.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.
	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1997</u>	<u>1997</u>	<u>1997</u>	<u>1997</u>	<u>1998</u>
June 1995	2.6				1.9				
Sept. 1995		2.0				1.8			
Dec. 1995			1.8				1.9		
Mar. 1996				1.9				1.8	
June 1996					1.8				1.7

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.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	
	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1997</u>	<u>1997</u>	<u>1997</u>	<u>1997</u>	<u>1998</u>	
Sept. 1995	1.8					1.6			
Dec. 1995		1.5					1.6		
Mar. 1996			1.6				1.5		
June 1996				1.6				1.5	

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.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.	
	<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	9.1			8.2					
Sept. 1995		8.7			7.8				
Dec. 1995			8.2			7.8			
Mar. 1996				8.2			8.0		
June 1996					9.5			8.7	

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)						
	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.
Qtr.	<u>1995</u>	<u>1995</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1997</u>
Sept. 1995	7.8			7.4			
Dec. 1995		7.3			7.1		
Mar. 1996			7.1			7.1	
June 1996				8.5			8.0

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)						
	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.
Qtr.	<u>1995</u>	<u>1995</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1997</u>
<i>US Dollar</i>							
June 1995	0.671		0.674				
Sept. 1995		0.664		0.665			
Dec. 1995			0.656		0.658		
Mar. 1996				0.669		0.669	
June 1996					0.676		0.675
<i>Australian Dollar</i>							
June 1995	0.915		0.917				
Sept. 1995		0.905		0.910			
Dec. 1995			0.876		0.882		
Mar. 1996				0.896		0.900	
June 1996					0.860		0.860

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)				
	Sept.	Dec.	Mar.	June	Sept.
Qtr.	<u>1995</u>	<u>1995</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>
June 1995	61.3				
Sept. 1995		61.7			
Dec. 1995			62.1		
Mar. 1996				64.5	
June 1996					64.2

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

Survey	Reference Quarter				
	(Mean)				
Qtr.	Mar.	June	Sept.	Dec.	Mar.
	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1997</u>
June 1995	61.8				
Sept. 1995		62.0			
Dec. 1995			62.4		
Mar. 1996				64.5	
June 1996					64.3

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.	June	Sept.	Dec.	Mar	June
	<u>1995</u>	<u>1995</u>	<u>1995</u>	<u>1996</u>	<u>1996</u>
June 1995	0.9				
Sept. 1995	0.9	0.8			
Dec. 1995		0.7	0.7		
Mar. 1996			0.6	0.7	
June 1996				0.5	0.5

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.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.
	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1997</u>	<u>1997</u>	<u>1997</u>	<u>1997</u>	<u>1998</u>
June 1995	3.9				3.5				
Sept. 1995		3.4				3.4			
Dec. 1995			3.0				3.5		
Mar. 1996				3.0				3.4	
June 1996					2.6				3.2

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.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	Mar.
	<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	-1.7			-1.5				
Sept. 1995		-2.1			-1.8			
Dec. 1995			-2.4			-2.0		
Mar. 1996				-2.9			-2.7	
June 1996					-3.5			-3.4

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 1996	Sept. 1996	Dec. 1996	Mar. 1997	June 1997
June 1995	3.1				
Sept. 1995	3.0				3.0
Dec. 1995	3.0				3.1
Mar. 1996	2.9				2.9
June 1996	3.3				2.6

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)								
	Mar. 1996	June 1996	Sept. 1996	Dec. 1996	Mar. 1997	June 1997	Sept. 1997	Dec. 1997	Mar. 1998
June 1995	2.6				2.6				
Sept. 1995		2.4				2.4			
Dec. 1995			2.4				2.4		
Mar. 1996				2.4				2.4	
June 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)								
	Mar. 1996	June 1996	Sept. 1996	Dec. 1996	Mar. 1997	June 1997	Sept. 1997	Dec. 1997	Mar. 1998
June 1995	7.2				6.9				
Sept. 1995		6.7				6.4			
Dec. 1995			6.5				6.2		
Mar. 1996				6.3				6.1	
June 1996					6.4				6.4