

Survey of Expectations

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

I Introduction

The latest RBNZ Survey of Expectations was conducted on Wednesday 7 February 1996. 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 55 percent, with 141 of the 256 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	..	52
Agriculture	..	17
Labour	..	12
Other	..	11
TOTAL		141

III Summary of results

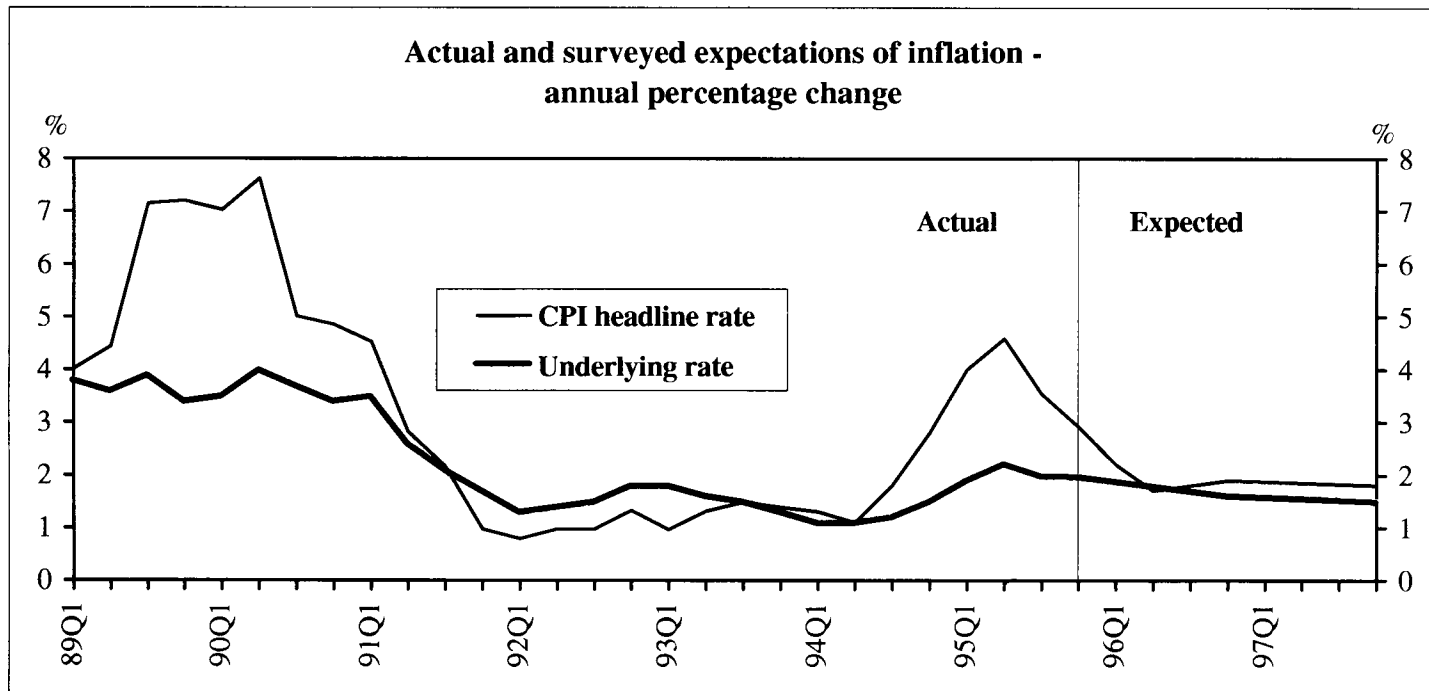
- **Monetary conditions are perceived to have tightened.**

Monetary conditions are perceived to have tightened since our November survey, with a net 74.1 percent of respondents believing conditions to be tighter than neutral. The corresponding figure for the November survey was 44.1 percent, while for the August survey the figure was 68 percent. Respondents anticipate monetary conditions will have eased slightly by the end of June 1996, with a net 68.4 percent of respondents expecting monetary conditions to be tighter than neutral at that time. By December 1996, 51.4 percent of respondents expect conditions to be tighter than neutral.

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

Respondents expect the Consumers' Price Index (CPI) to rise by 0.5 percent in the March 1996 quarter (up from 0.4 percent in the previous survey), and by 0.4 percent in the June 1996 quarter (implicitly, 2.2 percent and 1.7

Figure 1



percent in the years to March and June respectively). For the year to December 1996, CPI inflation is expected to be 1.9 percent, compared with a 1.8 percent one-year-ahead expectation recorded in November. CPI inflation is expected to have fallen to 1.8 percent by December 1997.

- **Underlying inflation expectations are little changed.**

Underlying inflation is expected to be 1.6 percent in the year to December 1996, and to reduce marginally to 1.5 percent by the end of December 1997. The one and two year ahead underlying inflation expectations recorded in the November survey were 1.5 percent and 1.6 percent respectively.

- **Labour cost expectations are unchanged.**

The labour cost index is expected to rise by 2.4 percent in both the years to December 1996 and December 1997, unchanged from both the November and the August surveys.

- **Interest rate expectations are little changed.**

At the end of March 1996, the 90 day bank bill rate is expected to be 8.2 percent, a little lower than the rate

prevailing at the time the survey was completed. By December 1996 respondents expect the 90 day bank bill rate to have fallen to 8.0 percent, slightly higher than the one year-ahead expectation recorded in November. Respondents expect the 10 year Government Security yield to be 7.1 percent by the end of December 1996. This implies an expected negative yield gap of 0.9 percent.

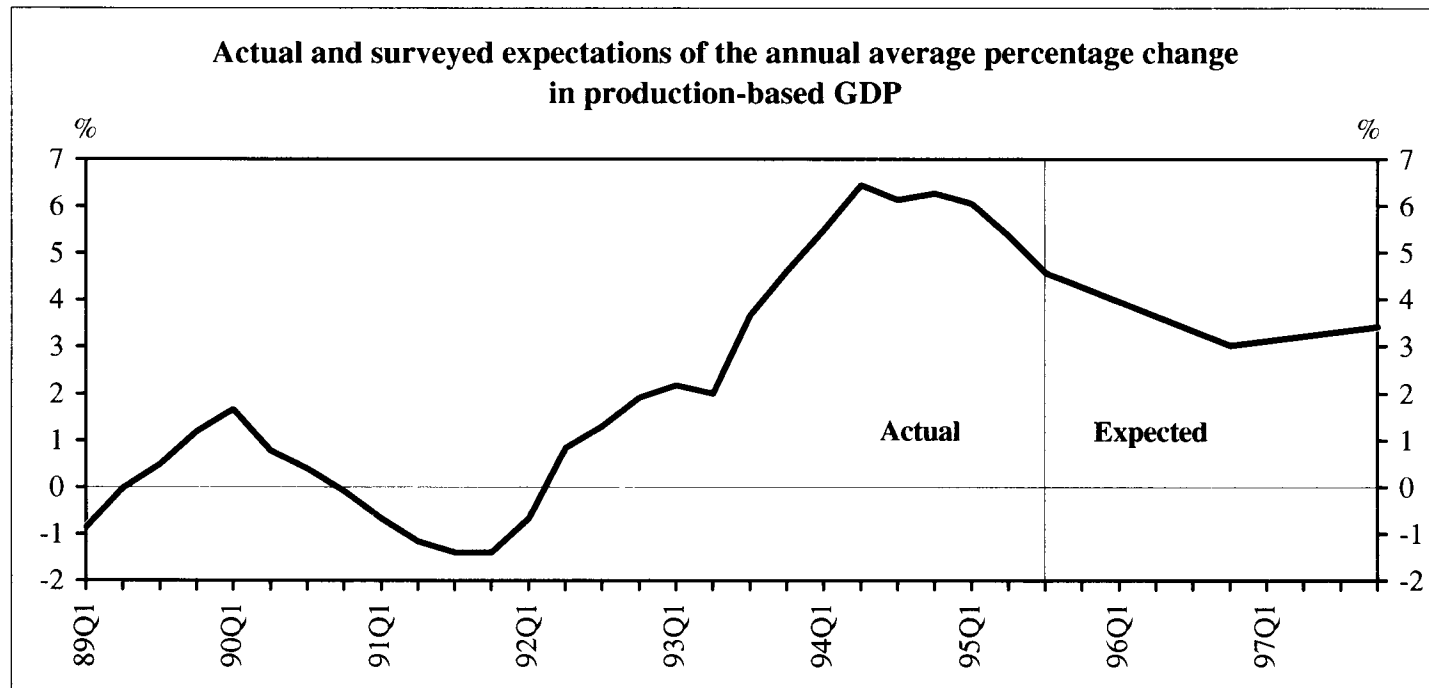
- **The trade weighted exchange rate is not expected to increase any further this year.**

The trade-weighted exchange rate index of the New Zealand dollar (TWI) is expected to be at 64.5 at the end of June 1996 and to also be at that level at the end of December 1996.

- **One year ahead GDP growth is little changed.**

Respondents expect real GDP to have increased by 0.6 percent in the December 1995 quarter and expect an increase of 0.7 percent for the March 1996 quarter. For the year ending December 1996, respondents expect GDP growth of 3.0 percent, unchanged from the last survey (which referred to the year to September 1996). A 3.4 percent increase in GDP is expected for the year to December 1997.

Figure 2



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

A financial surplus of \$2.9 billion is expected in the year to June 1996, compared with \$3.0 billion in the November survey. A surplus of \$2.9 billion is also predicted for the year to June 1997.

- **A reduction in the current account deficit is expected.**

The current account deficit for the year ended March 1996 is expected to be \$2.9 billion, significantly smaller than the current account deficit for the year to September 1995

which was \$3.7 billion. Respondents expect the current account deficit to narrow to \$2.7 billion over the year to December 1996.

- **Unemployment is expected to increase slightly and then fall.**

The HLFS unemployment rate is expected to be 6.3 percent in the December quarter 1996. A small improvement to 6.1 percent is expected by December 1997.

The next RBNZ Survey of Expectations is tentatively scheduled for 8 May 1996, with results to be published in the June 1996 issue of the Bulletin.

Figure 3

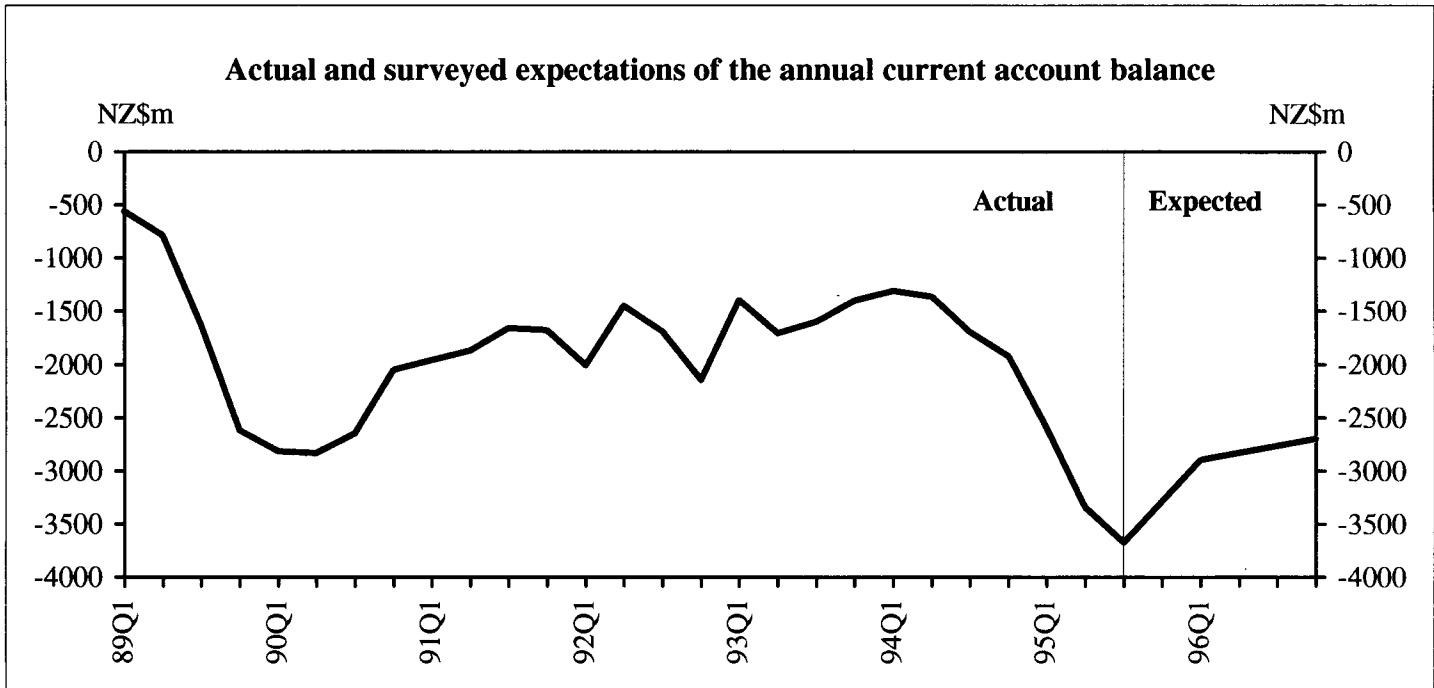
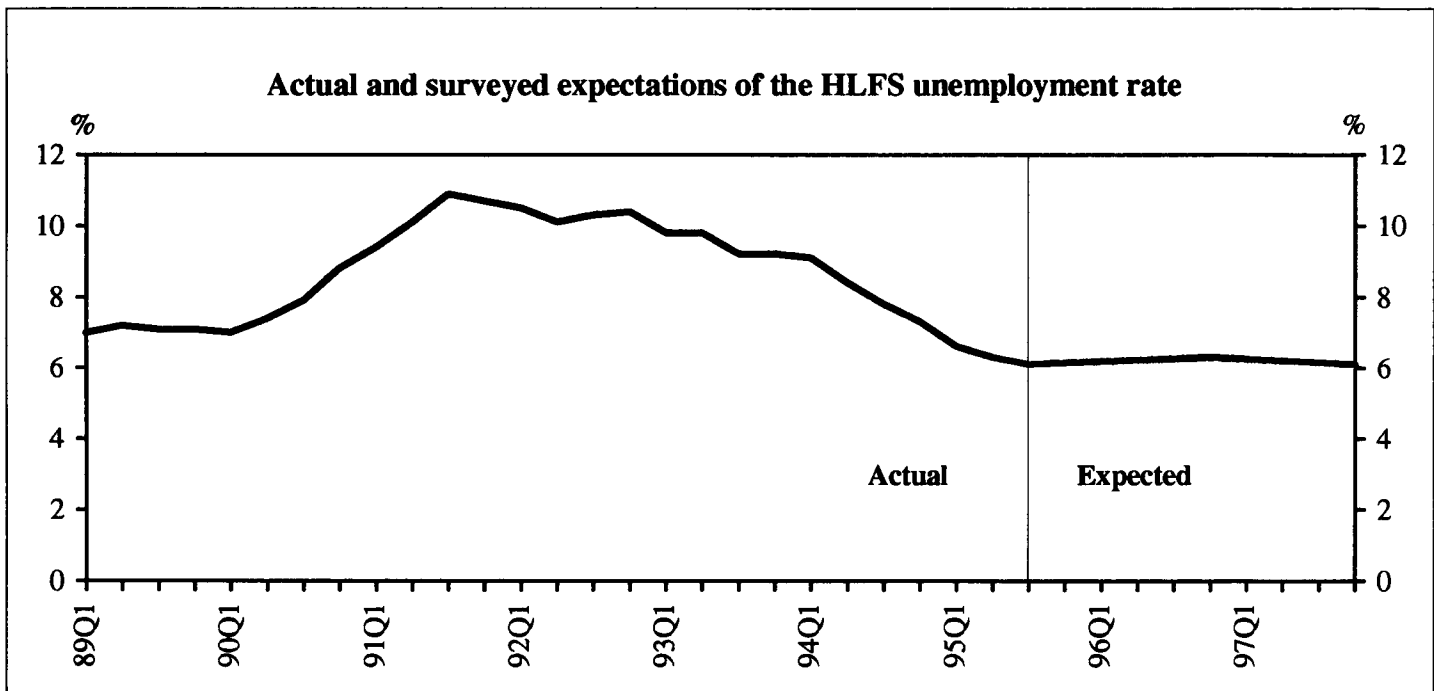


Figure 4



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	
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	
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	

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	
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	
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	
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	
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	

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)							
	Mar. 1995	June 1995	Sept. 1995	Dec. 1995	Mar. 1996	June 1996	Sept. 1996	Dec. 1996
Mar. 1995	6.3			6.1				
June 1995		6.1			5.7			
Sept. 1995			6.5			5.9		
Dec. 1995				6.8			6.0	
Mar. 1996					7.1			6.0

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)					
	Mar.	June	Sept.	Dec.	Mar.	June
	<u>1995</u>	<u>1995</u>	<u>1995</u>	<u>1995</u>	<u>1996</u>	<u>1996</u>
Mar. 1995	1.0	0.8				
June 1995		0.9	0.7			
Sept. 1995			0.7	0.5		
Dec. 1995				0.5	0.4	
Mar. 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)								
	Dec.	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.
	<u>1995</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1997</u>	<u>1997</u>	<u>1997</u>	<u>1997</u>
Mar. 1995	2.8				2.1				
June 1995		2.6				1.9			
Sept. 1995			2.0				1.8		
Dec. 1995				1.8				1.9	
Mar. 1996					1.9				1.8

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)								
	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	
	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1997</u>	<u>1997</u>	<u>1997</u>	<u>1997</u>	
June 1995	1.8				1.6				
Sept. 1995		1.8				1.6			
Dec. 1995			1.5				1.6		
Mar. 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 qtr.	Reference quarter (Mean)								
	Mar.	June	Sept.	Dec.	Mar.	June	Sept.	Dec.	
	<u>1995</u>	<u>1995</u>	<u>1995</u>	<u>1995</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	
Mar. 1995	9.4			8.9					
June 1995		9.1			8.2				
Sept. 1995			8.7			7.8			
Dec. 1995				8.2			7.8		
Mar. 1996					8.2			8.0	

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)						
	June <u>1995</u>	Sept. <u>1995</u>	Dec. <u>1995</u>	Mar. <u>1996</u>	June <u>1996</u>	Sept. <u>1996</u>	Dec. <u>1996</u>
June 1995	7.8			7.5			
Sept. 1995		7.8			7.4		
Dec. 1995			7.3			7.1	
Mar. 1996				7.1			7.1

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)						
	June <u>1995</u>	Sept. <u>1995</u>	Dec. <u>1995</u>	Mar. <u>1996</u>	June <u>1996</u>	Sept. <u>1996</u>	Mar. <u>1996</u>
<i>US dollar</i>							
Mar. 1995	0.638		0.644				
June 1995		0.671		0.674			
Sept. 1995			0.664		0.665		
Dec. 1995				0.656		0.658	
Mar. 1996					0.669		0.669
<i>Australian dollar</i>							
Mar. 1995	0.839		0.843				
June 1995		0.915		0.917			
Sept. 1995			0.905		0.910		
Dec. 1995				0.876		0.882	
Mar. 1996					0.896		0.900

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)				
	June <u>1995</u>	Sept. <u>1995</u>	Dec. <u>1995</u>	Mar. <u>1996</u>	June <u>1996</u>
Mar. 1995	60.2				
June 1995		61.3			
Sept. 1995			61.7		
Dec. 1995				62.1	
Mar. 1996					64.5

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)				
	Dec. <u>1995</u>	Mar. <u>1996</u>	June <u>1996</u>	Sept. <u>1996</u>	Dec. <u>1996</u>
Mar. 1995	60.7				
June 1995		61.8			
Sept. 1995			62.0		
Dec. 1995				62.4	
Mar. 1996					64.5

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)				
	Mar. <u>1995</u>	June <u>1995</u>	Sept. <u>1995</u>	Dec. <u>1995</u>	Mar <u>1996</u>
Mar. 1995	1.3				
June 1995	1.1	0.9			
Sept. 1995		0.9	0.8		
Dec. 1995			0.7	0.7	
Mar. 1996				0.6	0.7

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)								
	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. <u>1997</u>
Mar. 1995	4.7				4.0				
June 1995		3.9				3.5			
Sept. 1995			3.4				3.4		
Dec. 1995				3.0				3.5	
Mar. 1996					3.0				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 (Mean)							
	Mar. <u>1995</u>	June <u>1995</u>	Sept. <u>1995</u>	Dec. <u>1995</u>	Mar. <u>1996</u>	June <u>1996</u>	Sept. <u>1996</u>	Dec. <u>1996</u>
Mar. 1995	-1.8			-1.5				
June 1995		-1.7			-1.5			
Sept. 1995			-2.1			-1.8		
Dec. 1995				-2.4			-2.0	
Mar. 1996					-2.9			-2.7

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)							
	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>	June <u>1997</u>
Mar. 1995			2.9					
June 1995			3.1					
Sept. 1995			3.0				3.0	
Dec. 1995			3.0				3.1	
Mar. 1996			2.9				2.9	

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

Q.16 What is your expectation of the official HLFS unemployment rate 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>	Mar. <u>1997</u>	June <u>1997</u>	Sept. <u>1997</u>	Dec. <u>1997</u>
Mar. 1995	7.6				7.2				
June 1995		7.2				6.9			
Sept. 1995			6.7				6.4		
Dec. 1995				6.5				6.2	
Mar. 1996					6.3				6.1