

Survey of expectations

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This article presents the results from the March 1997 quarter Reserve Bank of New Zealand survey of expectations

I Introduction

The latest RBNZ survey of expectations was conducted on Wednesday 12 February 1997. Note that the results of the survey represent expectations held by respondents and in no way represent the views or forecasts of the Reserve Bank.

II Sample composition

The response rate for this quarter was 56 percent, with 141 of the 250 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	..	45
Agriculture	..	22
Labour	..	11
Other	..	12
TOTAL		141

III Summary of results

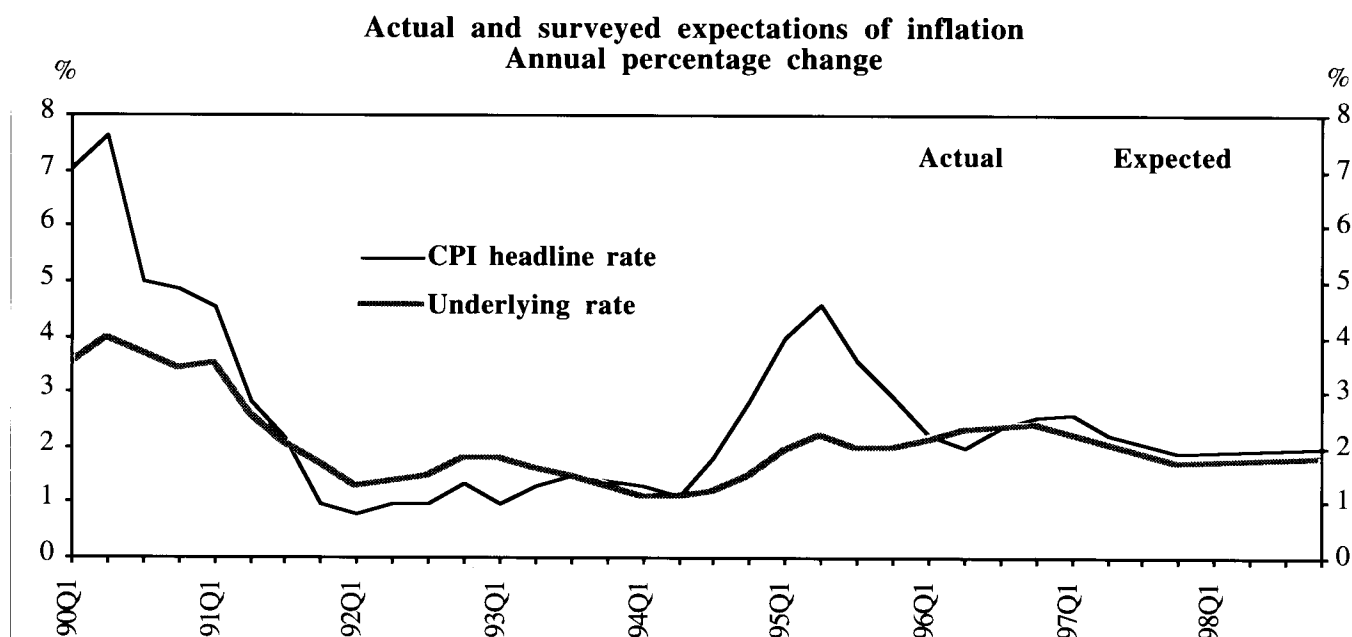
■ Monetary conditions are perceived to have eased.

Monetary conditions are perceived to have eased since the November survey, with a net 54 percent of respondents believing conditions to be tighter than neutral. The corresponding figure for the November survey was 63 percent, while for the August survey the figure was 89 percent. Respondents anticipate monetary conditions will have eased further by the end of June 1997, with a net 46 percent of respondents expecting monetary conditions to be tighter than neutral at that time. By December 1997, 48 percent of respondents expect conditions to be tighter than neutral.

■ One-year-ahead CPI inflation expectations have risen slightly.

Respondents expect the Consumers' Price Index (CPI) to rise by 0.5 percent in the March 1997 quarter (up from 0.4 percent in the previous survey), and by 0.4 percent in the June 1997 quarter (implicitly 2.6 percent and 2.2 percent

Figure 1



for the years to March and June respectively). For the year to December 1997, 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 risen to 2.0 percent by December 1998. The two-year-ahead inflation expectation in the November survey was also 2.0 percent.

■ **Underlying inflation expectations stable.**

Underlying inflation is expected to be 1.7 percent for the year to December 1997, and to rise to 1.8 percent by December 1998, unchanged from the one and two-year-ahead underlying inflation expectations recorded in the November survey.

■ **A small rise in interest rates is expected this year.**

At the end of March 1997, the 90 day bank bill rate is expected to be 7.5 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 risen to 7.6 percent by the end of December 1997. Ten-year Government Security yields are expected to be 7.5 percent by the end of December 1997. This implies an expected negative yield gap of 0.1 percentage points in December 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 67.6 at the end of June 1997, and to be 67.3 by the end of December 1997. The TWI was 68.4 at the time the survey was taken.

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

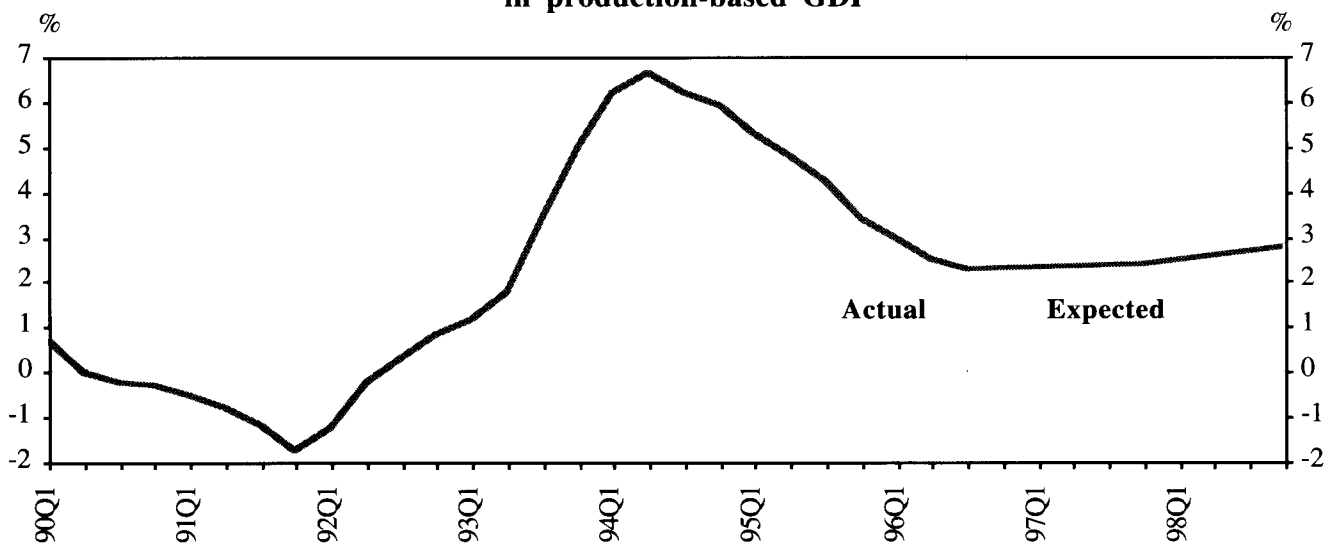
Respondents expect real GDP to have increased by 0.5 percent in the December 1996 quarter and also to increase by 0.5 percent in the March 1997 quarter. For the year ending December 1997, respondents expect GDP growth of 2.4 percent, unchanged from the expectation recorded for the year to September 1997 in the last survey. A 2.8 percent increase in GDP is expected for the year to December 1998.

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

The current account deficit for the year ended March 1997 is expected to be \$3.8 billion, up from a \$3.4 billion expectation for the year to December 1996 recorded in the previous survey, but lower than the latest outturn of \$4.2 billion. Respondents expect the current account deficit to widen to \$4.0 billion over the year to December 1997.

Figure 2

Actual and surveyed expectations of the annual average percentage change in production-based GDP



■ **Unemployment is expected to increase.**

The next RBNZ survey of expectations is tentatively scheduled for 7 May 1997, with results to be published in the June 1997 issue of the Bulletin.

The Household Labour Force Survey unemployment rate is expected to be 6.4 percent in the December 1997 quarter, and to drop to 6.3 percent in the December 1998 quarter.

Figure 3

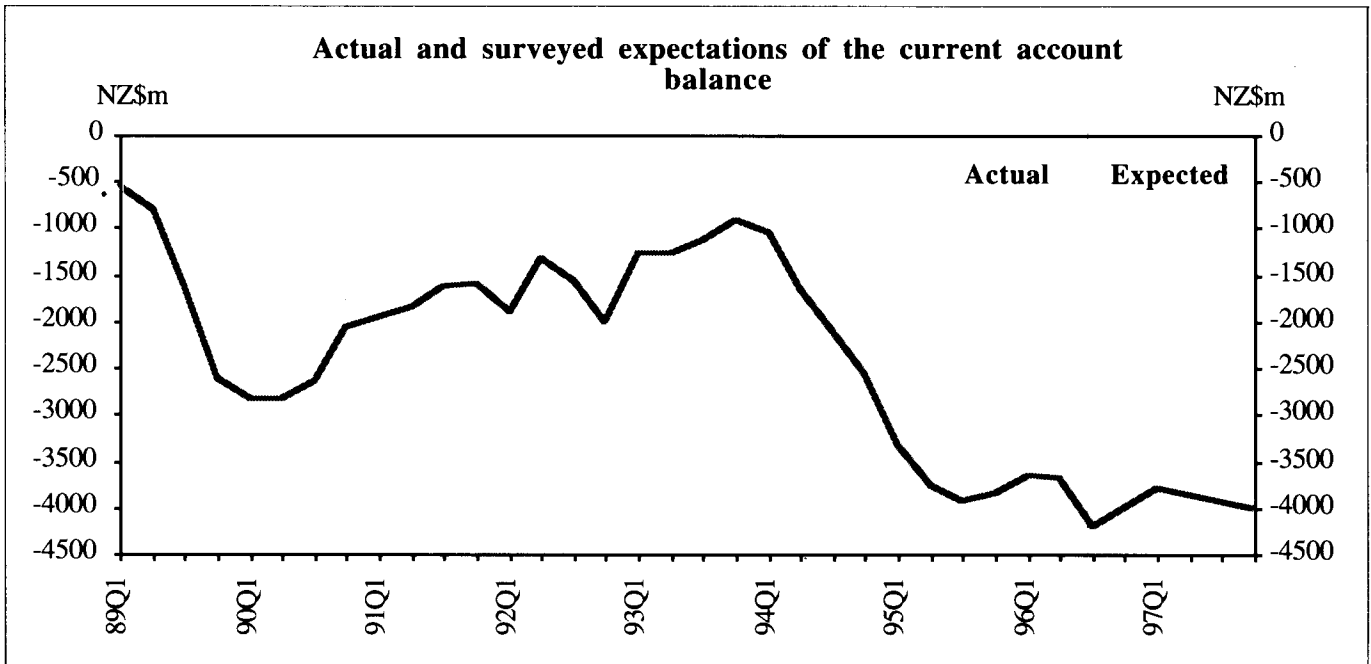
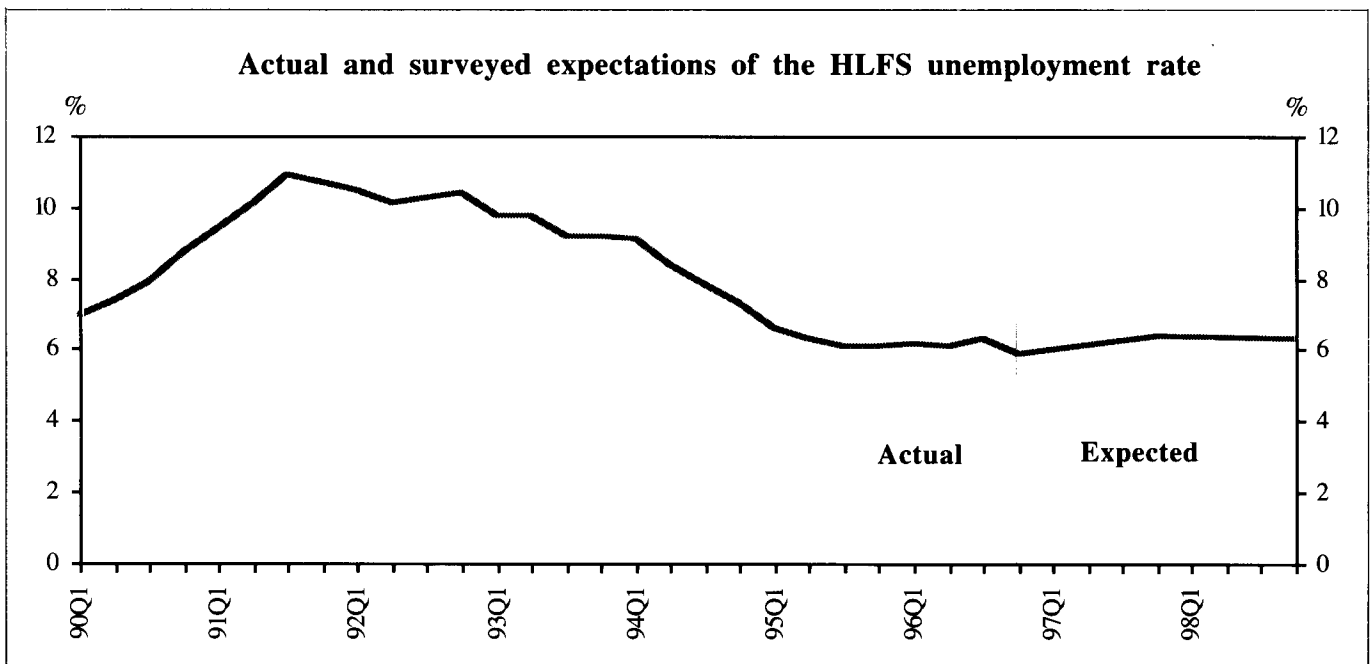


Figure 4



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 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	
Mar 1997	0.7	20.7	43.6	24.3	9.3	0.7	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	
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	
Mar 1997	June 1997	0.0	10.0	47.9	30.0	11.4	0.0	0.7	
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	Sept 1997	2.8	4.3	34.0	39.7	17.0	2.1	0.0	
Mar 1997	Dec 1997	2.2	11.5	43.9	33.1	8.6	0.0	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)							
	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 1996	7.1			6.0				
June 1996		8.2			6.5			
Sept 1996			8.7			7.1		
Dec 1996				8.7			8.0	
Mar 1997					9.9			9.2

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 <u>1996</u>	June <u>1996</u>	Sept <u>1996</u>	Dec <u>1996</u>	Mar <u>1997</u>	June <u>1997</u>
Mar 1996	0.5	0.4				
June 1996		0.5	0.5			
Sept 1996			0.6	0.5		
Dec 1996				0.5	0.4	
Mar 1997					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 <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>	
Mar 1996	1.9				1.8					
June 1996		1.8				1.7				
Sept 1996			1.9				1.7			
Dec 1996				1.8				2.0		
Mar 1997					1.9				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)									
	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>		
June 1996	1.6				1.5					
Sept 1996		1.8				1.6				
Dec 1996			1.7				1.8			
Mar 1997				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)							
	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 1996	8.2			8.0				
June 1996		9.5			8.7			
Sept 1996			9.8			8.7		
Dec 1996				8.8			8.2	
Mar 1997					7.5			7.6

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>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>
June 1996	8.5			8.0			
Sept 1996		8.4			7.8		
Dec 1996			7.4			7.3	
Mar 1997				7.3			7.5

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>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>
<i>US dollar</i>							
Mar 1996	0.669		0.669				
June 1996		0.676		0.675			
Sept 1996			0.681		0.682		
Dec 1996				0.696		0.693	
Mar 1997					0.685		0.681
<i>Australian dollar</i>							
Mar 1996	0.896		0.900				
June 1996		0.860		0.860			
Sept 1996			0.876		0.875		
Dec 1996				0.888		0.883	
Mar 1997					0.896		0.894

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>1996</u>	Sept <u>1996</u>	Dec <u>1996</u>	Mar <u>1997</u>	June <u>1997</u>
Mar 1996	64.5				
June 1996		64.2			
Sept 1996			65.0		
Dec 1996				66.7	
Mar 1997					67.6

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>1996</u>	Mar <u>1997</u>	June <u>1997</u>	Sept <u>1997</u>	Dec <u>1997</u>
Mar 1996	64.5				
June 1996		64.3			
Sept 1996			64.9		
Dec 1996				66.5	
Mar 1997					67.3

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 qtr	Reference quarter (mean)				
	Mar <u>1996</u>	June <u>1996</u>	Sept <u>1996</u>	Dec <u>1996</u>	Mar <u>1997</u>
Mar 1996	0.7				
June 1996	0.5	0.5			
Sept 1996		0.5	0.5		
Dec 1996			0.5	0.6	
Mar 1997				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 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>	Dec <u>1998</u>	
Mar 1996	3.0				3.4					
June 1996		2.6				3.2				
Sept 1996			2.4				3.0			
Dec 1996				2.4				2.9		
Mar 1997					2.4				2.8	

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>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 1996	-2.9			-2.7				
June 1996		-3.5			-3.4			
Sept 1996			-3.4			-3.3		
Dec 1996				-3.4			-3.5	
Mar 1997					-3.8			-4.0

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>	
Mar 1996	2.9				2.9					
June 1996	3.3				2.6					
Sept 1996					2.8				2.5	
Dec 1996					2.5				2.1	
Mar 1997					2.3				1.9	

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>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>	
Mar 1996	2.4				2.4					
June 1996		2.6				2.6				
Sept 1996			2.6				2.4			
Dec 1996				2.6				2.6		
Mar 1997					2.5				2.5	

Q.16 What is your expectation of the official HLFS unemployment rate for (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>	Dec <u>1998</u>	
Mar 1996	6.3				6.1					
June 1996		6.4				6.4				
Sept 1996			6.6				6.4			
Dec 1996				6.4				6.4		
Mar 1997					6.4				6.3	