

RESERVE BANK OF NEW ZEALAND SURVEY OF EXPECTATIONS

This article, by Robin Clements, presents the results from the December 1987 quarter Reserve Bank survey of expectations.

Introduction

The third RBNZ Survey of Expectations was conducted by MRL Research Group on Wednesday, 11 November 1987. Note that the results of the survey represent expectations held by survey respondents and in no way represent the views of the Reserve Bank.

The distribution of respondents across the activity categories was:

Financial	72
Business	58
Agricultural	22
Labour	11
Other	16
	179

After briefly discussing the basis for focusing on individuals, as opposed to firms, in the survey sample, the results for the December quarter survey are summarised.

The Focus on Individuals

Since it is ultimately the behaviour of particular market's participants that we wish to study in the survey, the focus must be on decisionmakers who

influence that market. For instance, should we be interested in examining the effect that interest rate expectations have on the formation of exchange rates then the sample should consist of individuals who have an influence on outcomes in the foreign exchange market.

Any particular market can be viewed as being made up of a number of individual participants, or of a smaller number of firms. Either individuals or firms could be used as the unit to be sampled. However, if each survey response is to be consistent (i.e. the expectations for each question are formed from the same set of available information) then this is most likely to be satisfied if sampling is of individuals rather than firms. Notwithstanding this, so long as each individual has the potential to influence the market concerned, there is no reason why more than one person within a firm should not be surveyed. In this case it should still be the individual, without discussion (other than in the normal course of business) with other respondents, who completes the survey questionnaire.

Summary of Results

- Present monetary conditions are seen as being moderately tight and are expected to firm slightly by September 1988.

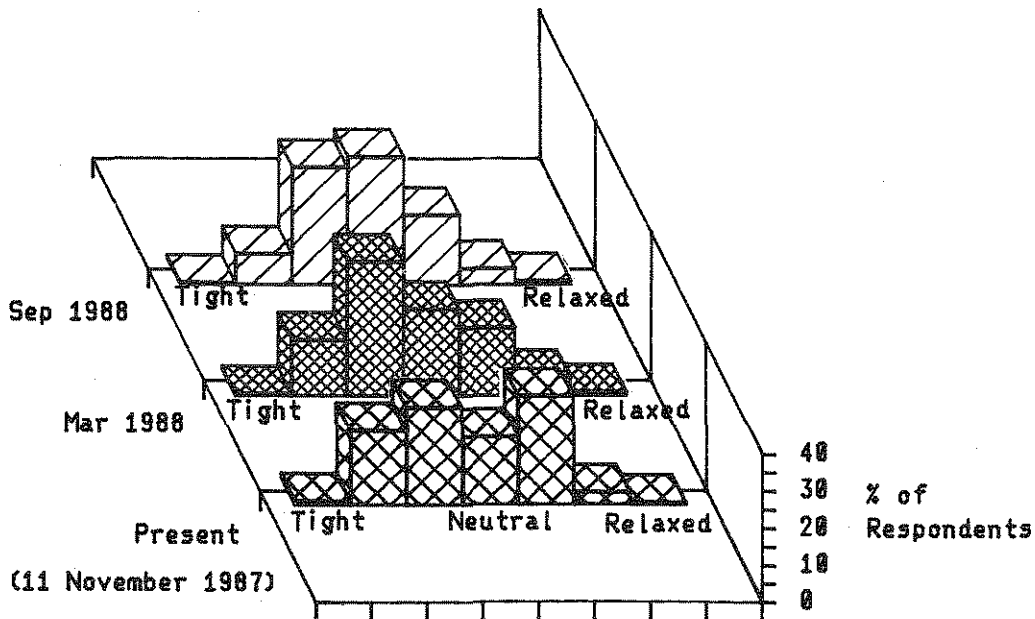
While perceptions of current monetary conditions were well spread, around 66 percent of respondents perceived present monetary conditions to be neutral or tighter than neutral with this percentage increasing to nearly 76 per cent for monetary conditions expected at the end of March and September 1988. The annual growth rate of M3 is expected to decline from 15.5 per cent in the year to December 1987 to 12.8 per cent for the year ended September 1988. (Note that the numbers used in the text refer to the mean expectation unless otherwise stated.)

- Annual CPI inflation is expected to be 7.4 per cent by September 1989.

The quarterly change in the consumers price index for December is expected to be 2.1 per cent, down marginally on the 2.2 per cent

Figure 1

Perception of Current and Future Monetary Conditions



expected for December in the September survey. Figure 1 illustrates that, by using this result for December, an implied 9.7 per cent is expected for the year to December 1987 and, with 1.9 per cent expected for the March 1988 quarter, a 9.2 per cent rate of inflation is expected for the March 1988 year. The annual rate of CPI inflation is then expected to fall to 8.9 per cent by September 1988 and 7.4 per cent by September 1989. The annual rates, while being for a period one quarter further out than in the previous survey, are both about 1 percentage point lower than those expected in the September survey.

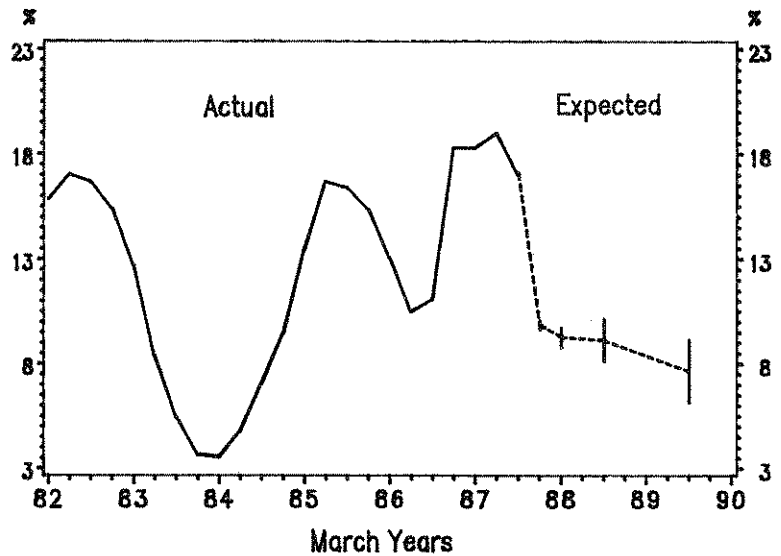
- Long term interest rates are expected to fall to 13.7 per cent by the end of September 1988.

The 5 year Government Security market yield is expected to decline to 15.6 per cent by the end of December 1987 and fall further to 13.7 per cent by the end of September 1988. A closing of the yield gap (i.e. the difference between long-term and short-term interest rates) is shown in figure 2 as 90-day Prime Commercial Bill market yields are expected to fall to 17.7 per cent by the end of December 1987 and 15.2 per cent by the end of September 1988.

- The exchange rate is expected to depreciate over the next two quarters and to fall by 4.2 per cent for the year to September 1988.

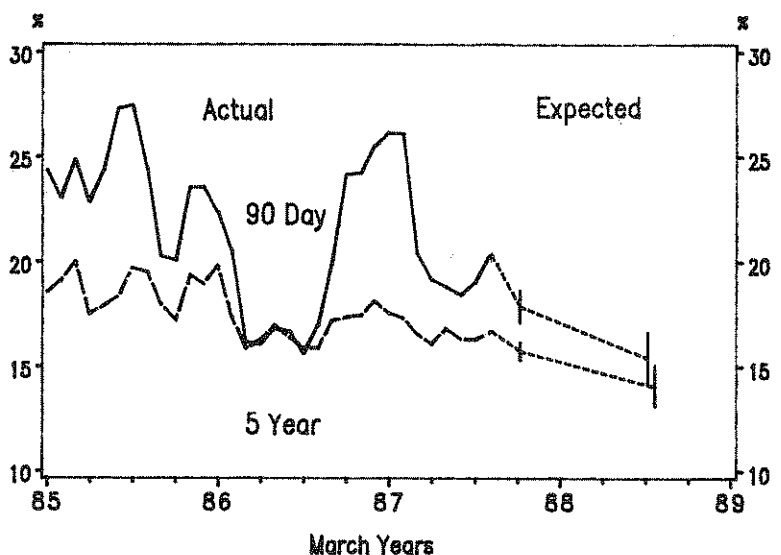
The Reserve Bank Trade Weighted Index¹ is expected to fall by around 1.5 per cent over both the December 1987 and March 1988 quarters, while a decline of 4.2 per cent is expected for the index in the year to September 1988. The New Zealand dollar is expected to depreciate against each of the major currencies with the greatest depreciations, between the end of December 1987 and the end of September 1988, expected for the US dollar and the Yen.

Figure 2
Actual And Surveyed Expectations Of The Annual Percentage Change In The Consumers Price Index



Note: 25% of Expectations fell above and below the band shown

Figure 3
Actual And Surveyed Expectations Of 90 Day Commercial Bill And Five Year Government Stock Interest Rates



Note: 25% of Expectations fell above and below the band shown

¹ The TWI expectations shown in Figure 4 are based on the previous TWI at the end of October.

- Real Gross Domestic Product is expected to be largely unchanged over both the September and December 1987 quarters, and in the year to September 1988.

Real GDP is expected to stay constant over the September 1987 quarter and to decrease by 0.2 per cent over the December 1987 quarter. An average decrease of 0.8 per cent is expected for the full year to September 1988.

- The current account balance is expected to continue to improve over the year to September 1988.

A deficit of \$1.8 billion is expected for the External Balance of Payments on Current Account for the year to December 1987. The deficit is then expected to improve further to \$1.6 billion for the year to September 1988.

- The Government Budget Balance is expected to remain in deficit for both the 1988 and 1989 financial years.

For the current financial year (to March 1988) the Table 2 Budget Deficit is expected to be \$0.6 billion with a small fall to \$0.5 billion expected for the financial year to March 1989.

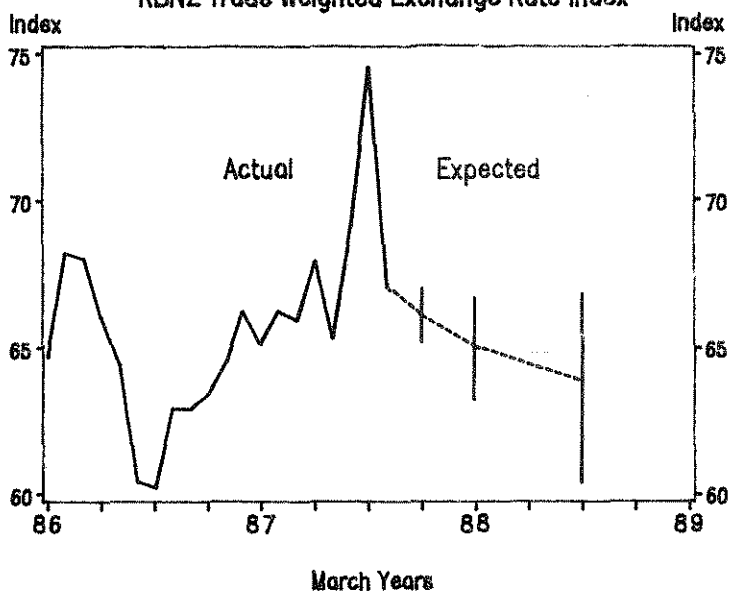
- Wage rates are expected to rise by 7.7 per cent for the year to September 1988.

The annual percentage change in the prevailing weekly wage rates index for the year to September 1988 is expected to be 7.7 per cent.

- The level of registered unemployment is expected to worsen over the year to September 1988.

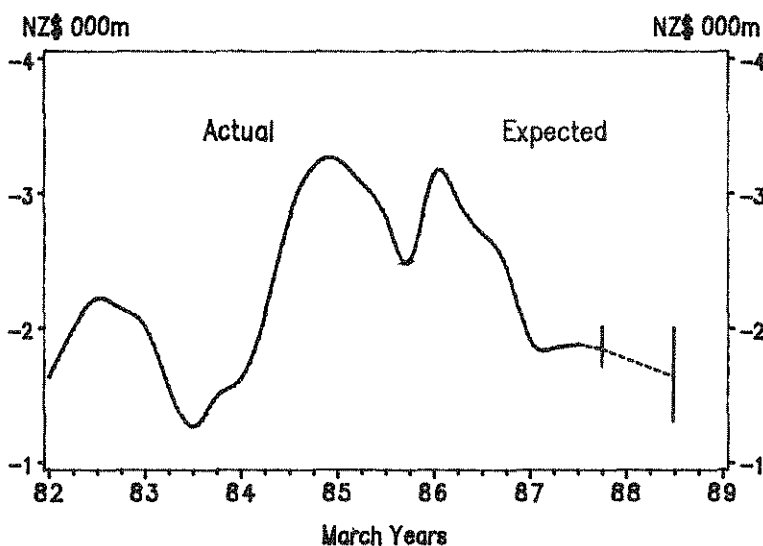
By the end of December 1987 the number of unemployed persons registered with the Labour Department (excluding special work schemes and vacation workers) is expected to be 96,900. This total is expected to increase to 110,000 by the end of September 1988. (The range of

Figure 4
Actual And Surveyed Expectations Of The RBNZ Trade Weighted Exchange Rate Index



Note: 25% of Expectations fell above and below the band shown

Figure 5
Actual And Surveyed Expectations Of The Annual Current Account Balance



Note: 25% of Expectations fell above and below the band shown

responses to this question still suggests the results should be treated with caution.)

The next survey of expectations is

tentatively scheduled for 10 February 1988, with the results to be presented in the March quarter 1988 issue of this Bulletin.