

RESERVE BANK OF NEW ZEALAND SURVEY OF EXPECTATIONS

This article, prepared by Robin Clements, presents the results from the June 1988 quarter Reserve Bank survey of expectations.

Introduction

The RBNZ Survey of Expectations for the June quarter was conducted on Wednesday, 11 May 1988. As always, the results of the survey represent expectations held by respondents and in no way represent forecasts or views of the Reserve Bank.

The distribution of respondents across the various activity groups covered by the June 1988 quarter survey was:

Financial	82
Business.....	61
Agricultural.....	18
Labour	8
Other	15
Total	184

After briefly describing the composition and type of the sample used for the survey, the results for the June quarter are summarised. In addition, the current quarters' results, along with the four previous quarters' full survey results, are reported in the tables following this article. The tables include the text of

each of the questions asked and the mean responses for each survey quarter.

The Sample Type

The sample has been selected so as to attempt to cover those respondents whose actions have the most significant bearing on the outcomes of the variables being surveyed. Because of the relatively small numbers in the activity groups covered, there is no scope for selecting the sample randomly as is often done, for example, with household surveys. Rather, the sample remains fixed, other than for normal turnover of respondents from quarter to quarter. As such, the sample type is described as a 'panel' because the same respondents are surveyed on an on-going basis.

In addition to administrative advantages, this sample type offers the possibility of research applications which look at differences between respondents or groups of

respondents and, once sufficient observations are available, changes in respondents' expectations over time.

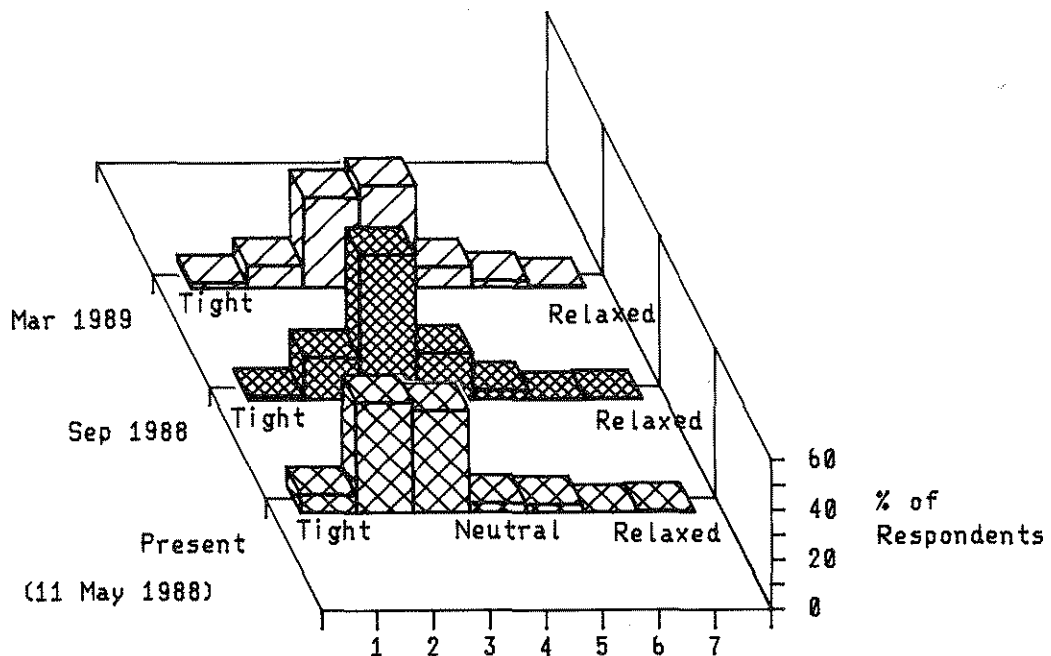
Summary of Results

- Present monetary conditions are considered to be tight and are expected to remain relatively tight.

Current monetary conditions are perceived to be significantly tighter than those for the March 1988 quarter survey with over 90 per cent of respondents regarding present monetary conditions to be tighter than neutral compared to less than 50 per cent in the previous survey. Some relaxation is expected by March 1989, as shown in Figure 1, but this still leaves monetary conditions somewhat tighter than previously anticipated. Expected annual M3 growth rates are down by around 2 percentage points on those previously surveyed. (Note that the numbers used in the text refer to the mean expectation unless otherwise stated.)

Figure 1

Perceptions of Current and Future Monetary Conditions



- Inflationary expectations have continued their downward trend with an inflation rate of 5.6 per cent expected by March 1990.

Quarterly increases in the CPI of 1.4 per cent are expected in both the June and September quarters. Figure 2 illustrates that these quarterly changes imply an annual rate of CPI inflation of 7 per cent by June and 6.8 per cent by September. Little further improvement is anticipated for inflation by March 1989 with an expected rate of 6.6 per cent (implying a rise in the expected quarterly increase to around 2 per cent for both the December and March quarters). By March 1990 the annual inflation rate is expected to have declined to 5.6 per cent. Each of the annual CPI inflation expectations are over 1 percentage point below the comparable expectations in the March survey.

- Government stock rates are expected to be below 12 per cent by March 1989.

The market yield for 90-day Bank Bills is expected to be 15.9 per cent by the end of June 1988 and 13.8 per cent by the end of March 1989. The 5-year Government Security market yield is expected to be 13.1 per cent by the end of June 1988 and to fall to 11.8 per cent by the end of March 1989. Figure 3 shows that these expectations imply a closing of the expected yield gap (i.e. the difference between short-term and long-term interest rates) from 2.8 to 2 percentage points. Both of these yield gap expectations are higher than those found in the March survey, in line with the general expectation of tighter monetary conditions.

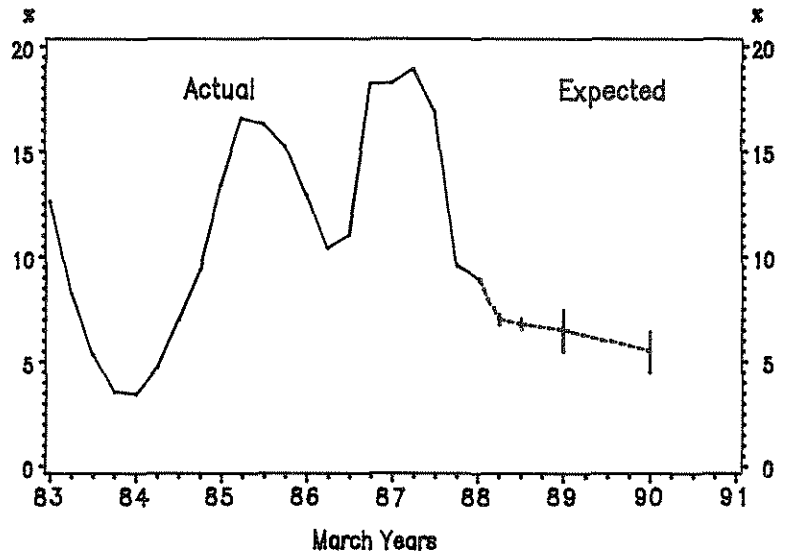
- The exchange rate is expected to depreciate by 2 per cent in the year to March 1989.

The Reserve Bank's new trade weighted index is expected to rise by 0.5 per cent over the June quarter, then to depreciate by 1.2 per cent over the September quarter and 2

per cent for the year to March 1989. The New Zealand dollar is expected to depreciate against each of the major currencies with the greatest

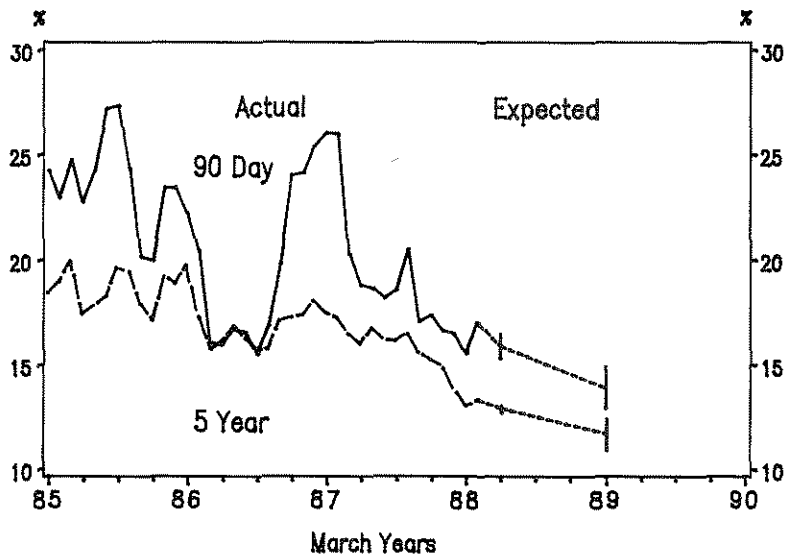
depreciations of over 5 per cent expected against the US dollar and the pound between the end of June 1988 and the end of March 1989.

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 Bank Bill And Five Year Government Stock Interest Rates



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

- Real Gross Domestic Product is expected to fall slightly on average over the year to March 1989.

A seasonally adjusted fall in Real Gross Domestic product of 0.2 per cent is expected for both the March 1988 and June 1988 quarters, while an average decrease of 0.2 per cent is also expected for the full year to March 1989.

- Only a small improvement in the current account balance is expected in the year to March 1989.

A deficit of \$1.9 billion is expected for the External Balance of Payments on Current Account for the year ended June 1988 and little change is then anticipated for the year to March 1989 with a \$1.8 billion deficit expected.

- A small Government Budget surplus is now expected for the next two financial years.

For the first time a budget surplus is expected by respondents. The current financial year (to March 1989), is expected to produce a Table 2 Budget surplus of \$0.3 billion compared with the \$0.2 billion deficit expected in the March survey. A \$0.3 billion surplus is also expected for the financial year to March 1990.

- A wage rate rise of around 6 per cent is expected for the year to March 1989.

The annual per cent change in the prevailing weekly wage rates index for the year to March 1989 is expected to be 6.2 per cent, down on the 7 per cent expected in the previous survey.

- The number of registered unemployed is expected to rise significantly over the year to March 1989.

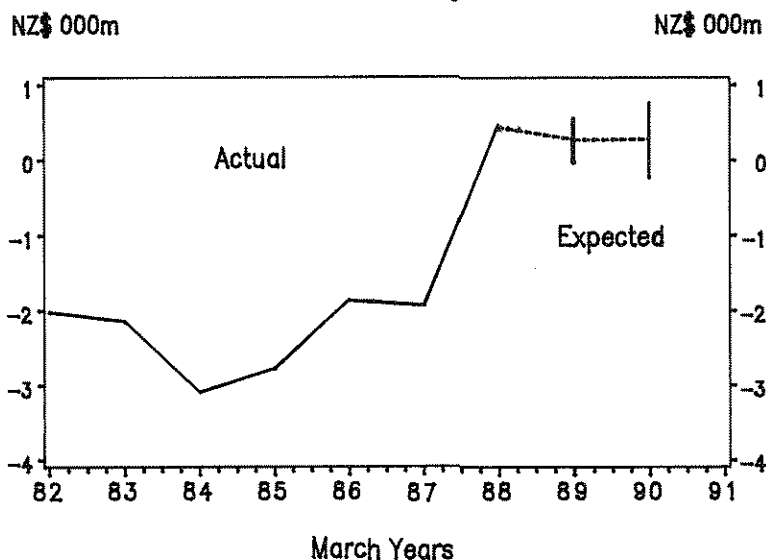
The number of unemployed persons registered with the Labour Department (excluding special work schemes and vacation workers) is expected to be 113,000 by the end of June 1988 and to increase to

126,000 by the end of March 1989.

The next survey of expectations is tentatively scheduled for 10 August

Figure 4

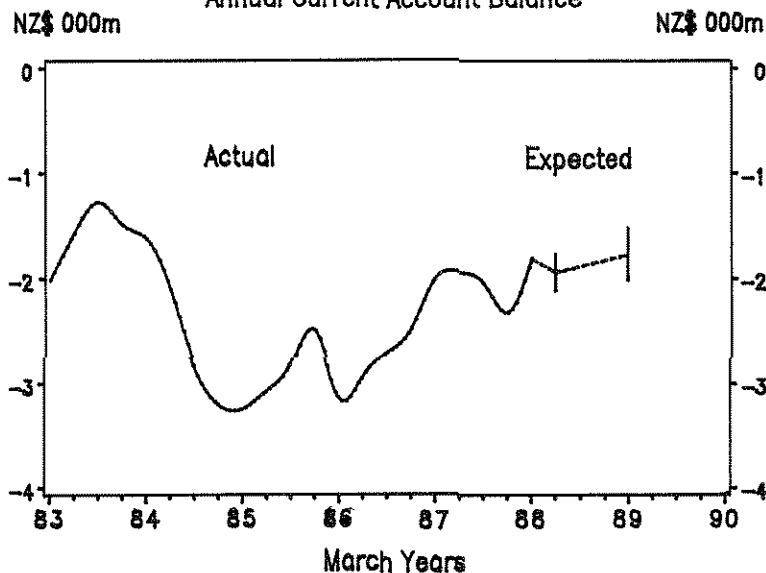
Actual And Surveyed Expectations Of The Government Budget Balance



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

1988, with the results to be presented in the September 1988 issue of *The Bulletin*.

SURVEY OF EXPECTATIONS RESULTS¹

Monetary Conditions²:

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 1987	3.5	37.4	40.9	9.4	5.8	1.8	1.2
Sept. 1987	0.6	12.6	41.4	24.7	15.5	4.6	0.6
Dec. 1987	1.1	20.2	26.4	18.5	29.8	3.4	0.6
Mar. 1988	1.6	14.1	30.8	27.0	22.7	2.7	1.1
June 1988	7.2	44.2	40.9	3.9	3.3	0.0	0.6

Q.2 What expectation do you have for monetary conditions at the end of (reference quarter)³:

Survey Qtr	Reference Qtr	Very Tight			Neutral			Very Relaxed
		1	2	3	4	5	6	7
Sept. 1987	Dec. 1987	0.6	14.9	39.7	31.0	12.6	0.6	0.6
Dec. 1987	Mar. 1988	0.6	15.1	36.3	23.5	18.4	5.0	1.1
Mar. 1988	June 1988	0.5	6.0	32.4	30.8	23.6	5.5	1.1
June 1988	Sept. 1988	1.6	17.0	58.2	18.7	3.8	0.0	0.5
Sept. 1987	June 1988	0.6	10.5	37.8	34.3	15.7	0.6	0.6
Dec. 1987	Sept. 1988	0.6	8.4	31.8	34.6	19.0	4.5	1.1
Mar. 1988	Dec. 1988	0.5	6.0	23.1	37.9	21.4	9.3	1.6
June 1988	Mar. 1989	2.2	8.9	36.1	41.1	8.3	2.8	0.6

Q.3 What is your expectation of the annual % change in the M3 money supply for the year to (reference quarter):

Survey Qtr	June 87	Sept. 87	Dec. 87	Mar. 88	June 88
Reference Qtr	June 87	Sept. 87	Dec. 87	Mar. 87	June 88
Mean	16.5	16.0	15.5	14.1	12.0
Reference Qtr	Mar. 88	June 88	Sept. 88	Dec. 88	Mar. 89
Mean	12.7	13.1	12.8	11.8	9.9

Prices:

Q.4 What quarterly % change do you expect in the Consumers Price Index (C.P.I.) for the (reference quarter):

Survey Qtr	June 87	Sept. 87	Dec. 87	Mar. 88	June 88
Reference Qtr	June 87	Sept. 87	Dec. 87	Mar. 88	June 88
Mean	2.3	2.3	2.1	1.8	1.4
Reference Qtr	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Mean	2.2	2.2	1.9	1.7	1.4

Q.5 What annual % change do you expect in the Consumers Price Index (C.P.I.) for the year to (reference quarter):

Survey Qtr	June 87	Sept. 87	Dec. 87	Mar. 88	June 88
Reference Qtr	Mar. 88	June 88	Sept. 88	Dec. 88	Mar. 89
Mean	9.8	9.8	8.9	7.7	6.6
Reference Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Mean	8.1	8.3	7.4	6.7	5.6

Interest Rates:

Q.6 What do you expect the 90-day Bank Bill market yield to be at the end of (reference quarter)⁴:

Survey Qtr	June 87	Sept. 87	Dec. 87	Mar. 88	June 88
Reference Qtr	June 87	Sept. 87	Dec. 87	Mar. 88	June 88
Mean	21.0	17.9	17.7	16.3	15.9
Reference Qtr	Mar. 88	June 88	Sept. 88	Dec. 88	Mar. 89
Mean	17.8	15.7	15.2	14.2	13.8

Q.7 What do you expect the 5-year Government Security market yield to be at the end of (reference quarter):

Survey Qtr	June 87	Sept. 87	Dec. 87	Mar. 88	June 88
Reference Qtr	June 87	Sept. 87	Dec. 87	Mar. 88	June 88
Mean	16.4	16.2	15.6	14.6	13.1
Reference Qtr	Mar. 88	June 88	Sept. 88	Dec. 88	Mar. 89
Mean	14.7	14.5	13.7	13.0	11.8

Exchange Rates:

Q.8 Relative to the following currencies, what spot exchange rate do you expect for the New Zealand dollar at the end of (reference quarter):

Survey Qtr	June 87	Sept. 87	Dec. 87	Mar. 88	June 88
US Dollar					
Reference Qtr	June 87	Sept. 87	Dec. 87	Mar. 88	June 88
Mean	0.554	0.593	0.600	0.653	0.675
Reference Qtr	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Mean	0.533	0.581	0.583	0.631	0.660
Reference Qtr	Mar. 88	June 88	Sept. 88	Dec. 88	Mar. 89
Mean	0.520	0.559	0.565	0.609	0.640

Australian Dollar

Reference Qtr	June 87	Sept. 87	Dec. 87	Mar. 88	June 88
Mean	0.796	0.832	0.888	0.920	0.882
Reference Qtr	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Mean	0.782	0.818	0.870	0.901	0.865
Reference Qtr	Mar. 88	June 88	Sept. 88	Dec. 88	Mar. 89
Mean	0.774	0.802	0.850	0.879	0.851

Pound Sterling

Reference Qtr	June 87	Sept. 87	Dec. 87	Mar. 88	June 88
Mean	0.338	0.364	0.345	0.367	0.361
Reference Qtr	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Mean	0.328	0.355	0.338	0.357	0.352
Reference Qtr	Mar. 88	June 88	Sept. 88	Dec. 88	Mar. 89
Mean	0.326	0.344	0.331	0.347	0.342

Japanese Yen

Reference Qtr	June 87	Sept. 87	Dec. 87	Mar. 88	June 88
Mean	79.2	85.3	82.3	84.4	84.3
Reference Qtr	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Mean	77.3	83.6	80.1	82.7	82.4
Reference Qtr	Mar. 88	June 88	Sept. 88	Dec. 88	Mar. 89
Mean	76.3	81.0	78.1	80.2	80.8

Q.9 What quarterly % change do you expect in the Reserve Bank Trade Weighted Index for the (reference quarter)⁵:

Survey Qtr	June 87	Sept. 87	Dec. 87	Mar. 88	June 88
Reference Qtr	..	Sept. 87	Dec. 87	Mar. 88	June 88
Mean	..	0.4	-1.5	-0.1	0.5
Reference Qtr	Sept. 87	Dec. 87	Mar. 88	June 88	Sept. 88
Mean	-1.4	-1.4	-1.4	-1.8	-1.2

Q.10 What annual % change do you expect in the Reserve Bank Trade Weighted Index for the year to (reference quarter):

Survey Qtr	June 87	Sept. 87	Dec. 87	Mar. 88	June 88
Reference Qtr	Mar. 88	June 88	Sept. 88	Dec. 88	Mar. 89
Mean	-2.4	-2.4	-4.2	-3.7	-2.0

Others:

Q.11 What is your expectation of the seasonally adjusted quarterly % change in the real Gross Domestic Product (G.D.P.) index for the (reference quarter):

Survey Qtr	June 87	Sept. 87	Dec. 87	Mar. 88	June 88
Reference Qtr	Mar. 87	June 87	Sept. 87	Dec. 87	Mar. 88
Mean	-0.4	0.0	0.0	-0.2	-0.2
Reference Qtr	June 87	Sept. 87	Dec. 87	Mar. 88	June 88
Mean	0.0	0.2	-0.2	-0.4	-0.2

Q.12 What is your expectation of the annual average % change in the real Gross Domestic product (G.D.P.) index for the year to (reference quarter)^{6,7}:

Survey Qtr	June 87	Sept. 87	Dec. 87	Mar. 88	June 88
Reference Qtr	Mar. 88	June 88	Sept. 88	Dec. 88	Mar. 88
Mean	..	0.8	-0.1	-0.4	-0.2

Q.13 What is your expectation of the External Balance of Payments on Current Account (in \$ billions) for the year to (reference quarter):

Survey Qtr	June 87	Sept. 87	Dec. 87	Mar. 88	June 88
Reference Qtr	June 87	Sept. 87	Dec. 87	Mar. 88	June 88
Mean	-2.1	-1.8	-1.8	-2.0	-1.9
Reference Qtr	Mar. 88	June 88	Sept. 88	Dec. 88	Mar. 89
Mean	-1.8	-1.6	-1.6	-1.9	-1.8

Q.14 What is your expectation of the Government Budget Table 2 balance (in \$ billions) for year to (reference quarter):

Survey Qtr	June 87	Sept. 87	Dec. 87	Mar. 88	June 88
Current financial year	Mar. 88	Mar. 88	Mar. 88	Mar. 88	Mar. 89
Mean	-2.0	-0.5	-0.6	-0.5	0.3
Next financial year	Mar. 89	Mar. 89	Mar. 89	Mar. 89	Mar. 90
Mean	-1.8	-0.3	-0.5	-0.2	0.3

Q.15 What is your expectation of the annual % change in the prevailing weekly wage rates index for the year to (reference quarter):

Survey Qtr	June 87	Sept. 87	Dec. 87	Mar. 88	June 88
Reference Qtr	Mar. 88	June 88	Sept. 88	Dec. 88	Mar. 89
Mean	8.8	8.7	7.7	7.0	6.2

Q.16 What do you expect the number of unemployed persons registered with the Labour Department (excluding special work schemes and vacation workers, in 000's) to be at the end of (reference quarter):

Survey Qtr	June 87	Sept. 87	Dec. 87	Mar. 88	June 88
Reference Qtr	June 87	Sept. 87	Dec. 87	Mar. 88	June 88
Mean	81	89	97	105	113
Reference Qtr	Mar. 88	June 88	Sept. 88	Dec. 88	Mar. 89
Mean	84	95	110	122	126

1 The survey quarter refers to the quarter in which the survey was undertaken, with the actual survey dates being: 13 May 1987; 26 August 1987; 11 November 1987; 10 February 1988. The reference quarter refers to the quarter (period ended or the quarter itself) for which the expectation was held.

2 Results for questions 1 and 2 are in the form of percent of total responses in each category, while the remainder of the questions report the mean expectation.

3 This question was changed for the September quarter 1987 survey and so the June quarter 1987 response is not recorded here.

4 Prior to the March quarter 1988 survey this question referred to the 90-day Prime Commercial Bill market yield.

5 The June quarter 1987 survey only asked for an expectation of the quarter ahead for this question.

6 This question was changed for the December quarter 1987 survey to ask for the annual *average* % change from the previous question which had asked for the annual % change.

7 A printing error on the questionnaire resulted in the June quarter 1987 expectation being unavailable for this question.