

SURVEY OF EXPECTATIONS

This article, prepared by Bryan Chapple and Robin Clements presents the results from the June quarter 1990 Reserve Bank of New Zealand Survey of Expectations.

Introduction

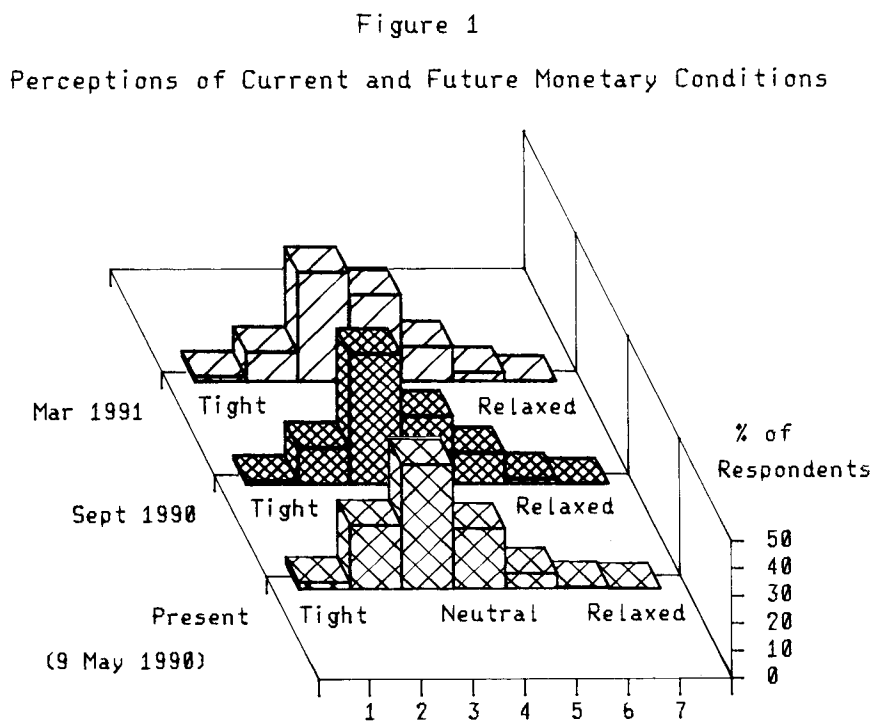
The RBNZ Survey of Expectations for the June quarter 1990 was conducted on Wednesday 9 May 1990. Note that the results of the survey represent expectations held by *respondents* and in no way represent views or forecasts of the Reserve Bank.

The June quarter survey included an additional question on the official Household Labour Force unemployment rate and the discussion of the results from this question are included below.

Sample Composition

The response rate for this quarter was 63 per cent, with 159 of the 253 respondents in this quarter's sample having returned their completed questionnaires by the cut-off date.

Of the respondents whose completed questionnaires were received by the cut-off date, the distribution across activity groups was:



Financial	63
Business	50
Agricultural	21
Labour	9
Other	<u>16</u>
TOTAL	159

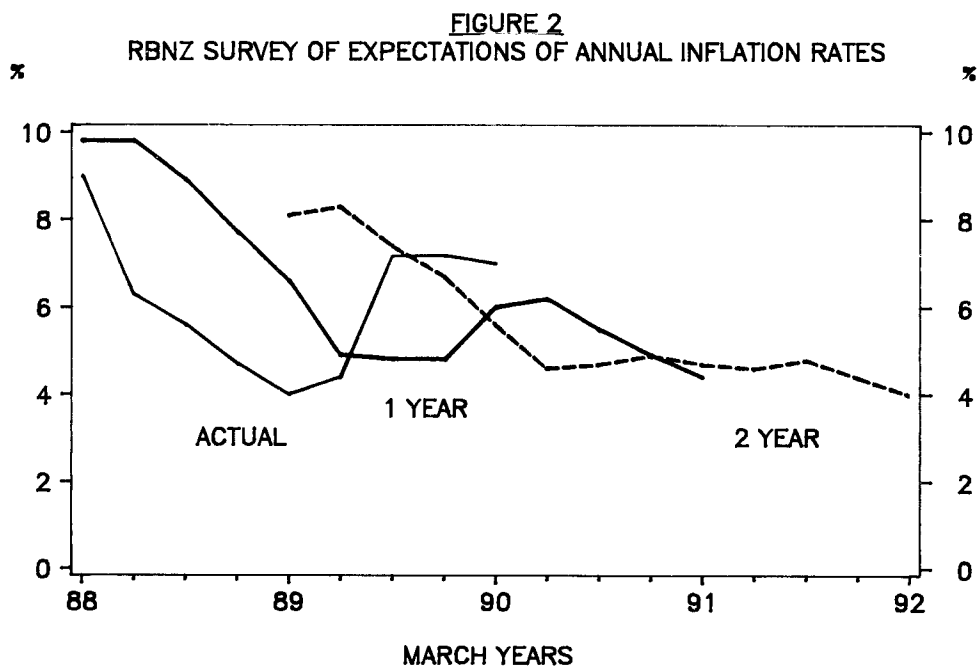
Survey of Results

● Little Change in Perceptions of Monetary Conditions

Perceptions of current monetary conditions are largely unchanged from the previous survey with 72 per cent of respondents considering that current monetary conditions are tighter than neutral. An easing in monetary conditions is still expected over the coming year but to a lesser degree than was reported in the March quarter survey. Some 53 per cent of respondents now anticipate that monetary conditions will still be tighter than neutral by the end of March 1991 whereas 49 per cent of respondents previously expected this would be the case in a year's time.

A sizeable reduction in expected M3 growth rates has occurred for both the current year and the year ahead. M3 is now expected to grow by 4 per cent in the year to June 1990, down from the current quarter expectation of 5.9 per cent in the previous survey. M3 is expected to increase by 4.6 per cent for the year ahead, compared to 6 per cent in the March survey.

● Further Fall in Inflation Expectations



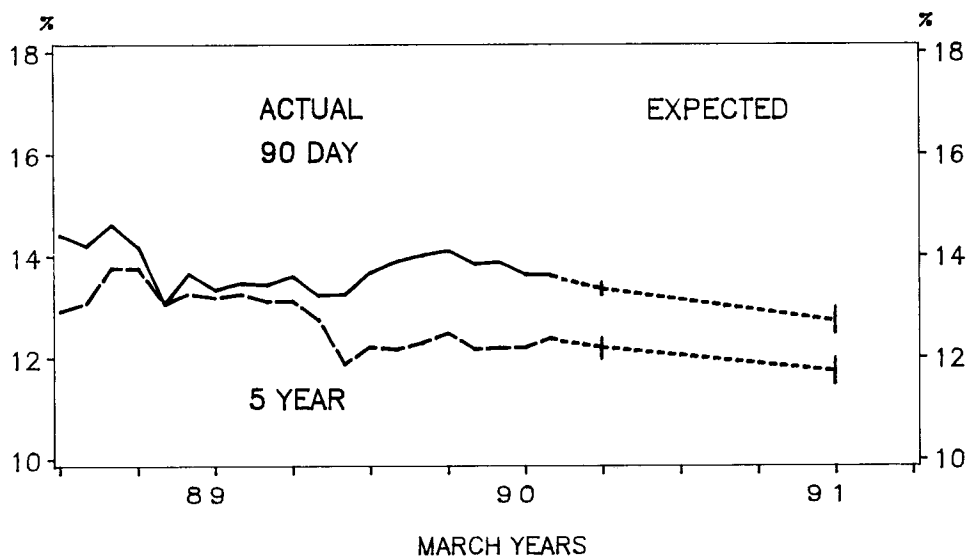
NOTE: 1/2 YEAR SERIES REPRESENT EXPECTATIONS MADE 1 AND 2 YEARS PRIOR

Respondents expect the Consumers Price Index, (CPI) to increase by 1.1 per cent in the June quarter 1990 and 1 per cent in the September quarter. This implies an annual inflation rate of 6.9 per cent is expected for the year to June while a fall to 4.3 per cent in the year to September is implied as the effect of last year's GST increase drops out. The year ahead and two year ahead inflation expectations have fallen again since the March survey and now represent the lowest annual inflation expectations recorded by the survey. Inflation in the year to March 1991 is anticipated to be 4.4 per cent, which is down on last survey's year ahead outcome of 4.9 per cent. The two year ahead inflation expectation has declined from 4.4 per cent in the last survey to 4 per cent expected in the year to March 1992.

● **Interest Rate Expectations Essentially Unchanged**

Short-term interest rates are expected to fall slightly over the coming year, from 13.4 per cent at the end of June 1990 to 12.7 per cent by the end of March 1991. A similar decline was evident in expectations for the Bank Bill rate in the March quarter survey. Government stock rates are expected to be slightly higher than in the March survey, although a decline from 12.3 per cent to 11.7 per cent is anticipated between June 1990 and March 1991. As a result the yield gap is expected to be 1.1 per cent at the end of June 1990, which represents a fall from the 1.5 per cent level expected for the end of March in the last survey. The yield gap is not expected to alter significantly over the coming year, with a gap of 1 per cent expected to exist at the end of March 1991.

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

● **Slight Exchange Rate Decline Still Anticipated**

Expectations of the cross rates against the major currencies are all lower than in the previous survey, with the exception of the Yen which is now expected to remain at a higher level. While slight appreciations are expected against both the Australian dollar and the pound, the cross rates versus the US dollar and the Yen are expected to fall over the year ahead. The Trade Weighted Index (TWI) is now expected to fall by 0.7 per cent by March 1991, slightly more than the 0.6 per cent fall expected for the year ahead in the March survey.

● **Some Pick-Up in Real Activity Expected**

Real Gross Domestic Product (GDP) growth of 0.3 per cent and 0.4 per cent is expected for the March and June quarters respectively, much the same as those recorded in the March survey. For the year to March 1991 growth of 1.4 per cent is expected, little change from the year ahead growth expectation of 1.3 per cent in the previous survey.

● **Current Account Deficit Expected to Improve**

With balance of payments statistics continuing to show a rise in the current account deficit, expectations have been revised significantly from the last survey. Survey respondents now expect a current account deficit of \$3.4 billion for the year to June 1990 compared to the March survey result of \$2.1 billion for the year to March. However, whereas in the March survey the deficit was not anticipated to alter significantly in the year ahead, expectations are now for a fall to \$2.7 billion in the year to March 1991.

● **Expected Fiscal Position Remains Unchanged**

Results for the questions on the Government's expected fiscal position remain similar to those of the last two quarters. A financial deficit of \$0.5 billion is expected for the year to June 1990, while for the fiscal year ending June 1991 a financial deficit of \$0.2 billion is anticipated.

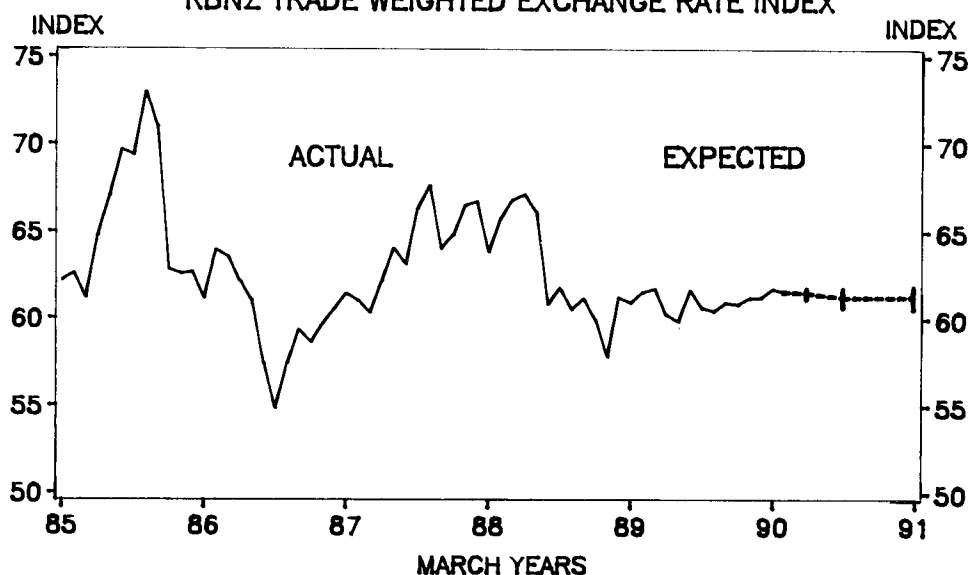
● **Lower Wage Increases Expected in the Coming Year**

An increase in the prevailing weekly wage rates index of 4.2 per cent is anticipated over the year to March 1991. This is lower than the 4.7 per cent increase expected in the March survey and is consistent with the lower inflation rates now expected.

● **No Change in Unemployment Expected**

There are expected to be 157,000 persons registered with the Labour Department (excluding special work schemes and vacation workers) as unemployed by the end of June 1990, compared to an end of quarter expectation of 158,000 in the March survey. By March 1991, 155,000 persons are expected to be registered as unemployed, an expected decline of 2,000. This is a smaller expected improvement than in the last survey where the year ahead result of 153,000 reflected an expectation that unemployment would decline by 5,000 during the year.

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

Additional Results

The June quarter survey included for the first time a question asking respondents for their expectations of the official Household Labour Force Survey (HLFS) unemployment rate.

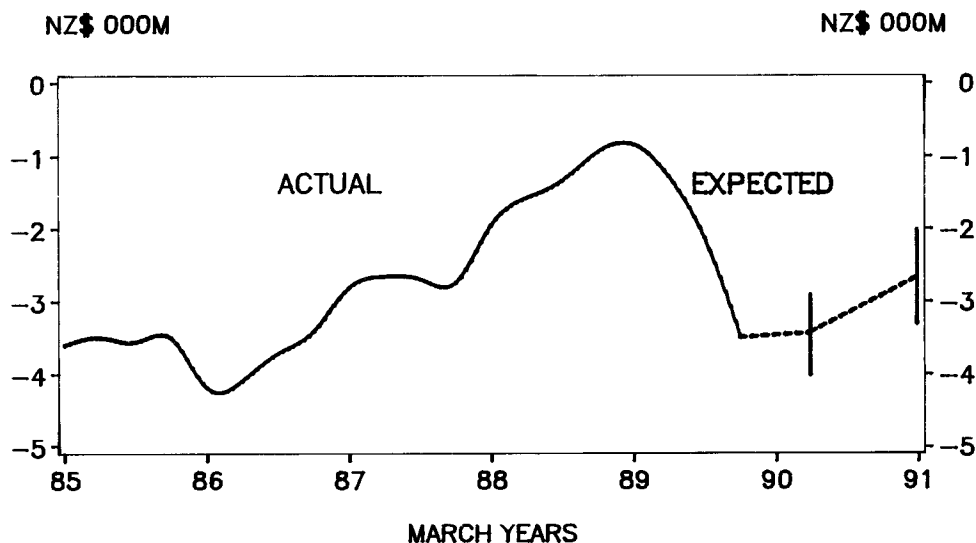
This additional report presents the results for the question and a short discussion about the results.

Definition

As explained in the questionnaire, the official HLFS measure of unemployment is based on International Labour Organisation standards and is the only measure of the New Zealand unemployment rate recognised as being internationally comparable. To qualify as being unemployed under this measure, individuals must be actively seeking work and available to start work when surveyed.

This question is likely to replace Question 16 in the survey which currently asks respondents for their expectations of the number of those registered at the Labour Department as unemployed. The Labour Department will no longer be publishing this information because the data has become an increasingly unreliable measure of labour market trends.

FIGURE 5
ACTUAL AND SURVEYED EXPECTATIONS OF THE
ANNUAL CURRENT ACCOUNT BALANCE



NOTE: 25% OF EXPECTATIONS FELL ABOVE AND BELOW THE BAND SHOWN

Results

With 89 respondents having answered each part of this question, this represents well over half of the total number of respondents for this quarter's survey.

The official HLFS unemployment rate is expected to be 7.4 per cent for both the March quarter 1990 and the December quarter 1990. These both represent an expectation of an increase on the actual HLFS figure for the December quarter 1989, when 6.9 per cent of the labour force were recorded as actively seeking a job and available for work.

The next RBNZ Survey of Expectations is tentatively scheduled for 8 August 1990, with the results to be published in the September issue of the Bulletin.

SURVEY OF EXPECTATIONS HISTORICAL RESULTS¹

Monetary Conditions:²

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 1989	1.7	25.6	55.7	13.6	3.4	0.0	0.0
Sept. 1989	1.6	11.8	42.8	31.0	11.2	1.6	0.0
Dec. 1989	3.9	24.2	42.7	18.0	9.6	1.7	0.0
Mar. 1990	1.7	24.7	48.3	20.1	4.0	1.1	0.0
June 1990	2.5	23.4	45.6	22.2	5.7	0.6	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
June 1989	Sept. 1989	2.8	17.6	48.9	23.3	6.3	1.1	0.0
Sept. 1989	Dec. 1989	1.1	7.5	36.4	41.2	12.3	1.6	0.0
Dec. 1989	Mar. 1990	2.8	10.7	43.3	28.7	12.4	2.2	0.0
Mar. 1990	June 1990	0.6	13.2	47.7	23.0	14.9	0.6	0.0
June 1990	Sept. 1990	1.3	13.3	47.5	24.7	11.4	1.9	0.0
June 1989	Mar. 1990	1.1	8.0	31.4	38.9	17.1	3.4	0.0
Sept. 1989	June 1990	1.6	3.7	24.6	41.7	24.6	3.2	0.5
Dec. 1989	Sept. 1990	0.0	7.3	30.9	39.3	19.1	3.4	0.0
Mar. 1990	Dec. 1990	1.1	7.5	40.2	37.4	12.1	1.1	0.6
Jun. 1990	Mar. 1990	1.9	10.8	39.9	31.6	12.7	3.2	0.0

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

Survey Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	4.7	5.6	5.6	5.9	4.0
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	6.1	6.4	5.8	6.0	4.6

Prices

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

Survey Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	1.2	2.5	1.5	1.1	1.1
Reference Qtr	Sept. 89	Dec. 89	Mar. 90	June 90	Sept. 90
Mean	2.3	1.4	1.3	1.2	1.0

1. The survey quarter refers to the quarter in which the survey was undertaken, while 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.

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 89	Sept. 89	Dec. 89	Mar. 90	June 90
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	6.0	6.2	5.5	4.9	4.4
Reference Qtr	Mar. 91	June 91	Sept. 91	Dec. 91	Sept. 90
Mean	4.7	4.6	4.8	4.4	4.0

Interest Rates

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

Survey Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	13.3	12.7	13.5	13.5	13.4
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	12.5	11.9	12.5	12.8	12.7

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

Survey Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	13.0	12.2	12.4	12.0	12.3
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	12.3	11.5	11.7	11.6	11.7

Exchange Rates

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

Survey Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
US Dollar					
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 89	June 90
Mean	0.617	0.593	0.587	0.588	0.573
Reference Qtr	Sept. 89	Dec. 89	Mar. 90	June 90	Sept. 90
Mean	0.611	0.590	0.584	0.584	0.568
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	0.603	0.582	0.579	0.582	0.566
Australian Dollar					
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	0.773	0.779	0.753	0.782	0.760
Reference Qtr	Sept. 89	Dec. 89	Mar. 90	June 90	Sept. 90
Mean	0.775	0.784	0.759	0.782	0.763
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	0.775	0.780	0.767	0.782	0.768
Pound Sterling					
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	0.365	0.362	0.370	0.350	0.346
Reference Qtr	Sept. 89	Dec. 89	Mar. 90	June 90	Sept. 90
Mean	0.359	0.360	0.369	0.348	0.346
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	0.356	0.355	0.365	0.348	0.348

Japanese Yen					
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	82.3	82.2	83.8	84.6	89.7
Reference Qtr	Sept. 89	Dec. 89	Mar. 90	June 90	Sept. 90
Mean	81.2	81.6	82.8	83.6	88.5
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	80.0	80.5	81.8	82.7	88.0

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

Survey Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	0.6	0.4	0.1	-0.2	-0.4
Reference Qtr	Sept. 89	Dec. 89	Mar. 90	June 90	Sept. 90
Mean	-0.3	-0.1	0.1	-0.4	-0.5

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

Survey Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	0.0	-0.8	0.0	-0.6	-0.7

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 89	Sept. 89	Dec. 89	Mar. 90	June 90
Reference Qtr	Mar. 89	June 89	Sept. 89	Dec. 89	Mar. 90
Mean	0.2	0.3	0.0	0.4	0.3
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	0.4	0.4	0.4	0.4	0.4

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):

Survey Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	1.0	1.3	1.3	1.3	1.4

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	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	-0.8	-1.1	-0.8	-2.1	-3.4
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	-0.7	-1.0	-0.7	-2.0	-2.7

Q. 14 What is your expectation of the Government Financial Balance (in \$ billions) for the fiscal year to:

Survey Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Reference Qtr	June 90	June 90	June 90	June 90	June 90
Mean	-1.1	-0.8	-0.4	-0.4	-0.5
Reference Qtr	June 91	June 91	June 91	June 91	June 91
Mean	-0.8	-0.4	-0.2	-0.2	-0.2

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 89	Sept. 89	Dec. 89	Mar. 90	June 90
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	4.5	4.9	5.0	4.7	4.2

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 89	Sept. 89	Dec. 89	Mar. 90	June 90
Reference Qtr	June 89	Sept. 89	Dec. 89	Mar. 90	June 90
Mean	161	157	157	158	157
Reference Qtr	Mar. 90	June 90	Sept. 90	Dec. 90	Mar. 91
Mean	162	152	151	153	155