

Survey of Expectations

This article, prepared by Murray Scott and Graham Howard, presents the results from the February 1994 Reserve Bank of New Zealand Survey of Expectations.

Introduction

The latest RBNZ Survey of Expectations was conducted on Wednesday 9 February 1994. Note that the results of the survey represent expectations held by respondents and in no way represent views or forecasts of the Reserve Bank.

Sample Composition

The response rate for this quarter was 64 percent, with 155 of the 244 respondents in this quarter's sample having returned their completed questionnaires by the cut-off date.

The distribution across activity groups was:

Financial	..	54
Business	..	60
Agriculture	..	21
Labour	..	6
Other	..	14
TOTAL		155

Summary of Results

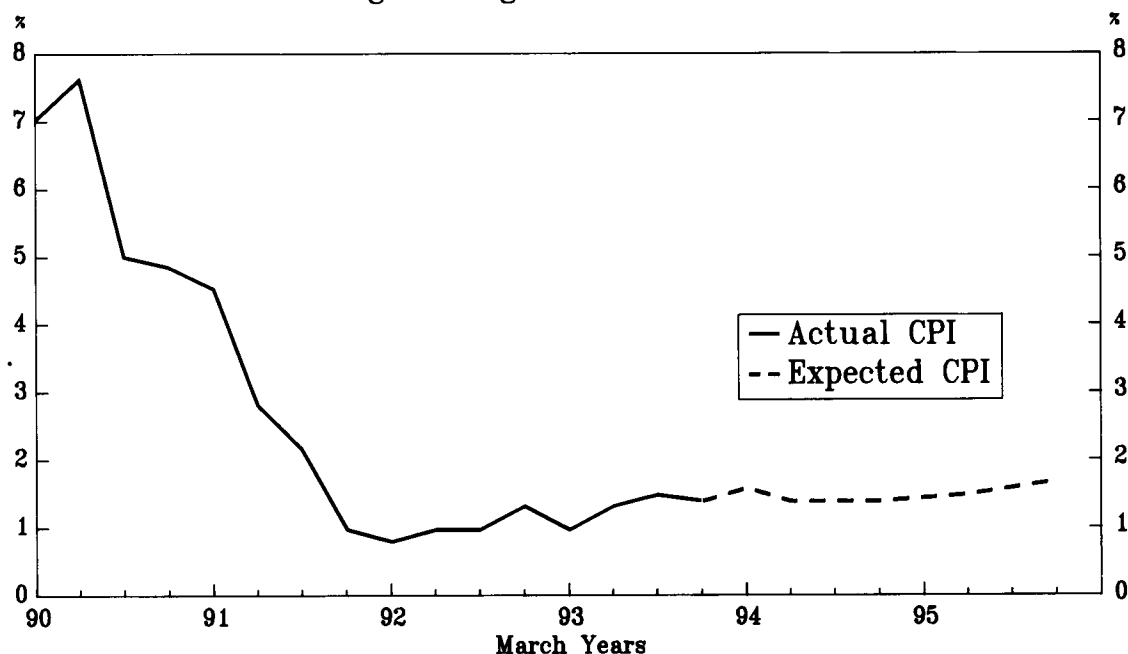
- **Monetary conditions perceived to be looser.**

Monetary conditions are perceived to be more relaxed than in the November 1993 survey, with a net 27 percent of respondents believing conditions to be easier than neutral. Respondents expect monetary conditions to tighten over the year, with a net 9 percent expecting conditions to be tighter than neutral by December 1994.

- **Inflation expectations remain low.**

Respondents expect the CPI inflation rate to rise by 0.3 percent in the March quarter and 0.4 percent in the June Quarter (implicitly 1.6 percent and 1.4 percent in the years to March and June respectively). Inflation expectations for the March quarter are slightly lower than in the November survey, when the CPI was expected to rise by 0.4 percent. For the year to December 1994, CPI inflation is expected to be 1.4 percent, slightly lower than the one-year-ahead inflation expectations recorded in November. A 1.7 percent increase in the CPI is expected for the year to December 1995.

Figure 1.
Actual and Surveyed Expectations of the
Annual Percentage Change in the Consumer Price Index



- **Labour costs expectations unchanged.**

The labour cost index is expected to rise by 1.8 percent in the year to December 1994, with an anticipated further rise of 2.2 percent in the year to December 1995

- **Interest rates expectations fall.**

Respondents expect both short and long term interest rates to reach lower levels over the next year than anticipated in the November survey. At the end of December 1994 the 90 day bill rate and the five year government stock rate are expected to be 4.7 percent and 5.3 percent respectively. This implies an expected positive yield gap of 0.6 percent at the end of December 1994.

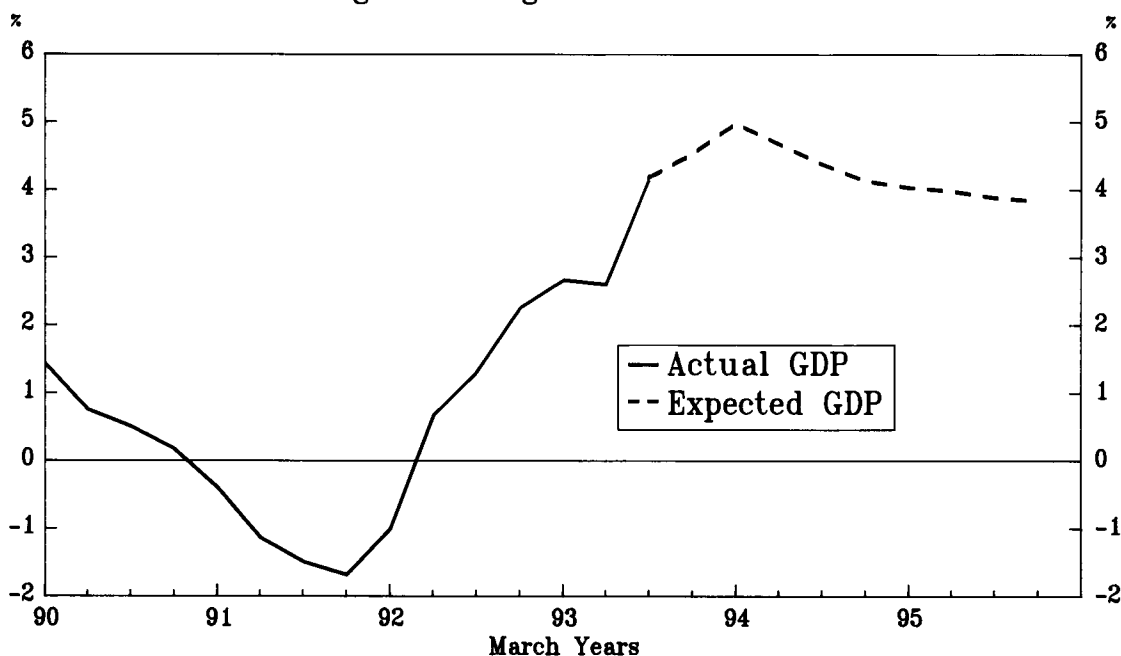
- **Trade weighted exchange rate expected to appreciate.**

Respondents expect the New Zealand dollar to appreciate against the major currencies over the coming year. The TWI is expected to be at 57.0 at the end of the June 1994 quarter and appreciate to 57.2 by the end of the December 1994 quarter.

- **Stronger GDP growth expectations.**

Respondents expect real GDP to increase by 1.2 percent in both the December 1993 and March 1994 quarters. For the year to December 1994 respondents expect GDP growth of 4.1 percent, up from the 3.1 percent growth for the year to September 1994 expected at the time of the November survey. A further 3.8 percent increase in GDP is expected for the year to December 1995.

Figure 2.
Actual and Surveyed Expectations of the
Annual Average % Change in Production Based GDP



- **Fiscal deficit expected to decline.**

Expectations for the government financial deficit have improved. The financial deficit is now expected to be \$0.8 billion in the year to June 1994, compared with \$1.4 billion expected in the previous survey. A further improvement to \$0.2 billion is expected in the following year.

- **Higher current account deficit expected.**

The current account deficit for the year ended March 1994 is expected to be \$900 million, higher than the \$700 million deficit expected for the year to December 1993 in the November survey. Respondents expect the current account deficit to narrow to \$600 million over the year to December 1994.

- **Unemployment expectations decline.**

The HLFS unemployment rate is expected to be 9.1 percent in the December quarter 1994, slightly lower than the 9.7 percent expected for the September quarter at the time of the previous survey. A further improvement to 8.5 percent is expected by December 1995.

The next RBNZ Survey of Expectations is tentatively scheduled for 11th May 1994, with results to be published in the June issue of the Bulletin.

Figure 3.
Actual and Surveyed Expectations of the
Annual Current Account Balance

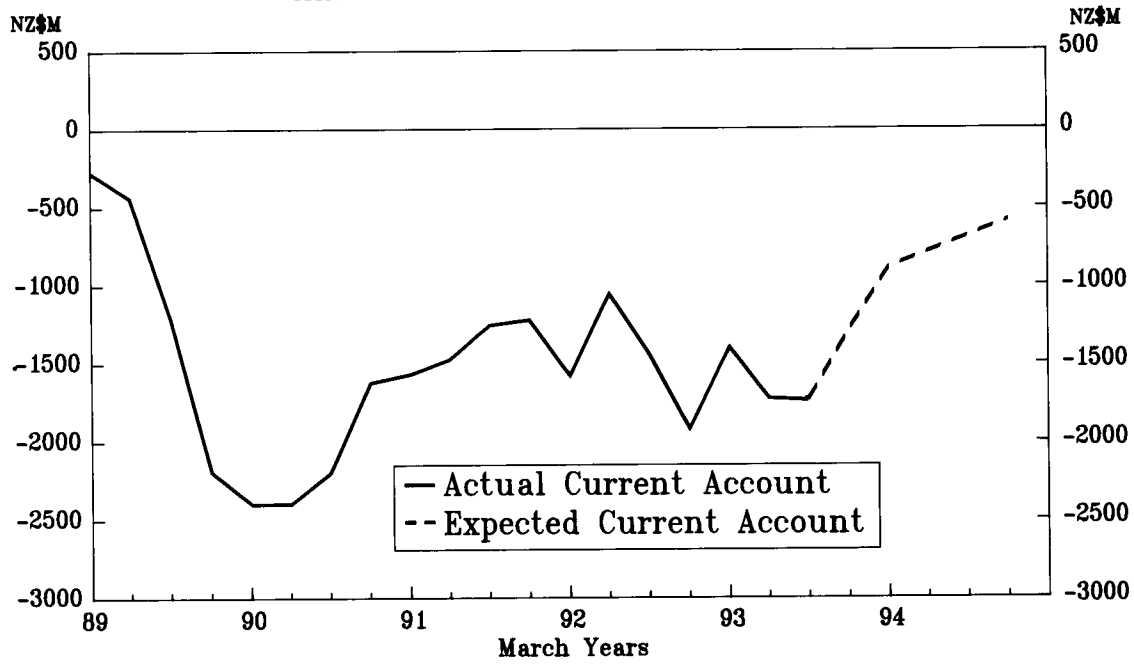
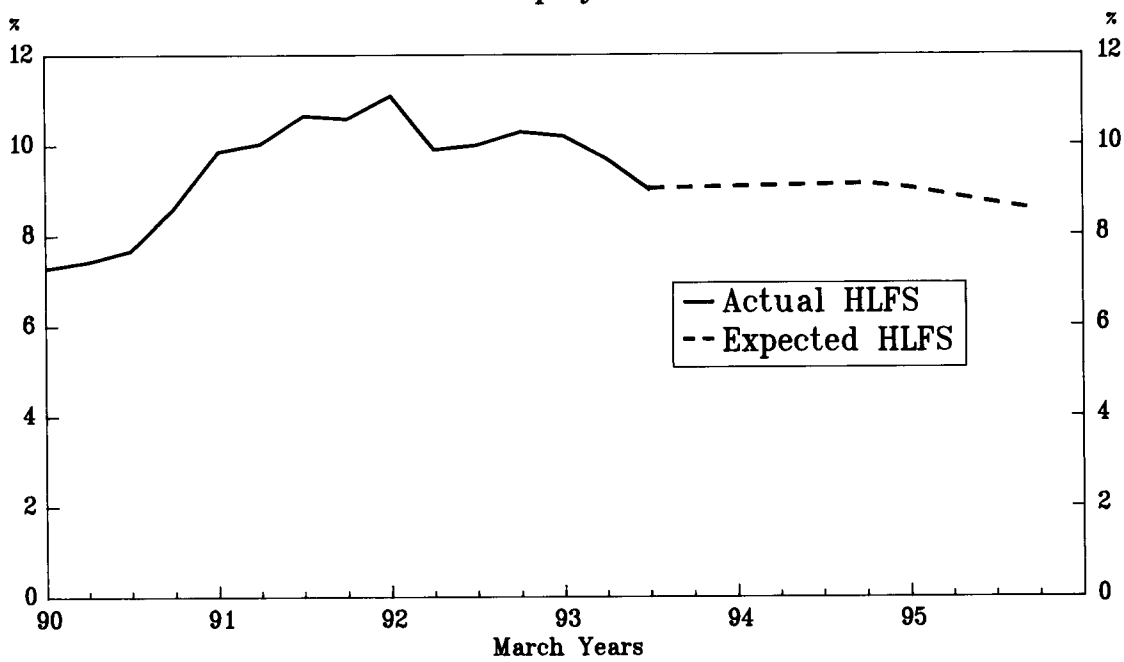


Figure 4.
Actual and Surveyed Expectations of the
HLFS Unemployment Rate



SURVEY OF EXPECTATIONS HISTORICAL RESULTS ¹

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	
Mar. 1993	1.7	13.3	34.7	33.5	15.6	1.2	0.0	
June 1993	0.6	4.3	25.8	47.2	19.6	2.5	0.0	
Sept. 1993	0.6	2.3	13.6	47.5	31.6	4.0	0.6	
Dec. 1993	0.0	0.6	14.6	49.0	29.9	5.7	0.0	
Mar. 1994	0.7	2.6	11.8	43.1	34.6	7.2	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. 1993	June 1993	1.7	6.4	27.7	40.5	21.4	2.3	0.0	
June 1993	Sept 1993	0.6	4.3	25.2	43.6	21.5	4.9	0.0	
Sept. 1993	Dec. 1993	0.6	1.7	15.3	51.4	27.7	3.4	0.0	
Dec. 1993	Mar. 1994	0.0	2.5	15.3	47.1	32.5	2.5	0.0	
Mar. 1994	June 1994	0.0	2.6	16.3	45.1	34.0	2.0	0.0	
Mar. 1993	Dec. 1993	1.7	5.2	17.9	52.0	20.2	2.9	0.0	
June 1993	Mar. 1994	0.6	2.5	22.7	50.3	20.2	3.1	0.6	
Sept. 1993	June 1994	1.1	1.1	18.1	53.1	23.7	2.8	0.0	
Dec. 1993	Sept. 1994	0.0	1.3	26.3	45.5	23.1	3.8	0.0	
Mar. 1994	Dec. 1994	0.7	3.9	30.1	39.2	25.5	0.7	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.	Mar. 93	June 93	Sept. 93	Dec. 93	Mar. 94
Reference Qtr.	Mar. 93	June 93	Sept. 93	Dec. 93	Mar. 94
Mean	5.7	5.4	4.6	4.8	4.7
Reference Qtr.	Dec. 93	Mar. 94	June 94	Sept. 94	Dec. 94
Mean	5.7	5.4	5.1	5.2	4.9

Prices:

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

Survey Qtr.	Mar. 93	June 93	Sept. 93	Dec. 93	Mar. 94
Reference Qtr.	Mar. 93	June 93	Sept. 93	Dec. 93	Mar. 94
Mean	0.6	0.5	0.5	0.4	0.3

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

Reference Qt	June 93	Sept. 93	Dec. 93	Mar 94	June 94
Mean	0.6	0.4	0.5	0.4	0.4

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

Survey Qtr.	Mar. 93	June 93	Sept. 93	Dec. 93	Mar 94
Reference Qtr.	Dec. 93	Mar 94	June 94	Sept. 94	Dec 94
Mean	1.8	1.5	1.5	1.6	1.4
Reference Qtr.	Dec. 94	Mar. 95	June 95	Sept. 95	Dec 95
Mean	1.9	1.7	1.7	1.7	1.7

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.	Mar. 93	June 93	Sept. 93	Dec. 93	Mar. 94
Reference Qtr.	Mar. 93	June 93	Sept. 93	Dec. 93	Mar. 94
Mean	7.2	6.6	5.7	5.3	4.5
Reference Qtr.	Dec. 93	Mar. 94	June 94	Sept. 94	Dec 94
Mean	6.8	6.4	5.6	5.2	4.7

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

Survey Qtr.	Mar. 93	June 93	Sept. 93	Dec. 93	Mar 94
Reference Qtr.	Mar. 93	June 93	Sept. 93	Dec. 93	Mar. 94
Mean	7.5	7.0	6.4	5.7	5.2
Reference Qtr.	Dec. 93	Mar. 94	June 94	Sept. 94	Dec 94
Mean	7.3	6.9	6.2	5.6	5.3

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.	Mar. 93	June 93	Sept. 93	Dec. 93	Mar 94
US Dollar					
Reference Qtr.	June 93	Sept. 93	Dec. 93	Mar. 94	June 94
Mean	0.518	0.542	0.549	0.557	0.570
Reference Qtr.	Dec. 93	Mar. 94	June 94	Sept. 94	Dec 94
Mean	0.521	0.544	0.552	0.560	0.571
Australian Dollar					
Reference Qtr.	Jun. 93	Sept. 93	Dec. 93	Mar. 94	June 94
Mean	0.761	0.769	0.805	0.834	0.802

Reference Qtr.	Dec. 93	Mar. 94	June 94	Sept. 94	Dec 94
Mean	0.762	0.772	0.806	0.836	0.802

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.	Dec. 93	Mar 94
Reference Qtr.	Mar. 94	June 94
Mean	56.4	57.0

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.	Dec. 93	Mar 94
Reference Qtr.	Sept. 94	Dec 94
Mean	56.6	57.2

Others:

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

Survey Qtr.	Mar. 93	June 93	Sept. 93	Dec. 93	Mar. 94
Reference Qtr.	Dec. 92	Mar. 93	June 93	Sept. 93	Dec 93
Mean	0.8	0.8	0.8	0.8	1.2
Reference Qtr.	Mar. 93	June 93	Sept. 93	Dec. 93	Mar. 94
Mean	0.9	0.9	0.8	0.9	1.2

Q.12 What is your expectation of the annual average % change in the real Gross Domestic Product (GDP) index for the year to (reference quarter):

Survey Qtr.	Mar. 93	June 93	Sept. 93	Dec. 93	Mar. 94
Reference Qtr.	Dec. 93	Mar. 94	June 94	Sept. 94	Dec 94
Mean	2.4	2.7	2.7	3.1	4.1
Reference Qtr.				Sept. 95	Dec 95
Mean	-	-	-	3.1	3.8

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.	Mar. 93	June 93	Sept. 93	Dec. 93	Mar. 94
Reference Qtr.	Mar. 93	June 93	Sept. 93	Dec. 93	Mar. 94
Mean	-1.1	-1.1	-0.8	-0.7	-0.9
Reference Qtr.	Dec. 93	Mar. 94	June 94	Sept. 94	Dec 94
Mean	-0.9	-0.9	- 0.5	-0.4	-0.6

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

Survey Qtr.	Mar. 93	June 93	Sept. 93	Dec. 93	Mar. 94
Reference Qtr.	June 93	June 93	June 94	June 94	June 94
Mean	-2.5	-1.9	-1.6	-1.4	-0.8
Reference Qtr.	June 94	June 94	June 95	June 95	June 95
Mean	-2.2	-1.6	-1.3	-0.9	-0.2

Q.15 What is your expectation of the annual % change in the Labour Cost Index (covering all surveyed labour costs) for the year to (reference quarter):

Survey Qtr.	Mar. 93	June 93	Sept. 93	Dec. 93	Mar. 94
Reference Qtr.	Dec. 93	Mar. 94	June 94	Sept. 94	Dec. 94
Mean	1.6	1.7	1.7	1.8	1.8
Reference Qtr.	Dec. 94	Mar. 95	June 95	Sept. 95	Dec. 95
Mean	2.0	2.1	2.1	2.2	2.2

Q.16 What is your expectation of the official HLFS unemployment rate for (reference quarter):

Survey Qtr.	Mar. 93	June 93	Sept. 93	Dec. 93	Mar. 94
Reference Qtr.	Dec. 93	Mar. 94	June 94	Sept. 94	Dec. 94
Mean	10.4	10.1	9.8	9.7	9.1
Reference Qtr.				Sept. 95	Dec. 95
Mean	-	-	-	9.2	8.5