

# Survey of Expectations

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## Introduction

The latest RBNZ Survey of Expectations was conducted on Wednesday 10 August 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 66 percent, with 167 of the 252 respondents in this quarter's sample having returned their completed questionnaires by the cut-off date.

The distribution across activity groups was:

Financial	..	64
Business	..	57
Agriculture	..	19
Labour	..	10
Other	..	17
TOTAL		167

## Summary of Results

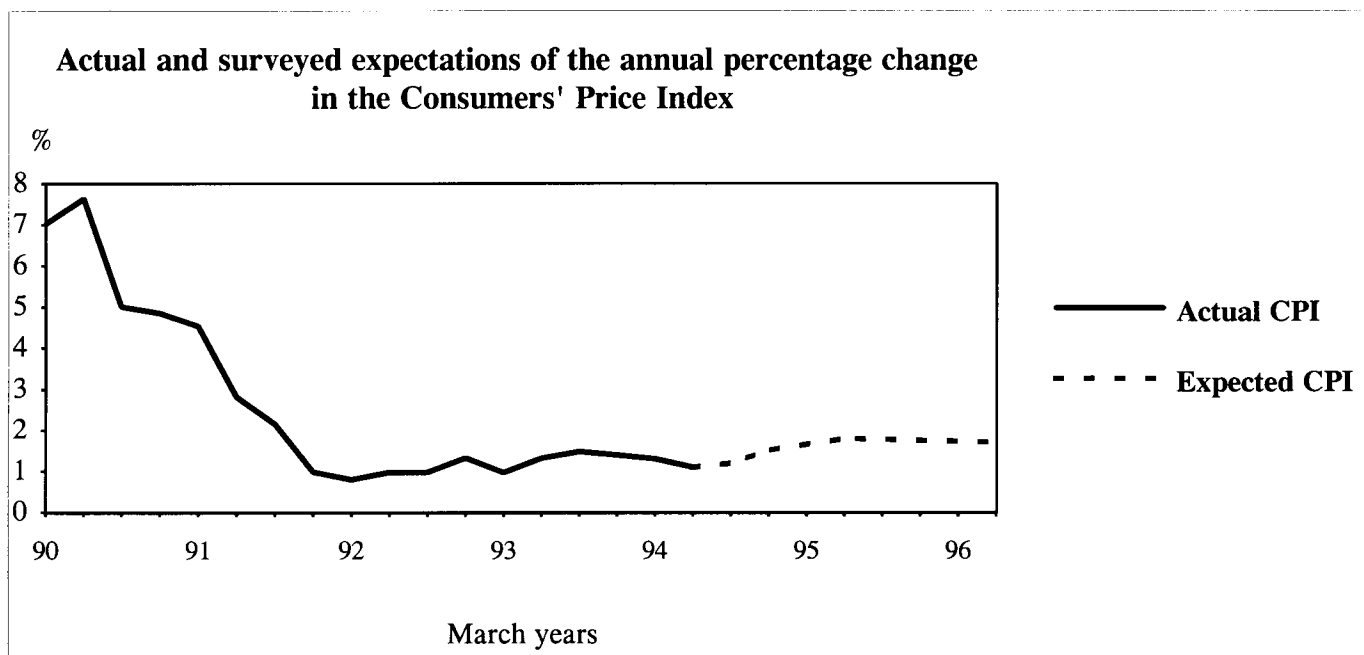
- **Monetary conditions perceived to be tighter.**

Monetary conditions are perceived to be tighter than in our June survey, with a net 42 percent of respondents believing conditions to be tighter than neutral. The corresponding figure for the last survey was a net 11 percent of respondents believing conditions to be tighter than neutral. Respondents expect monetary conditions to further tighten over the year, with a net 50 percent expecting conditions to be tighter than neutral by June 1995.

- **Inflation expectations slightly higher.**

Respondents expect the CPI inflation rate to rise by 0.6 percent in the September quarter and 0.5 percent in the December quarter (implicitly, 1.2 percent and 1.5 percent in the years to September and December respectively). In the May survey, inflation expectations were 0.4 percent for both the June and September quarters. For the year to June 1995, CPI inflation is expected to be 1.8 percent, compared with 1.4 percent one-year-ahead expectation recorded in May. A 1.7 percent increase in the CPI is expected for the year to June 1996.

Figure 1



- **Labour costs expectations slightly higher.**

The labour cost index is expected to rise by 2.1 and 2.3 percent in the years to June 1995 and 1996 respectively. The corresponding figures for the last survey were increases of 1.9 and 2.2 percent for the years to March 1995 and March 1996.

- **Interest rates expectations rise.**

Respondents expect both short and long term interest rates to reach higher levels over the next year than anticipated in the May survey. At the end of June 1995, the 90 day bill rate and the five year government stock rate are expected to be 7.0 percent and 7.7 percent respectively. This implies an expected positive yield gap of 0.7 percent.

- **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 57.8 at the end of the December 1994 quarter and appreciate to 58.4 by the end of the June 1995 quarter.

- **Continued strong GDP growth expectations.**

Respondents expect real GDP to increase by 1.2 percent in the June 1994 quarter and by 1.1 percent in the September 1994 quarter. For the year to June 1995 respondents expect GDP growth of 4.2 percent, up from the 3.8 percent growth for the year to March 1994 expected at the time of the June survey. A 3.9 percent increase in GDP is expected for the year to June 1996.

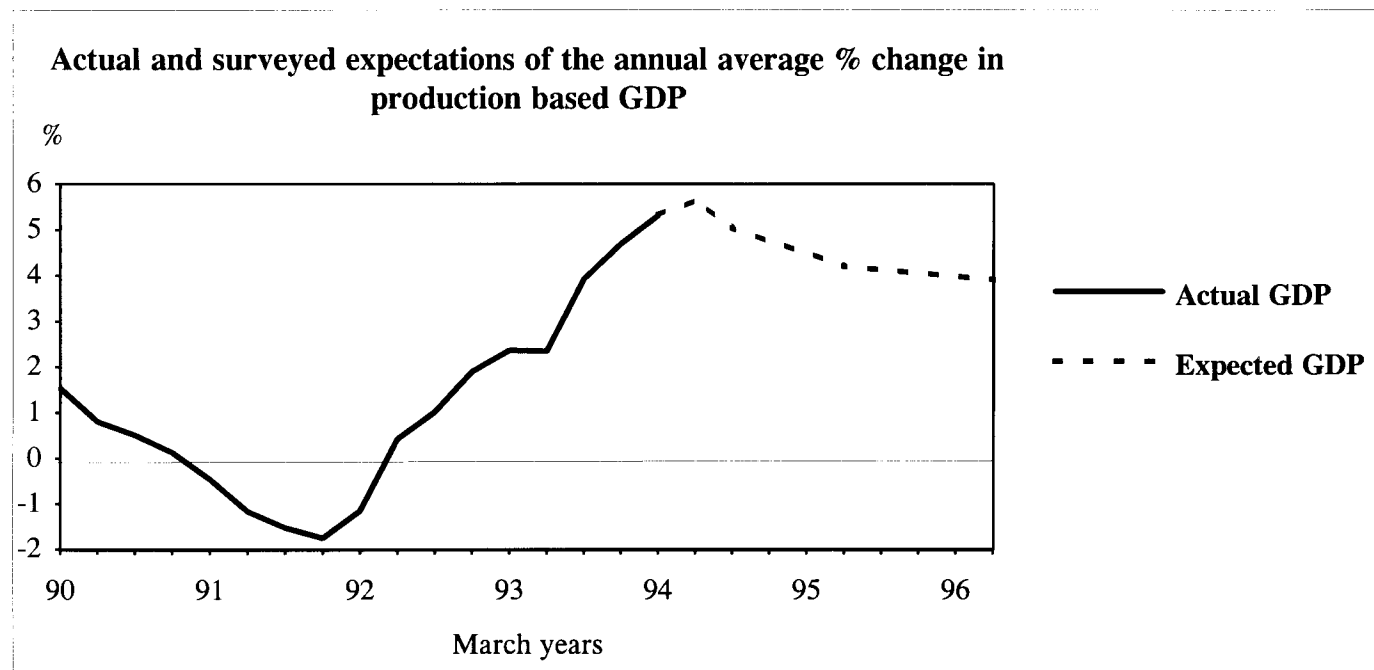
- **Increased fiscal surplus expected.**

A financial surplus of \$1 billion is expected in the year to June 1995, compared with an expected \$200 million surplus for the year to June 1994 in the previous survey. A further increase in the surplus to \$1.8 billion is expected for the following year.

- **Expectations of current account deficit little changed.**

The current account deficit for the year ended September 1994 is expected to be \$1.2 billion, unchanged from the figure expected in the May survey. Respondents expect the current account deficit to narrow to \$1.1 billion over the year to June 1995.

**Figure 2**



- **Unemployment expectations decline.**

The HLFS unemployment rate is expected to be 8.8 percent in the June quarter 1995, unchanged from the figure anticipated for the March quarter 1995 in the May survey. An improvement to 8.2 percent is expected by June 1996.

The next RBNZ Survey of Expectations is tentatively scheduled for 9 November 1994, with results to be published in the September issue of the Bulletin

- **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.

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**Figure 3**

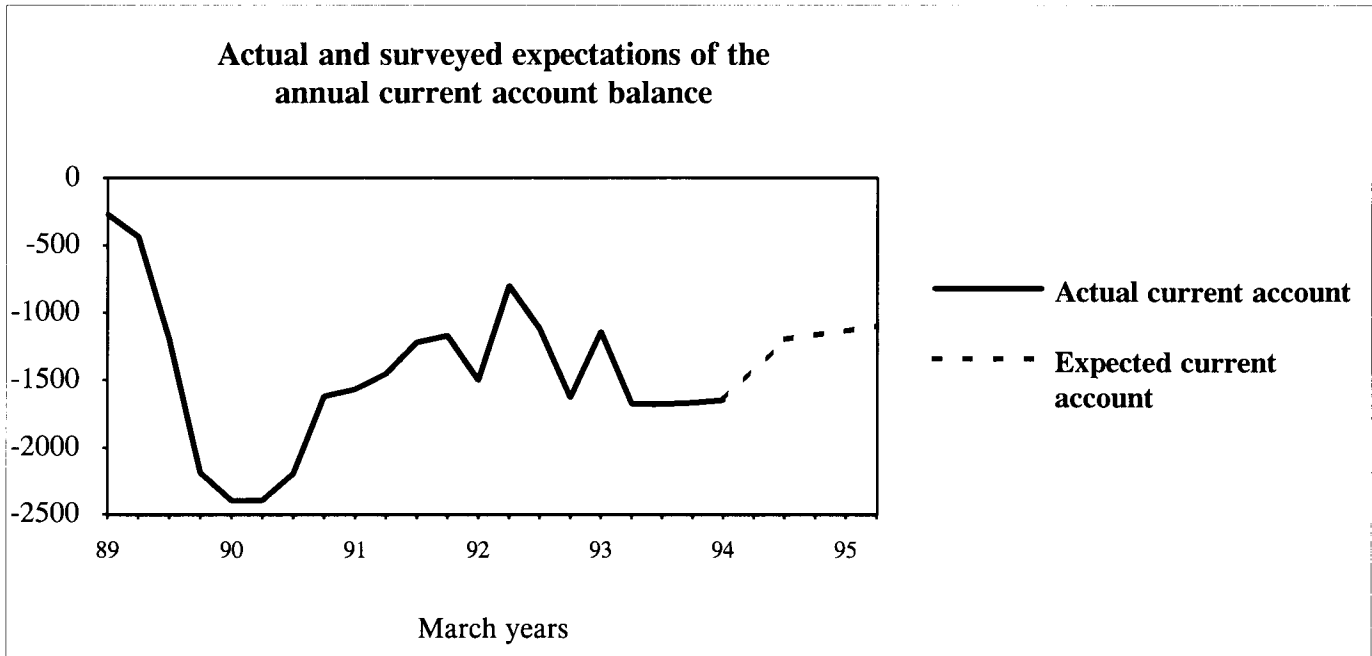
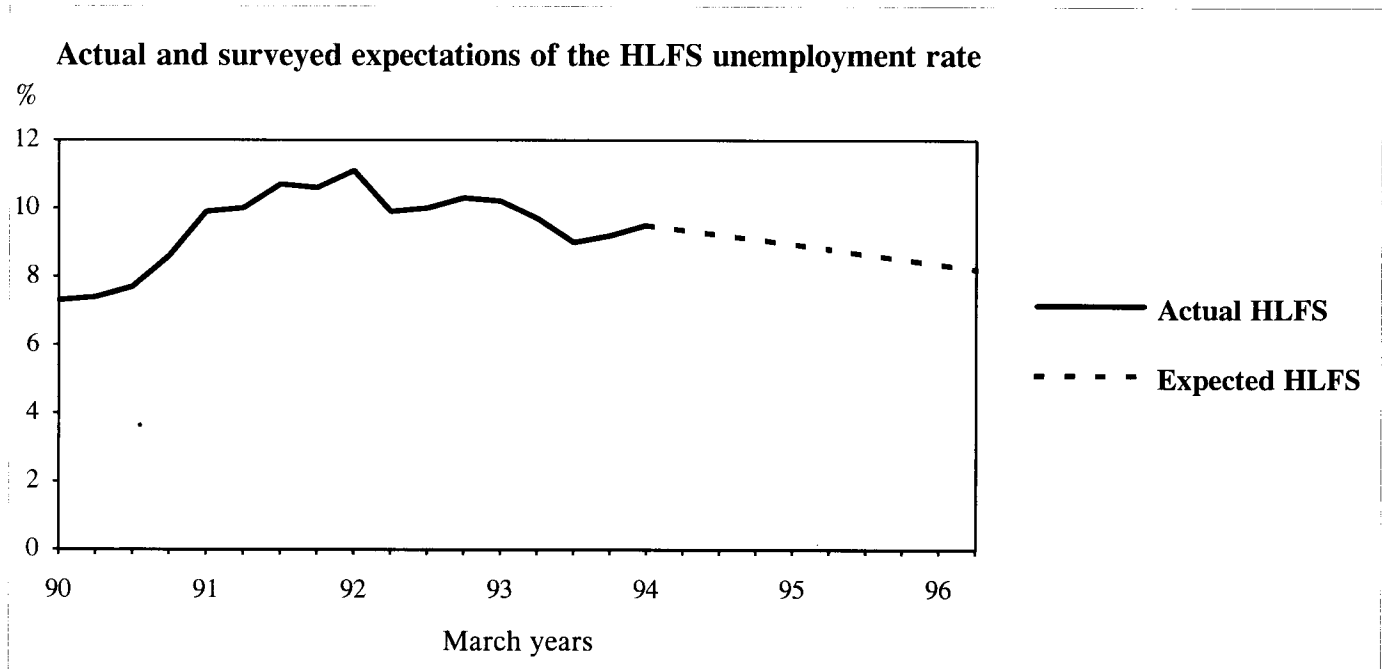


Figure 4



# Survey of expectations - historical results<sup>1</sup>

## Monetary Conditions:<sup>2</sup>

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	
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
June 1994	0.0	2.8	30.1	44.8	18.2	3.5	0.7
Sept 1994	0.0	8.5	44.8	35.2	10.9	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	
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
June 1994	Sept. 1994	0.0	2.1	30.1	47.6	17.5	2.1	0.7
Sept. 1994	Dec. 1994	0.6	22.4	43.6	24.8	7.3	1.2	0.0
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
June 1994	Mar. 1995	0.7	7.0	30.8	46.2	12.6	1.4	1.4
Sept. 1994	June 1995	1.2	20.0	40.0	27.9	9.7	1.2	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.	Sept. 93	Dec. 93	Mar. 94	June 94	Sept. 94
Reference Qtr.	Sept. 93	Dec. 93	Mar. 94	June 94	Sept. 94
Mean	4.6	4.8	4.7	5.6	6.6
Reference Qtr.	June 94	Sept. 94	Dec. 94	Mar. 95	June 95
Mean	5.1	5.2	4.9	5.5	6.4

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

**Prices:**

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

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

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

Survey Qtr.	Sept. 93	Dec. 93	Mar. 94	June 94	Sept. 94
Reference Qtr. Mean	June 94 1.5	Sept. 94 1.6	Dec. 94 1.4	Mar. 95 1.4	June 95 1.8
Reference Qtr. Mean	June 95 1.7	Sept. 95 1.7	Dec. 95 1.7	Mar. 96 1.6	June 96 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.	Sept. 93	Dec. 93	Mar. 94	June 94	Sept. 94
Reference Qtr. Mean	Sept. 93 5.7	Dec. 93 5.3	Mar. 94 4.5	June 94 6.0	Sept. 94 7.0
Reference Qtr. Mean	June 94 5.6	Sept. 94 5.2	Dec. 94 4.7	Mar. 95 6.0	June 95 7.0

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

Survey Qtr.	Sept. 93	Dec. 93	Mar. 94	June 94	Sept. 94
Reference Qtr. Mean	Sept. 93 6.4	Dec. 93 5.7	Mar. 94 5.2	June 94 6.8	Sept. 94 7.8
Reference Qtr. Mean	June 94 6.2	Sept. 94 5.6	Dec. 94 5.3	Mar. 95 6.7	June 95 7.7

**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.	Sept. 93	Dec. 93	Mar. 94	June 94	Sept. 94
US Dollar					
Reference Qtr.	Dec. 93	Mar. 94	June 94	Sept. 94	Dec. 94
Mean	0.549	0.557	0.570	0.578	0.605
Reference Qtr.	June 94	Sept. 94	Dec. 94	Mar. 95	June 95
Mean	0.552	0.560	0.571	0.583	0.612
Australian Dollar					
Reference Qtr.	Dec. 93	Mar. 94	June 94	Sept. 94	Dec. 94
Mean	0.805	0.834	0.802	0.804	0.812
Reference Qtr.	June 94	Sept. 94	Dec. 94	Mar. 95	June 95
Mean	0.806	0.836	0.802	0.808	0.814

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	June 94	Sept. 94
Reference Qtr.	Mar. 94	June 94	Sept. 94	Dec. 94
Mean	56.4	57.0	57.0	57.8

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	June 94	Sept. 94
Reference Qtr.	Sept. 94	Dec. 94	Mar. 95	June 95
Mean	56.6	57.2	57.5	58.4

**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.	Sept. 93	Dec. 93	Mar. 94	June 94	Sept. 94
Reference Qtr.	June 93	Sept. 93	Dec. 93	Mar. 94	June 94
Mean	0.8	0.8	1.2	1.1	1.2
Reference Qtr.	Sept. 93	Dec. 93	Mar. 94	June 94	Sept. 94
Mean	0.8	0.9	1.2	1.0	1.1

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.	Sept. 93	Dec. 93	Mar. 94	June 94	Sept. 94
Reference Qtr.	June 94	Sept. 94	Dec. 94	Mar. 95	June 95
Mean	2.7	3.1	4.1	3.8	4.2
Reference Qtr.		Sept. 95	Dec. 95	Mar. 96	June 96
Mean	-	3.1	3.8	3.5	3.9

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.	Sept. 93	Dec. 93	Mar. 94	June 94	Sept. 94
Reference Qtr.	Sept. 93	Dec. 93	Mar. 94	June 94	Sept. 94
Mean	-0.8	-0.7	-0.9	-1.2	-1.2
Reference Qtr.	June 94	Sept. 94	Dec. 94	Mar. 95	June 95
Mean	-0.5	-0.4	-0.6	-1.0	-1.1

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

Survey Qtr.	Sept. 93	Dec. 93	Mar. 94	June 94	Sept. 94
Reference Qtr.	June 94	June 94	June 94	June 94	June 95
Mean	-1.6	-1.4	-0.8	0.2	1.0
Reference Qtr.	June 95	June 95	June 95	June 95	June 96
Mean	-1.3	-0.9	-0.2	0.9	1.8

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.	Sept. 93	Dec. 93	Mar. 94	June 94	Sept. 94
Reference Qtr.	June 94	Sept. 94	Dec. 94	Mar. 95	June 95
Mean	1.7	1.8	1.8	1.9	2.1
Reference Qtr.	June 95	Sept. 95	Dec. 95	Mar. 96	June 96
Mean	2.1	2.2	2.2	2.2	2.3

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

Survey Qtr.	Sept. 93	Dec. 93	Mar. 94	June 94	Sept. 94
Reference Qtr.	June 94	Sept. 94	Dec. 94	Mar. 95	June 95
Mean	9.8	9.7	9.1	8.8	8.8
Reference Qtr.		Sept. 95	Dec. 94	Mar. 96	June 96
Mean	-	9.2	8.5	8.3	8.2