

# Survey of Expectations

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This article presents the results from the September 1996 quarter Reserve Bank of New Zealand Survey of Expectations.

## I Introduction

The latest RBNZ Survey of Expectations was conducted on Wednesday 7 August 1996. Note that the results of the survey represent expectations held by respondents and in no way represent views or forecasts of the Reserve Bank.

## II Sample composition

The response rate for this quarter was 58 percent, with 148 of the 254 respondents in this quarter's sample having returned their completed questionnaires by the cut-off date.

The distribution across activity groups was:

Financial	..	46
Business	..	59
Agriculture	..	22
Labour	..	10
Other	..	11
TOTAL		148

## III Summary of results

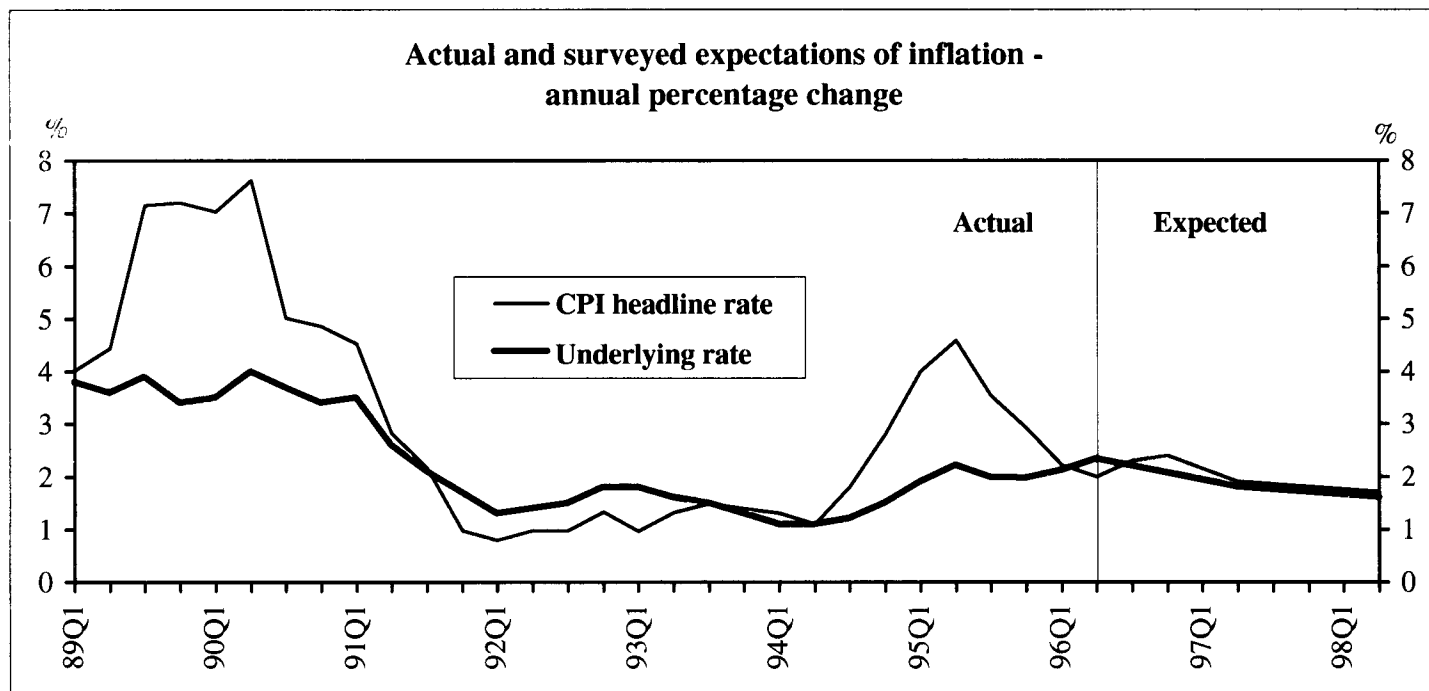
### • Monetary conditions are perceived to have tightened

Monetary conditions are perceived to have tightened slightly since the May survey, with a net 89 percent of respondents believing conditions to be tighter than neutral. The corresponding figure for the May survey was 85 percent, while for the February survey the figure was 74 percent. Respondents anticipate monetary conditions will have eased somewhat by the end of December 1996, with a net 66 percent of respondents expecting monetary conditions to be tighter than neutral at that time. By June 1997, 36 percent of respondents expect conditions to be tighter than neutral.

### • One-year-ahead inflation expectations have risen slightly

Respondents expect the Consumers Price Index (CPI) to rise by 0.6 percent in the September 1996 quarter (up from 0.5 percent in the previous survey), and by 0.5 percent in

Figure 1



the December 1996 quarter (implicitly 2.3 percent and 2.4 percent for the years to September and December respectively). For the year to June 1997, CPI inflation is expected to be 1.9 percent, compared with a 1.8 percent one-year-ahead expectation recorded in May. CPI inflation is expected to have fallen to 1.7 percent by June 1998.

- **Underlying inflation expectations have risen**

Underlying inflation is expected to be 1.8 percent in the year to June 1997, and to fall to 1.6 percent by March 1998. The one and two-year-ahead underlying inflation expectations recorded in the May survey were 1.6 and 1.5 percent respectively.

- **One-year-ahead labour cost expectations are unchanged**

The labour cost index is expected to increase by 2.6 percent in the year to June 1997 and to increase by 2.4 percent the following year. In the May survey, both one and two-year-ahead expectations were 2.6 percent.

- **A fall in interest rates is expected next year**

At the end of September 1996, the 90-day bank bill rate is expected to be 9.8 percent, about the same as the rate prevailing at the time of the survey was completed. Respondents expect the 90-day bank bill rate to have fallen to 8.7 percent by the end of June 1997. 10-year Government Security yields are expected to be 7.8 percent by the end of June 1997. This implies an expected negative yield gap of 0.9 percentage points in June 1997.

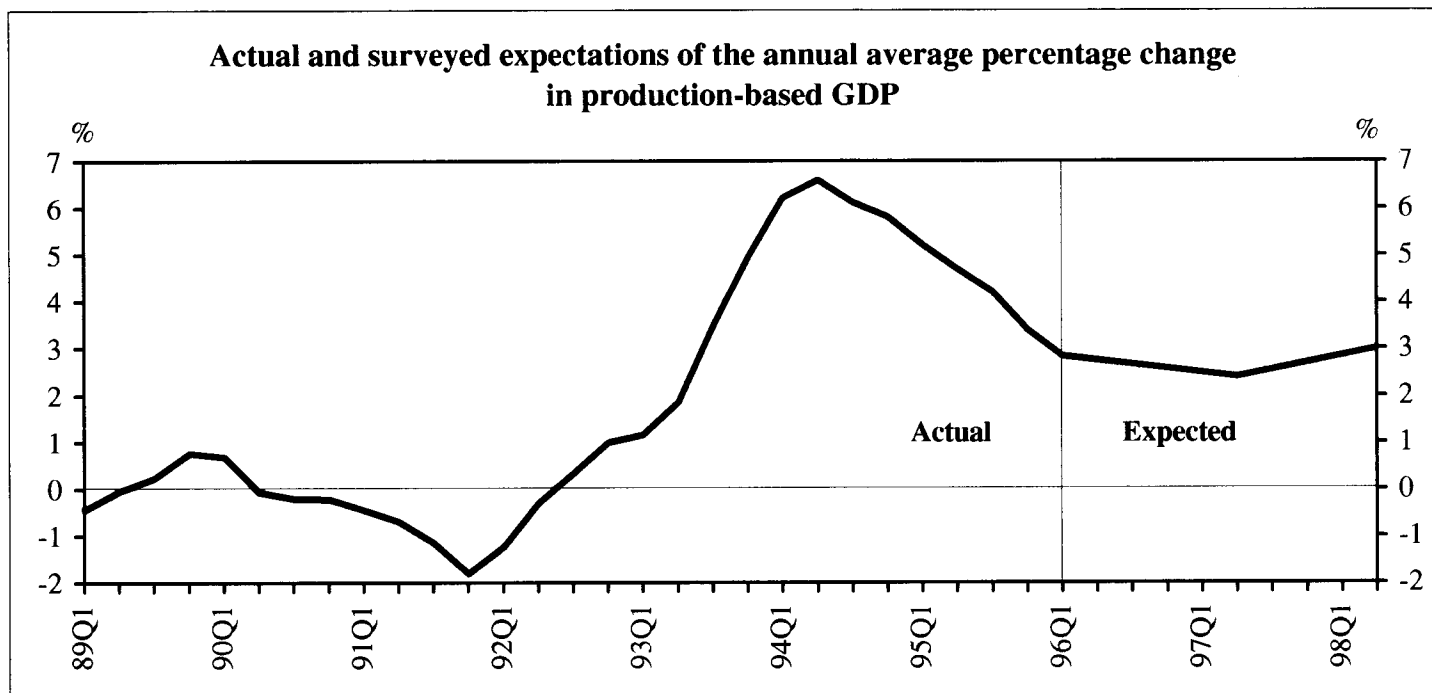
- **The trade-weighted exchange rate is expected to remain relatively stable**

The trade-weighted exchange rate index of the New Zealand dollar (TWI) is expected to be 65.0 at the end of December 1996, and to be 64.9 by the end of June 1997. The TWI at the time the survey was taken was 65.3.

- **One and two-year-ahead GDP growth expectations have fallen**

Respondents expect real GDP to have increased by 0.5 percent in the June 1996 quarter and also to increase by

**Figure 2**



0.5 percent in the September 1996 quarter. For the year ending June 1997, respondents expect GDP growth of 2.4 percent, down from the 2.6 percent expected for the year to March 1997 in the last survey. A 3.0 percent increase in GDP is expected for the year to June 1998.

- **The fiscal surplus is expected to diminish**

A financial surplus of \$2.8 billion is expected in the year to June 1997, compared with \$2.6 billion in the May survey. A surplus of \$2.5 billion is predicted for the year to June 1998.

- **The current account deficit is expected to narrow slightly**

The current account deficit for the year ended September 1996 is expected to be \$3.4 billion, a little lower than the

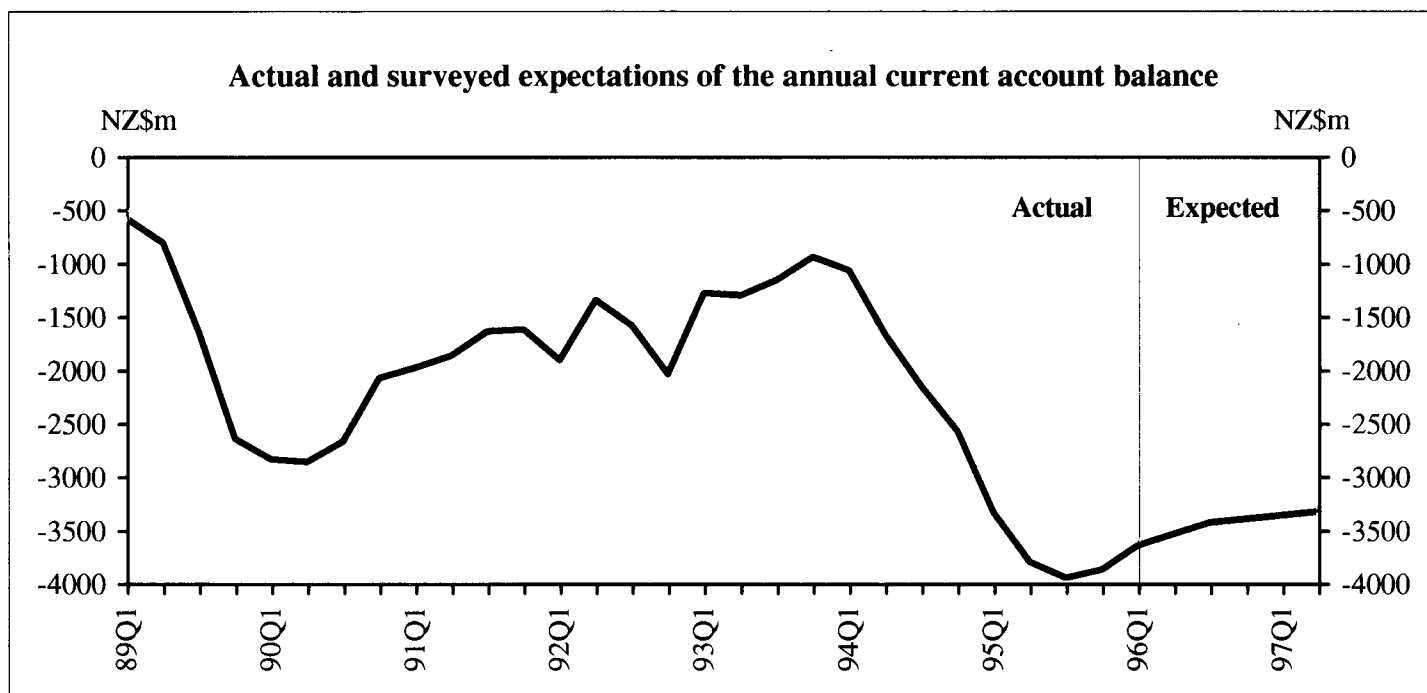
current level. This compares with an expectation of \$3.5 billion for the year to June 1996 recorded in the previous survey. Respondents expect the current account deficit to narrow to \$3.3 billion over the year to June 1997.

- **Unemployment is expected to increase slightly**

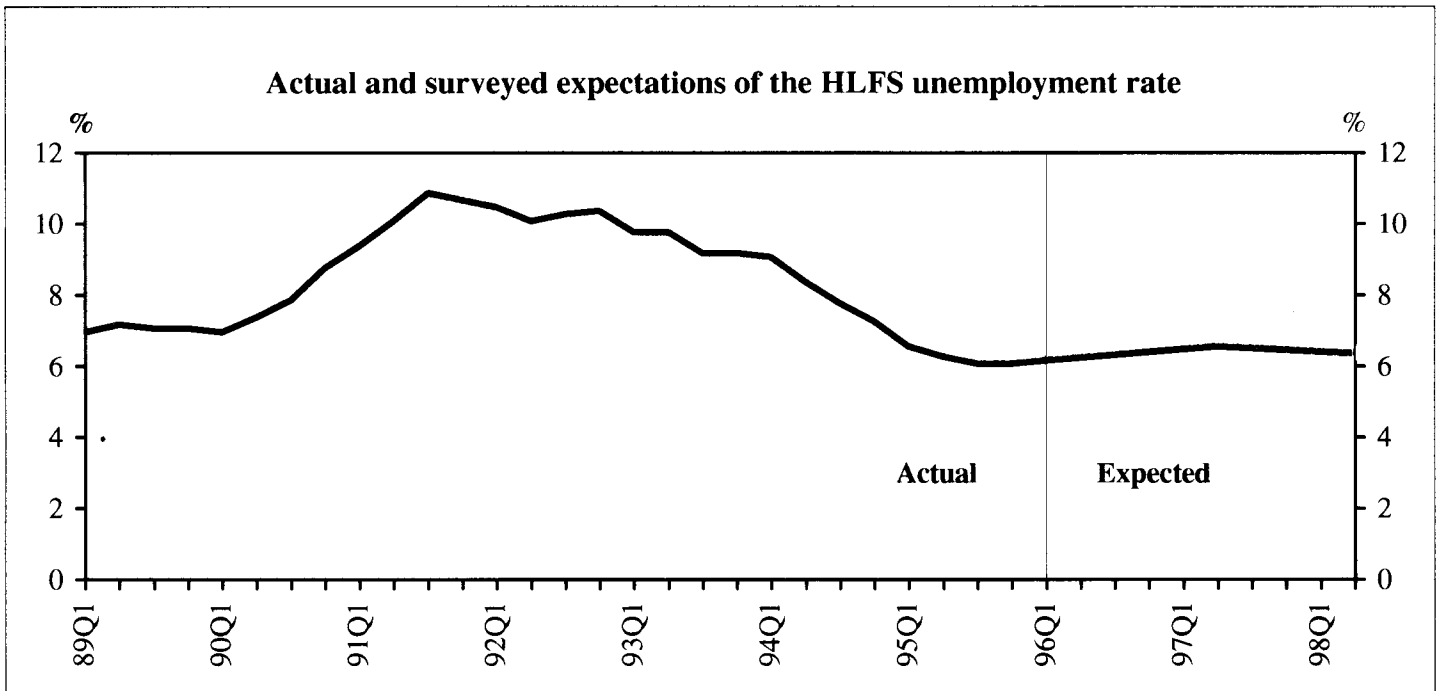
The Household Labour Force Survey unemployment rate is expected to have increased to 6.6 percent by June 1997, but to have fallen back to 6.4 percent by June 1998.

The next RBNZ Survey of Expectations is tentatively scheduled for 6 November 1996, with results to be published in the December 1996 issue of the Bulletin.

**Figure 3**



**Figure 4**



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

## Monetary conditions:

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	
Sept 1995	1.4	26.2	49.7	13.1	9.0	0.7	0.0	
Dec 1995	0.0	14.7	47.2	20.2	16.6	0.6	0.6	
Mar 1996	7.2	33.8	38.8	14.4	5.0	0.7	0.0	
June 1996	19.7	42.3	29.6	2.1	2.8	2.8	0.7	
Sept 1996	11.0	44.5	37.0	4.1	2.7	0.7	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	
Sept 1995	Dec 1995	0.0	9.6	47.9	26.7	14.4	1.4	0.0	
Dec 1995	Mar 1996	0.0	5.6	37.0	34.0	21.0	1.9	0.6	
Mar 1996	June 1996	2.2	25.9	46.0	20.1	5.0	0.7	0.0	
June 1996	Sept 1996	4.9	34.5	40.1	14.1	5.6	0.0	0.7	
Sept 1996	Dec 1996	2.7	21.9	48.6	19.2	7.5	0.0	0.0	
Sept 1995	June 1996	0.0	2.1	22.4	53.8	18.9	2.8	0.0	
Dec 1995	Sept 1996	0.0	7.5	30.6	38.8	20.0	2.5	0.6	
Mar 1996	Dec 1996	0.7	13.0	44.2	35.5	6.5	0.0	0.0	
June 1996	Mar 1997	0.7	10.0	42.9	35.7	8.6	1.4	0.7	
Sept 1996	June 1997	1.4	4.9	43.8	35.4	12.5	2.1	0.0	

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

Survey qtr	Reference quarter (mean)							
	Sept 1995	Dec 1995	Mar 1996	June 1996	Sept 1996	Dec 1996	Mar 1997	June 1997
Sept 1995	6.5			5.9				
Dec 1995		6.8			6.0			
Mar 1996			7.1			6.0		
June 1996				8.2			6.5	
Sept 1996					8.7			7.1

1 In the tables of results 'survey quarter' refers to the quarter in which a survey was undertaken, while 'reference quarter' refers to the quarter (period ended or the quarter itself) for which the expectation was held.

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

**Prices:**

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

Survey qtr	Reference quarter (mean)					
	Sept	Dec	Mar	June	Sept	Dec
	<u>1995</u>	<u>1995</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>
Sept 1995	0.7	0.5				
Dec 1995		0.5	0.4			
Mar 1996			0.5	0.4		
June 1996				0.5	0.5	
Sept 1996					0.6	0.5

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

Survey qtr	Reference quarter (mean)								
	June	Sept	Dec	Mar	June	Sept	Dec	Mar	June
	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1997</u>	<u>1997</u>	<u>1997</u>	<u>1997</u>	<u>1998</u>	<u>1998</u>
Sept 1995	2.0				1.8				
Dec 1995		1.8				1.9			
Mar 1996			1.9				1.8		
June 1996				1.8				1.7	
Sept 1996					1.9				1.7

Q.5b *What annual percentage change do you expect in the underlying inflation rate for the year to (reference quarter)?*

Survey qtr	Reference quarter (mean)								
	Sept	Dec	Mar	June	Sept	Dec	Mar	June	
	<u>1996</u>	<u>1996</u>	<u>1997</u>	<u>1997</u>	<u>1997</u>	<u>1997</u>	<u>1998</u>	<u>1998</u>	
Dec 1995	1.5				1.6				
Mar 1996		1.6				1.5			
June 1996			1.6				1.5		
Sept 1996				1.8				1.6	

**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	Reference quarter (mean)							
	Sept	Dec	Mar	June	Sept	Dec	Mar	June
	<u>1995</u>	<u>1995</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1997</u>	<u>1997</u>
Sept 1995	8.7			7.8				
Dec 1995		8.2			7.8			
Mar 1996			8.2			8.0		
June 1996				9.5			8.7	
Sept 1996					9.8			8.7

Q.7 What do you expect the 10-year Government Security market yield to be at the end of (reference quarter)?

Survey	Reference quarter						
	(mean)						
qtr	Dec	Mar	June	Sept	Dec	Mar	June
	<u>1995</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1997</u>	<u>1997</u>
Dec 1995	7.3			7.1			
Mar 1996		7.1			7.1		
June 1996			8.5			8.0	
Sept 1996				8.4			7.8

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

Survey	Reference quarter						
	(mean)						
qtr	Dec	Mar	June	Sept	Dec	Mar	June
	<u>1995</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1997</u>	<u>1997</u>
<i>US dollar</i>							
Sept 1995	0.664		0.665				
Dec 1995		0.656		0.658			
Mar 1996			0.669		0.669		
June 1996				0.676		0.675	
Sept 1996					0.681		0.682
<i>Australian dollar</i>							
Sept 1995	0.905		0.910				
Dec 1995		0.876		0.882			
Mar 1996			0.896		0.900		
June 1996				0.860		0.860	
Sept 1996					0.876		0.875

Q.9 What is your expectation of the level of the Reserve Bank Trade Weighted Index (TWI) at the end of (reference quarter)?

Survey	Reference quarter				
	(mean)				
qtr	Dec	Mar	June	Sept	Dec
	<u>1995</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>
Sept 1995	61.7				
Dec 1995		62.1			
Mar 1996			64.5		
June 1996				64.2	
Sept 1996					65.0

Q.10 *What is your expectation of the level of the Reserve Bank Trade Weighted Index (TWI) at the end of (reference quarter)?*

Survey	Reference quarter				
	June	Sept	Dec	Mar	June
qtr	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1997</u>	<u>1997</u>
Sept 1995	62.0				
Dec 1995		62.4			
Mar 1996			64.5		
June 1996				64.3	
Sept 1996					64.9

**Other questions:**

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

Survey	Reference quarter				
	Sept	Dec	Mar	June	Sept
qtr	<u>1995</u>	<u>1995</u>	<u>1996</u>	<u>1996</u>	<u>1996</u>
Sept 1995	0.8				
Dec 1995	0.7	0.7			
Mar 1996		0.6	0.7		
June 1996			0.5	0.5	
Sept 1996				0.5	0.5

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

Survey	Reference quarter									
	June	Sept	Dec	Mar	June	Sept	Dec	Mar	June	
qtr	<u>1996</u>	<u>1996</u>	<u>1996</u>	<u>1997</u>	<u>1997</u>	<u>1997</u>	<u>1997</u>	<u>1998</u>	<u>1998</u>	
Sept 1995	3.4				3.4					
Dec 1995		3.0				3.5				
Mar 1996			3.0				3.4			
June 1996				2.6				3.2		
Sept 1996					2.4				3.0	



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	Reference quarter (mean)							
	Sept 1995	Dec 1995	Mar 1996	June 1996	Sept 1996	Dec 1996	Mar 1997	June 1997
Sept 1995	-2.1			-1.8				
Dec 1995		-2.4			-2.0			
Mar 1996			-2.9			-2.7		
June 1996				-3.5			-3.4	
Sept 1996					-3.4			-3.3

Q.14 *What is your expectation of the Government financial balance (in \$ billions) for the fiscal year to (reference quarter)?*

Survey qtr	Reference quarter (mean)									
	June 1996	Sept 1996	Dec 1996	Mar 1997	June 1997	Sept 1997	Dec 1997	Mar 1998	June 1998	
Sept 1995	3.0				3.0					
Dec 1995	3.0				3.1					
Mar 1996	2.9				2.9					
June 1996	3.3				2.6					
Sept 1996					2.8				2.5	

Q.15 *What is your expectation of the annual percentage change in the labour cost index (covering all surveyed labour costs) for the year to (reference quarter)?*

Survey qtr	Reference quarter (mean)									
	June 1996	Sept 1996	Dec 1996	Mar 1997	June 1997	Sept 1997	Dec 1997	Mar 1998	June 1998	
Sept 1995	2.4				2.4					
Dec 1995		2.4				2.4				
Mar 1996			2.4				2.4			
June 1996				2.6				2.6		
Sept 1996					2.6				2.4	

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

Survey qtr	Reference quarter (mean)									
	June 1996	Sept 1996	Dec 1996	Mar 1997	June 1997	Sept 1997	Dec 1997	Mar 1998	June 1998	
Sept 1995	6.7				6.4					
Dec 1995		6.5				6.2				
Mar 1996			6.3				6.1			
June 1996				6.4				6.4		
Sept 1996					6.6				6.4	