

Quarterly Survey of Business Opinion – Q1 2023

4 April 2023



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Data summary

	Latest
Headline business confidence (actual)	-66
Headline business confidence (sa)	-61
Domestic trading activity (sa, past)	-10
Domestic trading activity (sa, expected)	-8
CUBO (actual)	94.0%
Avg selling price – next 3 months	61

Going the right way for the RBNZ, slowly

The bottom line

The Q1 Quarterly Survey of Business Opinion (QSBO) lifted from Q4's record low, with the likes of headline confidence, activity, pricing and cost indicators moving broadly in line with our [Business Outlook](#):

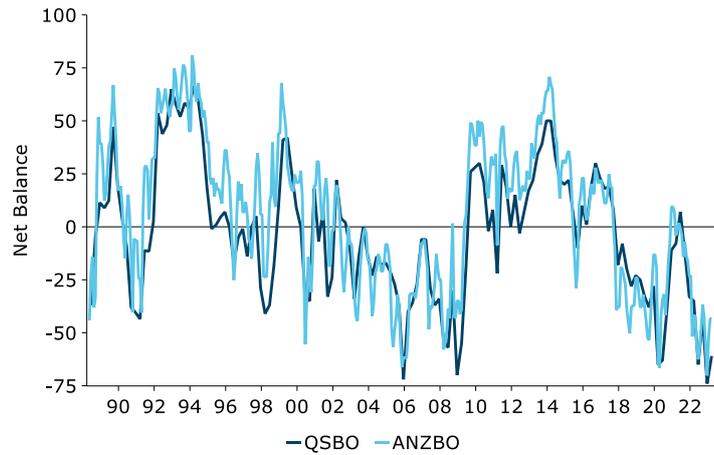
- The shock value from the hawkish November Monetary Policy Statement appears to have worn off a touch, with Q1 business confidence lifting, while remaining firmly in pessimistic territory.
- Activity indicators also generally lifted in the quarter, but not enough to challenge the narrative that broad economic momentum is softening as headwinds take a toll.
- Employment intentions lifted, but that may be more a story of migration/softening labour market as it becomes easier to find workers (ie not a shift in underlying labour demand, which we expect to continue softening).
- More pricing and costs indicators fell in the quarter than lifted, but they all remain too high.
- Labour as a limiting factor on production eased a little further, but remains at a multi-decade high. Sales overtook labour as a limiting factor, suggesting the RBNZ is indeed getting traction. However, indicators of capacity stretch remain well above 'normal' ranges, suggesting it's still pretty inflationary out there.

All up, the Q1 data are sending some mixed messages. In a relative sense, there's been a broad improvement across confidence, activity, employment, capacity and cost/pricing indicators from Q4. But Q4 was dire, and in an absolute sense today's data continue to suggest the RBNZ hasn't corrected this out-of-balance economy just yet. But monetary policy is working. We don't see any implications in these data for [tomorrow's Monetary Policy Review](#) as there won't have been much in the way of significant surprises for the RBNZ.

Key points

- **Q1 business sentiment lifted from a record low.** But these data hardly make for happy reading. A reading of -61% means a net 61% of respondents expect conditions to deteriorate, versus 74% in Q4 and a historical average of -7% (seasonally adjusted, figure 1).

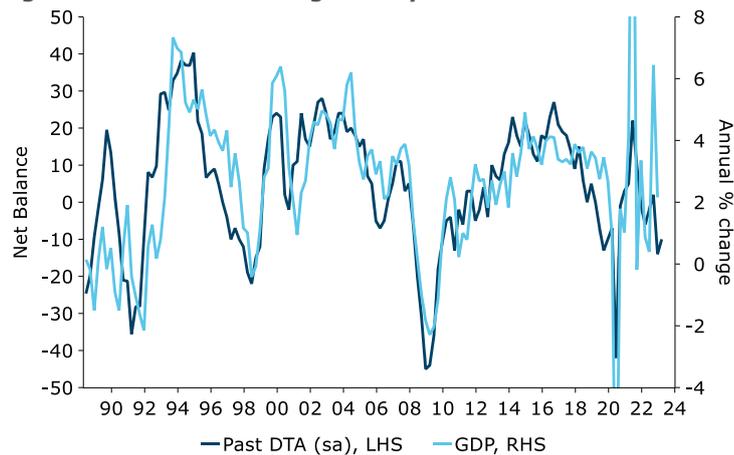
Figure 1. Business confidence



Source: NZIER, Macrobond, ANZ Research

- **Experienced domestic trading activity (DTA) rebounded 4 points** on a seasonally adjusted basis to -10, still very much consistent with sub-par growth (historical average: +10). However, after COVID-19 broke the relationship between these data and GDP (totally GDP's fault), you can't conclude much more than that. The good news (if you can call it that) is that things are 'on plan' in terms of the growth outlook. Absent a supply-side miracle, sub-par economic activity is a prerequisite for getting inflation down, and these data suggest that the RBNZ is indeed getting traction. Expected trading activity for the next three months (Q2 2023) improved substantially, but remains in negative territory at -8% versus -33% in Q4. All up, the signal here is unambiguously soft in momentum terms, but the dust hasn't quite settled enough to quantify what precisely that means for our near-term GDP forecasts, where noise and volatility remain pertinent. We're pencilling in soft growth of 0.2% q/q in Q1 and 0.3% q/q in Q2.

Figure 2. Domestic trading activity and GDP

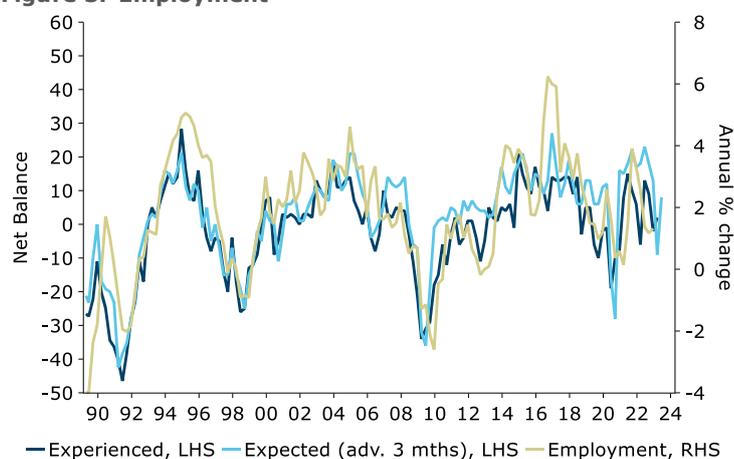


Source: NZIER, Stats NZ, Macrobond, ANZ Research

- **The residential investment pipeline is very soft.** A net 57% of architects expect a deterioration in housing over the next 12 months (-43% in Q4), and a net 40% over the 12-24 month period (-46% in Q4). Meanwhile, building industry new orders weakened markedly to -60% from -24% in Q4, suggesting demand is slowing sharply. While building consents have been holding up a little higher than the business survey data, these data join the ANZBO data in suggesting there is weakness ahead.

- Employment and hiring intentions bounced back into positive territory, as labour availability improves.** A net 2% of firms reported increasing headcount in Q1, versus a net 2% of firms reporting a decrease in Q4. This is above the long-run average of -4%, and is in line with recent strength in monthly filled jobs data. QSBO's forward-looking measure of employment rebounded from a net 9% of firms expecting to shed headcount in Q4 to a net 8% expecting to increase it (long-run average: +1), suggesting there is some lingering labour demand out there. Ease of finding skilled (-44%) and unskilled (-37%) improved in the quarter, possibly reflecting the recent surge in net migration and the softening labour market. The RBNZ needs to see the imbalance between labour supply and demand dissipate for an extended period before it can be confident that the wage-price spiral has been squashed. At face value, these data suggest it won't happen overnight, but it will happen.

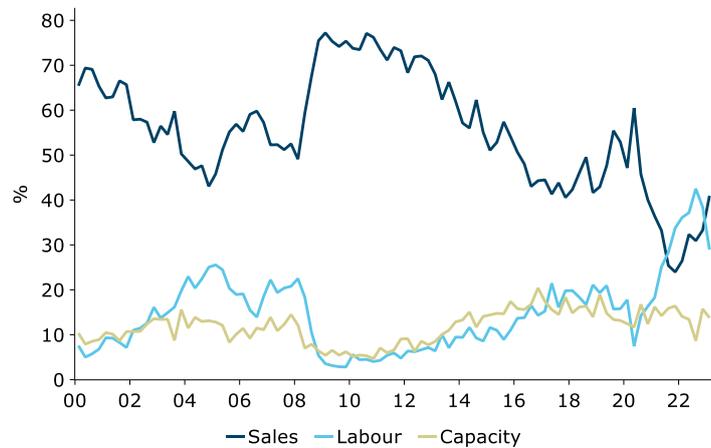
Figure 3. Employment



Source: Stats NZ, NZIER, Macrobond, ANZ Research

- Labour as a limiting factor ticked down further, but is still at a multi-decade high.** Reflecting the transition from an overstretched economy to a softening demand pulse, sales overtook labour as a key constraint on production. The RBNZ will find some comfort in reaching this milestone, but overall capacity stretch remains a worry. The CUBO measure of capacity utilisation lifted slightly to 94% (from 93.7% in Q1), and remains well above its historical average of 89.6%. Conversely, capacity as a constraint improved to 13.8% from 15.7%. All up, there is some better news here for the RBNZ on the capacity front. At these levels, the data are a long way from signalling 'job done' on the inflation front, but there is at least some evidence here that monetary tightening is getting traction.

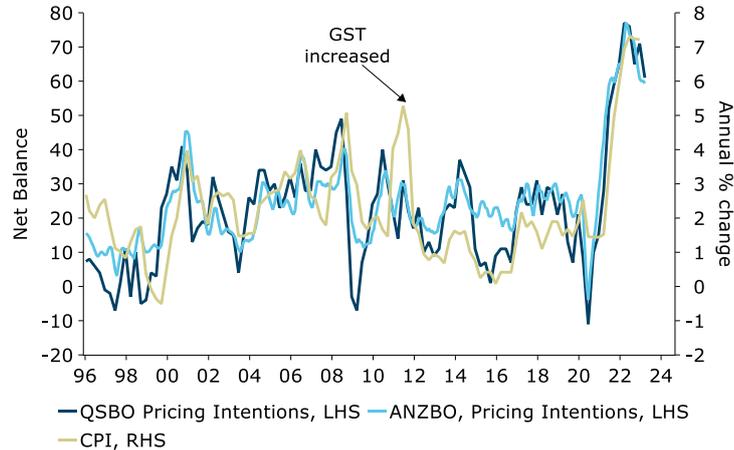
Figure 4. Limiting factors



Source: NZIER, Macrobond, ANZ Research

- Pricing and cost indicators were mixed, but fell from Q4, on balance.** Past-quarter and next-quarter measures of costs both fell (from very high levels). Experienced costs (for Q1) fell from 81% to 63%; expected costs (for Q2) fell from 80 to 69. Both are still at high levels, suggesting near-term inflation pressures remain acute. Meanwhile, experienced prices lifted 2 points in the quarter to 69% (way too high), while expected prices fell 10 points to 61%. To be comfortable that inflation is well and truly on the way down, the RBNZ will want to see all these measures fall further. Meanwhile, tight margins and waning demand appear to be weighing on reported profitability, which was down 8 points to -52% for Q1. Expected profit for Q2 improved 8 points but remains weak at -43%.

Figure 5. Pricing intentions and CPI inflation



Source: NZIER, Stats NZ, Macrobond, ANZ Research

All up, given our Business Outlook gives a pretty good steer on the headline confidence, activity, employment and cost/pricing components of the QSBO, the major piece of 'new news' in today's release is more about the state of capacity stretch, including labour as a limiting factor to production. The good news is that some of these indicators appear past their peak. The bad news is that they still have a way to go before they look like anything resembling 'normal', ie consistent with low and stable inflation. Today's data do not look like a game changer for the RBNZ's decision tomorrow.



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