

# Quarterly Survey of Business Opinion – Q4 2023

16 January 2024



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## Contact

Andre Castaing or Sharon Zollner for more details.

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## Data summary

	Latest
Headline business confidence (actual)	-2
Headline business confidence (sa)	-10
Domestic trading activity (sa, past)	6
Domestic trading activity (sa, expected)	5
CUBO (actual)	91.4%
Avg selling price – next 3 months	37

## Second wind

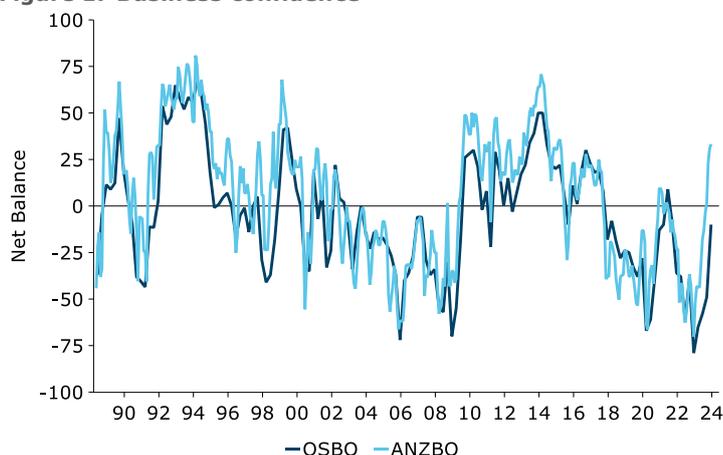
### The bottom line

- The Q4 Quarterly Survey of Business Opinion (QSBO) indicates the economy unexpectedly got some wind in its sails going into the end of 2023, but direct inflation indicators continued to ease.
- Business confidence jumped to -10 sa (Q3: -49), consistent with the ANZ Business Outlook survey. Activity measures had meaningful lifts across the board, notably domestic trading activity and capacity utilisation, which lifted from 87.3% to 91.4%.
- The labour market indicators were a mixed bag, with hiring intentions lifting, but labour now much easier to find, as immigration has soared.
- After many stubborn quarters, pricing and cost measures fell meaningfully, but do not yet look consistent with inflation back in the RBNZ's target band.
- Overall, the RBNZ will be pleased to see the decline in direct inflation indicators, but wary of the forward-looking indicators that suggest a risk that the economy may be getting a second wind before the inflation-fighting job is done. However, the increase in demand is only a concern insofar as it isn't matched by supply.

### Key points

- **Q4 business sentiment lifted.** Businesses are in a much more positive mood, with headline confidence jumping to -10% sa (Q3: -49%). Analysis by the NZIER indicates that a large proportion of this is likely the result of the change in government, with average business confidence under a National Government tending to be 27pts higher than under Labour Governments since the 1970s. Retail has gone from being the most downbeat quarter in Q3 to now the most upbeat sector in the economy, with past-quarter sales lifting 40 points from -40% to 0%. Rising consumption could be a problem for pulling out the last weeds of inflation, even if its weak in per capita terms.

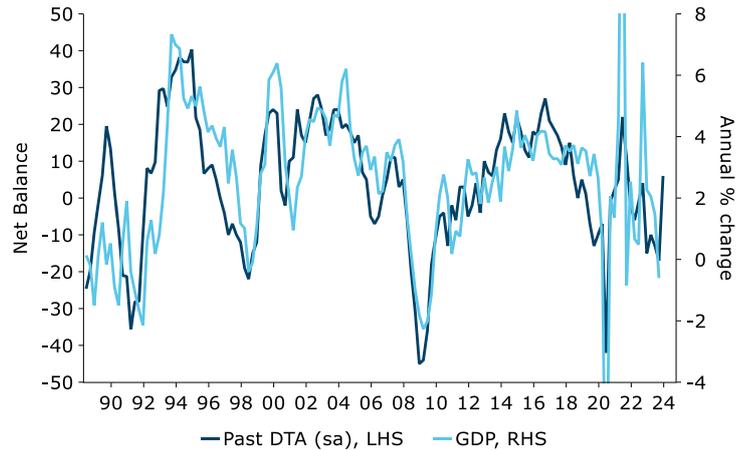
Figure 1. Business confidence



Source: NZIER, Macrobond, ANZ Research

- Experienced domestic trading activity (DTA) lifted 23 points** on a seasonally adjusted basis, to +6. That's the strongest read since 2021 and is only 4 points lower than its long-term average of +10. This recovery is quite large and suggests upside risk our Q4 GDP forecast of 0.0%. NZIER noted that domestic trading activity tends to be only 2pts higher under National Governments than under Labour Governments, indicating this lift is more reflective of underlying economic activity. Profitability is a touch more subdued, however, lifting only 10 points to -28, still 10 points below its long-run average of -18.

**Figure 2. Domestic trading activity and GDP**



Source: NZIER, Stats NZ, Macrobond, ANZ Research

- Capacity utilisation lifted 4%pts to 91.4%** and is now above its long-run average of 89.6%, recovering half of its fall seen in Q2 2023. The RBNZ uses this data to colour its estimate of the output gap, which is key for the medium-term inflation outlook. Part of this increase may be the result of lags in the supply side of the economy, as firms take time to utilise the additional labour supply brought about by migration. However, on this measure it does not look like the output gap is a long way into negative territory, which the RBNZ's modelling will say is required to relieve the acute inflationary pressures that have built up in New Zealand.

**Figure 3. Capacity utilisation (CUBO value)**

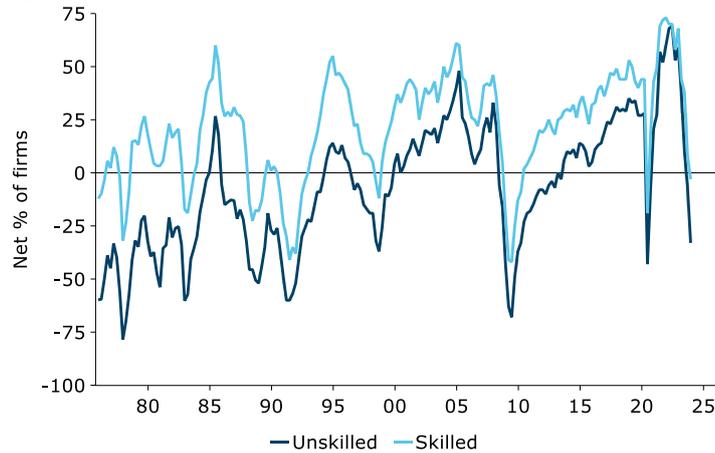


Source: NZIER, Macrobond, ANZ Research

- Labour is now much easier to find, but firms are still hiring.** The ease of finding unskilled labour lifted 25pts to +33%, with skilled labour lifting 15pts to +3%. However, firms are still hiring, with past employment lifting 8pts to +9% and hiring intentions lifting 9 pts to

21%, as firms seek out labour to match their experienced rise in trading activity, consistent with supply expansion from migration. How these dynamics will net out in terms of core inflation pressures is uncertain and will be a key judgement the RBNZ will need to make in the February MPS.

**Figure 4. Difficulty finding labour**



Source: NZIER, Macrobond, ANZ Research

- **Labour as a limiting factor eased further to 16%** (figure 5). with sales as a constraint lifting 2pts to 50%. Any decline in labour as a limiting factor is welcome news for the RBNZ, but sales as limiting factors remains fairly low in a historical context and the RBNZ will need to see the demand pulse ease further across the economy.

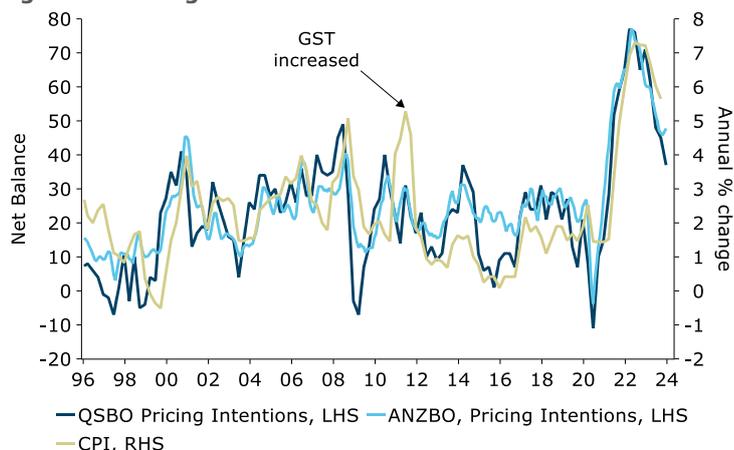
**Figure 5. Limiting factors**



Source: NZIER, Macrobond, ANZ Research

- **Experienced price rises fell 19pts to 37%, only 11pts above its long-run average of 26.** The sharp fall was led by a net 28% of construction firms cutting prices in the December quarter, indicating that construction cost inflation may now be in outright deflationary territory as acute supply shortages unwind. Pricing intentions fell 8pts to 37% and experienced costs declined 12pts to a net 56% of firms reporting higher costs.

Figure 6. Pricing intentions and CPI inflation



Source: NZIER, Stats NZ, Macrobond, ANZ Research

The extraordinary growth in New Zealand's population has made disentangling whether Q3's surprise  $-0.3\%$  q/q GDP print should be interpreted as capacity pressures cooling faster than expected or merely noise in the GDP data more challenging. The demand pulse from New Zealand gaining close to 130,000 net migrants over the last year wasn't enough to prevent the economy entering recession, so at first blush one would think starting point capacity pressures should be substantially lower than the RBNZ assumed in November. However, today's data only partially support that conclusion. Both skilled and unskilled labour is now easy to find, and labour is less of a limiting factor. Despite this, capacity utilisation and domestic trading activity rose. The RBNZ is likely to remain nervous that population growth is going to cause capacity constraints outside of the labour market, given the rebound in domestic trading activity.

Overall, today's data was a mixed bag for the RBNZ. The upswing in activity indicators was strong, reinforcing the messages from our own Business Outlook survey, and suggests activity has likely bottomed out. The decline in direct inflation indicators will be very welcome, but that reflects where the economy has been, not where it's going, and none are suggesting "job done" in terms of bringing inflation sustainably back into the target band. The RBNZ will remain rightly wary of cutting too soon and leaving the inflation-fighting job half done.



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**Sharon Zollner**  
Chief Economist

Follow Sharon on Twitter  
@sharon\_zollner

Telephone: +64 9 357 4094  
Email: [sharon.zollner@anz.com](mailto:sharon.zollner@anz.com)

General enquiries:  
[research@anz.com](mailto:research@anz.com)

Follow ANZ Research  
@ANZ\_Research (global)



**David Croy**  
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022  
Email: [david.croy@anz.com](mailto:david.croy@anz.com)



**Susan Kilsby**  
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469  
Email: [susan.kilsby@anz.com](mailto:susan.kilsby@anz.com)



**Miles Workman**  
Senior Economist

Macroeconomic forecast co-ordinator, economic developments, GDP and activity dynamics, fiscal and monetary policy.

Telephone: +64 21 661 792  
Email: [miles.workman@anz.com](mailto:miles.workman@anz.com)



**Henry Russell**  
Economist

Macroeconomic forecasting, economic developments, labour market dynamics, inflation and monetary policy.

Telephone: +64 21 629 553  
Email: [henry.russell@anz.com](mailto:henry.russell@anz.com)



**Andre Castaing**  
Economist

Macroeconomic forecasting, economic developments, housing and monetary policy.

Telephone: +64 21 199 8718  
Email: [andre.castaing@anz.com](mailto:andre.castaing@anz.com)



**Kyle Uerata**  
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894  
Email: [kyle.uerata@anz.com](mailto:kyle.uerata@anz.com)



**Natalie Denne**  
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808  
Email: [natalie.denne@anz.com](mailto:natalie.denne@anz.com)

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