

## Quarterly Survey of Business Opinion – 2019 Q1

2 April 2019



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## Data summary

	Latest
Headline business confidence (actual)	-29
Headline business confidence (sa)	-27
Domestic trading activity (sa, past)	-1
Domestic trading activity (sa, expected)	7
CUBO (actual)	92.4%
Avg selling price – next 3 months	27

## Business trip

### The bottom line

All up, QSBO was soft. Activity indicators suggest economic momentum continues to run at a softer pace:

- Headline confidence remains in pessimistic territory, and slipped further from Q4.
- Domestic trading activity, which has been providing a decent steer on economic growth lately, suggests growth could disappoint in Q1.
- Capacity utilisation slipped further.
- Pricing intentions lifted, but firms are generally struggling to pass on higher costs.

In terms of our August OCR cut call, **today's release skews the balance of risks** towards an earlier cut rather than later. However, improvement in some global indicators provides some offset for now.

### Key points

Business sentiment deteriorated in the March quarter, according to the NZIER's Quarterly Survey of Business Opinion. Headline views on the general business situation softened 12%pts, with a net 29% (sa) feeling pessimistic in Q1, consistent with our ANZ Business Outlook Survey. Businesses remain downbeat, reflecting economic headwinds **and an economy that's not firing on all cylinders**. Firms are facing high labour costs, margin pressure, and an increasingly uncertain demand outlook.

Businesses' reported activity levels continue **to reflect an economy that's** continued to shed momentum heading into 2019. Experienced domestic trading activity fell in the quarter, from a net 4% of firms reporting an increase in their own activity in Q4 to a net -1% in Q1. This presents some downside risk to our expectation for growth of 0.6% q/q in Q1.

Looking towards Q2, firms generally expect some improvement in demand from here, with a net 7% of firms expecting their own activity to pick up from Q1. But as always, with economic headwinds ongoing, the question is whether this will actually eventuate. Indeed, **Q4's release** showed firms were expecting activity to pick a touch in the following quarter, but with experienced activity **down in Q1 this doesn't appear to have eventuated. Of the two, experienced activity is generally the better gauge of outcomes.**

Hiring and investment intentions continue to reflect caution among firms. Investment intentions in plant and machinery fell 9%pts from Q4 to a net -2%, **but investment intentions in buildings picked up a touch from Q4's weak print**, now at 0%. Hiring intentions fell 7%pts to a net 6% of firms looking to increase head count going forward. Experienced hiring was stable at a net 5% in Q1.

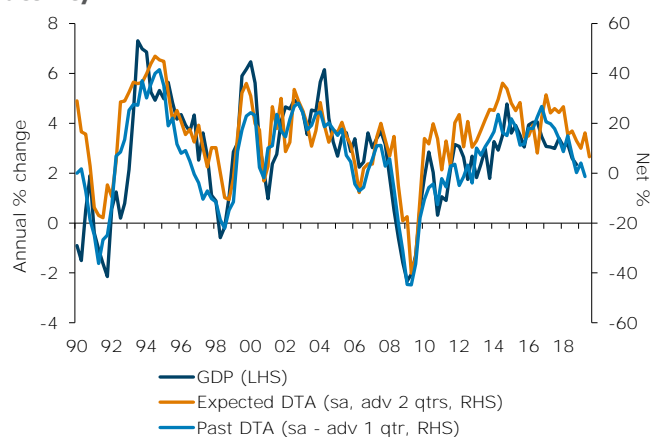
Capacity utilisation continued to trend lower to 92.4% from 92.8% in Q4 (with manufacturing particularly soft). This loss in resource pressures is consistent with the waning signal coming from the range of measures in our ANZ capacity suite. While previous capacity stretch is likely to support stable core inflation in the near term, with resource pressures waning and economic momentum slowing, we expect it will take a lower OCR to sustain inflation around 2% over the medium term.

Firms want to increase their prices, but are generally struggling to do so. Pricing intentions picked up in Q1 (from a net 21% to 27%), but experienced price rises fell (from a net 20% to 16%). Cost pressures remain elevated, but experienced costs slipped q/q to a net 38% of firms (from 47%). Cost pressures are expected to intensify, with a net 43% of firms are expecting cost pressures to increase further, up from net 36%.

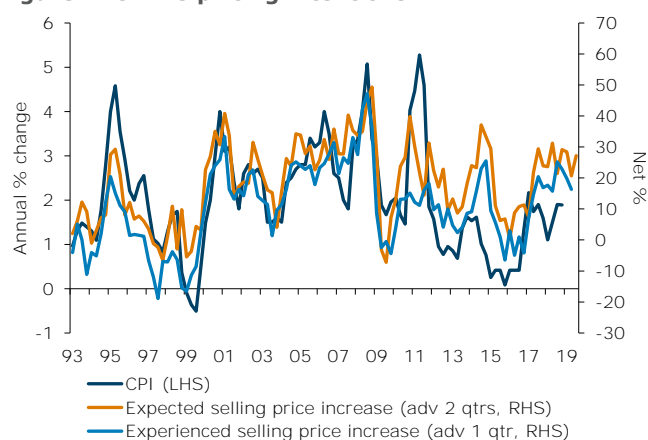
Reflecting higher costs and difficulties raising prices, experienced profitability remains weak, with a net 21% of firms reporting deterioration in the quarter (up just 0.1%pt from Q4). Expected profitability is likely to be weighing on sentiment. A net 16% expect further declines (compared with 15% last quarter).

**Today's data** suggests that growth could continue to soften in the short term. And with economic headwinds ongoing, **we don't see growth accelerating** significantly further down the track. Capacity pressures continue to trend down, which together with the growth outlook suggests inflation will drift away from the target midpoint over time without a leg up from further monetary stimulus. In terms of our August OCR cut call, **today's release skews the** balance of risks towards an earlier cut rather than later. However, several key data releases lie between now and then (such as Q1 CPI and Q1 labour Market Statistics), and a decent disappointment in any of them could result in a cut as soon as May. Not to mention the lengthy list of global risks that could spur the RBNZ into action a little sooner. Firms see OCR cuts on the cards too, with a net 12% now expecting lower interest rates over the next 12 months, compared with net 6% last quarter.

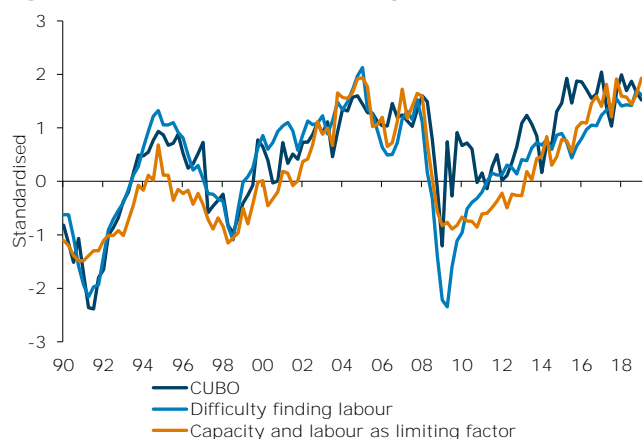
**Figure 1: GDP vs QSBO expected domestic trading activity**



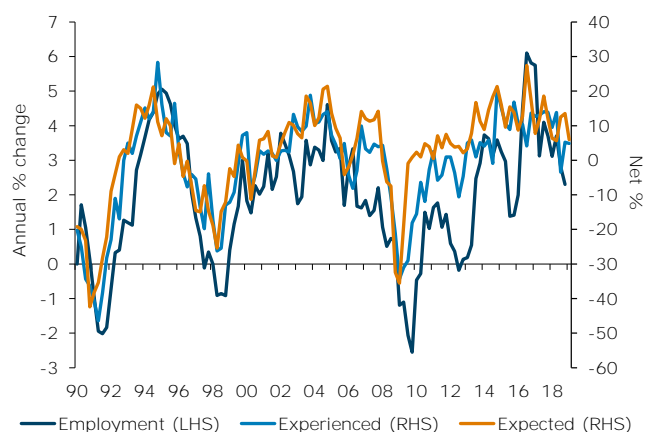
**Figure 2: CPI vs pricing intentions**



**Figure 3. Indicators of resource pressures**



**Figure 4. Employment vs QSBO employment intentions**



Source: NZIER, Statistics NZ



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