

Quarterly Survey of Business Opinion – 2019 Q2

2 July 2019



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Data summary

	Latest
Headline business confidence (actual)	-34
Headline business confidence (sa)	-31
Domestic trading activity (sa, past)	-4
Domestic trading activity (sa, expected)	-4
CUBO (actual)	93.7%
Avg selling price – next 3 months	13

Business blues continue

The bottom line

QSBO remains soft. Activity indicators suggest some modest downside risk to our forecast for GDP growth of 0.5% q/q in Q2.

- Headline confidence remains in pessimistic territory, slipping further to its lowest level since March 2009.
- Domestic trading activity, which has been providing a decent steer on economic growth lately, suggests growth could disappoint in Q2.
- Capacity utilisation lifted, but capacity as a constraint eased.
- Difficulty passing on rising costs continues to squeeze profits.

Key points

Consistent with our own ANZ **Business Outlook Survey**, the NZIER's Quarterly Survey of Business Opinion showed business confidence remained in the doldrums in the June quarter. Views on the general business situation softened to 31% of respondents feeling pessimistic in Q2, versus 28% in Q1. Economic headwinds such as high labour costs, margin squeeze, and an increasingly uncertain demand outlook continue to weigh. Pessimism amongst **manufacturers led declines, corroborating what we've seen in the recent PMI data and suggesting New Zealand isn't immune to the global manufacturing slowdown currently underway.**

As expected, businesses' reported activity levels continue to reflect an economy that went broadly sideways over the first half of 2019. Experienced domestic trading activity fell further in the quarter, from a net 2% of firms reporting a decrease in their own activity in Q1 to a net 4% in Q2. This suggests some modest downside risk to our forecast of a slight tick down in GDP growth from 0.6% q/q in Q1 to 0.5% q/q in Q2, taking into account some of the temporary factors that boosted growth in Q1.

Looking ahead to the September quarter, a net 4% of firms are expecting softer activity. But as always, the question is how much of this will actually eventuate. We are forecasting economic momentum to gradually lift from the second half of the year, but with headwinds persisting, we expect this to be relatively hard **yards versus the RBNZ's February expectation of a rapid bounce-back** (last week's OCR Review suggests the RBNZ's forecast will be revised down). Generally speaking, experienced activity provides a better steer on the economy than expectations, unsurprisingly, so it would be premature to make a strong call on the likelihood or strength of a pick-up in economic momentum from these data. **But it's fair to say that** this read is a dose of cold water.

Firms remain cautious when it comes to hiring and investing. Investment intentions in plant and machinery **rebounded partially from Q1's decline**, to a net 4% expecting to invest. Investment intentions in buildings also picked up a **touch from Q1's weak print, now at 4%**. Hiring intentions were stable at a net 6% of firms looking to increase head count going forward. Experienced hiring was weak, falling to -6% from +5% in Q1.

Despite the weaker read on activity, capacity utilisation picked up to 93.7% from 92.4% in Q1. However, fewer firms reported capacity as a constraint,

down to 14.8% from 19.0% in Q1. These mixed reads are consistent with our view that while previous capacity stretch is likely to support stable core inflation in the very near term, with economic momentum waning, pipeline inflation pressures are looking less assured.

Firms want to increase their prices, but are generally struggling to do so. Pricing intentions slipped in Q2 from a net 27% to 13%, and experienced price rises also fell, from a net 16% to 12%. Cost pressures remain elevated, with experienced costs up to a net 43% of firms reporting an increase (from 38%). Expected costs slipped a touch to a net 40% of firms are expecting cost pressures to increase further, down from a net 43%.

Reflecting higher costs and difficulties raising prices, experienced profitability remains weak, with a net 27% of firms reporting deterioration in the quarter (up from 21% in Q1). Expected profitability is likely to be weighing on sentiment (and investment and employment decisions), with a net 27% expecting further declines (compared with 16% last quarter).

All up, today's release suggests economic momentum remained pretty lacklustre in Q2, with the softer pace of expansion indicating domestic inflation will soften in time. We think the RBNZ will conclude that additional monetary stimulus is needed to address this, and are forecasting two further 25bp OCR cuts, in August and November. Firms are also expecting lower interest rates, with a net 52% now expecting lower interest rates over the next 12 months, compared with 12% last quarter. However, as things stand, Q2 CPI still has a bit of earlier pricing pressure to work through, including from the higher minimum wage.

Figure 1: GDP vs QSBO expected domestic trading activity

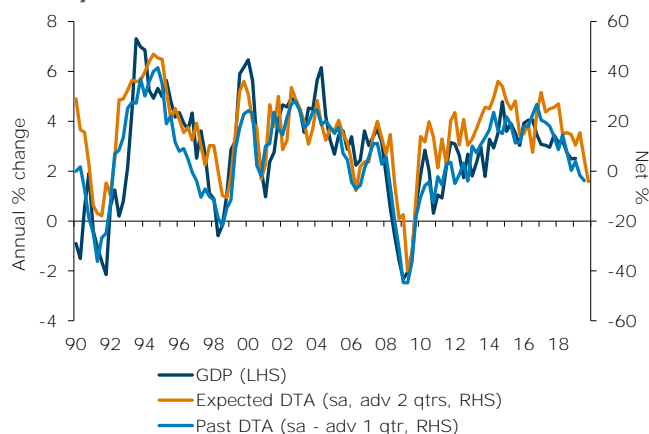


Figure 2: CPI vs pricing intentions

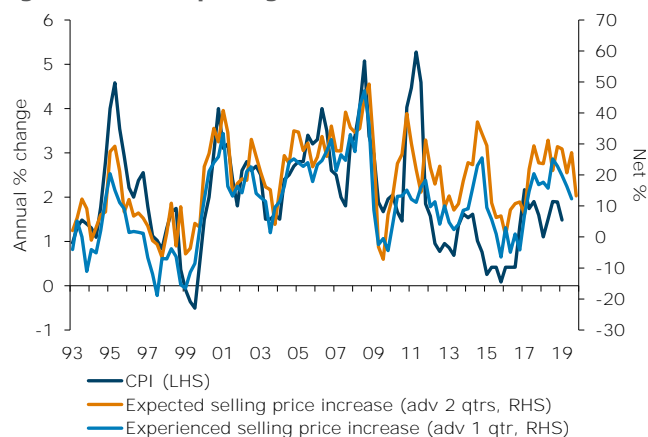


Figure 3. Indicators of resource pressures

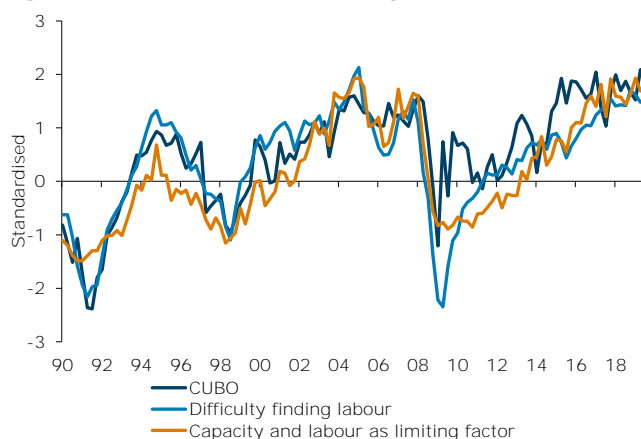
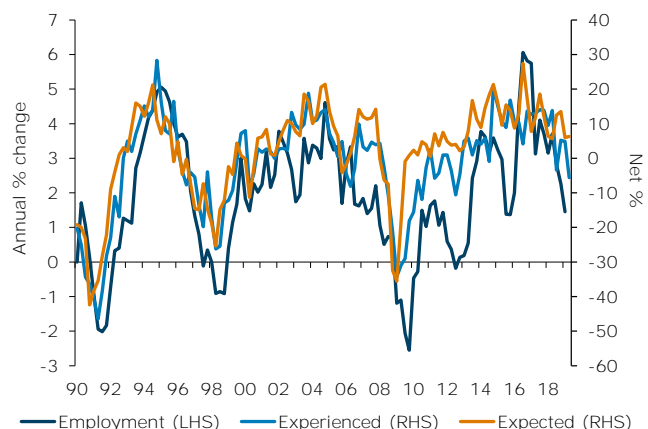


Figure 4. Employment vs QSBO employment intentions



Source: NZIER, Statistics NZ



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