

Quarterly Survey of Business Opinion – 2019 Q4

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Data summary

	Latest
Headline business confidence (actual)	-21
Headline business confidence (sa)	-26
Domestic trading activity (sa, past)	-11
Domestic trading activity (sa, expected)	7
CUBO (actual)	92.0%
Avg selling price – next 3 months	21

Feeling a little better

The bottom line

The NZIER's Quarterly Survey of Business Opinion improved in Q4, but the details are a touch softer than our own Business Outlook survey.

- Headline business confidence improved in Q4 from post-2009 lows in Q3, but businesses remain pessimistic on balance.
- Experienced domestic trading activity was unchanged at contractionary levels.
- Several measures of capacity eased, while pricing intentions lifted – a bit of a mixed signal for the inflation outlook.
- The RBNZ is unlikely to feel any sense of urgency around these numbers. Previous monetary easing and the promise of additional fiscal spending appear to be providing business some comfort.

Key points

Like our ANZ Business Outlook survey, the NZIER's Quarterly Survey of Business Opinion measure of headline business confidence improved in Q4. However, businesses remain pessimistic on balance, with views on the general business situation lifting to a net 26% of respondents feeling pessimistic in Q4, from a net 35% in Q3. Uncertainty remains a key theme and appears to be holding back firms from going too gung-ho on the expansion front. Profit squeeze remains a key theme, but there was some improvement in Q4. There was a marked improvement in both the manufacturing and construction sectors, in line with the recent recovery in the PMI and resurgence in the housing market.

Businesses' reported activity levels (the part of the survey that generally correlates pretty well with GDP) was unchanged at a weak level in Q4 (-11%, which is weaker than our own survey) and at face value suggest the economy expanded at an anaemic pace in Q4. However, some caution is warranted when interpreting these data. Q3's weak QSBO read gave a false steer on Q3 GDP growth, which was surprisingly robust at 0.7% q/q (up from a downwardly revised 0.1% in Q2). But directionally, it did a good job of picking the sharp decline in annual growth. Today's read suggests growth momentum is likely to travel sideways in Q4, consistent with our outlook.

Looking forward, a net 7% of firms are expecting their own activity to expand in Q1, a lift from 0% last quarter. This is in line with our expectation that underlying economic momentum is finding a floor about now, and that the recent easing in financial conditions (with a further 25bp OCR cut expected in May) will support a gradual recovery in annual growth from mid-2020 – provided, that is, that the global economy doesn't turn to custard, household sentiment remains solid, and the labour market robust.

And on that front, today's QSBO offers some comfort, with firms experienced hiring lifting to -2% from -10% in Q3. Hiring intentions (for Q1) lifted 1%pt to +12%. All up, this is a positive development, but firms certainly don't appear to be going gangbusters on the hiring front.

Investment intentions for plant and machinery was unchanged at a soft -3% of firms expecting to lift their investment game. Investment intentions in buildings improved a touch from -16% to -10%. Still not a strong picture.

Consistent with the weak read on activity, measures of capacity pressures fell a little further. Capacity utilisation slipped to 92.0% from 92.4% in Q3. And once again, slightly fewer firms reported capacity as a constraint compared to Q3, down to 13.2% from 13.4%. Difficulty finding unskilled labour was unchanged, with more firms reporting skilled labour is hard to come by. These reads are consistent with our view that, pipeline inflation pressures are stable at best.

That said, the RBNZ is unlikely to see any call to action in today's data, with both experienced and expected prices lifting from last quarter. Pricing intentions rose to 21% from 7% in Q3 and experienced prices lifted to +12% from -1%. Cost pressures also lifted, with experienced costs up to a net 38% of firms reporting an increase (from 33%). Expected costs rose to a net 39% of firms expecting cost pressures to increase further, up from a net 35%.

Taken together, experienced profitability remains weak, with a net 28% of firms reporting deterioration in the quarter (up from 30% in Q3). Expected profitability (for Q1) rose to a net 16% expecting further declines (compared with 18% last quarter).

Overall, today's release suggests businesses are responding to easier monetary conditions (and the impetus that is providing to the housing market and household sector) and possibly the promise of more fiscal spending too. However, firms remain cautious when it comes to expanding their activity. Indeed, just because businesses are feeling better doesn't mean other headwinds, such as credit constraints, policy uncertainty, and capacity constraints have vamoosed.

We welcome the improvement in business sentiment with open arms, but still think that by May the evidence will be sufficient that economic activity is struggling to accelerate to a level consistent with a sustainable lift in inflation towards the target midpoint over the medium term. Accordingly, on balance we think the RBNZ will cut the OCR once again for luck. That said, recent economic outturns have been coming in stronger than forecast in the November MPS, so there's hardly a sense of urgency.

[see charts over]

Figure 1. GDP vs QSBO expected domestic trading activity

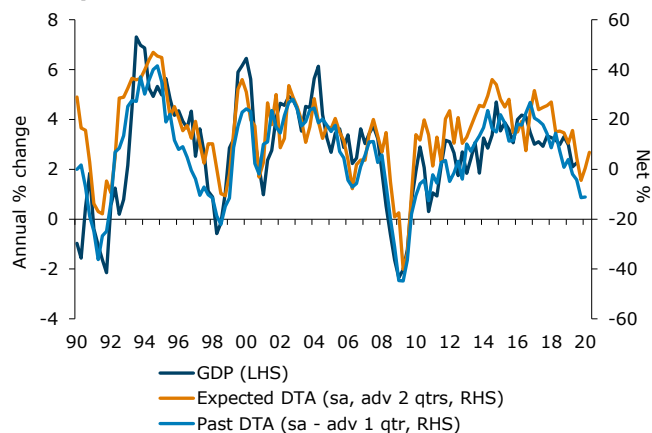


Figure 2. CPI vs pricing intentions

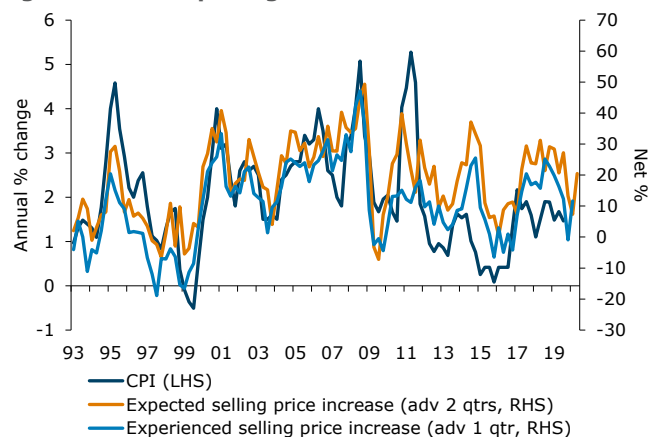


Figure 3. Indicators of resource pressures

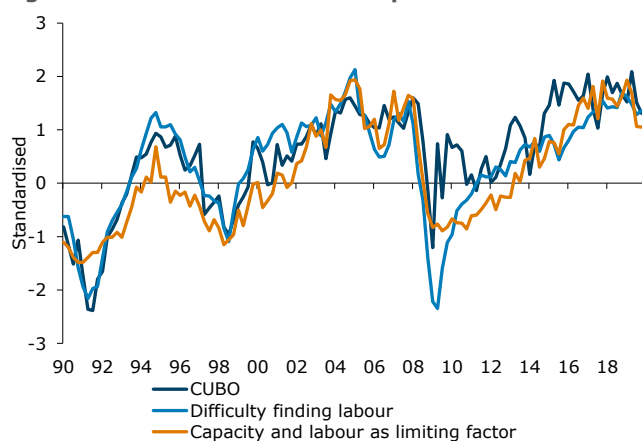
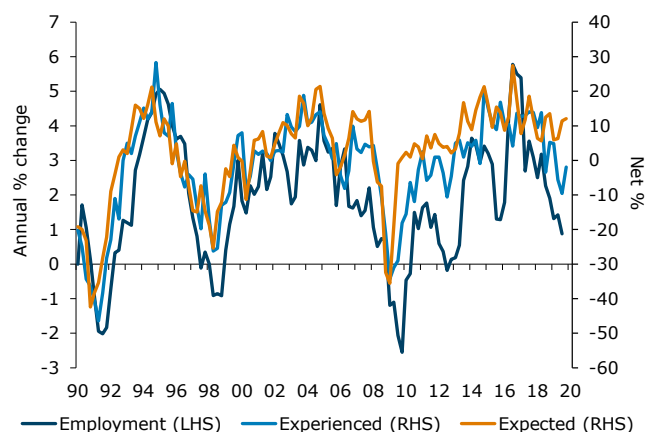


Figure 4. Employment vs QSBO employment intentions



Source: NZIER, Statistics NZ



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