

Quarterly Survey of Business Opinion – 2020 Q2

7 July 2020



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Contact

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Data summary

	Latest
Headline business confidence (actual)	-63
Headline business confidence (sa)	-59
Domestic trading activity (sa, past)	-37
Domestic trading activity (sa, expected)	-25
CUBO (actual)	92.8%
Avg selling price – next 3 months	-11

Worrying

The bottom line

According to NZIER's Quarterly Survey of Business Opinion (QSBO), business confidence nudged a little higher than in Q1, but is still very dire. And the impact of the crisis became much more evident in realised (and expected) activity, hiring and investment. Some of these impacts will be dampened by lockdown effects and may improve in coming months. But forward-looking elements of today's data and the pulse of the business psyche are consistent with our view that the outlook is grim; experiences and intentions will shape actions. Today's data will be worrying for the RBNZ and Government; firms are reportedly hunkering down, shedding workers, and cutting prices. But more monetary stimulus is needed, and an aggressive, front-loaded approach is warranted.

Key points

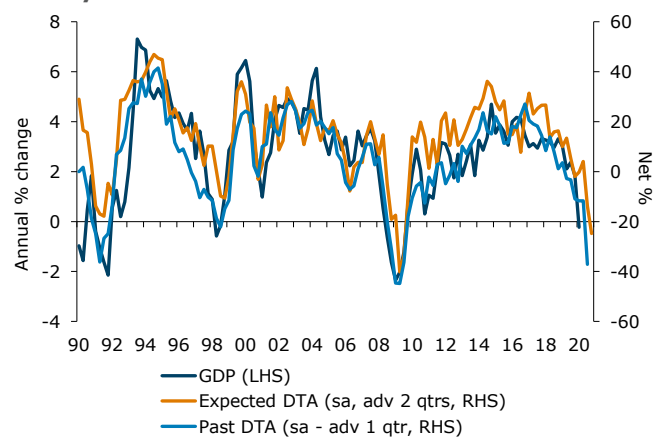
The QSBO for Q2 suggests that the effects of the crisis have impacted business confidence, activity and decisions. Some of this reflects the imposition of lockdown that will ease in coming months, but other aspects speak of more persistent effects. Uncertainty-related angst has been partnered with pessimism about future profits and activity, and firm decisions about hiring and investment have been significantly affected.

- A net 59% of respondents felt pessimistic in Q2 (sa), up from 67% last quarter – this is still very dire. Building firms are most pessimistic.
- A net 37% of firms reported lower activity (this correlates pretty well with GDP, consistent with the enormous slump in Q2). A net 61% of firms report profitability has reduced, particularly services firms.
- Much more worrying, 25% of firms expect activity to reduce further in the coming three months. A net 51% expects profits to deteriorate.
- Jobs are clearly being lost. A net 19% of firms have reduced headcount, and 28% expect to shed workers. Finding labour has suddenly become a whole lot easier – hardly surprising.
- Investment intentions are very weak, with net 36% expecting to curb investment – it will take a lot more confidence in the outlook for this to improve meaningfully, weighing on the outlook from here.
- Firms are cutting prices and cost pressures have eased. A net 9% of firms have reduced prices, and net 11% of firms expect to make cuts.

Assuming that our COVID-free status is maintained, we can expect the dust to settle in H2. But an economy with closed borders is inevitably smaller, and the enormous domestic contraction and global slump will have reverberating effects through the wider economy.

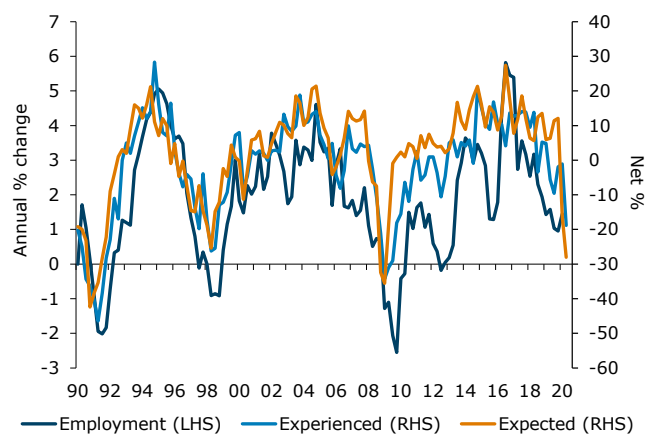
Firms' intentions about hiring and investment, and their pessimism about activity and profits, will set the stage for the pace of the recovery – and we expect it will be slow. Looking forward, we are watching ANZBO, consumer confidence, and monthly spending and activity indicators closely. For policy makers, the path of least regrets is clear: go hard, go early, and make it count. For the RBNZ, that means cranking QE up a notch. For the Government, that means a quick and targeted response that will give businesses more confidence in the outlook.

Figure 1. GDP vs QSBO expected domestic trading activity



Source: NZIER, Statistics NZ

Figure 2. Employment vs QSBO employment intentions





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