

Quarterly Survey of Business Opinion – 2020 Q4

19 January 2021



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Contact

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Data summary

	Latest
Headline business confidence (actual)	-6
Headline business confidence (sa)	-16
Domestic trading activity (sa, past)	-1
Domestic trading activity (sa, expected)	9
CUBO (actual)	95.1%
Avg selling price – next 3 months	15

Complicated feelings

The bottom line

Business sentiment has continued to improve, but caution is still evident, with conditions difficult for retail and services firms. The mood is a complex one: demand is less of a concern in light of the strong bounce in activity, but capacity and cost pressures are a worry, and firms are still cautious about hiring. The economic outlook is **looking better** overall and the recent bounce in demand sets us up well to weather the challenges ahead. But sentiment appears fragile given challenges in some pockets, and firm resilience will be tested in the time ahead, with headwinds to activity in 2021. This supports our **revised view** that the OCR will only need to be cut once more this easing cycle, to 0.1% in May, provided downside risks do not materialise.

Key points

Data from the Quarterly Survey of Business Opinion (QSBO) showed improvement in sentiment, but a mixed picture underneath the hood.

- Businesses are feeling less downbeat:** Overall business sentiment continued to improve in Q4, with 16% of businesses feeling downbeat, up from net 39% feeling pessimistic in Q3 and 58% feeling downbeat in Q2. However, experiences are clearly very varied by industry, with retail and service firms still quite pessimistic (net 20% and 17% respectively).
- Demand less of a concern after solid bounce:** The economy saw a solid recovery in GDP in Q3, and experienced activity has since been pretty stable (net 1% of firms report a reduction in activity). This is consistent with our forecast for a technical retracement in Q4. Improved demand has seen profitability strains ease somewhat, with net 18% of firms experiencing a reduction in profits (previously 25%).
- Capacity constraints are a problem in some areas:** Capacity constraints are becoming an increasing concern. But again, the industry composition is more complex, with capacity utilisation for builders rising (which drives the CUBO measure). By contrast, capacity constraints have eased for services (2/3rds of the economy). An increase in capacity concerns for retailers appears to reflect stock concerns, with sales easing.
- Costs are rising:** Supply disruption, freight issues and difficulty sourcing and exporting products are contributing to rising costs, with net 30% of firms reporting increases. However, pass-through to prices appears weak, with net 2% reporting price falls.
- Firms are still cautious about employing:** A net 8% of firms reported a reduction in headcount last quarter, and expectations for hiring eased a touch from net 16% to 15%. Investment intentions have improved to be in positive territory, but appear fragile given headwinds ahead.

Overall, themes from today's QSBO were as expected, if perhaps a bit more cautious than reported in our more recent December ANZ Business Outlook. Firms are still fairly cautious, particularly regarding hiring and passing on cost increases to prices. The overall **economic outlook** is looking better, but there is some fragility in certain areas and industries that will be tested in the months ahead. This underscores **our expectation** that the RBNZ will look to do a little more to shore up the outlook, with one final OCR cut expected this easing cycle, to 0.1% in May.

Figure 1. GDP and QSBO domestic trading activity

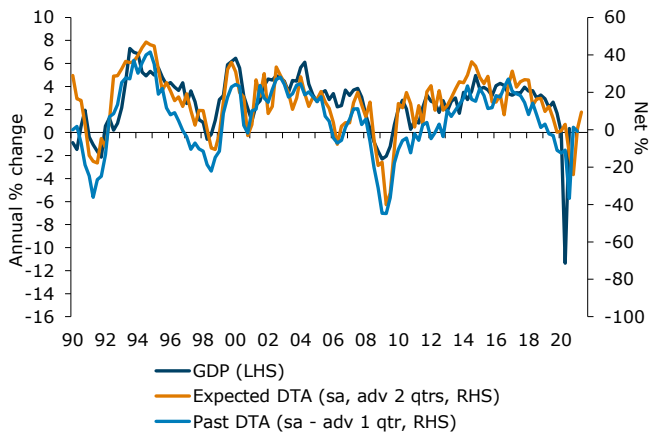


Figure 2. Employment vs QSBO employment intentions

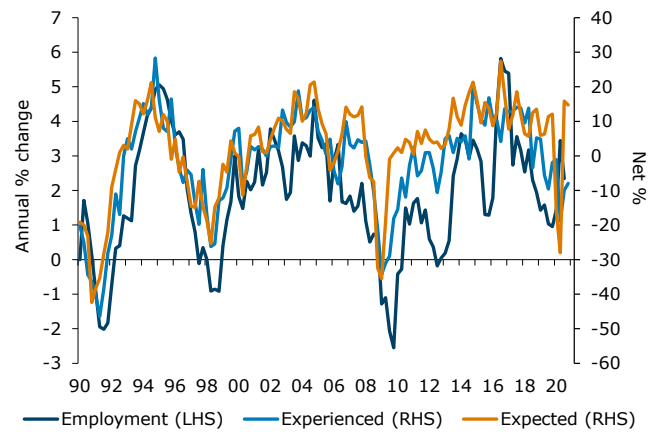


Figure 3. QSBO capacity indicators

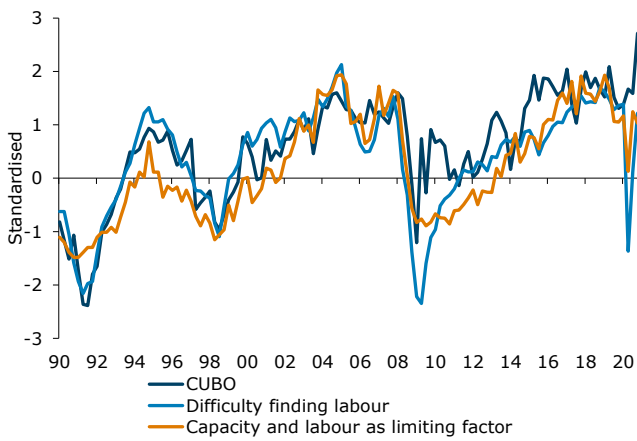
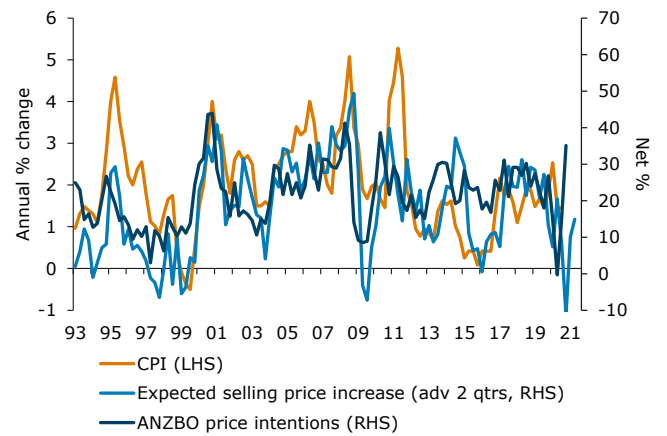


Figure 4. Inflation and pricing indicators



Source: NZIER, Statistics NZ, ANZ Research



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