

Quarterly Survey of Business Opinion – 2021 Q1

13 April 2021



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Contact

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Data summary

	Latest
Headline business confidence (actual)	-13
Headline business confidence (sa)	-11
Domestic trading activity (sa, past)	0
Domestic trading activity (sa, expected)	8
CUBO (actual)	93.3%
Avg selling price – next 3 months	28

A long way to go

The bottom line

Business sentiment improved slightly (sa), but remains in the red with the underlying picture complex. Importantly, a lot has happened in the past few weeks that may render some of the earlier survey responses in Q1 as old news. The Government announced a suite of new [housing policies](#) in late March that [we expect will take the heat out of the market](#) a little faster than otherwise, and just last week news of the upcoming [trans-Tasman bubble](#) will be game-changing for some pockets of the economy. Stepping back, a lengthy path towards recovery still lies ahead, with data expected to remain mixed for a while yet.

Key points

Data from the Quarterly Survey of Business Opinion (QSBO) continue to show a mixed underlying economy and an overall-fragile economic backdrop.

- **Businesses remain downbeat, but less so:** Seasonally adjusted business sentiment improved in Q1, with 11% of businesses feeling downbeat (up from net -16% Q4, and well up from -68% a year ago). However, experiences are clearly very varied by industry. Retail confidence deteriorated significantly (-38 vs -7 in Q4), service firms' confidence was broadly stable (-9 vs -8), construction deteriorated (-8 vs +16), and manufacturing improved (-7 vs -11).
- **Experienced domestic trading activity was little unchanged from Q4,** up 1%pt to 0 (sa). That's consistent with our GDP pick of 0.0% in Q1. Conversely, expected trading activity slipped 1%pt to 8. That's consistent with our view that growth over 2021 will be hard won (in aggregate).
- **Firms' hiring and investing intentions both lifted,** but we're looking for a sustained improvement on this front before calling the end to the downswing of the business cycle – particularly given risks and headwinds that lie ahead.
- **Capacity constraints remain acute:** The headline CUBO measure ticked down to 93.3% (95.1% previously), but is still well above average. And, there are signs of rising pressures, particularly from the labour market. Firms' reported difficulty finding labour ticked up again for both skilled (49%) and unskilled labour (27%). Capacity pressures remain acute in the construction sector, with Builders' CUBO down slightly to 96.8% (99.1% previously), still way-above historical levels.
- **Rising costs eroding margins:** Problems around supply disruptions and labour shortages continue to plague firms, eating into margins. A net 33% of firms reported higher costs in Q1 (previously 30%). Firms are having to pass some of this pressure into the prices they're charging, with a net 8% of firms reporting higher selling prices, versus a net 2% of firms lowering prices previously. But, cost pressures remain acute, which has seen a deterioration in profitability – a net 21% of firms saw profitability fall in the March quarter (previously -18%).

Overall, themes from today’s QSBO were broadly in line with our full-month March ANZ Business Outlook. Looking forward, travel bubbles, vaccine and virus developments, the very sharp global rebound, a slowing housing market (and new restrictions for investors), and biting capacity constraints in some industries (chiefly construction) are set to keep business sentiment and the underlying economic pulse mixed for a while yet. The path of least regrets for the RBNZ is to remain patient – a message that’s likely to be [reiterated at tomorrow’s MPR](#).

Figure 1. GDP and QSBO domestic trading activity

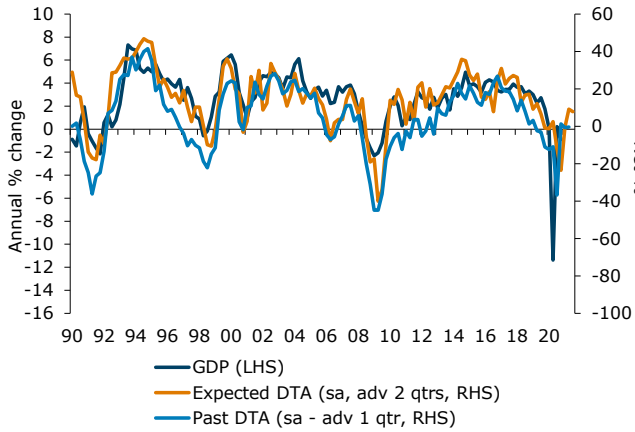


Figure 2. Employment vs QSBO employment intentions

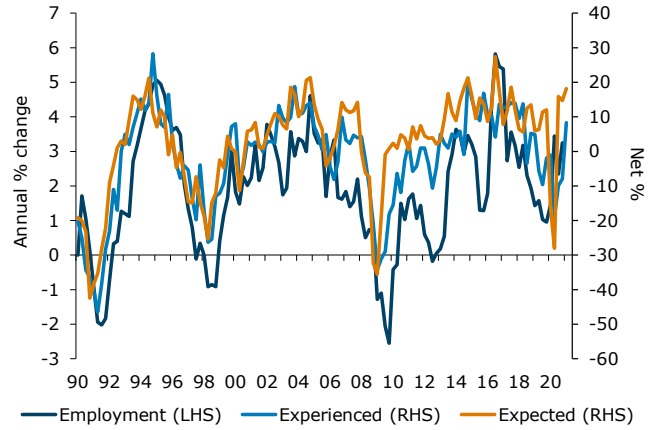


Figure 3. QSBO capacity indicators

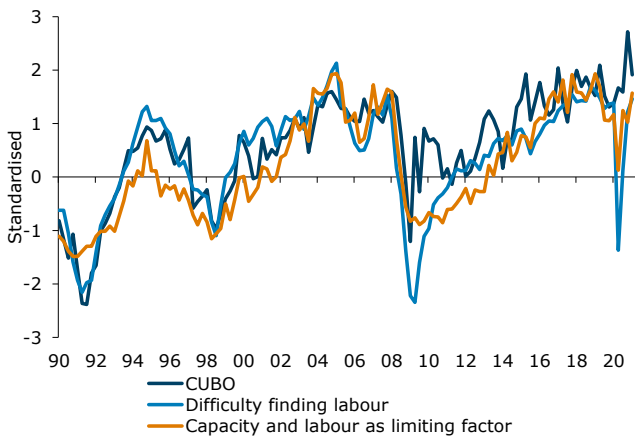
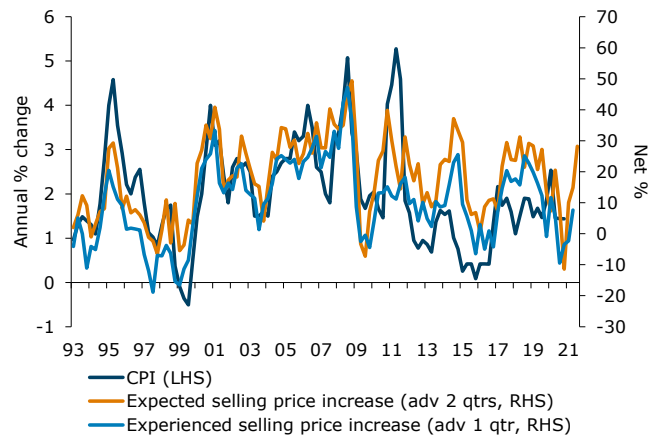


Figure 4. Inflation and pricing indicators



Source: NZIER, Statistics NZ, ANZ Research



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