

# Quarterly Survey of Business Opinion – 2021 Q4

18 January 2022



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## Contact

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## Data summary

	Latest
Headline business confidence (actual)	-28
Headline business confidence (sa)	-34
Domestic trading activity (sa, past)	-1
Domestic trading activity (sa, expected)	8
CUBO (actual)	89.5%
Avg selling price – next 3 months	65

## Fretting about inflation and Delta

### The bottom line

The December quarter QSBO reinforced the message firms have been sending in our [ANZ Business Outlook](#) – capacity constraints and cost pressures are a huge issue, and combined with disruption and uncertainty from the Delta outbreak, that’s weighing on overall economic activity and business confidence. Today’s data is more evidence showing that the labour market and inflation are probably even further beyond the RBNZ’s targets than they (or we) thought when the November MPS forecasts were published. And, the tight labour market is only exacerbating underlying inflation pressures at this point. The policy prescription is clear – interest rates need to rise further in order to tame the once-slumbering inflation beast. But with the economy struggling against supply constraints and COVID disruption, and confidence falling, downside risks to economic growth are very real.

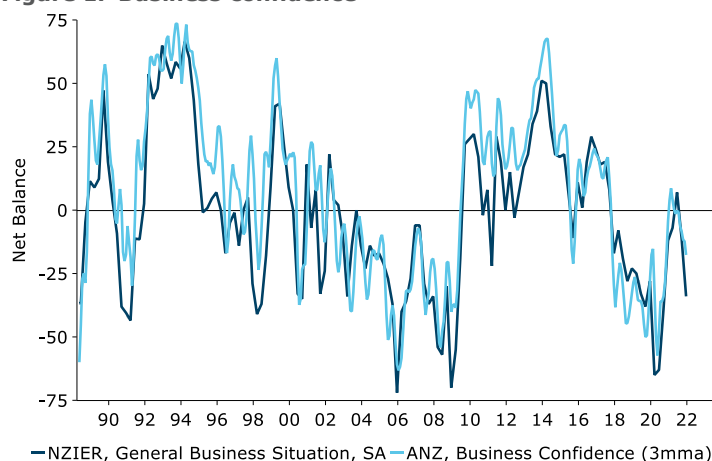
*Note:* There are significant revisions to the previous (Q3) QSBO figures due to processing errors. Previously, these measures showed very large falls in inflation measures, despite inflation accelerating to 4.9% y/y. These measures (among others) have been revised, and now show inflation pressures were accelerating over both Q3 and Q4. Business confidence measures were unaffected.

### Key points

The December quarter Quarterly Survey of Business Opinion (QSBO) showed that economic confidence continued to drift lower at the end of 2021, as capacity constraints, cost pressures, and other COVID disruption continued to weigh on economic activity.

- Businesses sentiment sagging:** Business confidence fell sharply, with a net 34% of respondents expecting conditions to deteriorate, versus 11% previously (figure 1). With lockdown restrictions lasting into most of Q4, while cost pressures and capacity constraints continued to constrict firms’ profit margins, it’s no surprise that confidence is heading in the wrong direction. Confidence fell across all regions except Wellington. With [upside risks](#) to inflation and labour market stretch already evident in the first few weeks of 2022, firms may not feel the pressure come off for some time yet. With confidence falling, investment intentions have fallen, with a net 4% of firms expecting to increase building investment (6% previous), and 3% expecting to increase plant and machinery investment (12% previously).

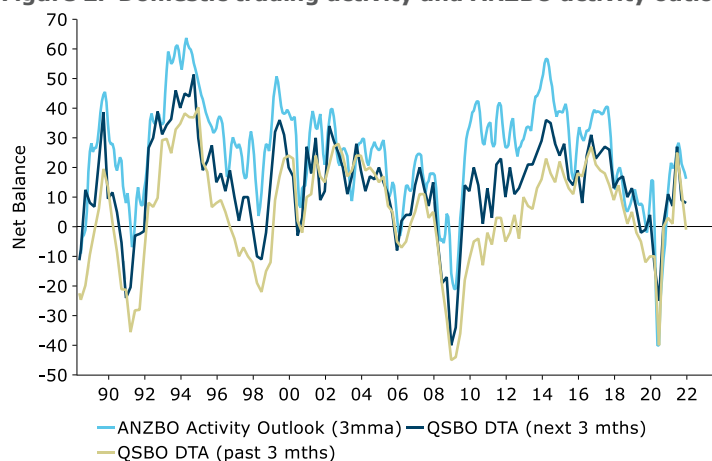
**Figure 1. Business confidence**



Source: NZIER, Macrobond, ANZ Research

- Experienced domestic trading activity declined** on a seasonally adjusted basis, with a net 1% of firms reporting lower activity over the quarter, down from a net 12% reporting an expansion in Q3. On balance, a net 8% of firms still expect activity will increase over the next three months (Q1 2022), down one point from Q3. Experienced trading activity has now fallen sharply over both Q3 and Q4, likely as a result of the latest lockdown, and the ongoing weakness in Q4 reinforces our expectation that the rebound from Q3's 3.7% q/q fall in GDP will be spread over both Q4 and Q1 (ie slower than the rebound from the initial 2020 lockdown).

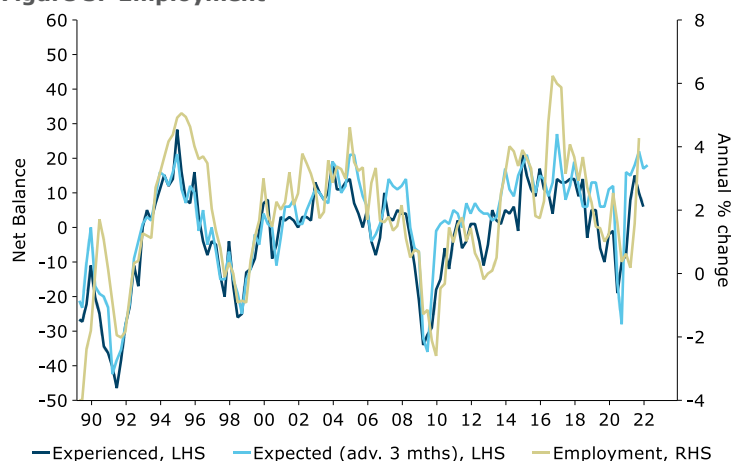
**Figure 2. Domestic trading activity and ANZBO activity outlook**



Source: NZIER, Macrobond, ANZ Research

- Headcount continues to increase.** Despite facing the tightest labour market on record, firms are managing to find some workers, with a net 6% of firms reporting increasing headcount over Q4 (10% previously). And a net 18% of firms expect they'll still be adding jobs in the next three months (versus 17% in Q3). That's another piece of evidence, including the 0.4% m/m [jobs gain](#) in November, that the labour market performed much better than we initially feared over Q4. Firms have been very successful at luring people into the labour force from inactivity. But with the border still closed, firms will have to continue to sweeten the deal (ie raise wage offers) in order to keep attracting people into the labour force. That'll only add to the other cost pressures driving inflation higher and higher.

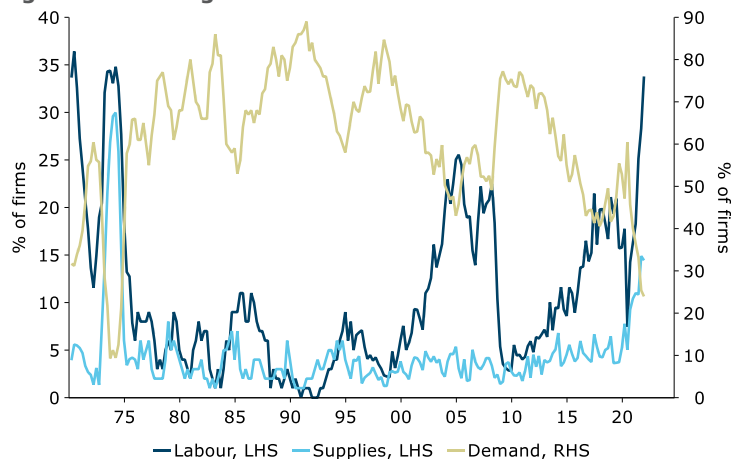
**Figure 3. Employment**



Source: NZIER, Stats NZ, Macrobond, ANZ Research

- Capacity constraints continue to worsen.** Somewhat strangely, the capacity utilisation (CUBO) measure fell sharply to its long run average of 89.5% (96.1% previously), but we suspect this may be revised higher in time. Indeed, it's clear that the vice of capacity constraints tightened further in Q4. Sales (ie demand) declined again as a limiting factor for firms, while labour and capacity both increased (figure 4). Difficulty finding skilled and unskilled labour have increased again. As we noted last time, we haven't seen this kind of mix of supply pressures since the oil shocks in the '70s. Combined with a labour market that's never been tighter, it's a recipe for sustained inflation without further RBNZ action.

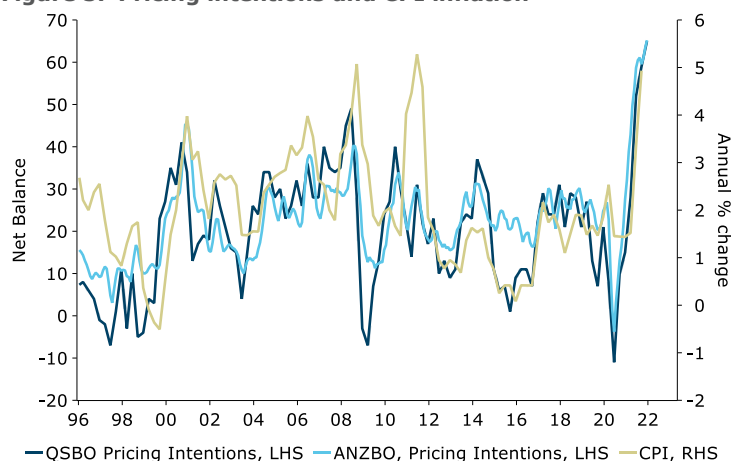
**Figure 4. Limiting factors**



Source: NZIER, Macrobond, ANZ Research

- Price and costs:** the biggest puzzle in Q3's QSBO release was the sharp drop in measures of inflation in Q3, in a quarter when inflation posted a massive 2.2% q/q (4.9% y/y) print. NZIER discovered processing errors in the previous data – and the inflation measures now show cost and price pressures accelerating sharply over 2021. Both expected and experienced costs and prices increased again in Q4, suggesting that inflation will continue to build over Q4 and Q1. We've highlighted upside risks to our inflation forecast already – and this data adds further upside risk to our expectation for a 5.8% y/y peak in inflation in Q1 2022. Profitability has also deteriorated – with a net 16% of firms reporting lower profitability (14% previous), although firms were less pessimistic about profits over the next three months (12% expecting a decline, versus 23% previously). Negative profitability means that firms will be under increased pressure to pass on higher costs in the prices they charge.

Figure 5. Pricing intentions and CPI inflation



Source: Stats NZ, NZIER, Macrobond, ANZ Research

As we begin the New Year, it's clear that the RBNZ's main task will be bringing inflation back down to earth. The Q4 QSBO only highlights the degree to which inflation and employment have now deviated from the RBNZ's targets. The labour market is not consistent with low and stable inflation, with a massive mismatch between the demand and supply of labour fuelling underlying inflation pressures. And that means even though the labour market has never been tighter, real wage growth is [going backwards](#) – and people are having to work more just to maintain the same standard of living.

The RBNZ don't meet until 23 February. By then we'll know what happened to inflation and the labour market in Q4 – and the Q4 QSBO print reinforces our suspicion that both inflation and labour market pressures will be more intense than we or the RBNZ expected when the November MPS projections were published. That'll be concerning for the RBNZ, given the rise in inflation expectations over the past year, and the amount of imported inflation that's coming through as well (with US CPI inflation at an eye-watering 7% y/y in December). As inflation pressures continue to exceed expectations, it only increases the likelihood that the RBNZ will feel the need to signal and then deliver more hikes (ie a higher OCR track in the February MPS).



## Contact us

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