

Quarterly Survey of Business Opinion – Q3 2022

4 October 2022



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Data summary

	Latest
Headline business confidence (actual)	-42
Headline business confidence (sa)	-42
Domestic trading activity (sa, past)	3
Domestic trading activity (sa, expected)	-14
CUBO (actual)	94.5%
Avg selling price – next 3 months	65

Too much inflation in the system

The bottom line

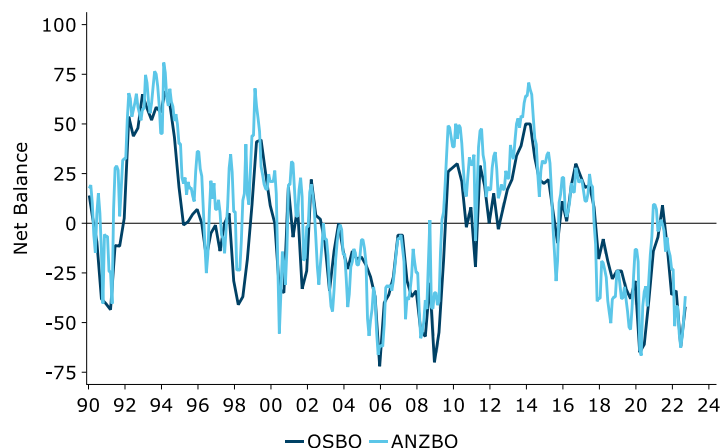
The Q3 Quarterly Survey of Business Opinion (QSBO) displayed similar themes to our [ANZ Business Outlook](#): businesses are very downbeat, but a little less so than in Q2; activity indicators are weak, but some are also a little better than last quarter; cost and pricing intentions remain far too high, with capacity constraints acute and labour as a limiting factor maintaining its 1970s vibe; employment intentions are faring a little better than most indicators, consistent with a tight (and inflationary) labour market.

Fair to say, the signals on capacity and inflation pressures are most important for the RBNZ right now, and these data should still be making them very uneasy. Capacity constraints easing at a snail's pace isn't enough to get core inflation back to an acceptable level in an appropriate time frame. And if monetary tightening isn't getting the traction it needs to, the RBNZ will just have to keep on going. We expect another 50bps hike tomorrow, and see the OCR reaching 4.75% by mid-2023 (provided the wheels don't completely fall off the global economy).

Key points

- **Business sentiment lifted slightly** in Q3, but remains at a level typically associated with economic contraction. A net 42% of respondents expect conditions to deteriorate, versus 62% in Q2 (seasonally adjusted, figure 1). Looking through the noise, it's very similar to our Business Outlook. Big picture: acute cost pressures, very stretched capacity, rising interest rates, falling house and asset prices, and ongoing COVID and economic uncertainty are a nasty mix. But that won't stop the RBNZ from hiking – its priority must be getting inflation down before any wage price spiral is given more time get established. Despite the pessimism, these data suggest the RBNZ's job isn't over.

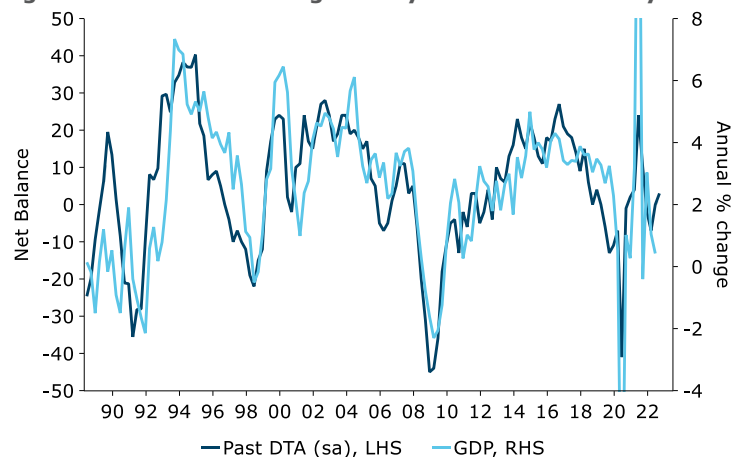
Figure 1. Business confidence



Source: NZIER, Macrobond, ANZ Research

- **Experienced domestic trading activity (DTA) lifted 3 points** on a seasonally adjusted basis, but at 3% this measure suggests economic activity is still sub-par (figure 2). COVID-related volatility in the GDP data has seen the relationship between experienced activity and GDP break outside historical ranges in recent quarters, so it's difficult to diagnose the implications for Q3 GDP. Meanwhile, expected trading activity for the next three months (Q4) fell, with a net 14% of firms expecting activity will decrease. All up, the signal here is mixed, but given capacity is very likely a key contributor to softer activity gauges (ie it's not clear it's a disinflationary signal), we don't see any obvious implications for the RBNZ.

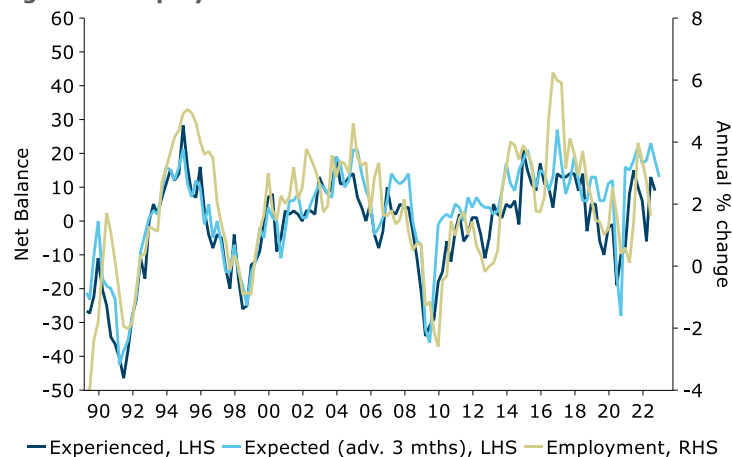
Figure 2. Domestic trading activity and ANZBO activity outlook



Source: NZIER, Stats NZ, Macrobond, ANZ Research

- **Employment remains robust.** A net 9% of firms reported increasing headcount in Q3, versus 13% of firms in Q2. That's consistent with still-solid monthly employment indicators, and suggests that firms are having some success in filling positions despite the extremely tight labour market. The forward-looking measure of employment remains robust, with a net 13% of firms expecting to increase headcount, versus 18% in Q2. The persistent gap between actual and expected employment in the QSBO likely reflects the sheer difficulty in finding workers.

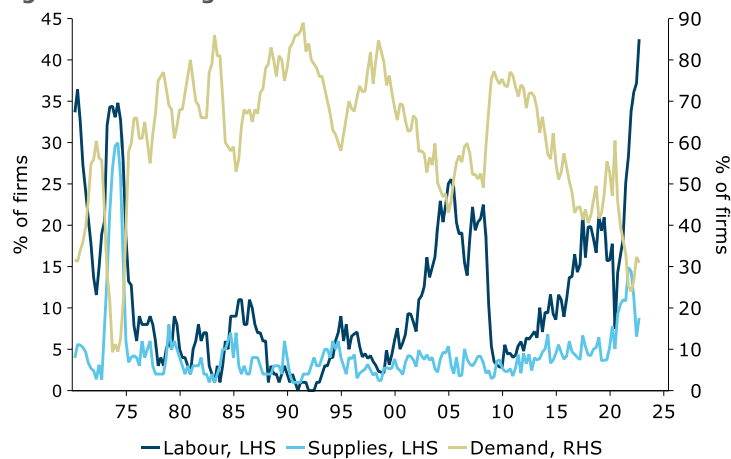
Figure 3. Employment



Source: NZIER, Stats NZ, Macrobond, ANZ Research

Labour as a limiting factor is still at 1970s levels. The CUBO measure of capacity utilisation remained high, and in fact ticked up slightly to 94.5% in Q3. That's off the recent record high of around 97, but still too high (and sticky) to provide the RBNZ much comfort. Conversely, capacity as a constraint fell 4 points to 9%, but that's more to do with labour shortages becoming even more of a concern for many firms. The biggest constraint on firms expanding their production continues to be labour, lifting to a new record high of 43. It's that 70's show out there folks, and not in a cool Jimi Hendrix kind of way. The RBNZ should be worried about the wage-price spiral implications of these data, which are still looking more developed than previously thought.

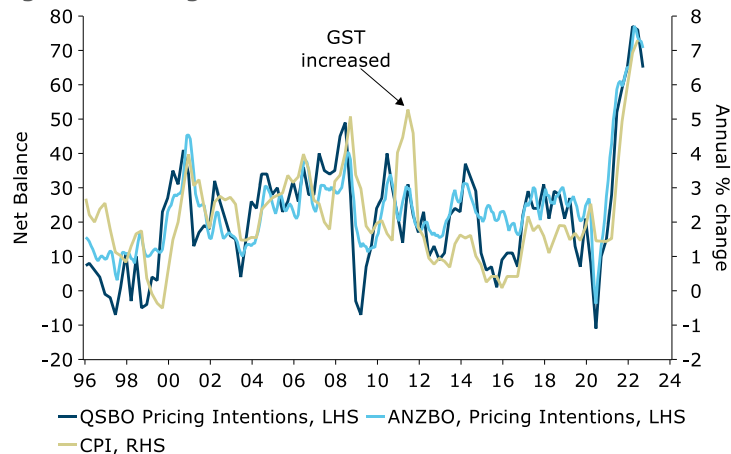
Figure 4. Limiting factors



Source: NZIER, Macrobond, ANZ Research

- **Pricing and costs still too high:** Cost and pricing measures for Q3 slipped slightly, but remain very, very high. Cost and pricing expectations for the next three months (Q4) also slipped, but remained at very high levels too, as in the ANZBO survey. All up, these data are consistent with our forecast that headline CPI inflation peaked in Q2, but that underlying inflation momentum is still too strong. To be comfortable that inflation is well and truly on the way down, the RBNZ will want to see more improvement in these indicators. A gradual decline from such a high level is unlikely enough to appropriately mitigate wage-price spiral risks.

Figure 5. Pricing intentions and CPI inflation



Source: NZIER, Stats NZ, Macrobond, ANZ Research

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- **But there are signs that monetary tightening is getting some traction**, as you'd expect given the speed of the hikes. Investment tends to be the most interest rate-sensitive part of the economy, and the fact that 39% of architects expect a deterioration in housing over the next 12 months, and a net 38% over the 12-24 month period, shows heat is certainly coming out of residential construction, as presaged by ANZBO. Meanwhile, building consents data are trending lower, but remain very elevated (particularly for multi-unit dwellings). These data suggest consents have further to fall – which would be in line with our forecast for around a little over a 10% contraction in residential investment over 2023.

All up, the QSBO provide yet another suite of data that suggest monetary tightening hasn't quite hit the mark yet. That could be just a timing story, given the long and variable lags with which monetary policy operates, but we think it's more likely that inflation has been given too much oxygen and will therefore prove difficult to tame. CPI inflation may be past its peak, but labour constraints aren't really easing, suggesting the sticky part of inflation pressures (ie domestic inflation) is set to remain too high. Hopefully a 4.75% OCR come mid-2023 fixes that. Meanwhile, it's a case of watch and worry on the global front as financial stresses start to gradually emerge. It's very early days but the RBNZ will be closely watching more than just the domestic data flow.



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