

Quarterly Survey of Business Opinion – Q4 2022

17 January 2023



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Data summary

	Latest
Headline business confidence (actual)	-70
Headline business confidence (sa)	-73
Domestic trading activity (sa, past)	-13
Domestic trading activity (sa, expected)	-33
CUBO (actual)	93.7%
Avg selling price – next 3 months	71

Traction or temporary?

The bottom line

The Q4 Quarterly Survey of Business Opinion (QSBO), which was conducted after the hawkish November MPS, hit a record low in Q4, displaying similar themes to our December [ANZ Business Outlook](#):

- The November Monetary Policy Statement appears to have spooked the horses, but it's not yet clear how far they have bolted. Seasonally adjusted confidence hit a record low (in data going back to the 1970s). To gauge how sticky the shock value from the November MPS has been, we've added a January ANZBO, which we will publish on 27 January.
- Activity indicators point to downside risks to our (and the RBNZ's) GDP forecasts, but lockdown impacts mean the relationship with GDP hasn't been great of late. Further, whether or not businesses follow through with weaker investment intentions remains to be seen – in the residential space, building consents have been holding up well above reported residential construction intentions. But these data certainly suggest a slowdown is looming.
- The supply-demand imbalance in the labour market may have finally peaked. That's certainly not to say 'job done' for the RBNZ, but it indicates that inflationary surprises to the RBNZ's forecasts (ie higher non-tradable inflation and wage growth) may soon be a thing of the past (finally!). But this might be a story for mid-2023, rather than the upcoming Q4 releases.
- The big worry in these data is the fact that costs and pricing lifted for both the past quarter (Q4) and the next (Q1). That's going the wrong way, and suggests near-term inflation pressures remain acute (and far too high for the RBNZ to call these data 'comforting').

So what are we to make of it all? At face value, these data confirm that the RBNZ's forecast that a softening in the economy is unfolding. In fact, like the December ANZBO, they suggest the RBNZ may be engineering a sharper economic contraction than it is forecasting (read: intending).

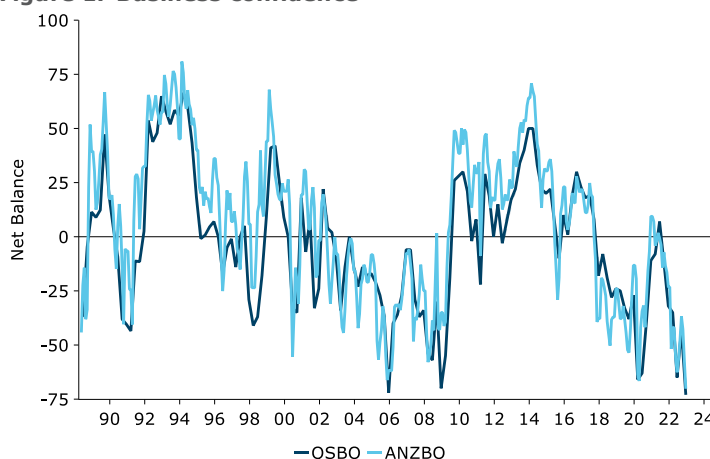
But it's early days. Clearly, businesses are very worried about the future state of demand for their goods and services, and they are, logically, expecting to ease back on investment and headcount in response. But there is still scope for economic resilience to surprise, as has been the general theme for some time (years!) now. Although we're all forecasting recession, it's entirely possible that business and consumer survey data could recover somewhat over the months ahead, despite rising rates. Given that possibility, and the stubborn direct inflation indicators, the RBNZ will likely want to see the slowdown vibe of these data sustained in Q1 and reflected in the harder data before they're convinced that the November MPS has gotten more traction than they were aiming for, and that they may not need to do as much with the OCR.

But make no mistake, these data do suggest the downturn is underway; it's just a question of how soon and how deep – and most important of all for the rates outlook, how disinflationary. But with costs and pricing going the wrong way, these data are certainly not a clean sweep for the RBNZ!

Key points

- **Business sentiment tanked to a record low in Q4.** That's broadly consistent with our December Business Outlook and suggests the November Monetary Policy Statement delivered some significant shock value. A net 73% of respondents expect conditions to deteriorate, versus 43% in Q3 (seasonally adjusted, figure 1). Now the question is whether or not this is sustained; whether it indicates a looming crisis of confidence or a short-lived jolt that will fade.

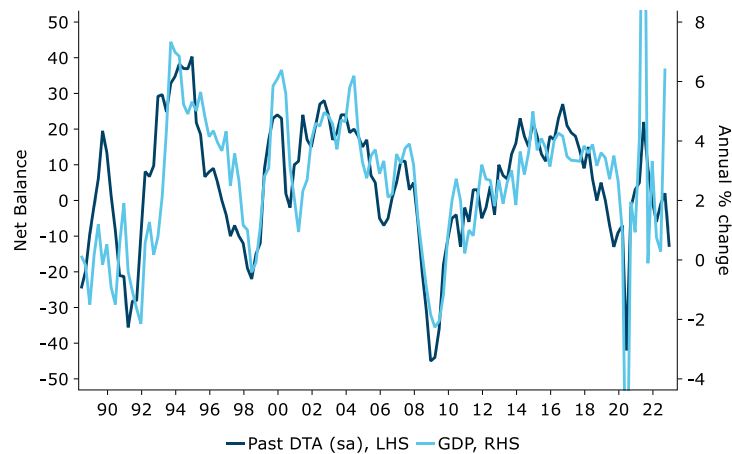
Figure 1. Business confidence



Source: NZIER, Macrobond, ANZ Research

- **Experienced domestic trading activity (DTA) fell 15 points** on a seasonally adjusted basis to -13%. At face value, this suggests broad economic momentum is southbound. However, lockdown-related volatility in the GDP data mean this particular indicator hasn't been giving its usual reliable steer on annual GDP growth, making it difficult to gauge the implications for Q4 GDP. Meanwhile, expected trading activity for the next three months (Q1 2023) fell from -18% in Q3 to a net 33% of firms expecting activity to decrease. All up, the signal here is unambiguously weak, with downside risks to both our and the RBNZ's activity forecast. But given recent data noise, we won't be adjusting our near-term GDP forecasts (Q1: 0.3% q/q; Q2 0.2% q/q) on the back of this.
- **The residential investment pipeline is drying up** as rate hikes bite. 43% of architects expect a deterioration in housing over the next 12 months, and a net 46% over the 12-24 month period (a downgrade from Q3). Meanwhile, building industry new orders remained weak at -24%, suggesting demand is slowing, as presaged by ANZBO. While building consents have been holding up higher than the business survey data of late, these (and the ANZBO) data suggest gravity will be calling later in the year.

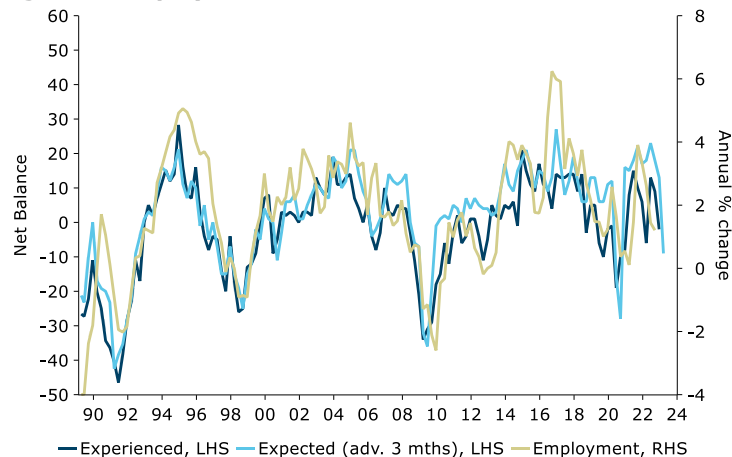
Figure 2. Domestic trading activity and GDP



Source: NZIER, Stats NZ, Macrobond, ANZ Research

- Employment and hiring intentions slipped into negative territory.** A net 2% of firms reported decreasing headcount in Q4, versus a net 9% of firms reporting an increase in Q3. That's consistent with slowing labour demand that we're now seeing in the likes of job ads and ANZBO employment intentions. The forward-looking measure of employment slipped from a net 13% of firms expecting to increase headcount in Q3 to a net 9% expecting to shed headcount. Insofar as the RBNZ's plan goes, it's hard to call this an overshoot. The RBNZ needs to see the imbalance between labour supply and demand dissipate for an extended period before it can be confident that the wage-price spiral has been squashed. These data are just the beginning of that.

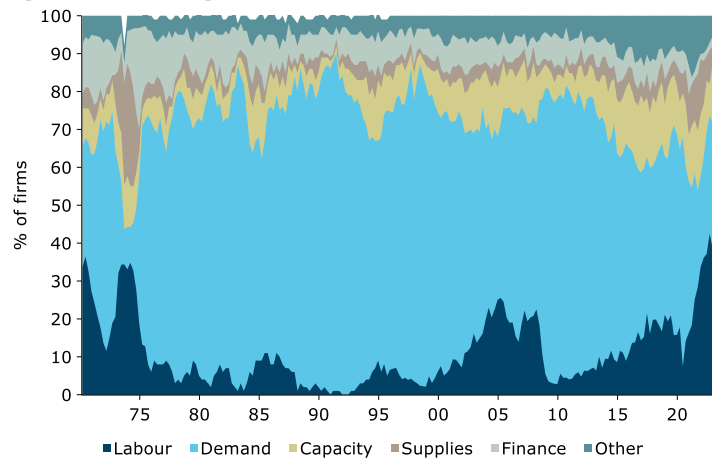
Figure 3. Employment



Source: Stats NZ, NZIER, Macrobond, ANZ Research

- Labour as a limiting factor maintained its 1970s vibe,** but did tick down a touch after hitting a record high in Q3. The RBNZ will find some comfort in the fact that this has tentatively turned a corner. The CUBO measure of capacity utilisation remained high, but eased a touch (from 94.5% to 93.7%). However, it remains well above its historical average of 89.6%. Capacity as a constraint rebounded 7 points to 16%. All up, there is some mixed news here for the RBNZ on the capacity front. At these levels, it would be a stretch to call this good news, particularly given the risk that the wage-price spiral proves hard to contain.

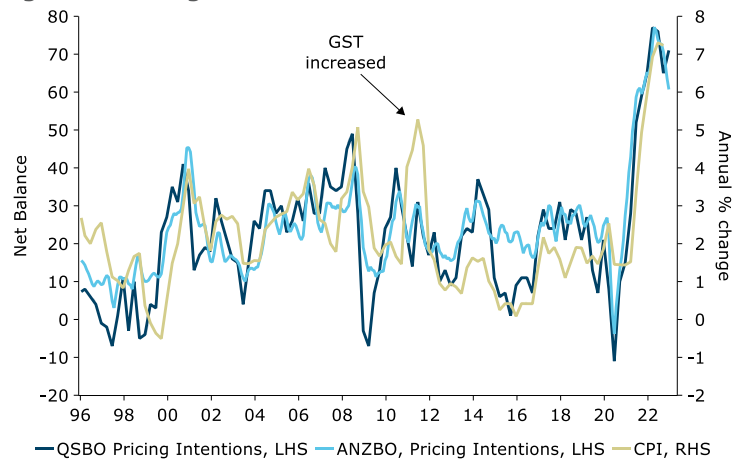
Figure 4. Limiting factors



Source: NZIER, Macrobond, ANZ Research

- Pricing and costs are going the wrong way!** This is a worry. Past quarter and next quarter measures of both costs and pricing lifted in Q4. These were already at exceptionally high levels, and the data suggests that current and near-term inflation pressures remain acute. To be comfortable that inflation is well and truly on the way down, the RBNZ will want to see these measures fall, and more than a smidge. The gap between costs and pricing widened in Q4, suggesting businesses are absorbing cost rises as broader economic demand wanes. That margin squeeze was reflected in reported profitability, which fell further into negative territory for both the past and next quarter (-44% and -55% respectively).

Figure 5. Pricing intentions and CPI inflation



Source: NZIER, Stats NZ, Macrobond, ANZ Research

All up, if the RBNZ was looking to spook the horses with the November MPS, then the QSBO data suggest "mission accomplished". Now the big question is whether or not this sharper downwards momentum is maintained, or if the economy goes back to surprising us on the more robust side after the dust has settled. Our January ANZBO will offer some insight into this, but it'll take hard economic data (GDP, employment etc) to confirm it.



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