

Quarterly Survey of Business Opinion – Q1 2024

9 April 2024



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Data summary

	Latest
Headline business confidence (actual)	-25
Headline business confidence (sa)	-24
Domestic trading activity (sa, past)	-23
Domestic trading activity (sa, expected)	-11
CUBO (actual)	90.2%
Avg selling price – next 3 months	33

Back to reality

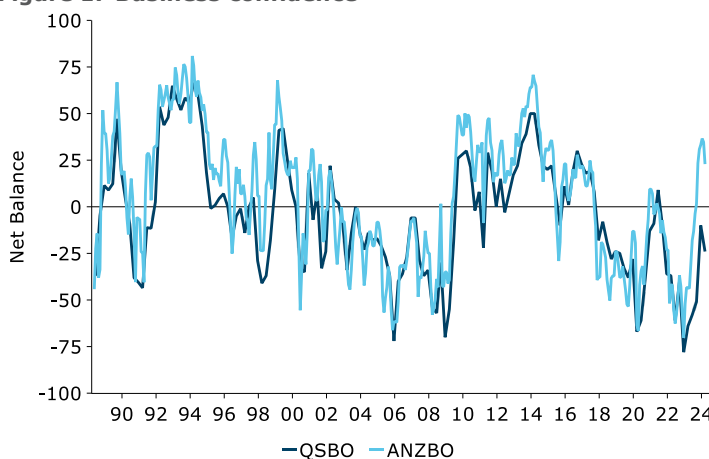
The bottom line

- The NZIER's Q1 Quarterly Survey of Business Opinion (QSBO) suggests the post-election honeymoon is now over and that the reality of a weak economy is back in the driver's seat.
- Business confidence fell 14 points to -24% (seasonally adjusted – sa). Activity measures deteriorated, with domestic trading activity down 30 points to -23% (more consistent with where we see underlying economic momentum), and capacity utilisation dipped a touch as labour indicators softened. Pricing measures generally dipped a little further.
- Labour as a limiting factor for production fell to below pre-pandemic levels, mitigating the risk that a tight labour market drives a reacceleration in labour costs and therefore domestic (and potentially sticky) CPI inflation.
- The indicators for activity, the labour market, capacity, and pricing are unlikely to move the dial much for the RBNZ. There are enough economic indicators still going the right way for the RBNZ to remain patient. But at the same time, these (and other data) are yet to confirm that the battle against high inflation has been won. So in the words of the February MPS, that all still suggests "the OCR needs to remain at a restrictive level for a sustained period of time."

Key points

- **Business sentiment gave up some of its post-election bounce**, down 14 points to -24% (sa), weaker than our own [Business Outlook](#). As noted last quarter, there is a decent political bias in some of these indicators, but the Q1 results suggest the post-election honeymoon hasn't lasted long given the reality of a weak economy. As in the ANZBO, the building industry remains a weak spot, but the suite of indicators across services and merchants also deteriorated on a quarterly basis.

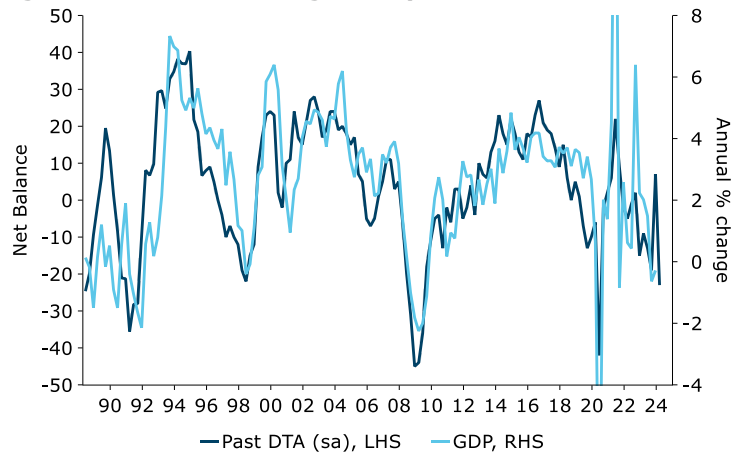
Figure 1. Business confidence



Source: NZIER, Macrobond, ANZ Research

- Experienced domestic trading activity (DTA) also deteriorated, down 30 points to -23** on a seasonally adjusted basis, more than retracing Q4's jump higher. Clearly, Q4's sharp rise was not a good predictor of the weak Q4 GDP data – and that's important context for the Q1 read. In fact, the rebound in Q1 just brings this measure of activity back into line with where we think economic momentum is currently travelling, but we wouldn't go so far as to say it represents upside or downside risk to our GDP forecast of 0.2% q/q (0.3% y/y) in Q1. Meanwhile, profitability deteriorated 19 points to -47%, well below its long-run average of -18%, but not a fresh low by any means.

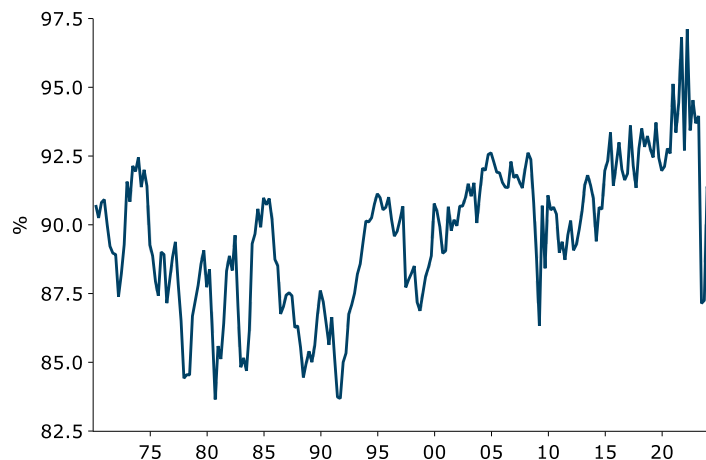
Figure 2. Domestic trading activity and GDP



Source: NZIER, Stats NZ, Macrobond, ANZ Research

- Capacity utilisation fell 1.2%pts to 90.2%**, still above its long-run average of 89.6%. We (and the RBNZ) use this measure as an early gauge on where the output gap may be trending. It's one of the timelier measures we get, but it's by no means the only measure worth looking at. At face value, the Q1 read suggests capacity pressures (and therefore CPI inflation pressures) are not yet significantly in disinflationary territory, which is what the RBNZ is trying to achieve (and maintain long enough for underlying inflation to sustainably return to target).

Figure 3. Capacity utilisation (CUBO value)



Source: NZIER, Macrobond, ANZ Research

- Indicators for the labour market softened in the quarter.** The ease of finding unskilled labour fell to +25% from +33%, with skilled labour dipping from +3% to +1%. Reported employment for the past quarter fell to -11% from +9% and hiring intentions for the coming quarter dropped from 21% to 2%. The overall vibe still roughly squares with robust growth in monthly employment in recent months, but it highlights that it is likely just as much a supply story as it is a demand one. However, there is enough here to conclude that the labour market is poised to loosen further.

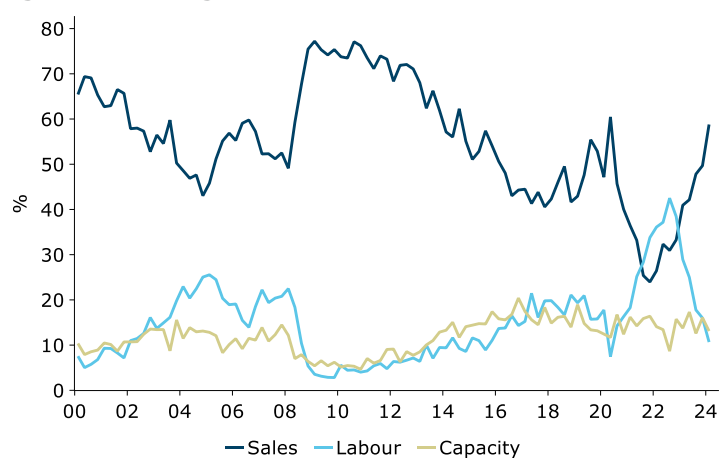
Figure 4. Difficulty finding labour



Source: NZIER, Macrobond, ANZ Research

- Labour as a limiting factor eased further from 16% to 11%, below pre-pandemic levels.** In terms of the overall inflation impulse, the limiting factors on production show everything is moving the right way for the RBNZ. Sales (demand) as a limiting factor lifted 9pts to 59% as labour (and therefore pressure on labour costs) fell. In big-picture terms, this suggests pipeline labour costs are very unlikely to drive a reacceleration in domestic (non-tradables) inflation, but we still wouldn't say these data guarantee the sustained period of disinflation that the RBNZ requires. The labour market needs to loosen further to be confident of that.

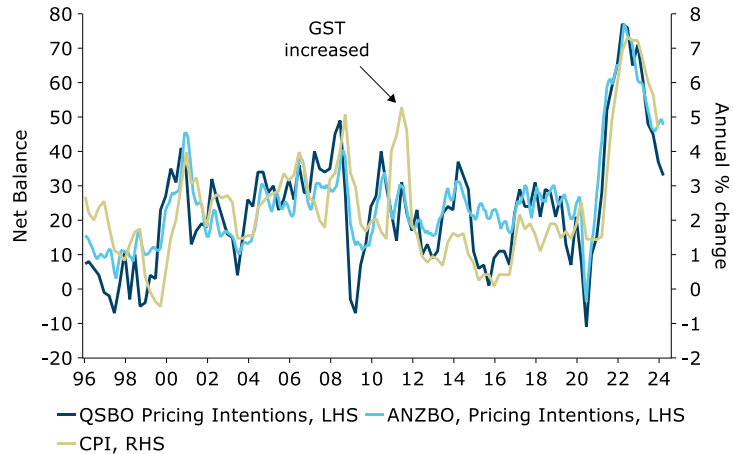
Figure 5. Limiting factors



Source: NZIER, Macrobond, ANZ Research

- **Experienced price rises fell 2pts to 35%, only 9pts above its long-run average of 26%.** The NZIER reports that there has been a decline in the proportion of firms reporting higher costs and increasing prices in Q1. Meanwhile, pricing intentions fell 4pts to 33% and experienced costs declined 7pts to a net 49% of firms reporting higher costs.

Figure 6. Pricing intentions and CPI inflation



Source: NZIER, Stats NZ, Macrobond, ANZ Research

All in all, and as is typical with these data given their very broad coverage, there are a few mixed signals coming through. However, the overall vibe is a deterioration from last quarter on the activity front, with a little progress on the inflation side. That said, the political bias in some key indicators could be time-varying and quite volatile, meaning it's probably a little too early to be making strong conclusions about what the quarterly ups and downs mean for activity and employment (ie the data could still be settling into the new political reality). Indeed, Q4's solid rise in the domestic trading activity measure certainly didn't show up in the Q4 GDP data, so we're not putting much weight on Q1's recoil.

But taken at face value, today's indicators for activity, the labour market, capacity, and pricing are unlikely to move the dial much for the RBNZ's Monetary Policy Review tomorrow. There are enough economic indicators still going the right way for the RBNZ to remain patient. But at the same time, these (and other data) are yet to confirm that the battle against high inflation has been won. So in the words of the February MPS, that suggests "the OCR needs to remain at a restrictive level for a sustained period of time."



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