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CONTRIBUTORS

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DATA SUMMARY

	Latest
Headline business confidence (actual)	+18
Headline business confidence (s.a.)	+18
Domestic trading activity (s.a., past)	+18
Domestic trading activity (s.a., expected)	+23
CUBO (actual)	0.921
Avg selling price – next 3 months	+24

THE SOFT VS HARD DIVIDE

THE BOTTOM LINE

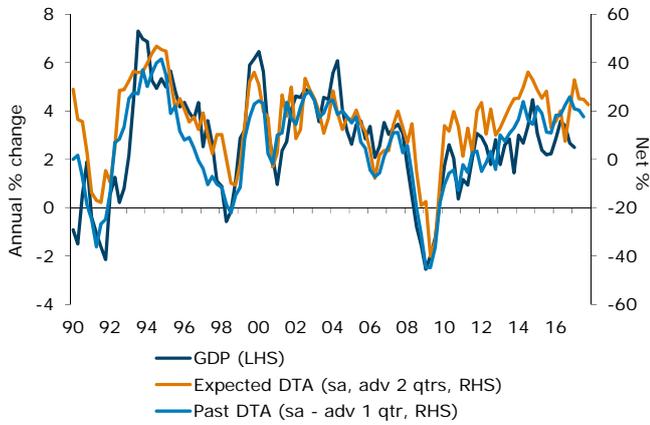
- **While the tone of the QSBO was perhaps not as buoyant as what our own Business Outlook survey suggested, it was still solid pointing to above trend growth.** There was a slight easing in firms' views towards their own activity, but it was from levels well above where GDP and investment growth are currently printing anyway. The QSBO is still flagging GDP growth of around 4%, not the 2.5% being experienced.
- **The economy can't grow at the pace being suggested by the 'soft' data.** But we expect the gap between 'soft' and 'hard' data to close from both sides over the coming six months. That means GDP growth back to just above 3%. But not 4%.
- **Capacity pressures eased a tad in the quarter**, which ties in with GDP being sub-trend. But skilled labour shortages intensified and need to be watched in terms of the flow-on for wage growth. However, **there is nothing in this to point the RBNZ in a different direction.** In fact, more and more things are becoming consistent with its cautious tone.

KEY RESULTS

- **Headline business confidence was steady in Q2 at a net 18%.**
- **Firms' views towards their own domestic trading activity (over the past three months) fell** from a net 20 to 18. Expected activity dipped from 25 to 23. While both are still above long-run averages, we would have expected stronger outcomes given the message from our own Business Outlook survey. That being said, these measures have been flagging ~4% annual GDP growth, which is clearly on the high side, so it maybe that reality is now starting to sink in.
- **Past employment was stable at a net 13.** Hiring intentions lifted from 8 to 12. However, firms reported it even more difficult to find skilled labour, with the net number increasing to 47% (from 41%). Finding unskilled labour was broadly unchanged at -23 (-24).
- **Investment in plant and machinery went from 18 to 20. Investment in buildings fell from 8 to 3.** Both are still well-above historical averages.
- **Cost and prices;** experienced costs went from 23 to 26 and expected costs from 29 to 28. The net number of firms raising prices over the past three months lifted from 15 to 20, which is consistent with the lift seen in headline inflation, but future pricing intentions fell from 29 to 24. Headline inflation looks set to bobble about over the coming 12 months.
- **Experienced profitability fell from 2 to -1.** Expected from 8 to 6. So it is still a backdrop where despite solid demand, it is tough to make a bob and pass price increases on.
- **Capacity utilisation eased from 93.6% to 92.1%** driven by the building sector. In many ways, this is just a reversion from the all-time high recorded last quarter. However, the number of firms reporting capacity as a major constraint fell too (from 17% to 16%), so it was broader than that. It perhaps implies that the sub-trend GDP growth experienced over the past six months have eased some resource strain.

2017Q2 QSBO

FIGURE 1. GDP VS QSBO EXPECTED DOMESTIC TRADING ACTIVITY



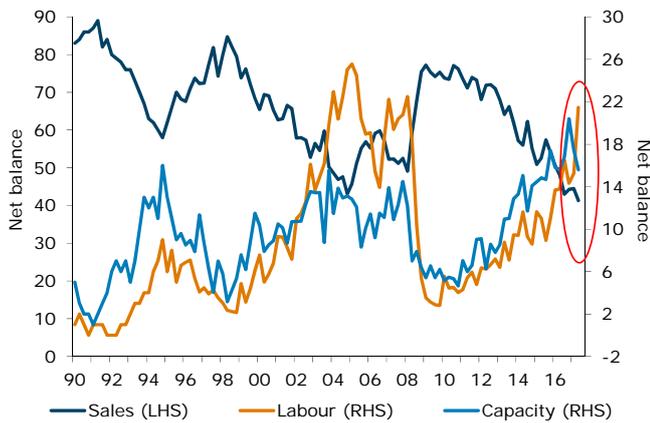
Source: ANZ, NZIER, Statistics NZ

FIGURE 3. INDICATORS OF RESOURCE PRESSURES IN THE ECONOMY



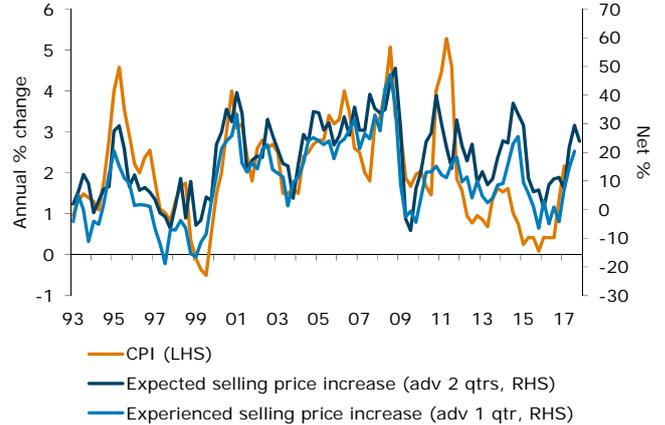
Source: ANZ, NZIER

FIGURE 2. FACTOR CONSTRAINTS



Source: ANZ, NZIER

FIGURE 4. CPI VS PRICING INTENTIONS



Source: ANZ, NZIER, Statistics NZ

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