

NEW ZEALAND ECONOMICS NZIER QSBO – 2016Q4

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CONTRIBUTORS

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DATA SUMMARY

	Latest
Headline business confidence (actual)	+28
Headline business confidence (s.a.)	+26
Domestic trading activity (s.a., past)	+21
Domestic trading activity (s.a., expected)	+25
CUBO (actual)	0.927
Avg selling price – next 3 months	+22

THE FORCE AWAKENS?

THE BOTTOM LINE

- A continuation of the good times looks to be on the cards with business confidence remaining high and experienced activity robust. Capacity constraints remain acute, and there are some signs of inflation stirring, especially for construction and services. Retailing remains a tough gig.

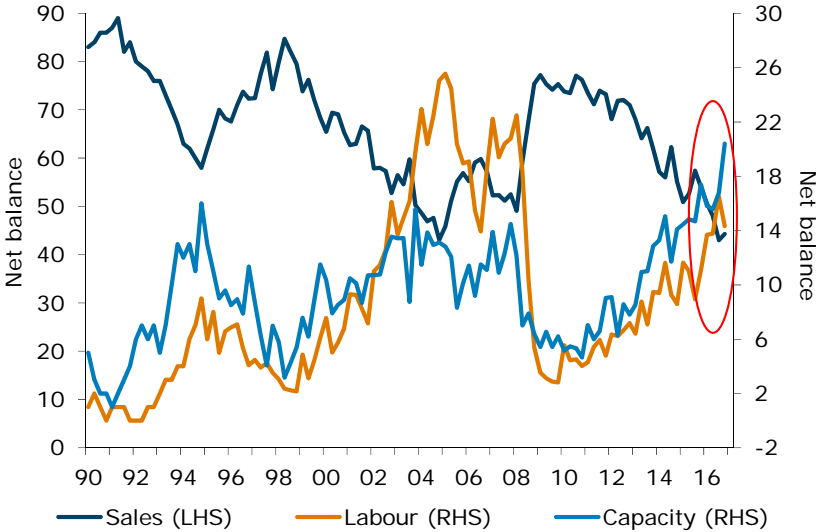
KEY RESULTS

- The outlook for the New Zealand economy is robust with business confidence remaining high. There was a modest softening in experienced demand and future expectations of own activity for the next quarter, consistent with our expectation that economic growth will slow from a gallop (4%) to a canter (3%) in 2017.
- This partly reflects that capacity constraints remain acute, with the CUBO rebounding to 92.7%. Capacity utilisation on the part of builders rebounded, while there was a slight easing for manufacturers and exporters. A record-high percentage of firms (20%) report that capacity is their greatest constraint on expansion at present.
- There are some signs of inflation stirring, with a modest pick-up in pricing indicators across the economy. A net 7% of businesses raised prices over the December quarter, a turnaround from the net 4 percent of businesses that cut prices in the previous quarter. A net 22 percent of businesses expect to increase prices further in the next quarter. The biggest price increase expectations are for manufacturing, construction and service firms. Retailing remains a tough gig with past-quarter selling prices down and future expectations stable.
- The key will be whether planned price increases actually occur. The December quarter saw reality match expectations – a net 7% of business expected to raise prices coming into Q4 and they managed to do this. NZIER expects inflation to gravitate toward 2% in 2017.
- Average cost indicators remained steady though. Experienced costs for manufactures remained fairly stable, eased for services and increased for merchants and the building industry. Next quarter cost indicators eased a touch leading by services. The remainder of the sectors cost expectations remain fairly steady.
- Business confidence remains high across all sectors, highlighting the broad-based nature of the expansion. Regional confidence remains high, especially outside the upper North Island where confidence eased a touch. This highlights the step-up of activity outside of the Auckland halo, driven by internal migration, tourism, construction/infrastructure demand, job opportunities and improvement in dairy sector. Wellington business confidence was high, suggesting only a fleeting impact from the November earthquake on the broader business community.

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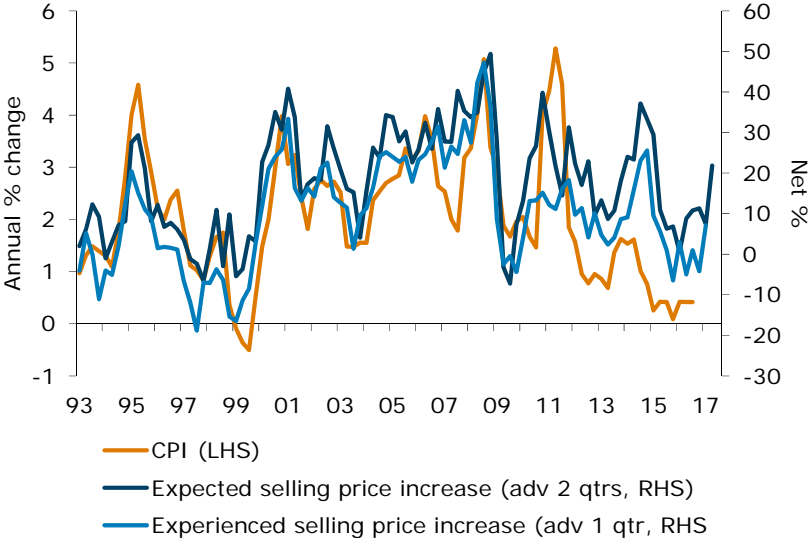
- Own expected and experienced trading activity eased slightly in December. This easing largely reversed the previous quarter's gains. Manufacturers experienced output increased in December with robust exports leading the way. This is consistent with a global cyclical upswing for manufactures, commodities and trade. The volumes of services, merchant sales and building industry output also increased in the December quarter. This highlights that under the surface own activity remains fairly robust.

FIGURE 1. FACTOR CONSTRAINTS



Source: ANZ, NZIER

FIGURE 2. CPI VS PRICING INTENTIONS



Source: ANZ, NZIER, Statistics NZ



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