

NEW ZEALAND ECONOMICS

NZIER QSBO – 2016Q3

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DATA SUMMARY

	Latest
Headline business confidence (actual)	+26
Headline business confidence (s.a.)	+26
Domestic trading activity (s.a., past)	+21
Domestic trading activity (s.a., expected)	+39
CUBO (actual)	0.925
Avg selling price – next 3 months	+7

STRONG GROWTH BUT INFLATION MIA

THE BOTTOM LINE

- **Confidence and domestic trading activity strengthened in Q3 and point to GDP growth accelerating towards 4½%! That is a similar signal to some of our own indicators (Financial Conditions and Confidence Composite), although we doubt that rate is achievable given the economy is now clearly facing capacity constraints with more firms citing difficulty finding skilled labour.**
- **But pricing indicators remain weak** pointing to a continuation of subdued inflationary pressures for the remainder of 2016. A net 4% of firms cut prices in the quarter, despite reporting increased costs.
- **Capacity utilisation eased a touch, but it remains historically high** and other indicators on the demand for labour remain very strong. Indeed, a net 27% of firms are looking to increase headcount in the next quarter, which is the highest level for 43 years. Boom!
- **Growth is strong and capacity pressures are building, yet inflation is MIA.** The former argues for no monetary policy response, while the latter does, and it is the latter that the RBNZ is showing more concern about. A November cut remains odds-on. Strong growth numbers are not going to see the NZD fall (the RBNZ's desire) for NZ specific reasons.

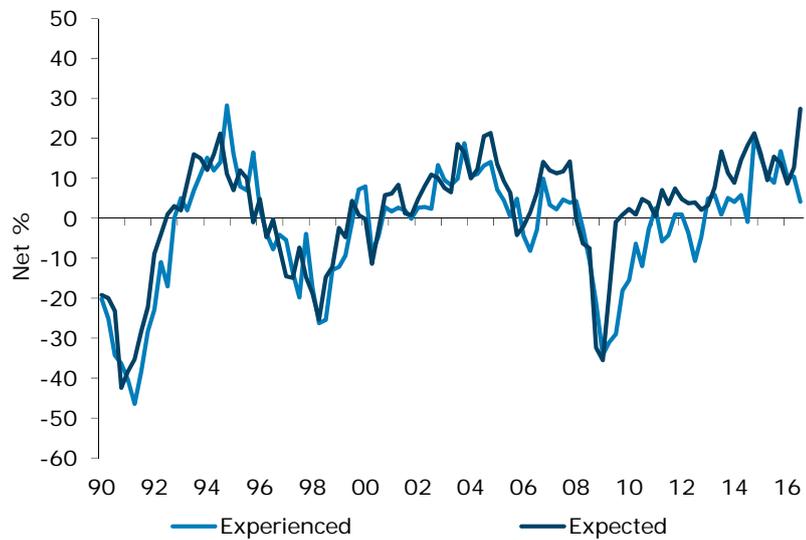
KEY RESULTS

- **A winning trifecta of accelerating confidence, experienced activity and expected activity.** All three showed further lifts in Q3 pointing to a continuation of the good times. **The growth cycle hasn't yet peaked.**
- **In terms of experienced activity,** there was improvement for manufacturers and merchants. The building sector continues to report very high levels of activity and architects reported activity suggests strong growth in residential and commercial construction continuing over the next year. At +21, firms' experienced domestic trading conditions does suggest some upside risk to our current Q3 GDP forecast of 0.6% q/q.
- **But the inflation environment remains very weak.** Pricing indicators were soft (past: -4), with this evident in both the manufacturing and building sectors despite the latter seeing strong demand. In the building sector, pricing indicators seemed to be affected by lower material costs. The retail sector is seeing improved margins, but with moderating costs.
- **The improvement in business confidence was broad-based across regions** and particularly so in the South Island. Dairy aligned regions showed some of the biggest increase, which is not surprising given the recent lift in international prices. Tourism intensive regions also retained strong confidence with increased arrival numbers continuing.

2016Q3 QSBO

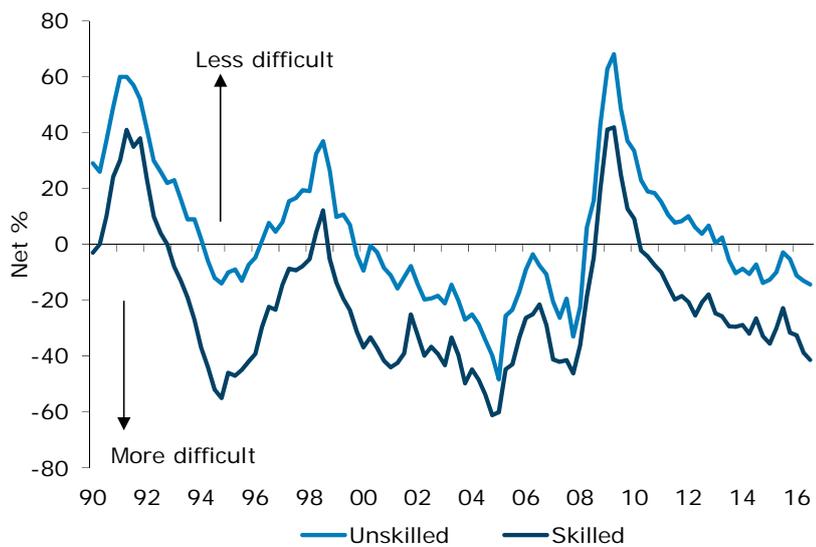
- **An easing in capacity utilisation was driven by a drop in the building sector.** This was in contrast to surging confidence and increased intentions to hire more labour. However, the sector is facing the most acute skill shortages (a net 60% of firms are finding skilled labour hard to find) and that still speaks to an eventual lift in wage growth.
- **A shortage of skilled labour is becoming particularly acute.** The surge in net migration has expanded the labour force. However, we note that in Auckland, where migration inflows have been concentrated, firms report greater ease in finding unskilled labour, but greater difficulty in finding skilled labour. That points to a mismatch over what New Zealand needs versus what is coming in.

FIGURE 1. EMPLOYMENT INTENTIONS



Source: ANZ, NZIER

FIGURE 2. DIFFICULTY FINDING LABOUR



Source: ANZ, NZIER

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