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CONTRIBUTORS

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DATA SUMMARY

	Latest
Headline business confidence (actual)	+17
Headline business confidence (s.a.)	+16
Domestic trading activity (s.a., past)	+21
Domestic trading activity (s.a., expected)	+25
CUBO (actual)	0.936
Avg selling price – next 3 months	+29

REDUCED CADENCE

THE BOTTOM LINE

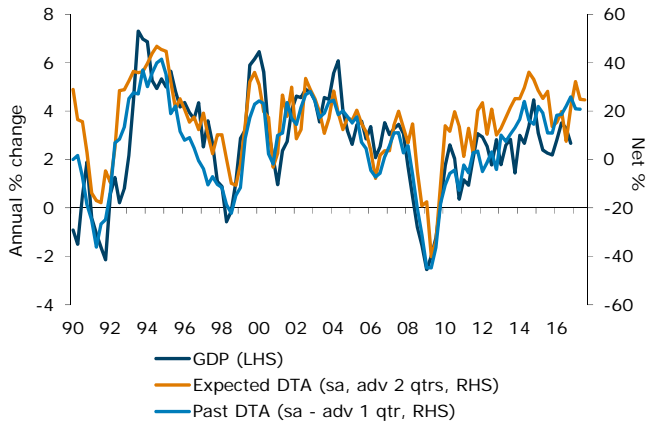
- Our main take-away from today's survey (and it is not a surprising one) is that the economy is at a more mature stage in its economic cycle. Growth momentum is still good, but capacity pressures are intensifying and inflation pressures are lifting off lows. That is consistent with the broad message within our latest *Economic Outlook* publication. It leaves us comfortable with our view that the next move in the OCR will be upwards, but still see that being a 2018 story.

KEY RESULTS

- **Headline business confidence eased in Q1**, with the number of firms optimistic on the economy's prospects over the coming months easing to a net 16% (sa). That is down from +26 in Q4.
- **However, firms' expectations for their own activity remained steady**, pointing to most firms still doing brisk business since the start of the year. Past and expected domestic trading activity gauges were both unchanged at a net 21% and net 25% (sa) respectively. At face value, this implies economic growth remaining solid at around 3% over coming quarters. While that is technically consistent with a 'peak' in growth, the moderation is one of a 'gallop to a canter' variety.
- **Where confidence did ease it centred on those regions that were feeling particularly exuberant late in 2016** – namely Auckland, Wellington and Southland. Interestingly confidence lifted in Auckland's 'halo' regions of Northland, Bay of Plenty and Waikato suggesting catch-up and spill over effects are still occurring. By sector retailing, merchants and manufactures saw a drop in confidence, while confidence in the building industry remained high.
- **Typical late-cycle behaviours are becoming far more evident.** Capacity utilisation lifted to record high (93.6%), led by builders (which also rose to an all-time high of 94.6%). While the number of firms reporting capacity as a major constraint eased to 17% from 20%, that is still well above historical averages. Finding both skilled and unskilled labour was harder in the quarter (41% and 24% respectively).
- **Importantly, and following on from subsequent rising costs pressures, we are now seeing an increased number of firms looking to raise prices** (and having some success in doing so). That has been a missing ingredient in the expansion to date. A net 15% of firms raised prices over the past three months, and a net 29% intend to raise prices next quarter, which are both the highest since Q3 2014. This is being led by the construction sector, although there are some signs of broadening, with pricing intentions rising across all sectors.
- **Firms are still looking to expand headcount, but skill shortages appear to be making that more difficult.** A net 8% of firms intend of hiring next quarter, which is down from 17% in Q4 and the softest since Q2 2013. It is consistent with a peak in employment growth.
- **Perhaps it is not surprising then that plant and machinery investment intentions are rising** (from +16 to +18). We expect the relative price of labour and capital to increasingly support the latter, which should ultimately be a key factor underpinning an lift in productivity growth.

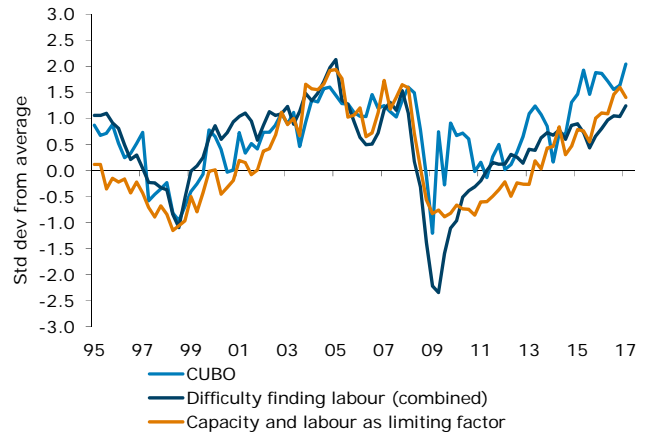
2017Q1 QSBO

GDP VS QSBO EXPECTED DOMESTIC TRADING ACTIVITY



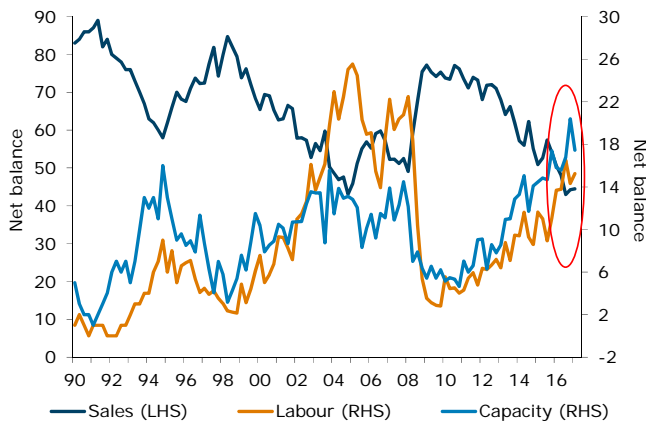
Source: ANZ, NZIER, Statistics NZ

INDICATORS OF RESOURCE PRESSURES IN THE ECONOMY



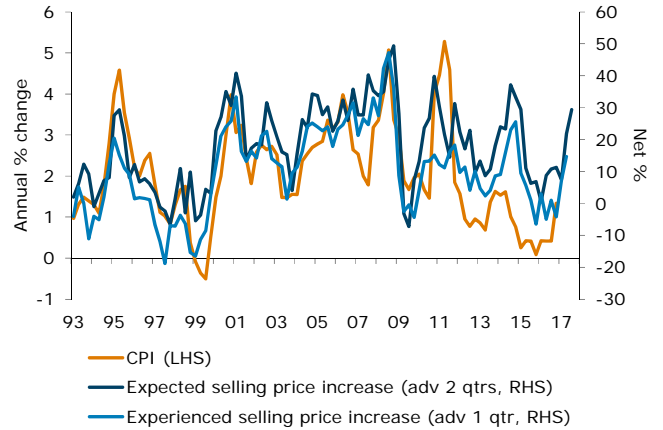
Source: ANZ, NZIER

FACTOR CONSTRAINTS



Source: ANZ, NZIER

CPI VS PRICING INTENTIONS



Source: ANZ, NZIER, Statistics NZ

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