

Confidence dips, but NZ domestic outlook remains robust

- Headline business confidence fell in Q1, likely reflecting geo-political concerns.
- Firms remain upbeat on the domestic outlook and indicators remain consistent with strong NZ economic growth.
- Inflation indicators continue to lift off lows, in line with RBNZ expectations.

The NZIER Q1 Quarterly Survey of Business Opinion (QSBO) reported a decline in general business confidence, likely reflecting geo-political concerns. In contrast, businesses remain fairly upbeat about the domestic outlook and key indicators for NZ economic activity remain robust and consistent with continued economic growth, for now. Meanwhile, the labour market continues to tighten and inflation indicators are lifting off lows, in line with the RBNZ’s expectations. As such, there are no implications for our OCR view, we expect the OCR to remain unchanged at 1.75% until late-2018.

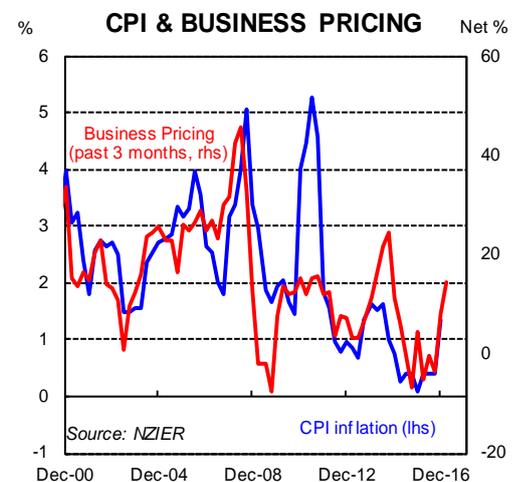
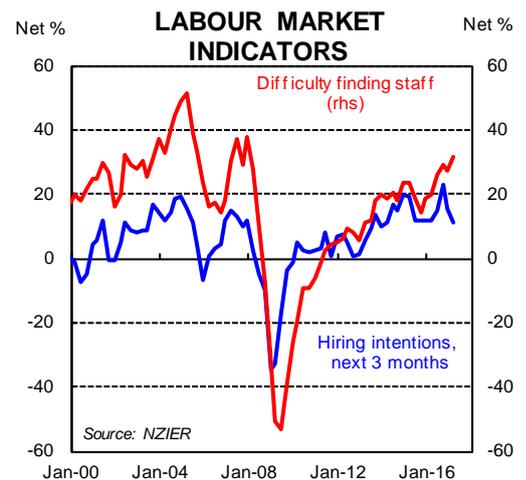
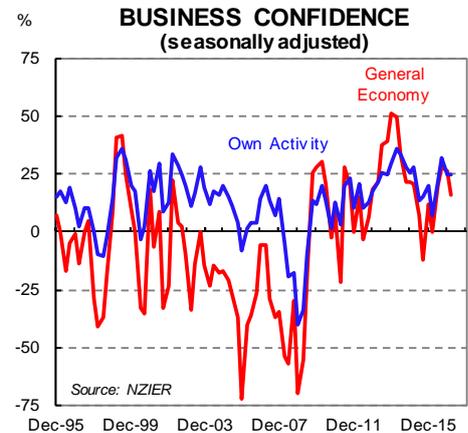
KEY INDICATORS	Mar-17	Dec-16	Sep-16
Business Confidence (seasonally adjusted)	16.0	26.1	27.8
Own Activity (expected, s.a.)	24.7	25.1	32.2
Number Employed (Past 3 Months, s.a.)	11.4	10.0	8.6
Investment Intentions (plant)	17.1	16.6	18.0
Selling Prices (Past 3 Months, s.a.)	14.3	8.0	-3.5

NZIER QSBO general business confidence fell in Q1, as foreshadowed by declines in the monthly ANZ business confidence survey. However, given NZ’s relatively strong economic performance of late, we suspect the fall in general economic confidence largely reflects geo-political concerns. Those concerns may include the uncertainties surrounding President Trump’s economic policies and the risks these pose to the NZ economy and its key trading partners.

Indicators for NZ economic activity remain robust and consistent with continued economic growth. Firms’ own activity expectations remain at robust levels, as do employment and investment intentions, confirming NZ domestic economic momentum is likely to continue for now. The QSBO survey details can provide insights into trend economic growth and suggests trend growth of around 1% per quarter. This reinforces our view that recent weakness in GDP figures was due to temporary factors and not reflective of the current momentum in the economy.

There are signs of the labour market continuing to tighten, with firms reporting increased difficulty finding labour. The rate of recent hiring as reported in the QSBO is consistent with continued employment growth over Q1. We expect the tighter labour market and a recovery in 1-year-ahead inflation expectations will feed into stronger wage growth over the coming year. This stronger wage growth will support consumer spending growth going forward. A lift in wage growth will also support a recovery in domestic inflation pressures consistent with inflation settling at the mid-point of the RBNZ’s target band.

Inflation indicators continued to lift off lows, with the net% reporting an increase in selling prices over the past 3 months lifting to 14% in Q1. Inflation indicators support our view that near-term inflation is likely to bounce higher due to a number of temporary factors. However, the key question for the RBNZ over the coming year will be if these price increases are sustained. There are no implications for our OCR view, we expect the RBNZ to leave the OCR unchanged at 1.75% until late 2018.



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