

Business confidence eases a touch

- Business confidence steady on Q1 levels while firms’ views of their own activity softened slightly.
- This survey doesn’t directly capture the agriculture sector, which we expect to strengthen over the coming year.
- Inflation indicators overall eased slightly: OCR increases still some distance off.

General business confidence was quite steady on Q1’s survey results. **Firms’ domestic trading activity views eased slightly**, both for the quarter just experienced, as well as expectations for the quarter ahead. All key activity indicators remain above long-term averages and point to good underlying momentum.

We continue to expect the RBNZ will remain on hold until late 2018. The ANZ survey, more so than the QSBO survey, indicates that growth will regain momentum with the aid of improving fortunes in the agriculture sector. And with that will come more inflation pressure over time, though **the Q2 survey inflation measures show there is little for the RBNZ to worry about for now.**

KEY INDICATORS	Jun-17	Mar-17	Dec-16
Business Confidence (seasonally adjusted)	17.8	17.7	26.3
Own Activity (expected, s.a.)	22.6	24.8	25.1
Number Employed (Past 3 Months, s.a.)	13.3	11.7	10.1
Investment Intentions (plant)	18.8	17.8	16.9
Selling Prices (Past 3 Months, s.a.)	18.7	14.9	8.0

The slight softening in sentiment outcomes were largely in line with our expectations. The QSBO survey results were not as positive as in the recent ANZ business survey. That is to be expected, as the QSBO doesn’t include the agriculture sector that has had a big confidence boost from the firm milk price guidance Fonterra has recently given.

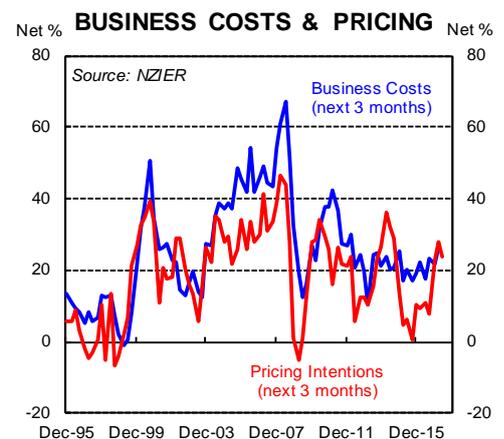
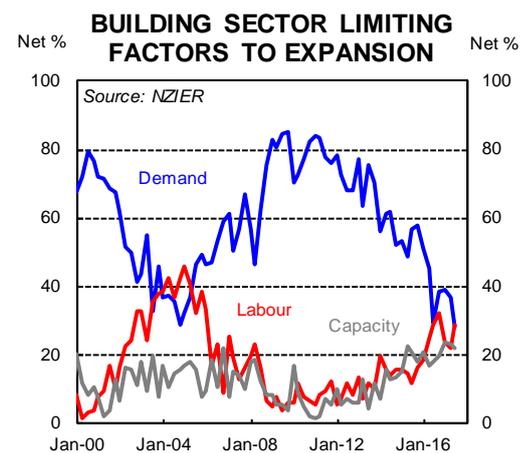
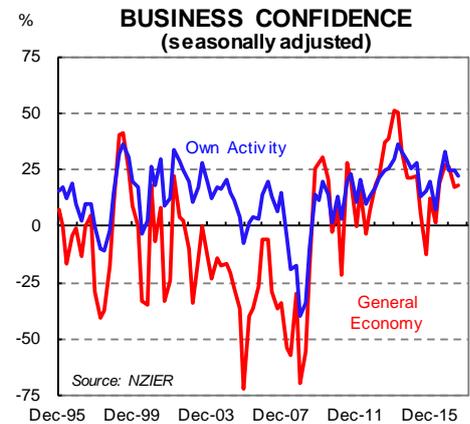
The key point to make is that the **key activity indicators from the survey remain comfortably above long-run averages** and continue to highlight an economy that has underlying momentum. **We expect growth will reaccelerate after its slower pace over 2016Q4 and 2017Q1**, with part of that story being the resurgent agriculture sector that isn’t fully captured in this particular survey.

Confidence within the building sector softened, though the sector’s employment, orders and output indicators were firmer in general. But with a widespread boom underway, the sector’s main challenges aren’t demand but resource constraints.

Meanwhile, **investment intentions in plant and machinery edged up further** – in line with both a strong lift in Q1 capital expenditure and continued lifts in capital imports.

Inflation indicators eased overall a touch in the survey. Cost and selling price pressures experienced over the last quarter lifted slightly though are still well short of their past peaks during this economic recovery. But **forward-looking pricing expectations eased back. Furthermore, capacity utilisation fell** for builders, manufacturers and exporters.

The survey does suggest, though, that **labour market pressures will continue to ratchet up over time.** Employment intentions and experienced employment both edged up further. And the difficulty of finding skilled labour is at its highest since mid-2005. Inflation pressures will follow suit, but **the RBNZ still has plenty of time before it needs to start unwinding the interest rate stimulus** the economy is still benefitting from.



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