

Economic Note

Quarterly Survey of Business Opinion

10 April 2018

Businesses still nervous in Q1

- NZIER QSBO business confidence remains weak, but less pessimistic than the monthly ANZ Business Opinion Survey.
- The NZIER survey points to a modest slowdown in growth, as the uncertainty associated with a change in Government continues to weigh on near-term activity.
- For the most part, investment intentions and employment intentions have held up relatively well.

KEY INDICATORS	Mar-18	Dec-17	Sep-17
Business Confidence (seasonally adjusted)	-9.1	-11.4	5.1
Own Activity (expected, s.a.)	16.0	17.5	26.1
Number Employed (Past 3 Months, s.a.)	9.1	10.2	17.6
Investment Intentions (plant)	16.4	11.6	18.0
Selling Prices (Past 3 Months, s.a.)	16.0	18.3	17.2

Summary & implications

The NZIER Quarterly Survey of Business Opinion points to growth remaining sub-trend over the first half of 2018. While business confidence remains weak, key measures of activity remained more upbeat than the monthly ANZ Business Outlook Survey. In particular, employment and investment intentions remain at reasonably robust levels. However, the construction sector does appear to be losing confidence amidst tight capacity pressures and falling profitability, and points to some risk of a sharper fall in commercial construction than we have allowed for. The NZIER survey reinforces the need for continued patience from the RBNZ and we expect the OCR to remain on hold until the second half of 2019.

Growth to remain sub-trend for now

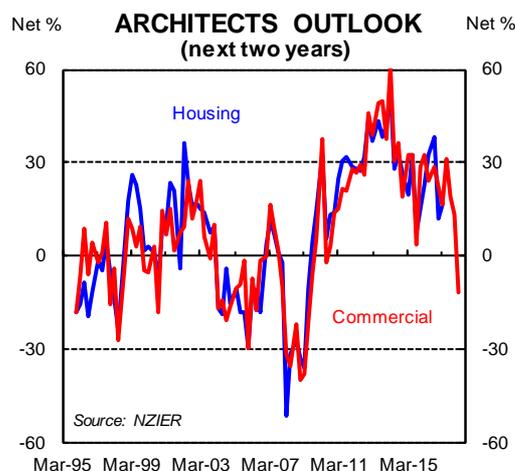
The Q1 NZIER Quarterly Survey of Business Opinion measures of business confidence and activity held up relatively well and remain more upbeat than the monthly ANZ Business Outlook Survey. While general business confidence remained relatively gloomy, firms' expectations for their own activity over the next quarter remain relatively upbeat. The level of own activity expectations is encouraging considering the extent of uncertainty with a large number of policy changes due to the change in Government. Furthermore, reported trading activity over the past quarter lifted from Q1. While not yet



back to the levels seen in 2016 when growth was performing strongly, the lift from Q4 is reassuring. Nonetheless, the **QSBO shows that momentum in business activity remains soft**, after slowing over 2017 (including prior to the election), and is **consistent with economic growth remaining below trend** for now. We look to see further recovery in business confidence to confirm that economic growth will rebound in the near term.

Construction sector confidence starting to wane

A key area of weak confidence is the construction sector. Builders, while reporting record high levels of activity are **becoming less confident about the future activity** and forward orders. **Architects' expectations of activity** have, in the past, been a reasonably reliable leading indicator for construction activity. Expectations remain reasonably solid for the year ahead, but have **continued to decline in the 2-year-ahead horizon** (particularly commercial construction expectations). This confirms our view that we are **close to the peak in construction activity**. However, recent events and uncertainty raise some questions around the extent to which commercial construction activity will hold up at high levels, and **suggest some risk that activity may fall faster than we are expecting**.



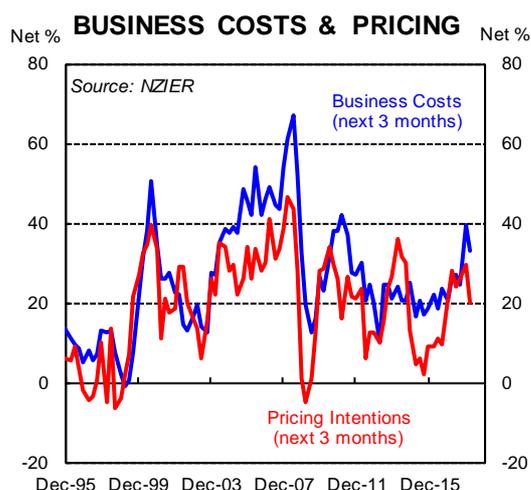
Investment and employment intentions firm

In contrast, **plant and machinery investment intentions continued to hold up** while firms reported a tightening in capacity utilisation. **Employment intentions also remain in positive territory and skill shortages elevated**. A key **uncertainty over the coming year will be if jobs growth will continue** to run at strong levels – as some businesses may be reluctant to hire during the early stages of a new government. Strong jobs growth is required in order to outpace net migration (which still remains at very high levels). We expect continued tightening in the labour market to contribute to higher wage growth and stronger inflation pressures.

RBNZ to remain patient

Pricing intentions fell from the previous quarter, although cost expectations remain relatively high. The softer pricing intentions outcome continues to cast some **uncertainty over the strength by which core inflation pressures will lift over the coming year**.

With business confidence soft and economic growth set to remain slow, there remains no urgency for the RBNZ to lift rates in NZ. **We continue to expect the RBNZ to leave the OCR unchanged at 1.75% until the second half of 2019**.



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