

Economic Note

Quarterly Survey of Business Opinion

2 April 2019

Out of steam?

- NZIER Quarterly Survey of Business Opinion was weaker than we expected, pointing to soft Q1 GDP growth.
- Business confidence has fallen to the lowest levels since Canterbury earthquakes in 2010 and 2011.
- We now expect the RBNZ to cut the OCR by 25 basis points in May, followed by a second 25 basis point cut in August.

KEY INDICATORS	Mar-19	Dec-18	Sep-18
Business Confidence (seasonally adjusted)	-27.5	-18.0	-29.6
Own Activity (expected, s.a.)	6.5	16.1	9.9
Number Employed (Past 3 Months, s.a.)	4.2	2.6	0.2
Investment Intentions (plant)	-1.1	5.8	3.9
Selling Prices (Past 3 Months, s.a.)	17.1	20.3	23.0

Summary & implications

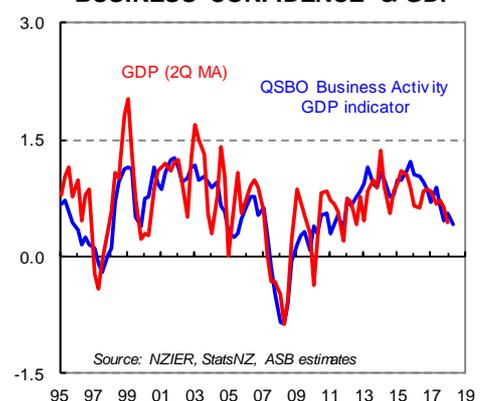
The **NZIER Q1 Quarterly Survey of Business Opinion was weaker than we had expected**. Reported business activity in Q1 was weaker than Q4, and this indicator is **consistent with quarterly GDP growth of just 0.4%**. Business confidence measures were also bleak, with expectations for activity for the next 3 months plunging to the lowest levels since the Canterbury earthquakes in 2010 and early 2011. **Businesses continue to report a decline in profitability**, and we expect this to directly impact employment demand and investment activity over 2019. We now expect the H2 2018 growth slowdown to extend into 2019, and **growth needs an additional kick to get back into gear**. We now expect the RBNZ to cut the OCR 25 basis points in May, followed by a second cut in August.

Growth momentum stalled

The details within the Q1 QSBO are bleak reading. For the third quarter running, the **business sector is reporting soft demand, with surging costs pressures eroding profitability**. A net 1% (seasonally adjusted) of businesses surveyed reported a contraction in activity over Q1, the weakest levels since 2012. This indicator has the strongest relationship with GDP growth and is **consistent with just 0.4% quarterly growth over Q1** and annual GDP growth of just 2%.

Meanwhile, **hopes that the slowdown in activity would be temporary appear to have now evaporated**. Businesses' expectations that activity will improve over the next three months have plummeted to the lowest

QPC **BUSINESS CONFIDENCE & GDP**



levels since the Canterbury earthquakes in 2010 and 2011. Investment intentions fell further. Employment intentions held up relatively well, albeit at low levels. Employment tends to be a lagging indicator of the economy, so the question is how much longer can employment demand hold up when firms are reporting falling profitability.

Construction demand set to fall

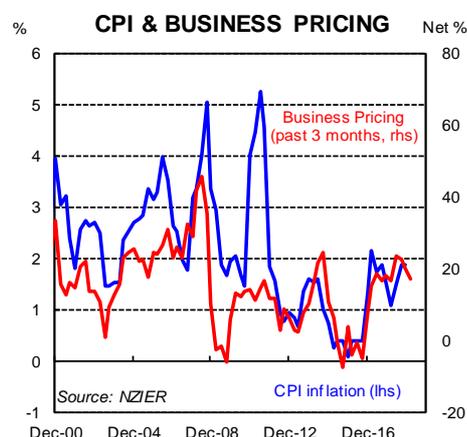
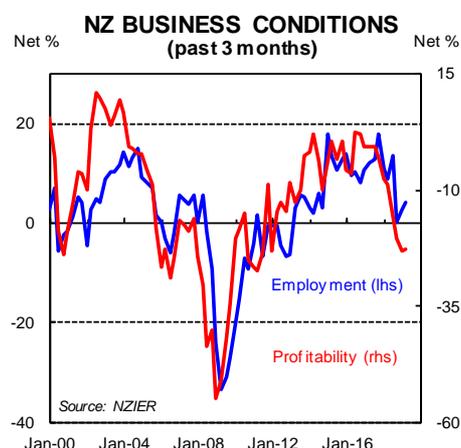
Meanwhile, **leading indicators for construction demand also turned sharply negative**, with architects reporting a fall in demand for both housing and commercial activity. With the construction cycle at its peak, economic growth needs to be generated by the services sector. However, the services sector is also reporting a softening in demand.

Profitability remains under pressure

Profitability has not improved. A net 23% of firms report a contraction in profitability, unchanged from Q4. Surging cost pressure appears to be the culprit. Many firms indicate they plan to increase selling prices in the next three months. However, it seems not all firms are able to follow through with these plans with a smaller share of firms subsequently lift selling prices in the next quarter.

RBNZ has all the evidence it needs to cut

We now expect the RBNZ to cut the OCR 25 basis points at the May Monetary Policy Statement, followed by a second 25 basis point cut in August. The RBNZ now has unequivocal evidence that domestic demand is slowing much more sharply than expected and that NZ economic growth is becoming less likely to turnaround on its own over 2019. It's becoming a **matter of time until softer growth spills into weaker labour demand, softer wage growth and reduced inflation pressures.** Furthermore, global demand is slowing which could potentially reduce some of the wind in the sails of the export sector.



GROWTH INDICATORS	Mar-19	Dec-18	Sep-18
Business Confidence (seasonally adjusted)	-27.5	-18.0	-29.6
Own Activity (expected, s.a.)	6.5	16.1	9.9
Investment Intentions (building)	-1.0	-4.3	-5.0
Investment Intentions (plant)	-1.1	5.8	3.9
Profitability (past 3 Months)	-22.9	-23.2	-20.3
Profitability (next 3 Months)	-15.9	-13.6	-11.2

LABOUR MARKET INDICATORS	Mar-19	Dec-18	Sep-18
Number Employed (Past 3 Months, s.a.)	4.2	2.6	0.2
Number Employed (Next 3 Months, s.a.)	9.8	11.5	8.0
Labour Shortages (Skilled)	50.3	51.0	45.8
Labour Shortages (Unskilled)	33.8	33.8	30.5
Factor Constraints (Labour)	19.4	21.1	16.7

INFLATION INDICATORS	Mar-19	Dec-18	Sep-18
Capacity Utilisation (%)	92.4	92.8	93.2
Costs (Past 3 Months, s.a.)	39.0	47.2	42.1
Costs (Next 3 Months, s.a.)	40.5	39.8	40.5
Selling Prices (Past 3 Months, s.a.)	17.1	20.3	23.0
Selling Prices (Next 3 Months, s.a.)	26.0	20.3	30.2

ASB Economics & Research

Chief Economist
Senior Economist
Senior Economist
Senior Rural Economist
Senior Economist, Wealth
Data & Publication Manager

Nick Tuffley
Jane Turner
Mark Smith
Nathan Penny
Chris Tennent-Brown
Judith Pinto

nick.tuffley@asb.co.nz
jane.turner@asb.co.nz
mark.smith4@asb.co.nz
nathan.penny@asb.co.nz
chris.tennent-brown@asb.co.nz
judith.pinto@asb.co.nz

Phone

(649) 301 5659
(649) 301 5957
(649) 301 5657
(649) 448 8778
(649) 301 5915
(649) 301 5660

www.asb.co.nz/economics

 [@ASBMarkets](https://twitter.com/ASBMarkets)

Disclaimer

This document is published solely for informational purposes. It has been prepared without taking account of your objectives, financial situation, or needs. Before acting on the information in this document, you should consider the appropriateness and suitability of the information, having regard to your objectives, financial situation and needs, and, if necessary seek appropriate professional or financial advice.

We believe that the information in this document is correct and any opinions, conclusions or recommendations are reasonably held or made, based on the information available at the time of its compilation, but no representation or warranty, either expressed or implied, is made or provided as to accuracy, reliability or completeness of any statement made in this document. Any opinions, conclusions or recommendations set forth in this document are subject to change without notice and may differ or be contrary to the opinions, conclusions or recommendations expressed elsewhere by ASB Bank Limited. We are under no obligation to, and do not, update or keep current the information contained in this document. Neither ASB nor any person involved in the preparation of this document accepts any liability for any loss or damage arising out of the use of all or any part of this document.

Any valuations, projections and forecasts contained in this document are based on a number of assumptions and estimates and are subject to contingencies and uncertainties. Different assumptions and estimates could result in materially different results. ASB does not represent or warrant that any of these valuations, projections or forecasts, or any of the underlying assumptions or estimates, will be met.