

Economic Note

Quarterly Survey of Business Opinion

7 April 2020

Business confidence falls ahead of lockdown

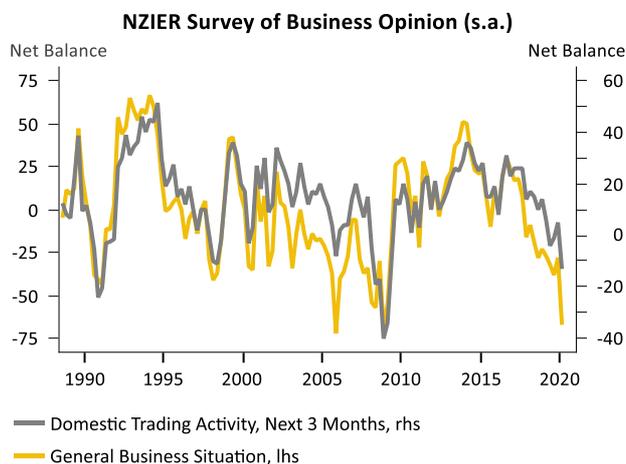
- The Q1 NZIER QSBO confirms a fall in business confidence during early March.
- Limited implications from the Q1 QSBO as survey predates the NZ lockdown.
- RBNZ and Government has moved aggressively to mitigate impact of virus outbreak on NZ economy.

KEY INDICATORS	Mar-20	Dec-19	Hist ave
Business Confidence (seasonally adjusted)	-67.3	-27.7	-5.2
Own Activity (actual, s.a.)	-10.6	-11.0	6.1
Own Activity (expected, s.a.)	-12.7	5.3	13.3
Number Employed (Past 3 Months, s.a.)	-3.3	-4.5	0.1
Investment Intentions (plant)	-6.1	-3.4	2.8
Selling Prices (Past 3 Months, s.a.)	5.9	12.2	11.7

Summary & implications

The **NZIER Q1 Quarterly Survey of Business Opinion (QSBO) confirmed a fall in business confidence over early March**, but with most responses received in a relatively narrow window of one week, during a month where the situation evolved dramatically by the day, the implications are limited for assessing underlying GDP growth. The signal content for Q2 growth is also limited as the survey responses were cut off from March 20th, just prior to the announcement by the Government of the Alert Level 4 lockdown.

Over 2020, we forecast that NZ GDP will contract by 6% and for the unemployment rate to rise to 8.8% during the year. In response to COVID-19 outbreak in NZ, the RBNZ has sprung into action and slashed the OCR to its lower bound, has started buying NZ Government Bonds to keep longer-term interest rates low, and introduced various market liquidity and credit support measures. Meanwhile, the NZ Government has moved to aggressively support households and businesses through the shutdown, announcing various spending measures totalling \$16.2 billion so far (or around 5% of GDP). These measures include wage subsidies, business tax relief and income support. Separately, the Government has announced a \$900 million loan facility for Air New Zealand and joined with the retail banks to guarantee a portion of home and business loans.



Source: Macrobond, ASB

Business confidence falls during March

The NZIER Quarterly Survey of Business Opinion confirmed business confidence fell in March – as already seen from the ANZ monthly survey. We expect further falls to come over Q2 and currently expect the NZ economy to contract around 6% over 2020. Employment intentions slumped, with net 13% of business expecting to reduce staff – the lowest level since June 2009. However, as these responses precede the shutdown of all non-essential activity, the worst is yet to come. We now expect the unemployment rate to rise to 8.8% - higher than the previous cyclical peak of 6.7% in 2012.

The NZIER Q1 Survey of Business Opinion shows a limited snapshot of the state of the economy during early March. NZIER noted that most responses were received between the 4th and the 11th of March – just a one-week window.

Whilst the QSBO is typically our preferred measures of business confidence and the best indicator for GDP growth, during March the Covid-19 global outbreak was moving rapidly and the situation changed dramatically by the day. A limited window of responses (i.e. predominantly over just one week) means that the results are not likely to be representative for the entire quarter, and hence we are reluctant to draw conclusions for growth from these responses. Furthermore, there is limited information regards to the outlook (i.e. June quarter), as NZIER cut off responses a week earlier than scheduled – 20 March – just prior to the announcement by the Government of the Alert Level 4 lockdown.

NZIER reported that, as responses trickled in over March, the average assessment of business operating conditions deteriorated over the March month (as did the ANZ monthly survey) – but NZIER also noticed there was quite a divergence between sectors. Most of the decline in mid-March (compared to early March) was seen in services and merchants (i.e. retailers) as people started to voluntarily adopt social distancing measures. However, demand for manufacturers and builders remained steady during March, and even increased slightly – potentially as some people may have rushed to complete jobs as speculation of a lock down in NZ grew.

NZ well placed to weather the storm

It is important to keep in mind **NZ will enter this crisis from a very strong starting point and is comparatively well placed to weather the storm ahead.** Some measures in the Q1 survey, such as ability to find labour, confirm the labour market was strong and tight prior to pandemic reaching NZ. The RBNZ and NZ Government had ample room to respond over recent weeks – the RBNZ has cut the OCR to its current operational lower bound (0.25%) and has now started Quantitative Easing via the purchase of NZ Government Bonds. NZ's fiscal position ahead of the crisis was relatively healthy and has enabled the Government to move aggressively to put measures in place to mitigate the economic impacts of the virus outbreak in NZ. The Government has so far announced various spending measures totalling \$16.2 billion (or around 5% of GDP). These measures include wage subsidies, business tax relief and income support. Separately, the Government has announced a \$900 million loan facility for Air New Zealand and joined with the retail banks to guarantee a portion of home and business loans. NZ's rainy day is here, but we have the ability to build a pretty decent shelter.

GROWTH INDICATORS	Mar-20	Dec-19	Hist ave
Business Confidence (seasonally adjusted)	-67.3	-27.7	-5.2
Own Activity (actual, s.a.)	-10.6	-11.0	6.1
Own Activity (expected, s.a.)	-12.7	5.3	13.3
Investment Intentions (building)	-14.8	-10.0	-6.7
Investment Intentions (plant)	-6.1	-3.4	2.8
Profitability (past 3 Months)	-27.3	-28.3	-13.9
Profitability (next 3 Months)	-30.6	-16.6	-2.2

LABOUR MARKET INDICATORS	Mar-20	Dec-19	Hist ave
Number Employed (Past 3 Months, s.a.)	-3.3	-4.5	0.1
Number Employed (Next 3 Months, s.a.)	-12.9	9.9	4.1
Labour Shortages (Skilled)	43.1	42.4	27.3
Labour Shortages (Unskilled)	28.8	26.7	4.5
Factor Constraints (Labour)	17.8	15.8	0.0

INFLATION INDICATORS	Mar-20	Dec-19	Hist ave
Capacity Utilisation (%)	92.1	92.0	90.2
Costs (Past 3 Months, s.a.)	32.9	37.3	27.4
Costs (Next 3 Months, s.a.)	30.0	39.0	27.0
Selling Prices (Past 3 Months, s.a.)	5.9	12.2	11.7
Selling Prices (Next 3 Months, s.a.)	7.7	18.9	19.5

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