

Economic Note

Quarterly Survey of Business Opinion

2 July 2019

QSBO confirms economy needs more policy support

- NZIER Q2 Quarterly Survey of Business Opinion was weaker than we expected – again.
- Reported activity was very weak over Q2 and consistent with quarterly GDP growth of just 0.3-0.4%.
- We now expect the RBNZ to cut the OCR by 25 basis points both August and November.

KEY INDICATORS	Jun-19	Mar-19	Dec-18
Business Confidence (seasonally adjusted)	-31.4	-28.2	-21.7
Own Activity (expected, s.a.)	-4.2	4.8	15.4
Number Employed (Past 3 Months, s.a.)	-4.7	3.2	2.3
Investment Intentions (plant)	2.6	-0.9	6.7
Selling Prices (Past 3 Months, s.a.)	11.0	17.0	20.3

Summary & implications

The NZIER Q2 Quarterly Survey of Business Opinion (QSBO) was weaker than we had expected – again. Reported business activity in Q2 was weaker than Q1, and this indicator is **consistent with quarterly GDP growth of just 0.3-0.4%**. Business confidence measures fell as firms **continue to report a decline in profitability**. There is evidence to suggest that falling profit margins are now impacting employment demand, and the risk is that a weaker labour market may result in the economic slowdown becoming more entrenched. **We now expect the RBNZ to cut the Official Cash Rate (OCR) twice more this year, in August and November, bringing it to a new record low of 1%.**

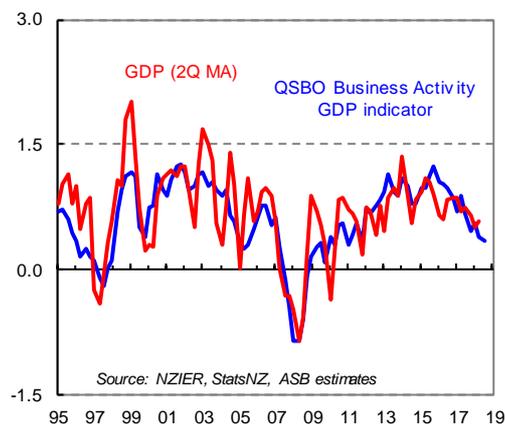
Growth risks slowing to a stop

June quarter NZIER Quarterly Survey of Business Opinion showed **further deterioration in economic activity**, with the proportion of firms reporting a *contraction in activity* increasing. A net 4% saw a contraction, versus a revised net 2% in Q1. **This measure has had a strong track record at picking the underlying trend in GDP growth and is consistent with just 0.3-0.4% quarterly growth.**

Confidence slumps

Forward-looking confidence measures also fell over Q2, with a net 4% now expecting economic activity to *contract* vs a net 5% expecting economic activity to *lift* in Q1. Recall over the quarter, the RBNZ cut the OCR and the Government decided to take the capital gains tax off the table entirely. We were surprised that confidence did not improve

QPC **BUSINESS CONFIDENCE & GDP**



following those two events. **The weak results highlights the real economic pressure NZ firms remain under and the need for additional policy support. It casts serious doubt on whether the pick-up in growth momentum foreshadowed by the RBNZ will actually eventuate.**

Falling profitability weighed on employment

The survey was weak across the board, with all sectors of the economy reporting a net contraction in activity. **Cost pressures remain prevalent**, with a net 43% reporting an increase in costs over the past quarter. However, relatively few firms were able to lift selling prices in response, with just a net 11% lifting prices (down from a net 24% lifting selling prices in June 2018). The fall in the proportion of firms lifting selling prices points to a slowdown in core inflation pressures.

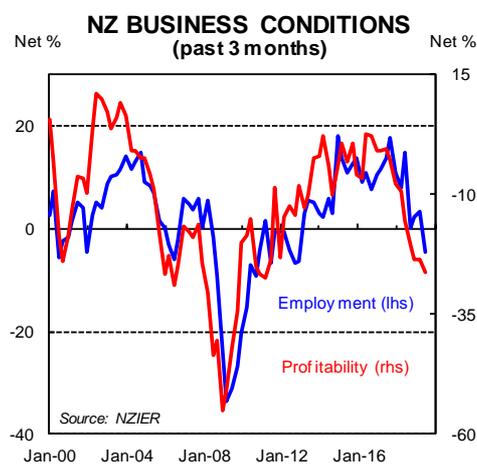
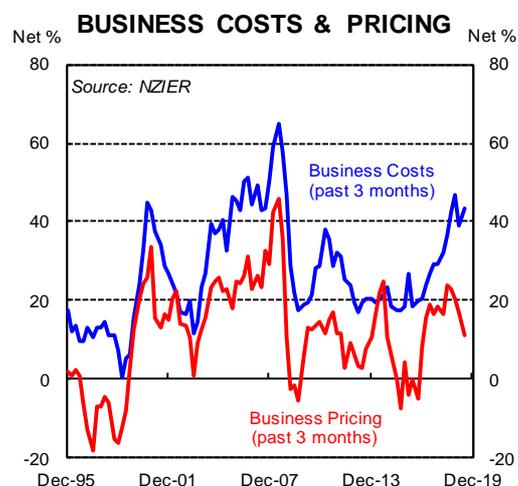
Profitability remains under pressure and is weighing on investment and employment. Reported employment turned negative for the first time since 2012 (a net 5% reported a contraction in employment, down from a net 3% reporting a lift). **Once the labour market starts to slow, we can expect the economic downturn to become more entrenched as households become more risk averse and pull back on major household purchases.**

More policy support needed

The Q2 QSBO survey shows clear evidence the economy is struggling, and there are growing risks that the slowdown will become more entrenched.

There is a **clear case for the RBNZ to provide additional policy support**

and we now **expect the RBNZ will cut the OCR twice more, in August and November, bringing the Official Cash Rate to 1%.** We feel an OCR cut in August is a done deal but note that the timing of the second cut will remain dependent on domestic economic data, global events, the NZD and actions of offshore central banks.



GROWTH INDICATORS	Jun-19	Mar-19	Dec-18
Business Confidence (seasonally adjusted)	-31.4	-28.2	-21.7
Own Activity (expected, s.a.)	-4.2	4.8	15.4
Investment Intentions (building)	5.0	-0.2	-4.0
Investment Intentions (plant)	2.6	-0.9	6.7
Profitability (past 3 Months)	-26.3	-23.4	-23.4
Profitability (next 3 Months)	-23.6	-17.6	-14.3

LABOUR MARKET INDICATORS	Jun-19	Mar-19	Dec-18
Number Employed (Past 3 Months, s.a.)	-4.7	3.2	2.3
Number Employed (Next 3 Months, s.a.)	8.9	9.7	11.5
Labour Shortages (Skilled)	42.8	50.0	51.0
Labour Shortages (Unskilled)	33.2	33.8	33.9
Factor Constraints (Labour)	21.0	19.4	21.1

INFLATION INDICATORS	Jun-19	Mar-19	Dec-18
Capacity Utilisation (%)	93.7	92.4	92.8
Costs (Past 3 Months, s.a.)	43.2	38.9	47.0
Costs (Next 3 Months, s.a.)	39.2	40.1	39.7
Selling Prices (Past 3 Months, s.a.)	11.0	17.0	20.3
Selling Prices (Next 3 Months, s.a.)	14.0	26.7	19.2

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