

Economic Note

Quarterly Survey of Business Opinion

16 January 2018

Confidence falls on change of Government

- NZIER QSBO business confidence fell in Q4, but the fall was less than that reported in the monthly ANZ survey.
- The NZIER survey points to a modest slowdown in growth, as the uncertainty associated with a change in Government weighs on near-term activity.
- The labour market continues to tighten, with capacity constraints particularly acute in the building sector.

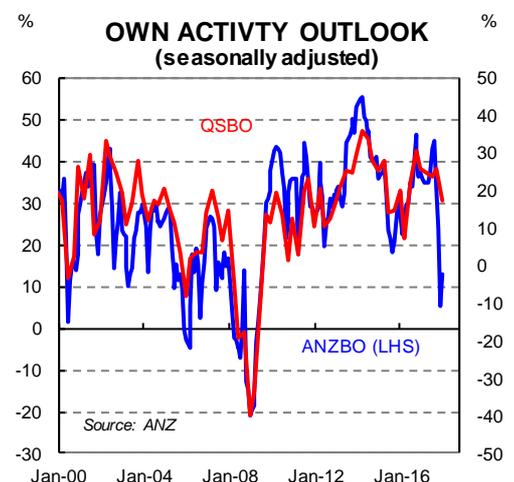
Summary & implications

The NZIER Quarterly Survey of Business Opinion confirmed a fall in business confidence following the change in Government, but the fall was much less severe than reported in the monthly ANZ survey. We can expect a slight slowdown in economic growth due to the near-term economic uncertainty and disruption to business planning as the incoming Government's new policies are bedded in. Nonetheless, we expect confidence to recover over the coming months and for economic momentum to recover over 2018.

KEY INDICATORS	Dec-17	Sep-17	Jun-17
Business Confidence (seasonally adjusted)	-11.1	5.2	16.5
Own Activity (expected, s.a.)	17.7	26.0	23.8
Number Employed (Past 3 Months, s.a.)	10.1	17.8	13.6
Investment Intentions (plant)	11.5	17.4	18.9
Selling Prices (Past 3 Months, s.a.)	18.1	18.2	18.6

Change in Government sees slight drop in activity expectations

NZIER business confidence fell in Q4 in the wake of the change in Government. However, the key surprise was that the extent of the fall was not as severe as the collapse in business confidence reported by the monthly ANZ Business Opinion Survey (see chart opposite). Negative business sentiment is to be expected over Q4 in light of increased uncertainty as the new Government remains in the process of bedding in its new policies. However, developments in own-activity expectations have provided a more helpful steer on economic momentum. While we saw a dip from Q3's relatively buoyant levels, the overall level of own-activity expectations remains encouraging. Indicators, including forward-looking expectations of own activity and experienced activity, point to only a modest slowdown in economic growth due to the lift in uncertainty associated with a change in Government. Historically, the QSBO survey has been a better predictor of growth than the ANZ survey (particularly so in light of recent GDP revisions).



Looking ahead, we expect business confidence to recover over the coming months.

Labour market tightens

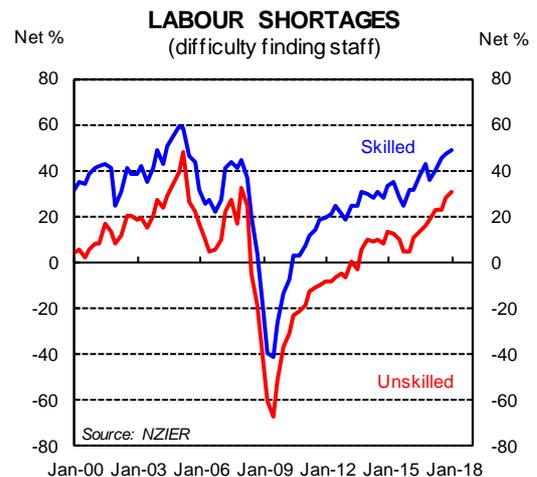
LABOUR MARKET INDICATORS	Dec-17	Sep-17	Jun-17
Number Employed (Past 3 Months, s.a.)	10.1	17.8	13.6
Number Employed (Next 3 Months, s.a.)	10.9	13.7	13.9
Labour Shortages (Skilled)	49.2	47.0	45.3
Labour Shortages (Unskilled)	30.5	28.2	23.0
Factor Constraints (Labour)	19.8	16.1	21.5

Hiring intentions slowed, as one would expect in light of a more cautious economic environment. However, **QSBO also reveals a tightening in the labour market over Q4**, with it becoming increasingly difficult to find skilled labour. These pressures are acute in the building sector with hiring intentions, difficulty finding labour and overtime remaining at very high levels (all seasonally adjusted).

A tight labour market, coupled with minimum wage increases, are expected to underpin a pick-up in wage growth in coming years.

RBNZ quietly confident but patient in 2018

The RBNZ will likely be relieved to see the QSBO survey held up comparatively well compared to the ANZ survey. The milder fall reported by the NZIER QSBO reduces the skew of downside risk to the economic outlook. So long as sentiment improves in coming months and growth recovers to a solid pace, the RBNZ can be increasingly confident of inflation pressures rising. Nonetheless, we expect the RBNZ will cautiously wait until early 2019 before considering OCR hikes.



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