

# Economic Note

Quarterly Survey of Business Opinion

14 January 2020

## QSBO detail remains soft

- The lift in NZIER QSBO business confidence over Q4 was less than we expected.
- Reported activity remained very weak in Q4 and consistent with quarterly GDP growth of just 0.1%.
- We continue to expect another 25 basis point OCR cut from the RBNZ over 2020.

KEY INDICATORS	Dec-19	Sep-19	Hist ave
Business Confidence (seasonally adjusted)	-26.1	-35.3	-5.2
Own Activity (actual, s.a.)	-11.2	-11.4	6.1
Own Activity (expected, s.a.)	6.8	0.5	13.3
Number Employed (Past 3 Months, s.a.)	-4.9	-5.8	0.1
Investment Intentions (plant)	-2.8	-2.8	2.8
Selling Prices (Past 3 Months, s.a.)	12.4	0.1	11.7

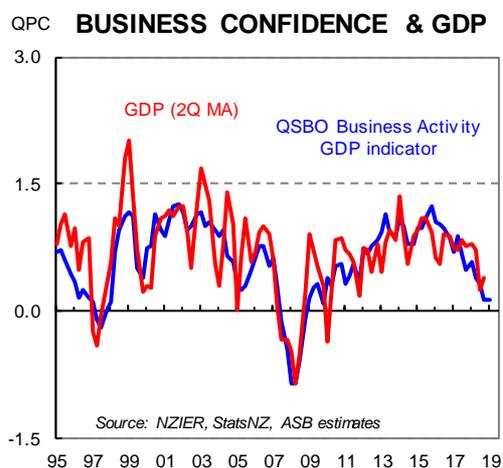
## Summary & implications

The NZIER Q4 Quarterly Survey of Business Opinion (QSBO) confirmed a small improvement in business confidence over Q4. However, the lift was smaller than seen in recent ANZ confidence surveys. Overall, confidence remains at levels consistent with weak GDP growth, and the details within the survey remain cause for concern that there is not sufficient support for a economic recovery to gain traction. In particular, profitability remains under pressure and indicators suggest a softening in labour market conditions. The QSBO makes a case for further policy support, and we continue to expect the RBNZ to cut the Official Cash Rate (OCR) once more over 2020.

## Business confidence suggests growth may slow further

The NZIER Quarterly Survey of Business Opinion confirmed a small improvement in business confidence over Q4. However, the lift was smaller than was seen in the monthly ANZ confidence survey. Overall, confidence remains at levels consistent with weak GDP growth, and the details within the survey remain cause for concern that there is not sufficient support for economic recovery to gain traction.

Reported trading activity over Q4 (which has the strongest correlation with GDP growth) remained weak and suggests ASB's modest GDP growth forecasts may be too optimistic. Reported domestic trading activity is consistent with quarterly GDP growth of just 0.1% qoq, whereas we have pencilled in an average



quarterly growth of 0.4% over H2 2019 - H1 2020.

### Falling profitability weighed on employment

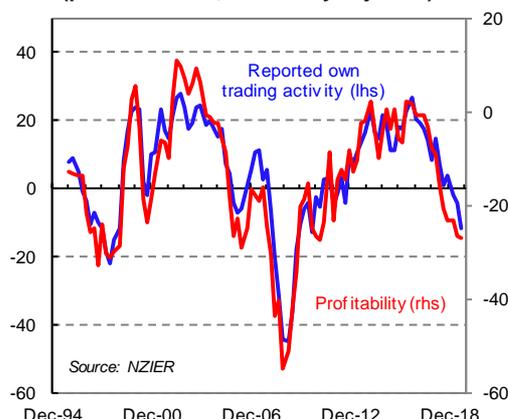
The report also revealed **profit margins remain under pressure**, in part due to softening demand. **Slowing demand and squeezed profit margins are spilling into employment and investment outcomes**. Interestingly, a gap has emerged between employment intentions (which remain positive) vs. employment outcomes (which have fallen over the past three quarters). On balance, **labour market indicators suggest that the labour market is likely to weaken over the coming year**, which could potentially weigh on consumer demand and act as a **headwind to economic recovery**.

**The survey also confirms the recent slowdown in growth is most likely demand led, and not a result of capacity constraints in the economy**. A higher share of firms now report demand/sales as the key factor constraining expansion in output compared to a year ago. Meanwhile, the difficulty in finding labour has eased over the past year – suggesting labour market has become slightly less tight and likely to be less of a constraint on output growth.

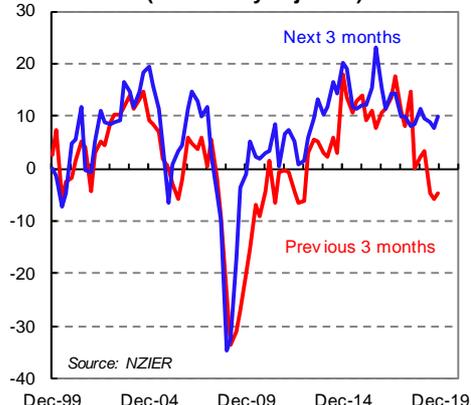
### More policy support needed

The NZIER report, although showing some improvement, suggests that the economy continues to require additional policy support beyond the recent interest rate falls and increase in Government spending over the past year. **We continue to expect a further 25 basis point OCR cut from the RBNZ this year**, and have pencilled this rate cut in for May. However, **the timing of this cut is likely to remain data-dependent**. Importantly, the RBNZ will likely want to see how business confidence evolves over the first half of the year.

**BUSINESS ACTIVITY**  
(past 3 months, seasonally adjusted)



**EMPLOYMENT INTENTIONS**  
(seasonally adjusted)



GROWTH INDICATORS	Dec-19	Sep-19	Hist ave
Business Confidence (seasonally adjusted)	-26.1	-35.3	-5.2
Own Activity (actual, s.a.)	-11.2	-11.4	6.1
Own Activity (expected, s.a.)	6.8	0.5	13.3
Investment Intentions (building)	-9.6	-15.6	-6.7
Investment Intentions (plant)	-2.8	-2.8	2.8
Profitability (past 3 Months)	-29.1	-26.8	-13.9
Profitability (next 3 Months)	-15.3	-21.3	-2.2

LABOUR MARKET INDICATORS	Dec-19	Sep-19	Hist ave
Number Employed (Past 3 Months, s.a.)	-4.9	-5.8	0.1
Number Employed (Next 3 Months, s.a.)	9.9	7.8	4.1
Labour Shortages (Skilled)	42.6	41.8	27.3
Labour Shortages (Unskilled)	26.5	28.5	4.5
Factor Constraints (Labour)	15.8	15.7	0.0

INFLATION INDICATORS	Dec-19	Sep-19	Hist ave
Capacity Utilisation (%)	92.0	92.4	90.2
Costs (Past 3 Months, s.a.)	37.9	32.1	27.4
Costs (Next 3 Months, s.a.)	41.2	36.7	27.0
Selling Prices (Past 3 Months, s.a.)	12.4	0.1	11.7
Selling Prices (Next 3 Months, s.a.)	18.1	9.7	19.5

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