

Quarterly Survey of Business Opinion – Q2 2024

2 July 2024



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Data summary

	Latest
Headline business confidence (actual)	-44
Headline business confidence (sa)	-35
Domestic trading activity (sa, past)	-28
Domestic trading activity (sa, expected)	-10
CUBO (actual)	88.7%
Avg selling price – next 3 months	23

Downbeat and disinflationary

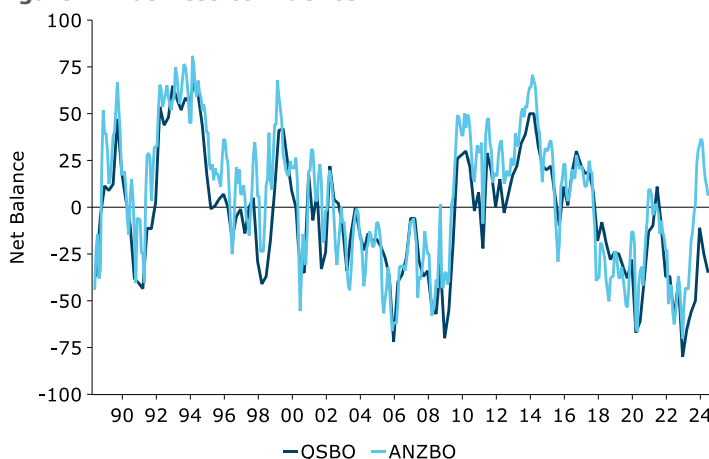
The bottom line

- The NZIER's Q2 Quarterly Survey of Business Opinion (QSBO) provides further confirmation that monetary tightening has done what it says on the tin: indicators of spare capacity are in a deflationary state and widening, and firms' costs and pricing indicators are now below their long-run averages.
- That progress on the disinflation front comes with a pretty hefty price tag: business confidence is dire (-35% in seasonally adjusted terms), and activity measures are very weak, with domestic trading activity pointing to downside risk to our recently downgraded Q2 GDP forecast of -0.1% q/q, investment retreating, and employment trending south.
- For the RBNZ, today's data clearly represent another step in the direction it is wanting to go, but they certainly don't represent crossing the finish line in their data-dependent journey to OCR cuts. We'd say today's data provide good confirmation that monetary tightening is working, but the details of the Q2 CPI release (out 17 July) will arguably carry more weight in RBNZ calibrations. Nonetheless, with today's data in the bag, we remain very comfortable that the RBNZ will be cutting considerably earlier than signalled in the May MPS.

Key points

- **Business sentiment remains dire**, down 10 points to -35% (sa) and weaker than our own [Business Outlook](#). This measure tends to carry a political element, but any positive bump from the recent change in Government has now worn off, and the impacts of the weak economy are clear. The building sector remains the most downbeat, followed by manufacturing. NZIER notes that services and retail also posted meaningful declines in confidence in Q2.

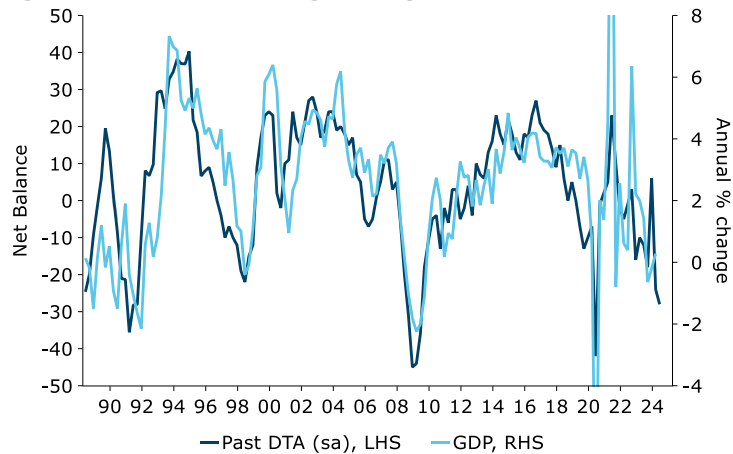
Figure 1. Business confidence



Source: NZIER, Macrobond, ANZ Research

- Experienced domestic trading activity (DTA) also deteriorated, down 4 points to -28 on a seasonally adjusted basis. This measure has been particularly volatile in recent quarters but remains on a clear downwards trajectory. The correlation with GDP growth hasn't been very good of late, but for what it's worth this indicator is singing from the same song sheet as our Business Outlook, which suggests downside risk to our recently downgraded Q2 GDP forecast of -0.1% q/q.

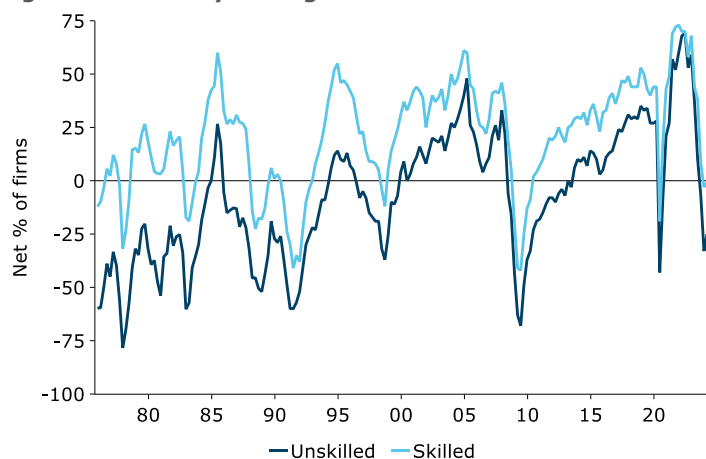
Figure 2. Domestic trading activity and GDP



Source: NZIER, Stats NZ, Macrobond, ANZ Research

- Meanwhile, experienced **profitability** improved marginally, up 3 points to a still-grim -44%. Expected profitability for the coming quarter deteriorated 1ppt to -34%. Subdued profitability is consistent with weak investment and employment intentions. The former fell across both the *buildings* and *plant and machinery* measures, landing at a very subdued -35% and -27% respectively. Employment (both experienced and expected) also declined, to -25 and -10 respectively.
- **Other indicators for labour market slack softened.** These are a useful indicator for gauging wage and therefore non-tradables inflation pressures, and the Q2 data suggest sticky inflation risks are subsiding. The ease of finding skilled labour lifted 6 points to +7%, and the ease of finding unskilled labour lifted from +25% to +38%. Combined with reported employment falling (as discussed above), the trajectory for the labour market is looking soft (a theme that's also evident in the factors limiting production – next bullet).

Figure 3. Difficulty finding labour



Source: NZIER, Macrobond, ANZ Research

- Labour as a limiting factor eased further from 11% to 9%, below pre-pandemic levels.** In terms of the overall inflation impulse, the limiting factors on production show everything is moving the way that the RBNZ has tried to engineer. Sales (demand) as a limiting factor lifted 2pts to 61% as labour (and therefore pressure on labour costs) fell.

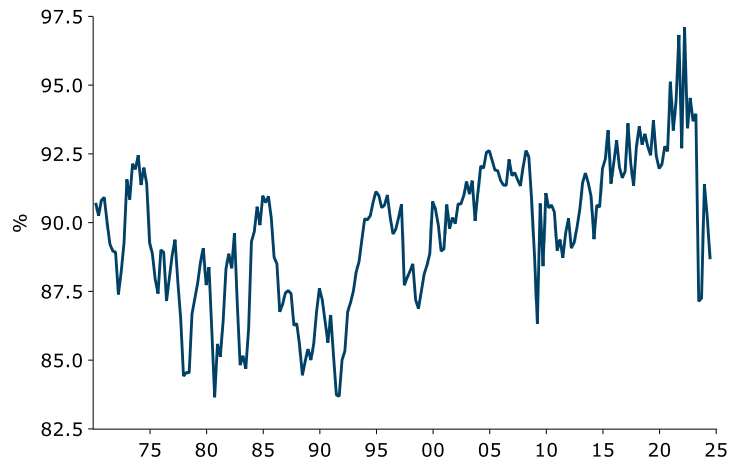
Figure 4. Limiting factors



Source: NZIER, Macrobond, ANZ Research

- Capacity utilisation (CUBO) fell 1.5%pts to 88.7%,** and is now below its long-run average of 89.6% for the first time since September 2023. We (and the RBNZ) use this measure as an early gauge on where the output gap may be trending. Taken at face value, the Q2 read suggests capacity pressures are well and truly in disinflationary territory.

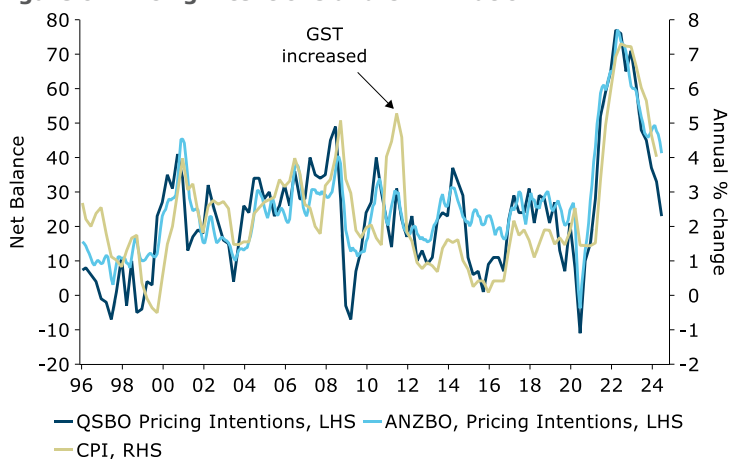
Figure 5. Capacity utilisation (CUBO value)



Source: NZIER, Macrobond, ANZ Research

- Speaking of inflation, experienced price rises fell 12pts to 23%, below its long-run average of 26%. Expected selling prices also fell, down 10 points to 23% and below the average of 32%. Meanwhile, experienced costs declined 7pts to a net 42% of firms reporting higher costs (long-run average: 44%) and expected costs fell 15pts to 28% (average: 43%).

Figure 6. Pricing intentions and CPI inflation



Source: NZIER, Stats NZ, Macrobond, ANZ Research

All up, today's data certainly show that monetary policy is working to slow the economy and create a degree of disinflationary spare capacity. However, how much more pain the economy must endure to truly tame sticky inflation pressures is still a little uncertain. Forward-looking activity indicators have deteriorated significantly in recent months, suggesting the economy may not be far from a tipping point in the cycle where the disinflation process starts to accelerate.

However, the RBNZ will need to be sure of such dynamics before embarking on OCR cuts, and will need to see this unfolding in the hard data such as GDP and inflation, not just surveys and anecdote. So while we can chalk up today's data to providing confirmation that the RBNZ is getting the slowdown they have engineered, the RBNZ will likely need more convincing before they start feeling comfortable that upside sticky inflation risks have been appropriately mitigated. For that, the Q2 CPI inflation data are likely to carry more weight in their calibrations.

But stepping back from all that, today's data are certainly weak, and are consistent with our view that the RBNZ will be able to cut the OCR much earlier than they signalled in the May MPS (August next year). We are forecasting the first cut to come in February, but if Q2 CPI inflation is well behaved and Q2 GDP growth is anything like as weak as both the ANZBO and QSBO surveys are suggesting it could be, November will certainly a 'live' meeting. The risks are certainly starting to tilt that way.



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