Quarterly Survey of Business Opinion – Q1 2025

8 April 2025

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Data summary

	Latest	Previous
Headline business confidence (actual)	19	16
Headline business confidence (sa)	23	9
Domestic trading activity (sa, past)	-21	-24
Domestic trading activity (sa, expected)	12	9
CUBO (actual)	90.5%	91.3%
Avg selling price – next 3 months	2	15

No hurdle to ongoing cuts

The bottom line

- The NZIER's Q1 Quarterly Survey of Business Opinion (QSBO) has a slightly more dovish tone than our Business Outlook, but continues to suggest the economy is in recovery mode now the RBNZ is taking its foot off the brake. These data pre-date 2 April US tariff announcements and the subsequent global market volatility.

- Capacity indicators continue to suggest the output gap is firmly in negative territory, but there were some mixed moves across the suite. Importantly, we're not seeing anything here that will cause the RBNZ to materially reassess their assessment of how disinflationary economic conditions are currently. The February MPS forecast was for the output gap to narrow 0.3%pts in Q1 to -1.4%; today's data are in that ballpark.

- Both reported and expected costs pressures rose, but experienced and expected selling prices fell. That suggests margins are getting squeezed. Unlike our Business Outlook, QSBO pricing indicators remain at a level consistent with 2% CPI inflation.

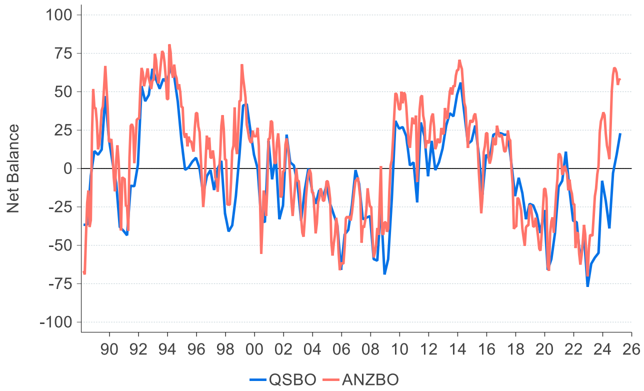
- Today's data shouldn't rock the boat much ahead of tomorrow's OCR announcement. We continue to expect a 25bp cut but also, given global developments in recent days, a clear acknowledgement of heightened downside risks to the outlook, noting both uncertainty and their willingness and ability to respond as appropriate. Importantly, the RBNZ will not be in a position to centralise global wobbles into the medium-term outlook at this stage, but they are likely to conclude (as we do) that there is no need to push back against the market pricing downside risks to the OCR over coming months, given things at this stage are clearly heading in that direction.

Key points

- **Business sentiment lifted** 14 points to +23% on a seasonally adjusted (sa) basis, closing some of the gap with our own Business Outlook (figure 1). Confidence across the building sector deteriorated, suggesting lower interest rates might be having a slower impact than initially thought.

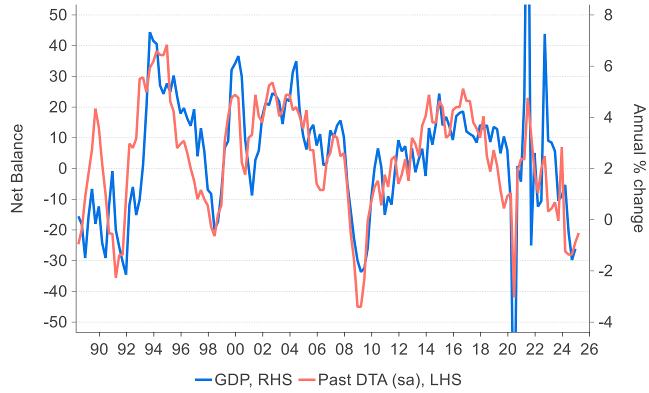
- **Experienced domestic trading activity (DTA)** rose 3 points to -21% (sa), suggesting the recovery in GDP that started in Q4 2024 continued into Q1 2025, albeit it's a very gradual (and increasingly fragile) recovery. At face value, today's data hint at some mild downside risk to our Q1 GDP forecast of +0.6% q/q (-0.9% y/y). That said, volatility in the GDP data since the pandemic has made this indicator a less reliable predictor of GDP growth. Meanwhile, expected trading activity for the coming quarter (Q2 2025) improved 3 points to +12%.

Figure 1. Business confidence



Source: NZIER, Stats NZ, ANZ, Macrobond, ANZ Research

Figure 2. Domestic trading activity and GDP



Source: NZIER, Stats NZ, ANZ, Macrobond, ANZ Research

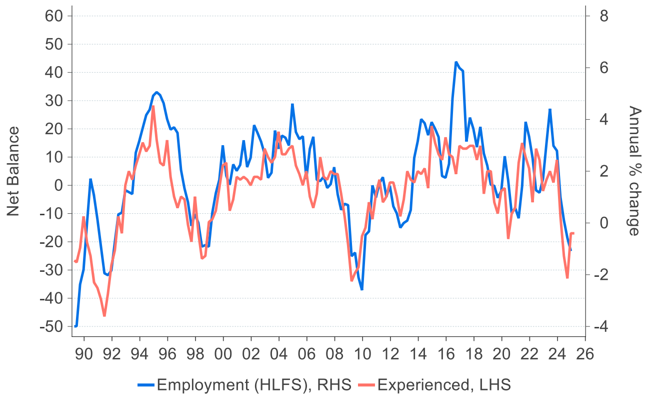
- **Experienced profitability** improved 4 points to -32%, but remains weak overall. **Expected profitability** for the coming quarter deteriorated from -9% to -11%. Subdued profitability is consistent with weak (but improving) investment intentions, with the *buildings* and *plant and machinery* measures landing at -4% (Q4: -14%) and -2% (Q4: -5%) respectively.

- **Experienced employment** remains subdued, unchanged at -17%. Hiring intentions deteriorated 7 points to -2%. These data contrast with the message coming from the ANZBO survey, presenting some downside risk to our expectation that labour demand is gradually turning a corner.

- Meanwhile, the **ease of finding skilled labour** rose 9 points to +23% and the **ease of finding unskilled labour** fell 3 points to +35%. Both measures are well above their long-run average and are at deflationary levels.

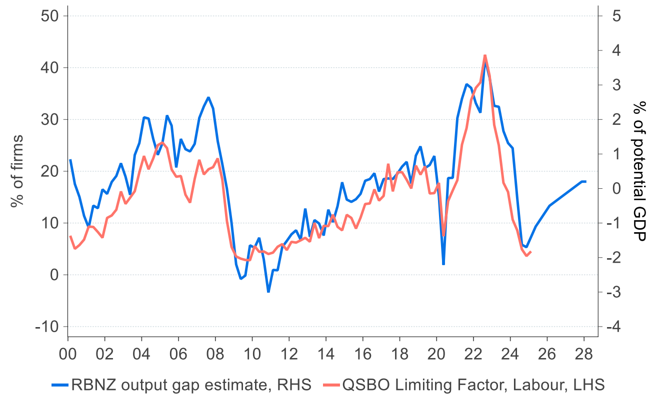
- **Labour as a limiting factor on production lifted from 4% to 5%,** but remains well below pre-pandemic levels. This indicator has a strong correlation with the RBNZ's output gap estimate and is broadly consistent with their February MPS forecast that the output gap is turning a corner but remains very negative. On the flipside, sales as a limiting factor fell marginally, but is elevated overall.

Figure 3. Experienced employment vs the HLFS measure



Source: NZIER, Stats NZ, ANZ, Macrobond, ANZ Research

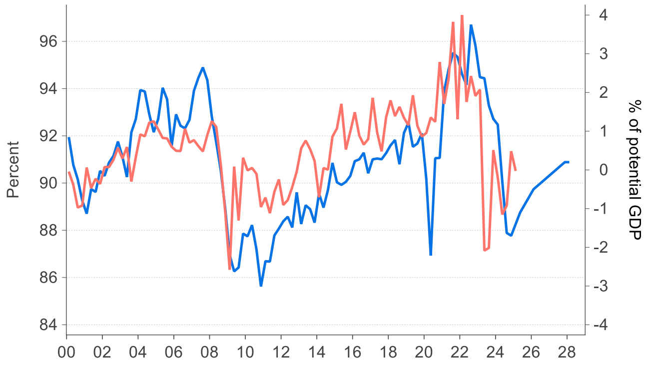
Figure 4. Labour as a limiting factor vs RBNZ output gap



Source: NZIER, RBNZ, Macrobond, ANZ Research

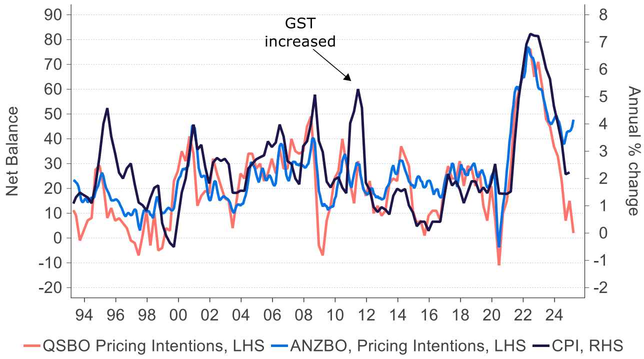
- Another key (but often more volatile) indicator of inflation pressure, **capacity utilisation (CUBO) amongst builders and manufacturers**, fell from 91.3% to 90.5%, still above its long-run average of 89.6%. Overall, we'd say the suite of capacity indicators in today's release are consistent with the RBNZ's expectation that the output gap is negative, but narrowing.

Figure 5. CUBO vs RBNZ output gap



Source: NZIER, RBNZ, Macrobond, ANZ Research

Figure 6. Experienced prices and costs vs CPI inflation

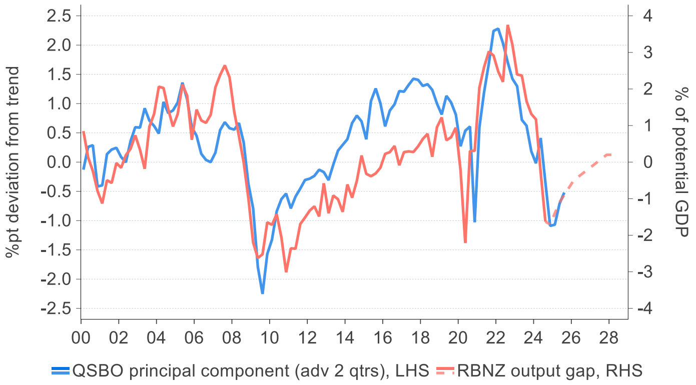


Source: NZIER, Stats NZ, ANZ, Macrobond, ANZ Research

- On the **costs and pricing** front, **experienced selling prices** fell 2 points to +8%, below its long-run average of 26%. **Expected selling prices** also fell, down from +15% to +2%, and well below the average of 32%. Compared to our Business Outlook survey, pricing intentions are at a less-worrying level. Meanwhile, **experienced costs** rose 15 points to 50% (long-run average: 44%) and **expected costs** rose from +33% to +42% (average: 43%). All in all, the signal on the price and costs front, while mixed, is still consistent with around 2% CPI inflation. But margins are clearly squeezed, and our Business Outlook suggests caution is required.

- Putting it all together, our principal components analysis of these data (using a range of price, costs, activity, employment and capacity indicators) suggests the economy is on a similar path to that laid out in the February MPS (figure 7).

Figure 7. Principal components analysis and RBNZ output gap



Source: Stats NZ, RBNZ, NZIER, Macrobond, ANZ Research

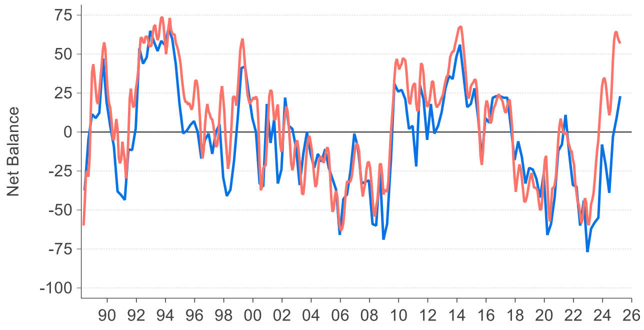
All up, today's data show that while the New Zealand economy is in recovery mode, it could be a slightly weaker recovery than we've pencilled in. Rising cost pressures are a worry, but this doesn't appear to have impacted selling prices this quarter – suggestive of persistently weak demand.

Most importantly for the RBNZ, the signal on broader capacity pressures suggests the economy is still operating with a significant degree of spare capacity, meaning they can be confident of pipeline disinflationary pressure. The overall vibe of these data is a touch more dovish than the signal in our Business Outlook, but we don't see anything in today's data to push the RBNZ into a larger cut than previously signalled at tomorrow's Monetary Policy Review.

The following page of charts compares key QSBO indicators to our Business Outlook. It's worth noting that the forward-looking questions in our survey ask firms about their expectations 12 months ahead. The NZIER's survey asks about three months ahead. That helps explain the more optimistic tone of the ANZ Business Outlook survey when things are starting to look up.

QSBO VS ANZBO

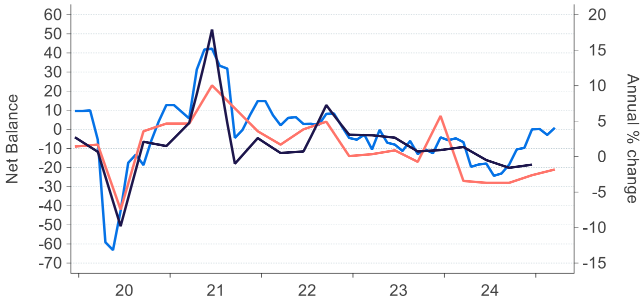
ANZBO confidence remains above the QSBO measure



—QSBO, General Business Situation, SA —ANZ, Business Confidence (3mma)

Source: NZIER, Stats NZ, ANZ, Macrobond, ANZ Research

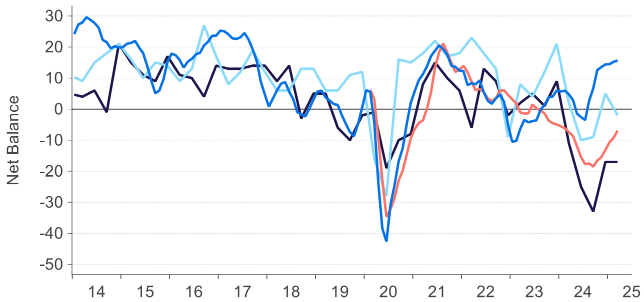
QSBO and ANZBO are both signalling a gradual recovery



—ANZ Activity, LHS —NZIER Domestic Trading Activity (sa, experienced), LHS
—GDP Constant Prices (sa, chained), RHS

Source: NZIER, Stats NZ, ANZ, Macrobond, ANZ Research

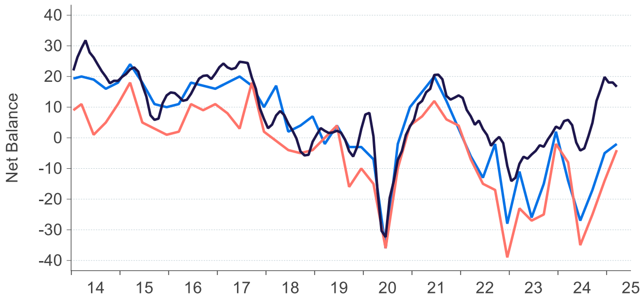
QSBO employment indicators remain soft



—NZIER Numbers Employed, Experienced —NZIER, Numbers Employed, Expected
—ANZ Employment, 12m ago —ANZ Employment

Source: NZIER, Stats NZ, ANZ, Macrobond, ANZ Research

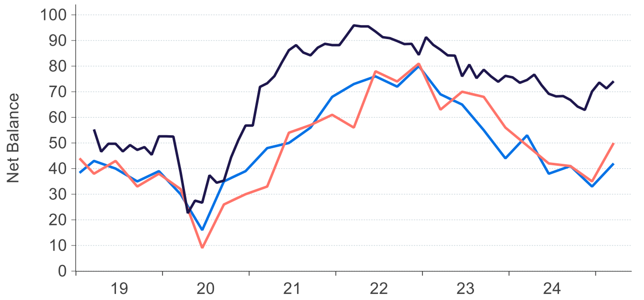
QSBO investment is catching up to ANZBO



—NZIER, Investment Intentions, Plant & Machinery
—NZIER, Investment Intentions, Buildings —ANZ, Investment

Source: NZIER, Stats NZ, ANZ, Macrobond, ANZ Research

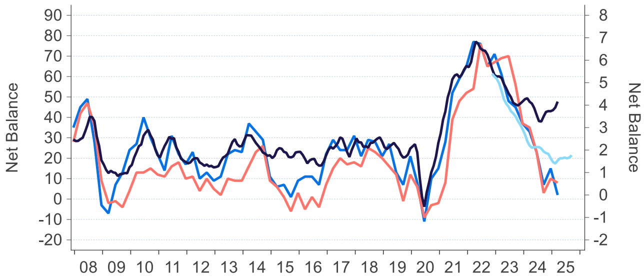
Rising costs are a worry…



—NZIER, Average Cost, Experienced —NZIER, Average Cost, Expected
—ANZ, Costs

Source: NZIER, Stats NZ, ANZ, Macrobond, ANZ Research

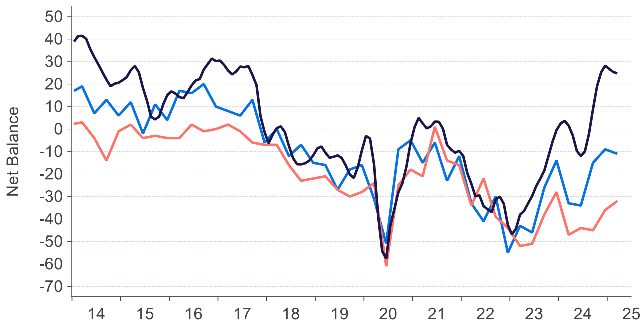
… but QSBO pricing is subdued



—NZIER, Pricing Intentions, LHS
—NZIER, Average Selling Prices, Experienced, LHS
—ANZBO, Pricing Intentions, LHS —ANZBO price increase, RHS

Source: NZIER, Stats NZ, ANZ, Macrobond, ANZ Research

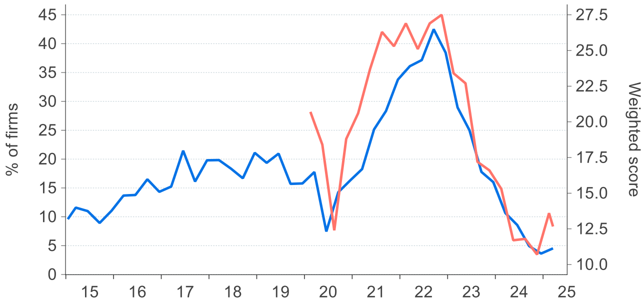
Profits are trending up, but QSBO remains subdued



—NZIER, Profitability, Expected —NZIER, Profitability, Experienced —ANZ, Profits

Source: NZIER, Stats NZ, ANZ, Macrobond, ANZ Research

Labour constraints are tentatively rounding the corner



—QSBO: Limiting Factor, Labour, LHS
—ANZBO: Biggest problem, Finding skilled labour, RHS

Source: NZIER, Macrobond, ANZ Research

Source: NZIER, Stats NZ, Macrobond, ANZ Research

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