

Quarterly Survey of Business Opinion – 2022 Q1

12 April 2022



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Data summary

	Latest
Headline business confidence (actual)	-40
Headline business confidence (sa)	-33
Domestic trading activity (sa, past)	-9
Domestic trading activity (sa, expected)	8
CUBO (actual)	97.1%
Avg selling price – next 3 months	77

Diminished capacity

The bottom line

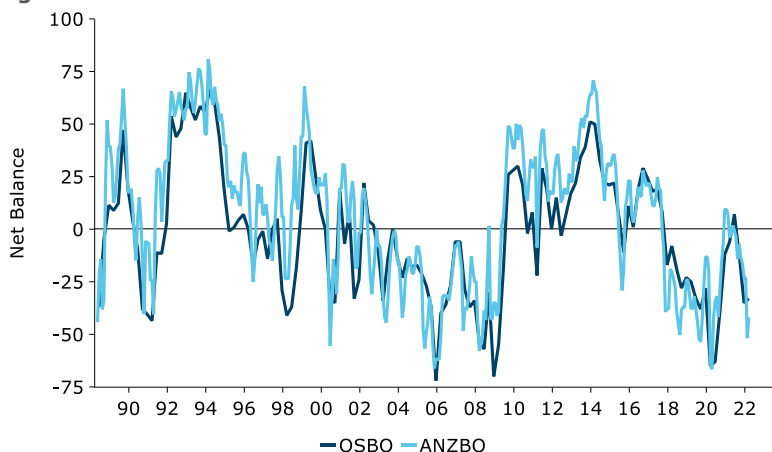
The Q1 Quarterly Survey of Business Opinion (QSBO) shows just how capacity constrained the New Zealand economy is. It confirms what we saw in the most recent [ANZ Business Outlook](#) – real economic activity is struggling to make headway as cost pressures and shortages of labour and supplies continue to worsen. These constraints are reflected in multi-decade highs for pricing intentions. Encouragingly, forward-looking indicators of activity and labour demand were resilient. It's another piece of data pointing to the need for aggressive interest rate hikes, despite downside growth risks – consistent with our expectation that the RBNZ Monetary Policy Committee (MPC) will conclude the best approach is [to hike 50bps](#) at tomorrow's Review.

Key points

The March Quarterly Survey of Business Opinion (QSBO) really highlights the intense capacity constraints the New Zealand economy are facing, and how this is feeding through into price-setting behaviour. For the MPC [who make their decision tomorrow](#) morning, this is more evidence pointing to the need to get the OCR higher promptly. That's despite clear evidence that firms are wary and in some cases doing it tough. Inflation is a big part of the problem – ignoring it can't be part of the solution.

- **Businesses sentiment stabilised** on a seasonally adjusted basis (albeit at very low levels). A net 33% of respondents expect conditions to deteriorate, versus 35% previously (figure 1). It's a slightly better print than the fall in Q1 confidence seen in our Business Outlook, but is still very low compared to the long run average of -6. And firms are worried about more than just the immediate impact of the Omicron outbreak. Costs are surging and shortages of labour and materials are only getting worse. But counterintuitively, falling confidence is not a reason for the RBNZ to hold off on aggressive hikes, since a big part of the problem we're facing is that overstimulated demand cannot be met by hobbled supply. The RBNZ can't fix supply issues, unfortunately, but it can ease pressures by cooling the demand side of things somewhat.

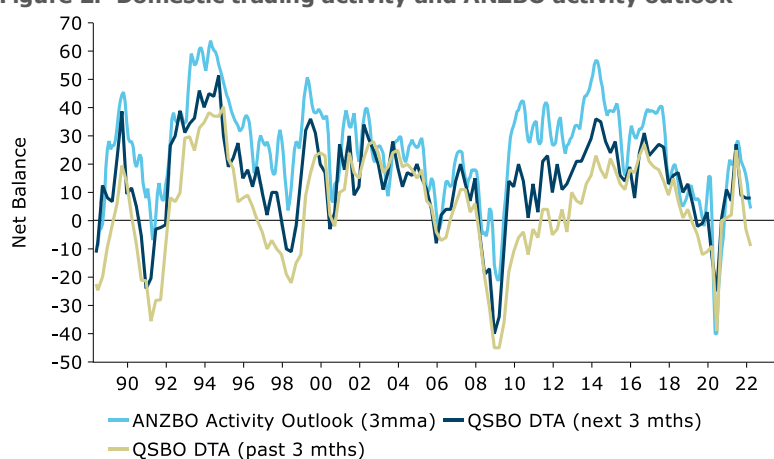
Figure 1. Business confidence



Source: NZIER, Macrobond, ANZ Research

- **Experienced domestic trading activity declined again** on a seasonally adjusted basis, with a net 9% of firms reporting lower activity over the quarter, versus 3% in Q4 (figure 2). However, forward-looking indicators were stable, with a net 8% of firms still expecting activity will increase over the next three months (Q2 2022), holding steady from Q4. The ongoing impact of COVID noise means the domestic trading activity indicators won't line up with the GDP growth rate, but from a momentum perspective, these data suggest that while growth in real economic activity (ie after accounting for inflation) will be hard won in 2022, it should be possible.

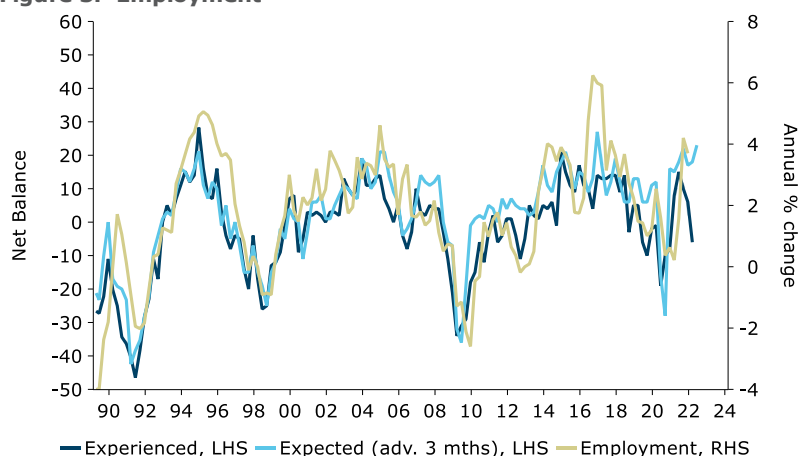
Figure 2. Domestic trading activity and ANZBO activity outlook



Source: NZIER, Macrobond, ANZ Research

- **Labour demand is holding up.** We expect employment growth slowed to zero in Q1, as the Omicron wave peaked. That's reflected in the fall in reported employment in the QSBO (figure 3). But labour demand is still strong, with forward-looking employment intentions ticking up (consistent with the March recovery in ANZBO employment intentions, and ongoing strength in online job ads data). So far, the data continue to suggest that the labour market will tighten further over 2022. It's certainly a part of the economy that we'll be watching very closely, given we're expecting it'll be the tight labour market that gets the economy through what's shaping up to be a pretty steep hiking cycle from the RBNZ (with or without the 50bp rises [we're expecting](#) tomorrow and in May).

Figure 3. Employment

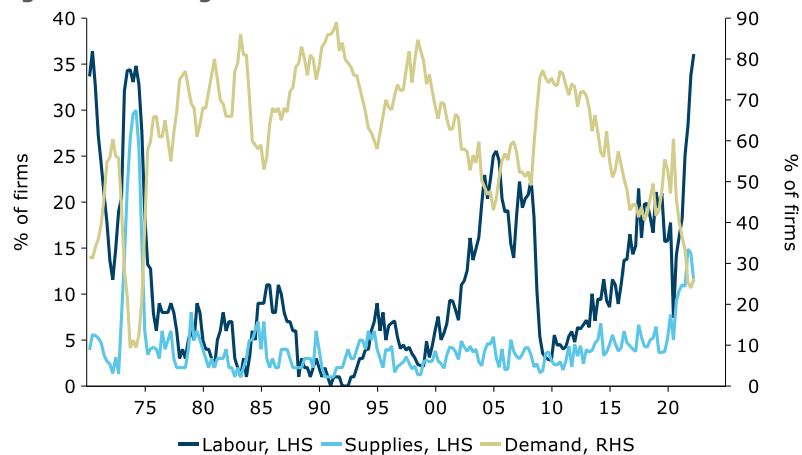


Source: Stats NZ, NZIER, Macrobond, ANZ Research

- **Capacity constraints are still crushing.** The CUBO measure of capacity utilisation rose to 97.1%, a record high, from an upwardly revised 92.7% in Q4. This measure saw a massive fall in the initial release of the Q4 data,

but that has since been revised upwards as data errors were found. Firms continue to fret about labour and supply shortages, while lack of demand has not been so relatively insignificant as a concern since the first oil shock in the 1970s (figure 4). While GDP growth may struggle to post strong results over 2022, it's the inflationary impacts of the inability of supply to meet demand that will force the RBNZ to keep on hiking rates throughout the year.

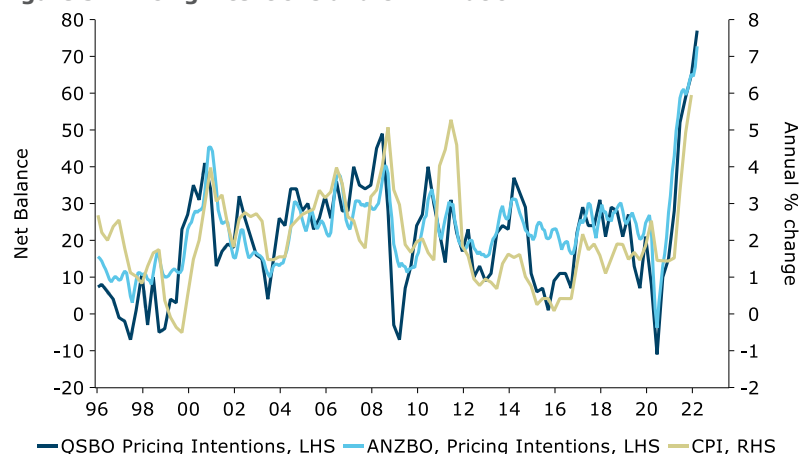
Figure 4. Limiting factors



Source: NZIER, Macrobond, ANZ Research

- **Price and costs soaring:** No surprises here – as seen in the ANZBO, inflation pressures are through the roof, and today's data reinforce that price pressures have only continued to grow (figure 5). A net 77% of firms expect higher prices over the next three months, up from 65% previously. Our current forecast is that annual CPI inflation hit 7.1% in Q1 – but the ANZBO and QSBO reports for Q1 indicate upside risk to that. We'll finalise our Q1 inflation pick after March food and rent price data are released later this week.

Figure 5. Pricing intentions and CPI inflation



Source: Stats NZ, NZIER, Macrobond, ANZ Research

Today's QSBO release is another confirmation of the underlying data signal we've been seeing in recent months. Economic activity is struggling against surging costs, shortages, and other COVID disruptions. Simultaneously, inflation pressures (and expectations) continue to accelerate. For the RBNZ, it's clear that aggressive action is needed to stop inflation spiralling – and we think today's report reinforces the need to hike the OCR by 50bps tomorrow to really start to gain traction on inflation pressure.



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