

Quarterly Survey of Business Opinion – Q2 2023

4 July 2023



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Contact

David Croy for more details.

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Data summary

	Latest
Headline business confidence (actual)	-63
Headline business confidence (sa)	-59
Domestic trading activity (sa, past)	-13
Domestic trading activity (sa, expected)	-17
CUBO (actual)	87.1%
Avg selling price – next 3 months	48

Capacity frees up, price signals still elevated

The bottom line

The Q2 Quarterly Survey of Business Opinion (QSBO) showed a slight further improvement, with headline confidence building on the Q1 lift from the record low seen at the end of last year. Somewhat surprisingly, experienced price and cost measures rose, potentially pointing to sticky inflation in Q2, but expected price and cost measures fell (while remaining high). The biggest surprise was the total collapse in capacity utilisation, with the CUBO measure falling from 94.0% to 87.1%, the lowest in 25 years, outside of COVID lockdown. We are wary of assuming this fall will persist in its entirety, just because of how unusual the move is. Numbers employed in the past quarter also rose slightly and remain positive.

Overall, the survey paints the picture of an economy that has been overheated but is in the process of turning the corner. This is broadly consistent with the RBNZ's take on things, but the slow pace of decline in some of the cost and pricing measures is a slight concern.

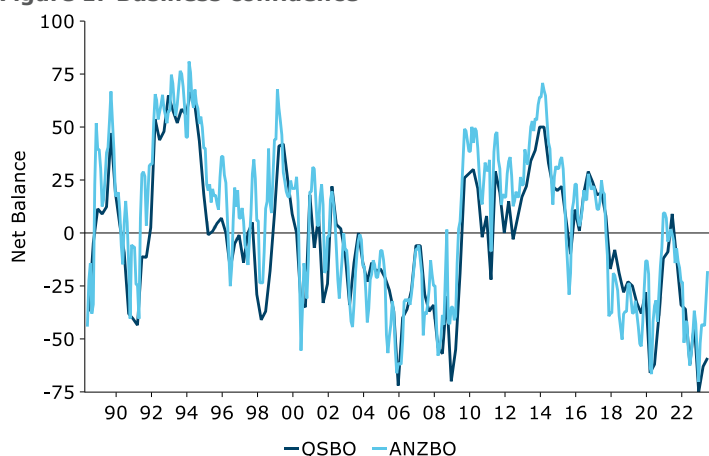
- Activity indicators were mixed, with experienced trading activity less negative in the past quarter and expected levels falling back towards Q4's low levels.
- Pricing and cost indicators remain elevated, but changes were also mixed. Experienced costs and selling prices rose in Q2 but expected costs and prices both fell.
- Continuing with the mixed theme, numbers employed in the past quarter rose slightly, but employment intentions fell (but remain positive).
- Labour as a limiting factor on production eased further but remains high. Recall that sales overtook labour as the main limiting factor in Q1, and that trend continued, suggesting the RBNZ is getting policy traction.
- The good news for the RBNZ is that capacity utilisation fell sharply, from 94.0% to 87.1%. All else equal, that should help keep inflation contained, but the plunge is extraordinary. NZIER suggested that this was driven by a combination of it being easier to find unskilled labour and easing demand, but even so, the fall seems out of kilter with the more muted moves in limiting factors measures.
- There was a sharp lift in the ease of finding unskilled labour, potentially signalling that, as expected, we are past the peak in wage pressures.

All up this survey was very mixed. Businesses clearly expect the economy to slow, and cost pressures to ease, and now report that labour is both easier to find and less of a constraint. That, and the sharp fall in capacity utilisation, will be welcome news to the RBNZ. However, we do wonder whether we'll see a bounce in confidence going forward – confidence improved in our ANZBO survey following the RBNZ's signalling of a pause at the May Monetary Policy Statement. In that regard this survey is a little dated, with NZIER noting at the analyst lockup that the majority of responses pre-dated the MPS.

Key points

- **Q1 business sentiment lifted slightly.** But as in recent quarters, these data still make for sombre reading, with 59% of businesses still pessimistic (up from a revised -63% in Q1 and a record -75% in Q4).

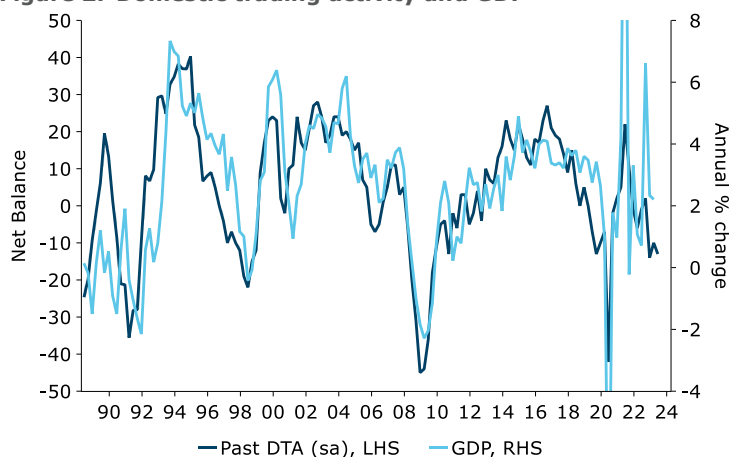
Figure 1. Business confidence



Source: NZIER, Macrobond, ANZ Research

- **Experienced domestic trading activity (DTA) fell 3 points** on a seasonally adjusted basis to -13. As in Q1, that's very much consistent with sub-par growth (historical average: +10). However, after COVID-19 broke the relationship between these data and GDP (totally GDP's fault), you can't conclude much more than that. Expected trading activity fell from -8% to -17%; that's consistent with tighter monetary conditions, and more indicative of continued weakness rather than a collapse in activity.

Figure 2. Domestic trading activity and GDP

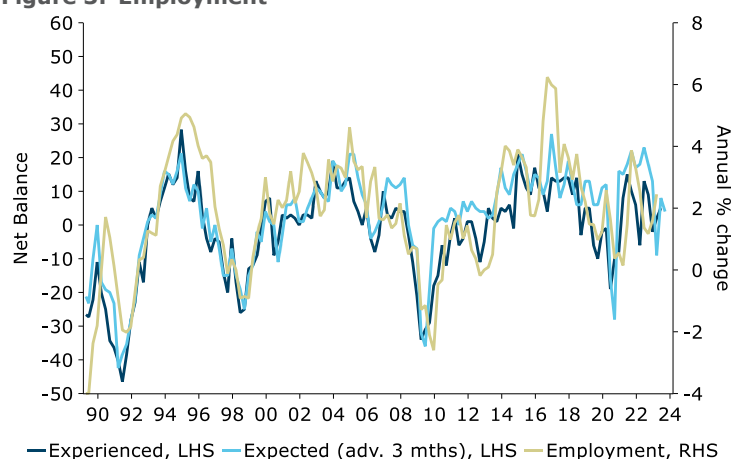


Source: NZIER, Stats NZ, Macrobond, ANZ Research

- **The residential investment pipeline weakened further.** A net 67% of architects expect a deterioration in housing over the next 12 months (vs -57% in Q1). Meanwhile, experienced building industry new orders rebounded sharply from -60% to -30%, suggesting that things perhaps weren't as bad as expected for builders. But expected new orders remain low, at -60% (barely up from -62% in Q1).
- **Employment and hiring intentions remained positive territory, presumably fuelled by improved labour availability.** A net 5% of firms reported increasing headcount in Q2, versus a net 2% of firms reporting an increase in Q1. This remains above the long-run average of -4%. The ease of finding skilled (-38%) and unskilled (-10%) labour

improved in the quarter, with the latter up significantly from Q1's -37%. This will also be welcome news to the RBNZ given that it needs to see the imbalance between labour supply and demand dissipate for an extended period before it can be confident that the wage-price spiral has been squashed.

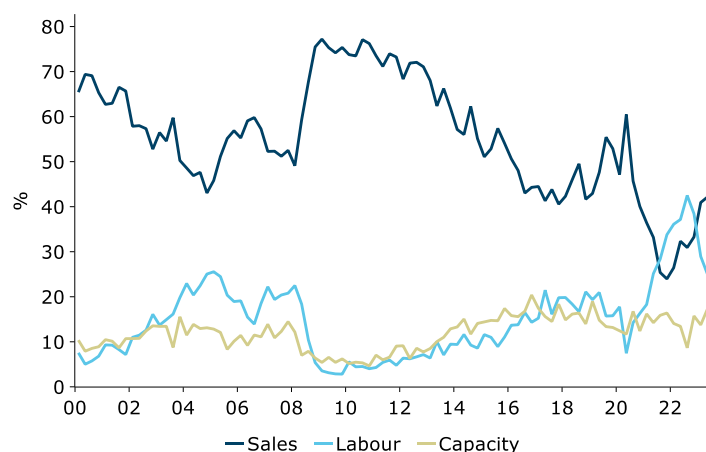
Figure 3. Employment



Source: Stats NZ, NZIER, Macrobond, ANZ Research

- **Labour as a limiting factor eased a touch further, but at 25%, it is still historically very elevated** (figure 4). As with other aspects of this survey, this is heading in the right direction, but it's more about how long it will take to truly normalise. Echoing our comments last quarter, these data are a long way from signalling 'job done' on the inflation front, but there is at least some evidence here that monetary tightening is getting traction.

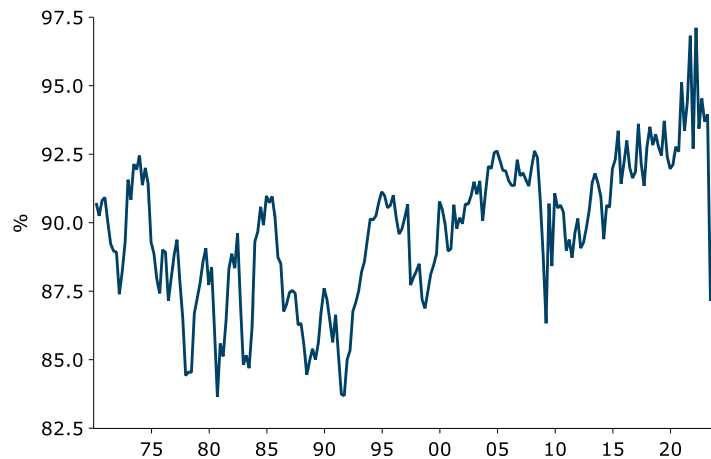
Figure 4. Limiting factors



Source: NZIER, Macrobond, ANZ Research

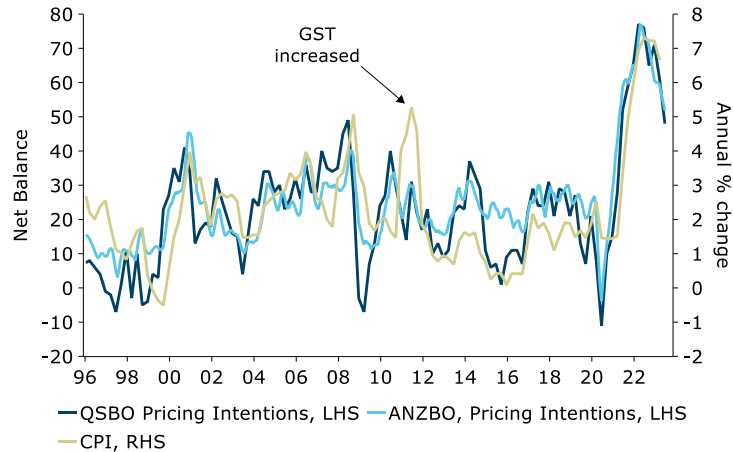
- **Pricing and cost indicators remained stubbornly elevated, and if there is a fly in the ointment for the RBNZ, this is it.** Past-quarter costs and selling prices both rose (from 63% to 70%, and from 69% to 70% respectively), pointing to inflation stickiness, but next-quarter price and cost expectations both fell and are below their respective past quarter levels. At face value, the opening up of spare capacity (even if the fall was inexplicably large, figure 5) does suggest that these expectations may come to fruition, but we'll have to play the waiting game for a bit longer. On the profitability side, there was little change in the past quarter (-51% vs -52%) but profit expectations for the next quarter fell (from -43% to -46%).

Figure 5. Capacity utilisation (CUBO value)



Source: NZIER, Macrobond, ANZ Research

Figure 6. Pricing intentions and CPI inflation



Source: NZIER, Stats NZ, Macrobond, ANZ Research

Overall, this mixed-bag survey doesn't challenge the RBNZ's strategy to remain on hold while watching, waiting and worrying. Looking ahead, we are looking for three things from this survey – whether we see a bounce in confidence, as signalled by our [Business Outlook](#) survey; whether the opening up in spare capacity is sustained; and whether costs and price pressures do actually ease. Slowing demand, the freeing up of capacity and less difficulty finding labour (particularly unskilled) suggests that things are going the RBNZ's way, but as the saying goes, the proof will be in the pudding, and time is of the essence.



Contact us

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Sharon Zollner
Chief Economist

Follow Sharon on Twitter
@sharon_zollner

Telephone: +64 9 357 4094
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
@ANZ_Research (global)



David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022
Email: david.croy@anz.com



Susan Kilsby
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469
Email: susan.kilsby@anz.com



Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, fiscal policy, economic risk assessment and credit developments.

Telephone: +64 21 661 792
Email: miles.workman@anz.com



Henry Russell
Economist

Macroeconomic forecasting, economic developments, labour market dynamics, inflation and monetary policy.

Telephone: +64 21 629 553
Email: henry.russell@anz.com



Kyle Uerata
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894
Email: kyle.uerata@anz.com



Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808
Email: natalie.denne@anz.com

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