ANZ Research

Quarterly Survey of Business Opinion – Q4 2024

14 January 2025

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Contact

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Data summary

	Latest
Headline business confidence (actual)	16
Headline business confidence (sa)	9
Domestic trading activity (sa, past)	-26
Domestic trading activity (sa, expected)	9
CUBO (actual)	91.3%
Avg selling price – next 3 months	15

Coming out the other side

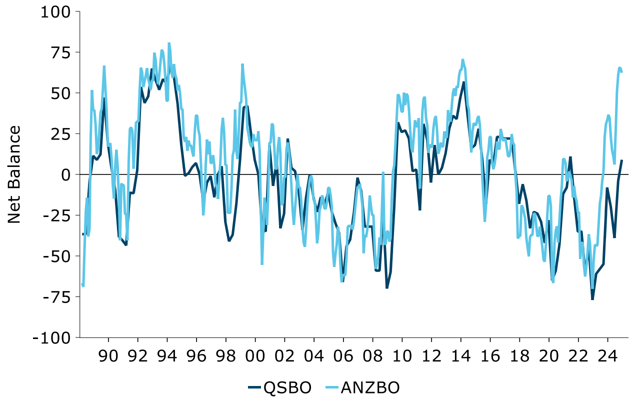
The bottom line

- The NZIER's Q4 Quarterly Survey of Business Opinion (QSBO) corroborates the signal from our Business Outlook that economic activity is picking up from subdued levels now that interest rates are on the way down.
- For the monetary policy outlook, it's the pace of recovery versus the economy's supply potential that matters. And to gauge that, indicators of capacity stretch are key. Within the assortment of QSBO data, 'labour as a limiting factor on production' has the single strongest correlation with the RBNZ's output gap estimate, and this indicator fell further in Q4, suggesting more spare capacity. Conversely, the 'ease of finding labour' measures (which also follows their output gap closely) also fell, suggesting less spare capacity (a narrower output gap), as it implies that labour supply has deteriorated alongside demand. So there were some conflicting movements, but the overall levels of the key capacity indicators suggest the economy remains in a disinflationary state, consistent with the RBNZ's November forecast.
- On the cost and pricing front, experienced and expected costs fell, but prices lifted (to levels consistent with 2% CPI inflation). Overall message: inflation pressures remain contained.
- We therefore see nothing in today's data to shift the RBNZ one way or another from their prior guidance that they'll cut 50bp in February.

Key points

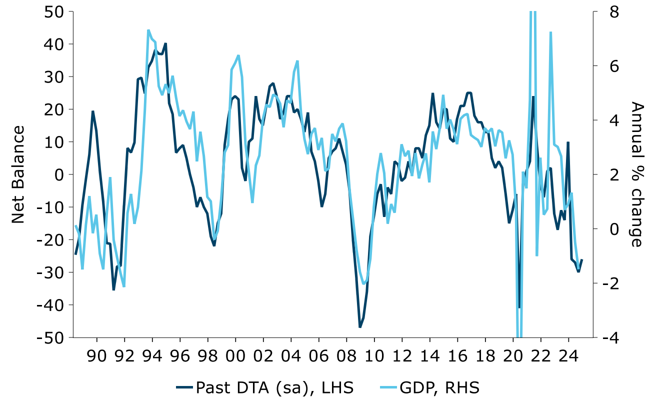
- **Business sentiment rebounded** 13 points to +9% on a seasonally adjusted (sa) basis, a similar-sized jump to our own Business Outlook, though a levels gap persists (figure 1). In terms of the details, the building sector is the most upbeat. This is one of the pockets of the economy most sensitive to interest rates, so it should be one of the first to recover as monetary restriction is withdrawn with the OCR falling rapidly back towards neutral.
- **Experienced domestic trading activity (DTA)** rebounded 4 points to -26% (sa), suggesting the 1.0% q/q contraction (-1.5% y/y) in GDP in Q3 was (hopefully) the worst of it. Today's data are broadly consistent with our Q4 GDP forecast of +0.4% q/q (-1.4% 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 (Q1 2025) improved 11 points to +9%. Our Business Outlook contains a similar signal: activity is still subdued here and now, but things are expected to pick up.

Figure 1. Business confidence



Source: NZIER, Macrobond, ANZ Research

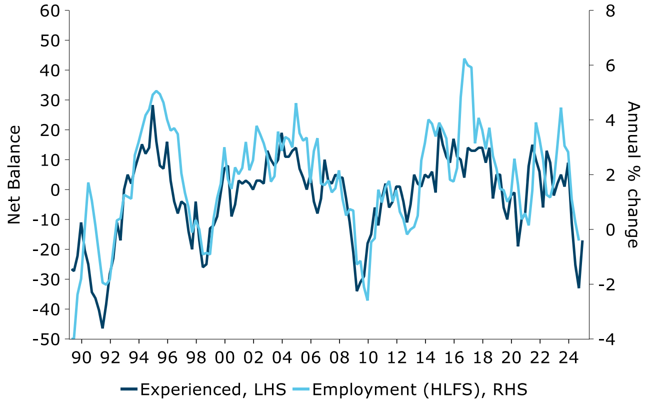
Figure 2. Domestic trading activity and GDP



Source: NZIER, Stats NZ, Macrobond, ANZ Research

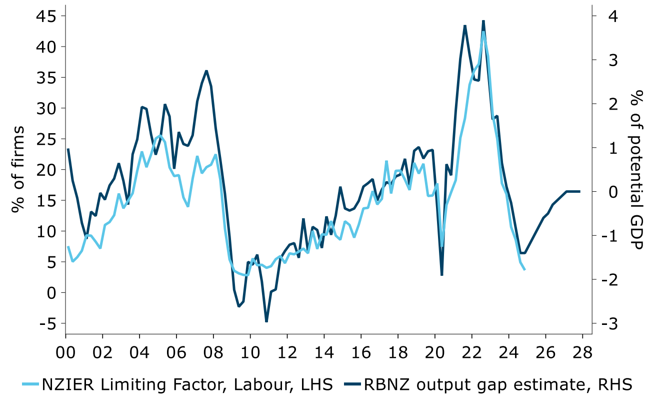
- **Experienced profitability** improved 9 points to a still-grim -36%. Expected profitability for the coming quarter improved from -15% to -9%. Subdued profitability is consistent with weak (but improving) investment intentions, with the *buildings* and *plant and machinery* measures landing at -14% (Q3: -25%) and -5% (Q3: -17%) respectively.
- **Experienced employment** remains subdued, but lifted from -33% to -17%. Hiring intentions improved 14 points to +5%. These data are consistent with our and the RBNZ's expectation that the labour market has a little further to loosen in the very near term but will turn a corner later in the year.
- Meanwhile, the **ease of finding skilled labour** fell 12 points to +14% and the **ease of finding unskilled labour** fell 19 points to +38%. These measures are still at deflationary levels but suggest labour supply has waned alongside softening demand – something we've also seen in the official labour market statistics with falling labour force participation and a sharp fall in net migration inflows due to both declining arrivals and high departures.
- Conversely, **labour as a limiting factor on production eased from 5% to 4%,** remaining well below pre-pandemic levels. This indicator has a strong correlation with the RBNZ's output gap estimate, and at face value suggests further underlying disinflation lies ahead. On the flipside, sales as a limiting factor lifted, suggesting a lack of demand remains front and centre.

Figure 3. Experienced employment vs the HLFS measure



Source: Stats NZ, NZIER, Macrobond, ANZ Research

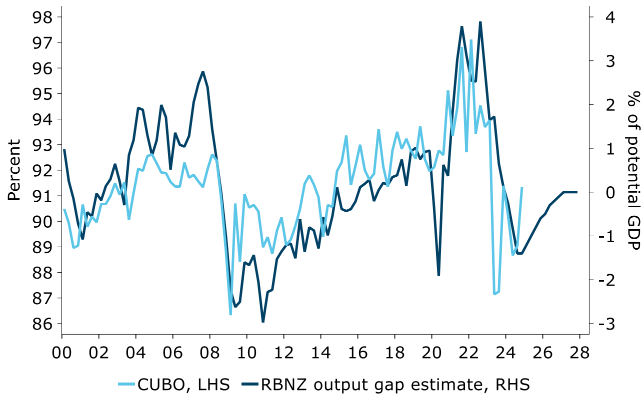
Figure 4. Labour as a limiting factor vs RBNZ output gap



Source: NZIER, RBNZ, Macrobond, ANZ Research

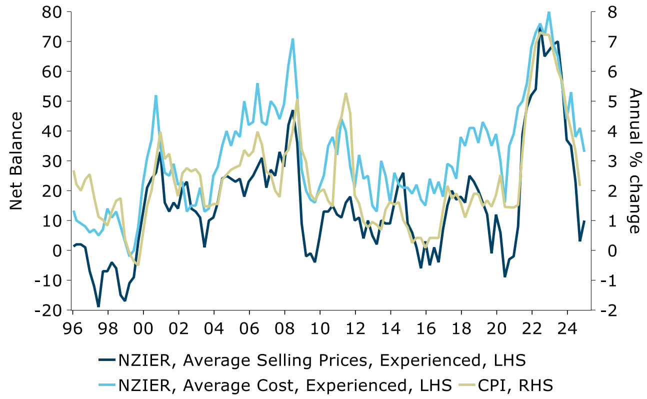
- Another key indicator of inflation pressure, **capacity utilisation (CUBO) amongst builders and manufacturers**, lifted from 89.1% to 91.3%, above its long-run average of 89.6%. Taken together with labour as a limiting factor and the ease of finding labour, capacity indicators would have to be described as a little mixed – though more so in change terms than in levels. Overall, we'd say the data are consistent with the RBNZ's expectation that the output gap is negative, but perhaps close to finding a floor.

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, Macrobond, ANZ Research

- On the **costs and pricing** front, **experienced price rises** rose 7 points to +10%, below its long-run average of 26% and in the 2% CPI inflation "zone". **Expected selling prices** also rose, up from +7% to +15%, but well below the average of 32%. **Experienced costs** fell 6 points to 35% (long-run average: 44%) and **expected costs** fell from +41% to +33% (average: 43%). Big picture: upward pressure on costs and prices has abated meaningfully, but costs, while on a downward trajectory, are still a little elevated. That's certainly what we're hearing round the traps.

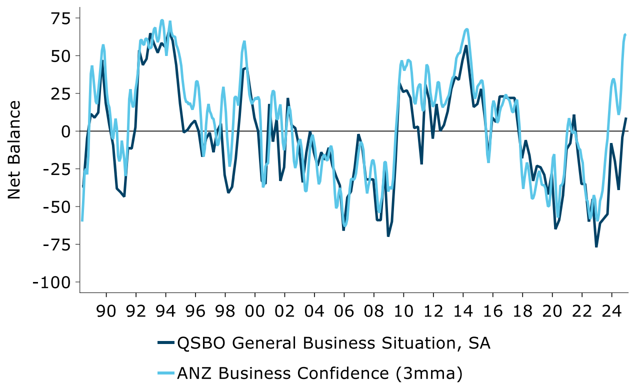
All up, today's data show that previous monetary tightening has engineered a significant degree of spare capacity in the economy and that this is working to contain inflation pressures. And while the recovery in activity appears to be underway, these data aren't exactly suggesting the economy is about to go gangbusters.

For the RBNZ, rebounding activity expectations from such a weak base isn't likely to derail OCR cuts provided indicators of spare capacity and price setting evolve as required. On that front, there isn't much in today's data to suggest the RBNZ's policy stance isn't delivering the results they're after. We continue to pencil in a 50bp cut in February.

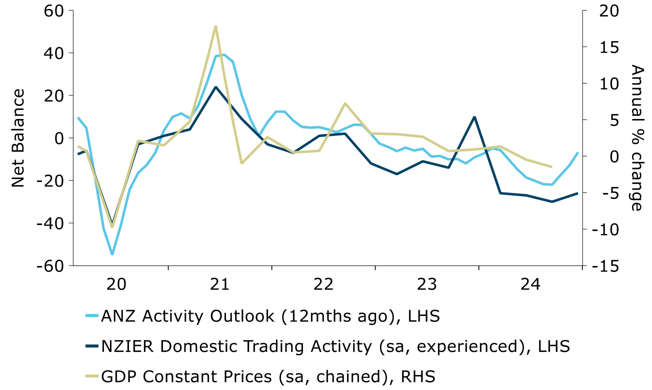
The following page compares key QSBO indicators to our Business Outlook. It's worth noting that the forward-looking questions in our survey ask firms about their expectations 12 months ahead. The NZIER's survey asks about just three months ahead. That helps explain the more optimistic tone of the ANZ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

QSBO VS ANZBO

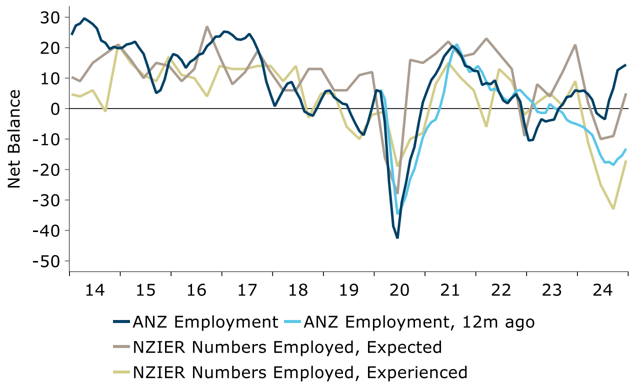
ANZBO respondents are still chirpier than their QSBO counterparts



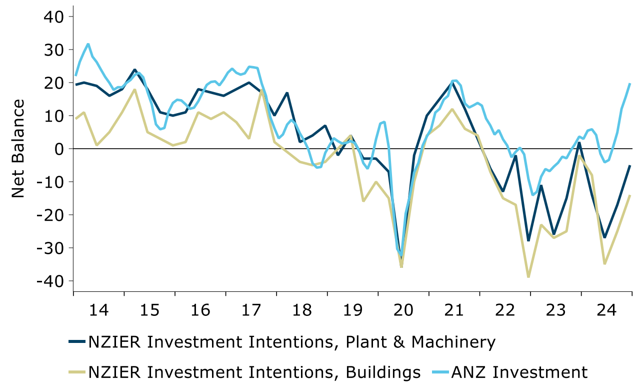
QSBO has joined ANZBO in signalling the worst of the slowdown is now in the rearview mirror



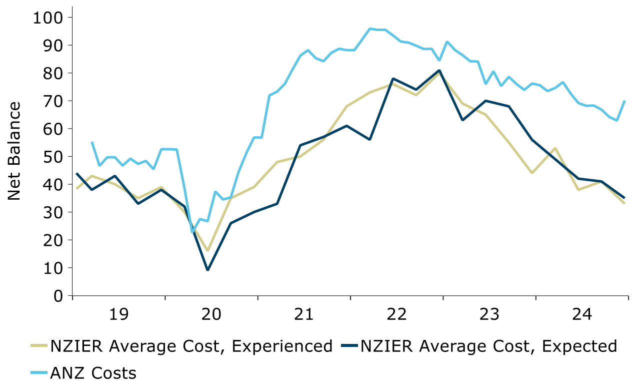
Employment indicators have also turned a corner in both surveys



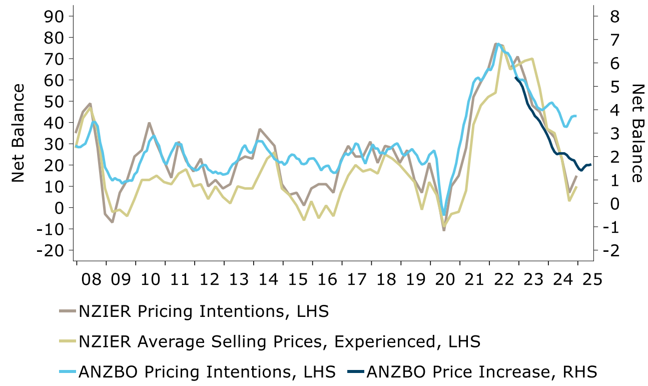
QSBO investment has lifted but remains below the ANZBO



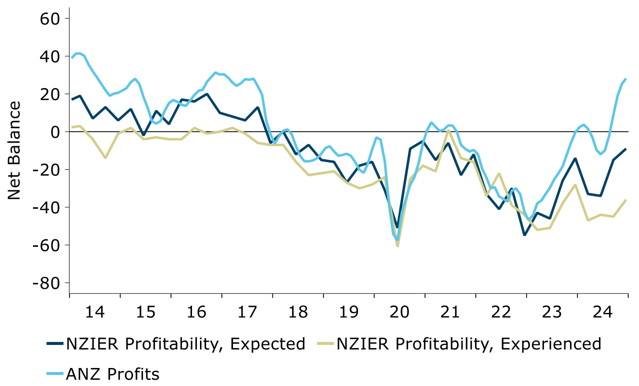
Costs are trending lower, but ANZBO remains higher…



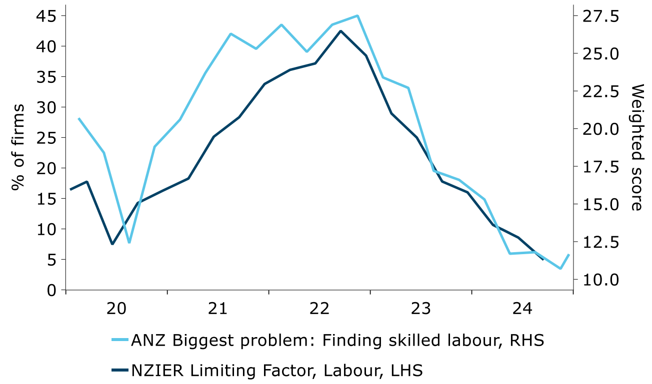
… and ANZBO pricing points to larger inflation risks



Profits are on the rise, ANZBO more so



ANZBO suggests a tentative floor has been reached for labour constraints. Not all QSBO measures align.



Source: NZIER, Stats NZ, Macrobond, ANZ Research

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Last updated: 19 November 2024

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