

# And back again

## NZIER Quarterly Survey of Business Opinion, March quarter 2019

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- After a brief respite, business confidence deteriorated again in the March quarter, unwinding most of the gain we observed in December.
- Beneath the headline, there was a broad-based deterioration in key indicators of own activity, and investment intentions fell sharply.
- There is ongoing pressure on firms' margins and reported profitability remains weak.
- We have long been of the view that the economy will regain momentum in 2019. Today's data suggests that, to date at least, the economy has been ticking over rather than picking up.
- In last week's OCR Review the RBNZ highlighted the downside risks to their activity outlook posed by ongoing weakness in business confidence. Today's data will have done little to assuage these concerns. The door to a lower OCR opened a little wider on the back of today's data.

### Key results – forward looking (seasonally adjusted)

|  | Mar-19 | Dec-18 |
|--|--------|--------|
| General business sentiment, next 6 mths      | -27    | -18    |
| Trading activity, next 3 mths                | 7      | 16     |
| Pricing intentions, next 3 mths              | 26     | 20     |
| Cost expectations, next 3 mths               | 41     | 40     |
| Profitability, next 3 mths                   | -16    | -14    |
| Employment intentions, next 3 mths           | 10     | 12     |
| Building investment intentions, next 12 mths | -1     | -4     |
| Plant investment intentions, next 12 mths    | -1     | 6      |

### Key results – backward looking (seasonally adjusted)

|   | Mar-19 | Dec-18 |
|---|--------|--------|
| Trading activity, past 3 mths                 | -1     | 4      |
| Pricing, past 3 mths                          | 17     | 20     |
| Costs, past 3 mths                            | 39     | 47     |
| Profitability, past 3 mths                    | -23    | -23    |
| Employment, past 3 mths                       | 4      | 3      |
| Ease of finding skilled labour, past 3 mths   | -50    | -51    |
| Ease of finding unskilled labour, past 3 mths | -34    | -34    |
| Capacity utilisation                          | 92%    | 93%    |

Pessimism was once again the order of the day in the March *Quarterly Survey of Business Opinion*. Following a brief respite in December, business sentiment has headed south in the New Year, falling to -29 in March. That's only a little above the 9-year low recorded in September 2018.

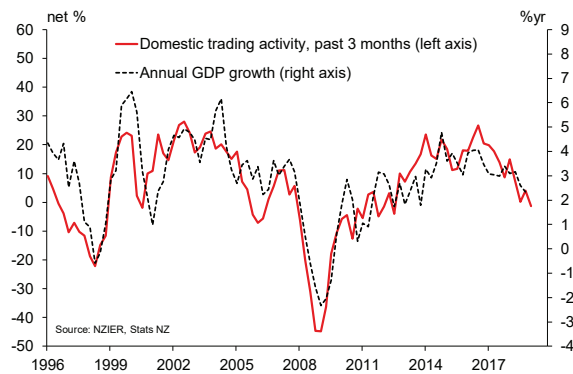
The fall in headline confidence was not entirely unexpected. Monthly confidence gauges have also weakened in early 2019. In part this reflects reaction to the release of the Tax Working Group's final report in late February. The report proposed a comprehensive capital gains tax, provoking much debate in the media and concern amongst some business owners. That said, the broad-based nature of the weakness in today's data suggests that it's not just a fear of capital gains tax that is weighing on business sentiment.

In addition to weaker headline confidence, firms were more downbeat about their own activity (both for the last quarter and three months ahead). Firms in the manufacturing

sector were the most pessimistic, and there was a hint that weaker demand has led to an easing in capacity pressures.

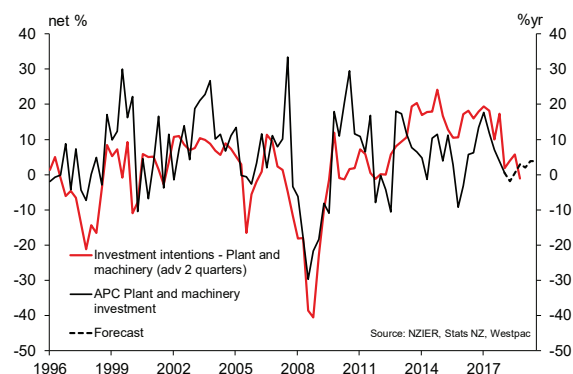
On its own, today's outturn suggests we will see 0.5% GDP growth in Q1. That's lower than our current forecast of 0.7% GDP growth. For the RBNZ, that's noticeably weaker than their February MPS forecast for 0.8% GDP growth and comes on top of the relatively disappointing Q4 outturn (GDP growth was 0.6% in the quarter when the RBNZ was forecasting 0.8%). We have long been of the view that the economy will regain momentum in 2019. Today's data suggests that, to date at least, the economy has been ticking over rather than picking up.

### QSBO domestic trading activity and GDP growth



What's more, after grinding higher over the last three quarters of 2018, intentions to invest in plant and machinery plunged to their lowest level since early-2012 in March. With investment intentions traditionally a useful lead on plant and machinery investment, this challenges our view around the timing of the recovery in investment we had been expecting to see over the second half of this year.

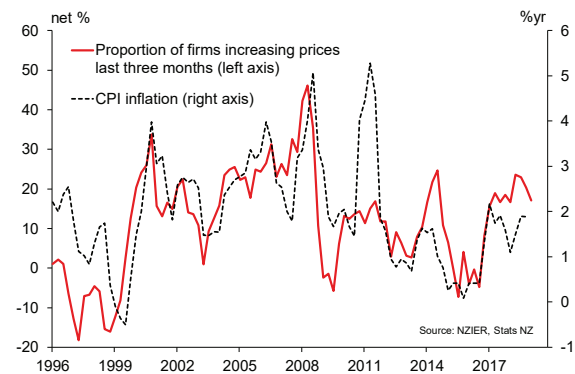
### Investment intentions and Plant and Machinery Investment



The employment indicators in today's survey were a little better. Firms continued to report that both skilled and unskilled workers remain hard to come by. However, they were a little more cautious about their hiring intentions next quarter. This may reflect growing concerns about the impact of rising wage costs on profitability. On balance, employment indicators in today's data are broadly consistent with our outlook for ongoing modest growth in employment this year.

The QSBO also provides a useful gauge of inflation pressures in the economy. Cost pressures remain elevated. And while firms suggested they had been able to lift prices to a greater extent over the last three months (particularly amongst retailers), they remain circumspect about their ability to do so going forward. Consequently, margins remain under pressure with profitability expectations falling to their lowest level since 2011.

### Businesses' prices and CPI inflation



The crucial question remains whether persistently weak business confidence will become self-fulfilling, weighing on firms' investment and hiring decisions. If it does, this increases the chances that GDP growth fails to accelerate in 2019 as quickly as the RBNZ is relying on in order to meet its inflation target. On its own, today's data will have done nothing to assuage this concern, upping the odds that the direction of the next OCR move will be down.

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