Economic Bulletin.

1 October 2019

NZIER Quarterly Survey of Business Opinion, September 2019.

- September's Quarterly Survey of Business Opinion pointed to a further softening in economic growth.
- Businesses are highlighting sluggish demand and low profitability.
- While cost pressures have eased, strong competition means that margin squeeze has continued.
- With businesses expecting economic conditions to remain soft, plans for capital expenditure and hiring have been scaled back.
- All of this leaves the RBNZ confronting a very familiar picture of sluggish demand and lingering softness in inflation. That reinforces our expectations for a November rate cut.

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Key results – forward looking (seasonally adjusted)

	Sep-19	Jun-19
General business sentiment, next 6 mths	-35	-34
Trading activity, next 3 mths	0	-4
Pricing intentions, next 3 mths	9	14
Cost expectations, next 3 mths	36	39
Profitability, next 3 mths	-20	-24
Employment intentions, next 3 mths	7	9
Building investment intentions, next 12 mths	-16	3
Plant investment intentions, next 12 mths	-3	2

Key results – backward looking (seasonally adjusted)

	Sep-19	Jun-19
Trading activity, past 3 mths	-11	-5
Pricing, past 3 mths	0	10
Costs, past 3 mths	32	43
Profitability, past 3 mths	-26	-26
Employment, past 3 mths	-6	-5
Ease of finding skilled labour, past 3 mths	-42	-43
Ease of finding unskilled labour, past 3 mths	-28	-32
Capacity utilisation	92.4%	93.7%

It's all downhill

September's Quarterly Survey of Business Opinion provided a further indication that the New Zealand economy has slowed. A net 11% of businesses reported reduced demand in the September quarter (compared to only 4% last quarter). That's the weakest reading since 2010 and points to further cooling in GDP growth. Businesses are also feeling more downbeat about economic conditions more broadly, with overall business confidence dropping to -35.4%, a ten-year low.

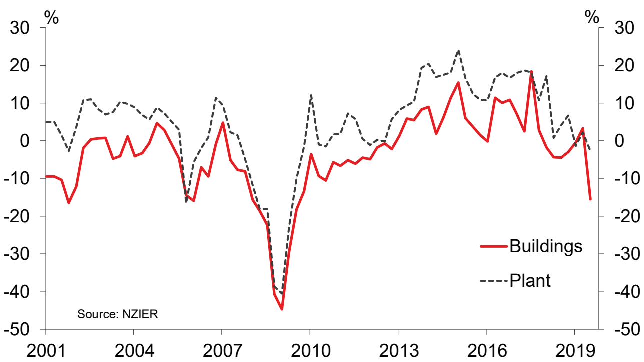
QSBO domestic trading activity and GDP growth

Today's result follows the RBNZ's 50 bps cut in the OCR back in August. That large reduction in the cash rate aimed to shore up the economy in the face of global headwinds and softening demand. And since that time, we have seen falls in borrowing rates and a decline in the NZ dollar. But despite this, businesses are still down in the mouth. Looking into the details of the report, it's not hard to see why:

- Businesses are highlighting softness in demand, with builders, manufacturers and retailers all reported continued declines in forward orders.
- Measures of profitability also remain at very low levels.
- While businesses have reported some easing in cost pressures, for most firms that appears to be a very small relief. Tough trading conditions are continuing to squeeze margins.
- Finally, while businesses generally expect some firming in trading conditions late in 2019, they still expect economic conditions to remain weak.

Against this backdrop, it's no surprise that businesses are scaling back plans for capital expenditure. There's also been a further easing in the number of businesses planning to take on more staff.

Capital expenditure plans (net number of firms planning on increasing spending)



Slowing growth + soft inflation + and cooling labour market = RBNZ cut in November

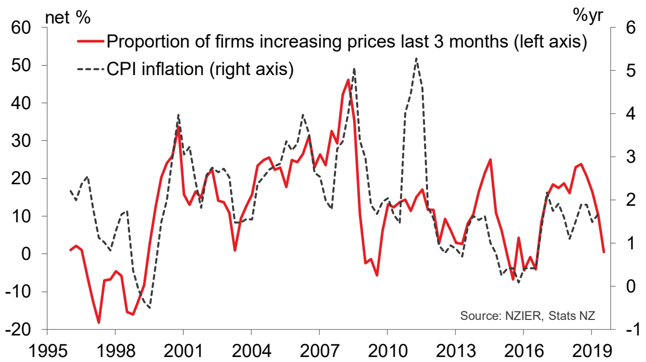
Today's report reinforces the message from other surveys and our own talks with businesses: the steam has come out of the New Zealand economy. GDP growth has already slowed through the first half of 2019. We expect a further deceleration through the back half of the year.

This also reinforces our expectations for a November rate cut from the RBNZ. The RBNZ is looking for a firming in GDP growth through the back half of 2019. However, given the continued signs of softness in demand, it's likely that growth will undershoot their forecasts.

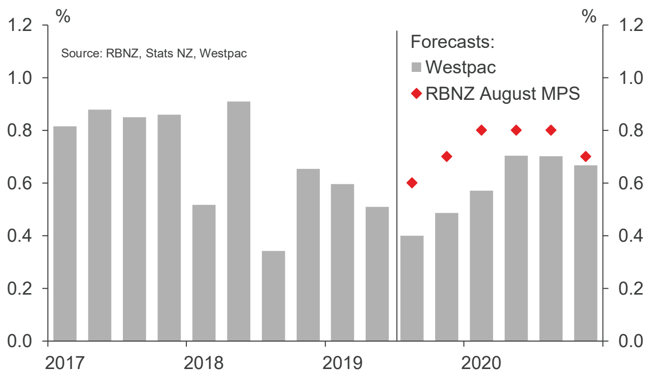
On top of this, were not seeing signs of a build up in inflation pressures. The number of businesses who have increased their prices, as well as the number who are planning to do so, have dropped back. On top of that, gauges of cost and capacity pressures have eased.

Finally, today's report also highlights signs of softening in the labour market. The number of firms who have taken on new staff members has dropped to its lowest level since 2012, and hiring intentions have eased. Consistent with that, fewer firms are reporting that a lack of labour is a constraint on their activity, with businesses noting that it's becoming a little easier to find staff. All of that reinforces our expectation that the unemployment rate will up push upwards in the near term, and that will be an important influence on the RBNZ's thinking with regards to the cash rate.

Businesses' prices and CPI inflation



GDP growth forecasts



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