

# Trucking along, but watch out for bumps

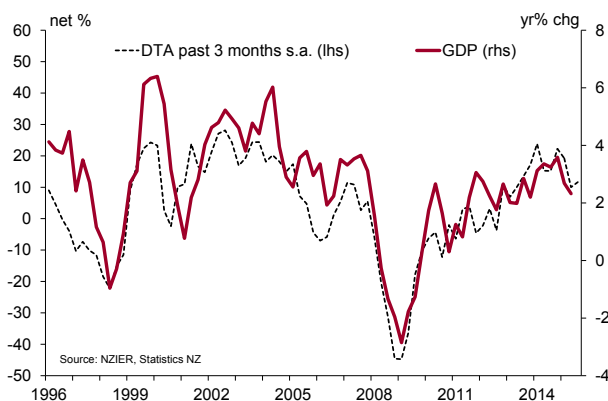
## NZIER Quarterly Survey of Business Opinion, September 2015

- Today's report highlighted that economic activity has held up in recent months. However, confidence in the outlook has fallen sharply.
- Indicators of inflation and cost pressure remain subdued.

### Economic activity has held up...

Business conditions have been resilient in recent months. In the September Quarterly Survey of Business Opinion, the proportion of business reporting that activity in their own firms has been growing increased slightly to 12%. In terms of quarterly GDP growth, today's result adds to the upside risk to our 0.5% forecast for the September quarter.

**QSBO domestic trading activity and GDP growth**



### ...but there's nervousness about where we are heading

However, businesses have become increasingly nervous about where the economy is heading. Business confidence fell sharply in the September quarter, with a net 9% of businesses now expecting conditions to weaken over the coming six months. That's a much weaker result than last quarter when a small majority of business actually expected conditions to improve. However, while businesses are nervous about the economic outlook in general, they're more upbeat about their own prospects.

The key question for the economy is whether activity will continue to hold up as we move into 2016. The economy is facing a challenging combination of conditions. On the downside, the global economy remains rocky, the Canterbury rebuild has levelled off, and there is the looming risk of drought. On the upside, we're seeing continued strength in the housing and construction sectors, ongoing strength in migration, and a lower New Zealand dollar. On balance, we expect that we will see some softening in GDP growth over the coming year. But as indicated by today report, this is likely to be a slowdown – not a crash.

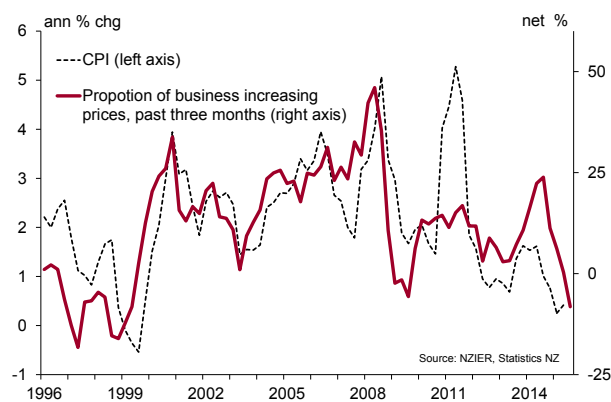
## A soft, but nuanced inflation picture

The number of business that increased prices over the past three months dropped to its lowest level since 1999. The number of business planning on increasing prices over the coming months is also lingering at low levels.

However, there are important differences across sectors. Manufacturers and retailers, who are likely to be heavily exposed to the drop in NZD, have highlighted increased cost pressures, and are looking to increase their prices as a result. However, domestically focused firms (such as those in the building and construction sectors) continue to point to limited pricing power.

It's all very consistent with a pick-up in the imported components of inflation over the coming months, while the domestic components of inflation remain soft.

### Businesses' pricing decisions and CPI inflation



**Satish Ranchhod**  
Senior Economist

### Key results – forward looking

|  | Jun-15 | Sep-15 |
|--|--------|--------|
| Business confidence, next 6 mths             | 6      | -9     |
| Trading activity, next 3 mths                | 13     | 17     |
| Pricing intentions, next 3 mths              | 6      | 0      |
| Cost expectations, next 3 mths               | 21     | 18     |
| Profitability, next 3 mths                   | 0      | 9      |
| Employment intentions, next 3 mths           | 11     | 13     |
| Building investment intentions, next 12 mths | 6      | 4      |
| Plant investment intentions, next 12 mths    | 18     | 13     |

### Key results – backward looking

|   | Jun-15 | Sep-15 |
|---|--------|--------|
| Trading activity, past 3 mths                 | 10     | 12     |
| Pricing, past 3 mths                          | 0      | -8     |
| Costs, past 3 mths                            | 17     | 17     |
| Profitability, past 3 mths                    | -2     | 2      |
| Employment, past 3 mths                       | 11     | 13     |
| Ease of finding skilled labour, past 3 mths   | -29    | -24    |
| Ease of finding unskilled labour, past 3 mths | -10    | -4     |
| Capacity utilisation                          | 93%    | 91%    |

## Westpac economics team contact details

**Dominick Stephens**, Chief Economist  
+64 9 336 5671

**Michael Gordon**, Senior Economist  
+64 9 336 5670

**Felix Delbrück**, Senior Economist  
+64 9 336 5668

**Satish Ranchhod**, Senior Economist  
+64 9 336 5669

**David Norman**, Industry Economist  
+64 9 336 5656

Any questions email:  
economics@westpac.co.nz

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