

Spring flourish

NZIER Quarterly Survey of Business Opinion, September 2016

- Business confidence strengthened in the September quarter to its highest level since early 2014. Firms were more optimistic about their own activity levels – suggesting that growth will continue at a solid pace for the remainder of 2016.
- Cost and price pressures remain benign, but increasing pressure on capacity will eventually help to push inflation higher

Key results – forward looking (seasonally adjusted)

	Jun-16	Sep-16
General business sentiment, next 6 mths	19	26
Trading activity, next 3 mths	22	32
Pricing intentions, next 3 mths	10	7.3
Cost expectations, next 3 mths	19	24
Profitability, next 3 mths	18	18
Employment intentions, next 3 mths	16	24
Building investment intentions, next 12 mths	9	10
Plant investment intentions, next 12 mths	17	18

Key results – backward looking (seasonally adjusted)

	Jun-16	Sep-16
Trading activity, past 3 mths	22	26
Pricing, past 3 mths	0	-6
Costs, past 3 mths	18	21
Profitability, past 3 mths	3	3
Employment, past 3 mths	11	8
Ease of finding skilled labour, past 3 mths	-38	-42
Ease of finding unskilled labour, past 3 mths	-15	-15
Capacity utilisation	92.9%	92.5

Businesses have a spring in their step, with the NZIER *Quarterly Survey of Business Opinion* showing that general confidence perked up in September to its highest level since early 2014. In seasonally adjusted terms, a net 26% of firms were optimistic about the general outlook, up from 19% in June.

Firms have well and truly gotten over their nervousness at the beginning of the year when confidence across the economy appears to have been dragged down by a slump in dairy prices. The 30% increase in dairy prices since July will have boosted confidence, especially in dairy-exposed regions. But perhaps more importantly, firms will have taken much confidence from seeing their own activity strengthen. In particular, the number of firms reporting higher levels of activity in the past quarter picked up to a net 26%, from 22% in June and 17% in March. And firms are seeing fewer clouds on the horizon, with a net 32% of firms expecting stronger activity in the quarter ahead, up from 22% in June.

These measures of own activity are useful early indicators for quarterly GDP growth. Taken at face value, they suggest that growth in the economy has strengthened from the 0.9% quarterly pace in Q2 – posing upside risk to our current forecast of 0.8% growth for the September quarter. However, while a variety of headline confidence measures have been strengthening, it's not all one-way traffic; some of the underlying industry-level data have been more mixed.

Nonetheless, there is no doubt that economic growth is solid, with strength broadening across sectors and regions. This improvement in confidence was also borne out by our September Regional Economic Confidence survey, run in conjunction with McDermott Miller.

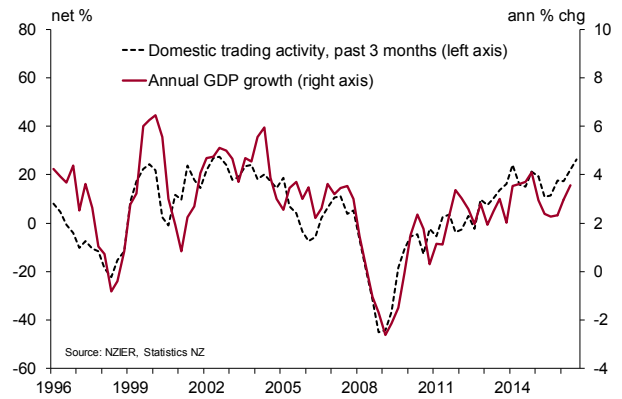
The QSBO also points to a tightening labour market, with firms seeing labour as becoming a more prominent constraint in holding back sales. Consequently, the number of firms expecting to increase headcount in the next three months

surged to its highest level since 1973. This is also consistent with an increase in labour turnover in past quarter. However, increasing headcount may be easier said than done, with firms finding it harder to source skilled labour – the most difficult since 2007. While firms plan to get more out of existing staff by increasing overtime in the next quarter, the other way to square the circle is by bidding up wage rates to attract desired staff.

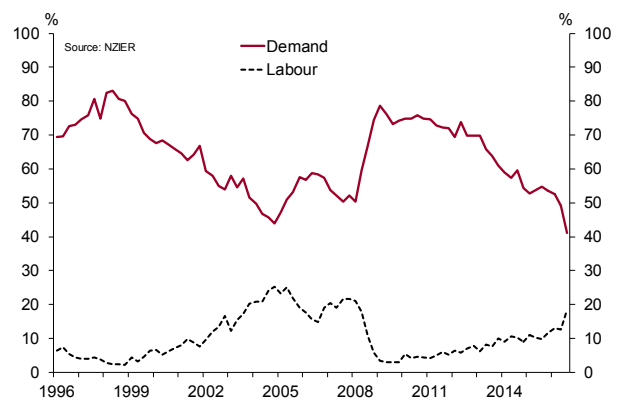
However, this doesn't appear to be happening just yet. The number of firms reporting higher costs (both experienced and expected) edged higher in the quarter, but remains subdued. And firms pricing intentions fell in the quarter. A net 5% of firms decreased prices in the quarter – consistent with expectations for a soft outturn for Q3 CPI. Only 7% of firms expect to increase prices next quarter, suggesting that inflation will remain soft in Q4 as well. But with solid momentum in activity and a tightening labour market, it seems like only a matter of time before cost and price pressures start to show through, seeing CPI inflation move gradually higher.

Sarah Drought
Economist

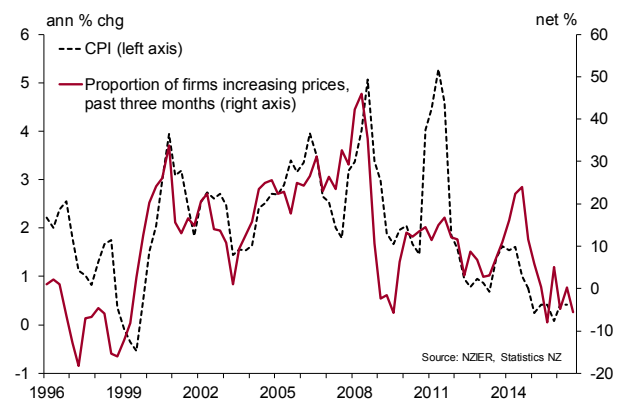
QSBO domestic trading activity and GDP growth



Biggest constraint on growth



Businesses' costs and CPI inflation



Contact the Westpac economics team

Michael Gordon, Acting Chief Economist +64 9 336 5670

Satish Ranchhod, Senior Economist +64 9 336 5668

Anne Boniface, Senior Economist +64 9 336 5669

David Norman, Industry Economist +64 9 336 5656

Sarah Drought, Economist +64 9 336 5696

Any questions email: economics@westpac.co.nz

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