RESEARCH
Economy Watch

5 October 2021

QSBO Simply Bizarre

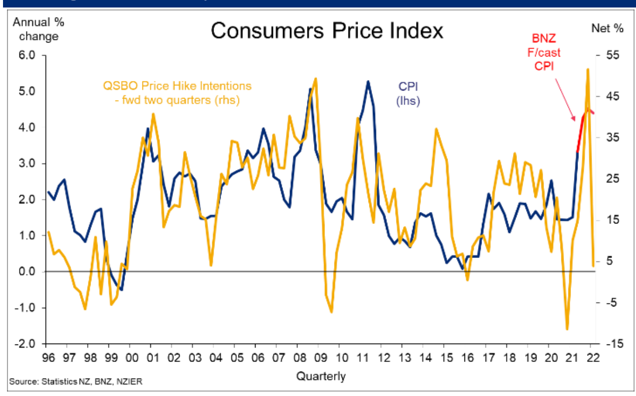
- **Labour market squeeze tightens aggressively**
- **Staff shortages extreme**
- **But cost and price expectations plummet**
- **An uncomfortable outcome for the RBNZ**
- **But we still think more CPI inflation ahead**

Today's NZIER Quarterly Survey of Business Opinion produced a set of results that can be best described as bizarre. On the one hand the survey tells us capacity constraints are extreme and the labour market is stretched to breaking, demanding an immediate response from the RBNZ. On the other hand, it would appear businesses have no intent to raise prices, cost pressures are under control and inflation threatens to drop to the lower end of the RBNZ's target band. The response to this would be diametrically opposite to the labour market reaction. Put all this together and one can only conclude the survey will not be categorical enough to change the minds of the decision makers at the Reserve Bank before they release their decision tomorrow.

One can't deny the results of the survey but one has to wonder what is going on in the pricing space as the survey responses don't seem to stack up with either anecdote from the business community or the purchasing experience of the householder.

Reported cost and selling price experiences moderated in the September quarter but remained at relatively lofty levels. In stark contrast, however, expectations for cost and selling prices plummeted. Only a net 7% of businesses stated they expect costs to rise in the next three months.

Pricing intentions plummet

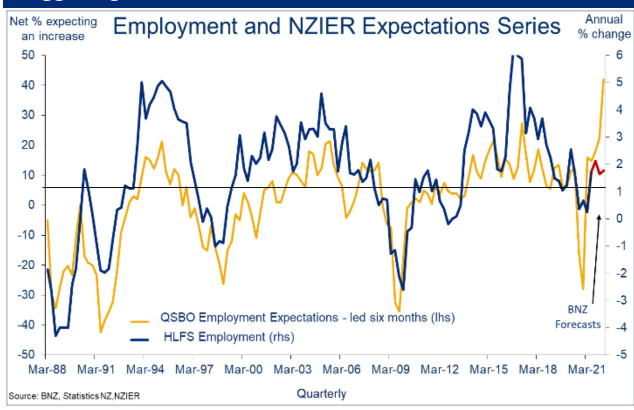


This was down from a net 50% in the June quarter and is the lowest reading since June 1999 when the economy was just starting to emerge from the depths of the Asia crisis and drought -induced recession. Similarly, expected selling prices are just a net 4% positive, down from +52% in the previous quarter. A reading this low would typically be consistent with annual CPI inflation at or below the mid-point of the Reserve Bank's target band.

We are at a loss to explain this result. The best we can come up with is that businesses are simply reporting a drop in variable costs and an inability to raise prices given current COVID restrictions, but this may also be clutching at straws. Whatever the case, we are assuming this result will not be repeated when NZIER next report back to us in January.

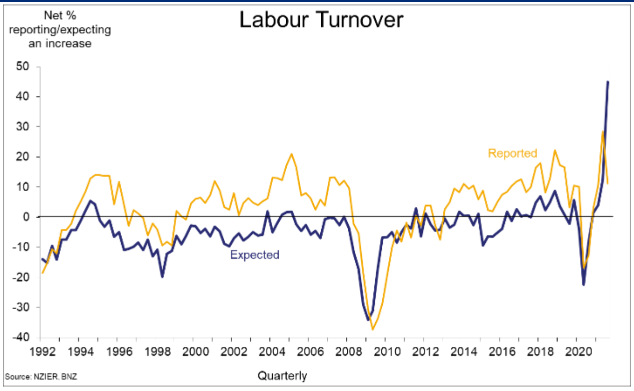
In stark contrast, the labour market data were nothing short of frightening. A net 8% of respondents reported they had taken on more labour in the quarter, which was consistent with our view that the unemployment rate will stay at 4.0% in Q3 despite the lockdown. The surprise, however, was in the forward-looking view. A net 42% of respondents say they intend to take on more labour. This is not only a record high but consistent with annual employment growth soaring to above 5.0%. This is simply not possible.

Staggering desire for labour



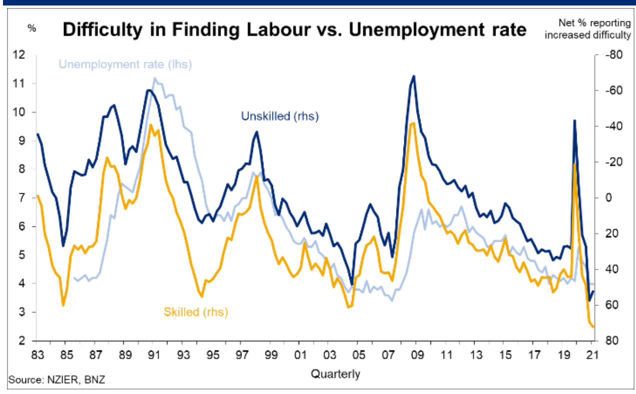
A net 45% of respondents also expect that labour turnover will rise. This is 28 percentage points higher than the previous record, back in 1973. If this is the expectation of business, it is highly likely heightened demand for wage growth will be met.

Expected turnover ballistic



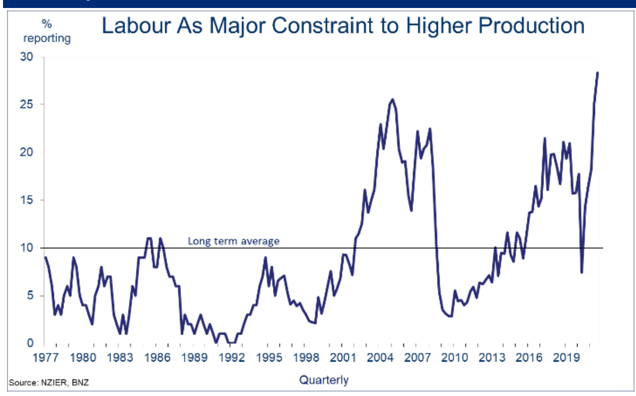
Tightness in the labour market is further confirmed by the net 72% of businesses who state that skilled labour is getting harder to find. This is a record high level in a survey that dates back to 1975. Shortages of unskilled labour are not so extreme but at a net 52% remain problematically high. The degree of shortage is consistent with the unemployment rate dropping aggressively lower.

Just can't find staff



To round things off, labour remains the biggest factor constraint that firms are facing and the 28% of companies reporting labour is their biggest problem is the highest reading since September 1974.

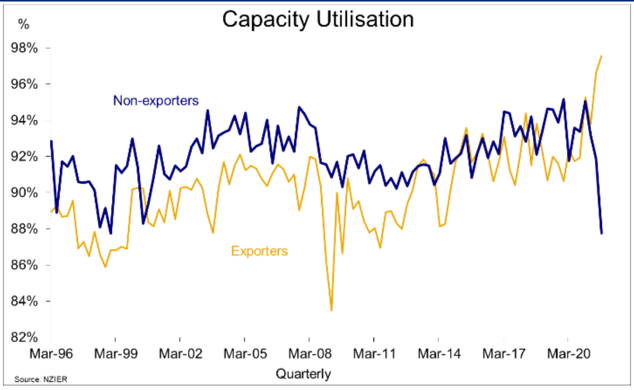
The major constraint



Importantly, the labour constraint variable, and both the skilled and unskilled shortage series, are all thrown into the mix when the RBNZ deliberates on where maximum sustainable employment stands. Of note, the Bank has already deemed these variable as being through what could be considered as maximum sustainable. Now two of the three will have pushed even further through their benchmark.

Another interesting conundrum is that total capacity utilisation has reached a record high in a survey that goes back to 1961. But while exporter capacity has gone ballistic, non-exporter capacity utilisation has plummeted.

More bizarreness



Elsewhere in the survey there were no surprises:

- Investment intentions are holding up okay and, at the margin, suggest our investment forecasts are a bit low.
- Activity indicators generally show the economy was going gangbusters pre the latest lockdown but hit a wall once it was introduced.
- As has been revealed in other surveys, the good news is that the wall hasn't been hit anywhere near as hard as was the case in the first major lockdown of 2020.
- That said, we think the overall tenor of the survey would be that much worse were it conducted today, especially following yesterday's announcement of an extended lockdown for Auckland.

For us, the survey provided more questions than answers. For now, it gives us a lot to ponder but no reason to change our view on anything.

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