4 July 2017

QSBO Still Pressing On (And Then Some)

- Q2 QSBO about as robust as it was last quarter
- So firm on growth, capacity constraint and inflation
- No news for the RBNZ as such
- But QSBO misses the fiscal/commodity thrusts
- While resilient to the impending general election

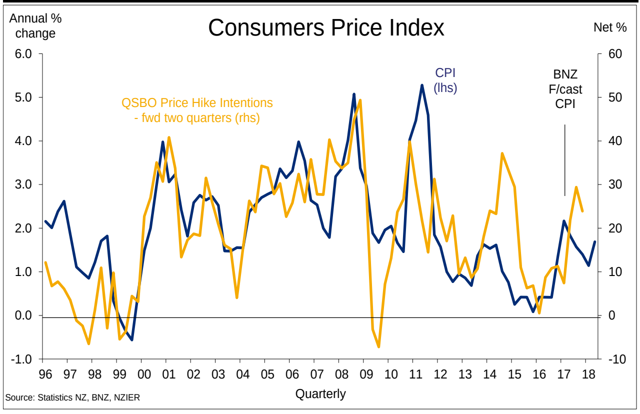
There were some unders and overs in this morning's NZIER Quarterly Survey of Business Opinion (QSBO). However, overall, it remained consistent with robust growth, capacity constraints, as well as firmness in inflation.

Its net confidence reading was a seasonally adjusted +18, from +17. Trading conditions were a touch slower, however, at +18, from +20, with respect to the last three months, and to +23, from +25, with respect to the coming three months. But by and large the output gauges were still above their long-term averages. As such, they were consistent with a pick-up in GDP growth from its recent slow patch.

Capacity utilization (as per the CUBO index) dropped to 92.1%, from 93.6% in the March quarter. Just bear in mind last quarter was a record high (since 1961, no less) and that the long-term average is 90.5%. Interestingly, the drop in CUBO was driven predominantly by a moderation amongst exporters (91.3%, from 93.1%), whereas non-exporters broadly held up very high (at 94.4%, from 94.5%). Similarly, manufacturers were lagging builders on this basis.

Cost pressures were still stout across the business sector, as a rule. Selling price reports for the last three months strengthened to +20, from +15, while selling price expectations for the coming three months moderated a touch, to +24, from +29. But, overall, these gauges were

A Pickup?

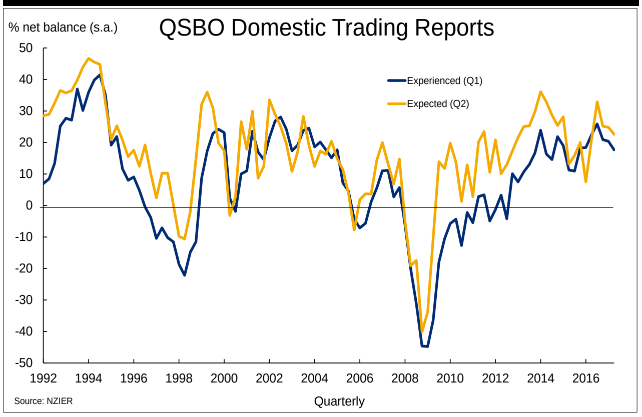


consistent with annual CPI inflation running above 2% not (well) below it. We say this noting that the May Monetary Policy Statement forecast annual CPI inflation to subside to 1.1% by Q1 2018 – and that was before the recent leg lower in oil/fuel prices and leg higher in NZD.

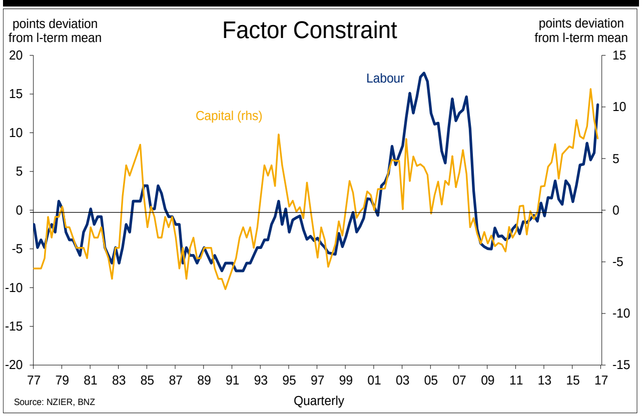
Investment intentions in this morning's QSBO were a little slower in respect to buildings, but stronger with regard to plant and machinery. But both were substantially above their long-term norms. This gels with the manifold signs of capital constraint.

With respect to factor constraints more broadly, however, it looks very much like labour has overtaken capital in the pecking order. This is consistent with still-solid employment intentions and, in particular, the fact that the difficulty in finding skilled staff variable is now at its most intense level since 2005. The QSBO labour market indicators point to a maintained downward tendency in the unemployment rate.

Robust



Pipped By Labour's Squeeze



The regional stories in this morning's QSBO were also noteworthy. As the NZIER put it, "Across the regions, confidence was strongest in Waikato, Bay of Plenty, Wellington, Gisborne and Southland – a further sign that activity and positive sentiment are broadening beyond Auckland. "While this is potentially reflecting the commodity tailwind, it also fits with the impression that the housing market is coming off the boil in Auckland, but is still inflating in most other parts of the country.

All in all, today's QSBO kept pressing on. To be sure, it was no more pressing than last quarter's edition. As such, it is no marginal news for the Reserve Bank. If the RBNZ seemed to downplay the inflationary undercurrents (that we saw) in the NZIER survey last time then we can't imagine why the Bank would form a different view based on this latest issue.

Having said this, we would go on to point out that today's QSBO will have largely missed representation of some important news for the RBNZ over recent months. One is the fiscal stimulus announced in May's Budget, the other being burgeoning commodity income (reflected in a near record high terms of trade, and record-high levels of confidence amongst farmers). The NZIER survey, for all its many fine attributes, doesn't well cover public sector entities and farmers.

In consideration of the fiscal and commodity tailwinds it overlooks, and the impending general election, today's QSBO could be interpreted as even stronger than it looks.

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