Business Confidence Survey Unequivocally Soft

- Activity indicators portend sub 2.0% GDP growth
- Employment and investment intentions trend lower
- Profit outlook relatively miserable
- Inflationary pressures limited
- But we wonder if sentiment reflects frustration more than economic stagnation

February’s ANZ Business Opinion Survey findings were far from disastrous but they were undeniably a tad disconcerting. Activity looks to be under pressure and this is being reflected in trend deterioration in both investment and employment intentions. Moreover, despite what we believe to be significant margin pressure, pricing intentions remain relatively well contained. While we won’t be using these data as a reason to change our view of the world, we concede that they do imply heightened downside risk to our growth, inflation and interest rate forecasts.

At the headline level, business own-activity expectations dropped from 13.6 to 10.5. By our reckoning this level of activity would normally be associated with annual GDP growth of around 2.0%. This is lower than both we and the RBNZ are picking. Were this to eventuate, however, the pace of activity would be unlikely to be great enough to keep the unemployment rate at its current near-NAIRU level and inflationary pressures would likely be diminished.

We have to admit to being a bit confused by these findings. They certainly do not fit with what we are witnessing in terms of activity. And, in particular, we are a bit bemused by the lack of optimism in both the construction and services sectors relative to their respective norms. This is particularly bothersome given that the survey would have been largely completed prior to the Tax Working Group’s musings on capital gains taxes, which are unlikely to have enhanced business optimism in those sectors.

If our business visits are any indication then some of the pessimism we are witnessing is likely to be caused by capacity constraints (both physical and labour) which are, in turn, contributing to margin pressure, reduced profitability and business frustration.

Profit expectations are certainly weak and sit at levels not seen since the period immediately after the global financial crisis when New Zealand was entrenched in recession. And the fact that businesses still wish to invest and hire (albeit at a slowing pace) must surely reflect that
any slowdown in activity is less demand driven than supply constrained. Moreover, weaker hiring intentions could simply reflect frustration at the lack of availability of labour to fill vacancies rather than any lack of desire to take on more staff.

But with margins under pressures and capacity constraints widespread, it might be reasonable to assume that inflation would gain some momentum. Yet again, there is limited sign of this with inflation expectations actually falling to 2.06% from 2.15% (in December) and pricing intentions moving only modestly higher to 25.5 from 23.9.

Over the last few months there have been numerous data releases that have delivered bob-each-way results for both doves and hawks alike. The same cannot be said of today’s data. While we are skeptical that the report accurately reflects the momentum and inflationary pressure in the economy, we have to concede that there’s a lot in it for those of a dovish disposition and very little for those of an opposite standing.

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