18 January 2022

QSBO Revisions Emphasize Slow but Inflationary Economy

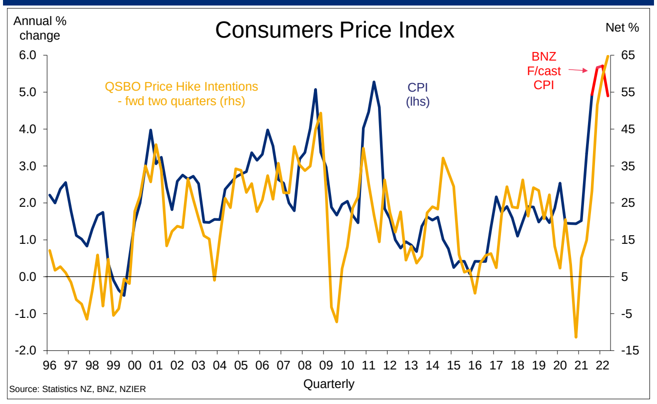
- **QSBO revised to show inflation views bigger in Q3**
- **Q4 results up the inflationary ante**
- **A curious builder-led slump in capacity utilisation**
- **But labour shortages even more intense**
- **Less OCR stimulus would be good**

One of the key stories in this morning's Quarterly Survey of Business Survey (QSBO) was that NZIER revised its prior quarter's result, to correct processing errors. And what a difference they made. Notably, the revisions went a long way to beefing up last quarter's inflation gauges, some of which we thought looked strangely weak at the time.

For example, at the October QSBO release a net +19% of respondents (supposedly) reported higher prices for the trailing 3 months and a net 4% signalled price increases for the coming 3 months. These numbers have today been revised to +48% and +59% respectively. That's a staggering degree of upshift, albeit with the latest numbers fitting the inflationary views we adhered to all along.

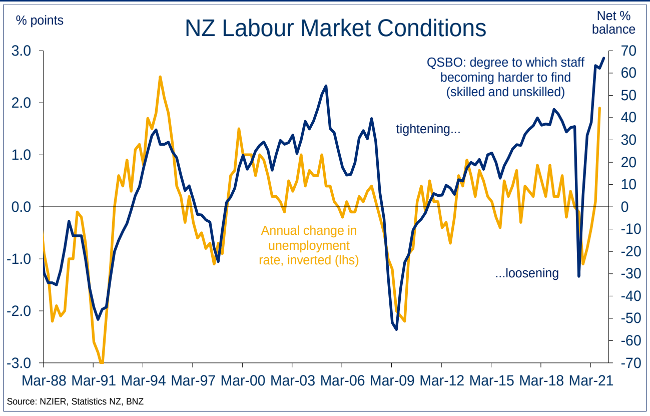
And this inflationary signal barrelled on into Q4, indeed got even stronger. A net +52% of respondents reported higher prices and +65% signalled higher prices to come. This raises the risk that annual CPI inflation may not peak as soon as we think (that is, Q4/Q1), and/or that it might reach a higher peak before it's done.

Sustained Heights



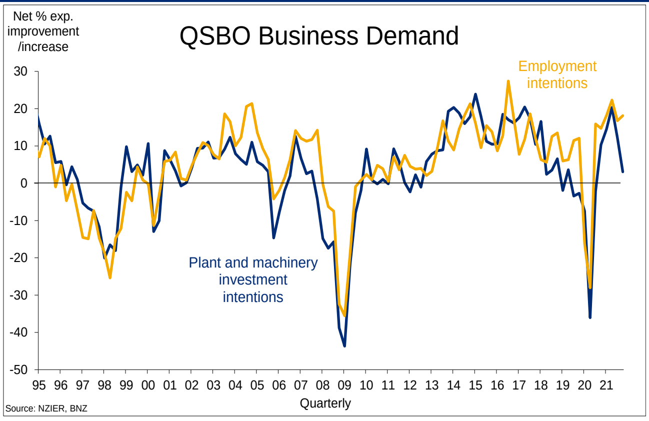
Also, labour shortages became more intense according to today's QSBO (while employment intentions stayed very strong). It's getting extreme. Sharply lower unemployment rates, anyone?

Tighter and Tighter



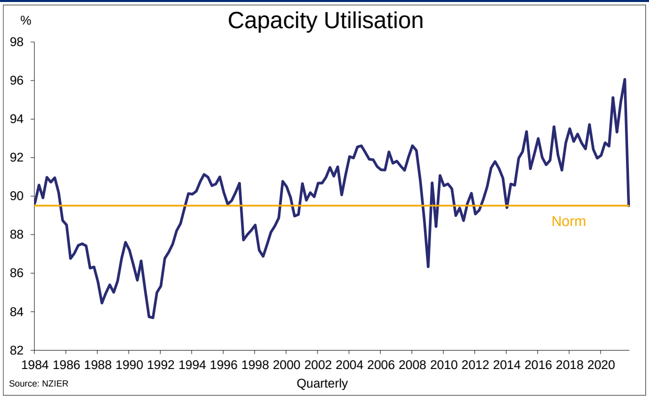
And while reports on trading conditions were starting to struggle (not a great look for near-term GDP growth, we admit), and business confidence weakened to a net -28%, from -11% in Q3, investment intentions holding around historical norms signalled something of a positive attitude about the future.

Resilient



A fly in the ointment – and a curiously big one – was a significant slump in the NZIER's capacity utilisation measure, CUBO. It sagged to 89.5% (its long-term average) from a record high of 96.1% last quarter. This was driven by builders, which is even more perplexing, given all the talked-about pressure bearing upon the industry and its supply chains.

A Record Fall, From A Record High

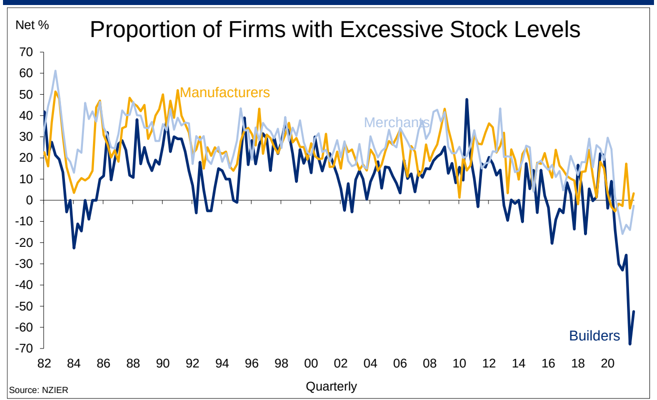


Still, the idea that this slump in CUBO is a disinflationary thing is completely refuted by the cost and pricing intention variables in the QSBO, including for builders.

Regarding costs pressures, these were clearly still very intense, right across the economy. A net +61% of respondents to the latest QSBO reported higher costs over the past 3 months, while a net +68% anticipated higher costs in the 3 months to come. These are each stronger than what's now reported for Q3, namely +57% and +56% (and bearing in mind these were originally reported as +23% and +7% respectively). Like for prices, the signal on cost inflation has been revised to look increasingly rampant, not acquiesced.

And everywhere else we looked severe supply-side constraint tended to remain the theme. Far from there being reports of inventory being too high, for example, the message was that it was too low for manufacturers, likewise weak for merchants and tragically thin (to non-existent) for builders. This does not accord with an unexpected slump in demand in the final stages of 2021.

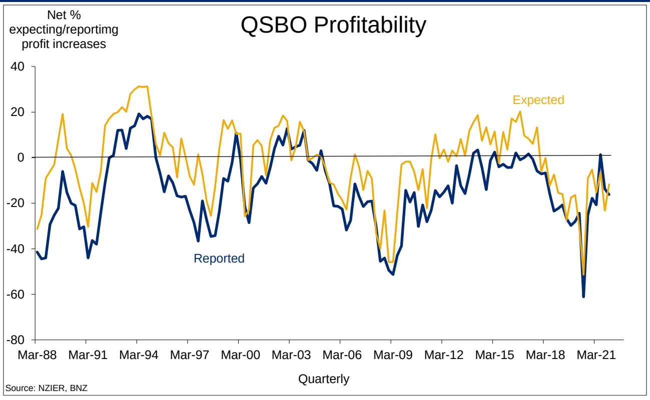
Unfilled Stocking



And just on timing, note that the NZIER survey was open from 8 November to 10 January, with 75% of responses received by 8 December. News of Omicron is something to bear in mind with this, and that was first doing the rounds in the final week of November (spooking financial markets). As we mentioned in yesterday's BNZ Markets Outlook, of all the potential economic impacts from Omicron in New Zealand, absenteeism is arguably the clearest and most significant. As if staff isn't hard enough to get (and keep) already.

The good news is that firms appear to be keeping their heads above water with respect to profitability, albeit only just. Sure, a net 16% reported a fall for the past 3 months, but this is no worse than the long-term average on this question. And with respect to profitability over the coming 3 months, the net 12% expecting a fall was only slightly worse than average (noting this variable can get down to the range of -40 to -60 when times are tough).

Hanging in There



Looking at the QSBO in totality (including its significant revision to Q3 numbers), we're left with the impression of an economy that's struggling to expand in real terms but easily generating relatively high rates of inflation. This keeps us inclined to the view of incremental OCR hikes ahead, with neutrality in mind.

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