

Research Economy Watch

7 October 2025

QSBO supports lower rates, mixed signals on how far

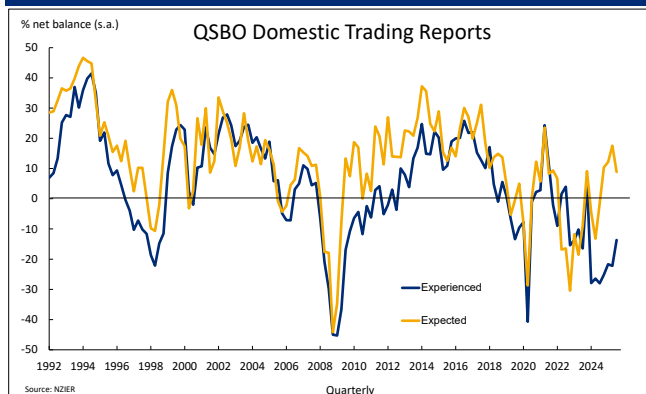
- Activity expectations consistent with recovery
- Investment intentions slump
- Nothing to stand in the way of OCR reduction
- But indicators show less economic slack
- Giving mixed messages to how low the OCR will go

For those that are inclined to think the economy needs the RBNZ to lower rates, the QSBO does not stand in the way of that view. But on the extent of the reduction required, there were mixed messages. It doesn't make the RBNZ's decision tomorrow easy.

There were mixed messages from the activity indicators. A net 14% of firms reported activity fell in Q3. While still weak, it is a marked improvement from the net 22% of firms reporting a decline in the previous quarter. In contrast, a net 9% of firms expect activity to lift in the next 3 months. Positive, but less so than the 18% of firms expecting improvement in the previous survey.

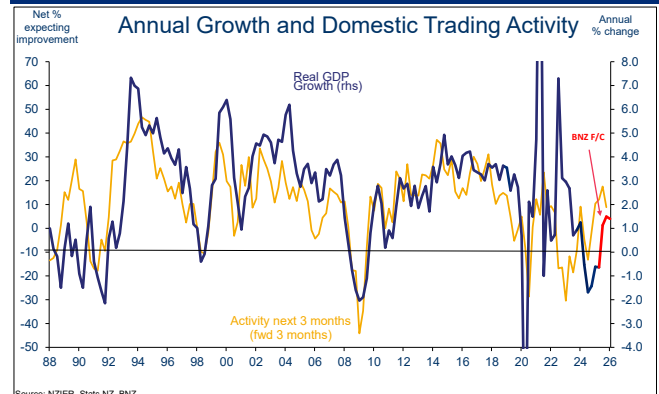
Firms' activity expectations now sit at a level that is closer to being consistent with our economic growth forecasts. That said, a drop in reported manufacturing activity calls into question whether that sector will bounce back as much as we have assumed for Q3.

Trading activity currently weak, expected to lift

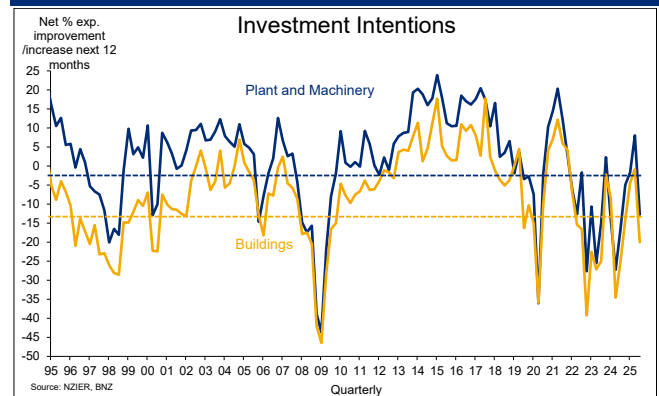


More troubling was a sharp decline in investment intentions for both building and plant and machinery. Both indicators have fallen back below long-term averages. This follows from cost pressures remaining elevated and more downward pressure on profitability.

Consistent with circa 2% GDP growth



Investment intentions slump



The broad mix here was a bit disappointing and supports the case for the RBNZ to continue reducing the OCR. And at face value it increases the chance of a 50bp cut tomorrow.

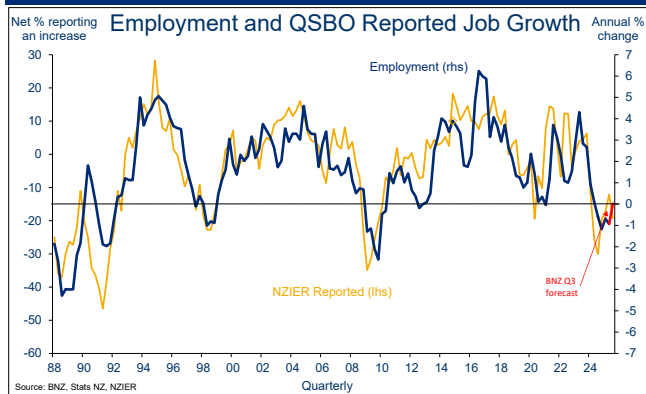
The fly in the ointment is that despite the weakness reported, the broad suite of tightness indicators in the QSBO point to less slack than was previously the case. The balance of indicators suggests less downward pressure on medium term inflation than was previously the case. That would advocate for some caution on the speed of taking the cash rate lower.

The QSBO labour market indicators highlight the point. On a seasonally adjusted basis, a net 19% of firms reported cutting staff in past three months. That is weak.

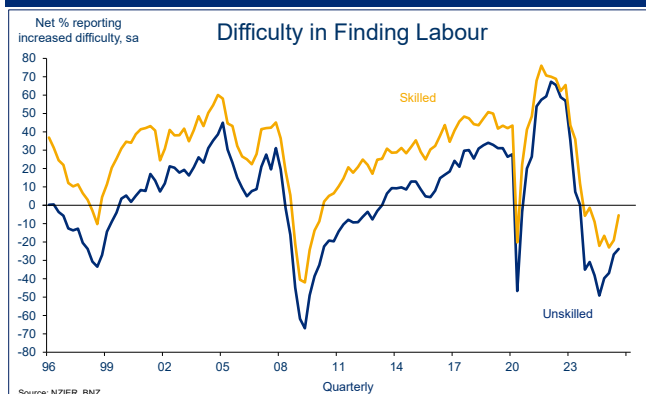
The remarkable thing is that despite weak employment, firms are reporting it less easy to find staff compared to three months ago. It points to the labour market not being as loose as previously thought. This would be consistent with labour supply reduction and slow potential growth. It is something we have been contemplating with very low net migration of working-age people.

Employment intentions remain positive and, at net +4%, they are close to their long-term average. If those intentions are acted on, it would rapidly remove the current slack in the labour market.

Reported employment drops



But labour becoming less easy to find



Employment intentions remain solid

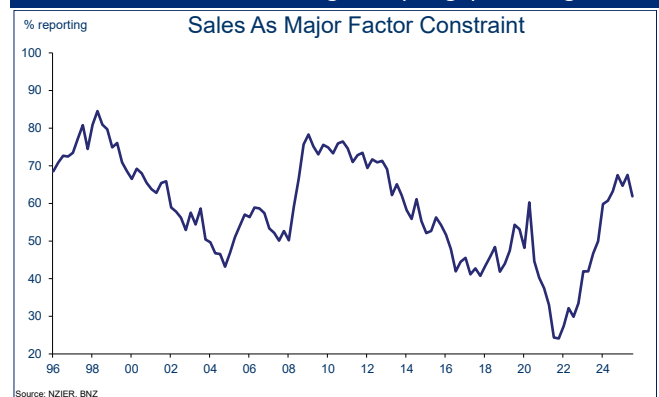


Other indicators point to less economic slack. Sales as a constraint fell suggesting a lack of demand is easing as the key constraint on business. On a seasonally adjusted basis, sales as a limited factor on output growth eased to 62% from 68%.

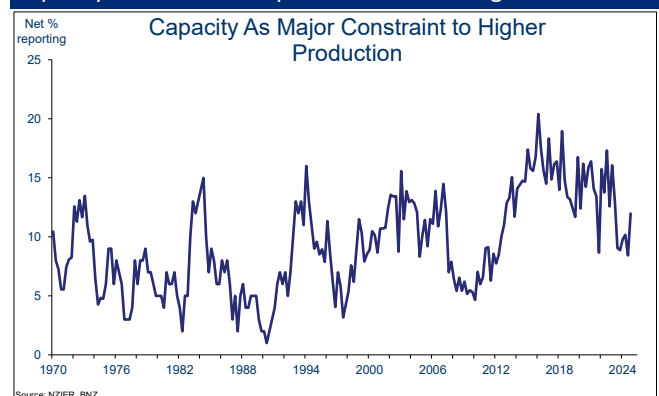
Other factors becoming more of an issue including capacity, which lifted to 12% from 9% on a seasonally adjusted basis and has nudged just above its long-term average. Capacity utilisation was little changed at a seasonally adjusted 89.2% from 89.5% in the previous quarter.

The suite of tightness variables suggests less downward pressure on medium term inflation that the previous survey indicated. It points to the output gap becoming less negative. That contrasts with the RBNZ's assessment that the gap might have nudged a touch wider in Q3 before narrowing.

Sales as a constraint lessening – output gap less negative



Capacity as a constraint pushes above average

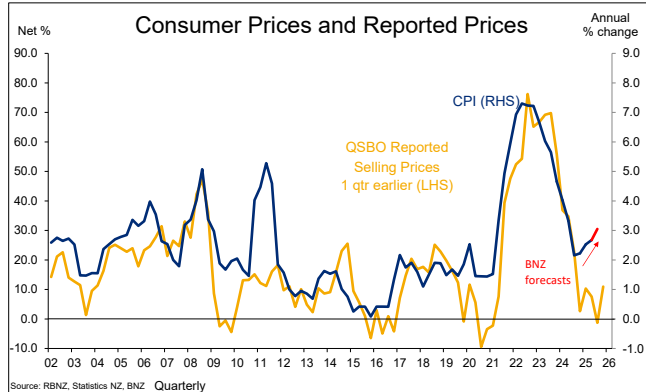


In addition, the near-term pricing gauges pushed higher. They are not high, but the change in direction is notable.

On a seasonally adjusted basis, a net 12% of firms reported lifting prices in the past 3 months. That is higher than the 4% of firms reporting cutting prices in the previous survey that, incidentally, was the outcome before the RBNZ paused the easing cycle in July. Pricing intentions also lifted. A net 9% of firms intend to lift prices over the next 3

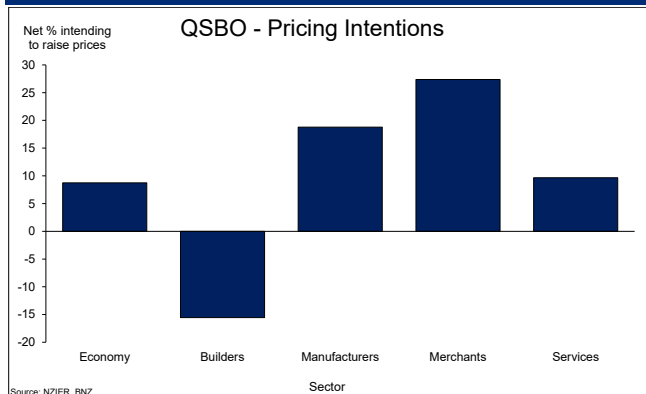
months, up from a net 2% intending to cut prices in the previous survey. This lessens the downside risk to CPI inflation posed by this indicator. We saw nothing in today's QSBO to change our pick for Q3 annual CPI inflation at 3.0%.

Pricing intentions lift off lows



Higher pricing intentions were driven by merchants, where 27% of those firms intend to lift prices over the coming 3 months. Merchants' pricing intentions have lifted well above their long-term average. In contrast, builders' pricing intentions remain weak with a net 16% intending to lower prices over the coming 3 months although this is marginally fewer than the 19% intending to lower prices in the previous quarters' survey.

Merchants intend to lift prices, builders to cut



Economic recovery remains at risk of being slower than expected. This increases the odds that we nudge our expectations for the low in the cash rate down from our current 2.50% baseline. However, rather than providing clarity on how much lower the cash rate needs to go, the QSBO has muddled the waters. It is not at all clear that slower economic recovery will see more than expected economic slack.

We stick with our view that the RBNZ will cut the OCR 25 bp tomorrow and maintain a clear easing bias. Mixed signals argue for incremental adjustment. A 50bp cut remains the clear risk.

Financial markets seem to have come to a similar conclusion. Markets continue to fully price a 25bp cut and are consistent with a roughly 50/50 chance of a larger 50bp reduction.

If the bank focused on the weak Q2 GDP outcome and the likes of employment and investment intentions from the QSBO as a guide to the pace of recovery, it could opt for the larger 50bp cut option tomorrow.

If the bank focused on the QSBO tightness indicators pointing to the output gap not being as wide as it previously thought, it would lean more to lower the cash rate incrementally. Many other high frequency indicators have been improving, albeit off a low base.

Lastly, it is well worth remembering that the QSBO does not directly survey agriculture. A sector that is currently enjoying exceptionally strong revenues overall, both outright and relative to other sectors. That would suggest the QSBO is likely to understate conditions in the overall economy at the current juncture.

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