

Research Economy Watch

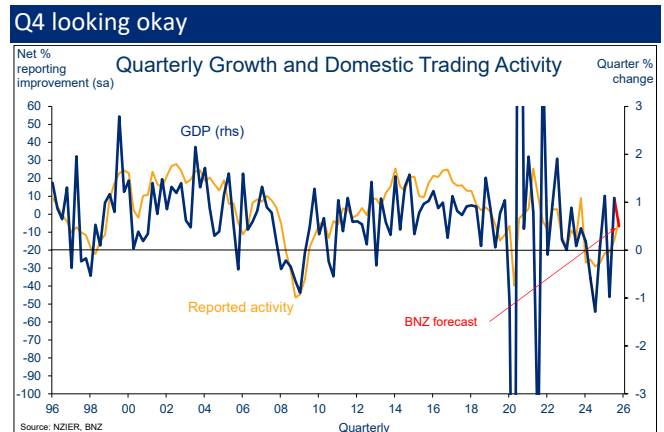
13 January 2026

QSBO Indicates Strengthening Economy

- **Optimistic report to kick off the New Year**
- **Growth indicators positive**
- **Investment and growth markers un concerning**
- **First signs of inflationary pressure rising**
- **Justifies RBNZ’s hawkish tilt**

We are moderately, and happily, surprised by the strength revealed in NZIER’s December Quarterly Survey of Business Opinion. At face value it shows that momentum in New Zealand’s economic recovery is gaining a real head of steam and, accompanying that, inflationary pressures are already building in a meaningful way.

The surprise, however, is not so much about the extent of the moves but that they are occurring a little faster than we had anticipated. Or are they? The lag between expectations and outturns seems to have lengthened this economic cycle and we suspect this will remain the case so we will not be scurrying to raise our growth forecasts at this juncture. That said, forecasters typically underestimate the extent of recoveries so we will be mindful of this as the data flow continues.

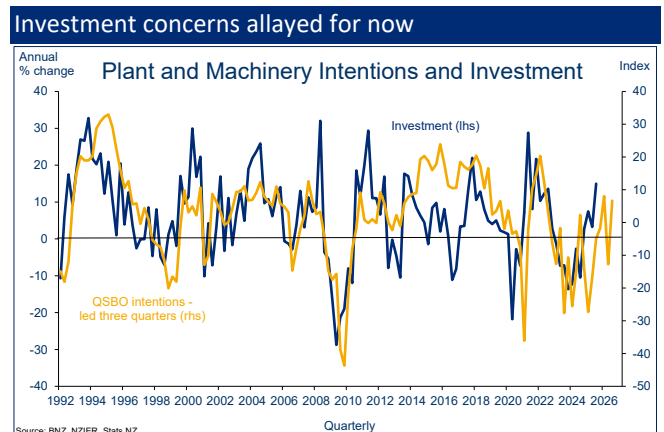


On the investment front a net 7% of businesses said they expect to purchase more plant and equipment. At face value this looks really strong when compared with the net 13% who said they were going to reduce investment when surveyed in September. But the level of intention is only just reaching levels consistent with our forecasts so the jury remains out in this space given the uncertainty that abounds.



We were heartened to see that reported trading activity continued to climb as anecdotal evidence had suggested Q4 GDP growth would be much weaker than that reported in Q3. We still think that will be the case but today’s data reduce the downside risks we saw to our own forecasts.

In our preview of the QSBO we noted that we would be watching investment and hiring intentions closely for any signs that economic momentum was waning. On balance these series gave us no cause for concern.

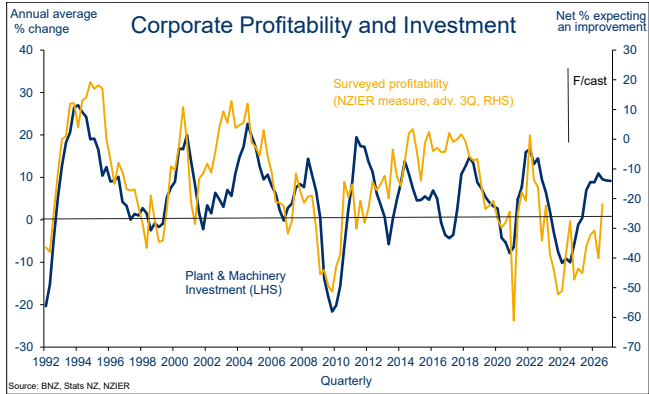


The good news for prospective investment is that profit expectations continue to trend higher. More optimism is needed before we become more comfortable about the investment outlook but the direction certainly provides hope.

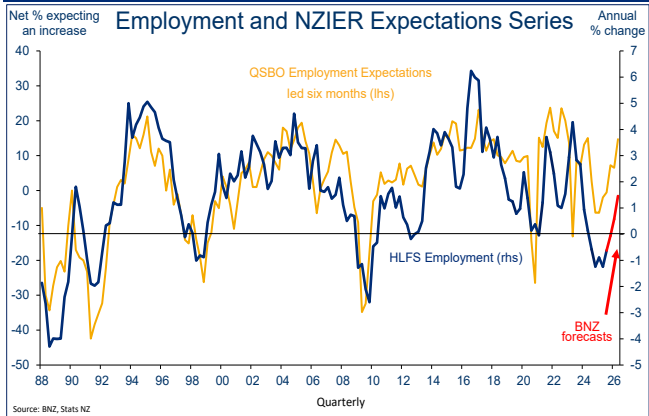
A net 15% of businesses say they will be taking on more staff over the next three months. This series has proven to be too optimistic about hiring recently. But, while the signal about the magnitude of any pick up in labour

utilisation may be questionable, the direction is not. So, for the time being we interpret today's survey results as being consistent with our view that the unemployment rate has peaked as employment growth begins to pick up, initially slowly but growing in momentum as the year progresses.

Profitability trending in the right direction

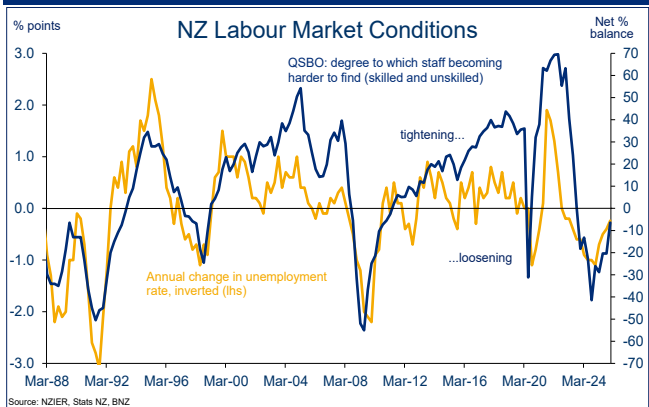


More hiring ahead



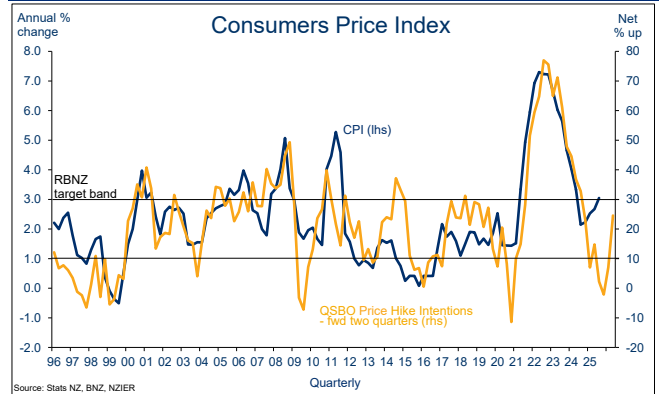
The data do nothing to allay our fears that as the demand for labour begins to rise businesses will encounter a mismatch in the skills needed with the skills of the unemployed. This is revealed in the fact that a net 2.0% of businesses reported it had become increasingly difficult to find skilled labour. This remains miles below the long term average of a net 20% but the direction is clear and it's the "toughest" conditions reported since September 2023.

Harder to find labour



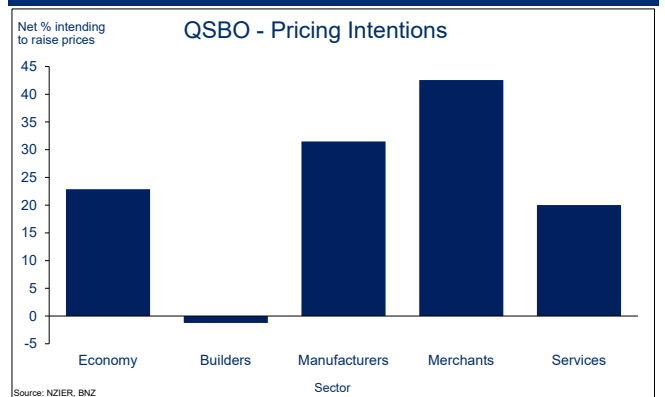
If the labour market continues to tighten it will eventually result in upward pressure on wage inflation and, in turn, CPI inflation, particularly of the non-tradables type. But we think we are some way from this being the case. Nonetheless, there were clear signs in the December survey that inflationary pressures are rising. In particular, a net 25% of respondents said they intend raising prices. This will certainly garner the attention of the Reserve Bank.

Inflationary pulse disconcerting



This level of pricing interest is a big jump from the 7.0% who thought they'd be raising prices a quarter ago and the net 2.1% who indicated prices would be declining a quarter before that. It was also the highest reading since June 2024 and consistent with annual CPI inflation moving into the top half of the Reserve Bank's target band. To cap things off a net 43% of merchants said they intend raising prices. As it's merchants that dominate the CPI this is disconcerting.

Retailers lead the charge



By itself we don't think there's enough in these data to have the RBNZ reaching for the trigger to hike its cash rate. But the data are strong confirmation that the next move in interest rates is up and that the balance of risk is that this happens earlier than the Q1 2027 suggested in the Reserve Bank's November Monetary Policy Statement. We currently have a first hike pencilled in for February 2027, the market is pushing for October 2026 with a hike by December seen as a certainty. We would not argue strongly that the market is mispriced given what we have seen in today's data but would need further confirmation

of rising inflationary pressure for us to formally shift to an expectation of an earlier RBNZ response. The direction risk, nonetheless, is clear.

Overall, we see nothing in the December QSBO to deter us from thinking that 2026 will be a happier New Year. For that we are grateful!

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