

Research Economy Watch

21 April 2026

Muddy waters no less muddy

- **QSBO provides more questions than answers**
- **Monthly averages hide the trends**
- **On balance, inflation pressures appear to strengthen**
- **CPI near our expectation**
- **But markets see hawkish overtones**

NZIER's April Quarterly Survey of Business Opinion (QSBO) is nothing but a tease. The real story that we want insight on is "how has the war in the Middle East impacted business expectations". Alas, it provides nothing of the sort.

The survey was conducted across the month of March and into early April. At the beginning of March most New Zealand businesses were relishing the prospect of a sustained period of improving economic activity. By the end that view of the world had been completely upended.

This shift in perceptions was highlighted by NZIER with its breakdown of business confidence across the period. It showed that early survey respondents were net 34% positive about the general business situation. Four weeks later a net 57% were negative.

We expect there will have been a similarly large swings in the responses to just about every question asked. But, unfortunately, that information is not shared. So, from our perspective, the survey gives us very little to inform our view of the world.

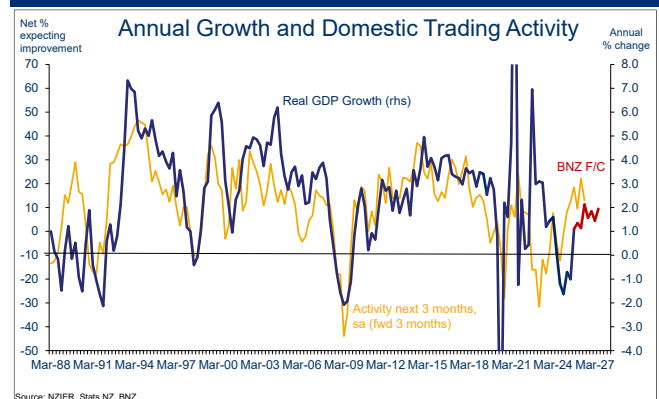
At best, and at a stretch, we can say that there is nothing in the survey that causes us to rethink our central views. In particular, there is nothing that should see the RBNZ rushing to raise interest rates.

And if we assume there was a generalised softening in growth expectations across the month and rise in inflationary pressures, then it might confirm our view that the Reserve Bank will remain torn between the downward pressure on inflation from falling growth against the upward pressure from oil prices.

For the record, the seasonally adjusted own activity indicator fell from +22 to +13. This is consistent with our view that growth picks up to around an annual 2.0% and hangs near there for a while. But we suspect that the end

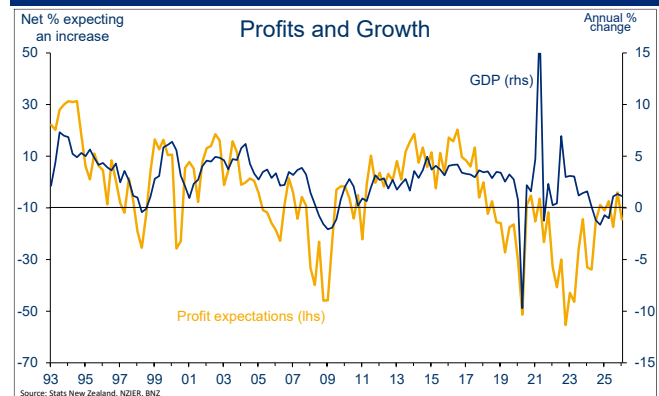
period own activity reading will likely be closer to other indicators such as the ANZ Business Opinion Survey's late March findings and our own PMI and PSI which portend growth much lower than 2.0%.

Activity expectations fall



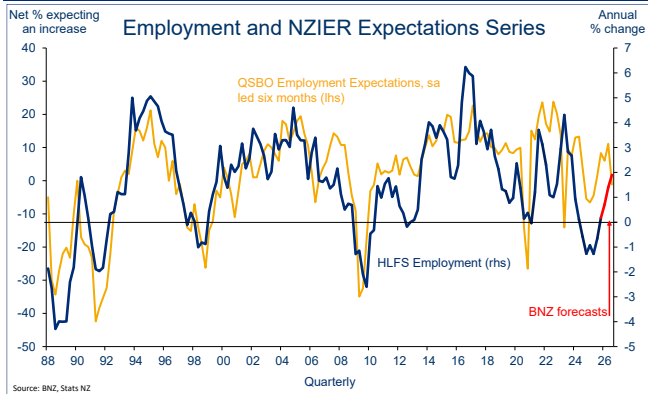
The net 15% of businesses who think profits will fall is, however, consistent with zero growth.

Profit expectations weak



We were concerned by the drop in both investment and employment intentions. We expect that uncertainty is weighing heavily on these variables and, if we knew what today's views on such things were, it would be even worse than the QSBO suggests. That said, these series have been very volatile of late so we don't want to jump to conclusions, and we should point out that even the weakened employment series is still consistent with our expectation that we get a modicum of employment growth this year.

Jobs still being created



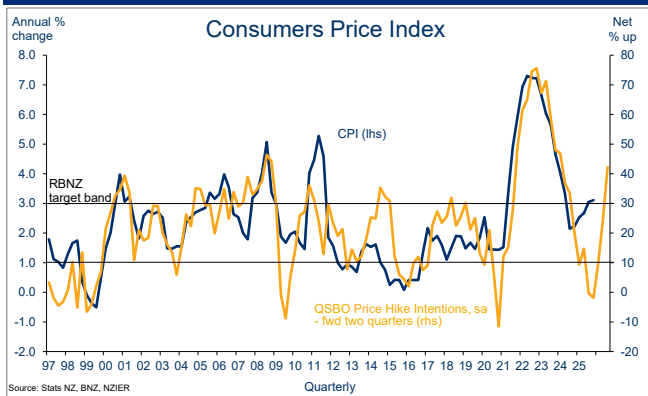
What has surprised us most is that reported and expected cost pressures are not as great as we thought would be the case. The net 37% of businesses reporting cost increases is no different to a quarter earlier, was last lower in December 2024, and is below average for the series. And a net 45% expect future costs to rise which is only just above average.

Costs controlled?



It was a more inflationary story as far as actual pricing is concerned. A net 22% of respondents said they raised prices in the quarter, the highest reading since June 2023 and a net 43% said they intend raising prices. This was the highest reading since September 2023 and is broadly consistent with our view that annual inflation rises to around 4.5%.

Selling price expectations lofty



Perhaps the most disconcerting thing about today’s survey was that many of the “tightness” indicators suggested spare capacity in the economy is being eroded despite the softening in growth.

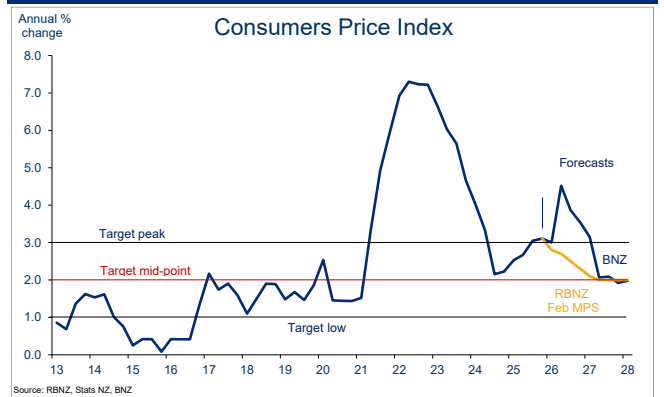
We include in this mix:

- A net 10% of businesses found more difficulty in finding skilled labour, the toughest since June 2024.
- Capacity utilisation rose to a seasonally adjusted 90.8, the highest since December 2024. And capacity as a major factor constraint was its highest reading since March 2024.
- Sales as the major factor constraint fell to 58, the lowest since December 2023.

All other things being equal, these responses would have worried the RBNZ that inflation could become persistent. But, alas, it would again be good to know how the responses to these questions evolved over the course of the month before jumping to any conclusions.

Soon after the release of the QSBO came the March quarter CPI. At 0.9% for the quarter, 3.1% for the year it was just 0.1% above our forecast and that of the central bank. As far as we are concerned that reading is near enough to RBNZ expectations for it to have little impact on its upcoming decisions.

Our inflation view broadly unchanged



However, because the outcome was 0.2% higher, in annual terms, than the consensus view, market pricing significantly upped the chances of an earlier rate hike than previously estimated with a 40% chance of a May rate hike now priced and a hike by July seen as a certainty.

Could this happen, yes! Is it our central forecast, no. Why not? We simply do not have sufficient conviction to shift our view at a time when so much uncertainty still exists about everything.

There are strong grounds to argue that the RBNZ needs to raise rates quickly:

- inflation is above the target band
- it is forecast to stay that way for some time to come
- this is a supply shock so potential growth is shrinking
- interest rates are significantly below neutral
- inflation expectations are rising
- non-tradables inflation is too high

On the flip side:

- the central bank should look through price shocks
- it needs time to see if this shock pushes up medium term inflation
- lower economic growth might reduce medium term inflationary pressures
- a fragile economy might not cope with significant interest rate rises
- measures of core inflation remain within the target band and are expected to stay there

On this basis, we concur with what appears to be the Bank's central view and that is more time is needed before pulling the trigger.

For most businesses the exact date of any RBNZ move is of little relevance. The most important message we can give them is that the cash rate is highly likely to start rising before the end of this year and that when it does so a series of increases can be expected.

In some ways, today's collection of data was disappointing as we had hoped it would help clarify a necessary course of action. As it turns out, it pushes us neither one way or the other and, in the case of the QSBO actually increases, not decreases, confusion given that the survey responses are a weighted average of pre-war and during-war sentiment.

Between now and the May 27 Monetary Policy Statement there will be plenty more data to mull over. Key amongst these will be:

- April 30 ANZ business survey which will contain only the responses of business who have had time to consider the consequences of the war.
- May 6 Q1 labour market indicators will be of interest but only to the extent they provide insight into the state of the labour market pre-war.
- May 13 RBNZ survey of inflation expectations will no doubt show further increases.
- May 15 April selected price indices will provide the baseline for the expected 2.0% quarterly surge in the Q2 CPI.
- May 15 April Performance of Manufacturing Index and May 18 Performance of Services Indices will provide further coincident data on the state of the economy.

So it's back to wait, watch and mull over the cornucopia of scenarios that are within the bounds of belief in this current crazy environment.

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