Research

Economy Watch

14 July 2026

QSBO confirms inflationary risks

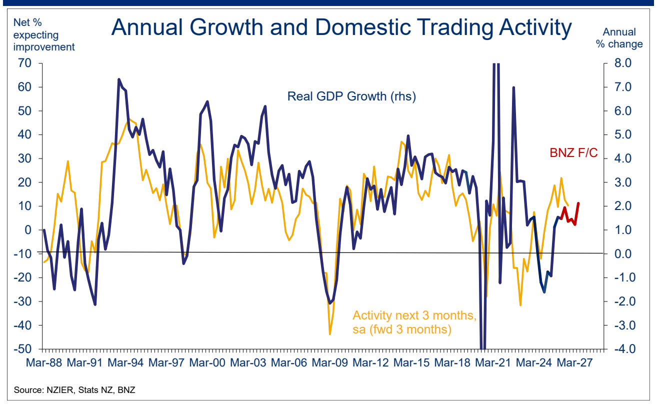
- **QSBO consistent with economic recovery**
- **Strengthens inflation warning**
- **Even before the latest escalation in Middle East tension**
- **Cost inflation profitability headwind**

We thought this morning's Quarterly Survey of Business Opinion (QSBO) would move in the 'right' direction. And, in doing so, we thought the survey would maintain an undercurrent of inflationary risks.

In the event, the real activity indicators didn't move all that much. Some edged up a bit, some down a touch. They weren't as strong as they might have been given a lot of other indicators have been pushing higher. Maybe this is because the QSBO doesn't directly survey a currently outperforming agriculture sector. However, the key point remains that the QSBO affirms a sense of economic recovery.

Reported domestic trading activity edged up to +1 from 0 and expected trading activity eased to +10 from +13. The latter maintains levels consistent with annual GDP growth of around 2% in 2026.

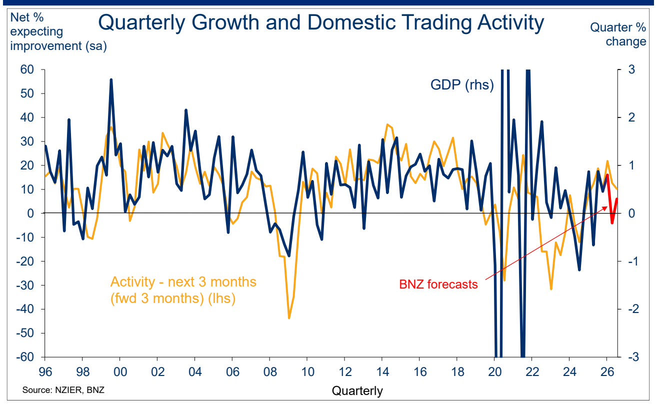
QSBO activity consistent with 2% GDP growth



Eyeballing the charts, it maintains an element of upside risk to our (and the RBNZ's) near-term GDP forecasts.

Other key activity indicators like investment and employment intentions edged upwards. This also fits with a lift in business confidence, up to +12 from +1 on a seasonally adjusted basis.

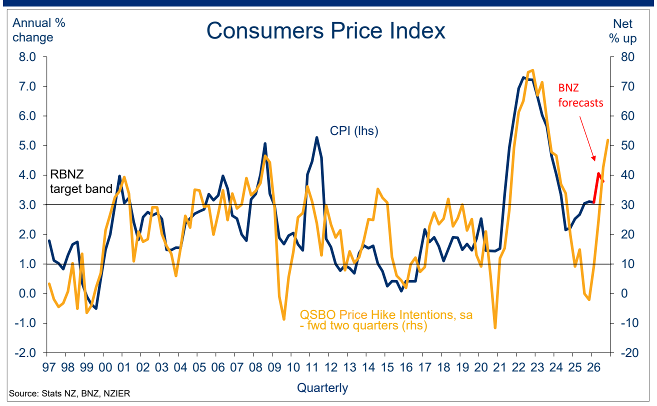
Some upside risk to growth forecasts



While the QSBO activity indicators didn't move a great deal, the survey's inflationary gauges strengthened an already stern warning.

Reported selling prices rose to +37 from +23 on a seasonally adjusted basis, while firms' pricing intentions lifted to +52 from +43. History suggests these sorts of levels would be consistent with annual inflation around 5%.

Inflation risks elevated

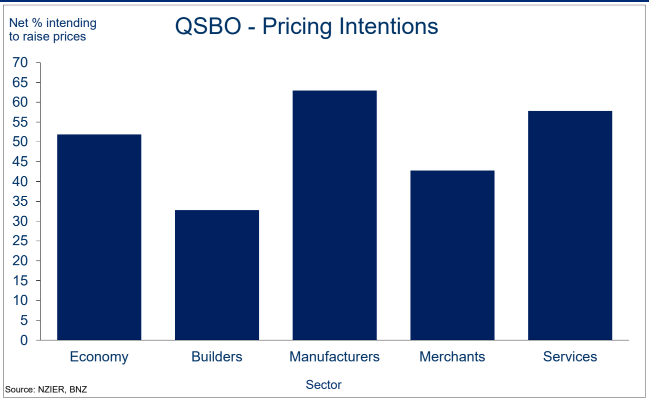


Our forecasts show annual inflation peaking at 4.1% in Q2, which is above the RBNZ's MPR forecast of 3.9%. For Q3, we forecast 3.8% for Q3, the RBNZ forecast 3.3%. Today's QSBO inflation indicators suggest the balance of risks to these near-term inflation forecasts is upward and that was before the latest escalation in tension in the Middle East and re-closing of the Strait of Hormuz and jump in oil prices.

The stronger and longer inflation remains above the RBNZ's inflation target the bigger the risk that medium term inflation expectations drift higher, and the bigger the likely economic cost there is in getting them back down.

Pricing intentions are strongest among manufacturers, at +63 on a seasonally adjusted basis, and weakest among builders at +33. The latter likely reflects the relative weakness in the construction sector at present. But even then, that sector's pricing intentions are well above average.

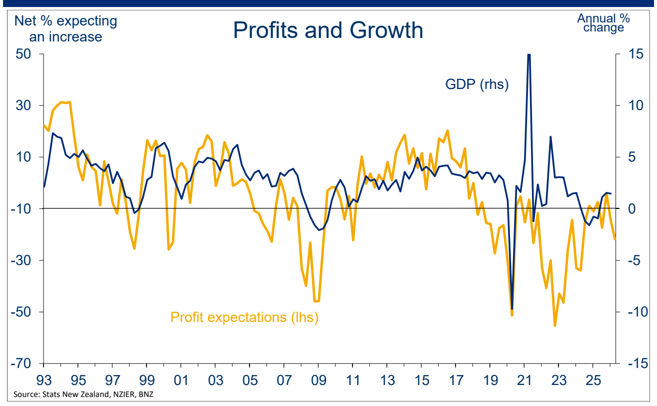
All above average



We will get more information regards Q2 CPI with Friday's Selected Prices for June, which will also set the base for Q3. Q2 CPI itself is due next Tuesday, 21 July.

The QSBO revealed accelerating cost pressures. Both reported and expected costs rose on a seasonally adjusted basis. Cost pressures continue to put downward pressure on profitability.

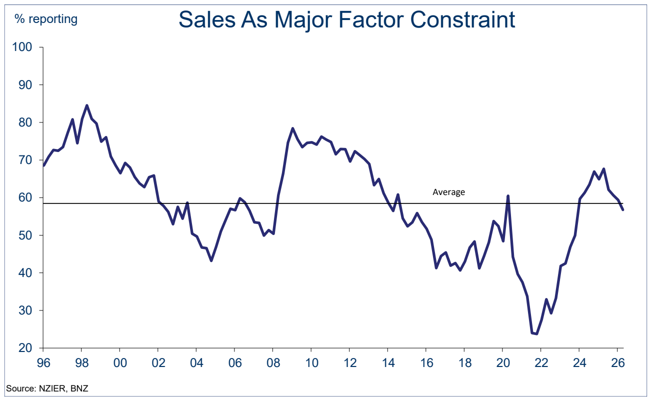
Profits pressured



While the QSBO's real activity indicators suggest there is some upside risk to our near-term GDP forecasts, profitability expectations suggest the opposite. However, it is important contemplate the cause of this. It still looks more like inflation is eroding profitability rather than a lack of demand.

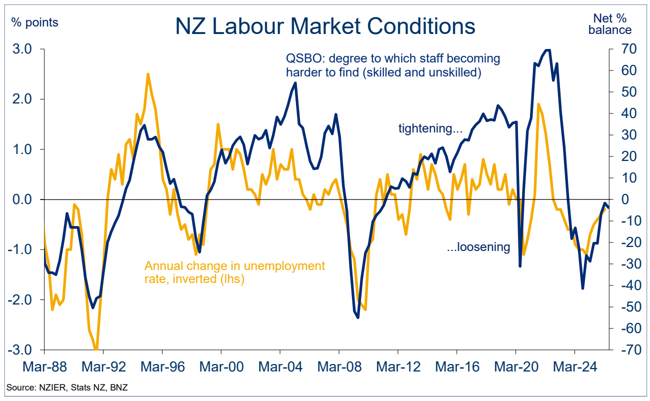
There were signs of this in the QSBO tightness indicators. Firms' reporting sales as a constraint on output continue to abate and has now dipped to just below its long-term average. That raises the question of whether the output gap is much closer to zero rather than deeply negative as most, including the RBNZ, currently see it.

Lack of demand lessening as the key problem



More generally, the QSBO tightness indicators didn't change a lot this quarter. On a seasonally adjusted basis, capacity utilisation was little changed at 91.1% and firms' reports on difficulty in finding labour edged marginally in a looser direction. The latter is consistent with our view that the unemployment rate will nudge a touch higher.

Labour market on the loosening side



In theory a negative output gap can limit the amount of cost pass through to prices. Indeed, RBNZ Chief Economist Conway reminded everyone of this in a speech today as well as going on to explain that after a prolonged period of above-target inflation, anchored inflation expectations cannot be taken for granted. Conway repeated last week's MPR line that 'some further reduction in monetary stimulus is likely to be required' and that 'how pricing setting behaviour evolves from here is a key uncertainty around that expectation'.

The QSBO, especially its inflation gauges, show where the balance of risk lies. Even if the output gap is as wide as folk estimate, the QSBO shows the extent to which cost pressures are still translating into elevated reported price increases and expectations of more ahead. That counsels more removal of monetary stimulus. We continue to expect the RBNZ to lift the OCR further.

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