

Recovery rolls on

NZIER business confidence rises in Q2

- **Business confidence rose sharply in the June quarter, led by a post-quake rebound in the Canterbury region.**
- **Business costs and prices are expected to rise, and workers are becoming hard to find. However, capacity utilisation is still well below pre-recession levels.**
- **The survey suggests the economy grew about 1% in the first half of this year, though it may understate the extent of temporary quake disruptions along the way.**

The June Quarterly Survey of Business Opinion showed the expected bounce in confidence compared to the March survey, which was held shortly after the 22 February earthquake. A sharp rebound in confidence in the Canterbury region led the way, with a more modest improvement in other parts of the country. Overall, the survey suggests that the New Zealand economy maintained the momentum that has been apparent since the start of this year (and which should be verified by the Q1 GDP release on Thursday).

As an early indicator for quarterly GDP, the QSBO probably doesn't fully capture the extent of temporary post-quake disruptions – for example, school closures in Christchurch are likely to be a sizeable drag in Q1 growth, and their return will boost Q2. But taking the last two surveys together suggests that GDP grew by about 1% in the first half of this year. That's a little higher than our current forecast, but more in line with the recovery we were flagging before the February quake. It seems the quake has had a narrower and shorter-lived impact than we initially feared.

A net 4% of firms reported an increase in their own activity in the last three months – the highest reading since December 2007, just before the recession started. Expectations for the next three months also rose sharply, though only back to the levels seen in early 2010, a period of rapid growth that

Key results – forward looking		
	Q1 survey	Q2 survey
Business confidence sa, next 6 mths	-11	31
Trading activity, sa, next 3 mths	5	20
Pricing intentions, next 3 mths	14	31
Cost expectations, next 3 mths	44	40
Profitability, next 3 mths	-22	-1
Employment intentions, next 3 mths	0	7
Building investment intentions, next 12 mths	-7	-4
Plant investment intentions, next 12 mths	0	9
Key results – backward looking		
	Q1 survey	Q2 survey
Trading activity, sa, past 3 mths	-5	4
Pricing, past 3 mths	11	16
Costs, past 3 mths	39	37
Profitability, past 3 mths	-28	-23
Employment, past 3 mths	2	-5
Ease of finding skilled labour, past 3 mths	-10	-15
Ease of finding unskilled labour, past 3 mths	15	11
Capacity utilisation	89.38%	88.73%

quickly petered out. We suspect that the growth so far this year has been at a slightly slower pace, but on more sustainable grounds.

There was a modest improvement in near-term business intentions. Building intentions remained lofty in Canterbury, in anticipation of reconstruction activity over the next year, but were fairly steady in the rest of the country. Hiring intentions rose (though actual numbers employed dipped slightly for the quarter), and intentions to invest in plant and machinery were their highest since December 2006.

Reported and expected costs remained at uncomfortably high levels, but there was an even sharper increase in intentions to raise prices – back to the level seen before last year's GST hike.

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It's also notable that, while only a net 16% of firms reported price increases in the last quarter, this exceeded the 14% who intended to raise prices in the previous survey – one of the few positive gaps in the recent history of this survey. Pricing power may be on the way back.

The other indicators of supply-side inflation pressures were mixed. Capacity utilisation fell to a two-year low – more so for builders than manufacturers, and more for exporters than non-exporters, suggesting that the softening Australian housing market may have been a factor in the latest quarter. However, capacity utilisation has remained well below boom-time levels for some time. Difficulty in finding workers continues to tighten, and indeed the scarcity of skilled workers is now nearing the levels seen during the tight labour market through much of the last decade. That's rather alarming when the unemployment rate is near an 11-year high and has hardly budged in the last year.

Market Implications

There was no market reaction to the survey, as the bounce in confidence was well flagged by other monthly business surveys.

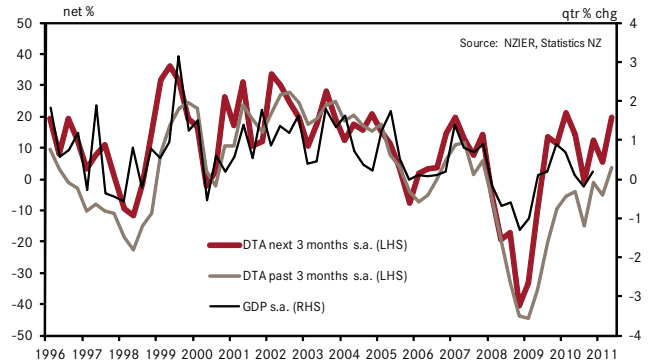
The QSBO provides further proof that the economy has been gaining momentum since the start of this year, despite the regional disruptions caused by the February earthquake. We'll have a better idea of how significant these were after Thursday's Q1 GDP release, at which point we'll review our forecasts for Q2 – but at this stage our inclination is to revise up our current pick of 0.4%.

The RBNZ indicated in the June Monetary Policy Statement that the timing of rate hikes is no longer seen as linked to the start of reconstruction in Christchurch, and will be more dependent on economy-wide data. Today's survey will give the RBNZ more confidence that the recovery is securely under way and that disinflationary pressures have passed, supporting its projection for an OCR hike in December.

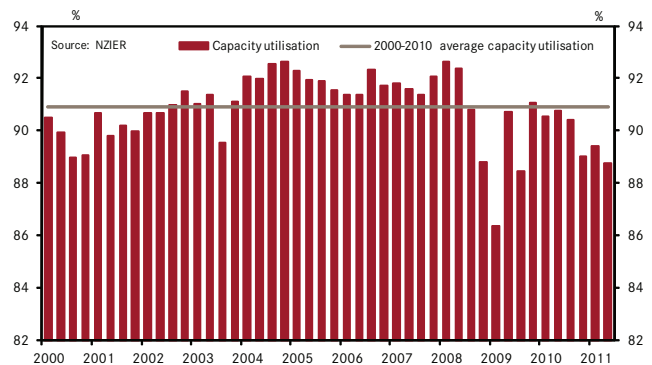
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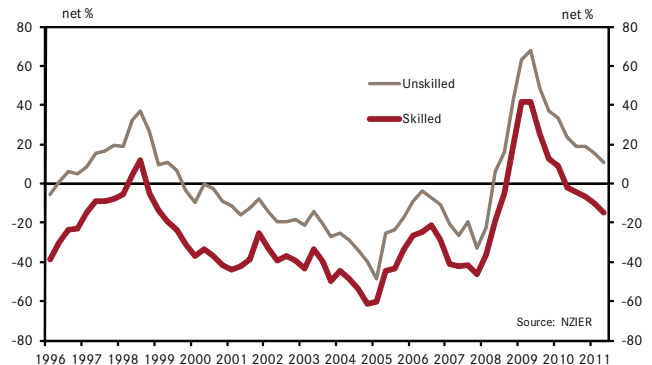
Domestic trading activity



Capacity utilisation



Firms' difficulty of finding labour



Pricing intentions vs CPI

