

Jam tomorrow

NZIER business confidence rose in Q1 but still points to slow growth

- **General business confidence rose sharply in the March quarter, although the details point to continued modest growth and subdued inflation.**
- **Momentum in the Canterbury region remains well ahead of the rest of the country as reconstruction gets under way.**
- **However, coming from a low starting point, construction is not likely to boost nationwide activity significantly until later in the year.**

Summary

The March **Quarterly Survey of Business Opinion** saw a sharp and not entirely surprising rebound in general business sentiment compared to December, when market concerns about Europe's sovereign debt crisis were at their peaks. However, the backward-looking details of the survey were more mixed, and point to a continued slow pace of growth in the early part of this year, not helped by a letdown from the Rugby World Cup boost seen in the previous two quarters.

The lift in sentiment was most pronounced for firms' own expectations of the next three months – reaching their highest level so far in this upturn. Of course, such lofty hopes could easily be dashed, as they have been consistently since the recovery began in 2009. This time at least there's a tangible reason for hope, as the long awaited post-earthquake reconstruction in Canterbury is finally under way. Nevertheless, given the current and projected pace of the ramp-up, we don't expect this to have a noticeable impact on activity at the national level until later in the year; GDP growth and inflation pressures will remain modest in the meantime.

Details

In seasonally adjusted terms, confidence about general business conditions rose from a net +1% to +24% in the March quarter, recovering most of the slide seen in the second half of last year. Firms' own-activity expectations for the next quarter also rose sharply to +24%, a new cycle high and in fact the strongest since late 2003.

However, the details of the survey showed a modest improvement at best. Reported activity for the past three months rose from -3% to 0% (the average since the start of the recovery has been -8%). Hiring and investment intentions were a touch lower, and actual and expected profits rose very slightly.

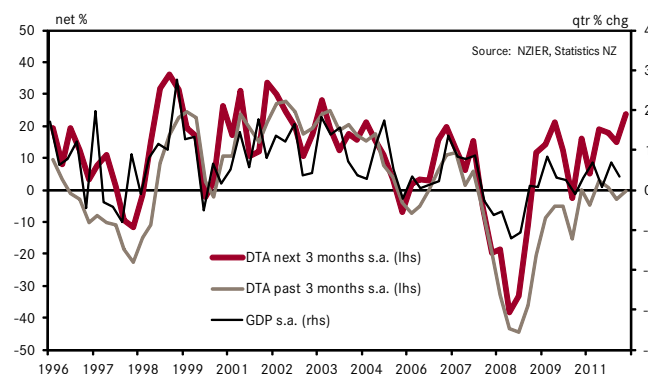
Key results – forward looking

	Q4 survey	Q1 survey
Business confidence sa, next 6 mths	1	24
Trading activity, sa, next 3 mths	15	24
Pricing intentions, next 3 mths	17	23
Cost expectations, next 3 mths	21	32
Profitability, next 3 mths	0	4
Employment intentions, next 3 mths	7	5
Building investment intentions, next 12 mths	-6	-4
Plant investment intentions, next 12 mths	0	-2

Key results – backward looking

	Q4 survey	Q1 survey
Trading activity, sa, past 3 mths	-3	0
Pricing, past 3 mths	10	11
Costs, past 3 mths	30	32
Profitability, past 3 mths	-17	-15
Employment, past 3 mths	1	1
Ease of finding skilled labour, past 3 mths	-19	-21
Ease of finding unskilled labour, past 3 mths	8	10
Capacity utilisation	90.15%	89.36%

Domestic Trading Activity



By sector, reported activity was weaker for retailers, partly due to a post-Rugby World Cup letdown (which is also apparent in the electronic card spending figures). Manufacturers reported a rebound from a sharp downturn in Q4, which may reflect the gas supply disruptions in the North Island last Oct-Nov. Builders also reported a strong pickup, although the Q4 survey had implied a sharp downturn outside of Canterbury which wasn't borne out in the GDP figures. Services activity ticked higher, reaching its highest since March 2008.

By region, Canterbury was again the standout in terms of reported activity in the last three months – another sign that confidence is not simply coasting on anticipation of the rebuild. That said, the gap narrowed to some extent compared to the December quarter, with activity less positive in Canterbury and stronger in the rest of the country.

The capacity measures told a very mixed story. Overall capacity utilisation fell, with a particularly large drop for builders – at the same time that builders reported an increase in hiring and growing difficulties in finding workers. Given that the Canterbury rebuild is only in its early stages, and that the building industry is coming from an extremely weak starting point, it makes sense that the industry would be able to mobilise capacity fairly quickly at this point.

Elsewhere, capacity utilisation was slightly stronger. The share of firms citing low sales as the main constraint on growth fell to 68%, the lowest since September 2008 (the shift was mostly into the mysterious ‘other’ category). Skilled workers became more difficult to find, although unskilled workers were slightly more plentiful for the second quarter in a row.

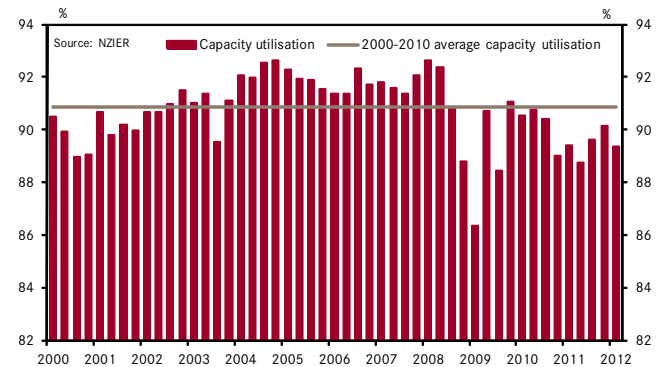
A slightly greater number of firms expected higher costs and planned to raise prices in the next three months. However, these measures remain at levels consistent with inflation remaining within the target range throughout this year.

Market implications

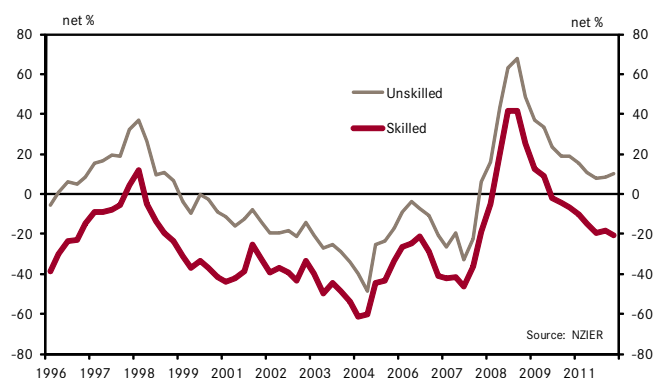
Firms’ reported activity is roughly consistent with GDP growth of 0.5% in the March quarter; as a result, we’ve revised down our preliminary estimate of 0.7%. There’s plenty of evidence within the survey that the Canterbury rebuild is gearing up, and it’s unlikely that the impact will be isolated to that segment of the economy over the next few years – see for instance yesterday’s TradeMe job ads report, suggesting that accountants are also in hot demand in Christchurch. However, we wouldn’t expect this to have a noticeable impact on national growth until later in the year, and on generalised inflation until well after that.

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Senior Economist

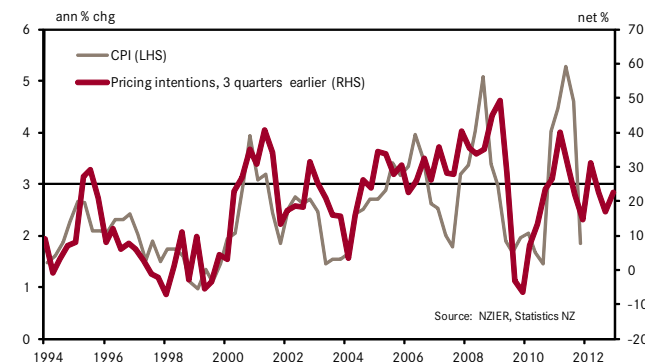
Capacity Utilisation



Firms’ difficulty in finding labour



Pricing Intentions vs CPI



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