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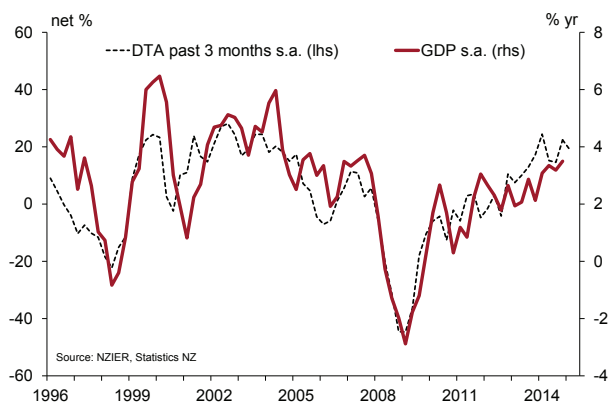
NZIER Quarterly Survey of Business Opinion, March 2015

- Business confidence pulled back slightly in early 2015, as did expectations for the coming three months. Nevertheless, today's business sentiment survey continues to point to solid growth through early 2015.
- Businesses' pricing intentions have continued to decline from already low levels. However, low inflation looks to be result of low cost pressures, rather than weakness in demand.
- While we do expect low inflation over the coming quarters, firmness in demand bodes well for an eventual – albeit gradual – lift in underlying inflation.

Business confidence pulled back slightly in the March quarter, with the *Quarterly Survey of Business Opinion* showing that a net 20% of businesses expect conditions to improve over the coming six months (down from 22% in December). Nevertheless, business confidence remains at above average levels. Importantly, while the number of businesses reporting stronger activity in their own firms did ease back in March, it continues to point to solid GDP growth in early 2015.

Looking into the details of the report, we did see some pull back in activity in the construction and retail sectors. However, we also saw a strengthening in service sector activity, and overall conditions in the economy remained robust. Businesses are reporting above average levels of hiring and investment intentions.

Domestic trading activity and GDP growth



Near-term inflation looking tame

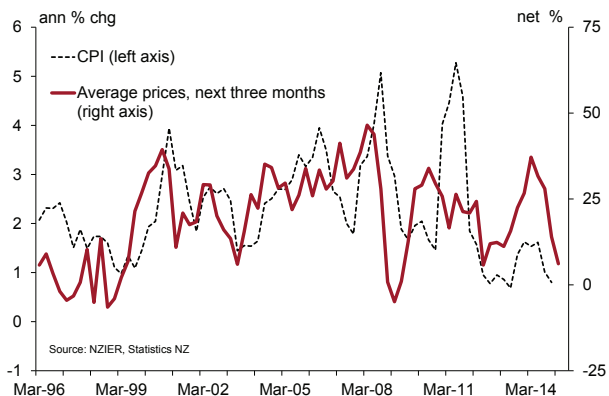
March saw a further pull back in the survey's inflation gauges. The number of business reporting that they intend to increase prices fell for a fourth consecutive quarter in March. This is consistent with our expectation for very low inflation through the first half of 2015.

But while inflation may be low, this isn't because of weakness in demand. Indeed, the number of business reporting that a lack of demand is constraining activity continued to fall in March, and is currently at very low levels. In addition, the survey's measures of capacity pressures have remained at above average levels.

Rather than a lack of demand, low inflation looks to be a result of low cost pressures. The number of business reporting cost increases continued to push down from already low levels in March.

This resilience in demand and capacity gauges is important for the RBNZ. While we are looking at a soft near-term inflation outlook, this is in large part a result of last year's sharp falls in oil prices. The RBNZ can't offset such declines and it instead focuses on longer term drivers of economic conditions. The continued strength in activity bodes well for a gradual pick-up in inflation. This will make the RBNZ feel a little more comfortable with keeping interest rates on hold in the face of headline inflation that is outside its target band.

Businesses' pricing intentions and CPI inflation



Limiting factor - demand



Satish Ranchhod
Senior Economist

Key results – forward looking

	Dec-14	Mar-15
Business confidence, next 6 mths	22	20
Trading activity, next 3 mths	22	19
Pricing intentions, next 3 mths	14	6
Cost expectations, next 3 mths	24	18
Profitability, next 3 mths	7	10
Employment intentions, next 3 mths	21	18
Building investment intentions, next 12 mths	12	16
Plant investment intentions, next 12 mths	18	23

Key results – backward looking

	Dec-14	Mar-15
Trading activity, past 3 mths	27	25
Pricing, past 3 mths	11	8
Costs, past 3 mths	24	18
Profitability, past 3 mths	-6	0
Employment, past 3 mths	18	13
Ease of finding skilled labour, past 3 mths	-33	-36
Ease of finding unskilled labour, past 3 mths	-13	-13
Capacity utilisation	92.0%	92.3%

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