

**New Zealand Institute of Economic Research (Inc)**  
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## **NZIER *Quarterly Survey of Business Opinion***

### **Economy in reverse**

NZIER's *Quarterly Survey of Business Opinion* (QSBO) shows the economy contracted in the September 2010 quarter, after stalling in June. Firms' experienced activity fell from -4% to -15% on a seasonally adjusted basis.

There was a synchronised slowdown across regions and sectors. Construction and financial services slowed most sharply. Manufacturing exports were steady at barely positive. There was no evidence of a pre-GST spend up at shops. Large firms, which had been recovering strongly, fell sharply, and small firms remained in the doldrums. Business profitability is deteriorating again; highly unusual for this stage of the recovery. This may weigh on future hiring and investment – although hiring and investment intentions remain encouragingly resilient.

"Activity contracted and expectations are being revised down. The recovery continues to disappoint optimistic expectations. Seasonally adjusted business confidence fell from 26% to -9%, the first negative reading in a year. Renewed weakness in activity, profits and a shallow recovery have depressed confidence," said Shamubeel Eaquad, Principal Economist at NZIER.

### **Inflation contained**

Actual prices charged edged up slightly (15% from 13%) but remain consistent with subdued inflation. Cost and price expectations are rising. However, firms have little pricing power and lack of demand is the key issue. Capacity pressures, which indicate medium term inflation, are mixed. Capacity utilisation of manufacturers and builders eased a touch, but remains elevated (90.4% from 90.8%). Capacity as a constraint on the other hand remains at a historically low level.

### **Labour market resilient**

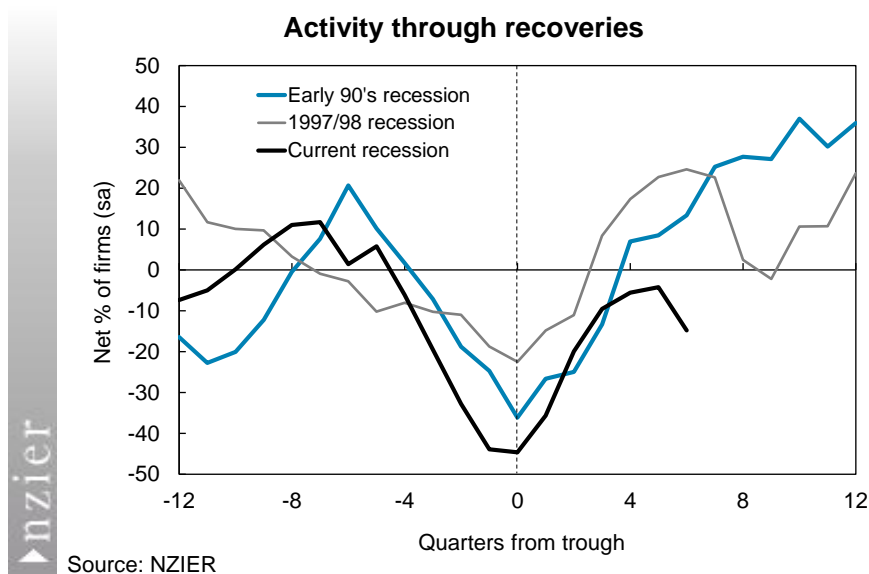
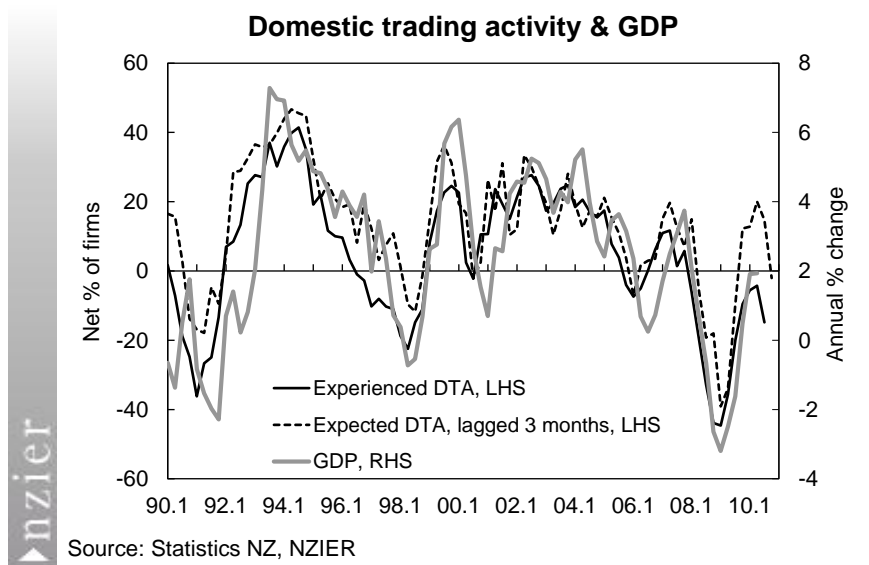
Labour market indicators remain resilient. Actual hiring eased a touch (-12% from -7%), but is still consistent with improving hiring. Labour is generally becoming harder to find (but a little easier in construction and retailing), which will support wage growth over the next year.

### **No Canterbury earthquake effects apparent in survey**

The survey results do not show a discernible impact of the 4 September 2010 M7.1 Canterbury earthquake. Canterbury responses fell by 20%.

### **RBNZ on hold**

Renewed economic weakness, distant inflationary pressures and a fragile global setting will see the RBNZ hold the OCR steady until early 2011.



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<b>Summary of key results</b>							
Net % of firms* that experienced/ expect an increase in:		Sep-09	Dec-09	Mar-10	Jun-10	Sep-10	Long run avg.
<b>Domestic trading activity (s.a.)</b>	-Past quarter	-20	-10	-6	-4	-15	11
	-Next quarter	12	13	20	15	-2	14
<b>Domestic trading activity (actual)</b>	-Past quarter	-21	-5	-7	-7	-16	11
	-Next quarter	23	11	15	11	9	15
<b>General business situation</b>	-Actual	36	31	22	18	6	-8
	-Seasonally adjusted	21	22	36	26	-9	-8
<b>Numbers employed</b>	-Past quarter	-29	-18	-15	-7	-12	-6
	-Next quarter	0	1	2	1	5	-2
<b>Ease of finding labour</b>	-Skilled	25	13	9	-2	-4	-16
	-Unskilled	48	37	33	23	19	16
<b>Capacity utilisation</b>		88.42%	91.07%	90.54%	90.76%	90.39%	88.90%
<b>Average costs</b>	-Past quarter	19	15	20	24	29	46
	-Next quarter	16	21	25	36	38	45
<b>Average selling prices</b>	-Past quarter	-5	4	13	13	15	28
	-Next quarter	13	24	27	40	30	33
<b>Profitability</b>	-Past quarter	-39	-14	-19	-16	-30	-18
	-Next quarter	-3	-2	-2	-6	-14	-7
<b>Investment intentions</b>	-Buildings	-16	-15	-5	-8	-10	-15
	-Plant & machinery	-8	-2	9	0	0	-2

\*The net percent of respondents is obtained by subtracting the percentage of respondents saying "down" from those saying "up" and dividing the value by a corrective factor (100 minus the percent of "N/A" responses). That is:  

$$\frac{((up - down)/(100 - N/A)) \times 100 = net\ percent.}$$

## Background

*The New Zealand Institute of Economic Research has conducted its Quarterly Survey of Business Opinion since 1961. It is New Zealand's longest-running business opinion survey. Each quarter we ask around 3500 firms about whether business conditions will deteriorate, stay the same, or improve. The responses yield information about business trends much faster than official statistics and act as valuable leading indicators about the future state of the New Zealand economy. Long term series derived from the survey are held at the NZIER and are available to NZIER members via our website at [www.nzier.org.nz](http://www.nzier.org.nz).*