

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

QSBO shows a stalling recovery

NZIER's *Quarterly Survey of Business Opinion* (QSBO) shows signs of a stalling recovery in the June 2010 quarter.

Of concern is a renewed weakness in manufacturing, construction, and investment intentions. Small firms – which tend to lead the economic cycle – experienced deteriorating conditions in the June 2010 quarter.

"Firms are less optimistic as the economy has yet again failed to deliver on expectations of a strong recovery. Seasonally adjusted business confidence eased from 36% to 28%. The recovery may be stalling. The outlook is still fragile," said Shamubeel Eaqub, Principal Economist at NZIER.

Inflationary pressures subdued

Pricing indicators were flat, indicating subdued inflation in the economy. Pricing intentions and cost pressures are building, but firms' pricing power is low given weak demand. Elevated pricing intentions may also reflect a raft of one-off policy measures (the ETS, ACC levies and GST).

Capacity utilisation of manufacturers and builders remained elevated (90.8% from 90.5%). But this was concentrated in the export-focused building materials sector. Non-exporters, the main driver of domestic inflation, report historically low capacity utilisation.

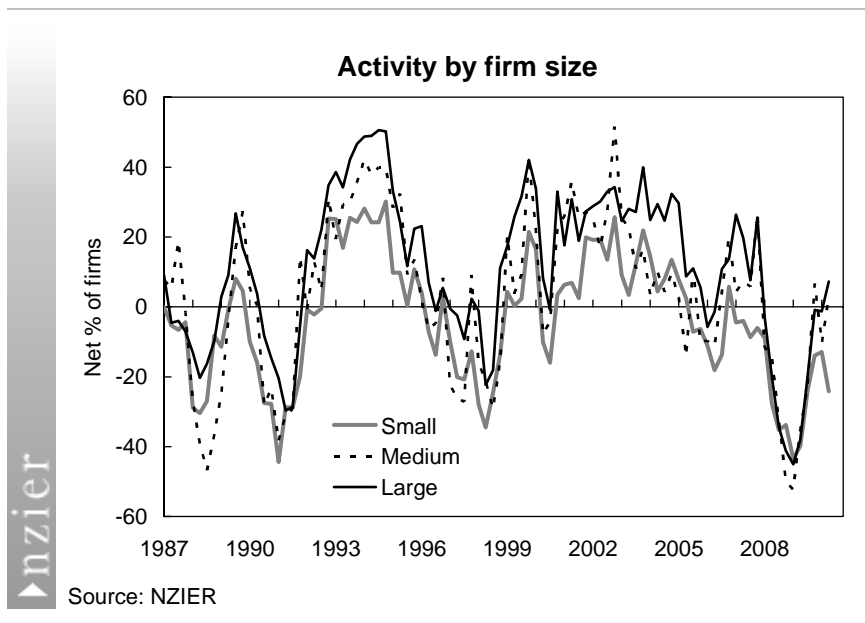
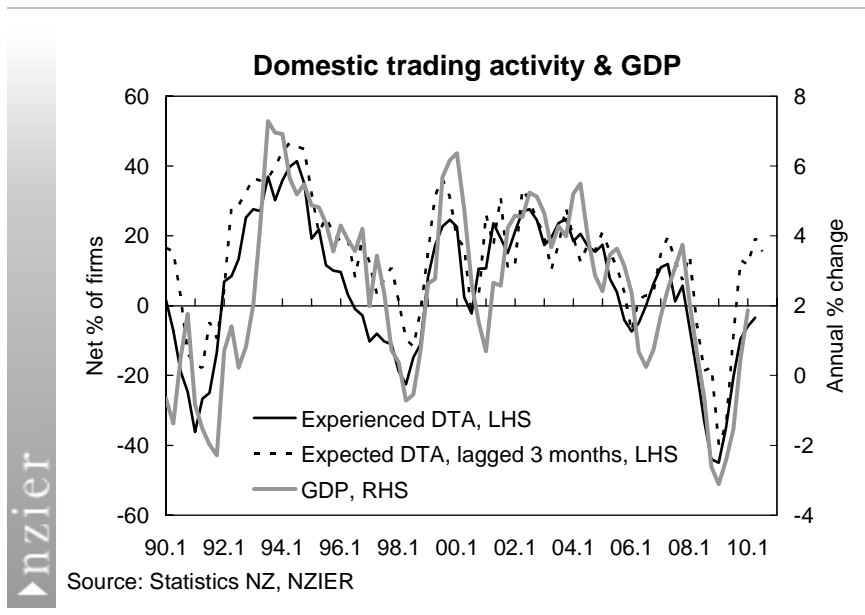
Improving labour market

Labour market indicators continue to improve. Job shedding eased (-7% from -15%) and labour is becoming harder to find. However, hiring intentions are not picking up. The lagged effects of labour market weakness will dampen wages for at least another year.

Cautious environment for the RBNZ

Signs of a stalling recovery are worrying. At this stage of the cycle we would normally see the economy recovering strongly. Slowing momentum of global economic growth and financial market dislocation add risks to the economic outlook.

In this environment the RBNZ needs to take care not to stifle already anaemic domestic demand and derail a fragile export recovery.



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Summary of key results						
Net % of firms* that experienced/ expect an increase in:	Jun-09	Sep-09	Dec-09	Mar-10	Jun-10	Long run avg.
Domestic trading activity (s.a.)						
-Past quarter	-35	-20	-10	-6	-3	11
-Next quarter	-9	13	12	19	16	15
Domestic trading activity (actual)						
-Past quarter	-38	-21	-5	-7	-7	11
-Next quarter	-13	23	11	15	11	15
General business situation						
-Actual	-25	36	31	22	18	-8
-Seasonally adjusted	-15	23	20	36	28	-8
Numbers employed						
-Past quarter	-31	-29	-18	-15	-7	-6
-Next quarter	-19	0	1	2	1	-2
Ease of finding labour						
-Skilled	42	25	13	9	-2	-16
-Unskilled	67	48	37	33	23	16
Capacity utilisation	90.70%	88.42%	91.07%	90.54%	90.76%	88.89%
Average costs						
-Past quarter	25	19	15	20	24	46
-Next quarter	17	16	21	25	36	45
Average selling prices						
-Past quarter	-1	-5	4	13	13	28
-Next quarter	7	13	24	27	40	33
Profitability						
-Past quarter	-44	-39	-14	-19	-16	-18
-Next quarter	-24	-3	-2	-2	-6	-7
Investment intentions						
-Buildings	-29	-16	-15	-5	-8	-15
-Plant & machinery	-23	-8	-2	9	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: $((up - down)/(100 - N/A)) \times 100 = net\ percent.$

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.