Research
Economy Watch

8 April 2025

QSBO Suggests Almost Zero Inflation

- **Firms pricing intentions soften, despite cost pressure**
- **Profitability remains challenging**
- **Activity weak, expectations of some improvement**
- **Survey period before recent global angst**
- **Supportive of further OCR reduction**

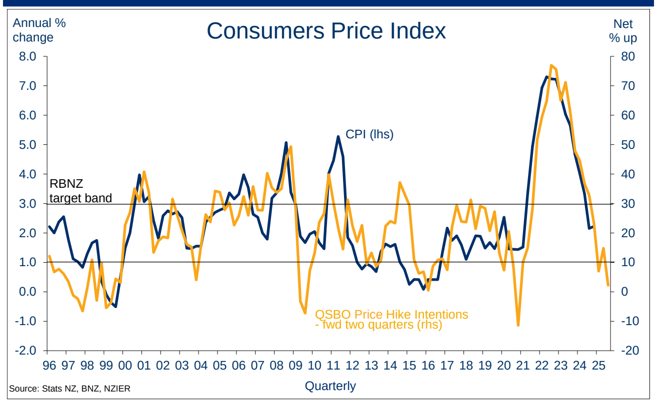
At one level, whatever today’s Quarterly Survey of Business Opinion (QSBO) reported it was going to come with a caveat that it predates the recent financial market carnage set off by a major policy shift in the US. But it does outline the state of play before that. All responses came in by the end of March, ahead of President Trump’s ‘Liberation Day’.

The QSBO points to weak current activity, expectations of some improvement, but less selling price inflation.

Businesses are facing cost pressure, although those indicators are not far from long term averages. And some of the cost pressure may well relate to a softer NZD. But what is clear in the QSBO is that firms are finding it very difficult to pass higher costs on.

A net 8% of firms reported increasing their selling prices over the past three months. This is very low by historical comparison and well below its long term averaged of 25. Even further below long term norms was a net 2% of firms intending to raise prices over the coming three months.

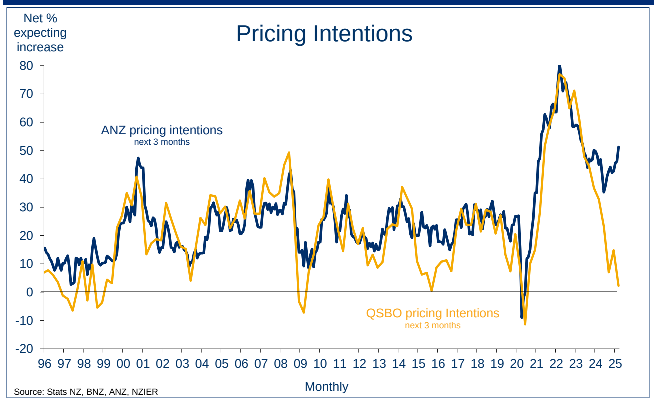
Big downside risk



That gives this survey a strong disinflationary tone. On past relationships to annual CPI inflation, it points to a risk that inflation drops below the bottom of the RBNZ’s target band and even towards zero! No one, including us, is forecasting anything like this.

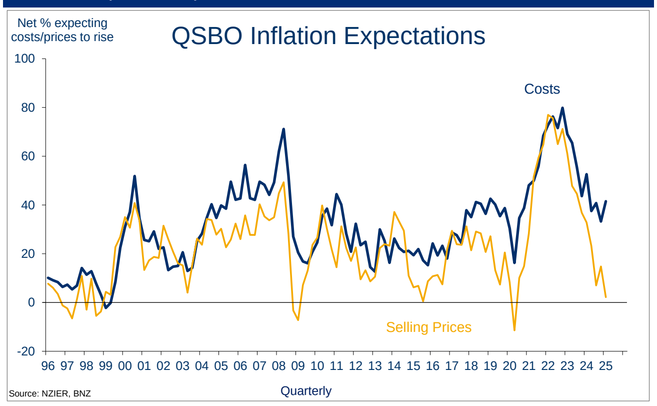
The QSBO pricing intentions are in direct contrast to the equivalent measure in the monthly ANZ survey. We favour the QSBO measure as a better guide to CPI inflation. If the RBNZ was nervous about the ANZ measure on the top side, there is as much to worry about in the QSBO pricing intentions on the downside.

Parting ways



To blur the picture further, the global situation can generate competing forces on the outlook for inflation and warrants close monitoring, including various country’s retaliation measures, fiscal responses, negotiations, and currency reactions. While there is lots to watch there, the QSBO message of limited ability of NZ firms to pass on cost pressures is important to acknowledge.

Cost and price expectations



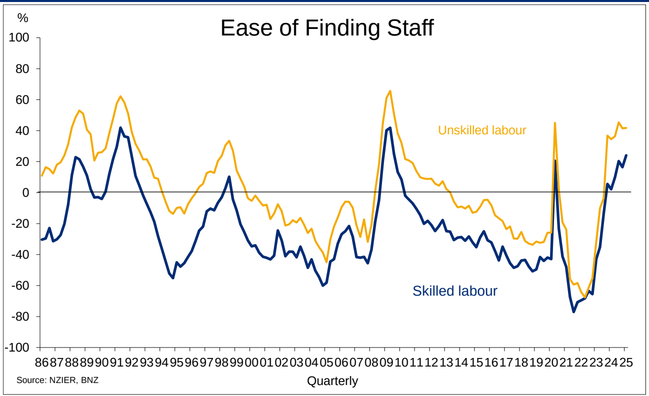
On balance, there seems nothing here to stand in the way of further interest rate reduction, while continuing to monitor the rapidly evolving global situation.

The balance between costs and pricing sees profitability remaining under pressure. Profitability measures, both reported and expected, remain negative and below long-term norms.

We should note that the QSBO does not directly survey agriculture – a sector that is generally outperforming on the back of recent strength in commodity prices. While this is likely to be a damper on this survey relative to others, the long and strong history of the QSBO's guidance suggests it should not be ignored.

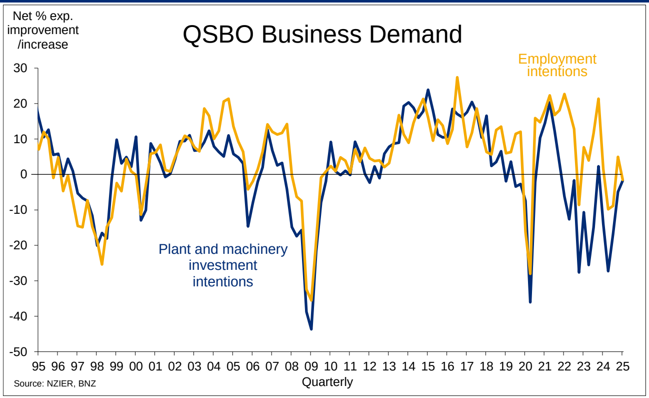
Clear signs of a material negative output gap remain with firms reporting it easier to find both skilled and unskilled labour. Capacity utilisation eased to 90.5% from 91.3% overall, albeit with higher readings for manufacturers and lower outcomes for builders. Sales as a factor constraint eased a touch, although remains above average indicating demand is more slack than strong. All that looks consistent with downward pressure on medium term inflation.

Labour easier to find



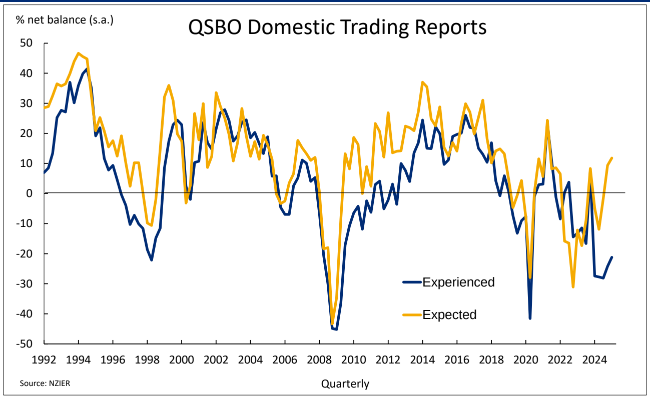
For a business community facing into the likes of excess spare capacity and margin pressure, it is no surprise to see subdued employment intentions. Reported employment remains negative and intentions dipped. Along with firms reporting labour easier to find, this fits with our view that the unemployment rate will nudge a bit higher and above what the RBNZ anticipates.

Subdued



Firm's reports of domestic trading activity remain very weak. A net 21% of firms reported less activity in the first quarter of the year. While marginally less bad as the 24% reporting declines a quarter ago, it is still significantly below long-term norms and is not at all indicative of economic slack being eroded.

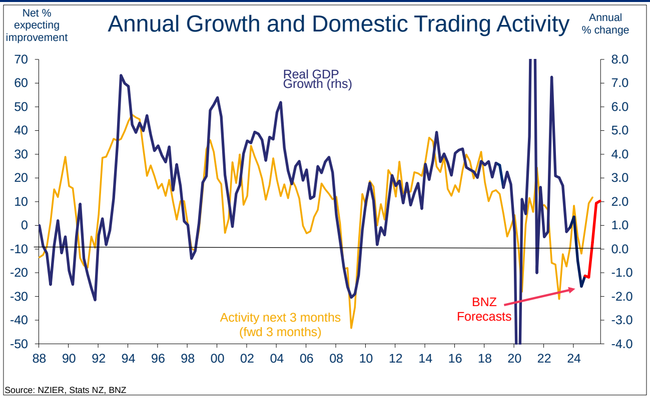
Activity very weak, expectations positive



Somewhat more encouraging is that firm's activity expectations improved to +12 from +9. This is close to its long-term average of +13.

The activity indicators are broadly in line with our growth forecasts. However, that was before the recent US policy announcements and associated severe wobbles on global markets which look like a material headwind to global and NZ growth ahead. While we continue to monitor developments offshore, all we can realistically conclude at this point is that our forecasts for growth this year are at risk of being dampened or delayed.

Indicative of some growth ahead



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