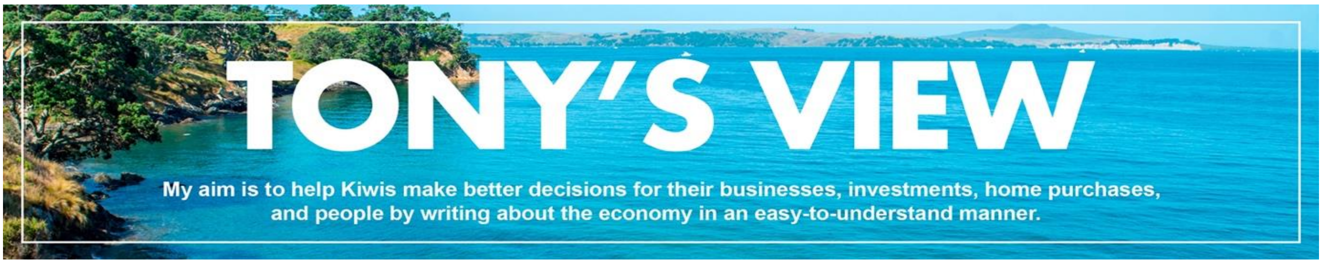

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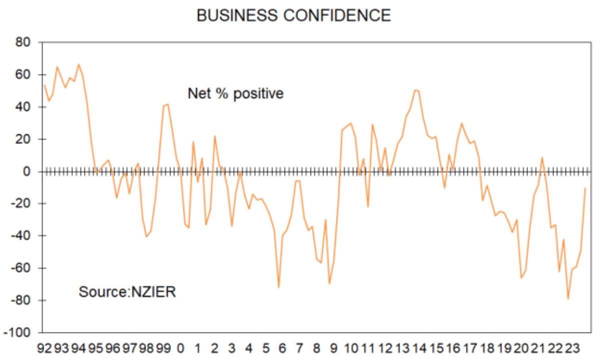
Business confidence up for 2024

Business confidence as measured by the NZIER's long-running Quarterly Survey of Business Opinion improved firmly late in the final quarter of 2023 to a net 10% of non-farm businesses feeling bad about the next six months. This is up from a net 49% feeling pessimistic in the September quarter but still a negative result only just above the average for the past decade of -16%.

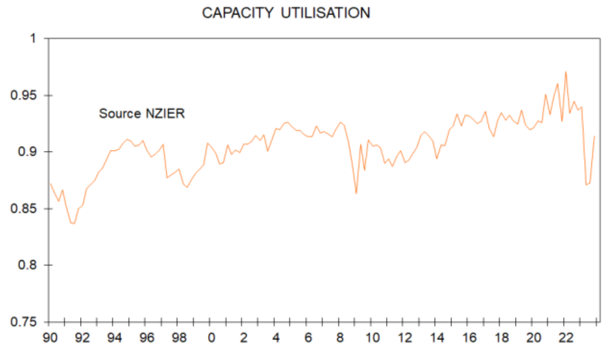


This outcome tells us that it is wrong to think in terms of NZ being on a downward spiral. But it is also wrong to think about economic growth improving much this year. Improvement is going to be more of a story for 2025 when the continuing restraint from very tight monetary policy becomes a lot less than it is now.

And it is in the inflation area that we have greatest interest in the QSBO most of the time and especially now. Almost all of the measures we economists look at to get a feel for where inflation is going showed improvement in the December quarter. But let's start with one that didn't.

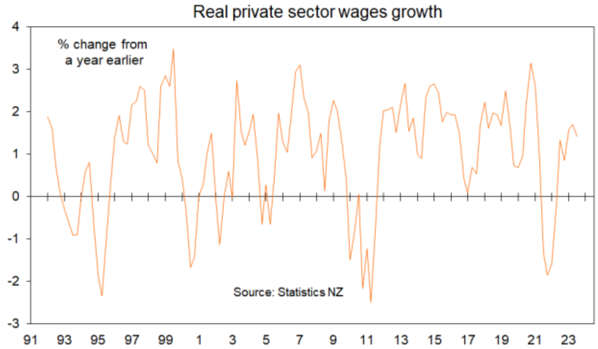
The capacity utilisation rate – roughly best thought of as the proportion of machinery in use – jumped from 87.3% in the September quarter to 91.4%. The ten year average is 92.8% so the cost pressures on businesses from running at high levels of activity are not that great. But the number has increased and on the face of it this can be used by the Reserve Bank to justify its signals to banks not to pass on lower wholesale funding costs into lower rates which they charge to Kiwi borrowers.

The trouble however is that this capacity utilisation measure has been going all over the place recently and this latest movement should be treated with caution. It is very unlikely that the true rate has been changing as implied by the survey this past year.



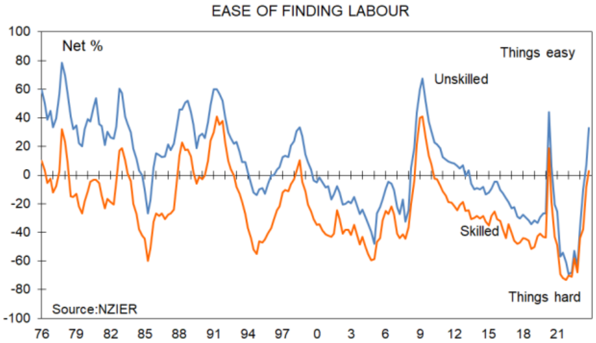
Given the new unreliability of the capacity utilisation measure the gauges of stress in the labour market assume greater importance, especially in light of the strong rate of wages growth in New Zealand in recent years.

Much is made of the fact that average consumer prices have risen by 19% from where they were at the end of 2019. But average wages have gone up by 25% in the private sector delivering growth in real wages consistent with the long-term trend. The cost of living “crisis” is only being experienced by those with weak bargaining power and that is one reason why high inflation should be avoided. It leads to greater stratification of spending power in society between those able to keep up and those not in such strong positions.



Key to having our central bank feel confident that inflation is going back comfortably into the 1% - 3% target range is a sharp slowing of wages growth. The survey results from NZIER suggests we should be getting into such a period about now.

The net proportion of businesses saying that they are finding it easy to get unskilled labour has just risen to a 14 year high of 33%. The September quarter result was 7% and a year before a net 64% of businesses were saying unskilled staff were hard to find. This is a very stark shift in labour market dynamics and something only seen before in the context of a crisis – the GFC and the pandemic.

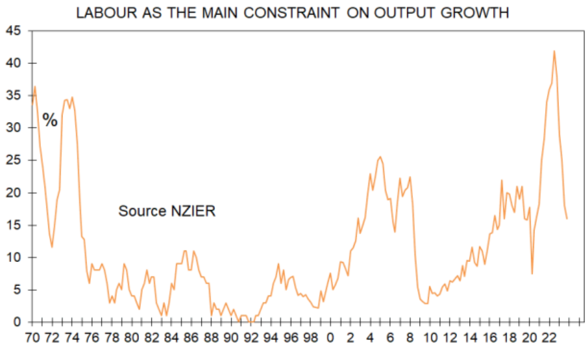


The net proportion of businesses saying that they are finding it easy to get skilled staff has improved to 3% from a net 8% finding it hard last quarter and a net 68% having difficulties a year earlier. Again, as shown by the orange line in the graph above, the shift is stark.

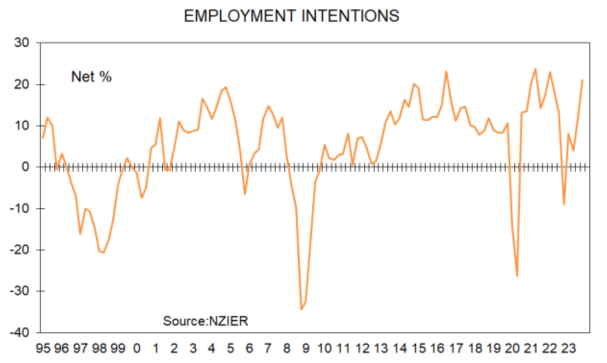
Wages growth is set to slowdown but when we get sudden shifts in labour availability as has occurred recently one can place little faith that old relationshiops between tightness and resulting wages growth will play out. Hence again, strong reason for the Reserve Bank to be cautious.

This is especially so when we consider the proportion of businesses saying that lack of labour is the main constraint on their ability to grow output. This proportion only fell 2% in the December quarter to hit 16%. But this is well down from 38% a year earlier and below the 20% average.

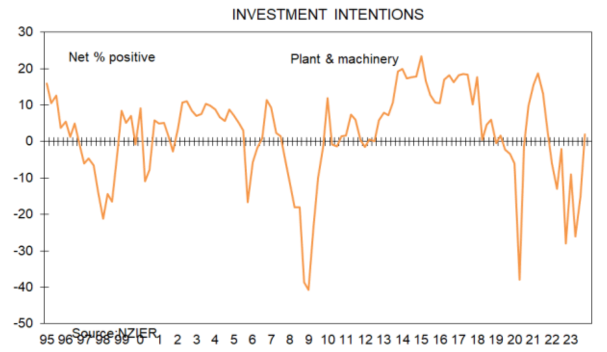
So, the labour market is definitely easier than average. But we await to see how much this will cause the pace of wages growth to slowdown.



What about where the unemployment rate may be headed? My view remains 5% at worst even though the migrant boom is producing a lot of excess staff. The net proportion of businesses planning to hire more staff improved to 21% from 12% in the previous quarter. This is above the 12% ten year average and supports the case for our economy growing this year.



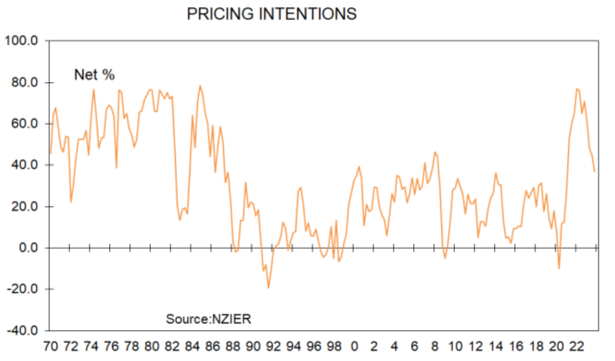
But the QSBO again shows why we should not be confident about much if any improvement in New Zealand's rate of productivity growth in the near future. The net proportion of businesses planning to boost investment in plant and machinery improved only to 2% which is below the 5% ten year average. However, this is a sharp rise from -15% the previous quarter and -28% a year ago. Hopefully the change in government will allow further gains in this measure.



Finally, let's have a direct look at the cost and pricing measures which so far I've not mentioned.

A net 23% of businesses on average in the past decade have said that they raised their selling prices. The latest result is a net 37% saying they have done so. This is down from 56% the previous quarter and 67% a year earlier. The direction of change is good. But the level is still too high.

The same comment has to be made about pricing intentions. On average over the past decade a net 29% of businesses responding in the QSBO have said they plan raising their prices. The latest result is a net 37% saying they plan to do so. This is down from 45% the previous quarter and 71% a year earlier. But the result is still too much above average for anyone to be able to reasonably expect any decent easing signal from the Reserve Bank anytime soon.



For now, banks will feel quite comfortable running extra large margins on their mortgage lending, knowing that the central bank is not going to press them to restrain the profits they'll be shipping across the Tasman in the near future.

In case you missed it

No new survey results until my mortgage adviser survey results next week then real estate agents after that.

If I were a borrower, what would I do?

I've nothing much to write here this week. The data from NZIER were good for rates in that they showed a substantial easing in labour market pressures and lower pricing intentions by businesses. But the capacity utilisation rate edged up along with business expectations for employment and their activity levels.

The release had no impact in the market and mainly this week rates have been moved around a bit by fluctuations in the United States. The latest fluctuation has been upward in response to some stronger than expected economic data causing the more optimistic traders to pull in their horns a tad regarding rates falling six times in the US this year.

After the little ups and downs we end this week with the one year swap rate which banks pay to borrow fixed for lending fixed one year near 5.28% from 5.34% last week and also a month ago. The three year swap rate is now near 4.46% from 4.52% last week and 4.48% a month ago.

If I were borrowing at the moment I would either float and wait for lower rates or do what I tend not to favour because of the hassle and fix for just six months.

Nothing I write here or anywhere else in this publication is intended to be personal advice. You should discuss your financing options with a professional.