

ANZ New Zealand Business Outlook

25 February 2021



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Contact

Sharon Zollner for more details. See [page 6](#).

The next preliminary *Business Outlook* comprising early-February results at an economy-wide level will be released on 9 March 2021 at 1pm. The next standard full-month release of the ANZ *Business Outlook* is due on 31 March at 1pm.

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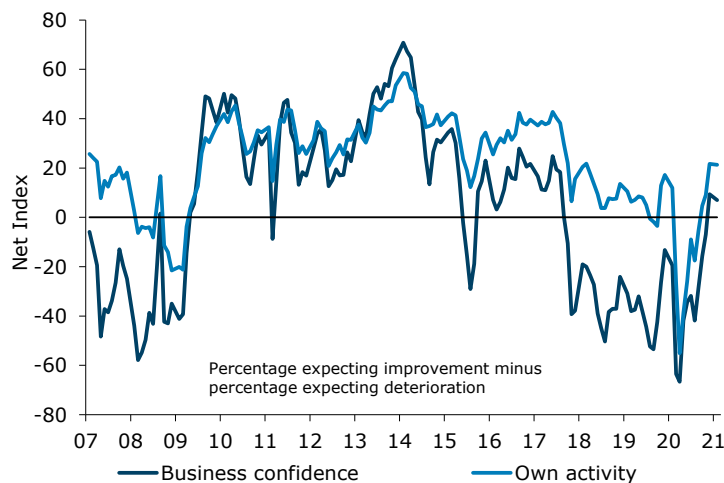
Steady

Key points

- Headline business confidence fell a couple of points to net 7.0%, while firms' own activity outlook eased 1 point to 21.3%.
- Most indicators are slightly lower than their preliminary readings, likely influenced by the snap lockdown.
- Expected profitability fell in every sector except construction.
- Inflation pressures continue to build. Freight disruptions are worsening, and are most severe for the retail sector (inward) and manufacturing (outward).

The bounce in business sentiment and activity indicators has flattened out, as was always inevitable and isn't alarming. The levels remain solid, but the consolidation is consistent with our view that the economy will go through a flatter period this year as the real costs of pandemic and the closed border start to be more broadly felt.

Figure 1. ANZ Business Confidence Index and ANZ Own Activity Index



Source: ANZ Research

Turning to the detail, compared to December:

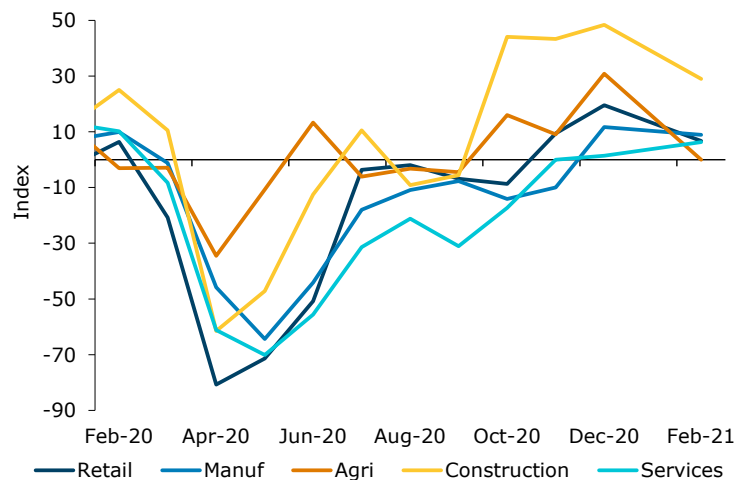
- Business confidence fell 2 points to net 7.0%.
- Firms' own activity outlook eased 1 point to 21.3%.
- Investment intentions lifted 7 points, to 15.6%.
- Employment intentions lifted 2 points, with a net 10.6% of respondents planning to hire more staff.
- Firms are busy on the whole, with capacity utilisation up 6 points to 15.3%. The construction sector is the busiest by far.
- Inflation pressure is rising. Cost expectations rose 15 points to a net 71.9% of respondents reporting higher costs. A net 46.2% of respondents intend to raise their prices, a historically very high level. General inflation expectations rose to 1.76%.

- A net 1.3% of firms expect higher profits, down from 6.8% in December.
- Export intentions 5 points to a net 5.1%.
- A net 31% of firms expect credit to be harder to get.
- Residential construction intentions jumped a massive 32 points, with a net 52.2% of firms expecting higher activity. Commercial construction firms' intentions eased 2 points, with a net 27.3% of firms expecting higher activity.

Compared to the preliminary February results, most indicators were lower, but the data was likely influenced by the fact that the automated reminder email that brings a clump of responses was sent out in the middle of the 3-day snap lockdown period.

A question asking firms about their current level of activity compared to the same month a year earlier was added to the survey only a little over a year ago, but shows the dynamics of the COVID-19 period very clearly (figure 2). Retail and services, affected the most by both lockdowns and the closed border, fell into the deepest hole and had a later bounce and a smaller overshoot. Manufacturing has been middle of the road. Construction is booming. And agriculture has had the smoothest ride over the past year.

Figure 2: Activity vs. same month a year earlier



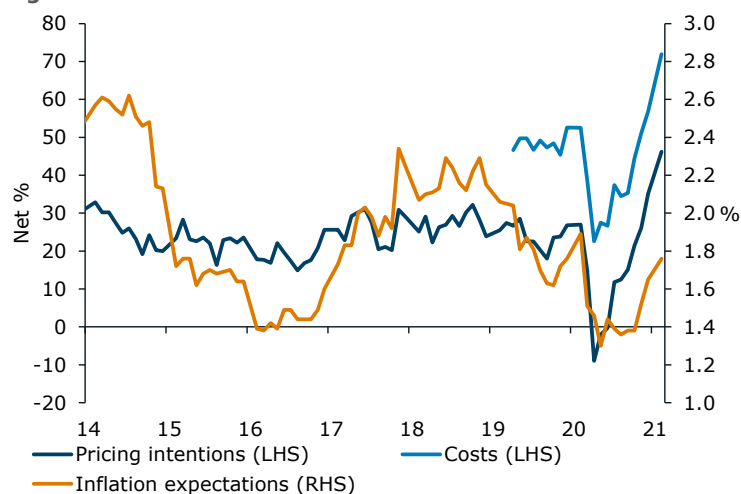
Source: ANZ Research

There is little sign of inflationary pressures abating as yet (figure 3). A jaw-dropping net 67% of retailers expect to raise their prices, and 63% of manufacturers.

On the cost side, 90% of those in the agriculture sector, and more than 80% of manufacturers and those in construction expect higher costs.

Retail sector inflation expectations have cracked the 2% mark for the first time since April 2019.

Figure 3: ANZBO inflation indicators



Source: ANZ Research

Our usual heat map of both levels and changes on a standardised basis (Table 1) shows:

- There has been a sharp downturn in agriculture activity versus a year ago compared to a strong result in December, accompanied by a decent fall in the sector’s activity, export and profit outlook too.
- Expected ease of credit remains unusually low, but it’s improving.
- Costs and pricing intentions are very high, and are continuing to rise, most markedly in manufacturing and construction.
- Construction is by far the most upbeat and busiest sector though its overshoot versus activity levels a year ago is starting to wane.
- Last month activity and employment versus a year ago were consistently green in level terms across the board. This overshoot is now dissipating, which is very consistent with the likes of the Truckometer indexes.

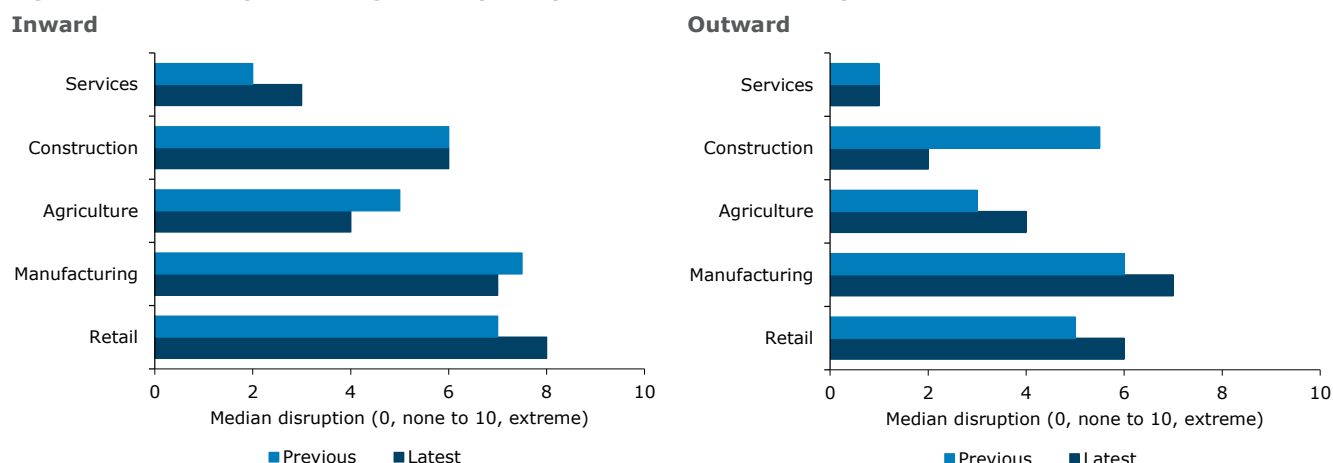
Table 1. Heatmap of monthly levels and changes

	Levels					Monthly change				
	Retail	Mfg	Agri	Constrn	Services	Retail	Mfg	Agric	Constrn	Services
Business Confidence	15.6	3.6	-38.1	12.9	10.8	5.8	-8.1	0.4	-13.8	-3.5
Activity Outlook	13.3	10.7	0.0	41.9	24.7	-3.8	-7.3	-15.4	3.2	2.9
Activity – vs one year ago	6.7	8.9	0.0	29.0	6.3	-12.8	-2.8	-30.8	-19.4	4.9
Exports	3.4	10.9	-5.3	0.0	2.4	-12.6	-2.8	-18.3	0.0	-3.8
Investment	17.8	14.8	-9.5	23.3	16.3	7.8	8.1	-1.8	-2.5	8.6
Capacity Utilisation	14.0	12.7	0.0	26.7	15.4	1.5	4.1	-4.0	6.0	8.0
Residential Construction	...	...	...	52.2	...	...	...	...	32.2	...
Commercial Construction	...	...	...	27.3	...	...	...	...	-1.9	...
Employment	-4.4	12.5	-10.0	45.2	9.0	-2.0	2.7	1.5	9.7	0.0
Employment – vs one year ago	-20.0	-12.5	4.8	19.4	-2.6	-15.0	-4.2	-2.9	-3.2	9.9
Profits	-6.8	0.0	-33.3	29.0	2.5	-9.2	-3.3	-17.9	9.6	-8.4
Ease of Credit	-28.9	-32.7	-23.8	-25.8	-33.1	7.7	5.0	14.7	16.1	8.4
Costs	75.6	80.4	90.0	80.6	63.7	9.7	27.1	9.2	22.5	13.4
Pricing Intentions	66.7	62.5	9.5	54.8	36.9	13.0	29.2	-5.9	12.9	4.9

Note: the colour coding is based on standardised values that take into account the historical average and variation in each series, eg “agriculture sector employment intentions”. So if, for example, a series is low compared to others but that’s not unusual, it is less likely to be marked in red. The history of the activity and employment versus a year ago is unfortunately too short for historical comparisons to be meaningful but the data is included for completeness.

This month provided our second read on the impacts of inward and outward freight disruptions (figures 3 and 4). Inward freight disruptions worsened for retail and services, but improved for agriculture and manufacturing. Outward freight disruptions are generally less of a problem, but worsened for agriculture, manufacturing and retail.

Figure 4: Median reported freight disruption (0, none, to 10, extreme)



Source: ANZ Research

Our take

2021 will not be an easy year for the New Zealand economy. We are absolutely better off than most, and will have less economic scarring, making our economy more resilient. But the overshoot in demand resulting from the disruptions of 2020 is beginning to dissipate, and we expect the economy to go broadly sideways for a while as it digests the national income hit from the decimated tourism industry and as the housing market cools to something more sustainable. We have a lot going for us, but we're not going to get away scot-free.

Survey Results February 2021

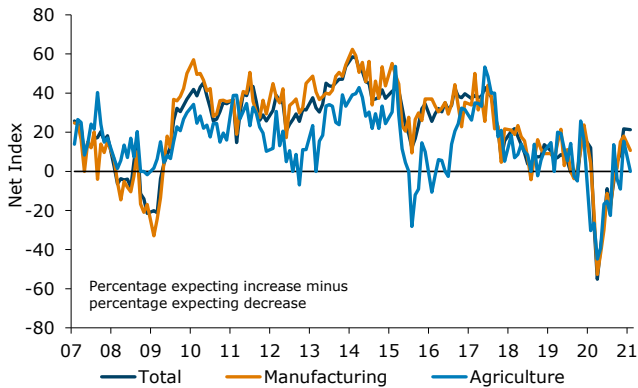
Net Balance	February	Prelim. February	Previous (December)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	7.0	11.8	9.4	15.6	3.6	-38.1	12.9	10.8
Own Activity Outlook	21.3	22.3	21.7	13.3	10.7	0.0	41.9	24.7
Export Intentions	5.1	6.3	10.3	3.4	10.9	-5.3	0.0	2.4
Investment Intentions	15.6	17.8	8.6	17.8	14.8	-9.5	23.3	16.3
Cost Expectations	71.9	71.1	56.8	75.6	80.4	90.0	80.6	63.7
Capacity Utilisation	15.3	16.2	9.3	14.0	12.7	0.0	26.7	15.4
Residential Construction	52.2	52.9	20.0	...	...	...	52.2	...
Commercial Construction	27.3	20.0	29.2	...	...	...	27.3	...
Employment Intentions	10.6	10.6	8.8	-4.4	12.5	-10.0	45.2	9.0
Profit Expectations	1.3	0.5	6.8	-6.8	0.0	-33.3	29.0	2.5
Pricing Intentions	46.2	47.9	35.1	66.7	62.5	9.5	54.8	36.9
Ease of Credit Expectations	-31.0	-28.8	-40.1	-28.9	-32.7	-23.8	-25.8	-33.1
Inflation Expectations (%)	1.76	1.8	1.65	2.09	1.99	1.97	1.65	1.60
Activity – vs. same month one year ago	9.2	12.3	12.7	6.7	8.9	0.0	29.0	6.3
Employment – vs. same month one year ago	-3.5	-4.6	-4.9	-20.0	-12.5	4.8	19.4	-2.6

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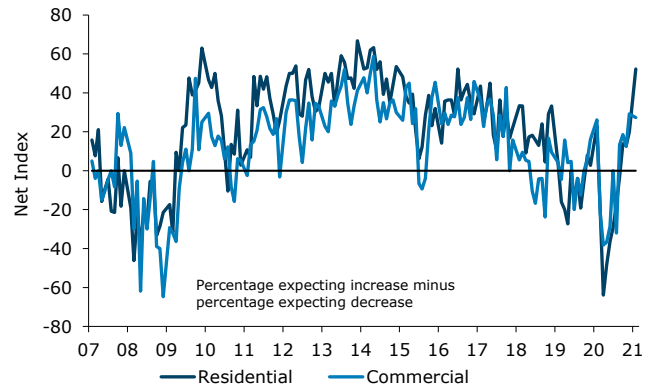


Charts

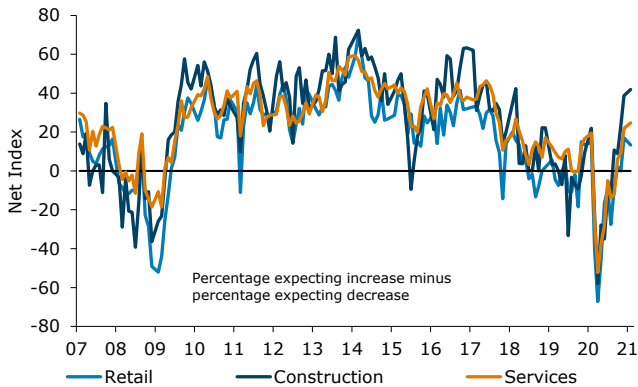
Activity outlook index



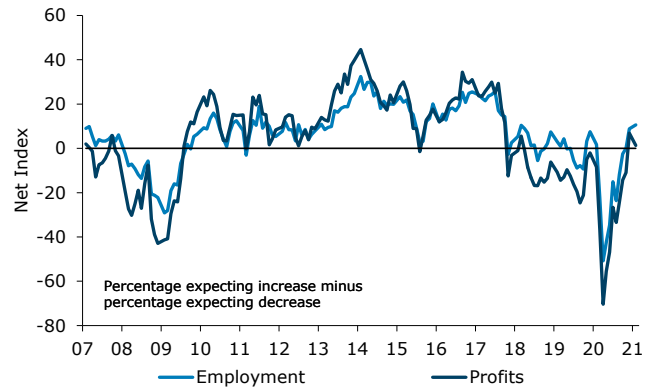
Construction intentions



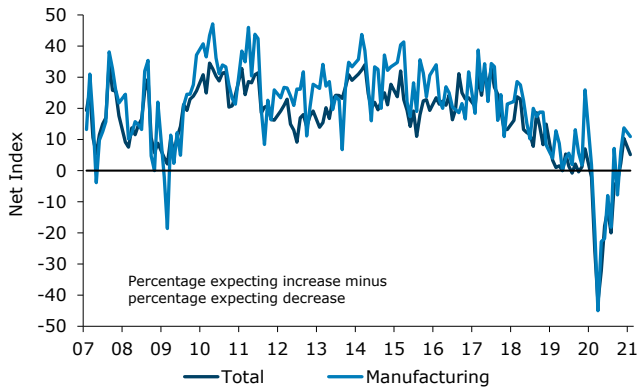
Activity outlook index



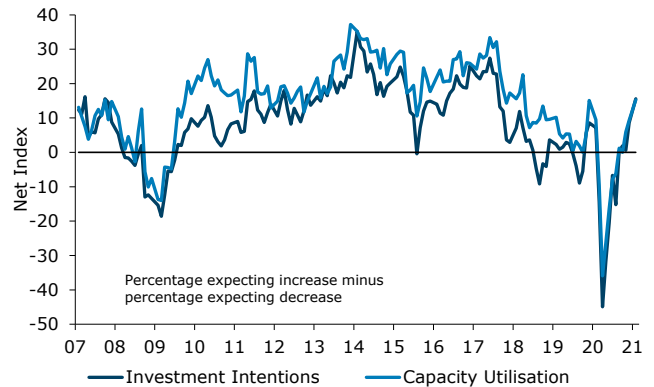
Employment and profit outlook



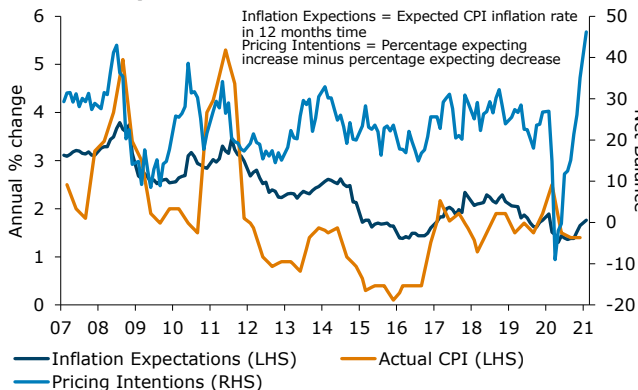
Export sales volumes



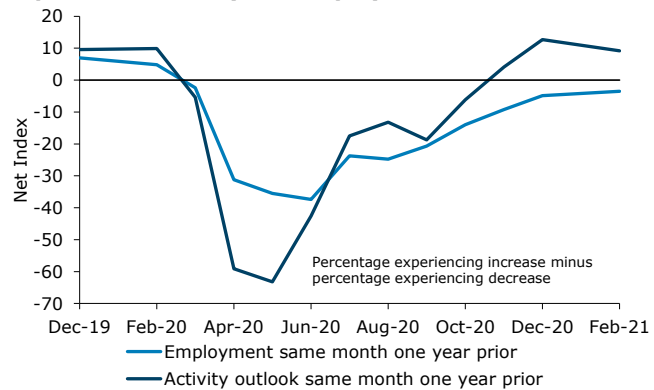
Investment intentions and capacity utilisation



Inflation expectations



Experienced activity and employment



Source: ANZ, Statistics NZ



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[1 February 2021]

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