

ANZ New Zealand Business Outlook

31 March 2021



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Contact

Sharon Zollner for more details.

See [page 7](#).

The next preliminary *Business Outlook* comprising early-month results at an economy-wide level will be released on 8 April 2021 at 1pm. The next standard full-month release of the ANZ *Business Outlook* is due on 29 April at 1pm.

If you would like to take part in our business survey, we'd love to hear from you.

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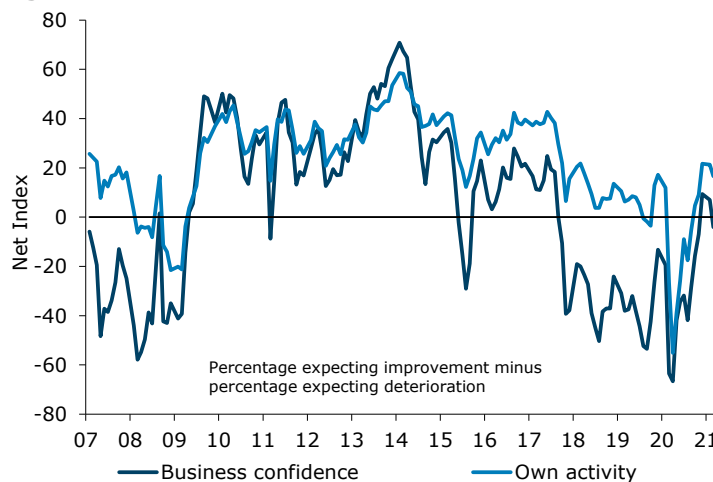
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Key points

- Compared to February, headline business confidence fell 11 points to a net -4%, while firms' own activity outlook fell 4 points to 17%.
- All forward-looking activity indicators were lower in the second half of the month. The preliminary results would not have captured the full lockdown impact.
- The construction sector reported being much less busy, though they still had the strongest activity expectations across the economy.
- Inflation pressures remain strong.

Business sentiment and activity indicators ticked down in March, consistent with our view that the economy would start to struggle a bit more as the lack of tourists reached its seasonal cash-flow peak impact and the unsustainable bounce in retail spending started to dissipate. The levels remain relatively robust but may have peaked for now.

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



Source: ANZ Research

Turning to the detail, compared to February:

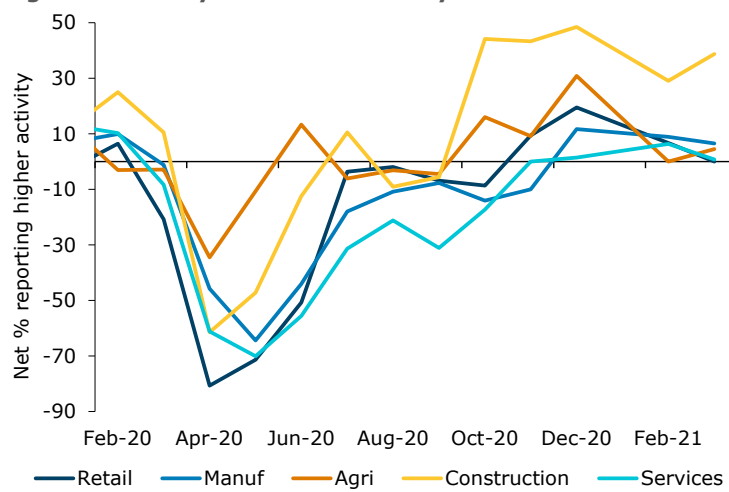
- Business confidence fell 11 points to net -4.1% (prelim: 0.0%).
- Firms' own activity outlook fell 4 points to 16.6% (prelim: 17.4%).
- Investment intentions fell 4 points to 11.9% (prelim: 14.4%).
- Employment intentions lifted 4 points to 14.4% (prelim: 16.0%).
- Capacity utilisation was little changed at 14.6% (prelim: 16.6%).
- Inflation pressure remains high. Cost expectations rose 1 point to a net 73.3% of respondents reporting higher costs (prelim: 73.9%). A net 47.3% of respondents intend to raise their prices, a historically very high level. General inflation expectations rose to 1.97% (prelim: 1.95%).

- Firms are more-or-less equally divided on whether profits will rise or fall from here at 0.6% (prelim: +1%).
- Export intentions were little changed at a net 4.5% (prelim: +6.0%).
- A net 40.3% of firms expect credit to be harder to get (prelim: -39%).
- Residential construction intentions fell 20 points, with a net 32% of firms expecting higher activity. Commercial construction intentions fell 5 points, with a net 22% of firms expecting higher activity.

Compared to the preliminary March results, all activity indicators were lower, but the early results may not have captured the full lockdown impact.

When it comes to firms' current level of activity compared to a year earlier (figure 2), construction remains the outlier, with other sectors back to par.

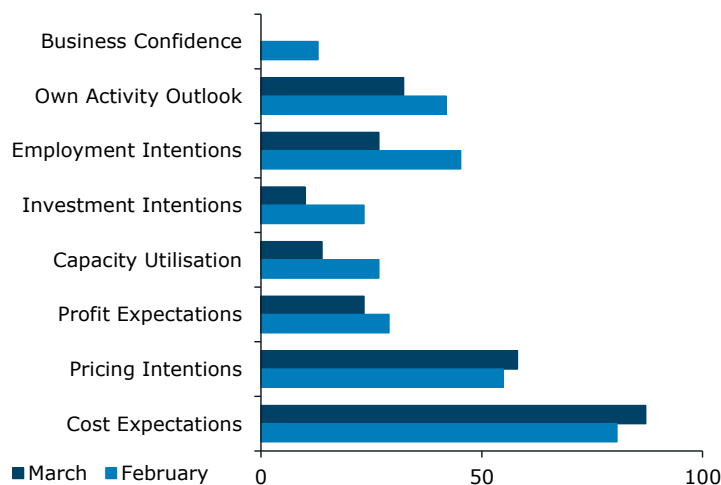
Figure 2: Activity vs. same month a year earlier



Source: ANZ Research

However, there were signs of moderation in the construction sector, with decent falls across a range of activity indicators (particularly employment), while cost pressures continue to build.

Figure 3: Construction sector indicators – March vs. February

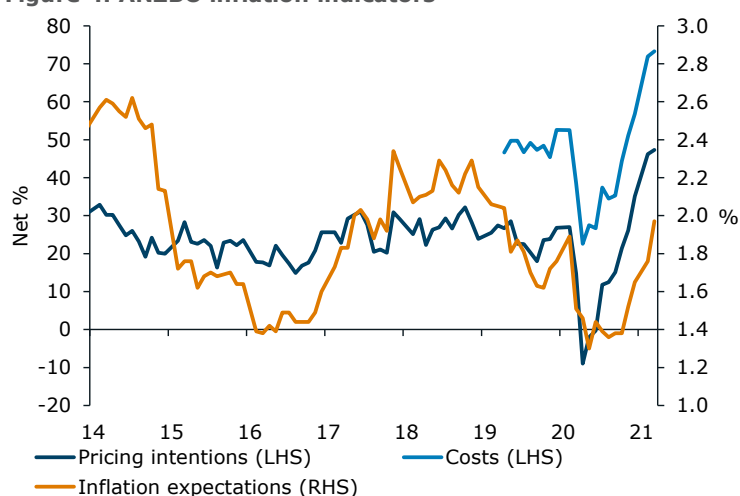


Source: ANZ Research

More generally across the economy, there is little sign of inflationary pressures abating as yet (figure 4, over). Retailers' pricing intentions dropped back from net 67% to 49%, still a very high level, and 65% of manufacturers and 58% of

construction firms intend to raise their prices. And more than 80% of firms in the construction, manufacturing and agriculture sectors expect higher costs.

Figure 4: ANZBO inflation indicators



Source: ANZ Research

Our usual heat map of levels and changes on a standardised basis (Table 1) shows clearly that while the construction sector remains the most positive, it deteriorated the most by far in March compared to February. And that's despite the fact that it certainly would not have been the sector most impacted by the snap lockdowns.

The fall in retail and services activity indicators, on the other hand, may well be related to the lockdowns. We'll find out next month by whether they bounce back.

The agriculture sector indicators improved the most, likely influenced by higher dairy prices. And finally, cost expectations and pricing intentions stick out like a sore thumb.

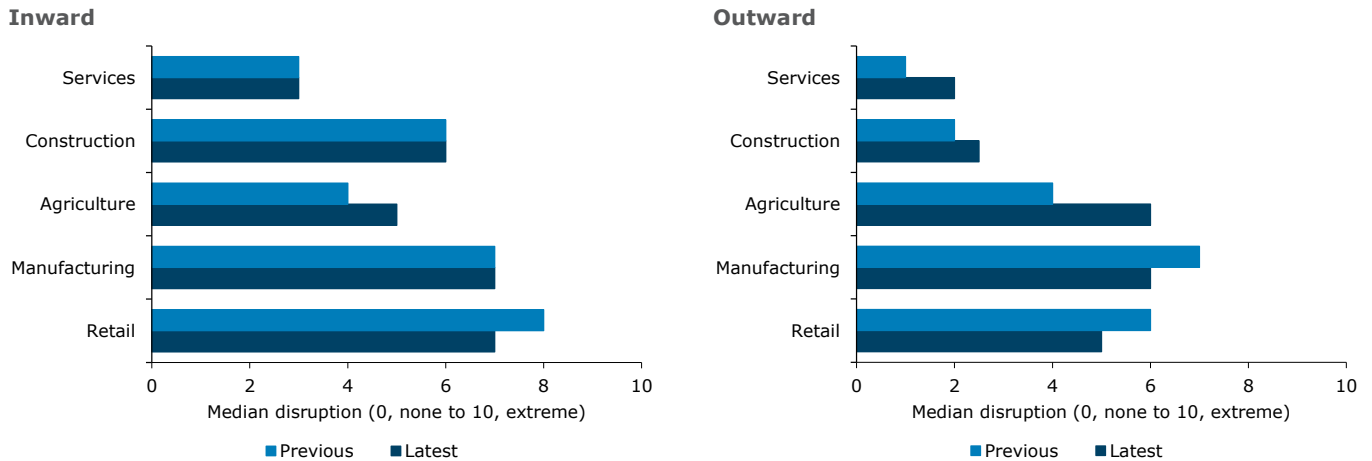
Table 1. Heatmap of monthly levels and changes

	Levels					Monthly change				
	Retail	Mfg	Agri	Constrn	Services	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-4.1	4.8	-22.7	0.0	-6.0	-19.7	1.2	15.4	-12.9	-16.8
Activity Outlook	14.3	24.2	9.1	32.3	11.8	1.0	13.5	9.1	-9.6	-12.9
Activity – vs one year ago	0.0	6.5	4.5	38.7	0.7	-6.7	-2.4	4.5	9.7	-5.6
Exports	3.4	12.2	0.0	-7.7	3.5	0.0	1.3	5.3	-7.7	1.1
Investment	14.6	16.7	13.6	10.0	8.8	-3.2	1.9	23.1	-13.3	-7.5
Capacity Utilisation	4.3	20.3	9.5	13.8	17.0	-9.7	7.6	9.5	-12.9	1.6
Residential Construction	...	...	...	31.8	...	...	...	...	-20.4	...
Commercial Construction	...	...	...	21.7	...	...	...	...	-5.6	...
Employment	12.5	19.7	0.0	26.7	12.2	16.9	7.2	10.0	-18.5	3.2
Employment – vs one year ago	-22.4	-1.6	13.6	16.1	-2.7	-2.4	10.9	8.8	-3.3	-0.1
Profits	-14.3	0.0	9.1	23.3	-2.6	-7.5	0.0	42.4	-5.7	-5.1
Ease of Credit	-32.7	-33.9	-27.3	-29.0	-49.3	-3.8	-1.2	-3.5	-3.2	-16.2
Costs	69.4	83.6	81.8	87.1	67.5	-6.2	3.2	-8.2	6.5	3.8
Pricing Intentions	49.0	64.5	31.8	58.1	40.4	-17.7	2.0	22.3	3.3	3.5

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.

Freight disruptions remain problematic (figures 4 and 5). Inward freight disruptions are most problematic for manufacturing and retail, though the latter improved slightly. Outward freight disruptions are generally less of a problem, but are worst for agriculture (and worsened considerably over the month) and manufacturing.

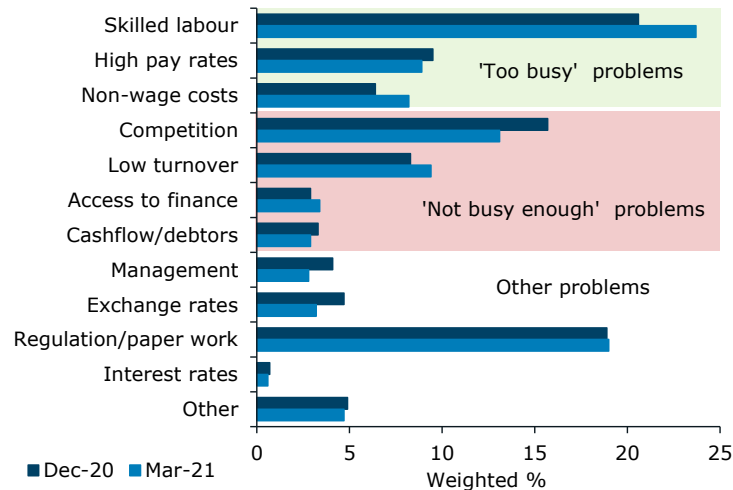
Figures 5 and 6: Median reported freight disruption (0, none, to 10, extreme)



Source: ANZ Research

Every three months we also ask firms about their biggest problems. In March, firms reported that finding skilled labour remains their largest problem (and it's getting worse) followed by regulation/paperwork and competition (though this improved). Low turnover is in fourth place, though a decent step back.

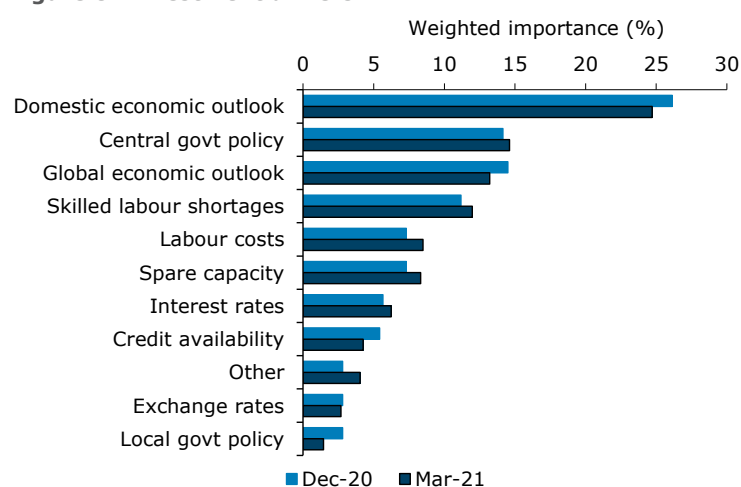
Figure 7. Firms' largest reported problems



Source: ANZ Research

We also ask firms every three months about what's driving their investment decisions. Unsurprisingly the domestic economy remains a clear #1, but in terms of changes compared to three months ago, spare capacity and labour costs are becoming more important, while credit availability is slightly less of a driver.

Figure 8: Investment drivers



Source: ANZ Research

¹ 3 points for a 1st ranking, 2 for 2nd and 1 for 3rd, rebased to sum to 100.

Our take

The March snap lockdowns make Business Outlook data a little harder to interpret. However, it is consistent with our view that as the demand overshoot wanes and the tourists are missed more and more, the economy will go largely sideways this year. The quicker cooling we now expect in the housing market plays into this theme as well. The vaccine rollout and the subsequent border re-opening will be game-changers, though it won't be click-of-a-switch stuff. But there's a path to the new normal, whatever precisely that looks like, and we're on it. We'll be keeping an eye on construction for possible bumps in the road.

Survey Results March 2021

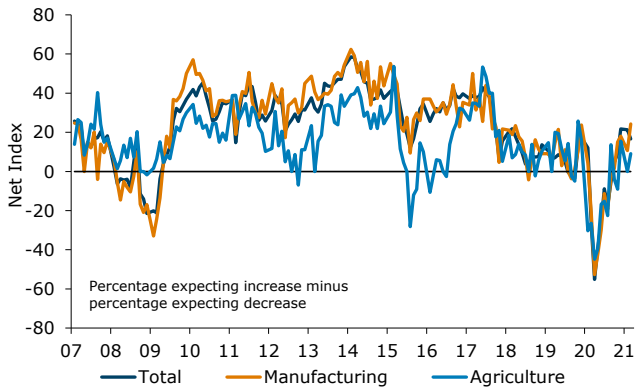
Net Balance	March	Prelim. March	Previous (February)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-4.1	0.0	7.0	-4.1	4.8	-22.7	0.0	-6.0
Own Activity Outlook	16.6	17.4	21.3	14.3	24.2	9.1	32.3	11.8
Export Intentions	4.5	6.0	5.1	3.4	12.2	0.0	-7.7	3.5
Investment Intentions	11.9	14.4	15.6	14.6	16.7	13.6	10.0	8.8
Cost Expectations	73.3	73.9	71.9	69.4	83.6	81.8	87.1	67.5
Capacity Utilisation	14.6	16.6	15.3	4.3	20.3	9.5	13.8	17.0
Residential Construction	31.8	...	52.2	...	...	...	31.8	...
Commercial Construction	21.7	...	27.3	...	...	...	21.7	...
Employment Intentions	14.4	16.0	10.6	12.5	19.7	0.0	26.7	12.2
Profit Expectations	-0.6	0.5	1.3	-14.3	0.0	9.1	23.3	-2.6
Pricing Intentions	47.3	48.9	46.2	49.0	64.5	31.8	58.1	40.4
Ease of Credit Expectations	-40.3	-38.8	-31.0	-32.7	-33.9	-27.3	-29.0	-49.3
Inflation Expectations (%)	1.97	2.0	1.76	2.10	2.22	2.00	1.72	1.85
Activity – vs. same month one year ago	5.7	7.6	9.2	0.0	6.5	4.5	38.7	0.7
Employment – vs. same month one year ago	-2.5	-4.1	-3.5	-22.4	-1.6	13.6	16.1	-2.7

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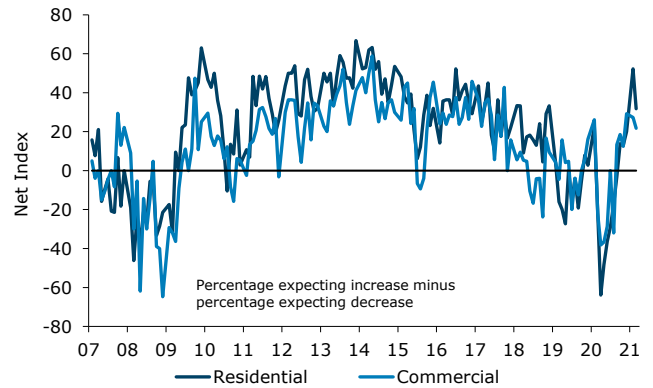


Charts

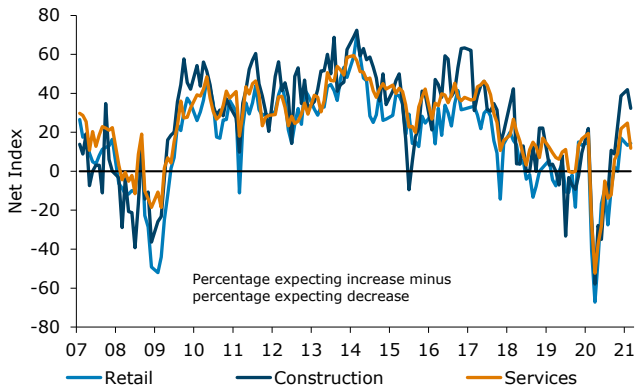
Activity outlook index



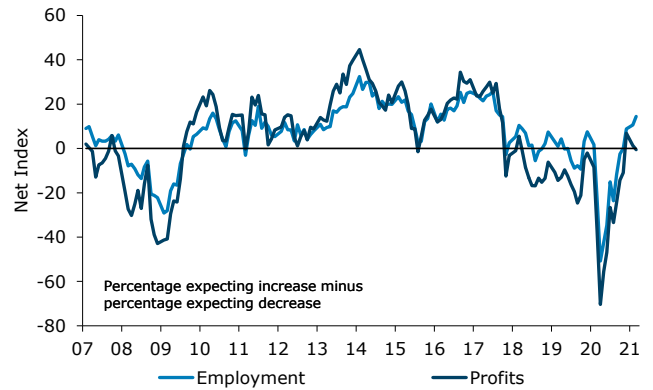
Construction intentions



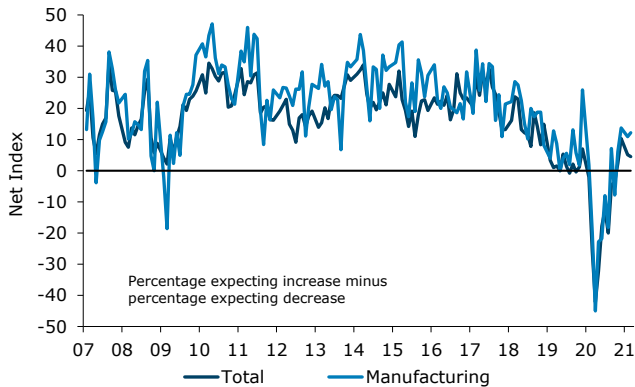
Activity outlook index



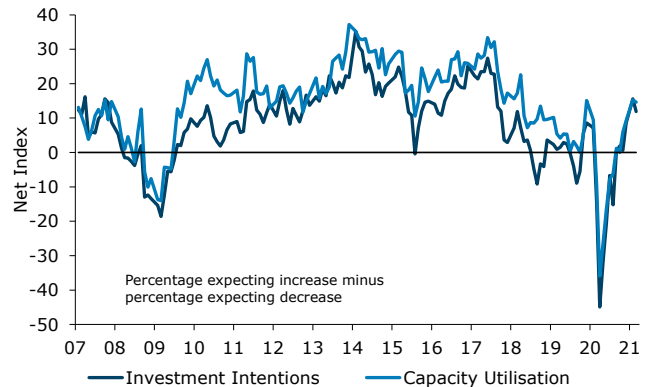
Employment and profit outlook



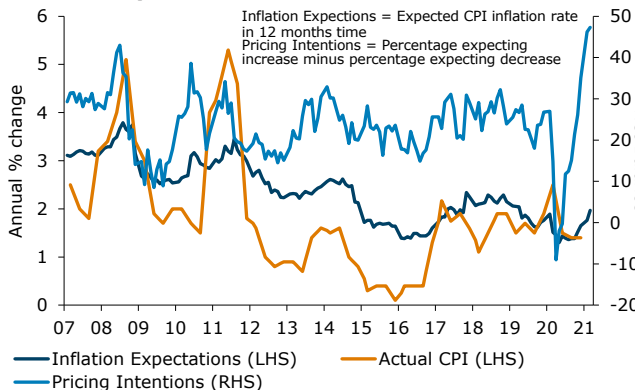
Export sales volumes



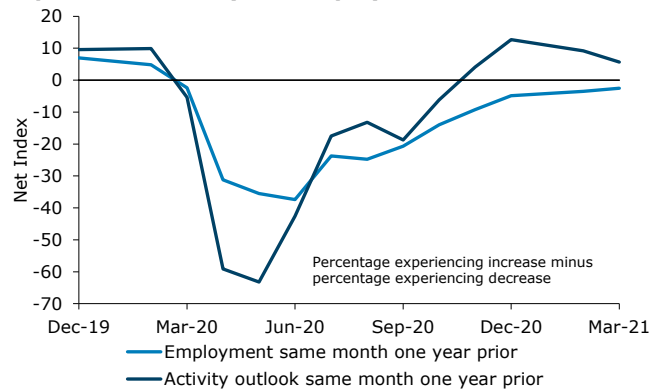
Investment intentions and capacity utilisation



Inflation expectations



Experienced activity and employment



Source: ANZ, Statistics NZ



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