

ANZ New Zealand Business Outlook

31 May 2021



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Contact

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See [page 6](#).

The next preliminary *Business Outlook* comprising early-month results at an economy-wide level will be released on 9 June 2021 at 1pm. The next standard full-month release of the ANZ *Business Outlook* is due on 30 June at 1pm.

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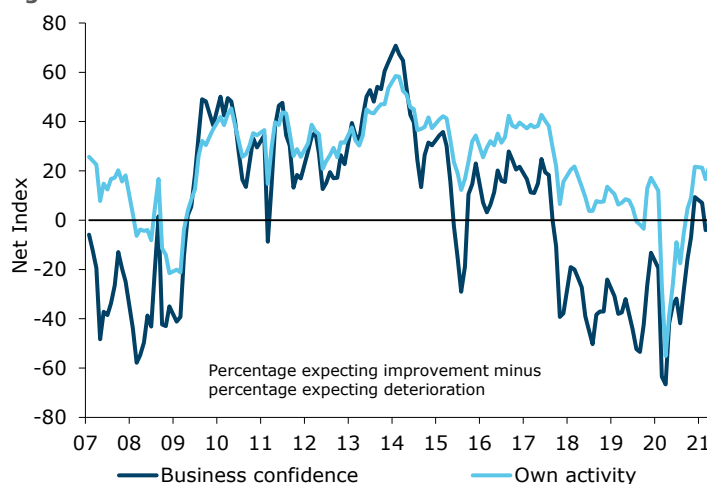
May be peaking?

Key points

- Compared to the preliminary May read, headline business confidence was 5 points lower at +2%, while firms' own activity was also 5 points lower at +27%. Both are still higher than April (figure 1).
- All activity indicators were generally lower in the late-month sample than in the preliminary read. The bulk of the later responses were received the morning of Budget day.
- The construction sector continues to retreat from its highs in terms of the activity outlook, but report being busier, with costs rising sharply.
- Cost-push inflation pressures continue to intensify across the economy.

Business sentiment and activity indicators were lower in the late-month May sample, but all indicators for the month as a whole were still higher than in April. Cost and inflation indicators continue to rise.

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



Source: ANZ Research

Turning to the detail, compared to the month of April:

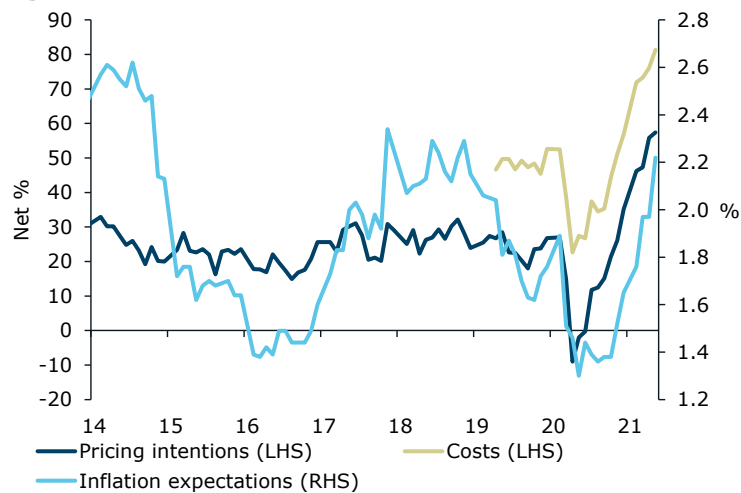
- Business confidence rose 4 points to net 1.8% (prelim: 7.0%).
- Firms' own activity outlook rose 5 points to 27.1% (prelim: 32.3%).
- Investment intentions rose 2 points to 18.9% (prelim: 20.8%).
- Employment intentions lifted 4 points to 20.5% (prelim: 22.1%).
- Capacity utilisation rose 3 points to 20.1% (prelim: 16.5%).
- Inflation pressures continue to lift. Cost expectations rose 5 points to a net 81.3% of respondents reporting higher costs (prelim: 80.3%). A net 57.4% of respondents intend to raise their prices (prelim: 57.6%). General inflation expectations rose to 2.22% (prelim: 2.17%).

- Profit expectations rose 4 points to 3.9% (prelim: 9.6%).
- Export intentions rose 3 points to +12.2% (prelim: +14.9%).
- A net 38% of firms expect credit to be harder to get (prelim: -37.6%).
- Residential construction intentions rose 2 points to 20.8%. Commercial construction intentions rose 3 points to net 8.3%.

Compared to the preliminary May results, activity indicators were lower. The bulk of the later-month responses arrived promptly in response to the reminder email that arrived in inboxes the morning of the Budget. The details of the Budget were not known at that time, but it's possible that uncertainty may have affected the numbers. The June preliminary read will capture responses starting tomorrow.

Inflationary pressures are certainly not receding (figure 2) but inflation expectations remain close to the RBNZ's target range midpoint of 2%. Retailers' pricing intentions lifted a point to 66%, while the manufacturing (72%), construction (80%) and services (49%) sectors all hit or remained at record highs in data that goes back to 1993. Expected costs are in the 90s for manufacturing, construction and agriculture, and not far off it for retail (88%). The aggregate is being held down by the services sector, where 'only' a net 72% of firms expect higher costs.

Figure 2: ANZBO inflation indicators



Source: ANZ Research

Our usual heat map of levels and changes on a standardised basis (Table 1, next page) shows that the construction sector confidence about activity and investment declined, though expected profitability rose. The most dramatic increases were in capacity utilisation (how stretched they are), costs and pricing intentions.

Agriculture remains relatively pessimistic, which is not at all unusual, but the month saw reasonably large falls in expected activity, exports and employment intentions. The worsening dry conditions may have contributed. Canterbury has this week swung dramatically to the opposite problem, which is likely to have wiped out considerable feed stocks as well as damaging infrastructure.

Across the economy, cost expectations and pricing intentions stand out for being extremely high relative to history. Profitability remains relatively squeezed, hit by cost increases, and export intentions also remain lower than normal.

Table 1. Heatmap of monthly levels and changes

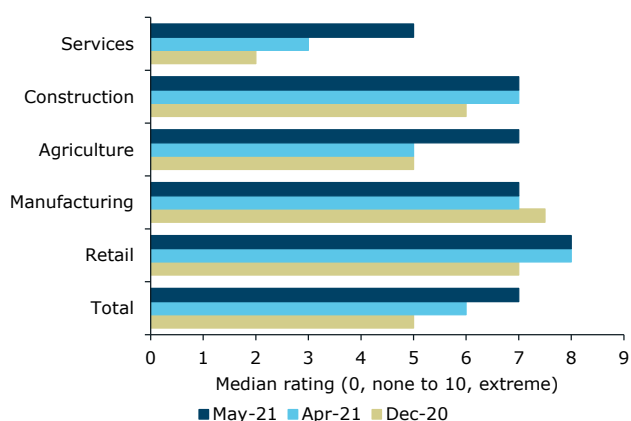
	Levels					Monthly change				
	Retail	Mfg	Agri	Constrn	Services	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-5.4	6.7	-17.4	3.3	5.0	-3.5	1.0	-27.9	-4.1	12.4
Activity Outlook	19.6	26.2	8.7	30.0	31.4	6.1	-1.6	-17.6	-7.0	11.7
Activity – vs one year ago	44.4	34.4	8.7	56.7	45.2	7.1	-0.2	-2.4	1.1	19.2
Exports	15.8	19.2	-4.8	0.0	10.8	7.0	-5.2	-10.4	6.7	6.0
Investment	20.4	18.6	4.3	3.3	23.4	6.1	0.1	9.6	-7.8	2.2
Capacity Utilisation	18.9	17.2	-13.0	40.7	23.5	6.4	2.4	-18.6	33.0	2.2
Residential Construction	...	...	...	20.8	...	...	...	...	1.8	...
Commercial Construction	...	...	...	8.3	...	...	...	...	3.0	...
Employment	16.1	11.5	-8.7	26.7	28.6	0.7	-3.3	-8.7	11.9	9.0
Employment – vs one year ago	1.9	4.9	4.3	16.7	18.4	-4.1	6.9	4.3	-12.9	12.8
Profits	-3.6	3.3	-13.0	16.7	6.3	0.2	5.2	-2.5	13.0	2.2
Ease of Credit	-30.4	-34.4	-30.4	-40.0	-43.4	2.3	-6.6	1.2	4.4	7.6
Costs	87.5	93.4	91.3	93.3	72.2	8.7	4.5	12.4	22.9	1.0
Pricing Intentions	66.1	72.1	34.8	80.0	48.7	1.4	-0.1	8.5	13.3	1.1

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.

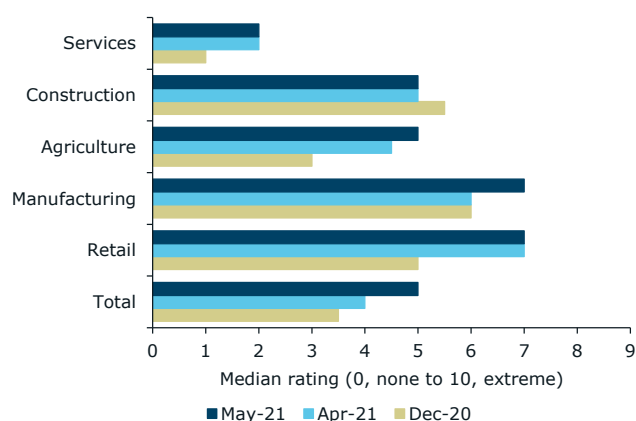
Freight disruptions remain problematic (figures 3 and 4). Inward disruptions worsened for services and agriculture compared to the month before, and outward disruptions worsened for agriculture and manufacturing. Compared to six months ago, a clear theme is that things have gotten worse, and the sectors that had initially been shielded from inward freight disruptions (particularly services) are now feeling it more.

Figures 3 and 4: Median reported freight disruption (0, none, to 10, extreme)

Inward



Outward



Source: ANZ Research

Our take

The New Zealand economy is struggling to keep up with demand, and cost and inflation pressures continue to build. Firms are having trouble sourcing inputs to production. We wouldn’t read too much into the drop in activity indicators in the second half of the month just yet, as it may have been influenced by Budget uncertainty. We won’t have to wait long to get a fresh read, with the preliminary June data due to be released on 9 June.

Survey Results May 2021

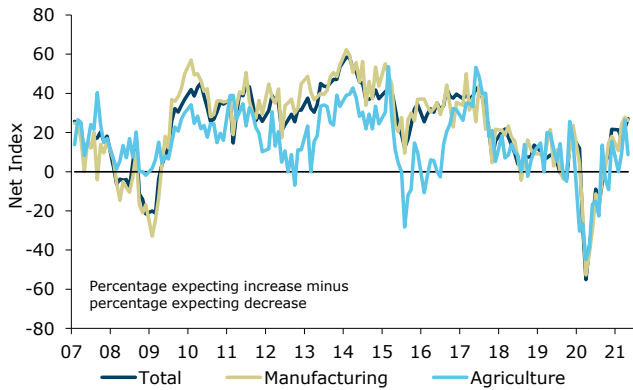
Net Balance	May	Prelim. May	Previous (April)	Retail	Mfg	Agric	Constn	Services
Business Confidence	1.8	7.0	-2.0	-5.4	6.7	-17.4	3.3	5.0
Own Activity Outlook	27.1	32.3	22.2	19.6	26.2	8.7	30.0	31.4
Export Intentions	12.2	14.9	9.1	15.8	19.2	-4.8	0.0	10.8
Investment Intentions	18.9	20.8	17.1	20.4	18.6	4.3	3.3	23.4
Cost Expectations	81.3	80.3	76.1	87.5	93.4	91.3	93.3	72.2
Capacity Utilisation	20.1	20.9	16.5	18.9	17.2	-13.0	40.7	23.5
Residential Construction	20.8	...	19.0	...	...	...	20.8	...
Commercial Construction	8.3	...	5.3	...	...	...	8.3	...
Employment Intentions	20.5	22.1	16.4	16.1	11.5	-8.7	26.7	28.6
Profit Expectations	3.9	9.6	0.3	-3.6	3.3	-13.0	16.7	6.3
Pricing Intentions	57.4	57.6	55.8	66.1	72.1	34.8	80.0	48.7
Ease of Credit Expectations	-38.0	-37.6	-41.7	-30.4	-34.4	-30.4	-40.0	-43.4
Inflation Expectations (%)	2.22	2.2	1.97	2.52	2.35	2.24	2.06	2.10
Activity – vs. same month one year ago	41.8	47.6	31.3	44.4	34.4	8.7	56.7	45.2
Employment – vs. same month one year ago	12.4	13.5	6.5	1.9	4.9	4.3	16.7	18.4

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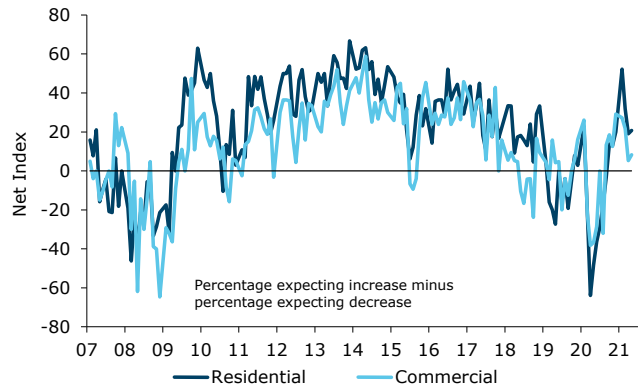


Charts

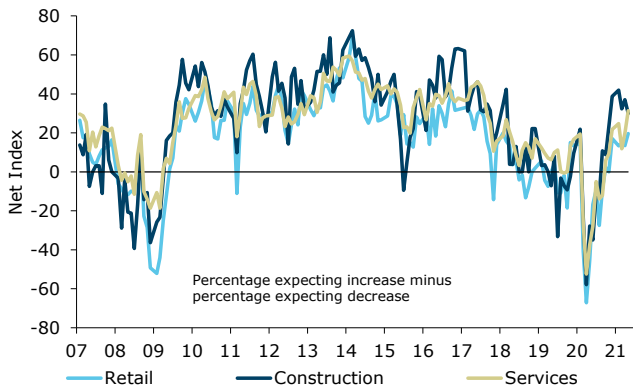
Activity outlook index



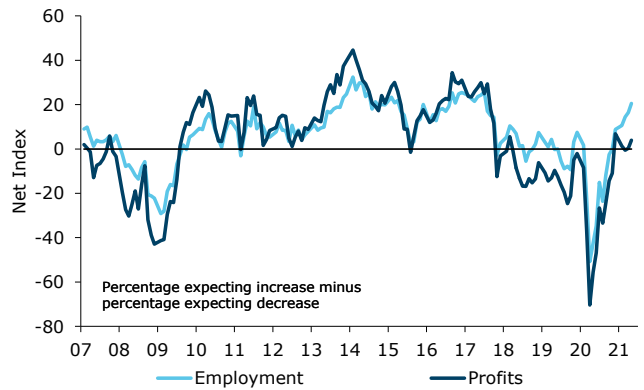
Construction intentions



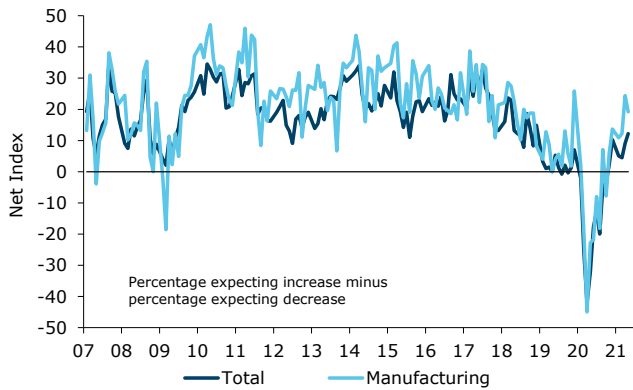
Activity outlook index



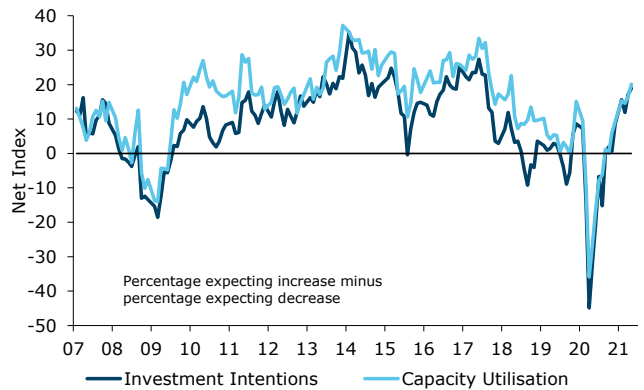
Employment and profit outlook



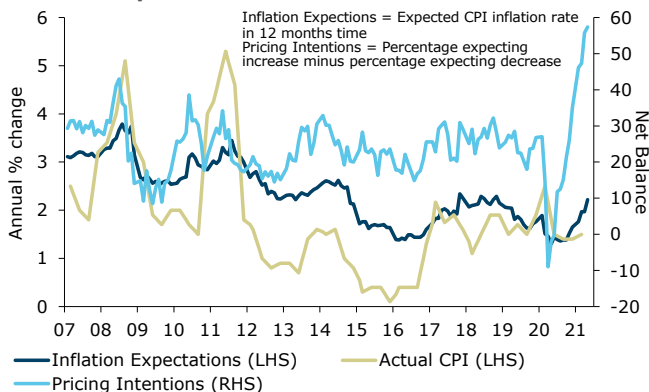
Export sales volumes



Investment intentions and capacity utilisation



Inflation expectations



Experienced activity and employment



Source: ANZ, Statistics NZ



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