

ANZ New Zealand Business Outlook

27 October 2021



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Contact

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See [page 5](#).

The next release of the ANZ *Business Outlook* (a preliminary read) is due on 11 November at 1pm.

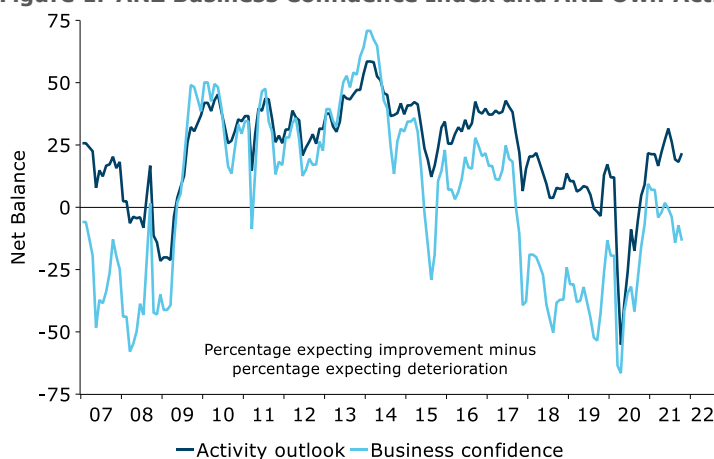
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Still holding on

Key points

- Cost and inflation pressures are off the charts. Inflation expectations jumped almost half a percent to 3.45% due to the strong CPI data.
- Survey indicators are still fairly robust but cracks are appearing.
- The resilience of Auckland businesses is impressive but this survey won't capture cumulative balance sheet damage.

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



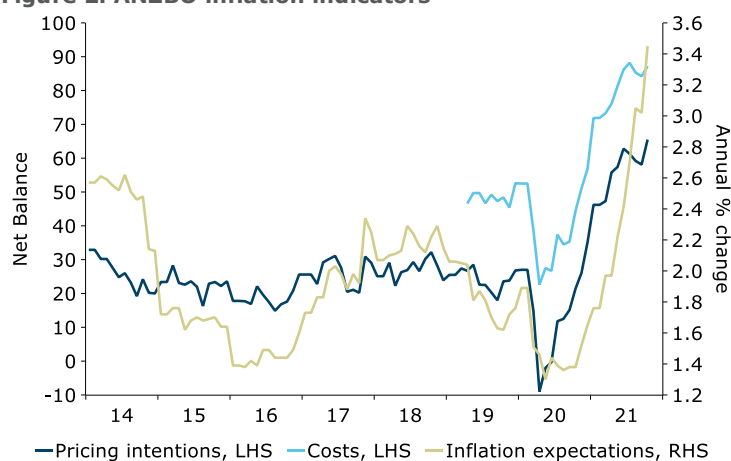
Source: Macrobond, ANZ Research

Table 1: Results versus recent history

Net Balance	Full Oct	Prelim Oct	Sep	Comment
Business Confidence	-13.4	-8.6	-7.2	Slipping
Own Activity Outlook	21.7	26.2	18.2	Holding up
Export Intentions	8.6	9.2	7.4	Steady
Investment Intentions	13.8	14.3	9.2	Inching forward
Cost Expectations	87.2	84.9	84.2	Sky high
Capacity Utilisation	20.6	20.1	16.8	Even more stretched
Residential Construction	7.1	15.8	9.5	Steady
Commercial Construction	3.4	-5.0	0.0	Cautious
Employment Intentions	10.9	12.9	14.1	Gently easing
Profit Expectations	-6.2	-3.0	-15.6	Holding in there
Pricing Intentions	65.5	63.5	58.1	Unheard of
Ease of Credit	-57.1	-54.5	-50.3	Continuing to trend downwards
Inflation Expectations	3.45%	3.04%	3.02%	That's a big jump
Activity – vs. same month one year ago	-0.3	-4.3	-4.5	Recovering
Employment – vs. same month one year ago	11.4	11.0	12.8	Steady

Overall, despite COVID-related uncertainty, medium-term indicators remain broadly robust. However, unrelenting cost pressures highlight that it's tough going. Cost and inflation pressures intensified further in October (figure 2). The sharp jump in inflation expectations in the late-month sample was undoubtedly related to the unexpectedly high Q3 CPI data release.

Figure 2. ANZBO inflation indicators



Source: Macrobond, ANZ Research

Table 2 shows most indicators lifted for manufacturing in October. This sector is outperforming in terms of levels also, sitting above its historical averages for activity indicators (except exports, notably), whereas most sectors are sitting below par. Construction and services also generally saw more rises than falls in the month but are less strong in levels terms. Of all sectors, expected activity in construction has turned down most definitively (see chart page 4).

On the other hand, the agriculture and retail sectors saw more falls than rises in activity indicators in October while costs and pricing intentions rose, a tough combination. The levels of most activity indicators for these two sectors are lower than their historical averages.

By indicator, business confidence, own activity, exports, and profits are generally sitting a bit under par, and expected ease of credit is well under, while pricing intentions are at historic extremes. Employment indicators remain positive everywhere except agriculture. In every sector except services, more than a net 90% of firms report higher costs. The agriculture sector are largely price takers and just have to hope for the best.

Table 2. Heatmap

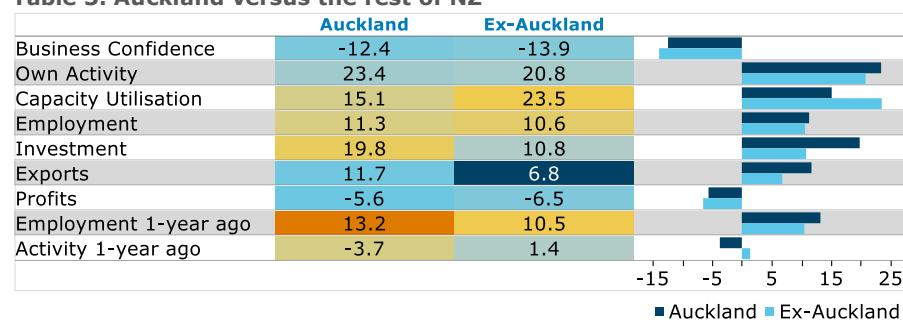
	Levels					Monthly changes				
	Retail	Mfg	Agric	Constrn	Serv	Retail	Mfg	Agric	Constrn	Serv
Business Confidence	-21.2	-1.6	-45.0	-19.4	-11.4	-19.4	3.3	-26.8	-22.8	-1.0
Own activity outlook	11.5	38.1	15.0	8.3	22.0	-2.8	18.4	1.4	-8.4	2.6
Activity vs. same month one year ago	-23.1	6.3	-5.0	11.1	2.7	-1.7	12.9	-27.7	11.1	5.1
Exports	7.7	13.7	6.2	-15.8	9.6	-3.1	9.6	-12.0	-8.7	3.1
Investment	2.0	31.7	0.0	2.9	14.1	-16.5	15.0	-9.1	6.2	8.5
Capacity Utilisation	24.0	31.7	5.0	28.6	15.0	7.0	12.4	-4.5	15.3	-2.6
Residential Construction	...	...	...	7.1	...	...	...	...	-2.4	...
Commercial Construction	...	...	...	3.4	...	...	...	...	3.4	...
Employment	5.8	9.5	-10.0	11.4	15.3	-13.8	4.6	-14.5	1.4	-2.5
Employment vs. same month one year ago	2.0	24.2	-5.0	11.4	11.6	0.2	9.2	-9.5	-18.6	-2.2
Profits	-21.6	1.6	-35.0	0.0	-2.0	-8.9	22.9	-12.3	23.3	10.1
Ease of Credit	-58.8	-50.0	-50.0	-55.6	-61.1	-8.8	0.0	-13.6	-8.9	-7.8
Costs	94.2	95.2	90.0	91.7	79.7	6.9	3.8	-0.9	5.0	0.4
Pricing Intentions	82.7	79.4	15.0	74.3	59.3	16.6	1.4	-7.7	7.6	7.5

Note: Shades of orange indicate high, and shades of blue, low, becoming more intense at the extremes. The colour coding is based on standardised values that take into account the historical average and variation in each series. For example, a series may be low compared to others but if that's not unusual, it may not be in blue. The history of the activity and employment versus a year ago is unfortunately too short for historical comparisons to be particularly meaningful but the data is included for completeness.

Auckland vs the rest

Auckland and parts of the Waikato are in lockdown while the rest of the country is enjoying the freedoms of level 2. It's a mixed bag, but on the whole, Auckland firms' activity indicators continue to hold up surprisingly well. The "current activity" measures, asking about employment and activity versus a year ago, certainly show a hit, as does capacity utilisation, with many firms not able to operate at full stretch (or at all). But forward-looking expectations and intentions continue to hold up.

Table 3. Auckland versus the rest of NZ



Source: Macrobond, ANZ Research

Our take

Despite living week to week to some extent, firms appear to be getting on with it as best they can. There are clearly challenges, with costs extremely high and profits expected to fall, but more positively, activity expectations, investment intentions and employment intentions are holding up. The COVID situation remains unpredictable, however, and we'll be watching closely for any evidence of that uncertainty derailing plans.

Survey Results October 2021

Net Balance	Final October	Prelim October ¹	Previous (Sep)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-13.4	-8.6	-7.2	-21.2	-1.6	-45.0	-19.4	-11.4
Own Activity Outlook	21.7	26.2	18.2	11.5	38.1	15.0	8.3	22.0
Export Intentions	8.6	9.2	7.4	7.7	13.7	6.2	-15.8	9.6
Investment Intentions	13.8	14.3	9.2	2.0	31.7	0.0	2.9	14.1
Cost Expectations	87.2	84.9	84.2	94.2	95.2	90.0	91.7	79.7
Capacity Utilisation	20.6	20.1	16.8	24.0	31.7	5.0	28.6	15.0
Residential Construction	7.1	15.8	9.5	...	...	...	7.1	...
Commercial Construction	3.4	-5.0	0.0	...	...	...	3.4	...
Employment Intentions	10.9	12.9	14.1	5.8	9.5	-10.0	11.4	15.3
Profit Expectations	-6.2	-3.0	-15.6	-21.6	1.6	-35.0	0.0	-2.0
Pricing Intentions	65.5	63.5	58.1	82.7	79.4	15.0	74.3	59.3
Ease of Credit Expectations	-57.1	-54.5	-50.3	-58.8	-50.0	-50.0	-55.6	-61.1
Inflation Expectations (%)	3.45	3.04	3.02	3.72	3.86	3.43	3.55	3.18
Activity – same month one year ago	-0.3	-4.3	-4.5	-23.1	6.3	-5.0	11.1	2.7
Employment – same month one year ago	11.4	11.0	12.8	2.0	24.2	-5.0	11.4	11.6

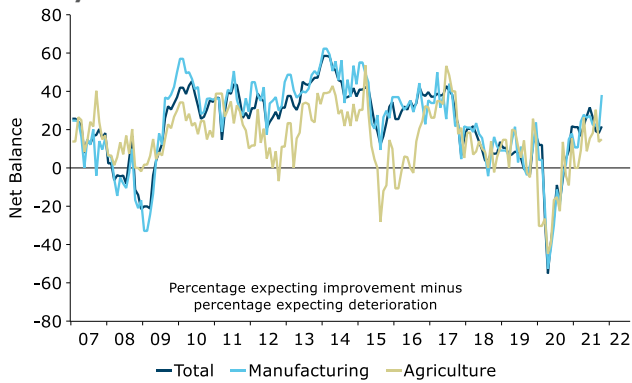
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¹ These results include data collected in the first week of the October survey that were published on 13 October.

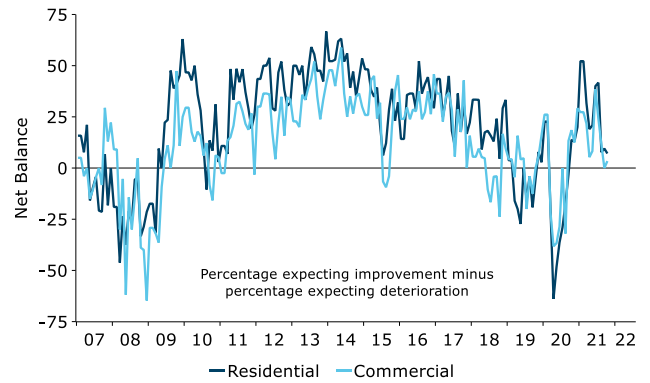


Charts

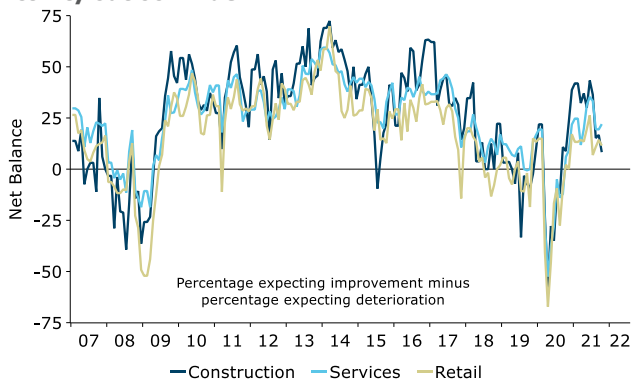
Activity outlook index



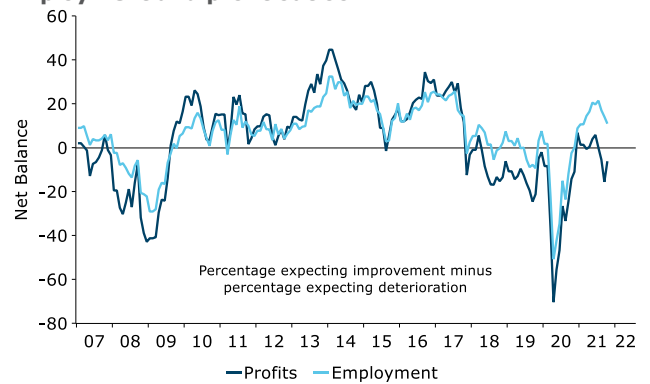
Construction intentions



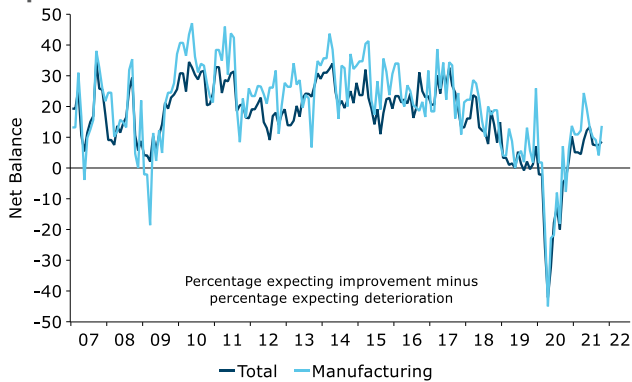
Activity outlook index



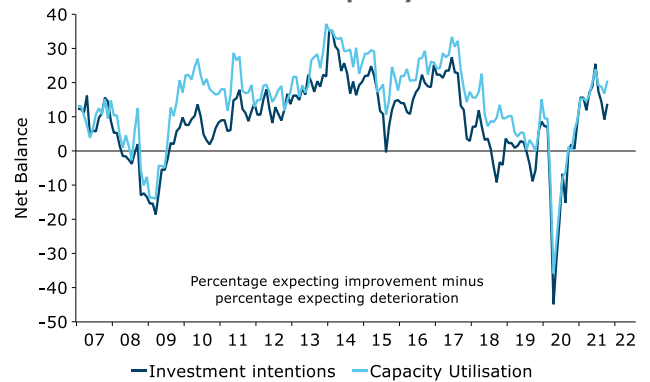
Employment and profit outlook



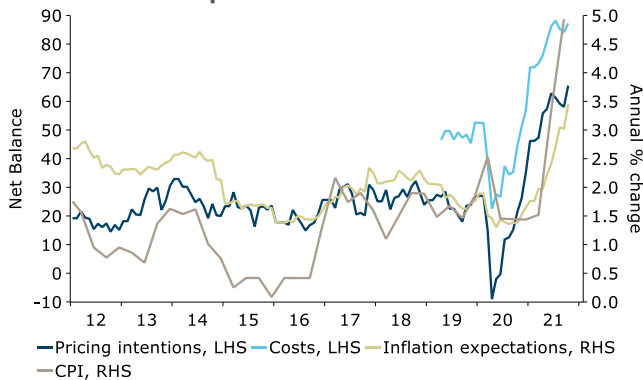
Export sales volumes



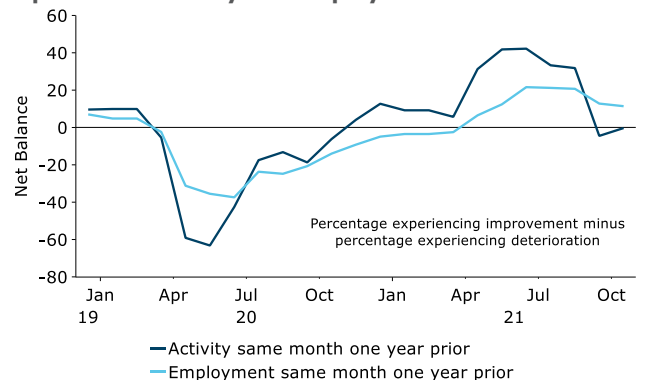
Investment intentions and capacity utilisation



Cost and inflation pressures



Experienced activity and employment



Source: ANZ, Statistics NZ, Macrobond



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