

ANZ New Zealand Business Outlook

31 May 2022



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Contact

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See [page 8](#).

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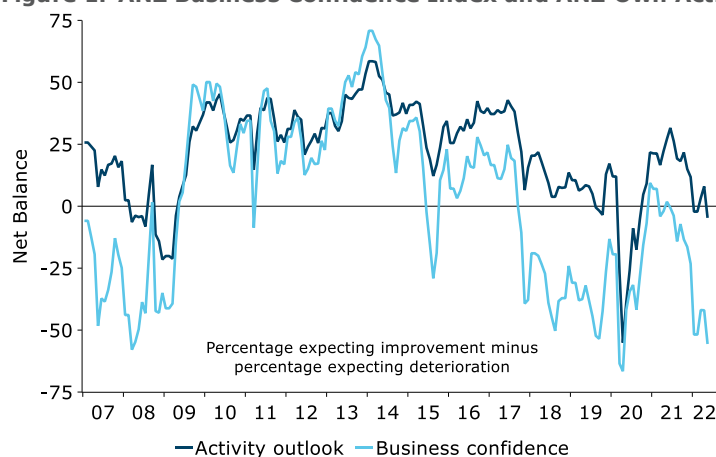
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Slipping

Key points

- Business confidence fell 14 points in May to -55.6, while own activity fell 13 points to -4.7.
- Activity indicators were mixed, with small falls dominating. Residential construction intentions continue to dive.
- Inflation pressures remain intense, but with signs of topping out.

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



Source: Macrobond, ANZ Research

Table 1: Results versus last month

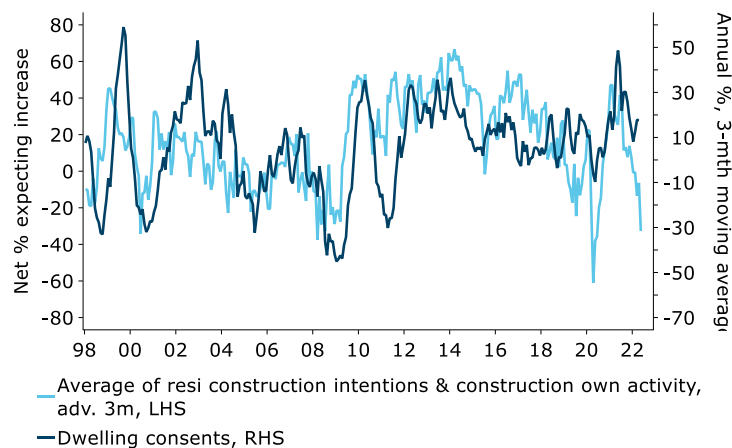
Net Balance	May	Apr	Comment
Business Confidence	-55.6	-42.0	Lowest read since COVID first hit.
Own Activity Outlook	-4.7	8.0	That bounce didn't last long.
Export Intentions	-1.6	9.5	First negative read since October 2020.
Investment Intentions	8.6	3.1	A welcome lift but still fairly subdued.
Cost Expectations	95.5	95.5	No easing evident here.
Capacity Utilisation	4.9	7.4	Good GDP indicator – peaked in June 2021 and continues to slip.
Residential Construction	-50.0	-36.8	Four-month plummet suggests a sharp slowdown in building activity is coming.
Commercial Construction	0.0	26.1	Hanging in there.
Employment Intentions	6.1	9.4	Slowly slipping.
Profit Expectations	-31.3	-30.0	Still languishing.
Pricing Intentions	71.0	76.7	Looks like it peaked in March.
Ease of Credit	-60.6	-60.1	Little changed at still-low levels
Inflation Expectations	6.18%	5.92%	The rise is slowing at least.
Activity – vs. same month one year ago	6.4	6.0	No clear trend.
Employment – vs. same month one year ago	6.9	6.8	Fairly flat.

The key themes of the May survey were:

- Inflation and cost pressures remain intense, but may be showing signs of topping out.
- Firms are worried about the economic outlook, but employment and investment intentions are holding up relatively well;
- The outlook for residential construction is deteriorating rapidly.

The chart below shows the average of two forward-looking ANZBO indicators for construction: residential construction intentions, and expected own activity for the construction sector. The average has a slightly stronger correlation with consents than either measure alone. The two series generally move closely together, but the latter has not fallen as sharply in recent months. At -15.4 it's certainly well off its peak, but it's not sending such dire signals as expected residential construction is, at -50. Note the fall in early 2020 was due to lockdown, and a repeat of that V-shaped recovery is therefore unlikely. The data suggests the issuance of consents (and ultimately, building activity) is about to fall sharply. What is unclear, however, is how much of the fall is due to weaker demand, and how much is shortages of building supplies.

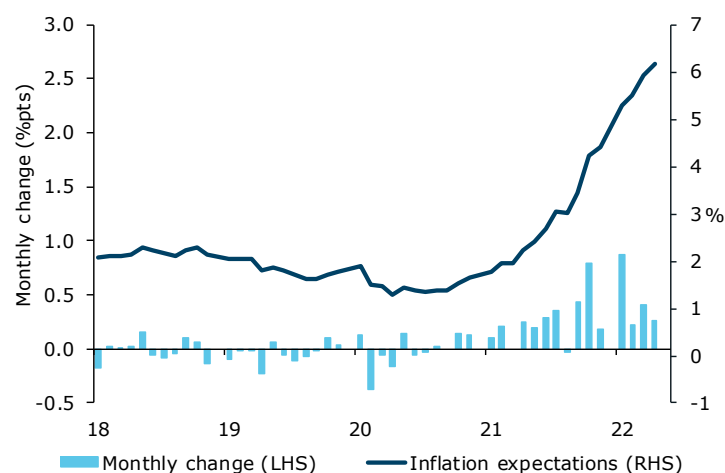
Figure 2. ANZBO residential construction intentions and consents



Source: Stats NZ, Macrobond, ANZ Research

Economy-wide inflation pressures remain intense. One-year-ahead inflation expectations lifted again, and at 6.2% are far too high. The rate of increase has eased (figure 3), but the RBNZ needs to see inflation expectations fall.

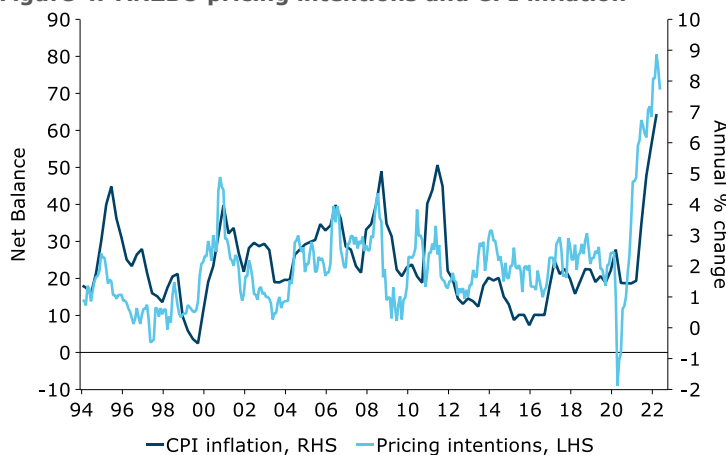
Figure 3. ANZBO inflation expectations: level and change



Source: ANZ Research

Pricing intentions are actually the better leading indicator for inflation. The net proportion of firms intending to raise their prices in the next three months remains sky high, but it has dropped both this month and last, down from a March peak of 80.5% to 71% (and it dropped more definitively in the late-May sample, to 63%). Overall the data are consistent with CPI inflation peaking soon (figure 4).

Figure 4. ANZBO pricing intentions and CPI inflation

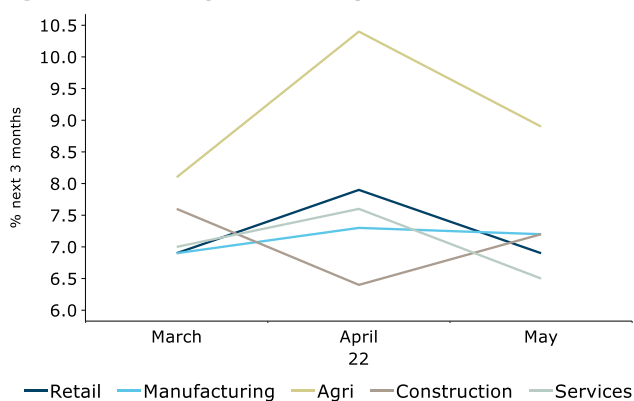


Source: Stats NZ, Macrobond, ANZ Research

The new questions that ask respondents for numerical estimates of the change in their costs and prices in three months' time reinforce the impression that the worst may be past in terms of the rate of price increases.

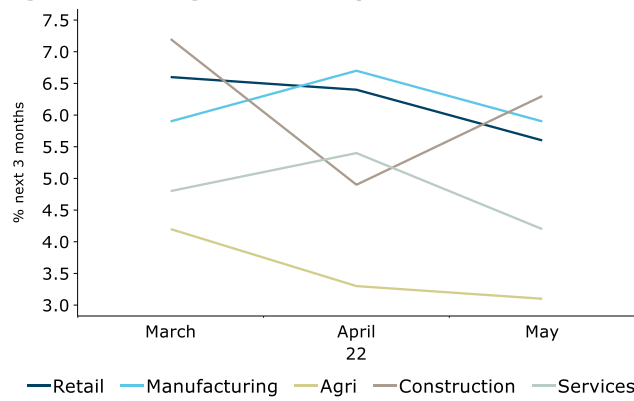
Figures 5 and 6 show cost expectations and pricing intentions by sector. Compared to April, both cost expectations and pricing intentions fell for every sector except construction (which on both measures is still lower than it was in March). In the survey overall, cost expectations eased from 7.6% to 6.9%, while pricing intentions eased from 5.7% to 4.9%.

Figure 5. Cost expectations by sector



Source: Macrobond, ANZ Research

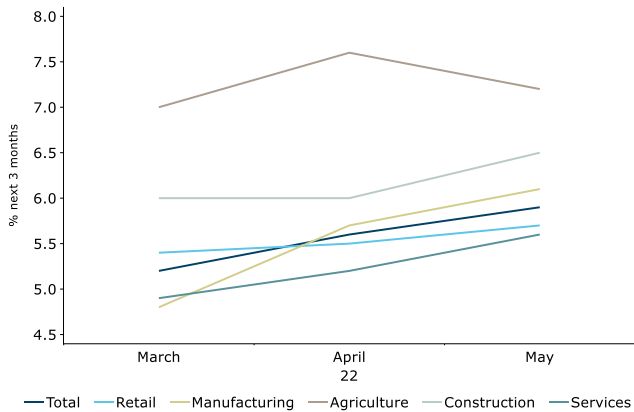
Figure 6. Pricing intentions by sector



Source: Macrobond, ANZ Research

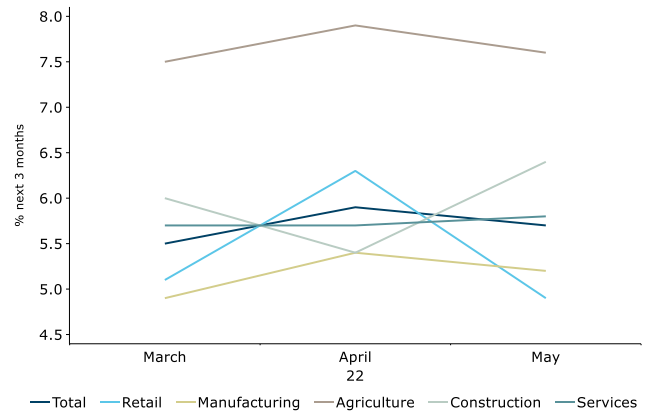
The outlook for wage growth is very important, given the RBNZ sharply revised up its forecasts for wage inflation in last week's Monetary Policy Statement. This month, both actual and expected wage growth is again highest for agriculture, but the sector actually accounts for a very small share of employment in the economy, so its impact on average wages tends to be limited. Actual wage settlements reported by firms are generally trending up (figure 7), but expected wage growth in the next 12 months by sector (figure 8) is a mixed bag.

Figure 7. Wage growth by sector: last 12 months



Source: Macrobond, ANZ Research

Figure 8. Wage growth by sector: next 12 months



Source: Macrobond, ANZ Research

The data above is of course far too new to know if it has any predictive properties, with a mighty 3 data points, so it should be interpreted with appropriate caution. That said, it's interesting that both the retail and manufacturing sectors are anticipating lower wage settlements in the next 12 months compared to the last 12 months (almost 1%pt lower). Only the agricultural sector is expecting higher wage settlements (0.4%pt higher).

Our usual heatmap of indicators by sector shows the cooling in both costs and pricing intentions in the monthly changes, which the RBNZ will be pleased to see. However, the levels remain extreme.

Other points of interest:

- The sharpest cooling in activity indicators this month was in the manufacturing, services and construction sectors. Retail and agriculture were more mixed.
- By indicator, investment intentions and capacity utilisation bucked the trend this month, lifting outside of the services sector.
- In levels terms, expected profitability, ease of credit, overall business confidence and exports are the weakest points in the survey. Employment intentions, and to a lesser extent investment intentions, are holding up.

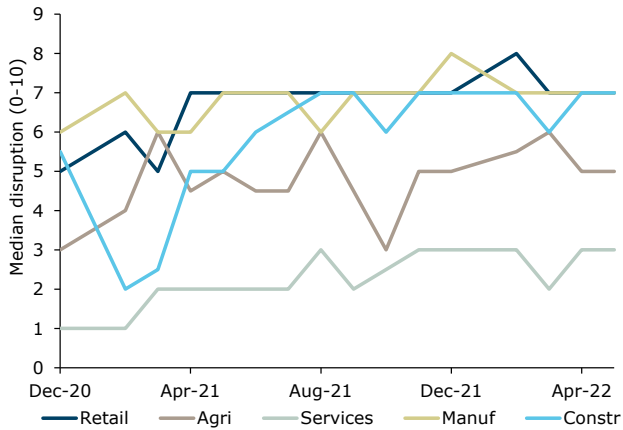
Table 2. Heatmap

	Levels					Monthly changes				
	Retail	Mfg	Agric	Constrn	Serv	Retail	Mfg	Agric	Constrn	Serv
Business Confidence	-50.0	-58.2	-82.4	-76.9	-49.6	-6.2	-25.4	-11.0	-28.9	-8.2
Own activity outlook	-10.2	3.0	11.8	-15.4	-6.6	1.8	-6.5	-7.2	-39.4	-16.7
Activity vs. same month one year ago	-24.5	26.9	-5.9	19.2	6.7	-8.5	3.5	17.9	7.2	-2.8
Exports	-13.8	12.1	-6.7	-33.3	-2.8	-7.7	-10.5	-16.7	-24.2	-11.4
Investment	14.6	19.7	-5.9	3.8	3.0	12.6	16.5	3.6	8.0	-2.8
Capacity Utilisation	0.0	12.3	11.8	16.0	0.0	2.2	2.8	6.8	7.7	-9.3
Residential Construction	...	...	...	-50.0	...	...	...	...	-13.2	...
Commercial Construction	...	...	...	0.0	...	...	...	...	-26.1	...
Employment	0.0	9.0	17.6	7.7	5.2	-2.0	-3.5	12.8	-8.3	-4.2
Employment vs. same month one year ago	6.1	10.6	12.5	15.4	3.0	12.2	-8.2	7.7	15.4	-3.7
Profits	-26.5	-26.9	-41.2	-26.9	-35.0	17.5	-0.3	-7.9	-2.9	-8.4
Ease of Credit	-49.0	-67.2	-88.2	-50.0	-59.9	19.0	-7.8	-7.2	-6.0	-2.0
Costs	97.9	95.5	100.0	92.3	94.6	0.0	3.3	0.0	-3.7	-1.0
Pricing Intentions	83.0	77.6	29.4	92.0	65.1	-0.3	-6.8	-12.7	4.0	-8.2

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.

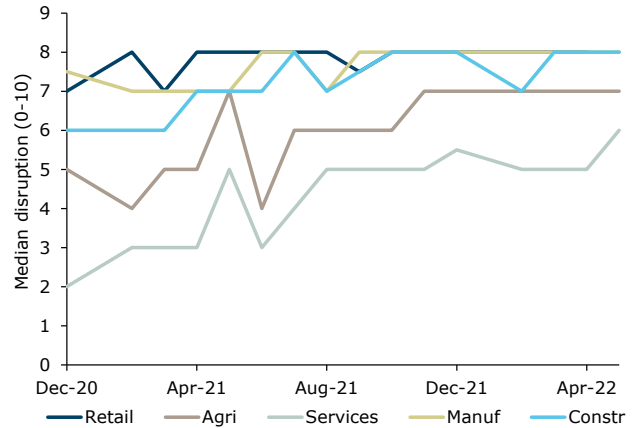
Finally, international freight disruption remains a large problem both inward and outward. Figures 9 and 10 show that the services sector, which was initially sheltered from freight issues, is now finding it much more problematic. The median response from this sector is now 6 on a scale of 0 (none) to 10 (extreme), versus 2 when the question was first asked in late 2020.

Figure 9. Outward freight disruption



Source: ANZ Research

Figure 10. Inward freight disruption



Our take

There was good news and bad news in the May ANZ Business Outlook survey. The RBNZ will be pleased to see more early signs of cost and inflation pressures starting to top out, and suggestions of a weakening outlook for the highly stretched construction sector. On the other hand, margins are clearly very squeezed, and firms are increasingly worried about the economic outlook, as interest rates continue their relentless climb and the housing market screeches to a halt.

The RBNZ has a very big job to do tackling inflation, and it seems likely that the OCR needs to go much higher yet. However, they are getting traction, and we expect rate hikes will revert to a more standard 25bp pace from August onwards as the balancing act between medium-term inflation risks and near-term growth risks becomes more nuanced than it is currently.

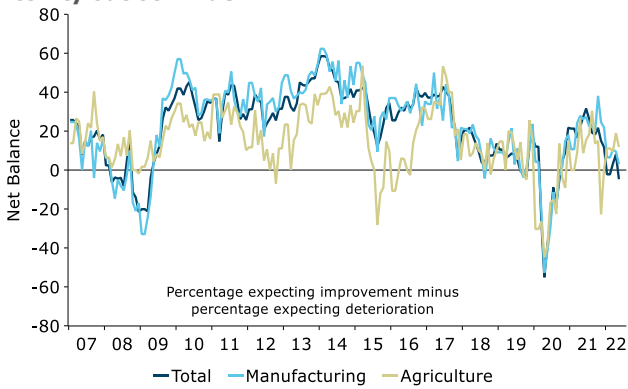
Survey Results May 2022

Net Balance	May	Previous (April)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-55.6	-42.0	-50.0	-58.2	-82.4	-76.9	-49.6
Own Activity Outlook	-4.7	8.0	-10.2	3.0	11.8	-15.4	-6.6
Export Intentions	-1.6	9.5	-13.8	12.1	-6.7	-33.3	-2.8
Investment Intentions	8.6	3.1	14.6	19.7	-5.9	3.8	3.0
Cost Expectations	95.5	95.5	97.9	95.5	100.0	92.3	94.6
Capacity Utilisation	4.9	7.4	0.0	12.3	11.8	16.0	0.0
Residential Construction	-50.0	-36.8	...	...	...	-50.0	...
Commercial Construction	0.0	26.1	...	...	...	0.0	...
Employment Intentions	6.1	9.4	0.0	9.0	17.6	7.7	5.2
Profit Expectations	-31.3	-30.0	-26.5	-26.9	-41.2	-26.9	-35.0
Pricing Intentions	71.0	76.7	83.0	77.6	29.4	92.0	65.1
Ease of Credit Expectations	-60.6	-60.1	-49.0	-67.2	-88.2	-50.0	-59.9
Inflation Expectations (%)	6.18%	5.92%	6.21	6.44	7.11	6.31	5.91
Activity – same month one year ago	6.4	6.0	-24.5	26.9	-5.9	19.2	6.7
Employment – same month one year ago	6.9	6.8	6.1	10.6	12.5	15.4	3.0
Price Expectations – 3 months from now (%)	4.9	5.7	5.6	5.9	3.1	6.3	4.2
Cost Expectations – 3 months from now (%)	6.9	7.6	6.9	7.2	8.9	7.2	6.5
Wages/Salaries – next 12 months (%)	5.7	5.9	4.9	5.2	7.6	6.4	5.8
Wages/Salaries – same month a year ago (%)	5.9	5.6	5.7	6.1	7.2	6.5	5.6

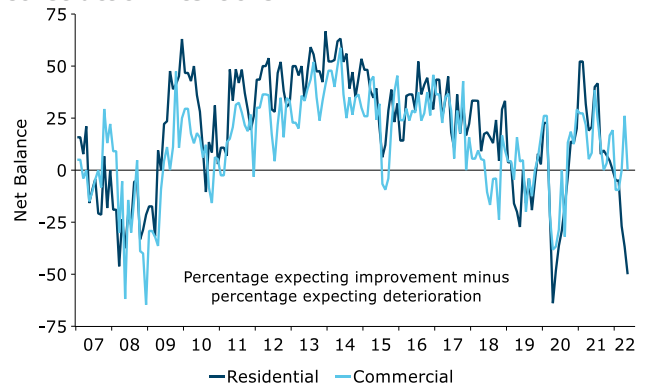


Charts

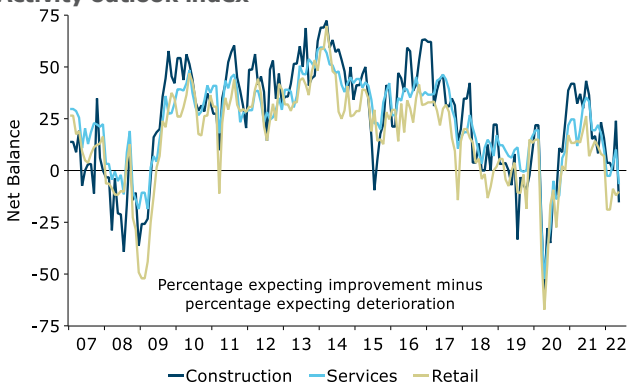
Activity outlook index



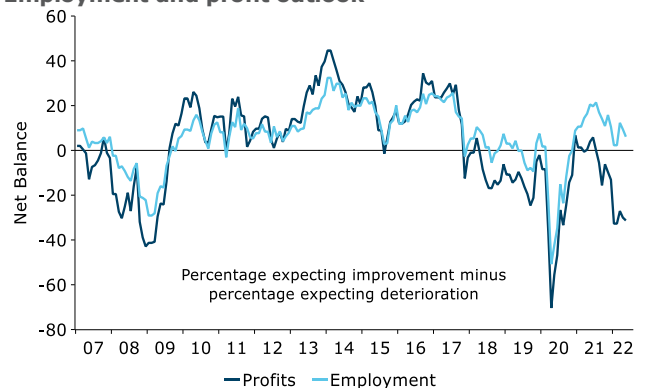
Construction intentions



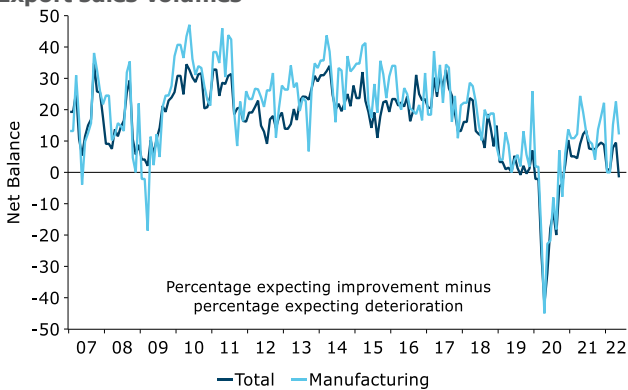
Activity outlook index



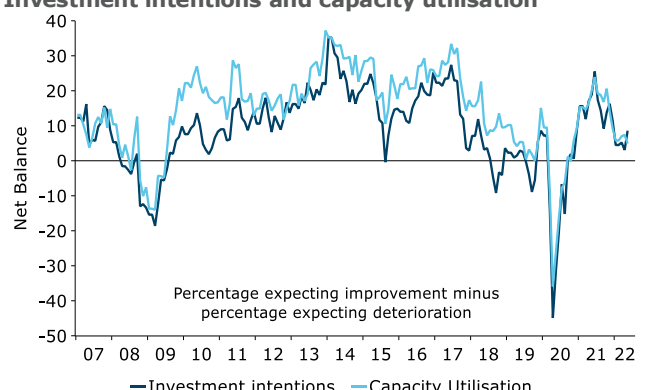
Employment and profit outlook



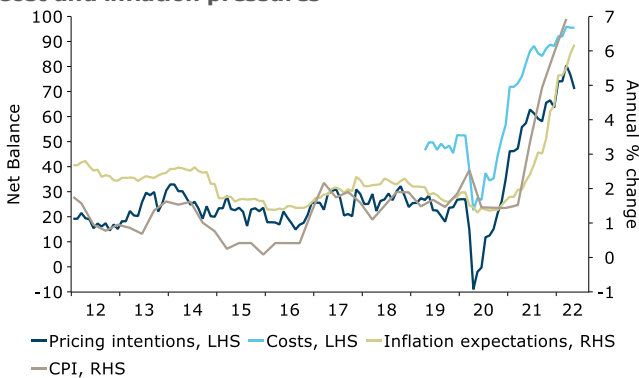
Export sales volumes



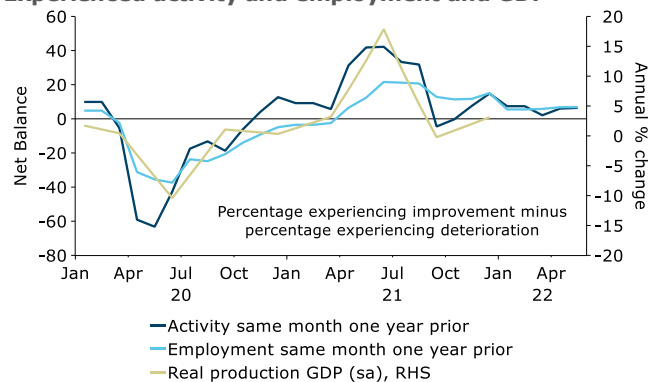
Investment intentions and capacity utilisation



Cost and inflation pressures



Experienced activity and employment and GDP



Source: ANZ, Statistics NZ, Macrobond



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