

ANZ New Zealand Business Outlook

30 June 2022



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Contact

Sharon Zollner for more details.

See [page 8](#).

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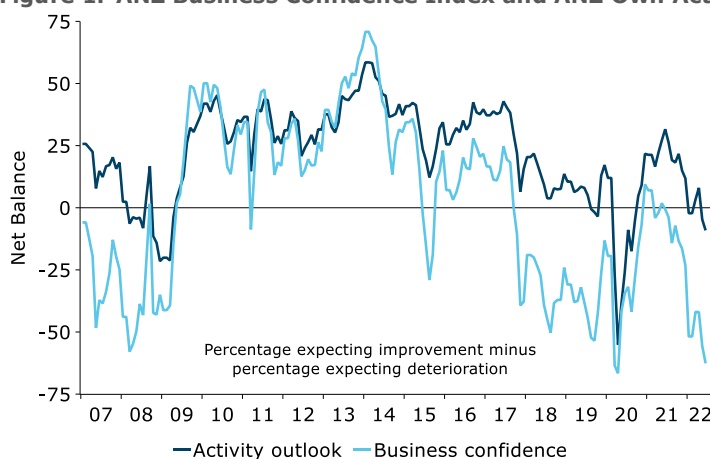
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On the skids

Key points

- Business confidence fell 7 points to -63% in June, while expected own activity fell 4 points to a net 9% expecting lower activity ahead.
- The suite of activity indicators were weaker across the board. Expected profitability is particularly dire.
- Supply-side issues continue to dominate the list of firms' biggest problems, consistent with inflation pressures that are still intense.

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



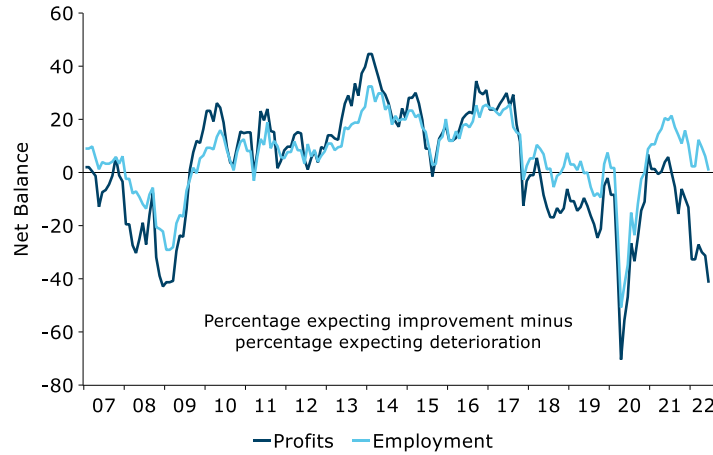
Source: Macrobond, ANZ Research

Table 1: Results versus last month

Net Balance	June	May	Comment
Business Confidence	-62.6	-55.6	Approaching record lows.
Own Activity Outlook	-9.1	-4.7	Outside of 2020, lowest since 2009.
Export Intentions	-0.5	-1.6	Pretty lacklustre.
Investment Intentions	-3.2	8.6	First negative read since August 2020.
Cost Expectations	93.5	95.5	Still huge.
Capacity Utilisation	1.1	4.9	Lowest since October 2020.
Residential Construction	-57.9	-50.0	Record low outside of lockdown.
Commercial Construction	-9.1	0.0	Hanging in there.
Employment Intentions	0.7	6.1	Holding up best, but still slipping.
Profit Expectations	-41.5	-31.3	Around 2008/09 lows.
Pricing Intentions	73.7	71.0	Off its peak but still far too high.
Ease of Credit	-62.8	-60.6	The bounce seems to be over.
Inflation Expectations	6.02%	6.18%	No meaningful easing yet.
Activity – vs. same month one year ago	2.8	6.4	Suggests economy is losing momentum – but is it due to demand or supply constraints?
Employment – vs. same month one year ago	2.8	6.9	Manufacturing strongest by far.

The June ANZ Business Outlook survey showed firms are increasingly pessimistic about the outlook for activity and profitability. Investment intentions are slipping. Employment intentions are holding up pretty well, but with the profitability outlook so pessimistic, one does wonder for how long this can remain the case (figure 2).

Figure 2. ANZBO profitability expectations and employment intentions

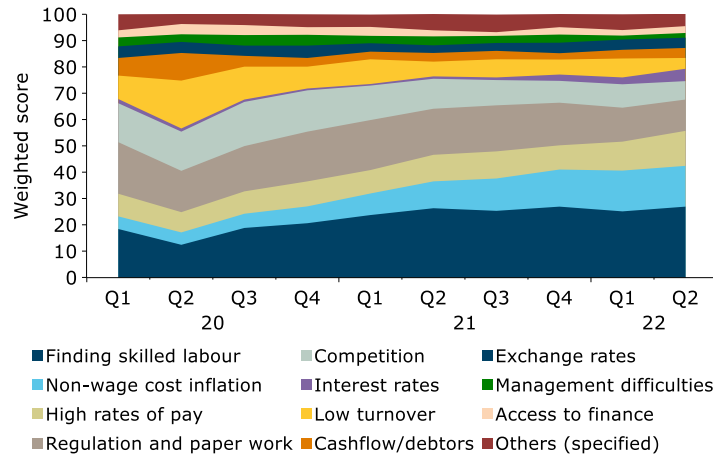


Source: Macrobond, ANZ Research

But the main reason firms are so pessimistic on the outlook for profitability is not lack of demand, but rather supply-side constraints and cost pressures. Each three months we ask firms what their biggest problems are. Finding skilled labour remains #1, while non-wage cost inflation and high rates of pay continue to grow as problems. And in the “other” category, 63% of the text comments related to supply chain problems.

Traditional recession-type problems such as cashflow/debtors and low turnover remain well down the list, but interest rates are now warranting more of a mention, unsurprisingly.

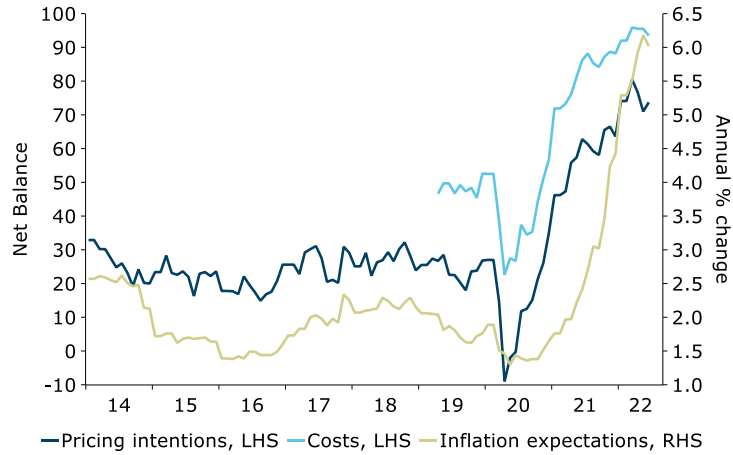
Figure 3. Firms biggest problems, weighted



Source: Macrobond, ANZ Research

In such a supply-constrained environment, it makes sense that inflation pressures are holding up even as the activity outlook slows. Figure 4 shows that the RBNZ is unlikely to conclude it can slow the pace of hikes any time soon. While pricing intentions, cost expectations and inflation expectations are all slightly off their peaks, the RBNZ will be looking for meaningful declines.

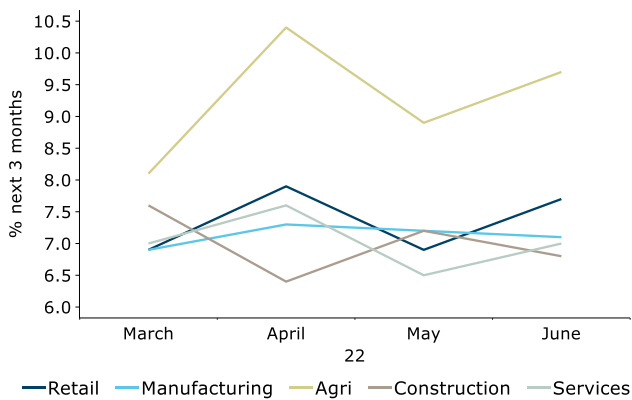
Figure 4. ANZBO pricing intentions, cost expectations and inflation expectations



Source: Macrobond, ANZ Research

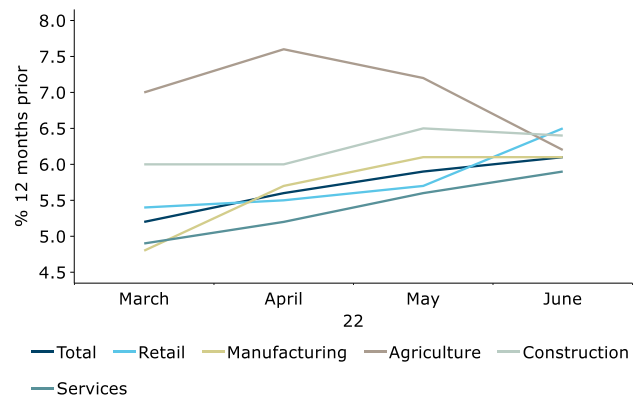
We now ask for specific estimates of costs, prices and wages. Figures 5 and 6 show cost and price expectations by sector. There are no clear trends evident. On the wage front, however, upward pressure is accelerating outside of the agriculture sector as regards both past and expected future wage settlements (figures 7 and 8). And while agricultural wage pressure is easing, it's still the highest across the economy. This data will do nothing to ease RBNZ concerns about the potential for a wage-price spiral developing.

Figure 5. Cost expectations by sector



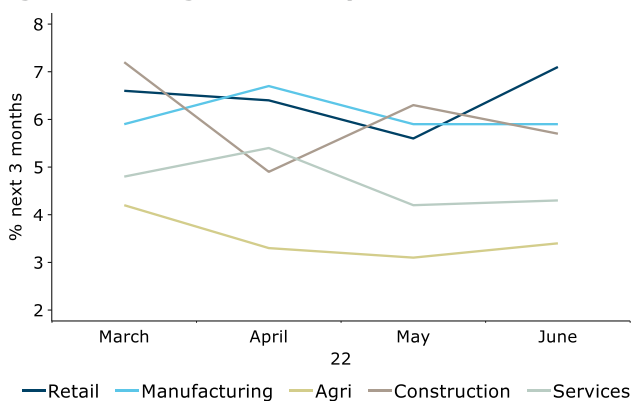
Source: Macrobond, ANZ Research

Figure 7. Wage growth: 12 months' prior



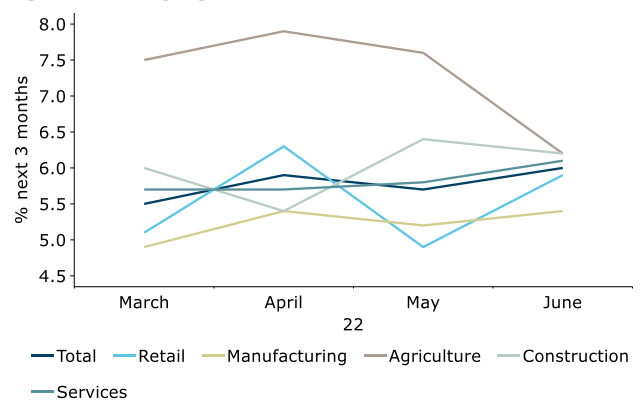
Source: Macrobond, ANZ Research

Figure 6. Pricing intentions by sector



Source: Macrobond, ANZ Research

Figure 8. Wage growth: next 12 months



Source: Macrobond, ANZ Research

Our usual heat map of indicators by sector shows a sea of blue in both the levels (low) and the monthly change (falls) for activity indicators, but much more of a mixed bag for inflation indicators. Pricing intentions remain very high (with the proportion of firms in the retail, agriculture and services sectors intending to raise their prices in the next three months increasing). The proportion of firms expecting higher costs fell in the month but remains extremely high – indeed 100% amongst agriculture sector respondents.

Other points:

- Expectations for residential construction continue to fall, with very low levels suggesting a potential sudden stop ahead.
- The manufacturing and services sectors are now the only sectors reporting higher employment than 12 months ago. But given that firms say that finding labour is their biggest problem, this is much likelier to reflect an inability to find staff rather than a lack of labour demand.
- However, employment intentions are now mildly below par in levels terms. The RBNZ requires labour demand to fall to reduce the risk of a wage price spiral.
- Investment intentions dropped particularly sharply in the month. We delve into this further below.

Table 2. Heatmap

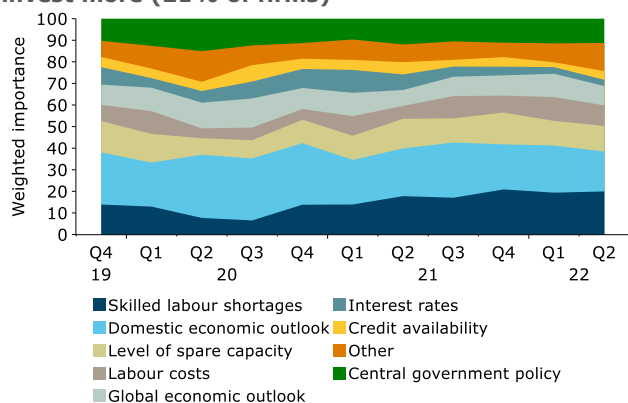
	Levels					Monthly changes				
	Retail	Mfg	Agric	Constrn	Serv	Retail	Mfg	Agric	Constrn	Serv
Business Confidence	-60.8	-61.3	-94.4	-68.0	-59.4	-10.8	-3.1	-12.0	8.9	-9.8
Own activity outlook	-23.1	-14.5	22.2	-20.0	-3.9	-12.9	-17.5	10.4	-4.6	2.7
Activity vs. same month one year ago	-13.7	16.1	11.1	8.0	0.0	10.8	-10.8	17.0	-11.2	-6.7
Exports	-2.9	3.8	17.6	-15.4	-5.3	10.9	-8.3	24.3	17.9	-2.5
Investment	-5.9	-1.6	-22.2	-8.0	0.0	-20.5	-21.3	-16.3	-11.8	-3.0
Capacity Utilisation	-2.0	3.3	11.1	-12.5	2.5	-2.0	-9.0	-0.7	-28.5	2.5
Residential Construction	...	...	...	-57.9	...	...	...	...	-7.9	...
Commercial Construction	...	...	...	-9.1	...	...	...	...	-9.1	...
Employment	0.0	0.0	5.9	-12.0	2.3	0.0	-9.0	-11.7	-19.7	-2.9
Employment vs. same month one year ago	0.0	11.5	-11.1	4.0	1.6	-6.1	0.9	-23.6	-11.4	-1.4
Profits	-42.3	-45.2	-61.1	-36.0	-38.0	-15.8	-18.3	-19.9	-9.1	-3.0
Ease of Credit	-65.4	-64.5	-61.1	-52.0	-63.1	-16.4	2.7	27.1	-2.0	-3.2
Costs	98.0	89.8	100.0	88.0	93.4	0.1	-5.7	0.0	-4.3	-1.2
Pricing Intentions	96.1	76.3	44.4	76.0	66.9	13.1	-1.3	15.0	-16.0	1.8

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.

Each three months we ask firms what factors are driving their investment decisions. The June data shows that amongst firms intending to invest more, the key factors are skilled labour shortages, the domestic economic outlook, the level of spare capacity, and central government policy, in that order (figure 9). A quarter of firms choosing "other" as one of their top three investment drivers clarified it to be supply chain challenges.

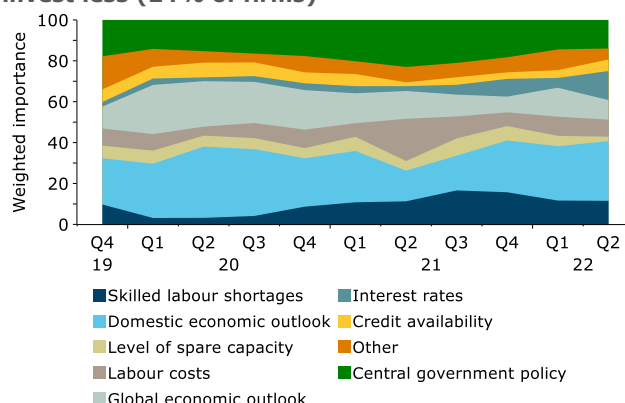
Amongst firms intending to cut their investment (figure 10), the biggest factors are the domestic economic outlook, interest rates (rapidly growing in importance), skilled labour shortages (no point in buying that fancy machine if you can't hire an operator), central government policy and the global economic outlook, in that order. The "other" category included supply chain challenges and construction costs.

Figure 9. Weighted drivers for firms intending to invest more (21% of firms)



Source: Macrobond, ANZ Research

Figure 10. Weighted drivers for firms intending to invest less (24% of firms)

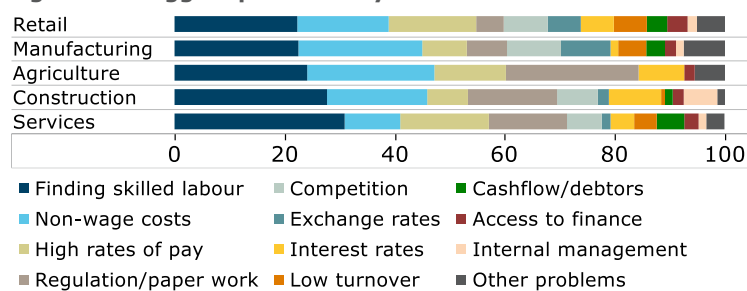


Source: Macrobond, ANZ Research

Finally, let's take a quick look at firms' largest problems by sector (figure 11).

- The sector most struggling with finding skilled labour is now services (previously construction). But services are least worried about non-wage costs (agriculture the most).
- Manufacturing and construction are the least worried about high rates of pay.
- Agriculture is the most concerned about regulation/paperwork.
- Manufacturing is most worried about competition.
- Construction is the most concerned about interest rates. Agriculture the least concerned about the weak exchange rate.
- Retail is the sector most concerned about low turnover, but it's well down the list.

Figure 11. Biggest problems by sector



Source: Macrobond, ANZ Research

Our take

Firms continue to do it tough. The expected outlook is slipping, which makes sense with the RBNZ on the inflation-fighting warpath, determined to cool the economy. For now, supply-side issues remain firms' biggest problems: finding skilled labour, costs, and wages being the top three. The RBNZ needs those problems to ease, and weakening demand to move up the charts. That's what's required to bring inflation pressure down.

Of course, weaker demand might ease the overtime, but it's unlikely to enhance profitability. That moment of happy equilibrium between demand and supply may prove fleeting, with the RBNZ entirely willing to incur the risk of a hard landing to ensure the long-term structural health of the economy in terms of well-anchored inflation expectations.

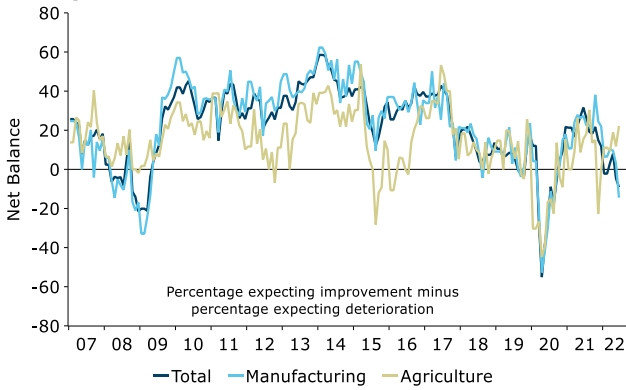
Survey Results June 2022

Net Balance	June	Previous (May)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-62.6	-55.6	-60.8	-61.3	-94.4	-68.0	-59.4
Own Activity Outlook	-9.1	-4.7	-23.1	-14.5	22.2	-20.0	-3.9
Export Intentions	-0.5	-1.6	-2.9	3.8	17.6	-15.4	-5.3
Investment Intentions	-3.2	8.6	-5.9	-1.6	-22.2	-8.0	0.0
Cost Expectations	93.5	95.5	98.0	89.8	100.0	88.0	93.4
Capacity Utilisation	1.1	4.9	-2.0	3.3	11.1	-12.5	2.5
Residential Construction	-57.9	-50.0	...	...	...	-57.9	...
Commercial Construction	-9.1	0.0	...	...	...	-9.1	...
Employment Intentions	0.7	6.1	0.0	0.0	5.9	-12.0	2.3
Profit Expectations	-41.5	-31.3	-42.3	-45.2	-61.1	-36.0	-38.0
Pricing Intentions	73.7	71.0	96.1	76.3	44.4	76.0	66.9
Ease of Credit Expectations	-62.8	-60.6	-65.4	-64.5	-61.1	-52.0	-63.1
Inflation Expectations (%)	6.02	6.18	6.35	5.95	6.68	5.92	5.85
Activity – same month one year ago	2.8	6.4	-13.7	16.1	11.1	8.0	0.0
Employment – same month one year ago	2.8	6.9	0.0	11.5	-11.1	4.0	1.6
Price Expectations – 3 months from now (%)	5.2	4.9	7.1	5.9	3.4	5.7	4.3
Cost Expectations – 3 months from now (%)	7.3	6.9	7.7	7.1	9.7	6.8	7.0
Wages/Salaries – next 12 months (%)	6.0	5.7	5.9	5.4	6.2	6.2	6.1
Wages/Salaries – same month a year ago (%)	6.1	5.9	6.5	6.1	6.2	6.4	5.9

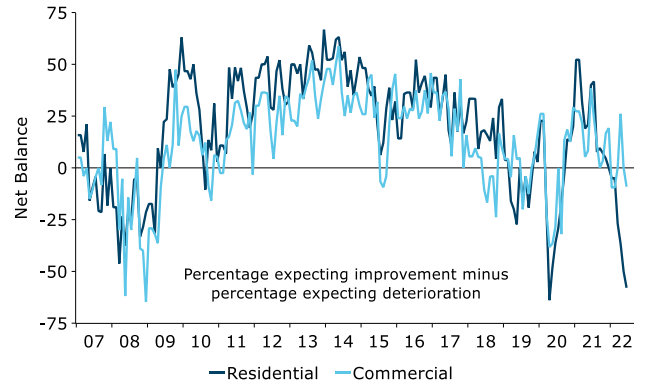


Charts

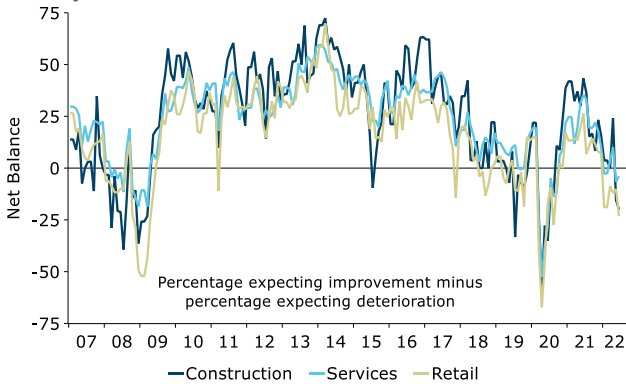
Activity outlook index



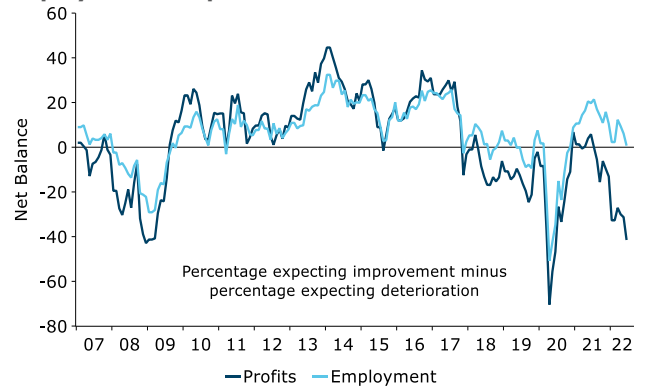
Construction intentions



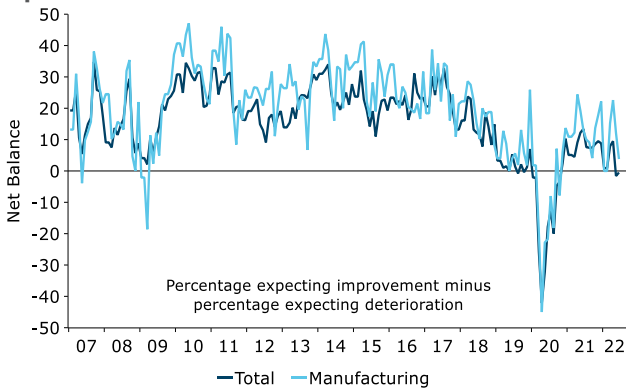
Activity outlook index



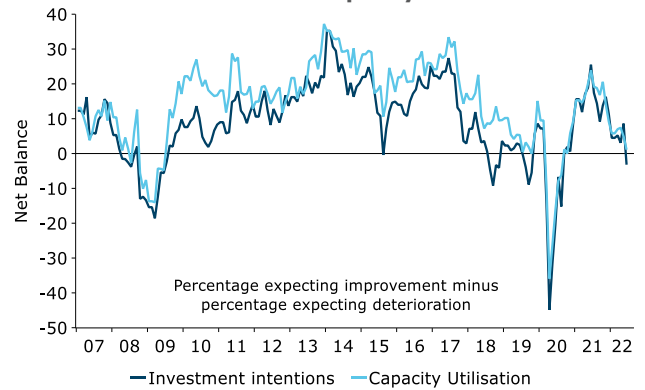
Employment and profit outlook



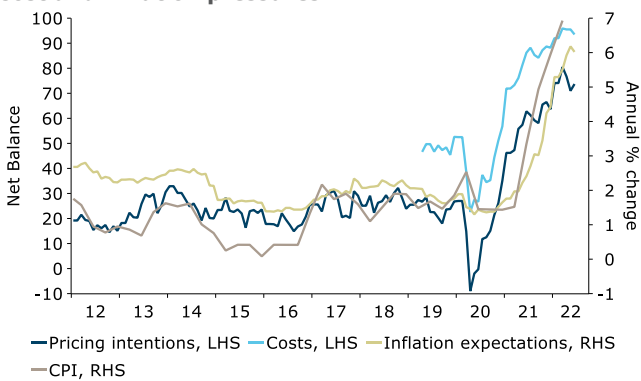
Export sales volumes



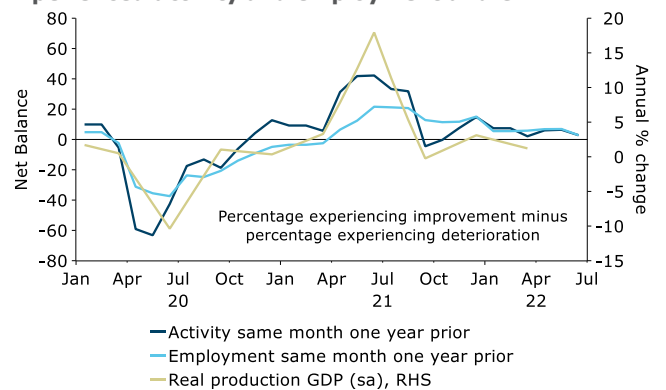
Investment intentions and capacity utilisation



Cost and inflation pressures



Experienced activity and employment and GDP



Source: ANZ, Statistics NZ, Macrobond



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