

ANZ New Zealand Business Outlook

31 August 2022



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Contact

Sharon Zollner for more details.

See page 7.

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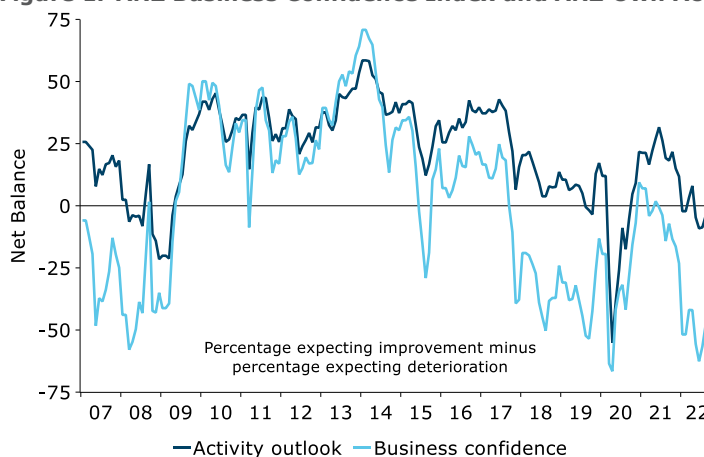
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Off the floor

Key points

- Business confidence lifted 9 points in August to -48, while expected own activity rose 5 points to -4.
- Most activity indicators lifted for a second month, with capacity utilisation a marked exception.
- Inflation pressures remain intense. Inflation expectations were all but unchanged at their highs, and the net proportion of firms expecting higher costs was steady. However, pricing intentions eased 4 points.

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



Source: Macrobond, ANZ Research

Table 1: Results versus last month

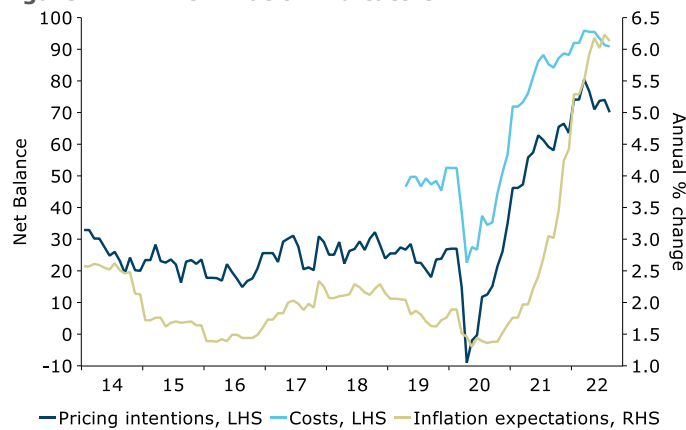
| Net Balance | August | July | Comment |
|--|--------|-------|--|
| Business Confidence | -47.8 | -56.7 | Second month of improvement |
| Own Activity Outlook | -4.0 | -8.7 | Gradually lifting |
| Export Intentions | 3.9 | -2.7 | Back in the black |
| Investment Intentions | -2.0 | -2.6 | Holding at subdued levels |
| Cost Expectations | 90.9 | 91.3 | All but unchanged |
| Capacity Utilisation | 0.3 | 7.2 | Weakest since August 2020 |
| Residential Construction | -65.0 | -73.7 | A decent bounce but still extremely low |
| Commercial Construction | -4.3 | -5.9 | Creeping higher |
| Employment Intentions | 3.4 | 1.1 | A smidgen higher |
| Profit Expectations | -35.5 | -34.1 | Little changed at subdued levels |
| Pricing Intentions | 70.1 | 74.0 | Lowest read this year, though still high |
| Ease of Credit | -50.8 | -63.8 | Big jump - highest in 11 months |
| Inflation Expectations | 6.13% | 6.23% | Holding up at highs |
| Activity – vs. same month one year ago | 2.3 | 2.9 | Mixed bag behind the scenes |
| Employment – vs. same month one year ago | 4.1 | 0.7 | Higher for all sectors except retail |

The key themes of the August survey were:

- Activity measures generally lifted modestly, including business confidence, own activity, export intentions, investment intentions and construction intentions. The exception was capacity utilisation, with more firms reporting that the “operating rate of existing capital equipment, ignoring seasonal factors” had decreased.
- Inflation pressures remain intense. The services-led fall in pricing intentions is encouraging, but inflation expectations eased only slightly.
- A mood lift is evident amongst manufacturing, agriculture and services firms. Retail firms continue to get more pessimistic.

Economy-wide inflation pressures are still very strong. Pricing intentions, cost expectations and inflation are at best a little off their peaks, and remain very high.

Figure 2. ANZBO inflation indicators

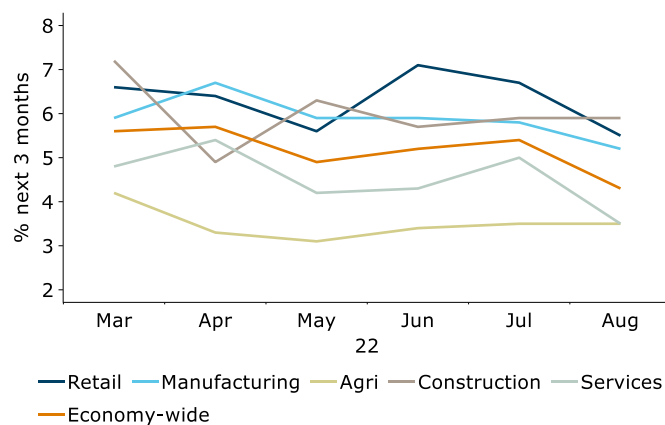


Source: Macrobond, ANZ Research

By sector, an intention to raise prices is most widespread in the retail sector (90.2% of firms intend to raise their prices in the next three months, versus a peak of 96.1% in June) and construction (87.5%, versus a peak of 93.8% in March). The lowest (still very high!) proportions of firms intending to raise prices imminently were in agriculture (52.4%) and services (63.3%).

The new questions added in March ask for a specific numerical estimate of where firms’ own selling prices will be in three months’ time (figure 3). The strongest average pricing intentions were in construction (+5.9%, down from the first read of 7.2% in March) and retail (+5.5% versus a peak of 7.1% in June).

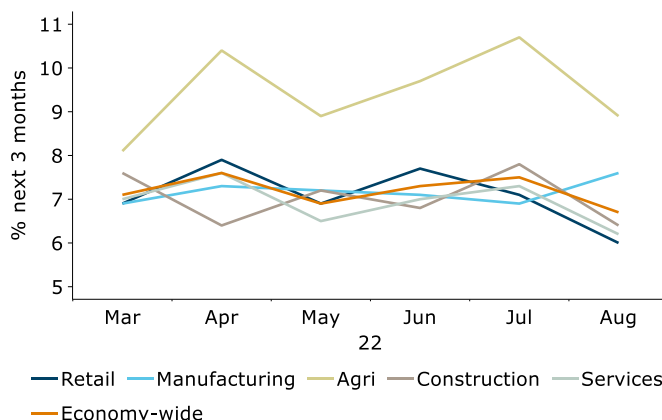
Figure 3. Pricing intentions by sector



Source: Macrobond, ANZ Research

We also now ask for estimates of firms' costs in three months' time (figure 4). Here, all sectors except manufacturing showed a fall in expected cost growth (while it remains very high across the board). Retail, encouragingly, has the lowest cost growth expectation, though context matters: an expected 6.0% increase in costs in the next three months is hardly good news for the Reserve Bank.

Figure 4. Cost expectations by sector

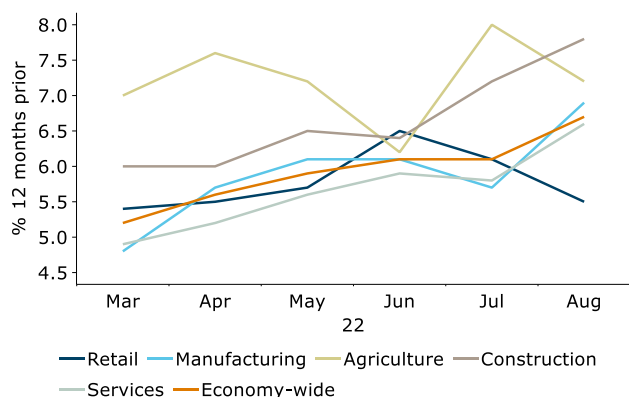


Source: Macrobond, ANZ Research

Wage growth is a crucial determinant of non-tradable inflation. In terms of past wage settlements, agriculture and retail eased, but other sectors rose. Construction took top spot from agri. By sector, the clearest upward trend in reported past wage growth is evident in construction, manufacturing and services (figure 5).

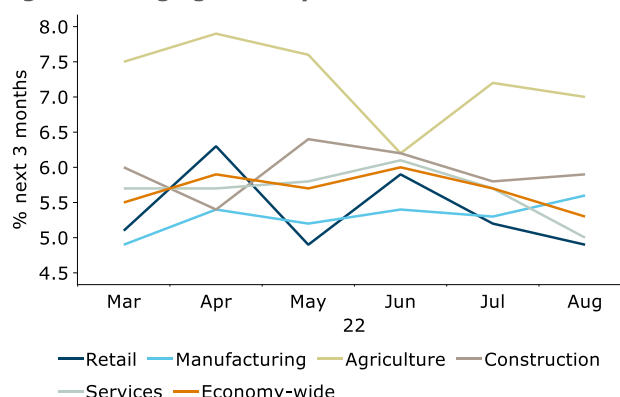
Turning to expectations for wage settlements for the next 12 months, manufacturing and construction rose, but the other sectors eased (figure 6). Trends are more difficult to discern in the expectations data. The Reserve Bank would no doubt prefer to see firms' wage expectations move downward, but for now, the labour market remains exceptionally tight, and firms are anticipating having to pay up – though not as much as in the 12 months just gone.

Figure 5. Wage growth by sector: last 12 months



Source: Macrobond, ANZ Research

Figure 6. Wage growth by sector: next 12 months



Source: Macrobond, ANZ Research

The monthly change matrix in our heatmap of indicators by sector has brightened up considerably, with more orange (lifts). And it's across the activity indicators, not the pricing ones. The levels remain subdued, however, as highlighted by a good deal of blue in the left-hand panel.

Points of interest:

- The monthly bounce in expectations was most marked for the agriculture sector, followed by manufacturing. It's less clear that retail and construction have found a bottom. Though the bounce in the construction sector's own activity outlook looks large, the level remains dire.
- By question, the biggest lift was in perceived ease of credit, though levels remain very low. The precise question is, "Will it be easier or harder to get credit in New Zealand in 12 months' time?"
- In levels terms, construction remains the most downbeat sector. On the plus side, their expected costs fell sharply. By question, pricing intentions remain the most dramatically above their historical average, and business confidence, profit expectations and expected ease of credit the furthest below historical averages.

Table 2. Heatmap

| | Levels | | | | | Monthly changes | | | | |
|--|--------|-------|-------|---------|-------|-----------------|-------|-------|---------|------|
| | Retail | Mfg | Agric | Constrn | Serv | Retail | Mfg | Agric | Constrn | Serv |
| Business Confidence | -44.7 | -51.8 | -66.7 | -70.8 | -42.2 | -1.8 | 10.2 | 9.5 | -6.8 | 12.4 |
| Own activity outlook | -14.9 | -8.8 | 14.3 | -24.0 | 1.4 | 3.5 | 5.2 | 4.8 | 12.0 | 2.2 |
| Activity vs. same month one year ago | -4.3 | 1.8 | 14.3 | -4.2 | 4.8 | 3.9 | -10.2 | 4.8 | -12.2 | 4.0 |
| Exports | 0.0 | 8.2 | 5.0 | -23.1 | 5.7 | -2.9 | 15.3 | 5.0 | -4.9 | 8.4 |
| Investment | -4.4 | 5.6 | -4.8 | -16.0 | -2.1 | -8.7 | 1.6 | 23.8 | 0.0 | -0.5 |
| Capacity Utilisation | -2.3 | 5.4 | 4.8 | -4.2 | -1.4 | -15.3 | -4.6 | -4.7 | 4.1 | -8.0 |
| Residential Construction | ... | ... | ... | -65.0 | ... | ... | ... | ... | 8.7 | ... |
| Commercial Construction | ... | ... | ... | -4.3 | ... | ... | ... | ... | 1.6 | ... |
| Employment | 0.0 | 5.3 | 14.3 | -16.0 | 4.9 | 6.2 | 5.3 | 14.3 | -8.0 | -0.5 |
| Employment vs. same month one year ago | 4.3 | 12.5 | 0.0 | 13.0 | 0.7 | -8.5 | 6.4 | 9.5 | 13.0 | 5.4 |
| Profits | -31.9 | -36.8 | -28.6 | -52.0 | -34.2 | 0.8 | 1.2 | 19.0 | -12.0 | -4.2 |
| Ease of Credit | -55.3 | -57.9 | -52.4 | -44.0 | -48.6 | 10.0 | 16.1 | 19.0 | 16.0 | 9.9 |
| Costs | 97.6 | 89.3 | 95.2 | 83.3 | 90.0 | 1.9 | 4.2 | -4.8 | -12.2 | 0.4 |
| Pricing Intentions | 90.2 | 71.4 | 52.4 | 87.5 | 63.3 | -1.1 | -0.3 | 4.8 | 10.2 | -8.9 |

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.

Our take

New Zealand businesses are well aware that the Reserve Bank is on a mission to cool demand to bring it back into line with – indeed, below – the economy's ability to meet it, in order to reduce inflation.

In that context, while mildly rebounding activity indicators are ostensibly good news, today's survey was not particularly encouraging for the RBNZ. The impact of higher rates on the housing market and the construction sector is hard to miss, but there's more to slowing inflation than just that. Business inflation indicators have been very reliable in terms of predicting where inflation is heading. They are a smidgen lower at best, but remain far too high. And firms outside of the retail sector seem to be feeling more confident about the activity outlook. Employment intentions actually lifted and are still net positive across retail, manufacturing and agriculture.

Of course, monetary policy takes time to impact the economy, as people gradually roll onto higher fixed mortgage rates. However, it would make sense that with inflation and wage inflation running so high, the neutral Official Cash Rate is creeping higher, meaning the sting of a given interest rate wears off. Risks are tilted towards the RBNZ having to continue on with OCR hikes next year to cool the economy sufficiently to feel comfortable they're getting on top of the inflation problem.

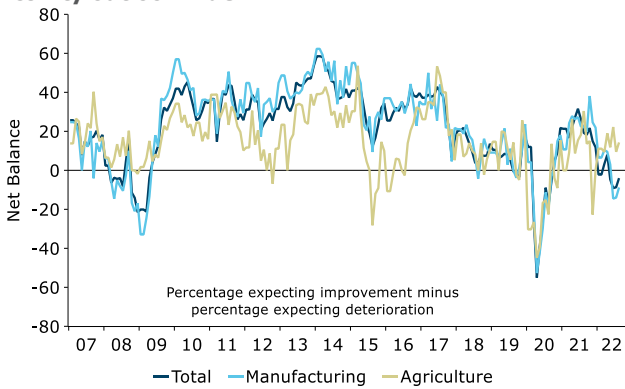
Survey Results August 2022

| Net Balance | August | Previous (July) | Retail | Mfg | Agric | Constrn | Services |
|--|--------|-----------------|--------|-------|-------|---------|----------|
| Business Confidence | -47.8 | -56.7 | -44.7 | -51.8 | -66.7 | -70.8 | -42.2 |
| Own Activity Outlook | -4.0 | -8.7 | -14.9 | -8.8 | 14.3 | -24.0 | 1.4 |
| Export Intentions | 3.9 | -2.7 | 0.0 | 8.2 | 5.0 | -23.1 | 5.7 |
| Investment Intentions | -2.0 | -2.6 | -4.4 | 5.6 | -4.8 | -16.0 | -2.1 |
| Cost Expectations | 90.9 | 91.3 | 97.6 | 89.3 | 95.2 | 83.3 | 90.0 |
| Capacity Utilisation | 0.3 | 7.2 | -2.3 | 5.4 | 4.8 | -4.2 | -1.4 |
| Residential Construction | -65.0 | -73.7 | ... | ... | ... | -65.0 | ... |
| Commercial Construction | -4.3 | -5.9 | ... | ... | ... | -4.3 | ... |
| Employment Intentions | 3.4 | 1.1 | 0.0 | 5.3 | 14.3 | -16.0 | 4.9 |
| Profit Expectations | -35.5 | -34.1 | -31.9 | -36.8 | -28.6 | -52.0 | -34.2 |
| Pricing Intentions | 70.1 | 74.0 | 90.2 | 71.4 | 52.4 | 87.5 | 63.3 |
| Ease of Credit Expectations | -50.8 | -63.8 | -55.3 | -57.9 | -52.4 | -44.0 | -48.6 |
| Inflation Expectations (%) | 6.13 | 6.23 | 6.04 | 6.38 | 7.04 | 6.12 | 5.94 |
| Activity – same month one year ago | 2.3 | 2.9 | -4.3 | 1.8 | 14.3 | -4.2 | 4.8 |
| Employment – same month one year ago | 4.1 | 0.7 | 4.3 | 12.5 | 0.0 | 13.0 | 0.7 |
| Price Expectations – 3 months from now (%) | 4.3 | 5.4 | 5.5 | 5.2 | 3.5 | 5.9 | 3.5 |
| Cost Expectations – 3 months from now (%) | 6.7 | 7.5 | 6.0 | 7.6 | 8.9 | 6.4 | 6.2 |
| Wages/Salaries – next 12 months (%) | 5.3 | 5.7 | 4.9 | 5.6 | 7.0 | 5.9 | 5.0 |
| Wages/Salaries – same month a year ago (%) | 6.7 | 6.1 | 5.5 | 6.9 | 7.2 | 7.8 | 6.6 |

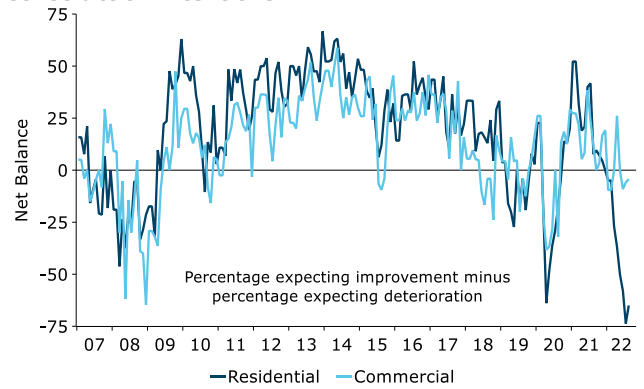


Charts

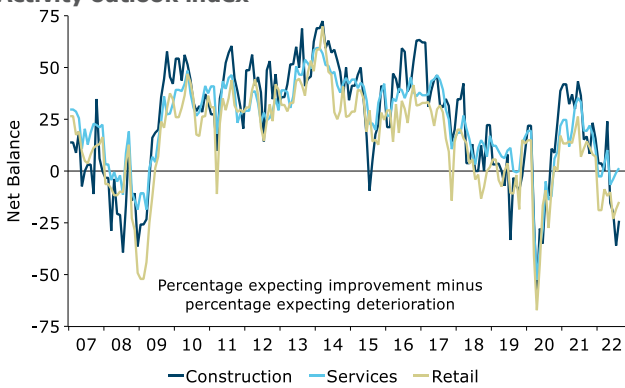
Activity outlook index



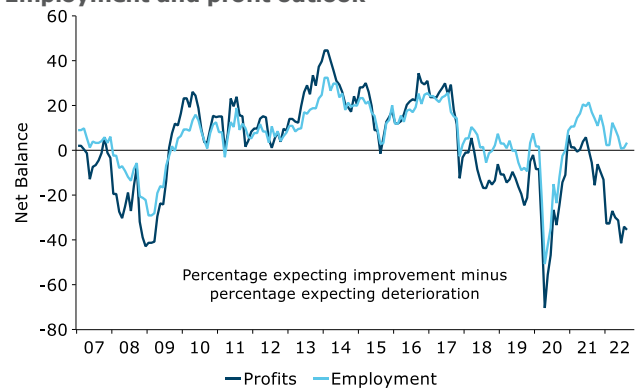
Construction intentions



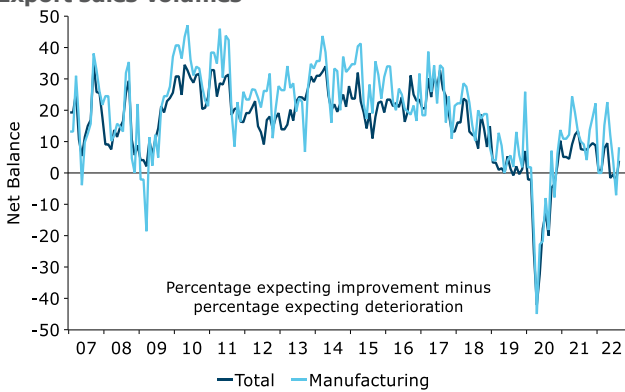
Activity outlook index



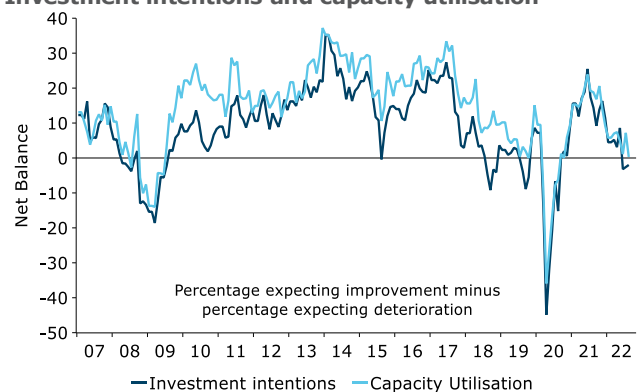
Employment and profit outlook



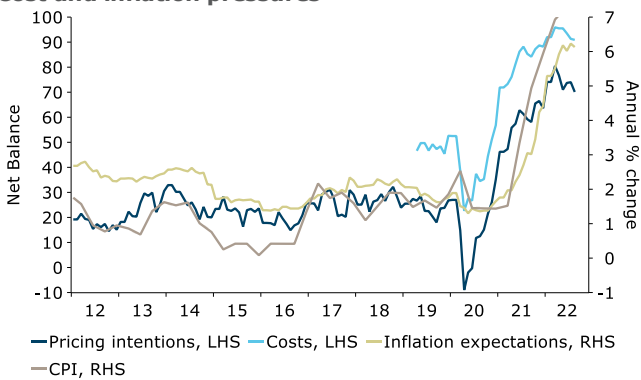
Export sales volumes



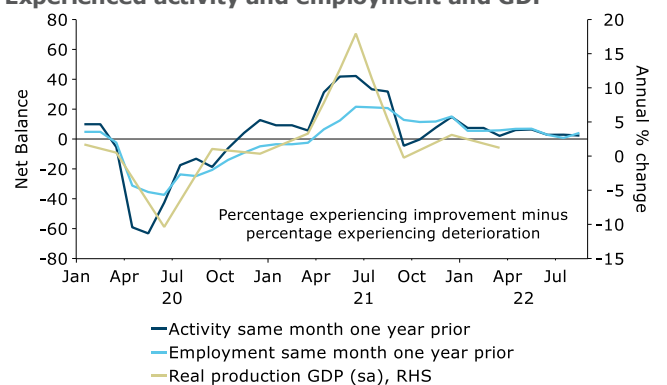
Investment intentions and capacity utilisation



Cost and inflation pressures



Experienced activity and employment and GDP



Source: ANZ, Statistics NZ, Macrobond



Contact us

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Sharon Zollner
Chief Economist

Follow Sharon on Twitter
@sharon_zollner

Telephone: +64 9 357 4094
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
@ANZ_Research (global)



David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022
Email: david.croy@anz.com



Susan Kilsby
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469
Email: susan.kilsby@anz.com



Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, fiscal policy, economic risk assessment and credit developments.

Telephone: +64 21 661 792
Email: miles.workman@anz.com



Finn Robinson
Economist

Macroeconomic forecasting, economic developments, labour market dynamics, inflation and monetary policy.

Telephone: +64 21 629 553
Email: finn.robinson@anz.com



Kyle Uerata
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894
Email: kyle.uerata@anz.com



Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808
Email: natalie.denne@anz.com

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