

# ANZ New Zealand Business Outlook

29 September 2022



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See page 9.

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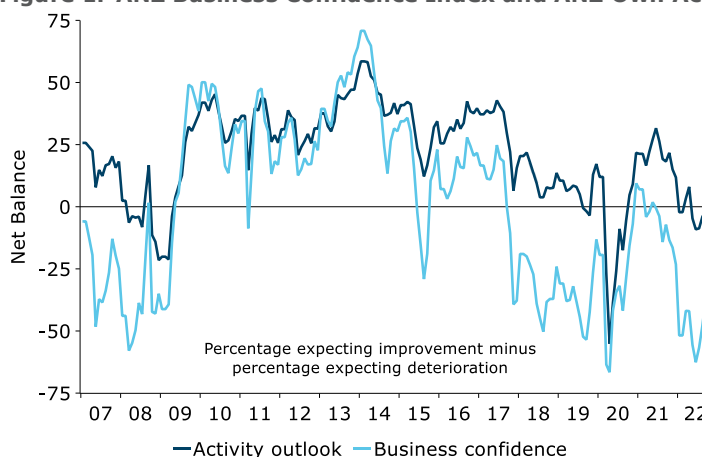
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## Creeping higher

### Key points

- Business confidence lifted another 11 points in September to -37, while expected own activity rose 2 points to -2.
- Most activity indicators lifted for a third month, with residential construction the outlier.
- Inflation pressures are easing at a snail's pace.

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



Source: Macrobond, ANZ Research

**Table 1: Results versus last month**

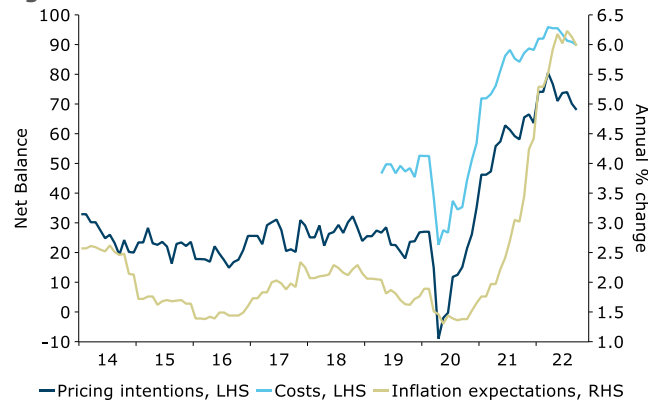
Net Balance	Sep	Aug	Comment
Business Confidence	-36.7	-47.8	That's a solid bounce
Own Activity Outlook	-1.8	-4.0	Slowly coming up for air
Export Intentions	2.7	3.9	Little changed
Investment Intentions	1.8	-2.0	Back in the black
Cost Expectations	89.8	90.9	Holding up at super-high levels
Capacity Utilisation	7.7	0.3	A big jump, seen across every sector
Residential Construction	-76.5	-65.0	A fresh low, and that's saying something
Commercial Construction	26.3	-4.3	Huge jump (in a volatile series)
Employment Intentions	5.9	3.4	Back around May levels
Profit Expectations	-24.3	-35.5	A large improvement
Pricing Intentions	68.0	70.1	Still far too high
Ease of Credit	-42.8	-50.8	Highest since mid-2021
Inflation Expectations	5.98%	6.13%	First time under 6 in six months
Activity – vs. same month one year ago	8.1	2.3	Every sector except retail saw a lift
Employment – vs. same month one year ago	5.9	4.1	Holding up

The key themes of the September survey were:

- Activity measures generally lifted modestly, including business confidence, own activity, capacity utilisation, investment intentions and commercial construction intentions. The exceptions were export intentions and residential construction intentions.
- Inflation pressures remain intense and are easing only very slowly. Pricing intentions eased 2 points to a net 68% of firms intending to raise their prices in the next three months. This is still more than three times the 1992-2020 average. Inflation expectations eased only slightly, and at 6% are still three times the inflation target midpoint.
- Agriculture firms went against the flow and were more worried this month. Looking at global developments, this is understandable.

Turning first, to economy-wide inflation pressures, it's clear these 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**

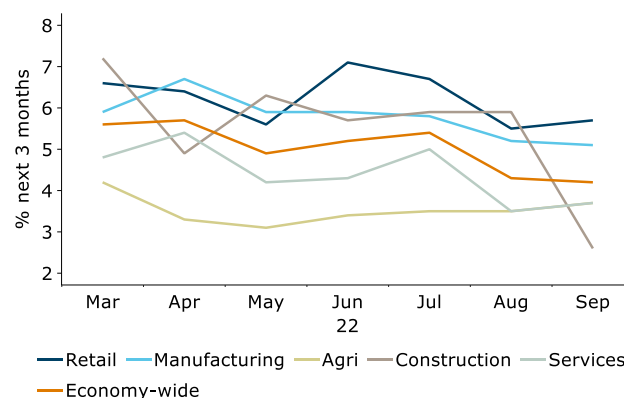


Source: Macrobond, ANZ Research

By sector, an intention to raise prices is most widespread in the retail sector (92% of firms intend to raise their prices in the next three months) and manufacturing (75%). The lowest proportions were in agriculture (52.9%) and services (60%). Construction sector price intentions have dropped the most dramatically, from 94% in March to 63% this month.

As regards a specific numerical estimate of where firms' own selling prices will be in three months' time (figure 3), the strongest were in retail (+5.7%, down from a peak of 7.1% in March) and manufacturing (+5.1% versus a peak of 6.7% in April) (note these aren't annual percent changes). Again, construction is the outlier in terms of how far pricing intentions have fallen.

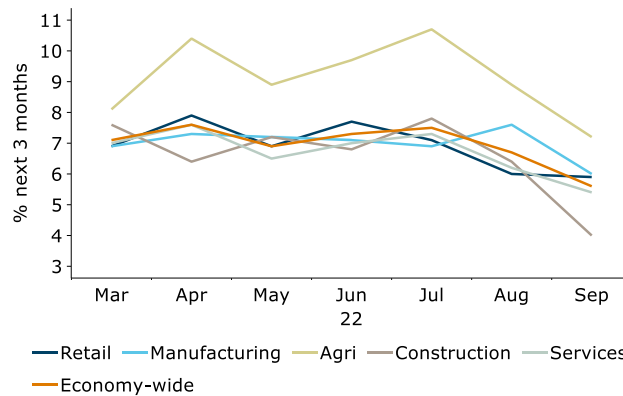
**Figure 3. Pricing intentions by sector**



Source: Macrobond, ANZ Research

We also now ask for estimates of firms' costs in three months' time relative to today (figure 4). Expected cost growth is easing, though it remains very high across the board, particularly considering that the question asks where costs will be three months from now, not a year ahead. Agriculture and construction are most clearly past their peak cost inflation. Note that on average, firms are expecting margin compression, in that costs are expected to go up around 5.6% over the next three months, but prices by only 4.2%.

**Figure 4. Cost expectations by sector**

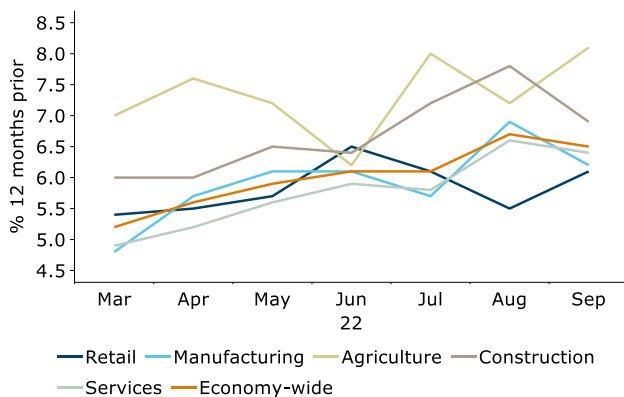


Source: Macrobond, ANZ Research

Wage growth is a crucial determinant of non-tradable inflation. Reported past wage settlements were little changed from last month, at 6.5% versus 6.7% (figure 5). Agriculture reclaimed top spot from construction, which looks more like it may have peaked.

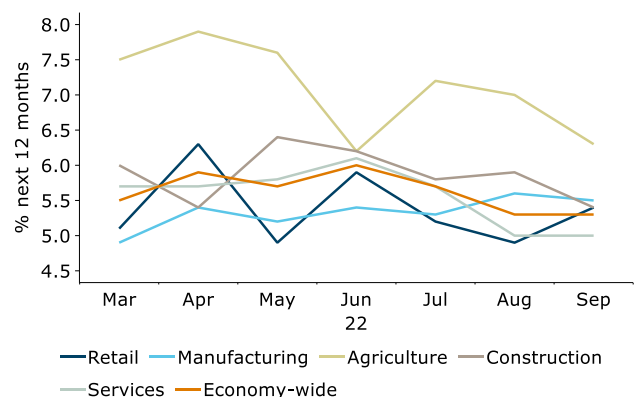
Expectations for wage settlements for the next 12 months are generally creeping lower, except for retail (figure 6). It's clear that for now, the labour market remains exceptionally tight, and overall, firms are anticipating having to pay up (5.3%) – though not quite as much as in the 12 months just gone (6.5%).

**Figure 5. Wage growth by sector: last 12 months**



Source: Macrobond, ANZ Research

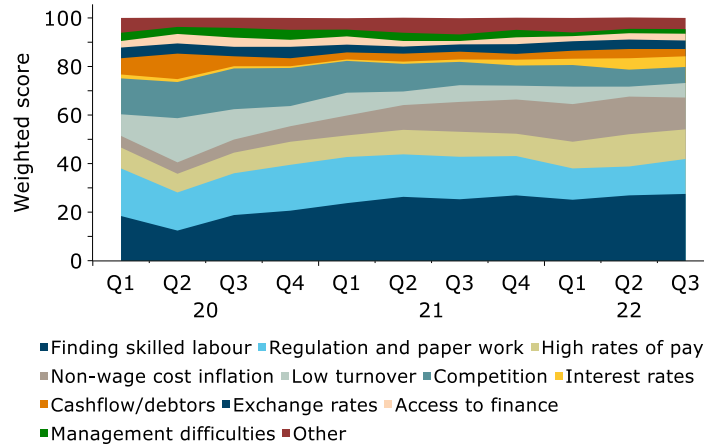
**Figure 6. Wage growth by sector: next 12 months**



Source: Macrobond, ANZ Research

Each three months we ask firms what their biggest problems are. Finding skilled labour remains the clear #1, with non-wage cost inflation, high rates of pay and regulation/paperwork all roughly tied for second. The Reserve Bank's biggest problem is that these are all inflationary problems.

**Figure 7. Firms biggest problems, weighted**

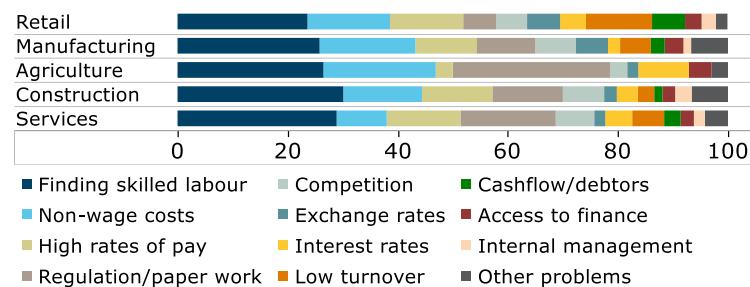


Source: Macrobond, ANZ Research

We can also look at firms' largest problems by sector (figure 8).

- The services sector is struggling the least with non-wage costs (agriculture the most).
- The agriculture sector is the least worried about high rates of pay.
- Agriculture is by far the most concerned about regulation/paperwork.
- Agriculture is the most concerned about interest rates; manufacturing and retail are the most worried about the weak exchange rate.
- Retail is the sector most concerned about low turnover, but it's only their fourth-largest problem, well behind finding labour, wages and non-wage costs.

**Figure 8. Biggest problems by sector**



Source: Macrobond, ANZ Research

Our heatmap of indicators by sector (over) continues to brighten up as activity indicators improve. The levels remain subdued, but there's now a lot less dark blue (deep lows compared to history) in the left-hand panel.

Points of interest:

- The monthly bounce in sentiment was most marked for the construction sector, unexpectedly. This is hard to square with the continued pessimism about the residential construction outlook, and we'll take it with a grain of salt for now. Sentiment in the agriculture sector cooled across quite a few questions.

- By question, the biggest lift was in capacity utilisation (one of the better GDP indicators in the survey), and expected profitability (outside of agriculture).
- In levels terms, most sectors' expectations remain downbeat relative to history (though less so than previously) but reported activity and employment versus a year ago remains more upbeat outside of retail.
- Pricing intentions remain the most dramatically above their historical average, while expected profit and ease of credit sit the furthest below historical averages.

**Table 2. Heatmap**

	Levels					Monthly changes				
	Retail	Mfg	Agric	Constrn	Serv	Retail	Mfg	Agric	Constrn	Serv
Business Confidence	-37.5	-36.7	-76.5	-33.3	-32.8	7.2	15.1	-9.8	37.5	9.4
Own activity outlook	-10.0	-3.3	5.9	0.0	-0.8	4.9	5.5	-8.4	24.0	-2.2
Activity vs. same month one year ago	-7.7	11.5	23.5	20.8	6.9	-3.4	9.7	9.2	25.0	2.1
Exports	-21.4	13.2	5.9	-25.0	5.6	-21.4	5.0	0.9	-1.9	-0.1
Investment	-5.1	3.3	-11.8	0.0	5.4	-0.7	-2.3	-7.0	16.0	7.5
Capacity Utilisation	2.6	10.5	11.8	8.7	6.5	4.9	5.1	7.0	12.9	7.9
Residential Construction	...	...	...	-76.5	...	...	...	...	-11.5	...
Commercial Construction	...	...	...	26.3	...	...	...	...	30.6	...
Employment	-2.6	14.8	0.0	4.2	5.4	-2.6	9.5	-14.3	20.2	0.5
Employment vs. same month one year ago	7.7	8.2	0.0	0.0	6.2	3.4	-4.3	0.0	-13.0	5.5
Profits	-25.0	-23.0	-64.7	-16.7	-22.0	6.9	13.8	-36.1	35.3	12.2
Ease of Credit	-42.5	-49.2	-64.7	-16.7	-41.7	12.8	8.7	-12.3	27.3	6.9
Costs	97.4	86.4	88.2	83.3	90.4	-0.2	-2.9	-7.0	0.0	0.4
Pricing Intentions	92.1	74.6	52.9	62.5	60.3	1.9	3.2	0.5	-25.0	-3.0

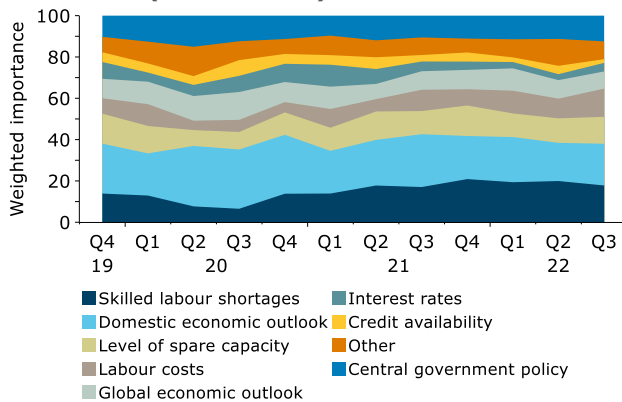
Note: Shades of orange indicate high, and shades of blue, low, becoming more intense at the extremes. The colour coding is based on standardised values that take into account the historical average and variation in each series. For example, a series may be low compared to others but if that's not unusual, 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.

### Investment drivers

Every three months we ask firms about what's driving their investment intentions.

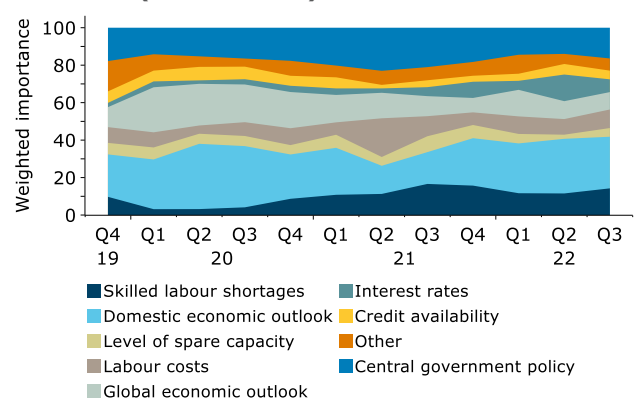
Amongst firms intending to invest more, labour costs are a growing driver, though not the single most important (figure 9). Amongst firms intending to cut their investment (figure 10), the biggest factor is the domestic economic outlook. Interest rates actually fell in relative importance compared to June, even though rates have risen considerably since then.

**Figure 9. Weighted drivers for firms intending to invest more (22% of firms)**



Source: Macrobond, ANZ Research

**Figure 10. Weighted drivers for firms intending to invest less (20% of firms)**



Source: Macrobond, ANZ Research

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## Our take

The New Zealand economy is at a delicate juncture. It's fair to say that demand has not yet rolled over as feared as the Reserve Bank has raised interest rates. But insofar as the RBNZ can just keep on going until they see the cooling in demand they need to tame inflation, that's likely to be a temporary reprieve, if not an outright double-edged sword for firms that have considerable debt.

Inflation pressures are easing, but painfully slowly. It's not enough for the RBNZ to see inflation pressures top out and ever so gradually fall. They will be concerned about the chance that wage and price-setting behaviour will change in structural ways that make bringing inflation down more difficult. We expect that the RBNZ will need to deliver a policy rate closer to 5% than 4% to get on top of inflation pressures.

Meanwhile, similar dynamics are playing out globally as central banks take on inflation in over-stretched economies, and in some regions, very nasty energy shocks. Global interest rates have risen abruptly as markets assess not only likely average policy rates and inflation over coming years, but also the sustainability of fiscal positions in some highly indebted countries. Volatility seems likely to be a hallmark of the coming weeks and months; this could impact on both business and consumer confidence here in New Zealand, even if the causes are far away.

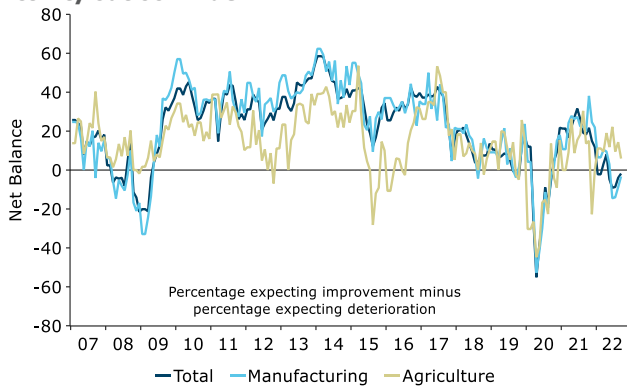
## Survey Results September 2022

Net Balance	September	Previous (August)	Retail	Mfg	Agric	Constn	Services
Business Confidence	-36.7	-47.8	-37.5	-36.7	-76.5	-33.3	-32.8
Own Activity Outlook	-1.8	-4.0	-10.0	-3.3	5.9	0.0	-0.8
Export Intentions	2.7	3.9	-21.4	13.2	5.9	-25.0	5.6
Investment Intentions	1.8	-2.0	-5.1	3.3	-11.8	0.0	5.4
Cost Expectations	89.8	90.9	97.4	86.4	88.2	83.3	90.4
Capacity Utilisation	7.7	0.3	2.6	10.5	11.8	8.7	6.5
Residential Construction	-76.5	-65.0	...	...	...	-76.5	...
Commercial Construction	26.3	-4.3	...	...	...	26.3	...
Employment Intentions	5.9	3.4	-2.6	14.8	0.0	4.2	5.4
Profit Expectations	-24.3	-35.5	-25.0	-23.0	-64.7	-16.7	-22.0
Pricing Intentions	68.0	70.1	92.1	74.6	52.9	62.5	60.3
Ease of Credit Expectations	-42.8	-50.8	-42.5	-49.2	-64.7	-16.7	-41.7
Inflation Expectations (%)	5.98	6.13	6.38	6.53	7.17	5.26	5.62
Activity – same month one year ago	8.1	2.3	-7.7	11.5	23.5	20.8	6.9
Employment – same month one year ago	5.9	4.1	7.7	8.2	0.0	0.0	6.2
Price Expectations – 3 months from now (%)	4.2	4.3	5.7	5.1	3.7	2.6	3.7
Cost Expectations – 3 months from now (%)	5.6	6.7	5.9	6.0	7.2	4.0	5.4
Wages/Salaries – next 12 months (%)	5.3	5.3	5.4	5.5	6.3	5.4	5.0
Wages/Salaries – same month a year ago (%)	6.5	6.7	6.1	6.2	8.1	6.9	6.4

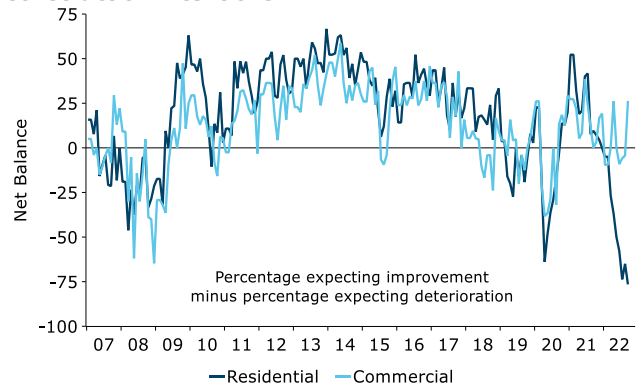


# Charts

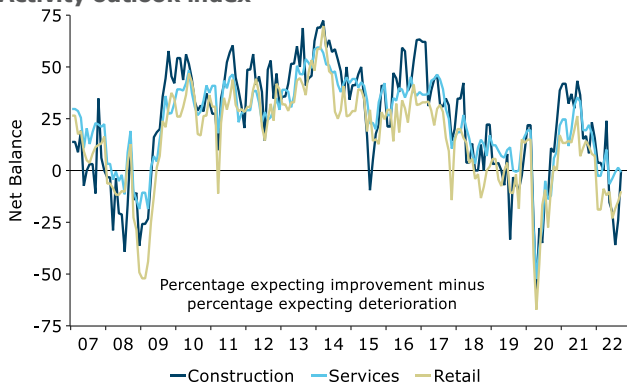
**Activity outlook index**



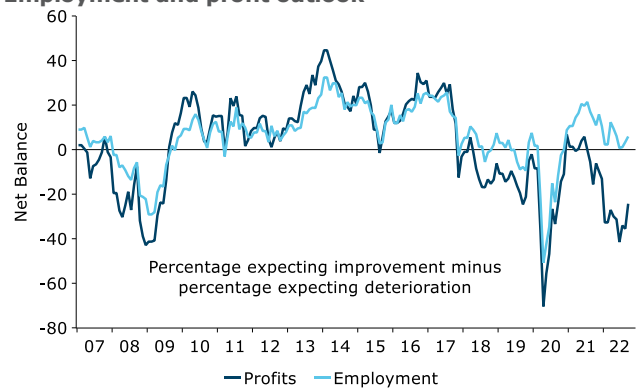
**Construction intentions**



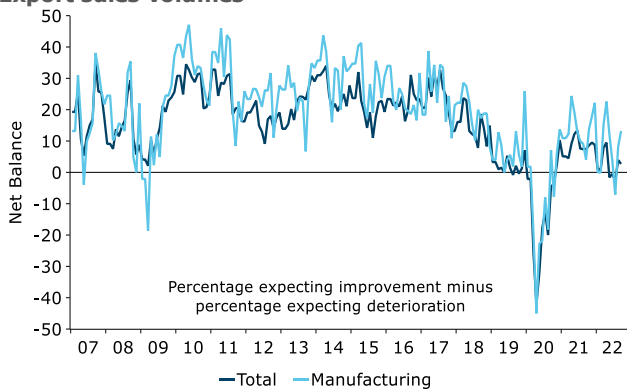
**Activity outlook index**



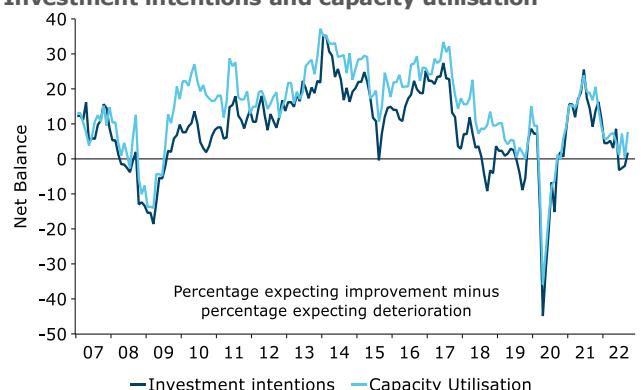
**Employment and profit outlook**



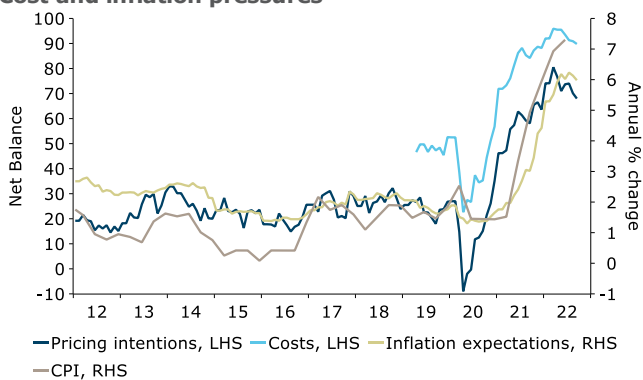
**Export sales volumes**



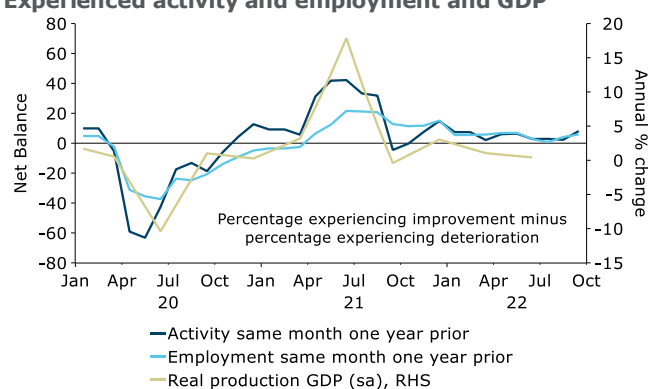
**Investment intentions and capacity utilisation**



**Cost and inflation pressures**



**Experienced activity and employment and GDP**



Source: ANZ, Statistics NZ, Macrobond





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