

ANZ New Zealand Business Outlook

26 October 2022



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Contact

Sharon Zollner for more details.

See page 7.

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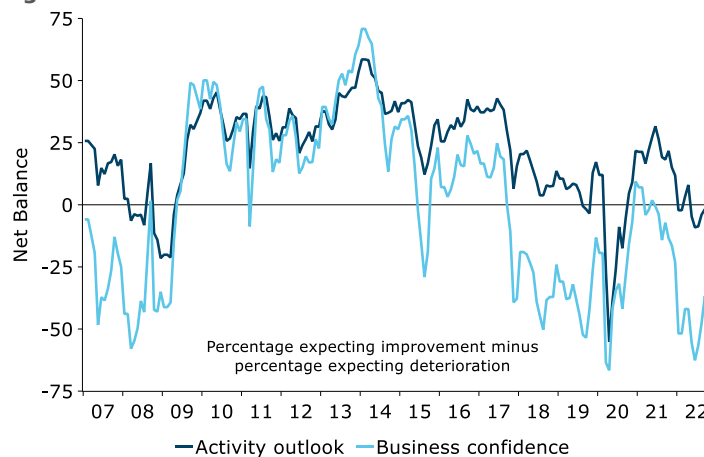
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Still wary

Key points

- Business confidence fell 6 points in October to -43, while expected own activity dipped 1 point to -3.
- Most forward-looking activity indicators slipped a little, though residential construction intentions lifted. Responses received after the unexpectedly strong CPI data were weaker on average.
- Inflation pressures remain intense. Pricing intentions are gradually easing but are not yet indicating a meaningful fall in inflation.

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



Source: Macrobond, ANZ Research

Table 1: Results versus last month

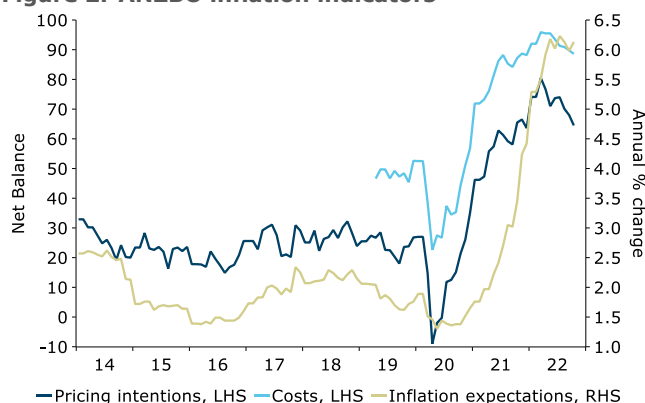
Net Balance	Oct	Sep	Comment
Business Confidence	-42.7	-36.7	Still well off its lows
Own Activity Outlook	-2.5	-1.8	Steady
Export Intentions	-4.3	2.7	Not much good news on global growth
Investment Intentions	1.1	1.8	Little changed
Cost Expectations	88.6	89.8	Holding up at super-high levels
Capacity Utilisation	3.4	7.7	Still in the black
Residential Construction	-43.8	-76.5	A very large bounce off extreme lows
Commercial Construction	-4.8	26.3	Bit all over the shop
Employment Intentions	5.0	5.9	Refusing to roll over
Profit Expectations	-30.2	-24.3	Slipping again
Pricing Intentions	64.5	68.0	Continuing their gradual fall
Ease of Credit	-55.4	-42.8	Heading south again
Inflation Expectations	6.13%	5.98%	That can't be good
Activity – vs. same month one year ago	8.3	8.1	Still rising, though Auckland was in lockdown a year ago
Employment – vs. same month one year ago	7.6	5.9	Holding up

The key themes of the October survey:

- Activity measures generally were steady to slightly lower, including business confidence, own activity, capacity utilisation, investment intentions and export intentions. Residential construction intentions bounced to a level that's still very weak but closer to normal ranges.
- Inflation pressures remain intense and are easing only very slowly. Pricing intentions eased another 3 points to a net 65% of firms intending to raise their prices in the next three months. This is still far higher than normal – and the average price increase that firms anticipated was no lower. Inflation expectations one year from now lifted back above 6%.
- The late-month responses received after the surprisingly strong CPI data caused many an OCR forecast to be revised higher were understandably more pessimistic about activity and had higher inflation expectations.

Economy-wide inflation pressures are still very strong. Of the big-three indicators pricing intentions and costs are falling – but they are still far too high.

Figure 2. ANZBO inflation indicators

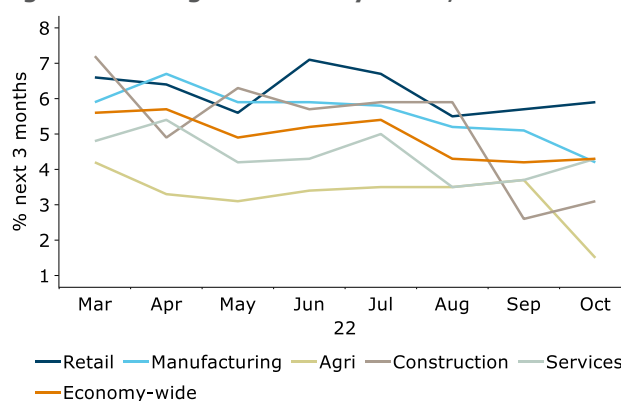


Source: Macrobond, ANZ Research

By sector, an intention to raise prices is most widespread in the retail sector (84% of firms intend to raise their prices in the next three months) and services (65%). Construction sector price intentions have dropped most dramatically, from 94% in March to 50% of firms this month.

As regards a specific numerical estimate of where firms' own selling prices will be in three months' time (figure 3), the highest were in the retail sector (+5.9%, down from a peak of 7.1% in June). Again, while not the lowest, the construction sector is the outlier in terms of how far pricing intentions have fallen (3.1% vs a 7.2% initial read in March).

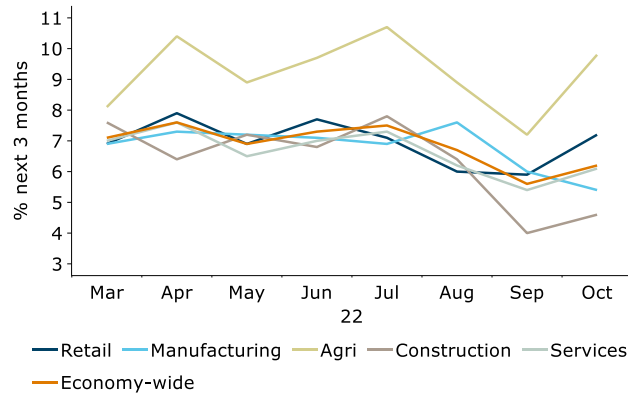
Figure 3. Pricing intentions by sector, next 3 months



Source: Macrobond, ANZ Research

We also ask firms for estimates of their costs in three months' time relative to today (figure 4). Expected cost increases bounced back up this month in every sector except manufacturing, perhaps reflecting the weaker NZD. They are very high across the board, particularly bearing in mind that the question asks where costs will be three months from now, not a year ahead. On average, firms are still expecting margin compression, in that costs are expected to go up around 6.2% over the next three months, but prices by only 4.3%.

Figure 4. Cost expectations by sector

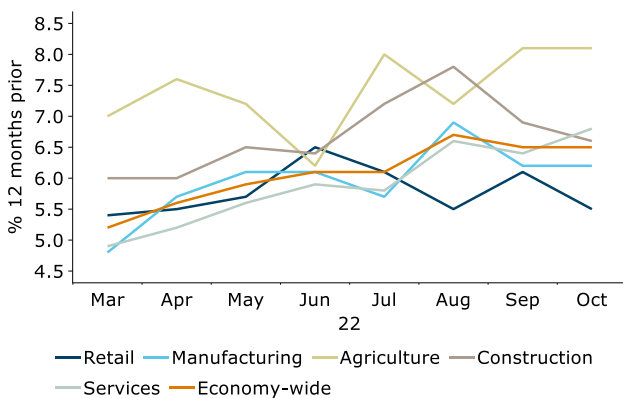


Source: Macrobond, ANZ Research

Wage growth is a crucial determinant of non-tradable inflation. Reported past wage settlements showed mixed movements, but were unchanged in aggregate at 6.5% (figure 5). Construction slipped to third place, being passed by the services sector, which lifted.

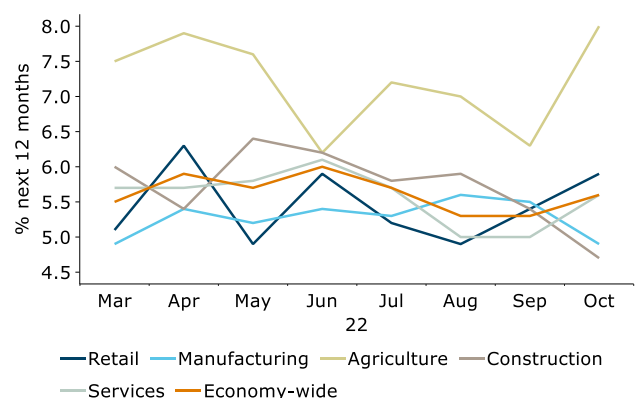
Expectations for wage settlements for the next 12 months increased in three sectors and fell in two (figure 6). The labour market remains exceptionally tight, and overall, firms are anticipating having to pay up (5.6%).

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

Our heatmap of indicators by sector (below) was bluer this month as activity indicators slipped.

Points of interest:

- Agriculture had the best month in terms of indicators rising – perhaps due to the lower NZD, as regulatory news wasn't generally perceived as a positive by the sector. Retail also improved across many metrics.
- By question, the biggest lift was in employment intentions, which isn't particularly helpful from the RBNZ's point of view, in that it needs the labour market to become less tight.
- In levels terms, employment intentions are holding up best of the activity indicators, as are the backward-looking questions. There is a lot of pessimism about profitability, however. These two series generally move together – something's gotta give (see chart page 6). Overall business confidence also remains very subdued.
- Pricing intentions remain the most dramatically above their historical average – one suspects expected costs would look similar if they had the same amount of history to compare against.

Table 2. Heatmap

	Levels					Monthly changes				
	Retail	Mfg	Agric	Constrn	Serv	Retail	Mfg	Agric	Constrn	Serv
Business Confidence	-29.5	-54.4	-71.4	-33.3	-41.7	8.0	-17.7	5.1	0.0	-8.9
Own activity outlook	-13.3	-6.9	21.4	-16.7	2.2	-3.3	-3.6	15.5	-16.7	3.0
Activity vs. same month one year ago	6.8	3.4	-7.1	20.8	10.3	14.5	-8.1	-30.6	0.0	3.4
Exports	-24.1	-4.1	15.4	-21.4	2.6	-2.7	-17.3	9.5	3.6	-3.0
Investment	4.7	5.4	-14.3	-8.3	0.7	9.8	2.1	-2.5	-8.3	-4.7
Capacity Utilisation	11.6	8.9	15.4	-12.5	-0.8	9.0	-1.6	3.6	-21.2	-7.3
Residential Construction	...	...	...	-43.8	...	...	...	...	32.7	...
Commercial Construction	...	...	...	-4.8	...	...	...	...	-31.1	...
Employment	-2.2	15.5	7.1	8.3	1.5	0.4	0.7	7.1	4.1	-3.9
Employment vs. same month one year ago	6.8	8.6	-7.1	0.0	10.4	-0.9	0.4	-7.1	0.0	4.2
Profits	-26.7	-37.9	-57.1	-37.5	-24.6	-1.7	-14.9	7.6	-20.8	-2.6
Ease of Credit	-55.6	-60.7	-64.3	-45.8	-53.2	-13.1	-11.5	0.4	-29.1	-11.5
Costs	95.3	77.2	100.0	79.2	91.7	-2.1	-9.2	11.8	-4.1	1.3
Pricing Intentions	83.7	62.5	23.1	50.0	65.2	-8.4	-12.1	-29.8	-12.5	4.9

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

It's a stressful time for businesses. Costs are still rising rapidly, and passing these costs on has become more difficult as customers become more price sensitive. Many firms have been chronically understaffed for a long period and the strain is telling. And economists are out there warning that interest rates are going to keep going higher (and house prices likely lower) until the New Zealand economy goes into recession or something close to it. If the global economy doesn't side-swipe us first, that is.

With all that going on, it's no wonder headline business confidence remains very subdued. But firms are clearly still very busy, and are soldiering on. The economic outlook is certainly murky, but the New Zealand economy has a lot going for it. Debt is higher, but nowhere near the worrying levels other economies are struggling under. We're relatively insulated from the energy cost implications of Russia's invasion of Ukraine. Our primary export base is food, and when it comes down to it, people gotta eat. Housing affordability has improved in a meaningful but so far remarkably painless fashion. Indeed, overall the economy is still surprising economists with its resilience. It's a rougher path ahead, but the country is still moving forward.

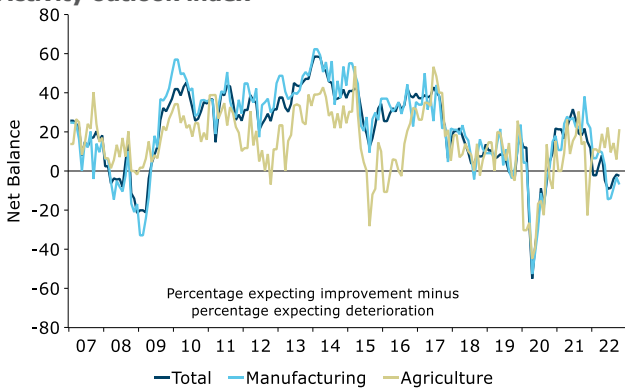
Survey Results October 2022

Net Balance	October	Previous (September)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-42.7	-36.7	-29.5	-54.4	-71.4	-33.3	-41.7
Own Activity Outlook	-2.5	-1.8	-13.3	-6.9	21.4	-16.7	2.2
Export Intentions	-4.3	2.7	-24.1	-4.1	15.4	-21.4	2.6
Investment Intentions	1.1	1.8	4.7	5.4	-14.3	-8.3	0.7
Cost Expectations	88.6	89.8	95.3	77.2	100.0	79.2	91.7
Capacity Utilisation	3.4	7.7	11.6	8.9	15.4	-12.5	-0.8
Residential Construction	-43.8	-76.5	...	...	...	-43.8	...
Commercial Construction	-4.8	26.3	...	...	...	-4.8	...
Employment Intentions	5.0	5.9	-2.2	15.5	7.1	8.3	1.5
Profit Expectations	-30.2	-24.3	-26.7	-37.9	-57.1	-37.5	-24.6
Pricing Intentions	64.5	68.0	83.7	62.5	23.1	50.0	65.2
Ease of Credit Expectations	-55.4	-42.8	-55.6	-60.7	-64.3	-45.8	-53.2
Inflation Expectations (%)	6.13	5.98	6.57	6.60	6.64	5.66	5.84
Activity – same month one year ago	8.3	8.1	6.8	3.4	-7.1	20.8	10.3
Employment – same month one year ago	7.6	5.9	6.8	8.6	-7.1	0.0	10.4
Price Expectations – 3 months from now (%)	4.3	4.2	5.9	4.2	1.5	3.1	4.3
Cost Expectations – 3 months from now (%)	6.2	5.6	7.2	5.4	9.8	4.6	6.1
Wages/Salaries – next 12 months (%)	5.6	5.3	5.9	4.9	8.0	4.7	5.6
Wages/Salaries – same month a year ago (%)	6.5	6.5	5.5	6.2	8.1	6.6	6.8

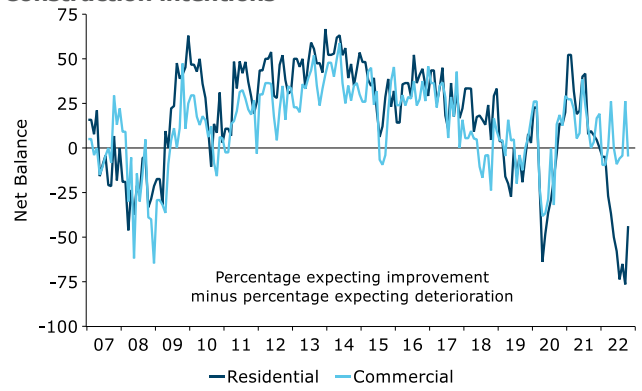


Charts

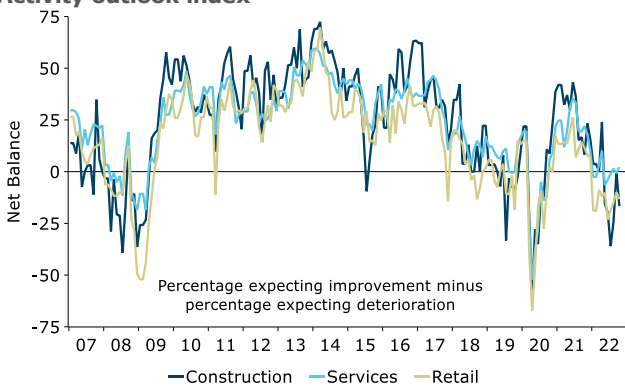
Activity outlook index



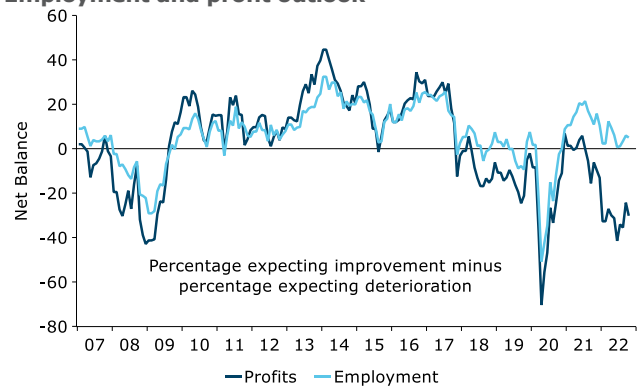
Construction intentions



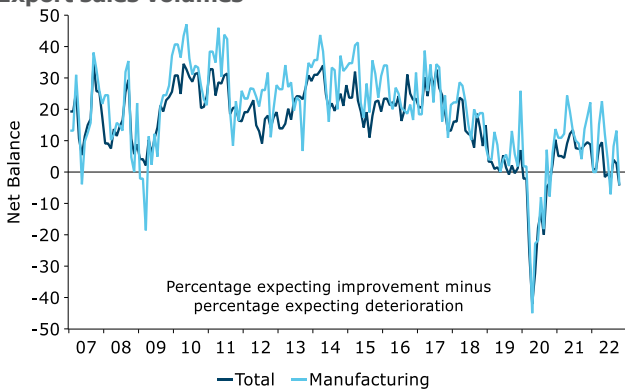
Activity outlook index



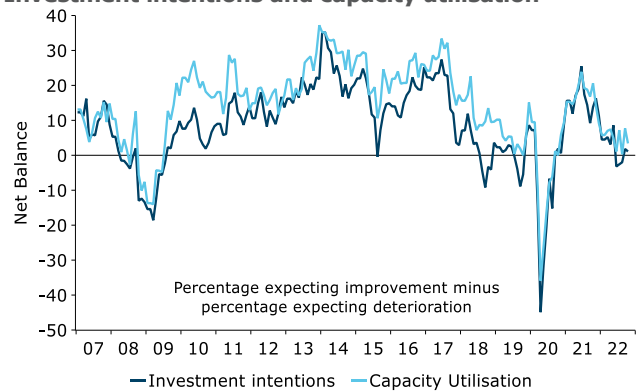
Employment and profit outlook



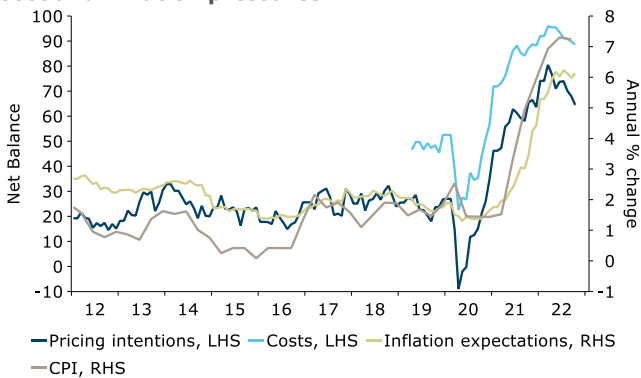
Export sales volumes



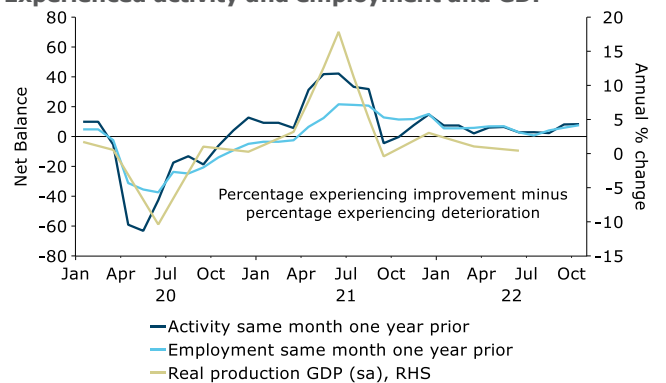
Investment intentions and capacity utilisation



Cost and inflation pressures



Experienced activity and employment and GDP



Source: ANZ, Statistics NZ, Macrobond



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