

ANZ New Zealand Business Outlook

30 November 2022



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Contact

Sharon Zollner for more details.

See page 7.

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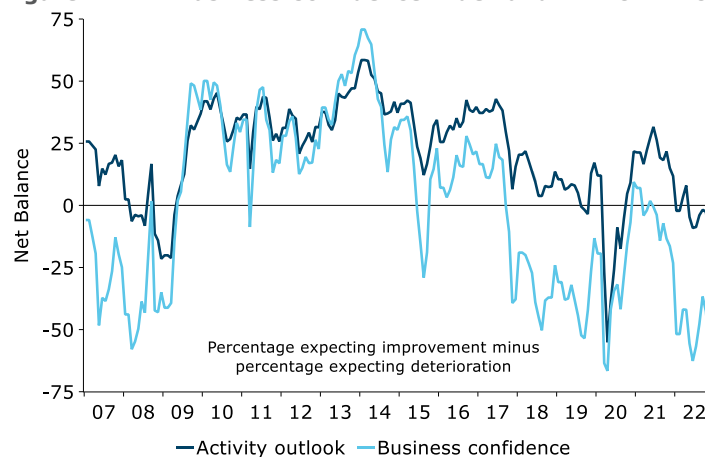
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Inflationary stress

Key points

- Business confidence fell 14 points in November to -57, while expected own activity fell 11 points to -14, only 8 points shy of 2009 lows.
- Activity indicators fell. Residential construction intentions tanked. Employment intentions were negative for the first time since Oct 2020.
- Inflation pressures remain intense, though pricing intentions eased.

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



Source: Macrobond, ANZ Research

Table 1: Results versus last month

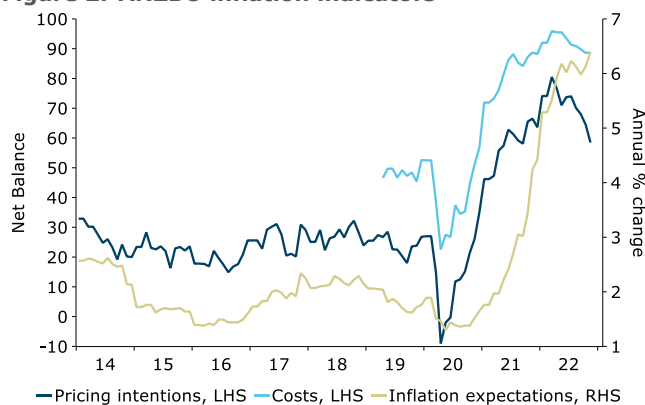
Net Balance	Nov	Oct	Comment
Business Confidence	-57.1	-42.7	Bouncing around dire levels
Own Activity Outlook	-13.7	-2.5	Heading for recessionary levels
Export Intentions	-5.4	-4.3	Steady at subdued levels
Investment Intentions	-8.1	1.1	Downward trend evident
Cost Expectations	88.7	88.6	Holding up at super-high levels
Capacity Utilisation	-4.1	3.4	Trending down
Residential Construction	-90.0	-43.8	Crash. Literally could hardly be any lower
Commercial Construction	-4.2	-4.8	Holding up
Employment Intentions	-4.0	5.0	First negative read since October 2020
Profit Expectations	-45.1	-30.2	Getting ugly – lowest read this year
Pricing Intentions	58.5	64.5	Continuing to ease but still far too high
Ease of Credit	-62.8	-55.4	Heading south again
Inflation Expectations	6.39%	6.13%	A fresh record high can't be good
Activity – vs. same month one year ago	1.8	8.3	Easing
Employment – vs. same month one year ago	4.8	7.6	Easing

The key themes of the November survey:

- Activity measures were generally lower, and are trending down. Residential construction intentions plummeted to a fresh record low.
- Inflation pressures remain intense but are easing slowly. Pricing intentions fell 6 points to a net 59% of firms intending to raise their prices in the next three months – still very high, but it peaked at 80.5% in March. Similarly, the average price increase that firms anticipate (next 3m) has dropped from 5.7% in April to 3.7%. The history of this series is too short to know what this implies for CPI inflation.

Figure 2 shows that of the big-three inflation indicators, pricing intentions and costs are falling – but the latter is barely off its highs, and pricing intentions are still far too high for the Reserve Bank to take comfort. And inflation expectations hit a fresh record high, which will not provide the RBNZ with any comfort whatsoever.

Figure 2. ANZBO inflation indicators

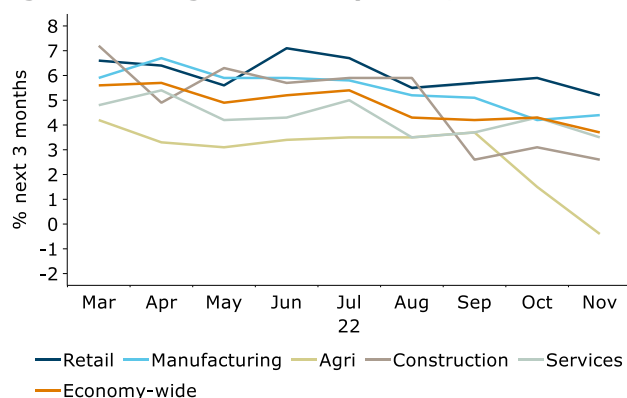


Source: Macrobond, ANZ Research

By sector, an intention to raise prices is most widespread in the retail sector (80% of firms intend to raise their prices in the next three months) and manufacturing (69%). Construction sector pricing intentions have dropped most dramatically, from 94% in March to 44% of firms this month.

As regards a specific numerical estimate of where firms' own selling prices will be in three months' time (figure 3), it was encouraging to see this fall to its lowest read this year, 3.7%. The highest expectations were in the retail sector (5.2%, down from a peak of 7.1% in June). Construction sector pricing intentions have fallen to 2.6% from a 7.2% first read in March. Respondents from the agriculture sector actually expect lower output prices, but this is the sector of the economy with the least pricing power.

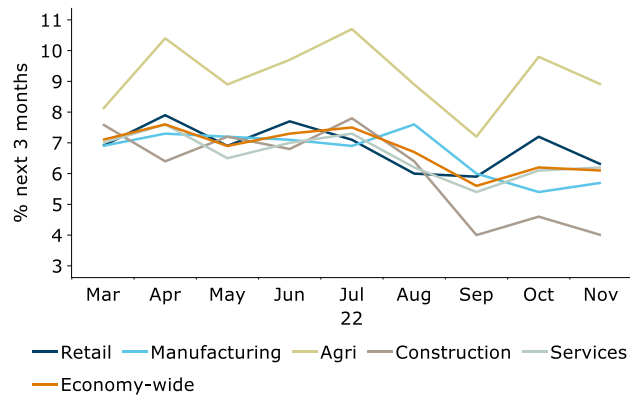
Figure 3. Pricing intentions by sector, next 3 months



Source: Macrobond, ANZ Research

We also ask firms for the expected change in their costs in three months' time (figure 4). Expected cost increases eased for every sector except manufacturing and services, but outside of construction, it's a stretch to say there's a clear downward trend. Note 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 6.1% over the next three months, but their prices by only 3.7%.

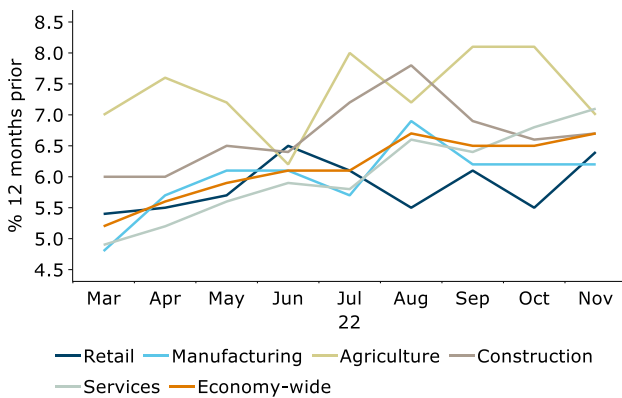
Figure 4. Cost expectations by sector



Source: Macrobond, ANZ Research

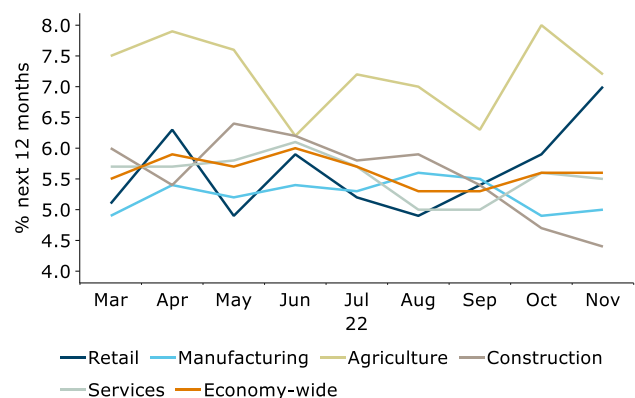
Wage growth is a crucial determinant of non-tradable inflation in a tight labour market. Reported past wage settlements lifted from 6.5% to 6.7% (figure 5) and are strongest for agriculture and services. Expectations for wage settlements for the next 12 months are trending down for construction, but are sharply higher for retail (possibly influenced by recent publicity about a significant settlement in this sector), and are holding pretty steady elsewhere. The aggregate was unchanged at 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 feeling blue in November as activity indicators slipped.

Points of interest:

- Retail was the most 'blue' this month in terms of changes (ie falls), while manufacturing was the most robust. In levels terms, the construction sector is the most downbeat, with all activity indicators under par.
- Costs and pricing intentions remain the most elevated indicators relative to history.
- By question, the weakest reads were on profitability, and likely related to that, ease of credit. Overall business confidence also remains very subdued. In that context, the relative robustness of employment intentions is notable, even though it's fallen into the red.

Table 2. Heatmap

	Levels					Monthly changes				
	Retail	Mfg	Agric	Constrn	Serv	Retail	Mfg	Agric	Constrn	Serv
Business Confidence	-55.3	-58.5	-100.0	-57.7	-52.7	-25.8	-4.1	-28.6	-24.4	-11.0
Own activity outlook	-37.5	5.6	-6.2	-44.4	-7.0	-24.2	12.5	-27.6	-27.7	-9.2
Activity vs. same month one year ago	-10.4	13.0	-6.2	0.0	2.4	-17.2	9.6	0.9	-20.8	-7.9
Exports	-12.5	-4.5	0.0	-13.3	-4.0	11.6	-0.4	-15.4	8.1	-6.6
Investment	-8.7	5.7	-43.8	-7.4	-8.6	-13.4	0.3	-29.5	0.9	-9.3
Capacity Utilisation	-4.3	0.0	6.2	-15.4	-4.0	-15.9	-8.9	-9.2	-2.9	-3.2
Residential Construction	...	...	...	-90.0	...	...	...	...	-46.2	...
Commercial Construction	...	...	...	-4.2	...	...	...	...	0.6	...
Employment	-10.4	7.4	6.2	-18.5	-5.4	-8.2	-8.1	-0.9	-26.8	-6.9
Employment vs. same month one year ago	0.0	7.5	0.0	0.0	7.2	-6.8	-1.1	7.1	0.0	-3.2
Profits	-52.1	-29.6	-62.5	-70.4	-41.1	-25.4	8.3	-5.4	-32.9	-16.5
Ease of Credit	-72.9	-73.1	-81.2	-48.1	-56.2	-17.3	-12.4	-16.9	-2.3	-3.0
Costs	97.8	83.3	100.0	77.8	88.3	2.5	6.1	0.0	-1.4	-3.4
Pricing Intentions	80.4	68.5	-6.7	44.4	56.7	-3.3	6.0	-29.8	-5.6	-8.5

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

The strain is showing for kiwi businesses. Cost increases remain relentless and margins are squeezed, firms are chronically understaffed, and they're waiting for the hammer to fall as the impact of relentless monetary policy tightening eventually kicks in. There are a lot of dark clouds on the horizon, and this month's survey reflects that. Only 6 responses were received after the RBNZ Monetary Policy Statement on 23 November.

The survey is a mixed bag for the Reserve Bank. The survey clearly indicates weaker activity ahead, which is what the RBNZ is trying to bring about in order to lower inflation pressure. The construction sector is on the ropes, and is expecting to actually drop prices, in what would be a very welcome development from an inflation-fighting perspective, given how much construction costs have been contributing to CPI inflation.

More generally, pricing intentions are continuing to ease, particularly gauged by firms' numerical estimates of what they intend to do with their prices. But they are still much too high. And inflation expectations jumped back up to a fresh record high, with retailers expecting inflation of 7%. If everyone else is doing it, and customers are expecting it, then the fear of losing customers as a result of passing through cost increases is much reduced. The Reserve Bank is trying to bring that fear back by increasing consumers' price sensitivity.

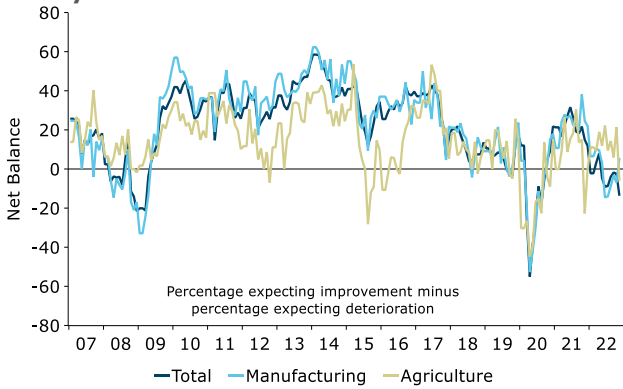
Survey Results November 2022

Net Balance	November	Previous (October)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-57.1	-42.7	-55.3	-58.5	-100.0	-57.7	-52.7
Own Activity Outlook	-13.7	-2.5	-37.5	5.6	-6.2	-44.4	-7.0
Export Intentions	-5.4	-4.3	-12.5	-4.5	0.0	-13.3	-4.0
Investment Intentions	-8.1	1.1	-8.7	5.7	-43.8	-7.4	-8.6
Cost Expectations	88.7	88.6	97.8	83.3	100.0	77.8	88.3
Capacity Utilisation	-4.1	3.4	-4.3	0.0	6.2	-15.4	-4.0
Residential Construction	-90.0	-43.8	...	...	...	-90.0	...
Commercial Construction	-4.2	-4.8	...	...	...	-4.2	...
Employment Intentions	-4.0	5.0	-10.4	7.4	6.2	-18.5	-5.4
Profit Expectations	-45.1	-30.2	-52.1	-29.6	-62.5	-70.4	-41.1
Pricing Intentions	58.5	64.5	80.4	68.5	-6.7	44.4	56.7
Ease of Credit Expectations	-62.8	-55.4	-72.9	-73.1	-81.2	-48.1	-56.2
Inflation Expectations (%)	6.39	6.13	7.04	6.72	7.05	5.80	6.08
Activity – same month one year ago	1.8	8.3	-10.4	13.0	-6.2	0.0	2.4
Employment – same month one year ago	4.8	7.6	0.0	7.5	0.0	0.0	7.2
Price Expectations – 3 months from now (%)	3.7	4.3	5.2	4.4	-0.4	2.6	3.5
Cost Expectations – 3 months from now (%)	6.1	6.2	6.3	5.7	8.9	4.0	6.2
Wages/Salaries – next 12 months (%)	5.6	5.6	7.0	5.0	7.2	4.4	5.5
Wages/Salaries – same month a year ago (%)	6.7	6.5	6.4	6.2	7.0	6.7	7.1

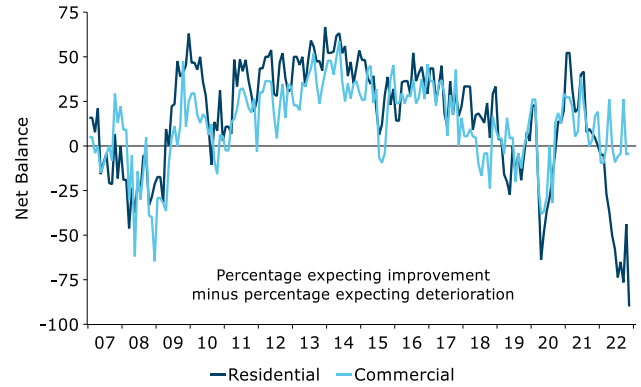


Charts

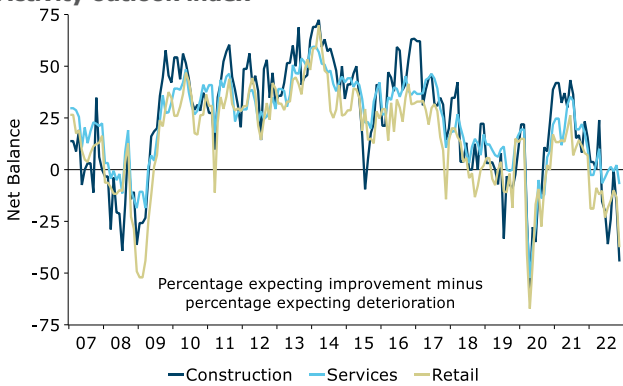
Activity outlook index



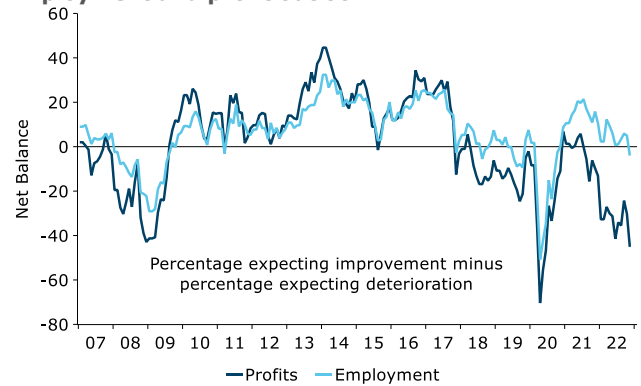
Construction intentions



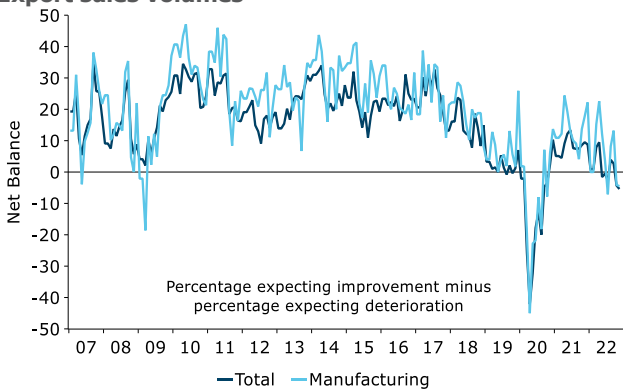
Activity outlook index



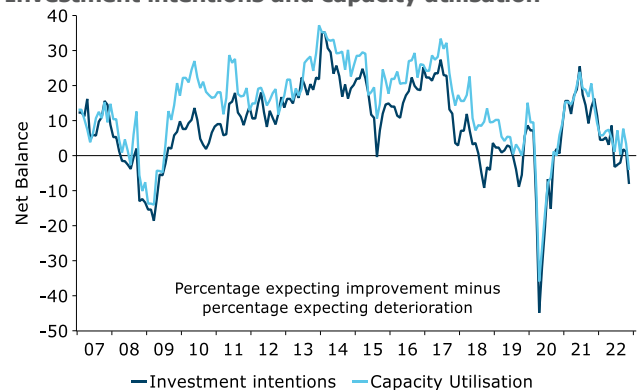
Employment and profit outlook



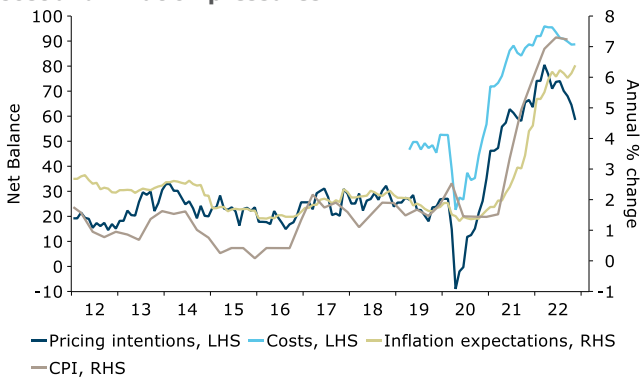
Export sales volumes



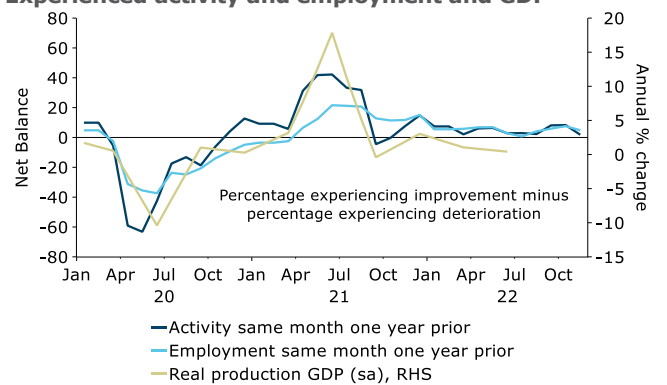
Investment intentions and capacity utilisation



Cost and inflation pressures



Experienced activity and employment and GDP



Source: ANZ, Statistics NZ, Macrobond



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