ANZ Research

ANZ New Zealand Business Outlook

20 December 2022

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Contact

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See page 10.

The next release of the ANZ *Business Outlook* is due on 27 January 2023 at 1pm.

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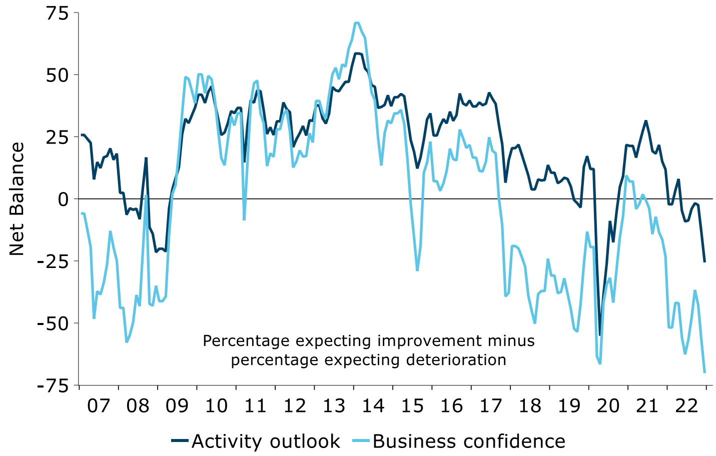
Confused by acronyms or jargon? See a glossary here.

Shock value

Key points

- Business confidence plummeted to a fresh record low in December, down 13 points to -70. Expected own activity fell from -14 to -26.
- The RBNZ appears to have achieved shock value with its sharp increase in the OCR, hawkish forecasts, and warning of deliberate recession in 2023. Many indicators are around Global Financial Crisis (GFC) lows.
- Inflation pressures remain intense. Wage expectations jumped.

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



Source: Macrobond, ANZ Research

Table 1: Results versus last month

Net Balance	Dec	Nov	Comment
Business Confidence	-70.2	-57.1	RBNZ message received. Lowest ever.
Own Activity Outlook	-25.6	-13.7	Around GFC lows.
Export Intentions	-10.0	-5.4	Agriculture the strongest.
Investment Intentions	-20.5	-8.1	Around GFC lows.
Cost Expectations	84.4	88.7	Lowest since May 2021 but still high.
Capacity Utilisation	-14.3	-4.1	Around GFC lows.
Residential Construction	-75.0	-90.0	Still exceptionally grim.
Commercial Construction	-30.3	-4.2	A volatile series, but a decent fall.
Employment Intentions	-16.3	-4.0	Holding fire. Weakest in construction.
Profit Expectations	-52.7	-45.1	Lower than GFC lows.
Pricing Intentions	59.1	58.5	An interruption to the downtrend.
Ease of Credit	-66.7	-62.8	Unusually uniform across sectors.
Inflation Expectations	6.23%	6.39%	Barely off last month’s high.
Activity – vs. same month one year ago	-4.5	1.8	Would be -18.5 without Auckland (which was in lockdown a year ago).
Employment – vs. same month one year ago	1.3	4.8	Weakest amongst retailers.

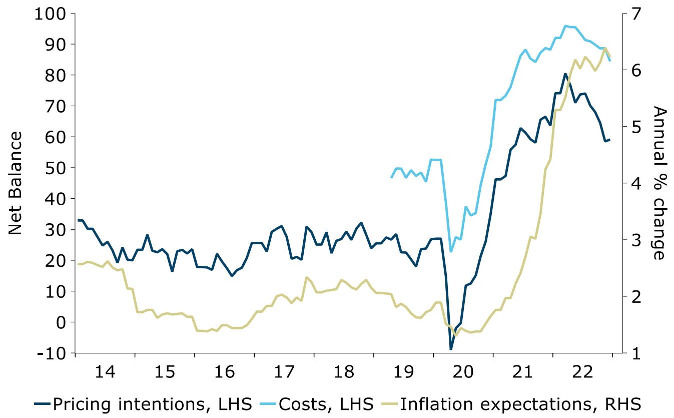
Well, if the Reserve Bank was going for shock value, they appear to have gotten it. The fall in business confidence is certainly dramatic, but while it's at a fresh record low, it would be incorrect to read this as an indication that any recession is likely to be unusually severe. Rather, it's unusually widely anticipated. It's a situation unprecedented in recent decades for a central bank to admit it is deliberately engineering a recession.

Time will tell if the shock value snowballs or dissipates, but the key themes of the December survey were:

- Activity measures weakened pretty much across the board.
- Inflation and pricing pressures remain intense, but cost expectations moved marginally lower.
- The decline in retail and manufacturing sector sentiment was particularly marked, but it was broad-based.

Economy-wide inflation pressures are clearly still very strong (figure 2).

Figure 2. ANZBO inflation indicators

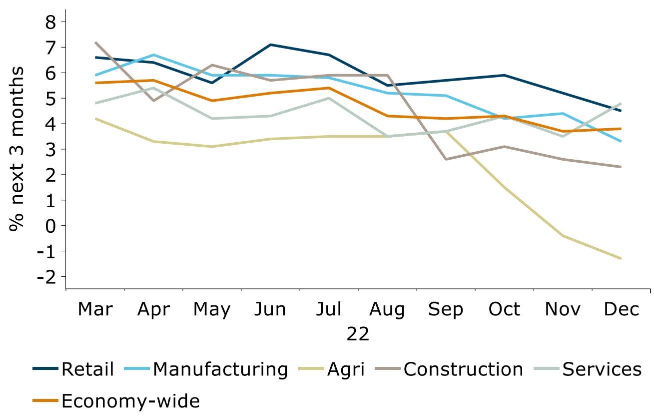


Source: Macrobond, ANZ Research

By sector, an intention to raise prices is most widespread in the retail sector (74% of firms intend to raise their prices in the next three months) and services (67%). The lowest proportion was in agriculture (-6.7%).

As regards a specific numerical estimate of where firms' own selling prices will be in three months' time (figure 3), the strongest were in services (+4.8%, the highest in five months) and retail (+4.5% versus a peak of 7.1% in June). Note these aren't annual percent changes, and we don't have enough data history to judge how well it matches up with measured prices. The agriculture sector is an outlier, but has very little pricing power.

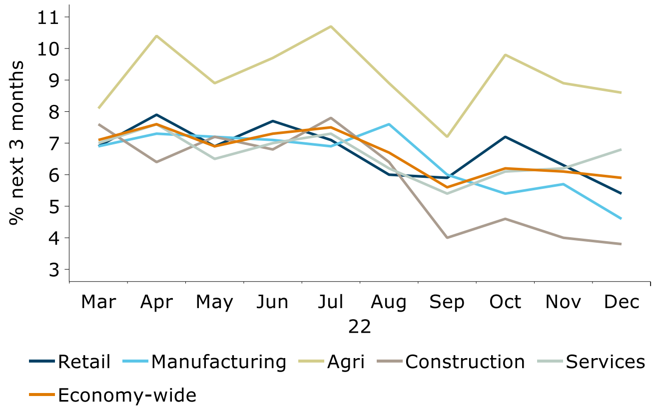
Figure 3. Pricing intentions by sector



Source: Macrobond, ANZ Research

We also ask for estimates of firms' costs in three months' time relative to today (figure 4). Expected cost growth remains very high across the board, particularly considering that the question asks where costs will be three months from now, not a year ahead. Construction is most clearly past its peak cost inflation, but manufacturing and retail are also going in the right direction. Note that on average, firms are expecting margin compression, in that costs are expected to go up around 5.9% over the next three months, but prices by only 3.8%.

Figure 4. Cost expectations by sector



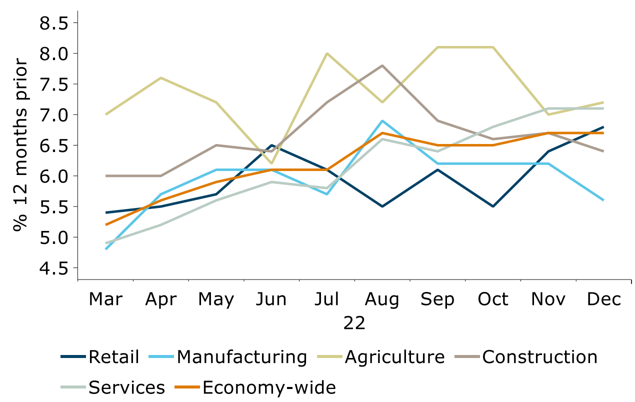
Source: Macrobond, ANZ Research

Wage growth is a must-watch, as a key driver of non-tradable inflation. Reported past wage settlements were steady at 6.7% (figure 5), with a large surge in the retail sector, but a decline for manufacturing.

Expectations for wage settlements for the next 12 months lifted, led by retail (figure 6). Agriculture had by far the largest jump but is a much smaller proportion of respondents. Only in construction are expected wage settlements falling. Despite easing employment intentions, overall, firms are anticipating having to pay up (6.6%) – just shy of the 12 months just gone (6.7%). But the gap is closing fast (figure 7, over).

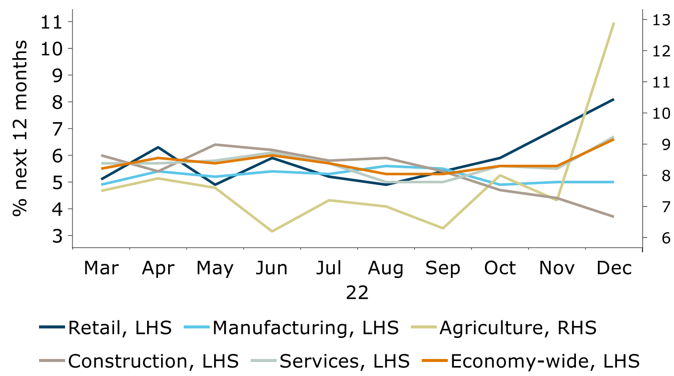
While the numerical estimate of future wage increases lifted, the proportion of firms expecting to raise their wages is easing. Overall, 85.9% of respondents reported expecting to raise wages over the next 12 months, down from 88% last month, and a high of 94.4% in June.

Figure 5. Wage growth by sector: last 12 months



Source: Macrobond, ANZ Research

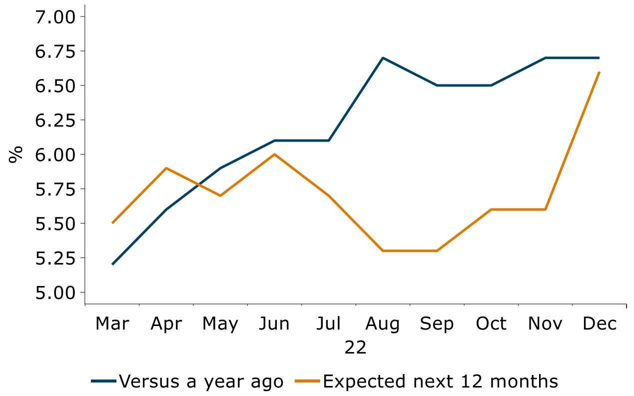
Figure 6. Wage growth by sector: next 12 months



Source: Macrobond, ANZ Research

While actual wage settlements appear to have flattened off at high levels, expected wage settlements increased sharply in December despite weaker employment intentions.

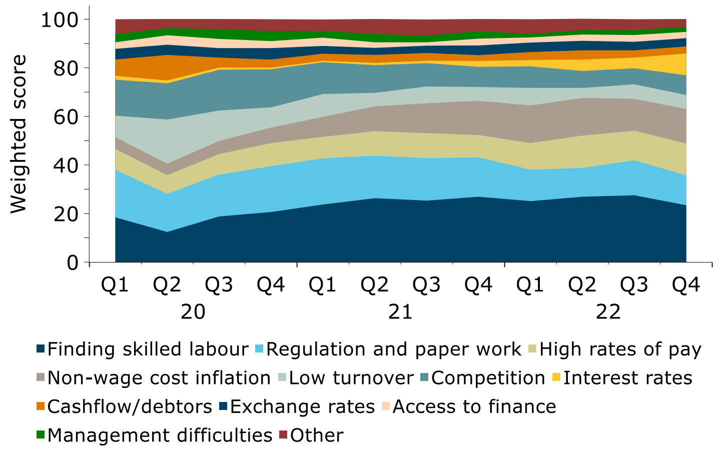
Figure 7. Past and expected wage settlements (economy-wide)



Source: Macrobond, ANZ Research

Each three months we ask firms what their biggest problems are. Finding skilled labour remains the clear #1, but has definitely eased. Interest rates jumped the most compared to the last read in September, but still rate well behind other costs.

Figure 8. Firms biggest problems, weighted

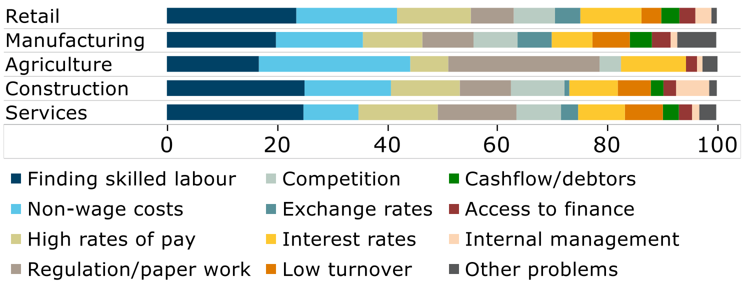


Source: Macrobond, ANZ Research

We can also look at firms' largest problems by sector (figure 9, over).

- The agriculture sector is struggling the least with finding skilled staff and high pay rates, in a marked turnaround. However, they are the most concerned about non-wage costs.
- Agriculture is by far the most concerned about regulation/paperwork, followed by the services sector.
- Agriculture and retail are the most concerned about interest rates; manufacturing is the most worried about the weak exchange rate.
- Despite retailers' worries about the outlook, low turnover still barely registers as a current concern in the big picture.

Figure 9. Biggest problems by sector



Source: Macrobond, ANZ Research

Our heatmap of indicators by sector looks very chilly indeed.

Points of interest:

- Falls in sentiment were widespread. Agriculture was a relative cheer-germ in terms of monthly moves, but its score of -100 for business confidence certainly puts that in context.
- In levels terms, it's hard to pick who's most downbeat; it's quite universal.
- By question, the largest falls were a fall in investment intentions and employment intentions, consistent with increased concern about the economic outlook.
- Pricing intentions remain the most dramatically above their historical average, with expected profitability the most under par.

Table 2. Heatmap

	Levels					Monthly changes				
	Retail	**Mfg**	**Agric**	**Constrn**	**Serv**	**Retail**	**Mfg**	**Agric**	**Constrn**	**Serv**
Business Confidence	-68.6	-74.5	-100.0	-75.7	-64.0	-13.3	-16.0	0.0	-18.0	-11.3
Own activity outlook	-43.1	-21.8	-11.8	-45.9	-17.4	-5.6	-27.4	-5.6	-1.5	-10.4
Activity vs. same month one year ago	-9.8	0.0	-5.9	8.1	-8.8	0.6	-13.0	0.3	8.1	-11.2
Exports	-17.5	6.5	6.2	-22.7	-12.9	-5.0	11.0	6.2	-9.4	-8.9
Investment	-24.0	-13.0	-5.9	-35.1	-19.9	-15.3	-18.7	37.9	-27.7	-11.3
Capacity Utilisation	-16.3	-7.4	11.8	-33.3	-13.6	-12.0	-7.4	5.6	-17.9	-9.6
Residential Construction	...	...	...	-75.0	...	...	...	...	15.0	...
Commercial Construction	...	...	...	-30.3	...	...	...	...	-26.1	...
Employment	-25.5	-3.6	-5.9	-35.1	-14.2	-15.1	-11.0	-12.1	-16.6	-8.8
Employment vs. same month one year ago	-11.8	-3.6	13.3	13.9	2.7	-11.8	-11.1	13.3	13.9	-4.5
Profits	-51.0	-52.7	-70.6	-56.8	-50.3	1.1	-23.1	-8.1	13.6	-9.2
Ease of Credit	-64.7	-66.7	-64.7	-67.6	-67.1	8.2	6.4	16.5	-19.5	-10.9
Costs	82.0	75.5	87.5	75.7	90.8	-15.8	-7.8	-12.5	-2.1	2.5
Pricing Intentions	74.0	52.8	-6.7	48.6	66.9	-6.4	-15.7	0.0	4.2	10.2

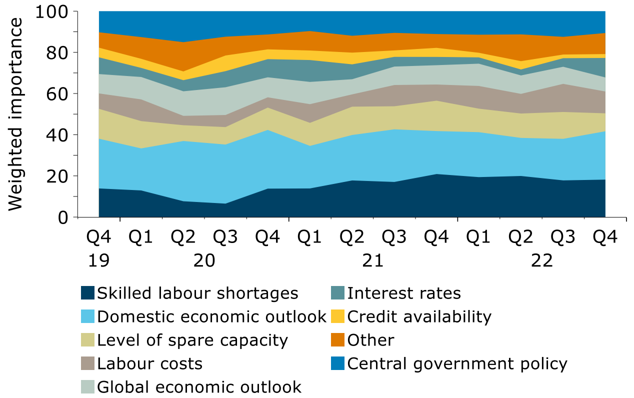
Note: Shades of orange indicate high, and shades of blue, low, becoming more intense at the extremes. The colour coding is based on standardised values that take into account the historical average and variation in each series. For example, a series may be low compared to others but if that's not unusual,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

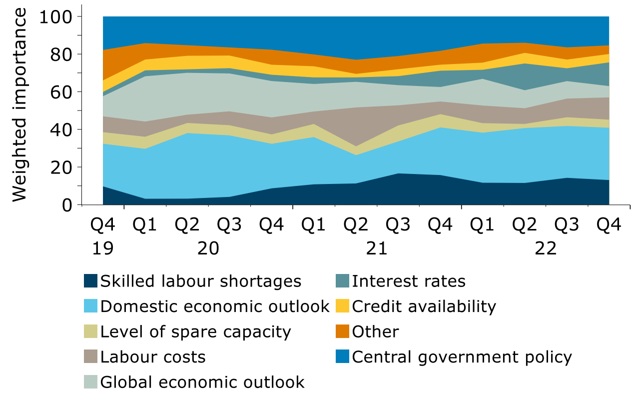
Amongst firms intending to invest more, skilled labour shortages and the domestic economic outlook are the key drivers, with spare capacity reducing as a factor (figure 10). Amongst firms intending to cut their investment (figure 11), the biggest factor is the domestic economic outlook, but interest rates are increasing in importance.

Figure 10. Weighted drivers for firms intending to invest more (15% of selected drivers)



Source: Macrobond, ANZ Research

Figure 11. Weighted drivers for firms intending to invest less (36% of selected drivers)



Source: Macrobond, ANZ Research

Let's wrap up with some good news: shipping disruptions have clearly eased in recent months (figures 12 and 13).

Figure 12. Median reported disruption inward

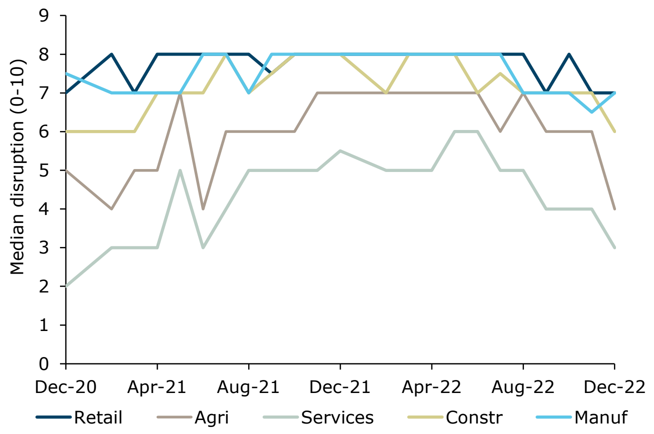
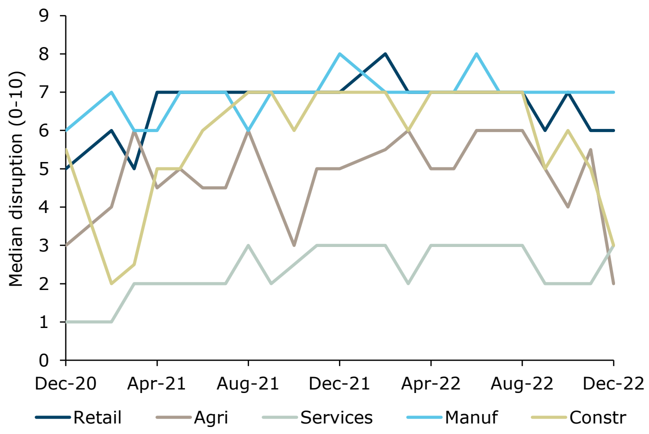


Figure 13. Median reported disruption outward



Source: ANZ Research

Our take

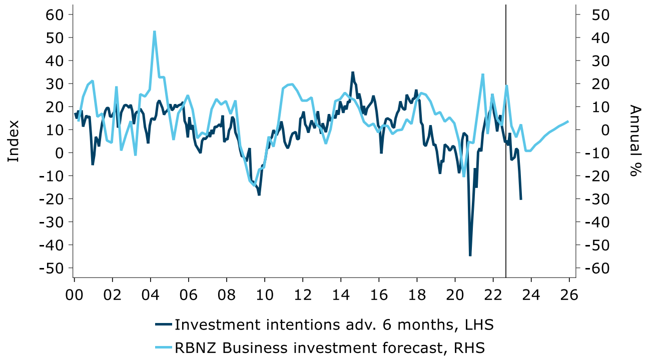
Well, the Reserve Bank certainly got the shock value we suspect it was aiming for at its November Monetary Policy Statement. Nothing like saying you're deliberately engineering a recession to put a damper on investment and employment plans.

So do the weak results of this survey corroborate or challenge the RBNZ's expectation for a shallow recession next year? Given the typical monthly volatility, the perhaps unsurprising answer is, "it depends". It depends on whether the weak intentions and expectations persist, or whether the shock value dissipates and things normalise somewhat. And that will depend on whether firms see demand dry up as abruptly as they are currently expecting. We'll be watching card spend, consumer confidence, the

Truckometer indexes, consents and job ads to get a sense of how quickly momentum is shifting.

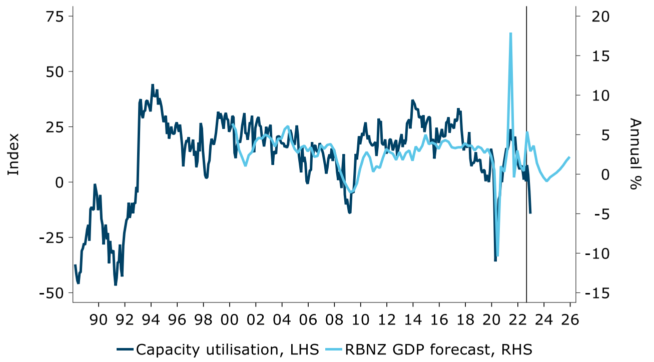
We will be adding a special one-off January Business Outlook survey and will publish the results if respondent numbers warrant (historically a challenge in January). For now, figures 14-19 show that if the ANZBO weakness is sustained, the RBNZ is in danger of engineering a harder landing than intended, with downside risk to residential investment, business investment and overall GDP. The ANZBO indicators for consumption, employment and inflation are consistent with RBNZ forecasts[1]. But it all comes down to where things sit when the dust settles.

Figure 14. ANZBO investment intentions vs RBNZ investment forecast



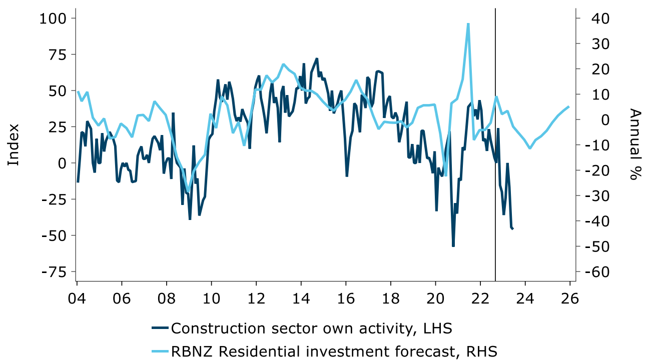
Source: RBNZ, Macrobond, ANZ Research

Figure 15. ANZBO Capacity utilisation vs RBNZ GDP forecast



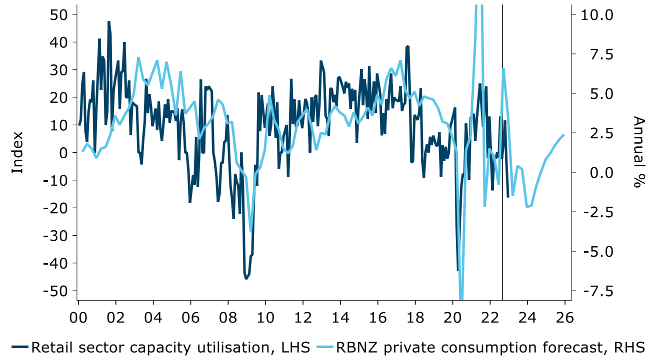
Source: RBNZ, Macrobond, ANZ Research

Figure 16. ANZBO construction sector own activity vs RBNZ residential investment forecast



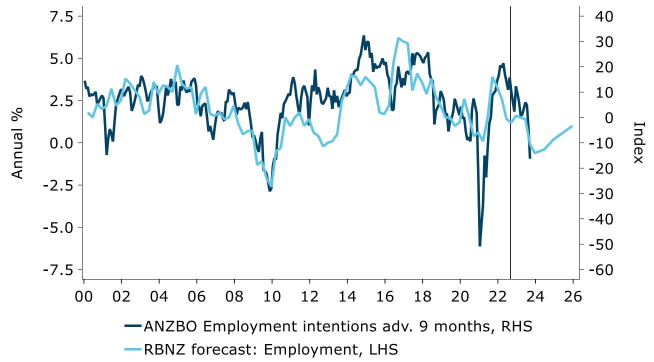
Source: RBNZ, Macrobond, ANZ Research

Figure 17. ANZBO retail sector capacity utilisation versus RBNZ private consumption forecast



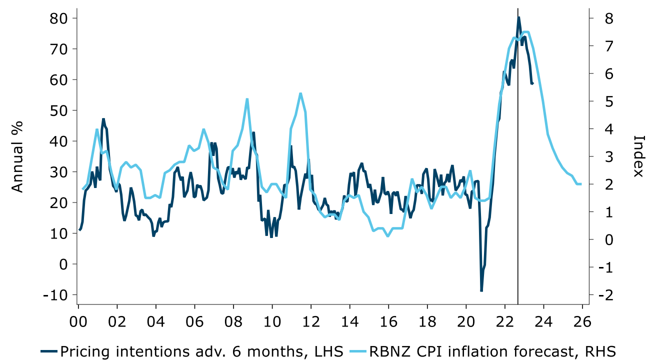
Source: RBNZ, Macrobond, ANZ Research

Figure 18. ANZBO employment intentions vs RBNZ employment forecast



Source: RBNZ, Macrobond, ANZ Research

Figure 19. ANZBO pricing intentions versus RBNZ CPI inflation forecast



Source: RBNZ, Macrobond, ANZ Research

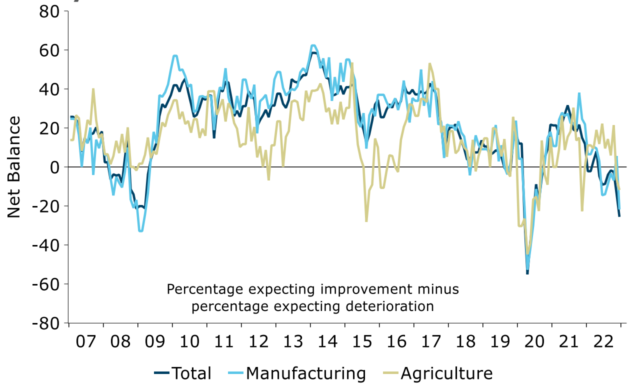
[1] RBNZ forecasts precede the Q3 GDP release, which came in a touch stronger than expected on balance.

Survey Results December 2022

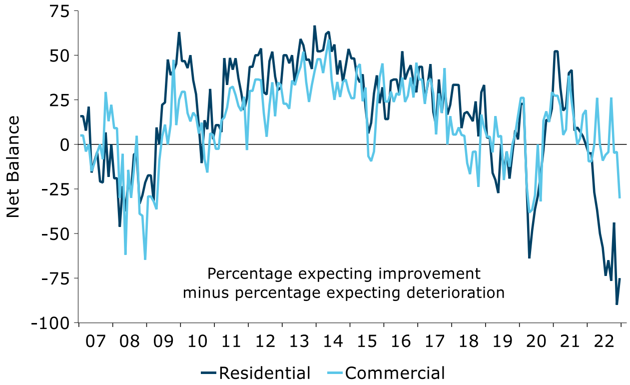
Net Balance	December	Previous (November)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-70.2	-57.1	-68.6	-74.5	-100.0	-75.7	-64.0
Own Activity Outlook	-25.6	-13.7	-43.1	-21.8	-11.8	-45.9	-17.4
Export Intentions	-10.0	-5.4	-17.5	6.5	6.2	-22.7	-12.9
Investment Intentions	-20.5	-8.1	-24.0	-13.0	-5.9	-35.1	-19.9
Cost Expectations	84.4	88.7	82.0	75.5	87.5	75.7	90.8
Capacity Utilisation	-14.3	-4.1	-16.3	-7.4	11.8	-33.3	-13.6
Residential Construction	-75.0	-90.0	…	…	…	-75.0	…
Commercial Construction	-30.3	-4.2	…	…	…	-30.3	…
Employment Intentions	-16.3	-4.0	-25.5	-3.6	-5.9	-35.1	-14.2
Profit Expectations	-52.7	-45.1	-51.0	-52.7	-70.6	-56.8	-50.3
Pricing Intentions	59.1	58.5	74.0	52.8	-6.7	48.6	66.9
Ease of Credit Expectations	-66.7	-62.8	-64.7	-66.7	-64.7	-67.6	-67.1
Inflation Expectations (%)	6.23	6.39	6.50	6.15	6.91	5.98	6.13
Activity – same month one year ago	-4.5	1.8	-9.8	0.0	-5.9	8.1	-8.8
Employment – same month one year ago	1.3	4.8	-11.8	-3.6	13.3	13.9	2.7
Price Expectations – 3 months from now (%)	3.8	3.7	4.5	3.3	-1.3	2.3	4.8
Cost Expectations – 3 months from now (%)	5.9	6.1	5.4	4.6	8.6	3.8	6.8
Wages/Salaries – next 12 months (%)	6.6	5.6	8.1	5.0	12.9	3.7	6.7
Wages/Salaries – same month a year ago (%)	6.7	6.7	6.8	5.6	7.2	6.4	7.1

Charts

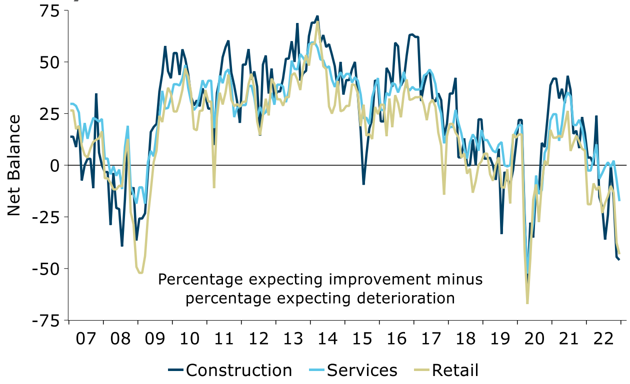
Activity outlook index



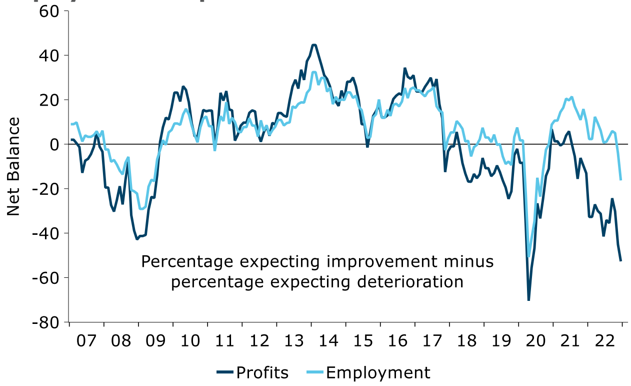
Construction intentions



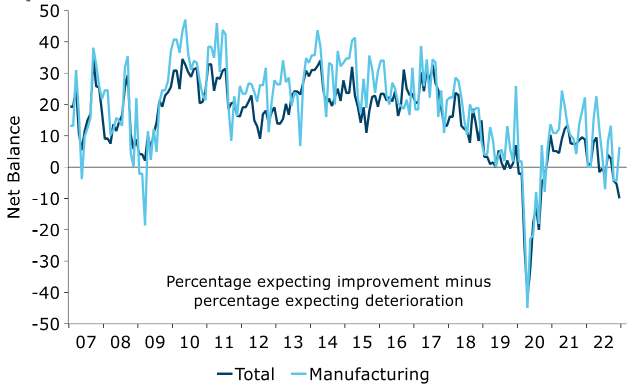
Activity outlook index



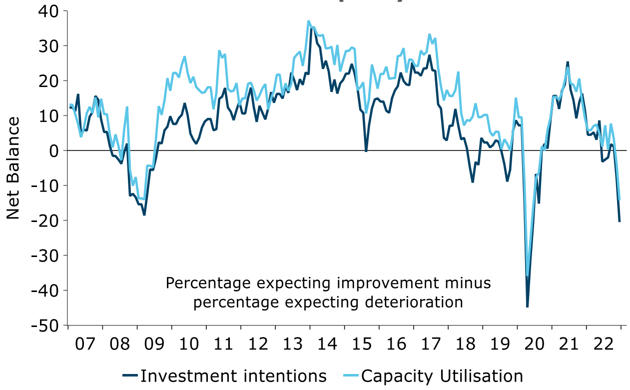
Employment and profit outlook



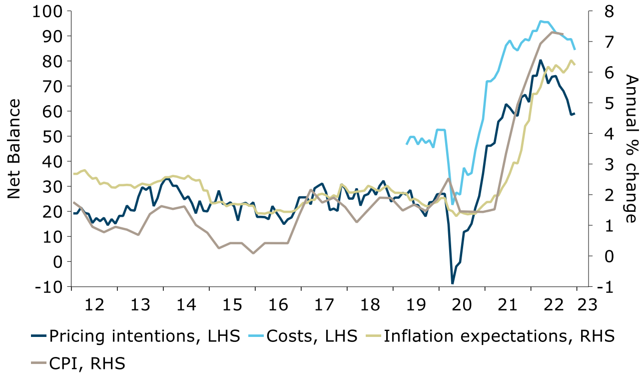
Export sales volumes



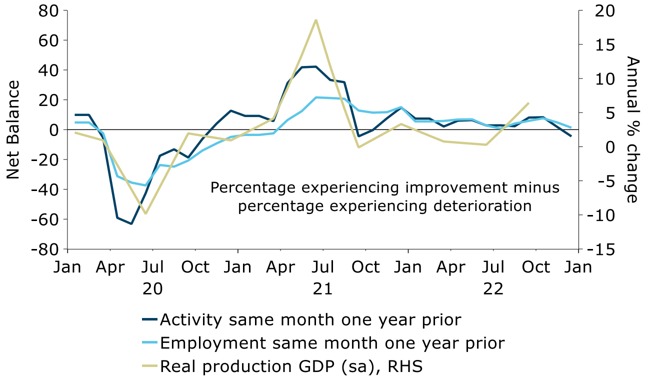
Investment intentions and capacity utilisation



Cost and inflation pressures



Experienced activity and employment and GDP



Source: ANZ, Statistics NZ, Macrobond

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