

ANZ New Zealand Business Outlook

27 January 2023



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Contact

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See page 8.

The next release of the ANZ *Business Outlook* is due on **28 February 2023 at 1pm.**

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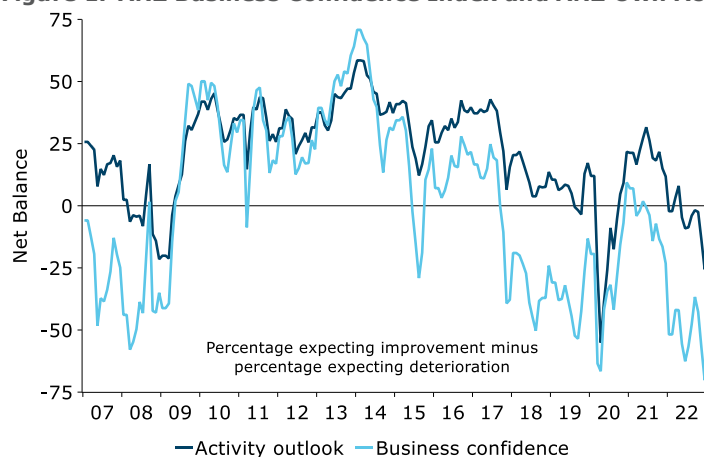
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A slightly happier New Year

Key points

- Business confidence bounced 18 points in January as the shock of the November Monetary Policy Statement wore off a bit. Expected own activity also bounced, up 10 points to -16.
- Inflation pressures remain intense. Pricing intentions rose 3 points, and cost expectations rose 7 points. Inflation expectations remain stuck around the 6% mark. There's good reason for the RBNZ to keep hiking a while yet (we are picking +50bp in February).

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



Source: Macrobond, ANZ Research

Table 1: Results versus last month

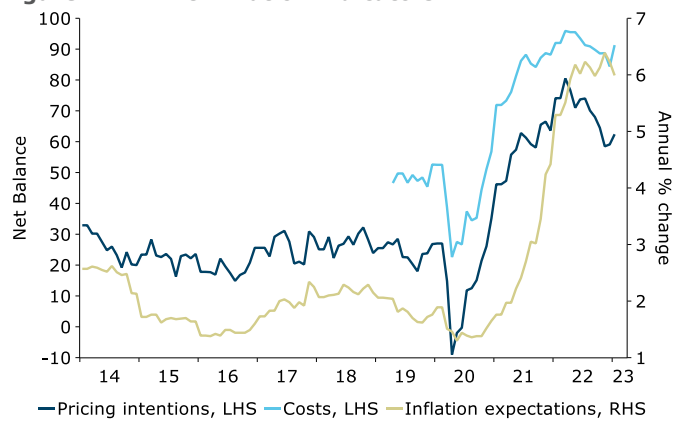
Net Balance	Jan	Dec	Comment
Business Confidence	-52.0	-70.2	Highest since October (not saying much)
Own Activity Outlook	-15.8	-25.6	Bounce driven by retail & manufacturing.
Export Intentions	-5.4	-10.0	Not much China reopening optimism evident here.
Investment Intentions	-13.7	-20.5	A small improvement – still very low.
Cost Expectations	91.3	84.4	Rose for every sector. Dang.
Capacity Utilisation	-5.3	-14.3	Back around November levels.
Residential Construction	-84.0	-75.0	Getting close to record lows again.
Commercial Construction	-20.0	-30.3	Still very weak.
Employment Intentions	-11.1	-16.3	Still very low, and dire for construction.
Profit Expectations	-42.6	-52.7	Biggest bounce was for manufacturing (the least pessimistic sector).
Pricing Intentions	62.4	59.1	Nowhere near keeping up with costs.
Ease of Credit	-53.7	-66.7	Back off the floor.
Inflation Expectations	5.99%	6.23%	No meaningful improvement yet.
Activity – vs. same month one year ago	-5.4	-4.5	Sharp fall in construction and agri offset by lift in services.
Employment – vs. same month one year ago	3.4	1.3	Agri, construction down, bounce elsewhere.

Business people appear to have come back from holiday in slightly better spirits. Some of the shock value of the November rate hike and talk of a “deliberately engineered” recession appears to have worn off, though most indicators remain at very subdued levels.

The key themes of the January survey:

- Activity measures generally saw a partial bounce-back from their December falls, led by manufacturing, services and retail.
- Inflation and pricing pressures remain intense. Both cost expectations and pricing intentions moved higher (costs by more, suggesting worsening margin squeeze). Inflation expectations remain stuck around 6% (figure 2).

Figure 2. ANZBO inflation indicators

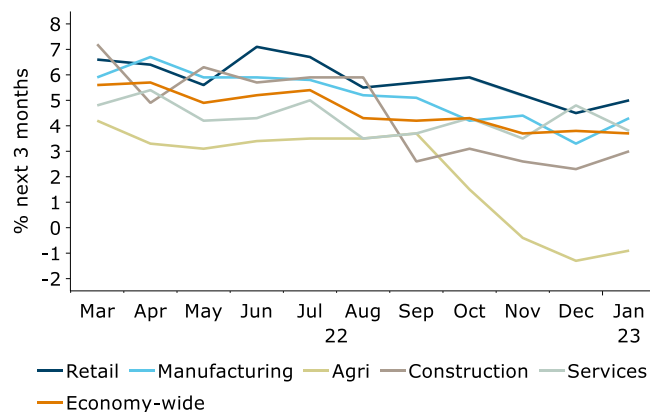


Source: Macrobond, ANZ Research

By sector, an intention to raise prices is most widespread in the retail sector (a net 79% of firms intend to raise their prices in the next three months) and manufacturing (66%). But they’re elevated everywhere except agriculture – a sector that generally doesn’t get to set its prices.

As regards a specific numerical estimate of where firms’ own selling prices will be in three months’ time (figure 3), there was a tick higher in every sector except services. The economy-wide measure was little changed at 3.7%. Note these are (anticipated) quarterly percent changes, not annual. We don’t yet have enough data to judge how well these series match up with actual inflation.

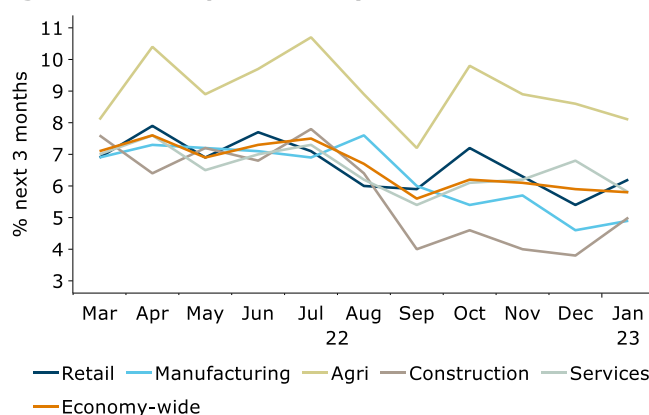
Figure 3. Pricing intentions by sector



Source: Macrobond, ANZ Research

We also survey firms' expected costs in three months' time relative to today (figure 4). They were a mixed bag. A general downtrend remains evident, with the aggregate falling from 5.9% to 5.8%, but retail, manufacturing and construction rose. The highest expected cost growth is in agriculture, and the weakest in construction and manufacturing. On average, firms continue to expect margin compression. Economy-wide, costs are expected to go up 5.8% over the next three months, but prices by only 3.7%.

Figure 4. Cost expectations by sector

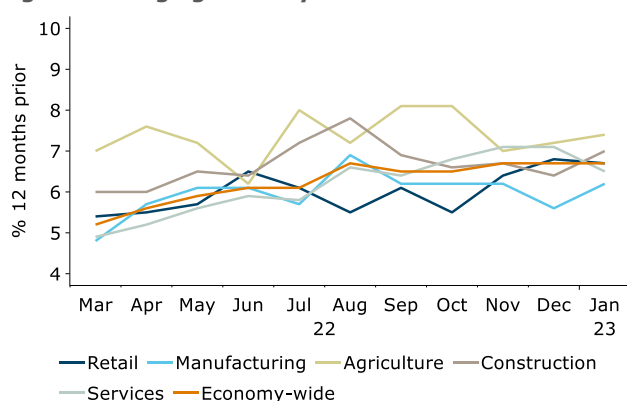


Source: Macrobond, ANZ Research

Wage growth is a must-watch, as a key driver of non-tradable inflation. The RBNZ won't stop hiking until wage-price spiral risks have convincingly dissipated. Reported past wage settlements were unchanged at 6.7% (figure 5), with lifts in manufacturing, agriculture, and construction offsetting falls in the retail and services sectors.

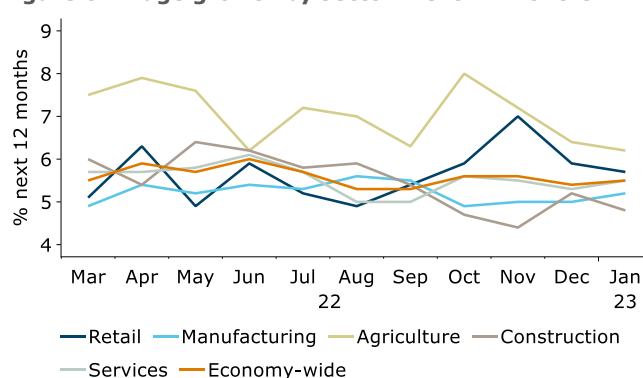
Expectations for wage settlements for the next 12 months ticked up to 5.5%. Declines in construction, agriculture and retail were offset by an increase in the manufacturing and services sectors (figure 6).¹ Overall, firms are anticipating to raise wages by less in the next 12 months (5.5%) than they did in the last (6.7%; figure 7, over).

Figure 5. Wage growth by sector: last 12 months



Source: Macrobond, ANZ Research

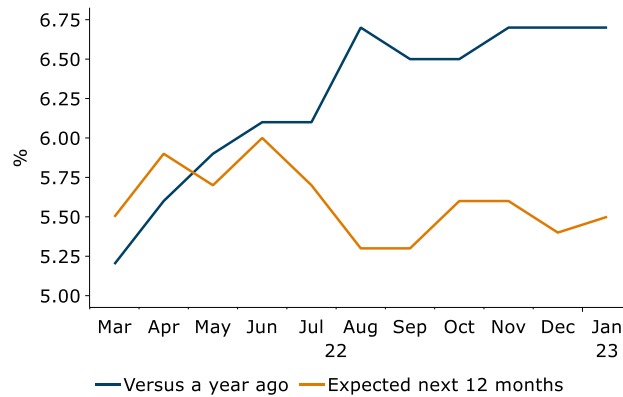
Figure 6. Wage growth by sector: next 12 months



Source: Macrobond, ANZ Research

¹ Please note, we have improved our methodology for how we treat large outliers. As a result, the December 2022 data has been revised down from 6.5% to 5.4%. We have also added contextual information to the questionnaire to assist respondents to answer the question correctly. We apologise for the inconvenience.

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



Source: Macrobond, ANZ Research

The proportion of firms expecting to raise their wages in the near term partially rebounded, but remains on an easing trend. Overall, 89.5% of respondents reported expecting to raise wages over the next 12 months, up from 85.9% last month (versus a peak of 94.4% in June 2022). That’s slightly higher than the proportion of firms who reported that they raised wages in the past 12 months (86.7%). Manufacturing (87%), construction (87.1%) and services sectors (87.8%) were the least certain that they’d be raising wages, versus 97.3% of retailers and 94.4% of agricultural firms.

Our heatmap of indicators by sector has seldom been such a game of two halves. Excluding agriculture, there was a widespread (albeit mostly partial) bounce in indicators in January. However, the levels remain very subdued, and that’s important context.

Points of interest:

- Construction was a mixed bag. There was a bounce in pricing intentions and capacity utilisation despite a much higher proportion of respondents reporting weaker activity and employment than a year ago.
- Employment intentions vary widely between sectors but negative in all. Almost a net third of construction sector respondents reported that they expect their employment to be lower in 12 months’ time.
- Pricing intentions remain the most dramatically above their historical average, with costs coming in second place.

Table 2. Heatmap

	Levels					Monthly changes				
	Retail	Mfg	Agric	Constrn	Serv	Retail	Mfg	Agric	Constrn	Serv
Business Confidence	-43.2	-51.8	-80.0	-62.5	-48.6	25.4	22.7	20.0	13.2	15.4
Own activity outlook	-18.2	0.0	-20.0	-57.6	-11.3	24.9	21.8	-8.2	-11.7	6.1
Activity vs. same month one year ago	-11.4	3.6	-15.0	-27.3	-1.4	-1.6	3.6	-9.1	-35.4	7.4
Exports	-17.6	8.5	-23.5	-33.3	0.0	-0.1	2.0	-29.7	-10.6	12.9
Investment	-29.3	-1.8	-25.0	-33.3	-7.9	-5.3	11.2	-19.1	1.8	12.0
Capacity Utilisation	-11.9	0.0	-5.0	-16.1	-2.3	4.4	7.4	-16.8	17.2	11.3
Residential Construction	...	...	...	-84.0	...	...	...	...	-9.0	...
Commercial Construction	...	...	...	-20.0	...	...	...	...	10.3	...
Employment	-9.1	-3.6	-25.0	-30.3	-7.1	16.4	0.0	-19.1	4.8	7.1
Employment vs. same month one year ago	-4.5	5.4	-10.0	-6.1	9.4	7.3	9.0	-23.3	-20.0	6.7
Profits	-50.0	-26.8	-80.0	-54.5	-39.4	1.0	25.9	-9.4	2.3	10.9
Ease of Credit	-56.8	-58.9	-70.0	-45.5	-50.0	7.9	7.8	-5.3	22.1	17.1
Costs	92.9	83.6	94.7	84.4	94.9	10.9	8.1	7.2	8.7	4.1
Pricing Intentions	78.6	65.5	0.0	62.5	64.0	4.6	12.7	6.7	13.9	-2.9

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.

On the whole, shipping disruptions continue to ease (figures 7 and 8).

Figure 8. Median reported disruption inward

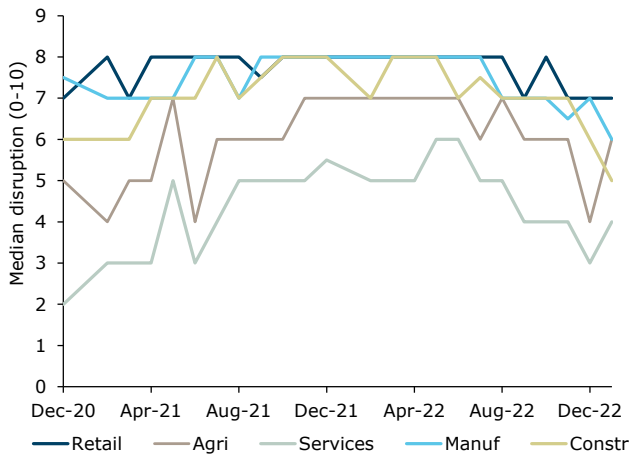
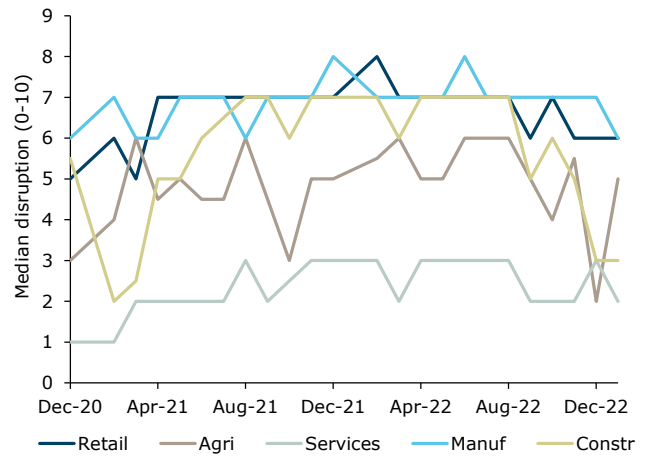


Figure 9. Median reported disruption outward



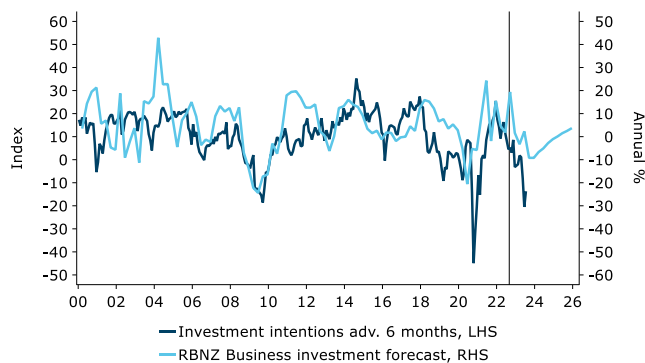
Source: ANZ Research

Our take

A holiday break has seen the jolt from the November Monetary Policy Statement fade a little, with most activity expectations and intentions seeing a partial bounce-back. The data is more up-to-date than the December quarter Quarterly Survey of Business Opinion, which showed the same confidence shock as the December ANZ Business Outlook did.

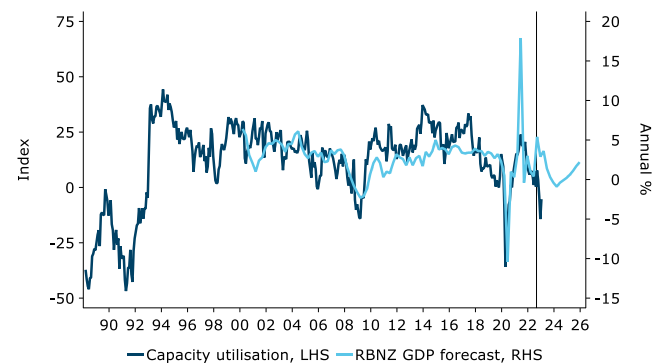
However, it would be an overstatement to say that firms' pessimism has meaningfully dissipated as the new year kicks off. Figures 10-15 show key ANZBO data plotted against the most relevant RBNZ forecast. The survey still implies that the RBNZ is in danger of engineering a harder landing than intended, with downside risk to residential investment, business investment and overall GDP. On the other hand, the ANZBO indicators for consumption, employment and inflation are consistent with RBNZ forecasts². And certainly the regrettable sturdiness in the direction inflation indicators continue to highlight that the RBNZ has a big job to do bringing inflation back down to 2%.

Figure 10. ANZBO investment intentions vs RBNZ investment forecast



Source: RBNZ, Macrobond, ANZ Research

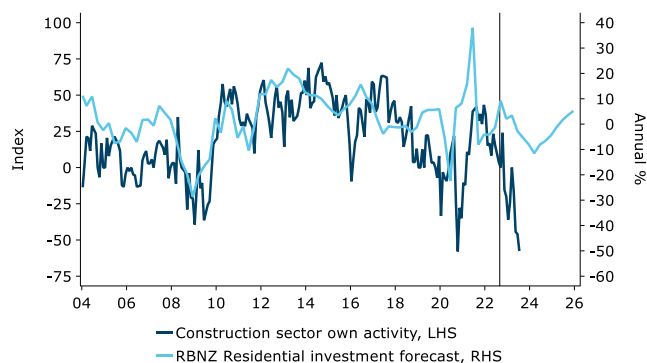
Figure 11. ANZBO Capacity utilisation vs RBNZ GDP forecast



Source: RBNZ, Macrobond, ANZ Research

² RBNZ forecasts precede the Q3 GDP release, which came in a touch stronger than expected on balance.

Figure 12. ANZBO construction sector own activity vs RBNZ residential investment forecast



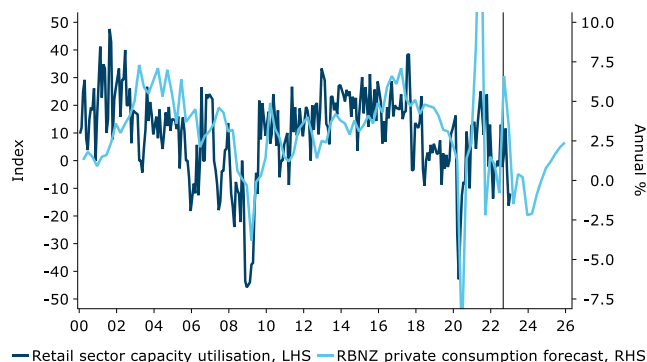
Source: RBNZ, Macrobond, ANZ Research

Figure 14. ANZBO employment intentions vs RBNZ employment forecast



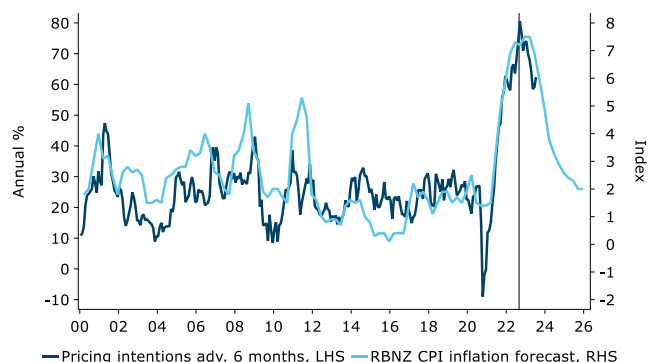
Source: RBNZ, Macrobond, ANZ Research

Figure 13. ANZBO retail sector capacity utilisation versus RBNZ private consumption forecast



Source: RBNZ, Macrobond, ANZ Research

Figure 15. ANZBO pricing intentions versus RBNZ CPI inflation forecast



Source: RBNZ, Macrobond, ANZ Research

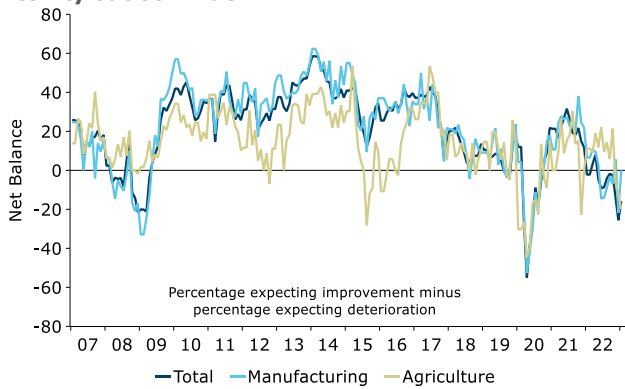
Survey Results January 2023

Net Balance	January	Previous (December)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-52.0	-70.2	-43.2	-51.8	-80.0	-62.5	-48.6
Own Activity Outlook	-15.8	-25.6	-18.2	0.0	-20.0	-57.6	-11.3
Export Intentions	-5.4	-10.0	-17.6	8.5	-23.5	-33.3	0.0
Investment Intentions	-13.7	-20.5	-29.3	-1.8	-25.0	-33.3	-7.9
Cost Expectations	91.3	84.4	92.9	83.6	94.7	84.4	94.9
Capacity Utilisation	-5.3	-14.3	-11.9	0.0	-5.0	-16.1	-2.3
Residential Construction	-84.0	-75.0	...	...	...	-84.0	...
Commercial Construction	-20.0	-30.3	...	...	...	-20.0	...
Employment Intentions	-11.1	-16.3	-9.1	-3.6	-25.0	-30.3	-7.1
Profit Expectations	-42.6	-52.7	-50.0	-26.8	-80.0	-54.5	-39.4
Pricing Intentions	62.4	59.1	78.6	65.5	0.0	62.5	64.0
Ease of Credit Expectations	-53.7	-66.7	-56.8	-58.9	-70.0	-45.5	-50.0
Inflation Expectations (%)	5.99	6.23	6.19	6.19	6.32	5.46	5.91
Activity – same month one year ago	-5.4	-4.5	-11.4	3.6	-15.0	-27.3	-1.4
Employment – same month one year ago	3.4	1.3	-4.5	5.4	-10.0	-6.1	9.4
Price Expectations – 3 months from now (%)	3.7	3.8	5.0	4.3	-0.9	3.0	3.8
Cost Expectations – 3 months from now (%)	5.8	5.9	6.2	4.9	8.1	5.0	5.8
Wages/Salaries – next 12 months (%)	5.5	5.4	5.7	5.2	6.2	4.8	5.5
Wages/Salaries – same month a year ago (%)	6.7	6.7	6.7	6.2	7.4	7.0	6.5

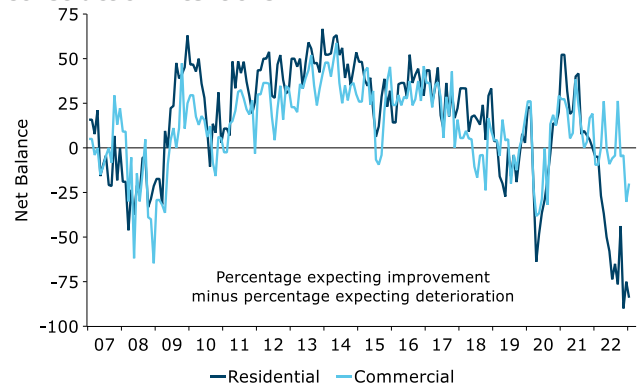


Charts

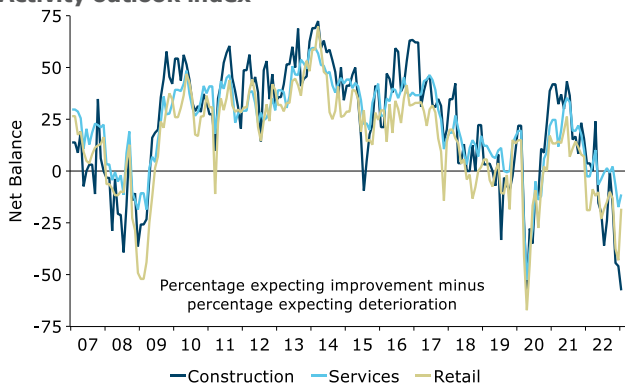
Activity outlook index



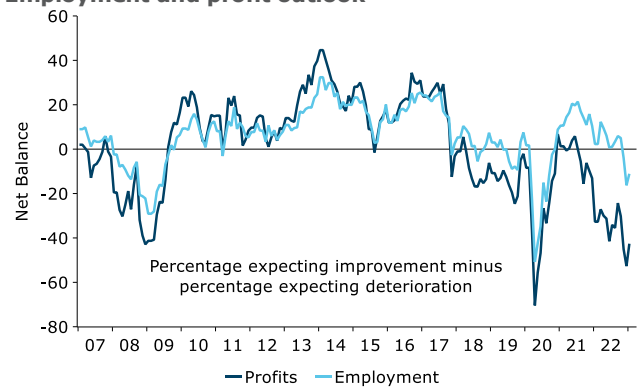
Construction intentions



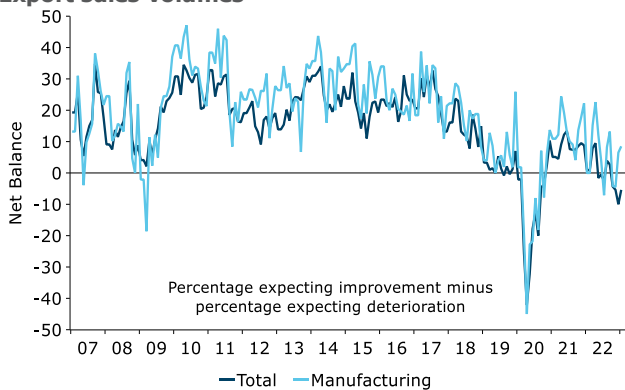
Activity outlook index



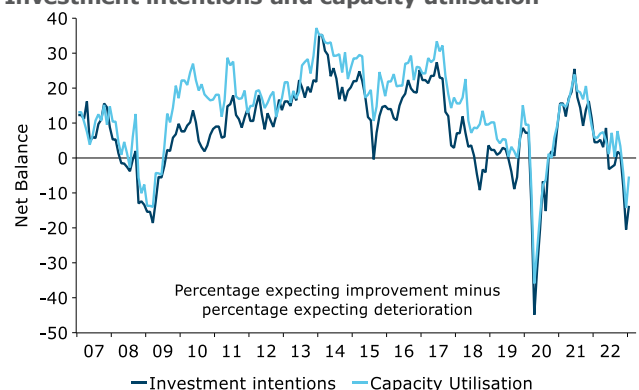
Employment and profit outlook



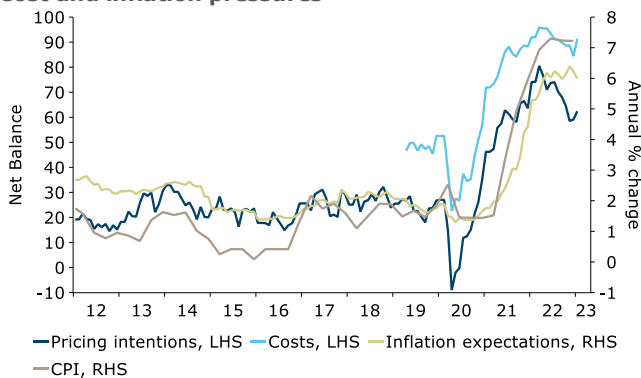
Export sales volumes



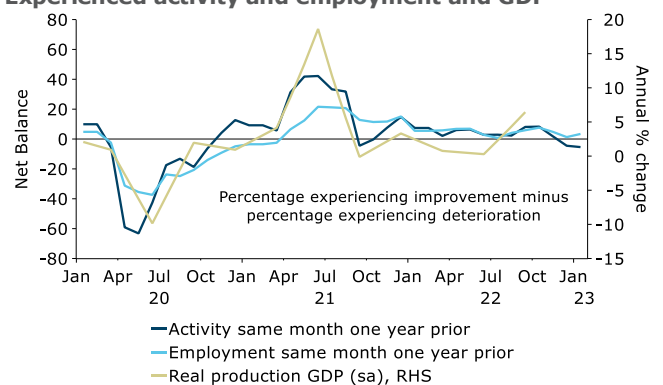
Investment intentions and capacity utilisation



Cost and inflation pressures



Experienced activity and employment and GDP



Source: ANZ, Statistics NZ, Macrobond



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Last updated: 1 September 2022

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