

# ANZ New Zealand Business Outlook

31 May 2023



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## Contact

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See [page 8](#).

The next release of the ANZ *Business Outlook* is due on **29 June 2023 at 1pm**.

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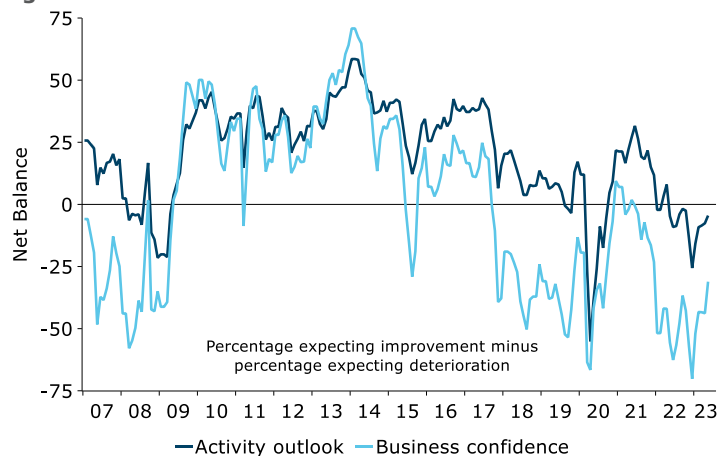
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## Prepared for the worst; hoping for the best

### Key points

- Business confidence and expected own activity both lifted in May. Business confidence lifted 13 points from -43.8 to -31.1, while expected own activity rose from -7.6 to -4.5.
- Inflation indicators generally eased, though cost expectations remain stuck at very high levels.

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



Source: Macrobond, ANZ Research

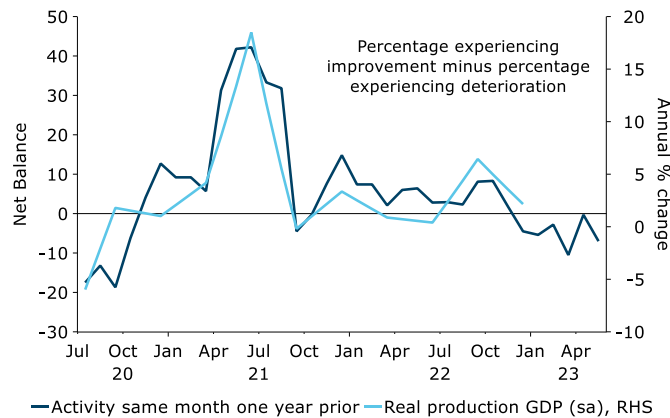
Table 1: Results versus last month

Net Balance	May	Apr	Comment
Business Confidence	-31.1	-43.8	Highest since December 2021.
Own Activity Outlook	-4.5	-7.6	Creeping back into the black?
Export Intentions	2.0	-1.5	Back in the black! Just.
Investment Intentions	-6.8	-6.8	Steady at low levels as uncertainty bites.
Cost Expectations	84.1	84.2	Looking regrettably sticky at this point.
Wage Expectations	84.0	87.2	Stuck in a range in recent months.
Capacity Utilisation	-1.2	0.8	Going nowhere obvious.
Residential Construction	-56.7	-79.2	Decent bounce – highest since October.
Commercial Construction	-12.1	-5.9	Wariness still evident.
Employment Intentions	-5.7	-2.4	Dropped, going against the flow.
Profit Expectations	-27.4	-37.7	Hardly euphoric, but highest since Sep22.
Pricing Intentions	52.4	53.7	Still creeping lower, but not quickly.
Ease of Credit	-39.4	-48.6	LVR easing? Highest since May 2021.
Inflation Expectations	5.47%	5.70%	Lowest since February 2022.
Activity – vs. same month one year ago	-7.0	-0.3	Fell for every sector except manufacturing, the only one in the black.
Employment – vs. same month one year ago	1.2	2.2	Driven lower by construction and agri.

This month's survey brought a bounce in a number of activity indicators, while inflation indicators continued to creep lower.

- May saw a lift in a bunch of activity indicators: confidence, own activity, export intentions, residential construction intentions and profit expectations. On the other hand, employment intentions eased. This may not all be due to smaller desired staff numbers; it may partly reflect that some long-running vacancies have now been filled as labour supply has increased.
- The relatively new question we have added regarding year-ago activity levels appears to match annual GDP growth quite well. It suggests a relatively stagnant period ahead, though how much of this reflects weak demand and how much has been due to supply disruptions (including weather) this indicator cannot say.

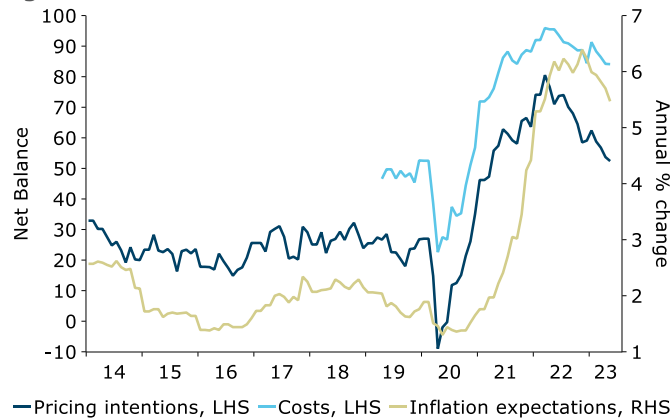
**Figure 2. Reported past activity vs. GDP growth**



Source: Stats NZ, Macrobond, ANZ Research

- **Weaker inflation:** Most inflation indicators eased. Inflation expectations inched a little lower, and the proportion of firms expecting to raise their prices and wages also fell. However, the proportion of firms expecting costs to increase in the next three months remained stubbornly high.

**Figure 3. ANZBO inflation indicators**



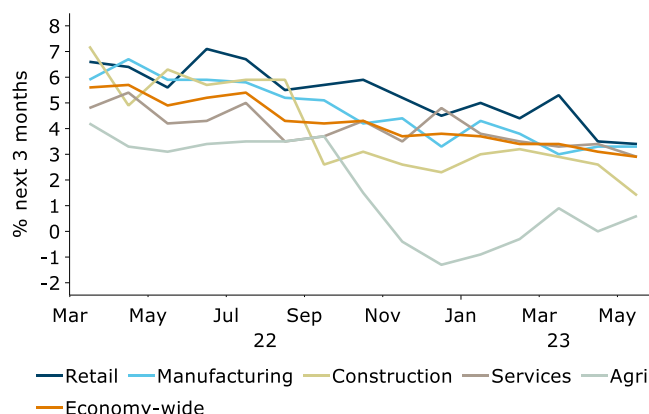
Source: Macrobond, ANZ Research

A net 64% of firms in the retail sector expect to raise their prices in the next three months – down only 2 points from last month but way off the peak of 96% 11 months ago. The sharpest fall this month was amongst construction firms: only a net 36% expect to raise their prices in the next three months, versus 47% last month, and over 90% a year ago.

Firms' specific numerical estimates of where their own selling prices will be in three months' time (figure 4) eased or was flat for every sector except agriculture. It fell most sharply for construction, from 2.6% to a 1.4% increase in prices expected in the next three months. The economy-wide measure fell from 3.1% to 2.9%.

The question asks for an expected price increase in the next three months, not 12, so it's not such that we can claim it's now "consistent with the RBNZ's inflation target." But it's definitely going the right way.

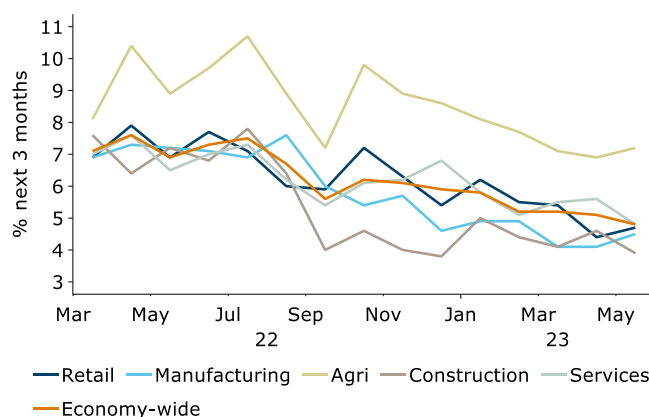
**Figure 4. Pricing intentions by sector**



Source: Macrobond, ANZ Research

We also survey firms' expected costs in three months' time relative to today (figure 5). A general downtrend is clear here too. Economy-wide expectations fell from 5.1% to 4.8%, although they rose for retail, manufacturing, and agriculture. The highest expected cost growth is in agriculture (7.2%), and the weakest is in construction (3.9%).

**Figure 5. Cost expectations by sector**

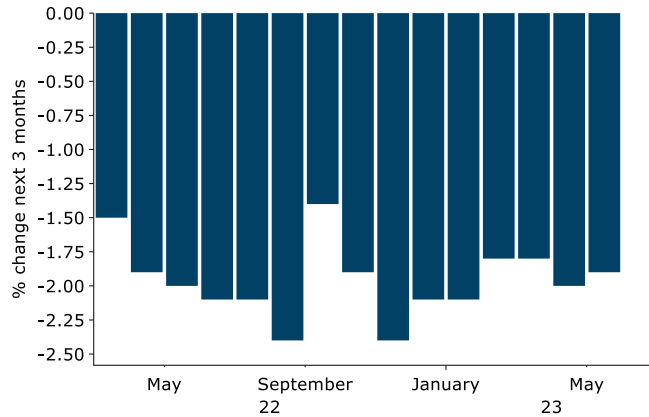


Source: Macrobond, ANZ Research

Expected profitability remains under pressure, with every sector in the red. However, at -27 economy-wide it is well off its low of -53 in December. Agriculture is the clear outlier on the downside with a read of -53 in May, with all the other sectors in a pretty tight range.

Corroborating this subdued profitability story, figure 6 (over) charts the difference between cost expectations and pricing intentions as a rough proxy for anticipated margin pressure. It's not pretty, though we don't have enough data history to know what "normal" looks like.

**Figure 6. Economy-wide pricing intentions minus cost expectations**

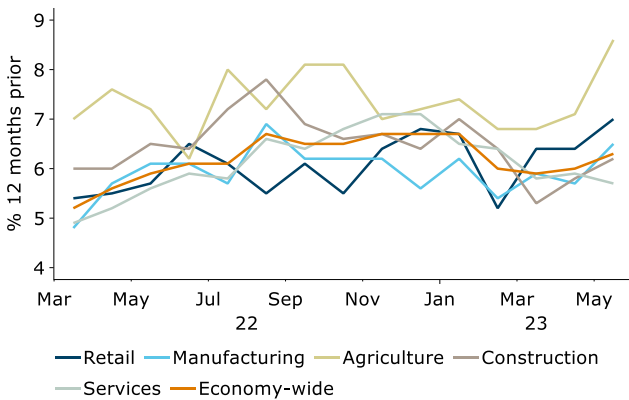


Source: Macrobond, ANZ Research

Wage growth is a key concern of the RBNZ currently. The proportion of firms reporting raising wages in the past 12 months remains high at 83%, similar to the proportion expecting to raise wages in the next 12 months (84%).

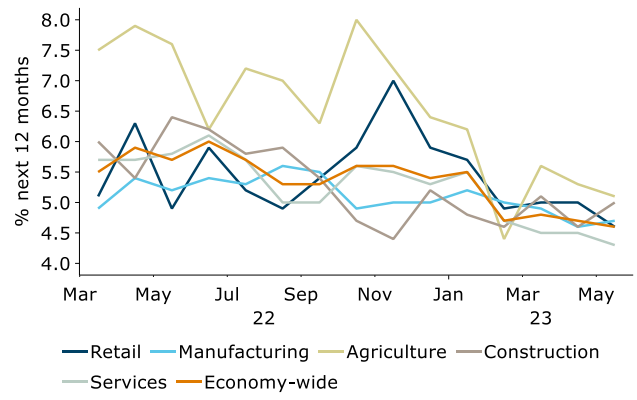
In terms of numerical estimates, reported past wage settlements lifted from 6.0% to 6.3%, with a particularly sharp rise for agriculture (figure 7). Excluding that sector, it lifted from 6.0% to 6.2%. Overall, it's a push to say there's any downward trend evident yet, with every sector except services lifting this month. There is a downward trend in expected wages, however (figure 8), with the economy-wide measure inching down another 0.1%pt to 4.6%. Firms are anticipating raising wages by considerably less in the next 12 months than they did in the last year (figure 9).

**Figure 7. Wage growth by sector: last 12 months**



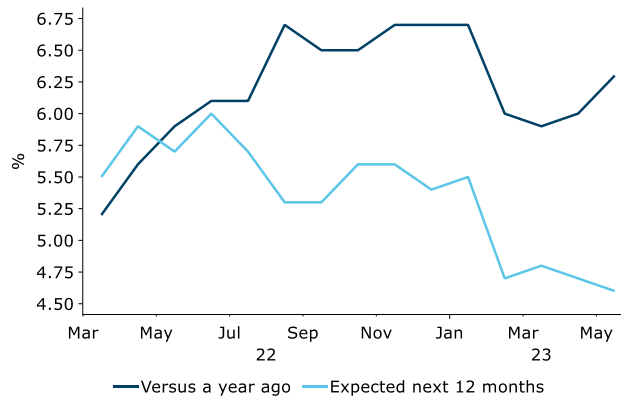
Source: Macrobond, ANZ Research

**Figure 8. Wage growth by sector: next 12 months**



Source: Macrobond, ANZ Research

**Figure 9. Past and expected wage settlements (economy-wide)**



Source: Macrobond, ANZ Research

Our heatmap of indicators by sector shows mixed monthly changes and a distinctly lighter average shade of blue for the levels, with most measures well off their lows.

Points of interest:

- The construction, services and manufacturing sectors saw broadly improved sentiment this month, while the retail sector became more pessimistic – though not across the board, with a decent lift in expected profitability and intended employment, despite higher expected costs.
- The outlook for labour demand is very mixed: the retail and services sectors both saw double-digit falls in employment intentions, whereas construction lifted markedly. Indeed, there was a massive increase in the construction sector’s own activity outlook this month. The survey responses pre-dated the RBNZ calling a halt to hikes, but we have seen significant upward revisions to house price forecasts this month (including [ours](#)) on the back of recent data and exceptionally strong net migration.
- Overall, investment intentions are the lowest compared to historical averages, no doubt related to subdued profit expectations as well as general uncertainty about the economic outlook with the RBNZ wanting a slowdown, and the upcoming election to boot.
- Pricing intentions were a real mixed bag over the month, with manufacturing and construction well down, but those for retail and services little changed. Retail, manufacturing and services pricing intentions are still at quite extreme levels. Expected costs were generally lower (except retail) and the level of the cost expectations series is no longer as extreme as it was.

**Table 2. Heatmap**

	Levels					Monthly changes				
	Retail	Mfg	Agric	Constrn	Serv	Retail	Mfg	Agric	Constrn	Serv
Business Confidence	-21.1	-39.6	-68.4	-7.7	-29.9	8.2	11.2	0.0	46.1	10.5
Own activity outlook	-15.5	-9.3	15.8	0.0	-1.7	-8.6	4.3	-5.3	42.1	-0.6
Activity vs. same month one year ago	-3.5	9.3	-26.3	-23.1	-8.0	-10.4	2.5	-36.8	-5.2	-2.6
Exports	-9.8	15.2	16.7	0.0	1.7	-16.9	9.3	11.4	9.1	8.1
Investment	-7.0	-7.7	-26.3	-10.3	-2.8	-7.0	-4.2	-10.5	5.1	4.6
Capacity Utilisation	-14.3	-1.9	5.3	-2.7	3.0	-19.6	-8.8	-11.4	13.1	4.7
Residential Construction	...	...	...	-56.7	...	...	...	...	22.5	...
Commercial Construction	...	...	...	-12.1	...	...	...	...	-6.2	...
Employment	0.0	-1.9	-5.3	-10.5	-6.9	3.4	4.9	-10.6	12.6	-9.6
Employment vs. same month one year ago	10.9	1.9	-26.3	-15.4	4.8	2.0	1.9	-26.3	-12.8	4.3
Profits	-22.4	-27.8	-52.6	-23.1	-25.4	8.6	11.2	10.6	30.7	7.0
Ease of Credit	-36.2	-51.9	-68.4	-38.5	-32.2	3.5	7.4	10.5	10.2	11.1
Costs	89.3	75.5	88.9	77.8	86.1	13.4	-3.4	-0.6	-6.4	-1.1
Pricing Intentions	64.3	51.9	23.5	36.1	54.8	-1.2	-7.7	18.2	-11.3	-0.1

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 RBNZ perceives widespread sogginess across the economy, making them more relaxed about the extra stimulus being provided by super-strong net migration and more fiscal spending this year than anticipated. We aren’t so sure. Things are patchy, certainly, but most activity indicators are well off their lows and rising, while cost and price indicators are inching lower, rather than plunging. Even the most interest-rate-sensitive sector, construction, is much less downbeat than previously. We continue to expect that the RBNZ will be back at the hiking table by the end of the year.

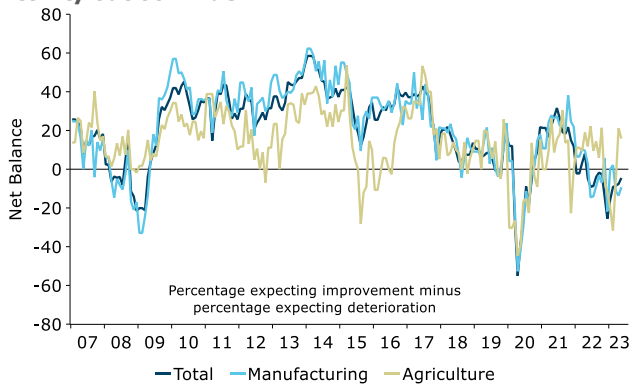
## Survey Results May 2023

Net Balance	May	Previous (April)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-31.1	-43.8	-21.1	-39.6	-68.4	-7.7	-29.9
Own Activity Outlook	-4.5	-7.6	-15.5	-9.3	15.8	0.0	-1.7
Export Intentions	2.0	-1.5	-9.8	15.2	16.7	0.0	1.7
Investment Intentions	-6.8	-6.8	-7.0	-7.7	-26.3	-10.3	-2.8
Cost Expectations	84.1	84.2	89.3	75.5	88.9	77.8	86.1
Capacity Utilisation	-1.2	0.8	-14.3	-1.9	5.3	-2.7	3.0
Residential Construction	-56.7	-79.2	...	...	...	-56.7	...
Commercial Construction	-12.1	-5.9	...	...	...	-12.1	...
Employment Intentions	-5.7	-2.4	0.0	-1.9	-5.3	-10.5	-6.9
Profit Expectations	-27.4	-37.7	-22.4	-27.8	-52.6	-23.1	-25.4
Pricing Intentions	52.4	53.7	64.3	51.9	23.5	36.1	54.8
Ease of Credit Expectations	-39.4	-48.6	-36.2	-51.9	-68.4	-38.5	-32.2
Inflation Expectations (%)	5.47	5.70	5.57	5.97	6.04	5.18	5.29
Activity – same month one year ago	-7.0	-0.3	-3.5	9.3	-26.3	-23.1	-8.0
Employment – same month one year ago	1.2	2.2	10.9	1.9	-26.3	-15.4	4.8
Price Expectations – 3 months from now (%)	2.9	3.1	3.4	3.3	0.6	1.4	2.9
Cost Expectations – 3 months from now (%)	4.8	5.1	4.7	4.5	7.2	3.9	4.8
Wages/Salaries – next 12 months (%)	4.6	4.7	4.6	4.7	5.1	5.0	4.3
Wages/Salaries – same month a year ago (%)	6.3	6.0	7.0	6.5	8.6	6.2	5.7

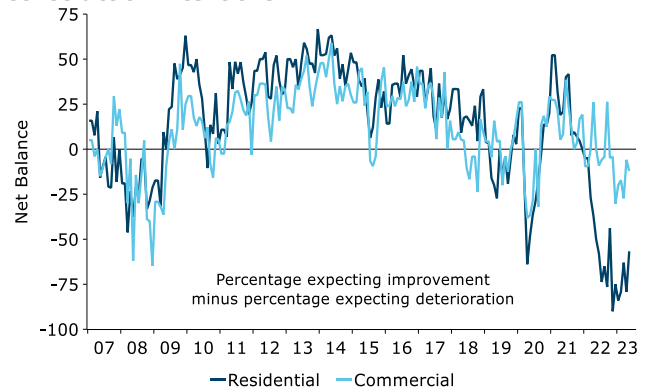


# Charts

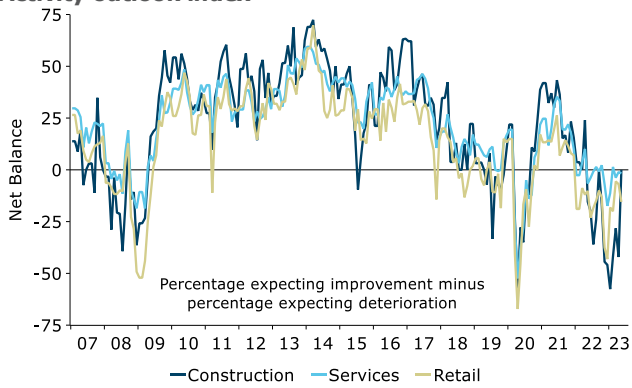
**Activity outlook index**



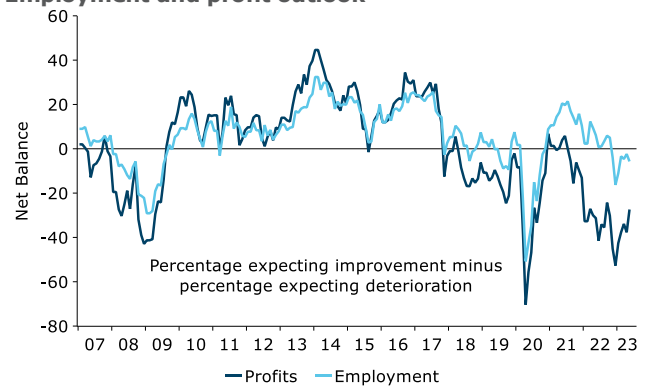
**Construction intentions**



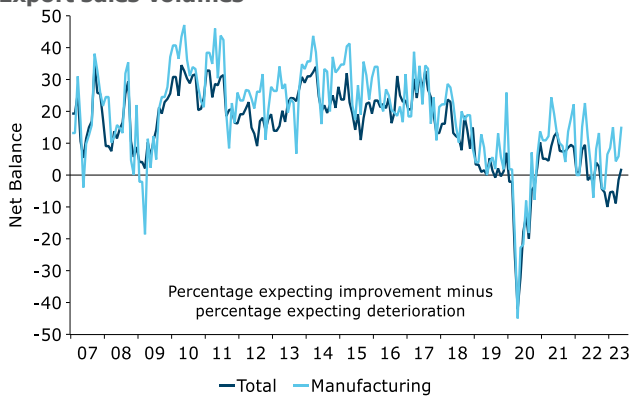
**Activity outlook index**



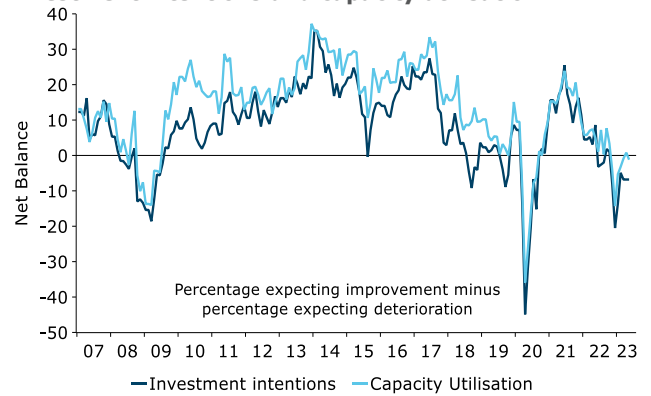
**Employment and profit outlook**



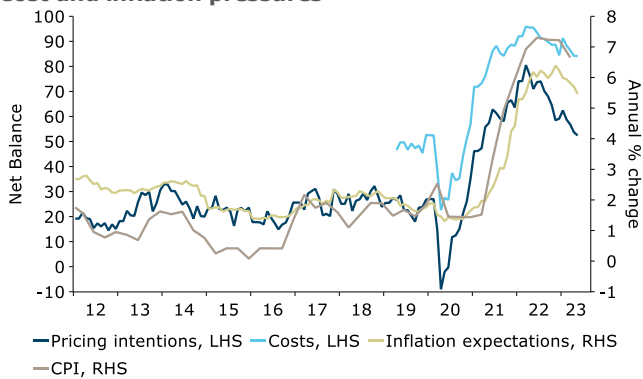
**Export sales volumes**



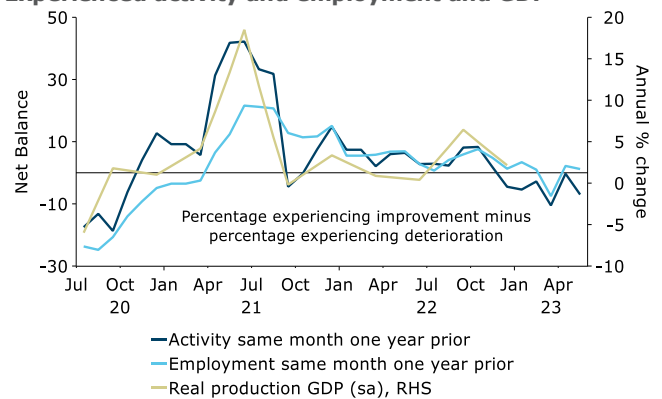
**Investment intentions and capacity utilisation**



**Cost and inflation pressures**



**Experienced activity and employment and GDP**



Source: ANZ, Statistics NZ, Macrobond



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