ANZ Research

ANZ New Zealand Business Outlook

29 June 2023

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Contact

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See page 9.

The next release of the ANZ *Business Outlook* is due on 31 July 2023 at 1pm.

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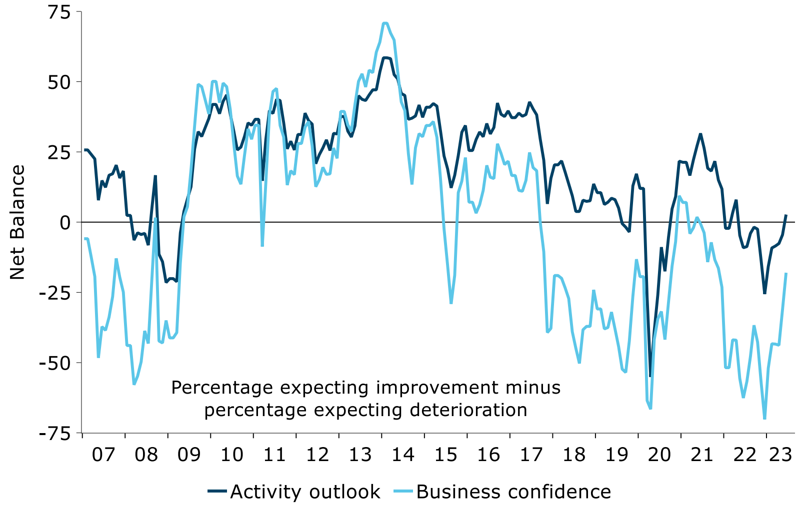
Confused by acronyms or jargon? See a glossary here.

A sigh of relief

Key points

- Business confidence leapt 13 points in June to -18, the highest read since November 2021. Expected own activity jumped 8 points to +3; hardly strong, but the first time in 14 months that it's been in the black.
- Inflation indicators generally eased. Reported inward freight disruption fell to a fresh low.

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



Source: Macrobond, ANZ Research

Table 1: Results versus last month

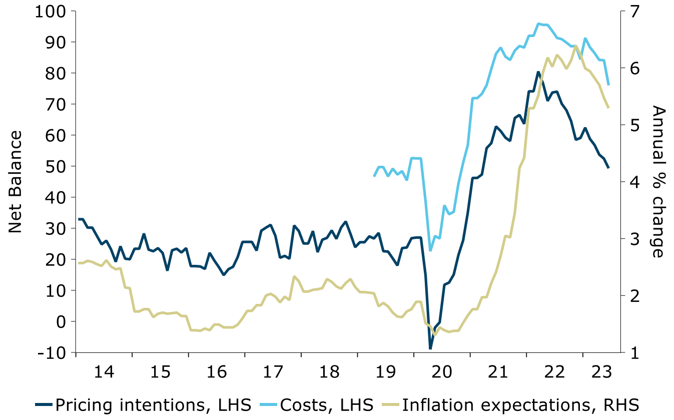
Net Balance	Jun	May	Comment
Business Confidence	-18.0	-31.1	The power of the RBNZ calling a halt?
Own Activity Outlook	2.7	-4.5	First time in 14 months it's above zero.
Export Intentions	-1.8	2.0	China concerns may be weighing.
Investment Intentions	-2.7	-6.8	Highest since October last year.
Cost Expectations	76.0	84.1	A broad-based decent fall very welcome.
Wage Expectations	80.2	84.0	Continuing to go the right way.
Capacity Utilisation	4.6	-1.2	Historically not a bad GDP indicator.
Residential Construction	-51.5	-56.7	Still very subdued, but well off its lows.
Commercial Construction	5.3	-12.1	Quite the turnaround.
Employment Intentions	-3.5	-5.7	Bouncing around mildly negative levels.
Profit Expectations	-24.1	-27.4	Still negative, but highest since Dec-21.
Pricing Intentions	49.3	52.4	Declining ever so slowly.
Ease of Credit	-27.9	-39.4	Highest since late-2018!
Inflation Expectations	5.29%	5.47%	Going the right way, albeit not rapidly.
Activity – vs. same month one year ago	-8.0	-7.0	Continues to languish.
Employment – vs. same month one year ago	1.1	1.2	Retail and services positive; construction, manufacturing & agri in the red.

June saw activity indicators lift in a reasonably broad-based fashion. While the levels of many are still subdued, firms appear to be cautiously optimistic that the worst may be over.

Turning to the key themes of the June survey:

- The lift in sentiment was widespread, but most marked for the services sector. The levels of many indicators are still very low relative to history.
- Headline inflation and pricing indicators continue to slowly ease (figure 2). Inflation expectations have the steepest downward trend, but are still extremely elevated. The fall in the net proportion of firms expecting higher costs was particularly marked this month.

Figure 2. ANZBO inflation indicators

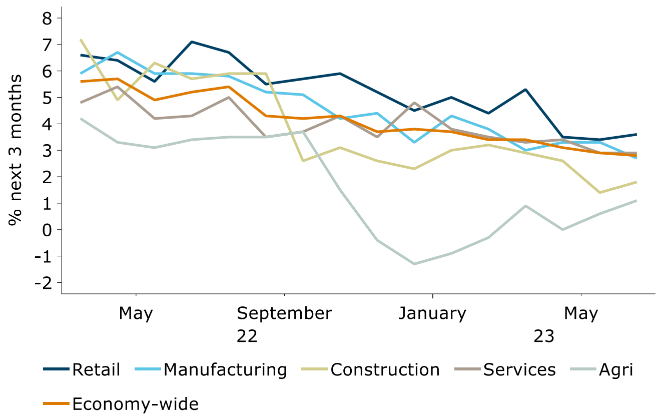


Source: Macrobond, ANZ Research

A net 64% of firms in the retail sector expect to lift their prices in the next three months, unchanged from last month. When it comes to the question asking for a specific numerical estimate of where firms' own selling prices will be in three months' time (figure 3), the average read was slightly lower versus last month at 2.8% (May: 2.9%). However, anticipated price increases in the retail sector lifted from 3.4% to 3.6%, remaining the highest across all the sectors.

Note these are anticipated *quarterly* percent changes, not annual – that annualises to over 14% y/y. We don't yet have enough data to judge how well these series match up with official inflation statistics, but it hardly screams "job done".

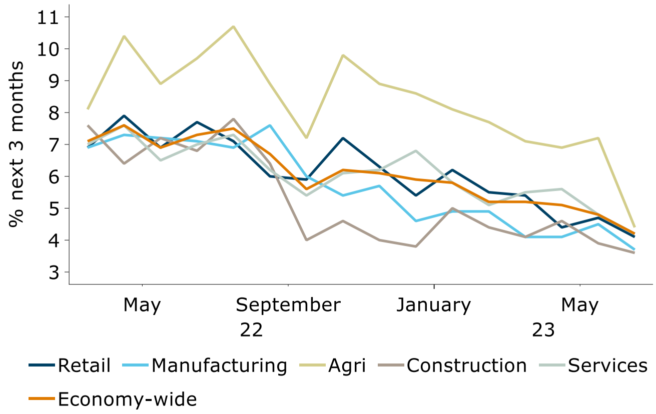
Figure 3. Pricing intentions by sector



Source: Macrobond, ANZ Research

We also survey firms' expected costs in three months' time relative to today (figure 4). Encouragingly, a general downtrend continues to be evident. The economy-wide measure fell from 4.8% to 4.2%, the lowest read since we started asking the question in early 2022. The highest expected cost growth is in agriculture (4.4%), but this is a sharp drop from 7.2% last month. The weakest cost inflation expectations are in the construction sector (3.6%) and manufacturing (2.7%). Again, though, these data ask about increases in the coming three-month period, not a year ahead. The data imply that on average, firms continue to expect margin compression, given costs are expected to lift more than prices.

Figure 4. Cost expectations by sector

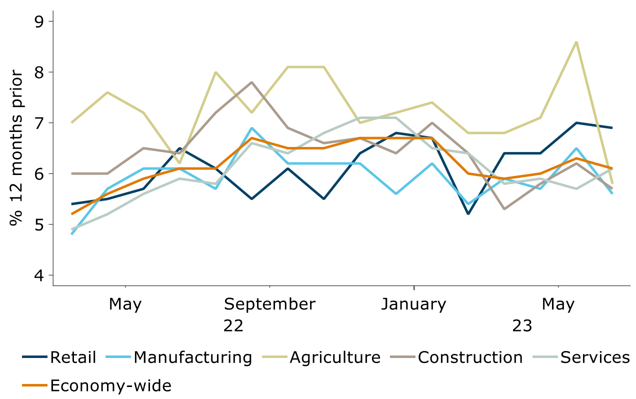


Source: Macrobond, ANZ Research

Wage growth is a key driver of the persistence of non-tradables inflation. Reported past wage settlements ticked slightly lower to 6.1% from 6.3% (figure 5), with an increase in the services sector offset by falls elsewhere – most dramatically agriculture. Expectations for wage settlements for the next 12 months eased from 4.6% to 4.2% and continue to trend lower in a broad-based fashion (figure 6).

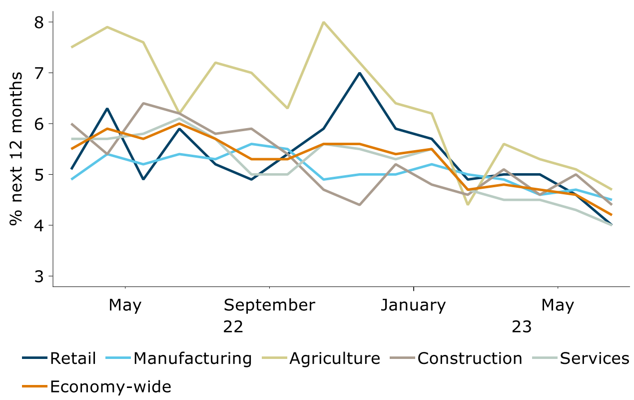
Overall, firms are anticipating they will raise wages by considerably less in the next 12 months than they did in the last (figure 7, over). The downward trend in expected wage settlements is a lot more convincing than the downward trend in reported wage settlements.

Figure 5. Wage growth by sector: last 12 months



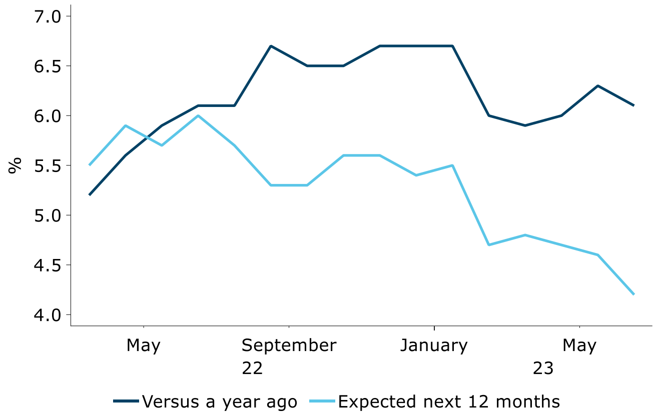
Source: Macrobond, ANZ Research

Figure 6. Wage growth by sector: next 12 months



Source: Macrobond, ANZ Research

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



Source: Macrobond, ANZ Research

Overall, a net 80% of respondents reported expecting to raise wages over the next 12 months, down from 84% in May, and well off its peak of 94% in June 2022.

Our heatmap of indicators by sector continues to highlight subdued levels of most activity indicators for most series, but also monthly lifts across many.

Points of interest:

- The services and agriculture sectors saw the most marked improvement in indicators over the month. Construction was the most mixed sector in terms of changes over the month, though there was also a marked fall in reported manufacturing activity and employment versus a year earlier.
- Pricing intentions remain the most elevated series relative to history, though they eased for many sectors. Ease of credit saw the most dramatic lift, possibly related to both the tweak to high loan-to-value mortgage lending restrictions and the RBNZ calling a halt to hikes. Given the RBNZ is setting out to create spare capacity in the economy, it was notable that reported capacity utilisation actually increased everywhere except construction. But this could actually reflect that now it's easier to find staff, firms are actually now able to utilise their capital better, rather than reflecting they are even more run off their feet than before.

Table 2. Heatmap

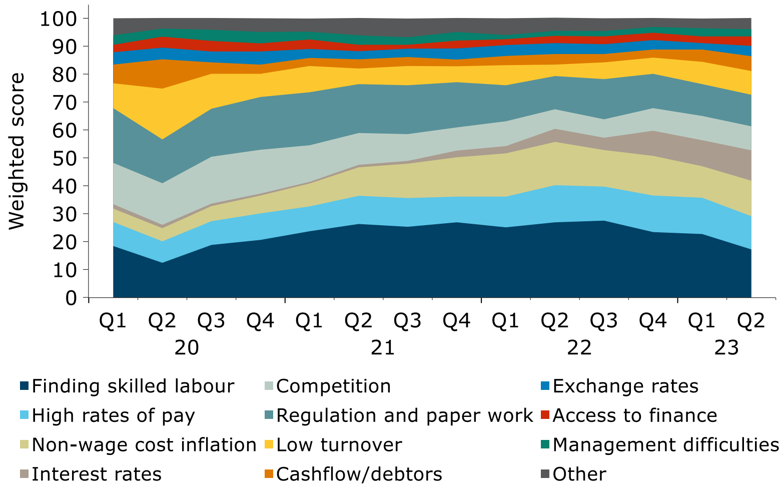
	Levels					Monthly changes				
	Retail	Mfg	Agric	Constrn	Serv	Retail	Mfg	Agric	Constrn	Serv
Business Confidence	-13.8	-30.5	-52.6	-4.7	-13.6	7.3	9.1	15.8	3.0	16.3
Own activity outlook	-12.1	0.0	15.8	-4.7	8.4	3.4	9.3	0.0	-4.7	10.1
Activity vs. same month one year ago	-20.7	-10.2	26.3	-27.9	-1.1	-17.2	-19.5	52.6	-4.8	6.9
Exports	-12.5	14.0	23.5	-14.8	-3.8	-2.7	-1.2	6.8	-14.8	-5.5
Investment	-1.8	5.4	-31.6	-7.0	-1.1	5.2	13.1	-5.3	3.3	1.7
Capacity Utilisation	5.4	0.0	42.1	-4.7	3.8	19.7	1.9	36.8	-2.0	0.8
Residential Construction	…	…	…	-51.5	…	…	…	…	5.2	…
Commercial Construction	…	…	…	5.3	…	…	…	…	17.4	…
Employment	-3.4	-3.4	-27.8	2.3	-2.2	-3.4	-1.5	-22.5	12.8	4.7
Employment vs. same month one year ago	12.1	-10.2	-11.1	-24.4	9.7	1.2	-12.1	15.2	-9.0	4.9
Profits	-31.0	-25.4	-47.4	-34.9	-16.8	-8.6	2.4	5.2	-11.8	8.6
Ease of Credit	-34.5	-33.9	-26.3	-18.6	-25.3	1.7	18.0	42.1	19.9	6.9
Costs	75.0	70.7	78.9	65.1	79.6	-14.3	-4.8	-10.0	-12.7	-6.5
Pricing Intentions	64.3	48.3	27.8	32.6	50.5	0.0	-3.6	4.3	-3.5	-4.3

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.

What's your problem?

Every three months we ask firms to rate their biggest problems. Finding skilled labour continues to be the largest issue, but it is not the extreme outlier it was a year ago. Problems related directly to inflation – wage and non-wage costs – continue to rate highly. Interest rates have increased as a concern. Low turnover remains well down the list.

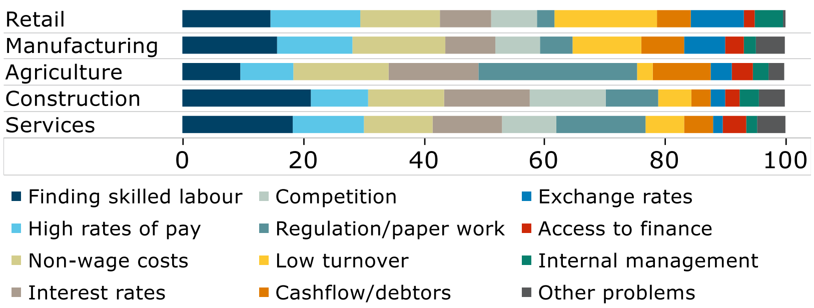
Figure 8. Firms' biggest problems, weighted



Source: Macrobond, ANZ Research

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

Figure 9. Biggest problems by sector



Source: Macrobond, ANZ Research

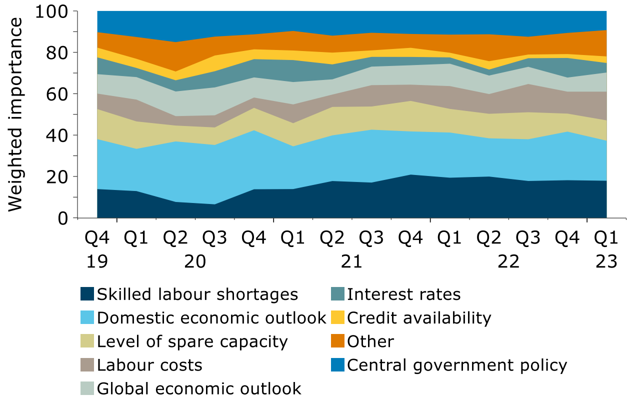
- Finding skilled staff is still the biggest problem for construction and services, while for manufacturing it's even stevens with non-wage costs.
- Agriculture is most concerned about regulation & paperwork (by far) and cashflow, while the retail sector is most concerned about low turnover.
- The construction sector and agriculture are the most concerned about interest rates, which makes intuitive sense. Retail and manufacturing are the most concerned about the exchange rate, given their exposure to imports.
- The construction sector is not yet particularly concerned about low turnover, despite subdued expectations for activity going forward. This likely reflects the typical lags in contracting work. However, this sector did put the largest weight on competition as a problem.
- The services sector is the least concerned about non-wage costs relative to other concerns; agriculture the most.

Investment drivers

Every three months we also ask firms about what's driving their investment intentions.

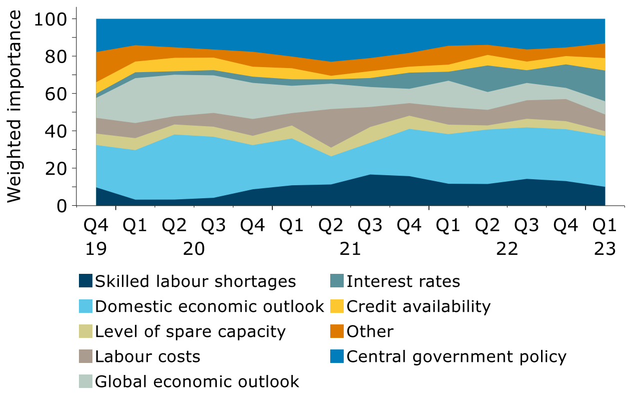
Amongst firms intending to invest more, skilled labour shortages and the domestic economic outlook remain the key drivers, but it's notable that labour costs have become more important than capacity considerations (figure 10). Amongst firms intending to cut their investment (figure 11), the biggest factor by far is the domestic economic outlook, but interest rates are now second.

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



Source: Macrobond, ANZ Research

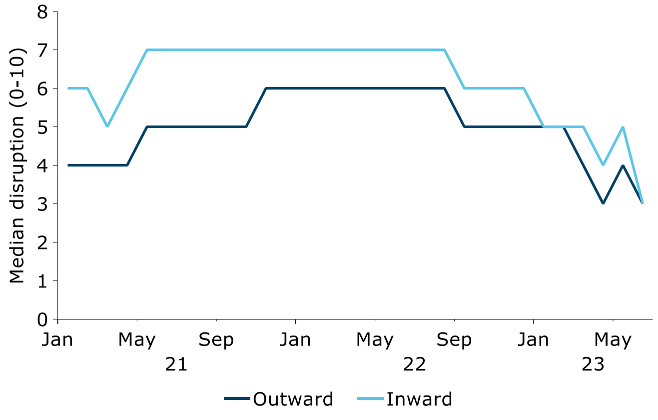
Figure 11. Weighted drivers for firms intending to invest less (36% of selected drivers)



Source: Macrobond, ANZ Research

Finally, reported shipping disruptions continue to ease.

Figure 12. Median reported shipping disruption



Source: Macrobond, ANZ Research

Our take

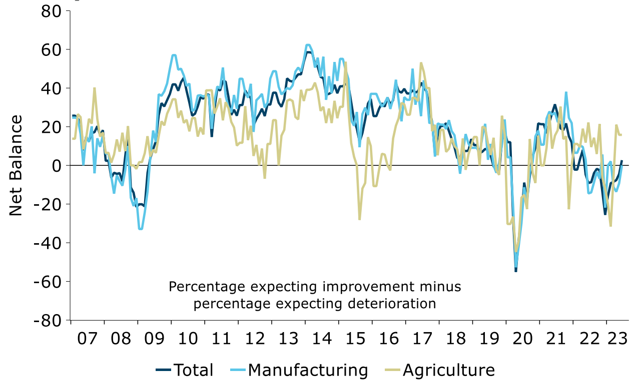
Times remain very uncertain for businesses, and pressure on profitability from high costs and in some cases, lower turnover, persists. But there are positives too – firms appear to have taken heart from the RBNZ calling a halt to hikes. Increasingly widespread expectations that the housing market has found a floor appear to be offering glimmers of hope for the residential construction sector, and finding labour has clearly become much easier as workers have poured in through the border, alleviating a significant source of stress for businesses. Of course, capping any upside is the fact the RBNZ is wanting to see subdued demand for a period. But for now, cautious optimism appears to be emerging that the worst could be past – but it's conditional on those inflation indicators continuing to fall.

Survey Results June 2023

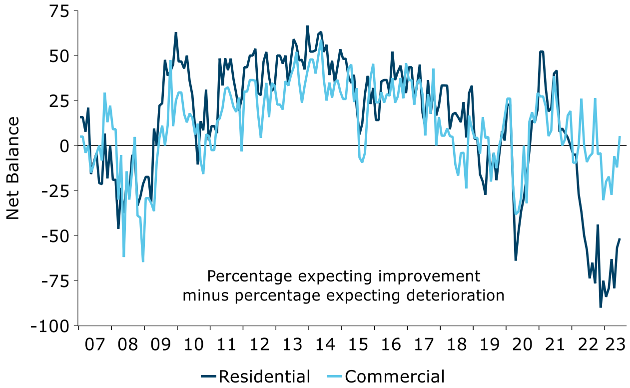
Net Balance	June	Previous (May)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-18.0	-31.1	-13.8	-30.5	-52.6	-4.7	-13.6
Own Activity Outlook	2.7	-4.5	-12.1	0.0	15.8	-4.7	8.4
Export Intentions	-1.8	2.0	-12.5	14.0	23.5	-14.8	-3.8
Investment Intentions	-2.7	-6.8	-1.8	5.4	-31.6	-7.0	-1.1
Cost Expectations	76.0	84.1	75.0	70.7	78.9	65.1	79.6
Capacity Utilisation	4.6	-1.2	5.4	0.0	42.1	-4.7	3.8
Residential Construction	-51.5	-56.7	…	…	…	-51.5	…
Commercial Construction	5.3	-12.1	…	…	…	5.3	…
Employment Intentions	-3.5	-5.7	-3.4	-3.4	-27.8	2.3	-2.2
Profit Expectations	-24.1	-27.4	-31.0	-25.4	-47.4	-34.9	-16.8
Pricing Intentions	49.3	52.4	64.3	48.3	27.8	32.6	50.5
Ease of Credit Expectations	-27.9	-39.4	-34.5	-33.9	-26.3	-18.6	-25.3
Inflation Expectations (%)	5.29	5.47	5.23	5.54	5.16	5.36	5.23
Activity – same month one year ago	-8.0	-7.0	-20.7	-10.2	26.3	-27.9	-1.1
Employment – same month one year ago	1.1	1.2	12.1	-10.2	-11.1	-24.4	9.7
Price Expectations – 3 months from now (%)	2.8	2.9	3.6	2.7	1.1	1.8	2.9
Cost Expectations – 3 months from now (%)	4.2	4.8	4.1	3.7	4.4	3.6	4.2
Wages/Salaries – next 12 months (%)	4.2	4.6	4.0	4.5	4.7	4.4	4.0
Wages/Salaries – same month a year ago (%)	6.1	6.3	6.9	5.6	5.8	5.7	6.1

Charts

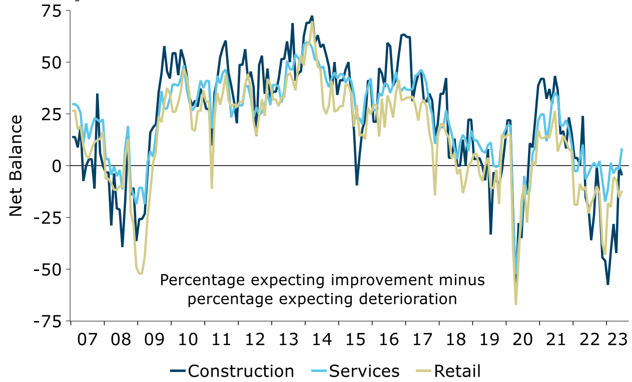
Activity outlook index



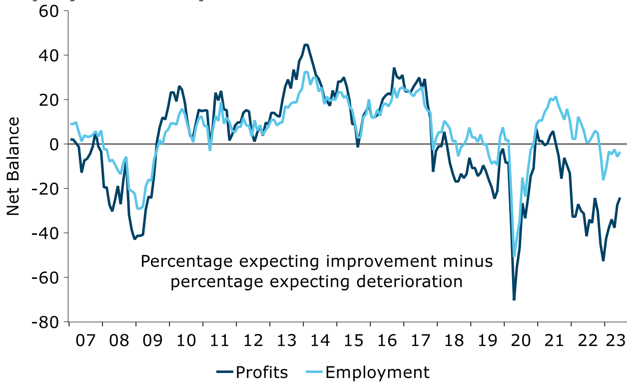
Construction intentions



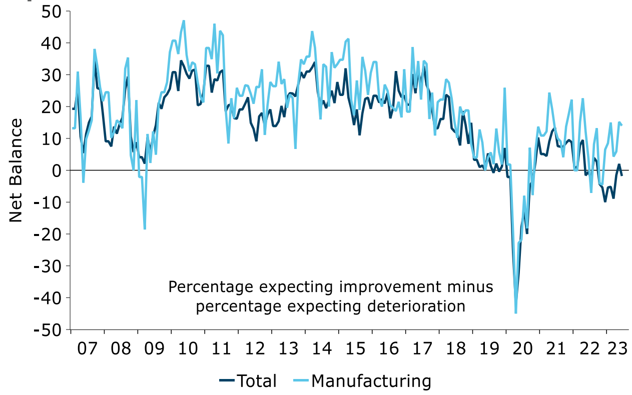
Activity outlook index



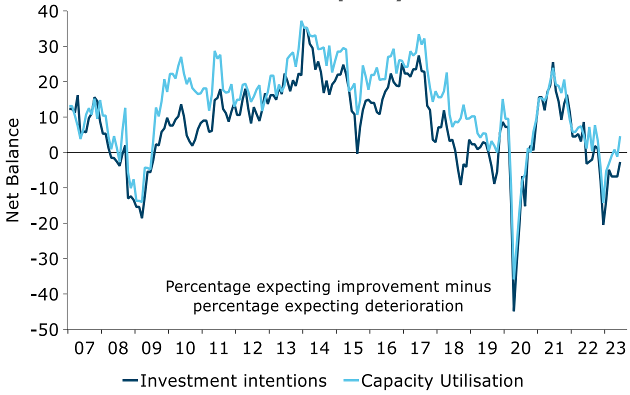
Employment and profit outlook



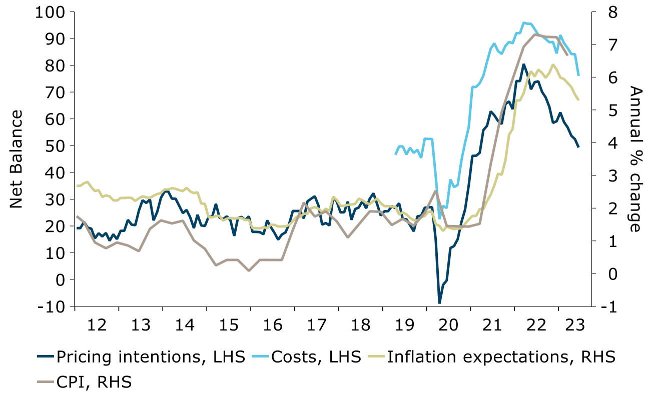
Export sales volumes



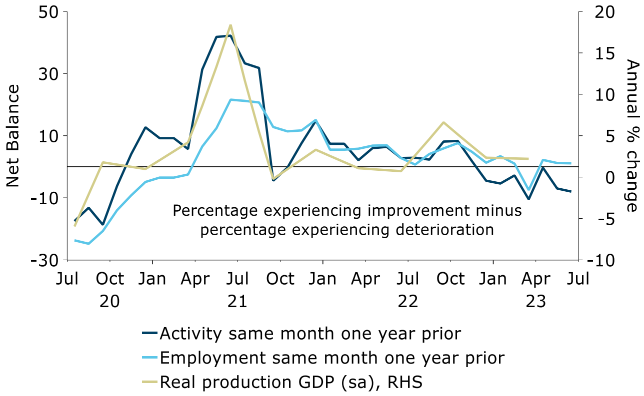
Investment intentions and capacity utilisation



Cost and inflation pressures



Experienced activity and employment and GDP



Source: ANZ, Statistics NZ, Macrobond

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