

# ANZ New Zealand Business Outlook

31 July 2023



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## Contact

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See page 7.

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

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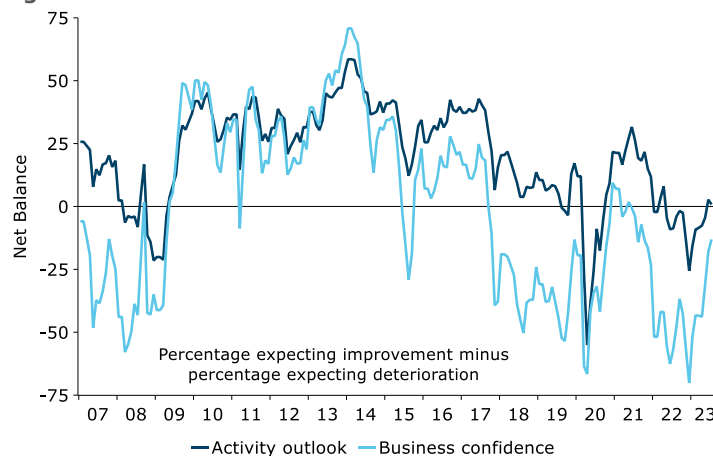
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## Running an orange light

### Key points

- Business confidence lifted another 5 points in July to -13, the highest read since September 2021. Expected own activity eased 2 points to +1. The economy is slowing, but certainly not coming to a sudden stop.
- Inflation indicators mostly crept slightly lower, but cost expectations lifted, and the proportion of firms expecting to raise wages increased.

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



Source: Macrobond, ANZ Research

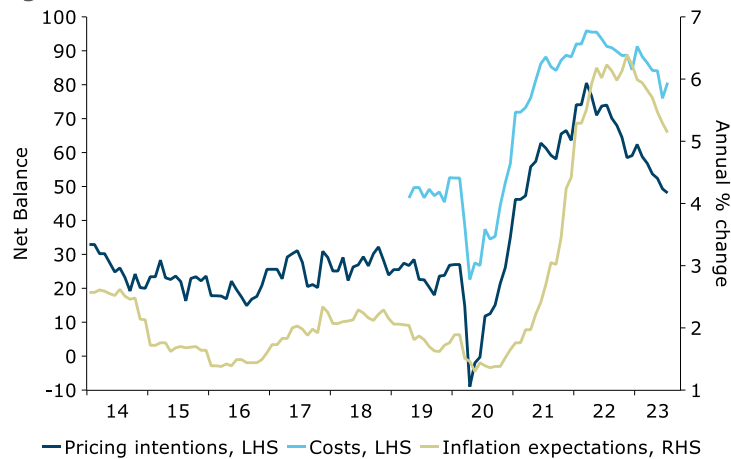
Table 1: Results versus last month

Net Balance	July	June	Comment
Business Confidence	-13.1	-18.0	Highest since September 2021.
Own Activity Outlook	0.8	2.7	Manufacturing and services strongest, construction weakest by far.
Export Intentions	1.5	-1.8	Strongest for manufacturing.
Investment Intentions	-3.3	-2.7	Retail strongest, agriculture very weak.
Cost Expectations	80.6	76.0	Lifted in 4 out of 5 sectors.
Wage Expectations	81.8	80.2	Construction the only sector to fall.
Capacity Utilisation	4.1	4.6	Only negative for construction.
Residential Construction	-24.1	-51.5	Another huge jump. Highest since Feb 22
Commercial Construction	-19.4	5.3	Pretty volatile.
Employment Intentions	-1.6	-3.5	Strongest since October 2022. Construction sector weakest.
Profit Expectations	-24.5	-24.1	Big bounce in retail. Agriculture weakest.
Pricing Intentions	48.1	49.3	Services and retail strongest.
Ease of Credit	-33.3	-27.9	Held onto half of last month's lift.
Inflation Expectations	5.14%	5.29%	Still going in the right direction, slowly.
Activity – vs. same month one year ago	-11.3	-8.0	Weakest since Sep 20, with fall led by agri and services. Retail, manuf. higher.
Employment – vs. same month one year ago	-1.6	1.1	Slight slippage led by services. Other sectors were all higher.

Activity indicators were a mixed bag in July, but broadly, the gains from the previous month were more or less maintained. Lifts were seen in business confidence, export intentions, and residential construction intentions, but expected own activity slipped. Little changed: employment intentions, investment intentions, capacity utilisation and profit expectations.

Inflation expectations and pricing intentions continue to ease slowly but steadily (figure 2). The proportion of firms reporting higher costs did tick up slightly, but to put it in context, this question saw the biggest fall last month. The downward trend remains intact.

**Figure 2. ANZBO inflation indicators**

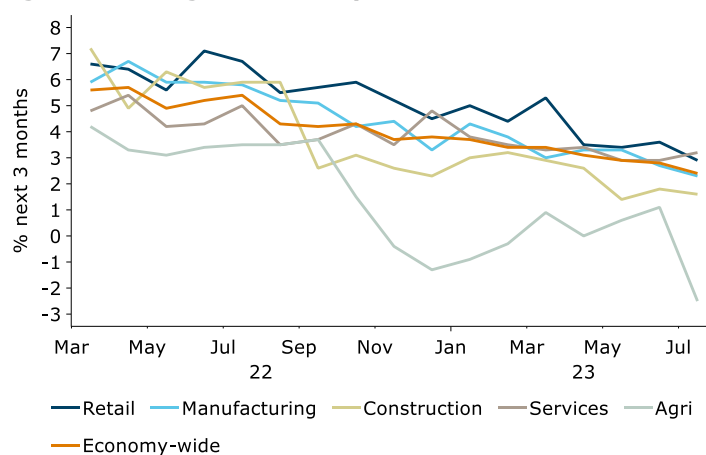


Source: Macrobond, ANZ Research

A net 62% of firms in the retail sector expect to lift their prices in the next three months. That's high, but it's the lowest read since March 2021. When it comes to specific numerical estimates of where firms' own selling prices will be in three months' time (figure 3), the average read was markedly lower at 2.4% (down from 2.8% in June), and fell in every sector except services, which ticked up from 2.9% to 3.2%.

Note these are anticipated *quarterly* percent changes, not annual, so intended price rises are still far from consistent with the inflation target. But they are trending lower across all sectors.

**Figure 3. Pricing intentions by sector**

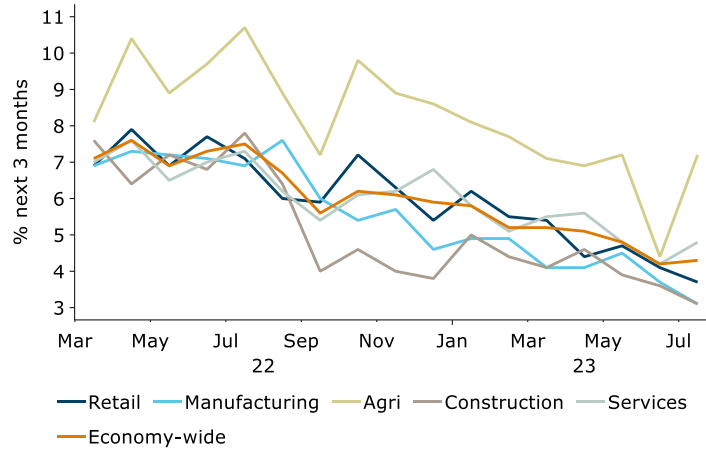


Source: Macrobond, ANZ Research

We also survey firms' expected costs in three months' time relative to today (figure 4, over). The economy-wide measure ticked up slightly from 4.2% to 4.3%, with lifts for agriculture and services offset by falls for retail, manufacturing and construction.

The weakest cost inflation expectations are in the construction and manufacturing sectors (both 3.1%). Again, though, these data ask about increases in the coming three-month period, not over a year. The data imply that on average, firms continue to expect margin compression, given costs are expected to lift more than prices over the next three months (4.3% versus 2.4%).

**Figure 4. Cost expectations by sector**



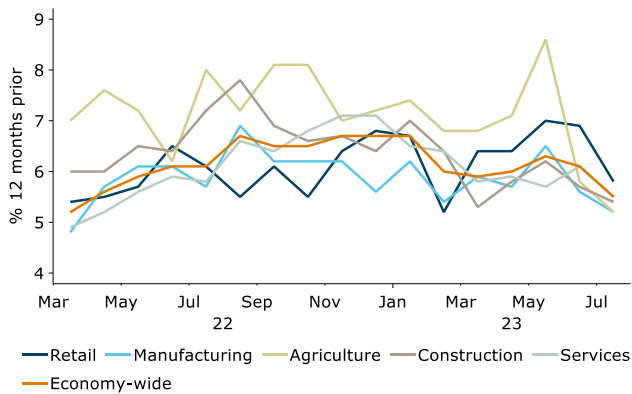
Source: Macrobond, ANZ Research

Wage growth is a key determinant of the persistence of non-tradables inflation. Reported past wage increases (versus a year earlier) fell from 6.1% to 5.5% (figure 5), easing in every sector. The range of reported wage increases across sectors is the narrowest we've seen, with every sector starting with a '5'. Expectations for wage settlements for the next 12 months ticked down from 4.2% to 4.1% and continue to trend lower – most convincingly for the construction and retail sectors (figure 6).

Overall, a net 82% of respondents reported expecting to raise wages over the next 12 months. That's up slightly from 80% in June, but well off its peak of 94% in June last year.

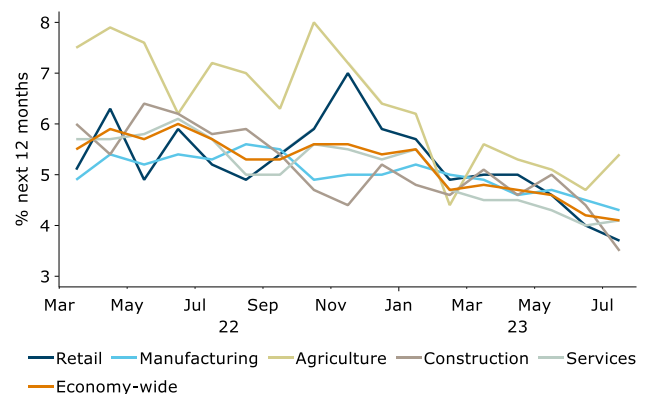
Overall, firms continue to anticipate that they will raise wages by considerably less in the next 12 months than they did in the last (figure 7, over).

**Figure 5. Wage growth by sector: last 12 months**



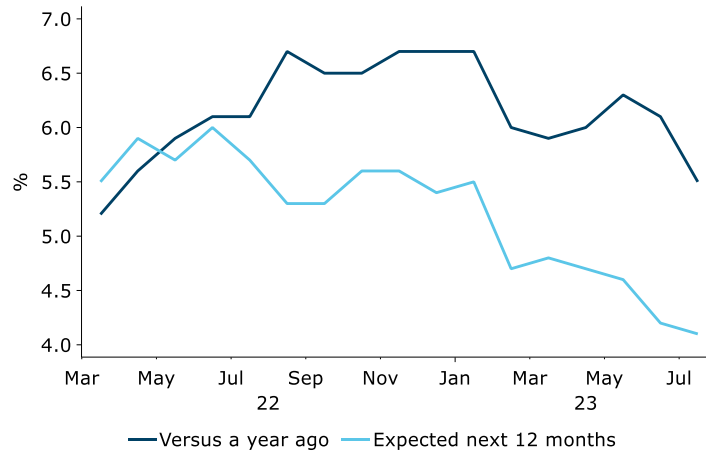
Source: Macrobond, ANZ Research

**Figure 6. Wage growth by sector: next 12 months**



Source: Macrobond, ANZ Research

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



Source: Macrobond, ANZ Research

Our heatmap of indicators by sector, table 2 below, continues to highlight subdued levels of most activity indicators for most series, and shows a clear sector theme to the ups and downs this month.

Points of interest:

- The retail, manufacturing and services sectors saw the most marked improvement in activity indicators over the month, apart from a sharp fall in manufacturing sector investment intentions. The construction and agriculture sectors saw the biggest falls in activity indicators over the month, but there were exceptions here too: sharply higher residential construction intentions and stronger agriculture sector employment (particularly forward-looking intentions, though reported employment rose too).
- Pricing intentions remain very high relative to history, though in July they eased in retail, manufacturing and agriculture (the latter being a sector for which the question is best interpreted as price expectations, given farmers don't typically get to set their prices). The rise for the services sector was unusually large, however. Expected costs also remain very high. However, most activity indicators remain subdued relative to history, especially investment intentions and expected profitability, which are no doubt linked.

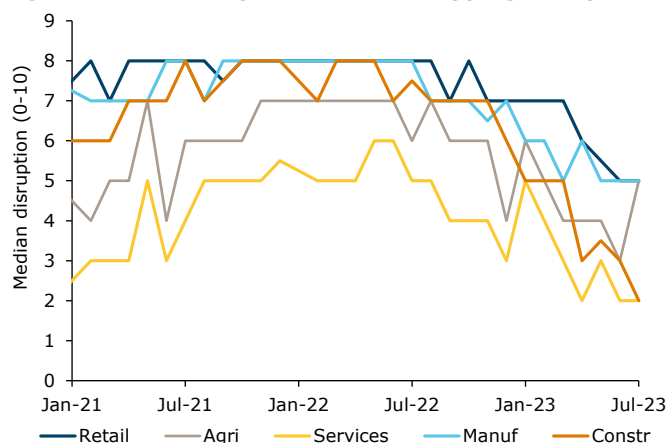
**Table 2. Heatmap**

	Levels					Monthly changes				
	Retail	Mfg	Agric	Constrn	Serv	Retail	Mfg	Agric	Constrn	Serv
Business Confidence	-3.4	-5.3	-44.4	-17.1	-12.2	10.4	25.2	8.2	-12.4	1.4
Own activity outlook	-5.3	10.5	-3.8	-26.8	7.7	6.8	10.5	-19.6	-22.1	-0.7
Activity vs. same month one year ago	-3.6	1.8	-40.7	-26.8	-9.9	17.1	12.0	-67.0	1.1	-8.8
Exports	-2.6	14.0	-4.3	-12.5	3.5	9.9	0.0	-27.8	2.3	7.3
Investment	7.1	-5.5	-38.5	-17.1	2.8	8.9	-10.9	-6.9	-10.1	3.9
Capacity Utilisation	7.4	8.9	0.0	-14.6	6.9	2.0	8.9	-42.1	-9.9	3.1
Residential Construction	...	...	...	-24.1	...	...	...	...	27.4	...
Commercial Construction	...	...	...	-19.4	...	...	...	...	-24.7	...
Employment	1.8	1.8	-4.0	-14.6	-1.1	5.2	5.2	23.8	-16.9	1.1
Employment vs. same month one year ago	17.9	3.6	-7.4	-19.5	-4.5	5.8	13.8	3.7	4.9	-14.2
Profits	-12.3	-24.6	-53.8	-39.0	-18.8	18.7	0.8	-6.4	-4.1	-2.0
Ease of Credit	-20.7	-35.1	-63.0	-29.3	-32.4	13.8	-1.2	-36.7	-10.7	-7.1
Costs	81.8	69.6	92.0	71.8	84.0	6.8	-1.1	13.1	6.7	4.4
Pricing Intentions	61.8	44.6	-16.0	33.3	56.5	-2.5	-3.7	-43.8	0.7	6.0

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. Note the history of the activity and employment versus a year ago is only from December 2019 but the data is included for completeness.

Finally, shipping disruptions continue to ease. Retail, agriculture and manufacturing continue to report some hassles, whereas for the construction and services sectors, disruptions are no longer on the radar.

**Figure 8. Median reported inward shipping disruption**



Source: ANZ Research

## Our take

Firms remain wary, with most activity indicators subdued. At the same time, though, most are well off their lows of late last year. The RBNZ is banking on the economy rolling over rapidly in coming months; we're not convinced things are quite that weak. Fiscal stimulus, population growth, solid household income growth, and now a bottoming housing market, are meaningful offsets to the lagged impacts of tighter monetary policy, weakening export demand, and cost-of-living pressures. We are forecasting a recession and associated rising unemployment – we could hardly be accused of wild optimism. But we'd characterise things as currently patchy rather than capitulating.

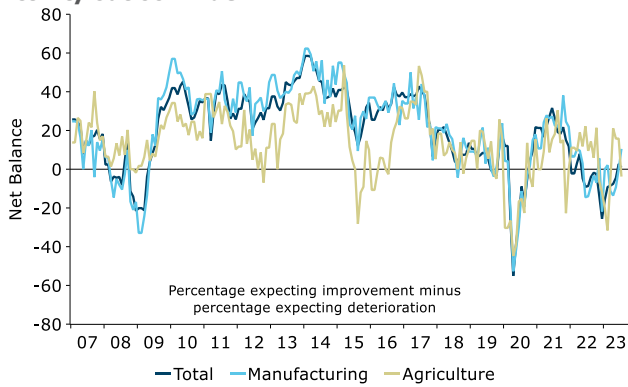
## Survey Results July 2023

Net Balance	July	Previous (June)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-13.1	-18.0	-3.4	-5.3	-44.4	-17.1	-12.2
Own Activity Outlook	0.8	2.7	-5.3	10.5	-3.8	-26.8	7.7
Export Intentions	1.5	-1.8	-2.6	14.0	-4.3	-12.5	3.5
Investment Intentions	-3.3	-2.7	7.1	-5.5	-38.5	-17.1	2.8
Cost Expectations	80.6	76.0	81.8	69.6	92.0	71.8	84.0
Capacity Utilisation	4.1	4.6	7.4	8.9	0.0	-14.6	6.9
Residential Construction	-24.1	-51.5	...	...	...	-24.1	...
Commercial Construction	-19.4	5.3	...	...	...	-19.4	...
Employment Intentions	-1.6	-3.5	1.8	1.8	-4.0	-14.6	-1.1
Profit Expectations	-24.5	-24.1	-12.3	-24.6	-53.8	-39.0	-18.8
Pricing Intentions	48.1	49.3	61.8	44.6	-16.0	33.3	56.5
Ease of Credit Expectations	-33.3	-27.9	-20.7	-35.1	-63.0	-29.3	-32.4
Inflation Expectations (%)	5.14	5.29	5.00	5.41	5.05	5.24	5.09
Activity – same month one year ago	-11.3	-8.0	-3.6	1.8	-40.7	-26.8	-9.9
Employment – same month one year ago	-1.6	1.1	17.9	3.6	-7.4	-19.5	-4.5
Price Expectations – 3 months from now (%)	2.4	2.8	2.9	2.3	-2.5	1.6	3.2
Cost Expectations – 3 months from now (%)	4.3	4.2	3.7	3.1	7.2	3.1	4.8
Wages/Salaries – next 12 months (%)	4.1	4.2	3.7	4.3	5.4	3.5	4.1
Wages/Salaries – same month a year ago (%)	5.5	6.1	5.8	5.2	5.2	5.4	5.5

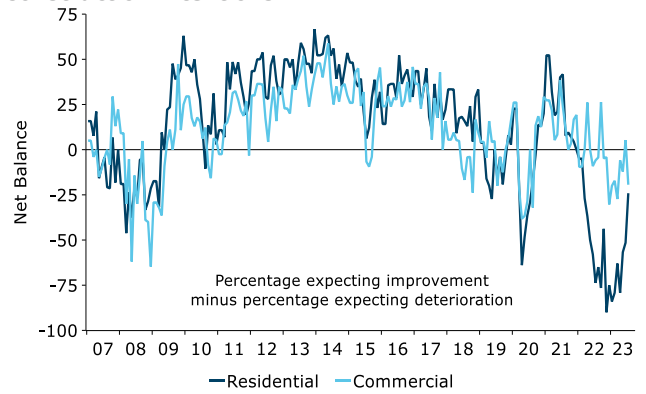


# Charts

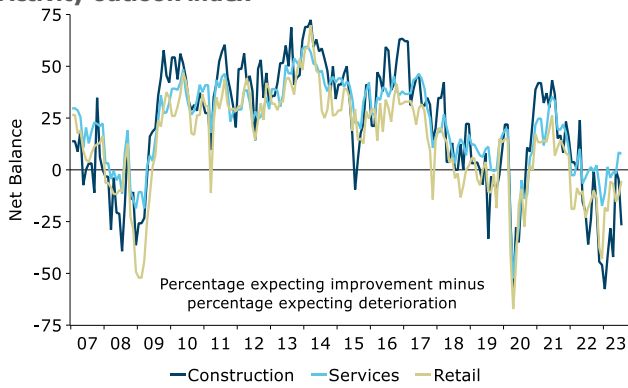
**Activity outlook index**



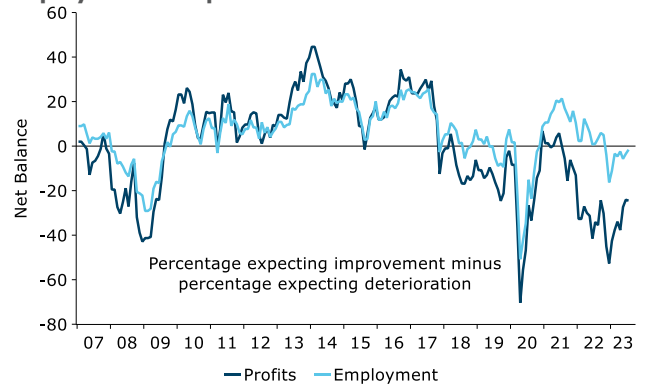
**Construction intentions**



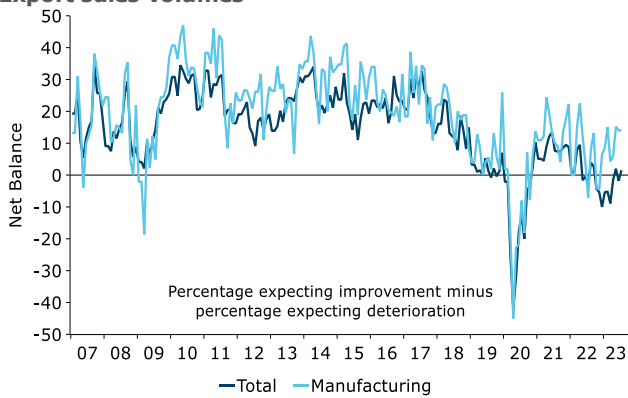
**Activity outlook index**



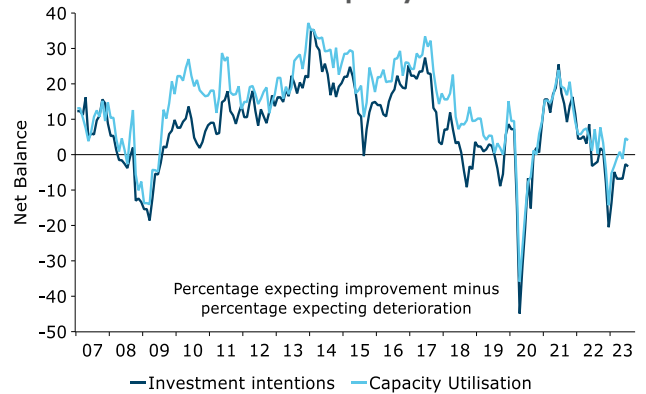
**Employment and profit outlook**



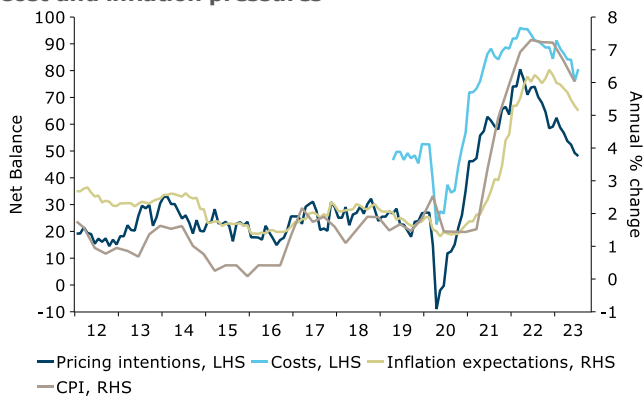
**Export sales volumes**



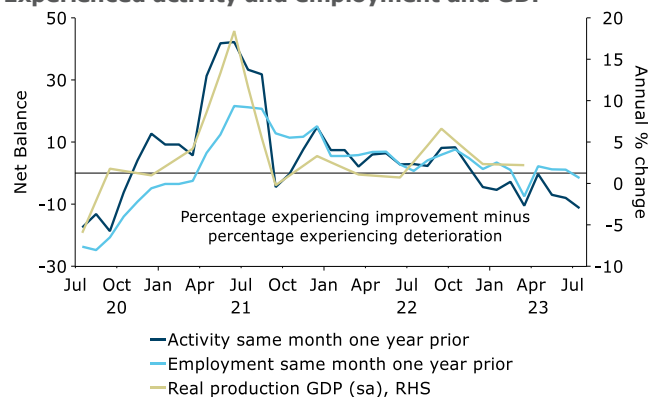
**Investment intentions and capacity utilisation**



**Cost and inflation pressures**



**Experienced activity and employment and GDP**



Source: ANZ, Statistics NZ, Macrobond



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