ANZ Research

ANZ New Zealand Business Outlook

28 September 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 October 2023 at 1pm.

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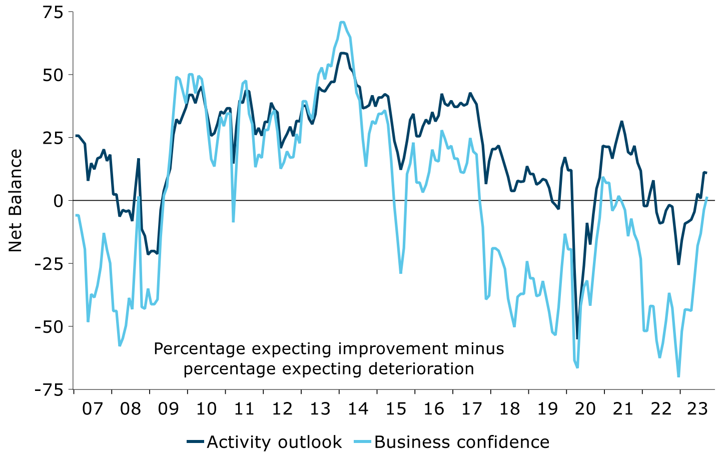
Hanging in there

Key points

- Business confidence rose 6 points to +2 in September. Expected own activity was flat at +11. Many activity indicators slipped a little.
- Inflation expectations fell slightly to finally fall below 5%. There's still a long way to go, but things continue to move slowly in the right direction.

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



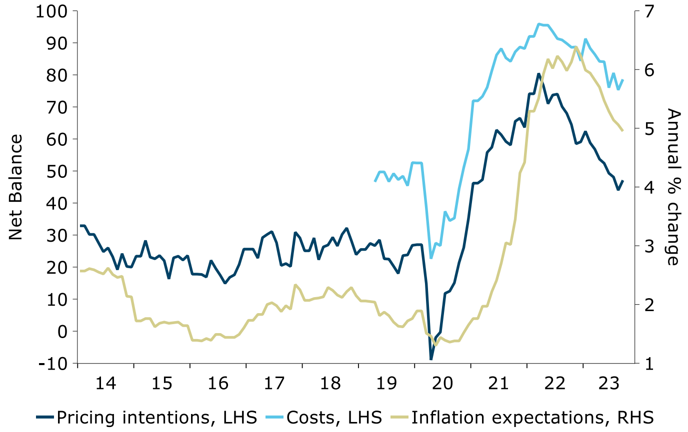
Source: Macrobond, ANZ Research

Table 1: Results versus last month

Net Balance	Sep	Aug	Comment
Business Confidence	1.5	-3.7	Agriculture dire at net -44%.
Own Activity Outlook	10.9	11.2	Big range: Manufacturing, services strong; others negative.
Export Intentions	-0.4	7.5	A fall makes sense, given China's woes.
Investment Intentions	-4.1	-1.3	Agriculture the weakest by far.
Cost Expectations	78.6	75.3	Mix of rises and falls by sector.
Wage Expectations	82.2	80.2	Highest for manufacturing (85).
Capacity Utilisation	7.3	9.7	Construction the weakest sector at -9.4.
Residential Construction	-13.6	-7.4	Has the bounce run out of steam?
Commercial Construction	-29.6	0.0	See-sawing lower.
Employment Intentions	1.2	4.6	Manufacturing & services up, rest down.
Profit Expectations	-13.2	-17.6	Lift driven by manufacturing – highest read here since late-2021!
Pricing Intentions	47.1	44.0	Wrong way! Retail up from 54 to 65. Services also up.
Ease of Credit	-23.5	-25.1	Weakest for agri, unsurprisingly
Inflation Expectations	4.95	5.06	Finally, a 4-handle. Retail sector 4.7%.
Activity – vs. same month one year ago	-12.9	-6.1	Slipping. All sectors in the red. Construction -34 and retail -29.
Employment – vs. same month one year ago	-1.8	-0.8	Strongest for manufacturing, weakest for agri and construction.

The September ANZ Business Outlook survey saw many activity indicators slip slightly despite the lift in the headline measures. Export, investment and employment intentions, and construction intentions, both residential and commercial, all eased. However, the falls were small, and the overall survey is best described as 'mixed'. Also, economy-wide profit expectations lifted. Less helpfully, so too did cost expectations and pricing intentions, but only a smidgen, and inflation expectations eased slightly and recorded the first sub-5% read since December 2021 (figure 2).

Figure 2. ANZBO inflation indicators



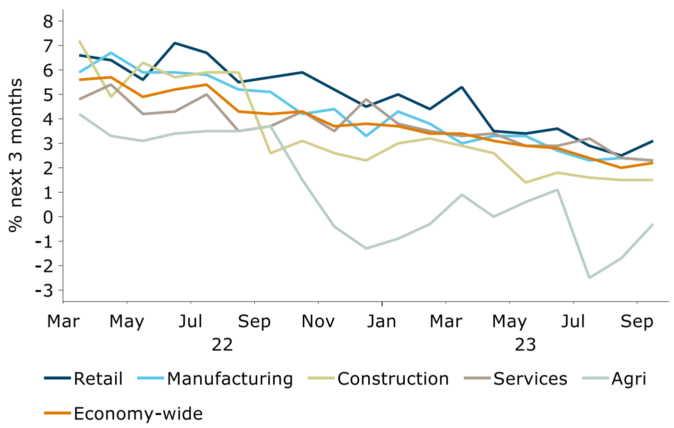
Source: Macrobond, ANZ Research

A net 65% of firms in the retail sector expect to lift their prices in the next three months, up from 54% in August. This may be related to the fact that the retail sector now considers the level of the exchange rate to be a significant problem (see figure 3). The RBNZ prefers to look through tradable inflation and focus on the domestic inflation that it can influence to a much greater extent, but its ability to do so is contingent on inflation expectations being well behaved. It's a case of 'so far so good, but a long way to go' in that regard.

When it comes to specific numerical estimates of where firms' own selling prices will be in three months' time, the average read was slightly higher at 2.2% (from 2.0% in August) but the longer-term trend remains negative. The retail sector rose from 2.5% to 3.1%.

Pricing intentions are trending slowly but surely lower in a broad-based fashion, but the exchange rate could interrupt progress if it weakens significantly from here. The agri sector remains an understandable outlier, expecting prices to fall in coming months.

Figure 3. Pricing intentions by sector

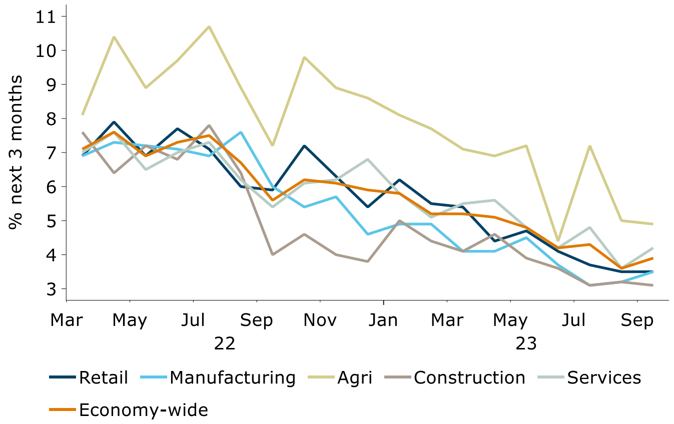


Source: Macrobond, ANZ Research

We also survey firms' expected costs in three months' time relative to today (figure 4). The economy-wide measure ticked up from 3.6% to 3.9%, but overall, a downward trend remains in play. The agriculture sector expects the highest cost increases (4.9% higher in three months' time), and construction the lowest (3.1%). Services sector expected costs ticked back up to 4.2% after a decent fall last month, and the manufacturing sector's expected cost increases rose from 3.2% to 3.5%.

Again, it's important to note when looking at the level that these data ask about increases in the coming three-month period, not over a year – the numbers remain too high. But things are trending in the right direction.

Figure 4. Cost expectations by sector

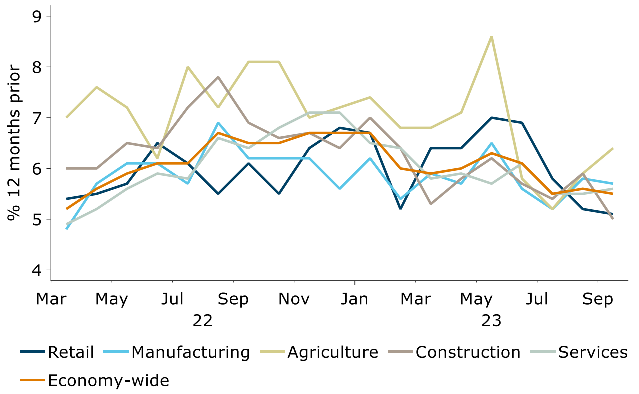


Source: Macrobond, ANZ Research

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 (3.9% versus 2.2%), with the agri sector getting the worst of it.

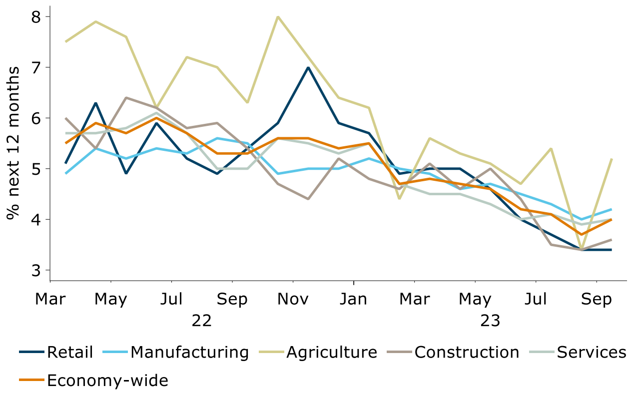
Reported past wage increases (versus a year earlier) edged lower at 5.5% (figure 5). On the other hand, expectations for wage settlements over the next 12 months ticked up from 3.7% to 4.0% (figure 6), increasing for every sector except retail, which was flat. The downward trend in expected wage growth is looking like it could potentially be stalling at this point, but it would be a mistake to read too much into one month's data.

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

Our heatmap of indicators by sector, table 2 below, shows a mixed bag over the month. Construction and agriculture were on the weaker side of moves during the month. The construction sector has certainly been subject to wild mood swings this year. Moves in retail indicators were muted – with the marked exception of a sharp jump in pricing intentions.

By question, the most consistent themes across sectors were falls in export and investment intentions. Others, like expectations for firms' own activity or capacity utilisation, are best described as 'patchy'. Pricing intentions remain very high across retail, manufacturing and services.

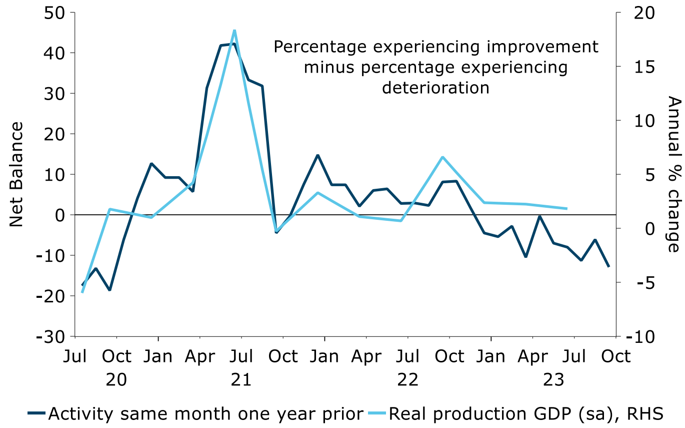
Table 2. Heatmap

	Levels					Monthly changes				
	Retail	Mfg	Agric	Constrn	Serv	Retail	Mfg	Agric	Constrn	Serv
Business Confidence	14.3	7.7	-44.4	-3.1	1.6	9.3	14.3	17.7	-14.9	-0.6
Own activity outlook	-8.2	22.6	-23.5	-9.4	19.2	-13.2	9.5	-26.9	-12.3	3.4
Activity vs. same month one year ago	-28.6	-5.7	-27.8	-34.4	-5.5	-3.6	-13.9	-20.9	0.9	-5.5
Exports	0.0	6.7	-29.4	-17.6	4.2	-4.2	-16.4	-17.9	-0.9	-6.4
Investment	0.0	-1.9	-50.0	-3.1	-1.7	0.0	-0.2	-15.5	-9.0	-3.4
Capacity Utilisation	8.5	22.6	11.1	-9.4	4.0	5.1	20.9	-6.8	-12.4	-10.2
Residential Construction	...	...	...	-13.6	...	...	...	...	-6.2	...
Commercial Construction	...	...	...	-29.6	...	...	...	...	-29.6	...
Employment	-2.1	5.7	-16.7	-9.7	3.9	-5.4	0.7	-2.9	2.1	-5.6
Employment vs. same month one year ago	6.4	7.5	-27.8	-25.8	-1.7	1.3	-5.8	-3.7	3.6	-0.6
Profits	-12.2	-5.7	-61.1	-25.0	-7.1	1.1	12.3	14.8	-13.2	2.8
Ease of Credit	-16.3	-30.2	-61.1	-12.5	-21.4	0.4	-5.6	4.4	-6.6	4.3
Costs	74.5	72.5	77.8	74.2	81.6	-6.2	4.2	-4.3	3.6	7.0
Pricing Intentions	64.6	47.1	5.6	31.2	49.4	10.2	-2.9	12.7	-10.0	1.7

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 blue. Note the versus a year ago questions began in December 2019.

Reported past activity has a good correlation with GDP and is consistent with the economy continuing to gradually lose momentum an annual change basis.

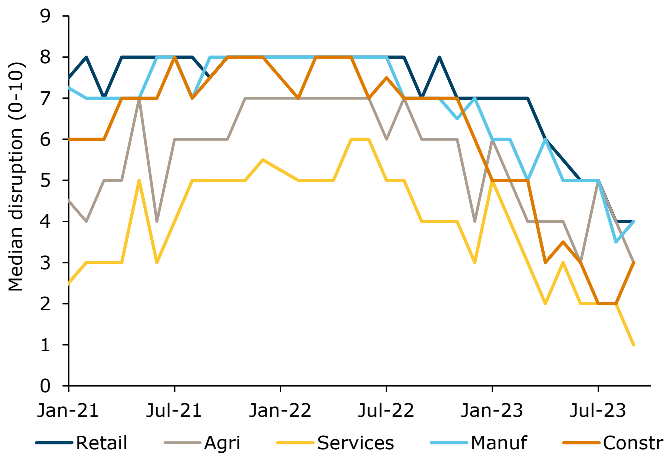
Figure 7. Past activity and GDP



Source: Macrobond, ANZ Research

Shipping disruptions continue to be much less of a problem than in 2021/22, but are still registering to some extent.

Figure 8. Median reported inward shipping disruption

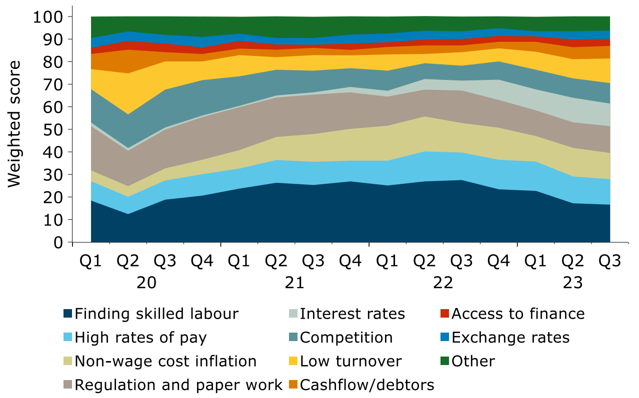


Source: ANZ Research

We ask additional questions every three months, including what firms' largest problems are. Figure 9 shows that finding skilled labour *still* rates as firms' largest problem. About half of the biggest problems by weight continue to be inflationary ones: finding labour, high wages, high other costs, and regulation and paperwork.

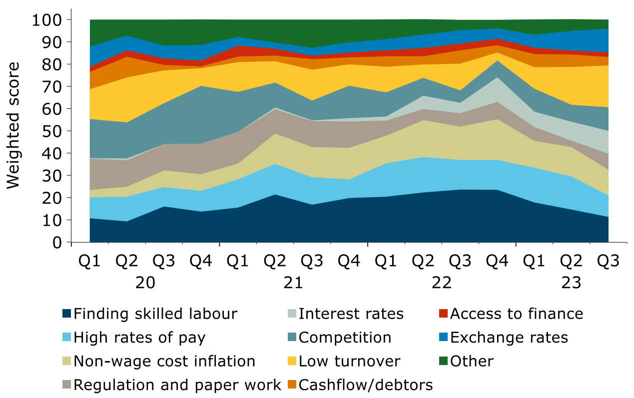
For the retail sector, the picture is very different (figure 10). Low turnover is by far the biggest problem, followed by non-wage costs, and finding skilled labour. Exchange rates and competition also rank highly. This is a more disinflationary set of problems than is evident in the broader economy.

Figure 9. Biggest problems, weighted



Source: Macrobond, ANZ Research

Figure 10. Retail sector biggest problems, weighted

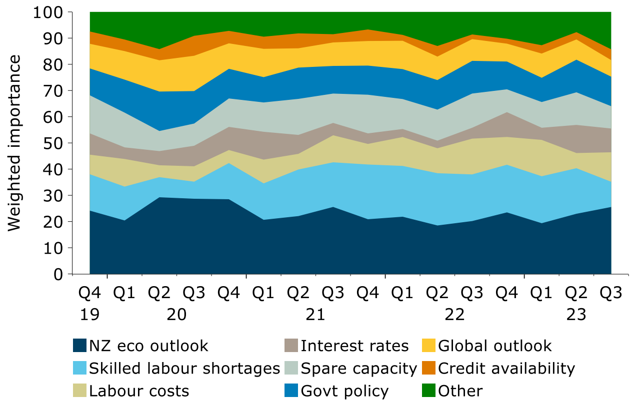


Source: Macrobond, ANZ Research

We can delve a little deeper into intended investment because we also ask firms every three months what is driving their investment decisions. Figure 11 shows that of those firms who are intending to increase their investment (a declining proportion – currently 19% of survey respondents, versus 23% who are expecting to reduce it), fewer are doing it to replace hard-to-find labour, and more are doing it due to the economic outlook or for bespoke reasons.

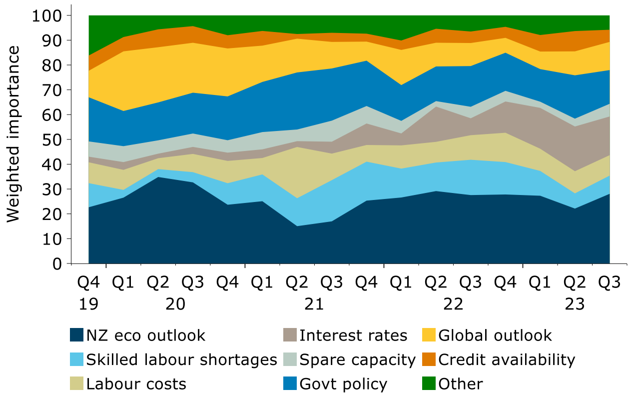
And of those intending to investment less (Figure 12), wariness about the domestic economic outlook is highest on the list, while interest rates also rate highly as a consideration – but a little less than last quarter, perhaps related to the RBNZ calling a conditional halt to hikes in May, though retail rates have continued to edge higher since then as bets on further hikes have evolved.

Figure 11. Reasons for investing more



Source: Macrobond, ANZ Research

Figure 12. Reasons for investing less



Source: Macrobond, ANZ Research

Our take

The New Zealand economy is certainly patchy, and the rebound in activity indicators – that's been evident since the start of the year – may be running out of steam. Inflation pressures are gradually waning in the big picture, but not rapidly nor in a straight line, and the jury remains out on whether it's occurring fast enough to bring core inflation pressures down in a timely fashion. Cost and wage expectations remain very elevated, as do inflation expectations. Pricing intentions, one of the best inflation indicators in the survey, went the wrong way in the month, and both the exchange rate and oil prices have the potential to interrupt or halt downward progress.

The outlook for the construction sector remains key for the inflation outlook. A meaningful decline in construction costs is part of the plan for getting inflation down. The proportion of construction sector firms expecting higher costs jumped to the highest in four months. The turnaround in the housing market is one to watch in this regard.

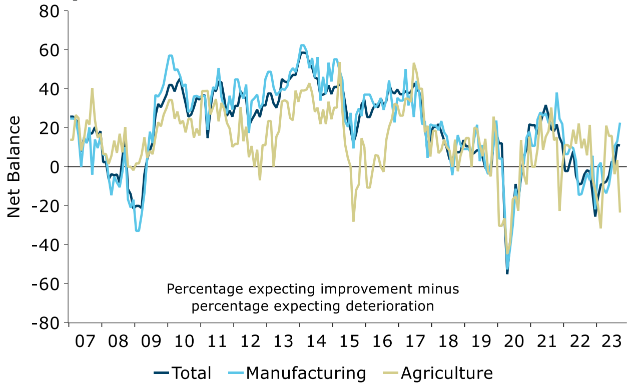
We continue to expect that the RBNZ will conclude it has more work to do to be confident that inflation is on its way back to the target band, with a 25bp hike expected in November.

Survey Results September 2023

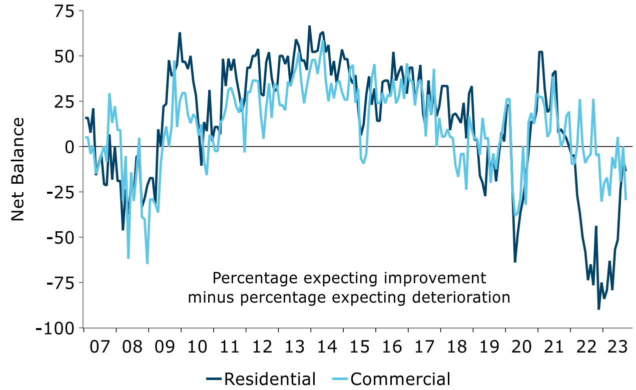
Net Balance	September	Previous (August)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	1.5	-3.7	14.3	7.7	-44.4	-3.1	1.6
Own Activity Outlook	10.9	11.2	-8.2	22.6	-23.5	-9.4	19.2
Export Intentions	-0.4	7.5	0.0	6.7	-29.4	-17.6	4.2
Investment Intentions	-4.1	-1.3	0.0	-1.9	-50.0	-3.1	-1.7
Cost Expectations	78.6	75.3	74.5	72.5	77.8	74.2	81.6
Capacity Utilisation	7.3	9.7	8.5	22.6	11.1	-9.4	4.0
Residential Construction	-13.6	-7.4	…	…	…	-13.6	…
Commercial Construction	-29.6	0.0	…	…	…	-29.6	…
Employment Intentions	1.2	4.6	-2.1	5.7	-16.7	-9.7	3.9
Profit Expectations	-13.2	-17.6	-12.2	-5.7	-61.1	-25.0	-7.1
Pricing Intentions	47.1	44.0	64.6	47.1	5.6	31.2	49.4
Ease of Credit Expectations	-23.5	-25.1	-16.3	-30.2	-61.1	-12.5	-21.4
Inflation Expectations (%)	4.95	5.06	4.65	5.22	5.56	4.99	4.89
Activity – same month one year ago	-12.9	-6.1	-28.6	-5.7	-27.8	-34.4	-5.5
Employment – same month one year ago	-1.8	-0.8	6.4	7.5	-27.8	-25.8	-1.7
Price Expectations – 3 months from now (%)	2.2	2.0	3.1	2.3	-0.3	1.5	2.3
Cost Expectations – 3 months from now (%)	3.9	3.6	3.5	3.5	4.9	3.1	4.2
Wages/Salaries – next 12 months (%)	4.0	3.7	3.4	4.2	5.2	3.6	4.0
Wages/Salaries – same month a year ago (%)	5.5	5.6	5.1	5.7	6.4	5.0	5.6

Charts

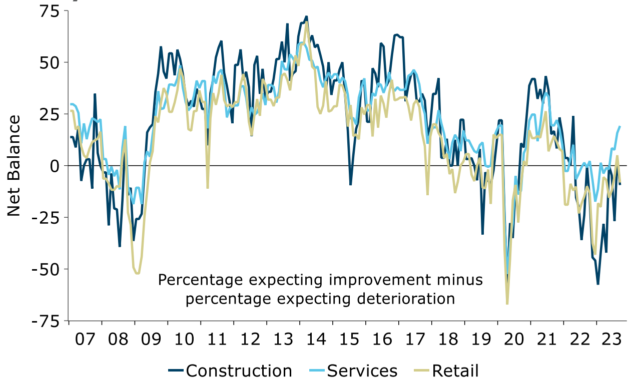
Activity outlook index



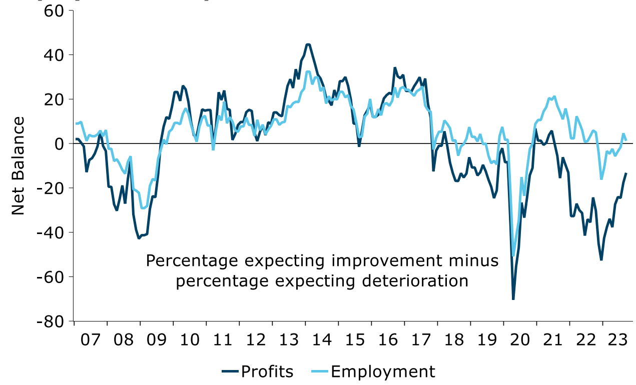
Construction intentions



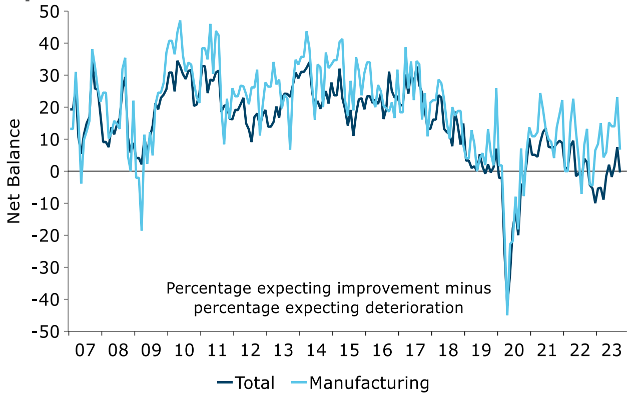
Activity outlook index



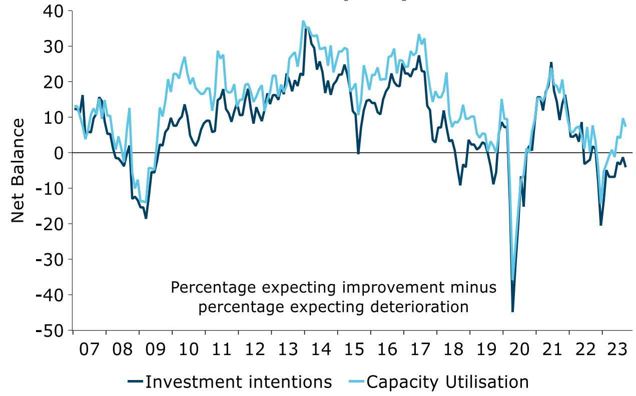
Employment and profit outlook



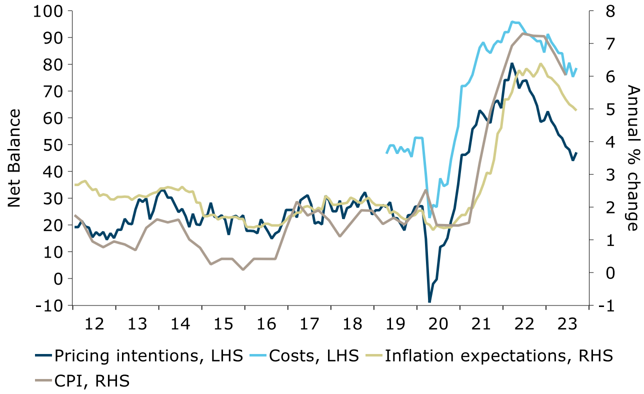
Export sales volumes



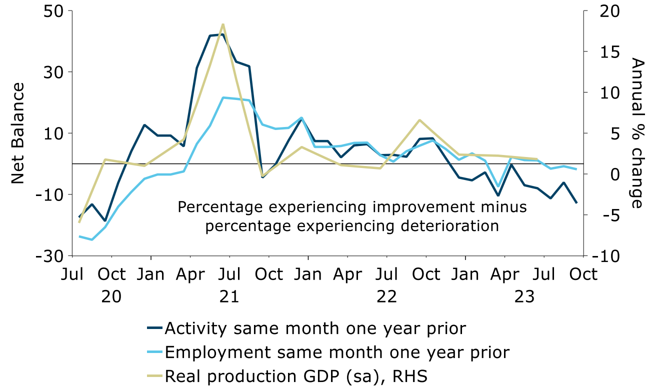
Investment intentions and capacity utilisation



Cost and inflation pressures



Experienced activity and employment and GDP



Source: ANZ, Statistics NZ, Macrobond

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