ANZ Research

ANZ New Zealand Business Outlook

19 December 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 January 2024 at 1pm.

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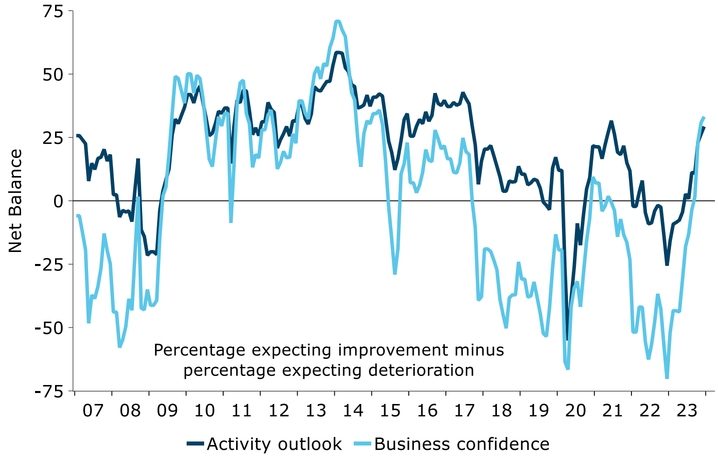
Confused by acronyms or jargon? See a glossary here.

We wish you a merry Christmas

Key points

- Business confidence rose 2 points to +33 in December. Expected own activity rose 3 points to +29. The vast majority of indicators lifted, including the backward-looking measures.
- Inflation expectations took a decent step lower, but the proportion of firms expecting higher costs and the proportion intending to raise their prices both rose. Indeed, pricing intentions are the most reliable lead indicator for inflation, and they have stopped falling in recent months.

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



Source: Macrobond, ANZ Research

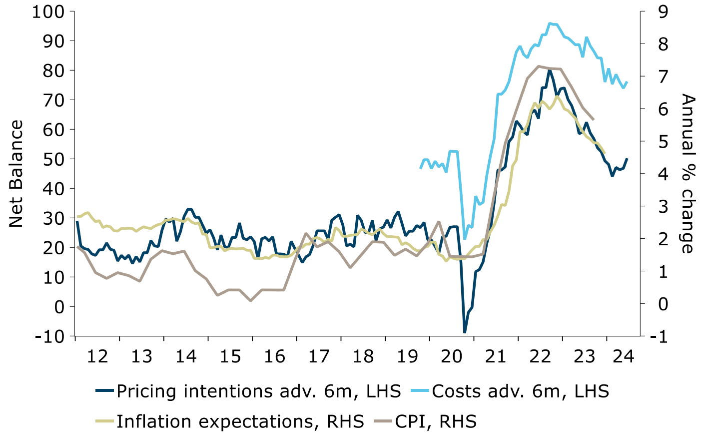
Table 1: Results versus last month

Net Balance	Dec	Nov	Comment
Business Confidence	33.2	30.8	Highest since March 2015.
Own Activity Outlook	29.3	26.3	Manufacturing highest, retail weakest.
Export Intentions	11.4	9.2	Surprisingly strong. Sharp lift for manuf.
Investment Intentions	2.7	4.5	Agriculture the only sector in the red.
Cost Expectations	76.2	73.9	This thing's supposed to be falling.
Wage Expectations	83.0	77.1	That was a brief visit below 80%.
Capacity Utilisation	18.4	11.7	Strongest since October 2021!
Residential Construction	28.6	0.0	Boom! Highest since mid-2021…
Commercial Construction	6.7	15.8	Noisy but comfortably in the black.
Employment Intentions	7.0	5.4	Strongest since April-22. Retail weak.
Profit Expectations	2.7	1.5	Strongest for manuf, weakest for agri.
Pricing Intentions	50.2	46.8	Another lift won't please the RBNZ.
Ease of Credit	-8.7	-17.3	Highest since early-2016!
Inflation Expectations	4.61%	4.79%	Decent fall; lowest in 2 years.
Activity – vs. same month one year ago	-4.2	-12.5	Highest since April. Construction and retail the laggards.
Employment – vs. same month one year ago	-3.1	-3.4	Construction falling, services rising.

The December ANZ Business Outlook survey told a story of both an expected and experienced rebound in activity, with mixed inflation indicators. Activity and profit expectations, export and employment intentions, and residential construction expectations all rose (indeed, the latter soared).

Cost expectations and pricing intentions both lifted in terms of the proportion of respondents expecting an increase in the next three months. If pricing intentions had continued on their previous downward trajectory they'd be rapidly approaching 'normal' ranges by now, but instead they're currently looking a bit stuck at a level consistent with CPI inflation well above the target band. Inflation expectations eased, though are still high at 4.6%. And they tend to reflect more where inflation has been, whereas pricing intentions, like expected costs, tend to lead annual inflation by around six months (figure 2).

Figure 2. ANZBO inflation indicators with timing shifts

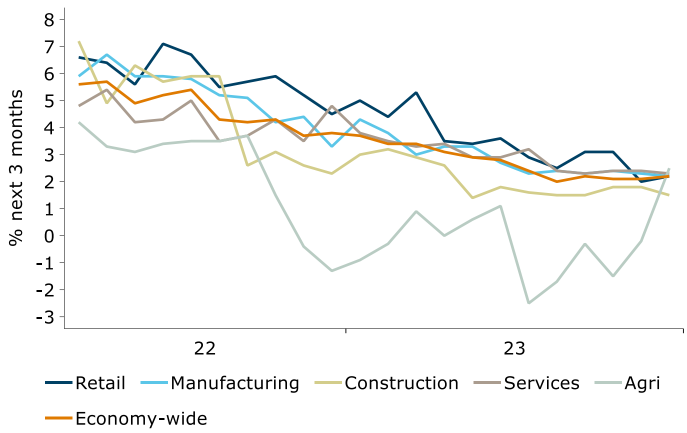


Source: Stats NZ, Macrobond, ANZ Research

A net 50% of firms (52% in the retail sector) expect to lift their prices in the next three months, up from 47% last month. Of course, if firms were intending to raise their prices by a steadily smaller amount, then a higher proportion of firms intending to raise prices wouldn't matter so much. But as regards 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 2.1% in November) and in fact has been going sideways for 6 months.

Technically, 2.2% per quarter annualises to 9% annual inflation (ignoring any seasonality), which when multiplied by 50% of firms intending to raise prices gives 4.5% y/y. That's highly simplistic, but the data is clearly inconsistent with annual inflation anywhere near the 2% target midpoint, and the stall in the downward trend is not encouraging.

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 story here is more encouraging, insofar as a downward trend remains in place. The economy-wide measure was stable at 3.4%. The agriculture sector expects the highest cost increases (5.1% higher in three months' time), and construction the lowest (2.2%).

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 at least things are trending in the right direction.

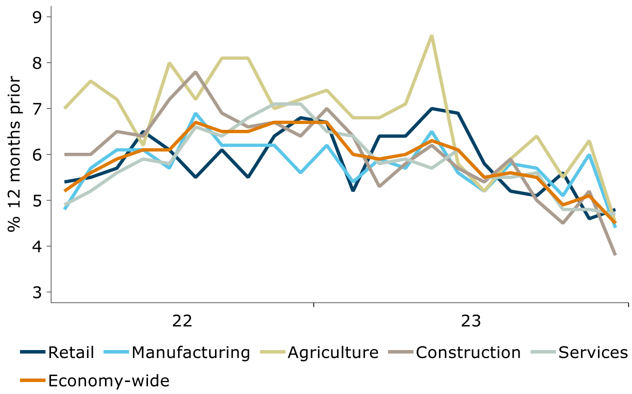
Figure 4. Cost expectations by sector

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 (3.4% versus 2.2%). But the gap is smaller than it has been.

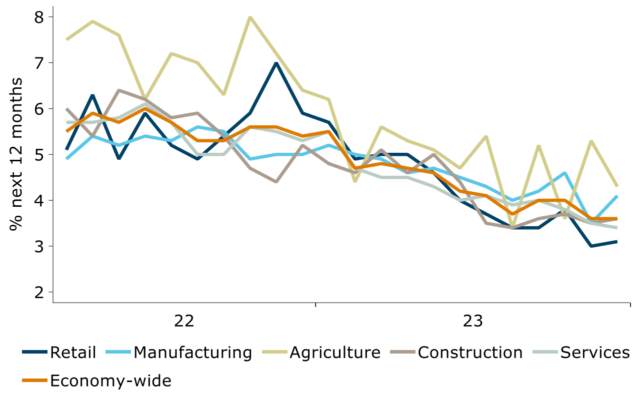
Reported past wage increases (versus a year earlier) fell from 5.1% to 4.5% and is clearly trending lower (figure 5). Expectations for wage settlements over the next 12 months held steady at 3.6% (figure 6).

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 on the following page, shows a sea of orange in the monthly changes for manufacturing and agriculture, a mixed bag for construction, and a softening for retail and services. The manufacturing optimism about the year ahead and the lift in reported recent activity is particularly notable in light of the weak Performance of Manufacturing Index, which asks about activity in the previous month. Perhaps a bottom is near. Two weak points this month were agriculture export intentions and investment intentions in the services sector, which has in broad terms been the last sector to feel the chill of the economic slowdown.

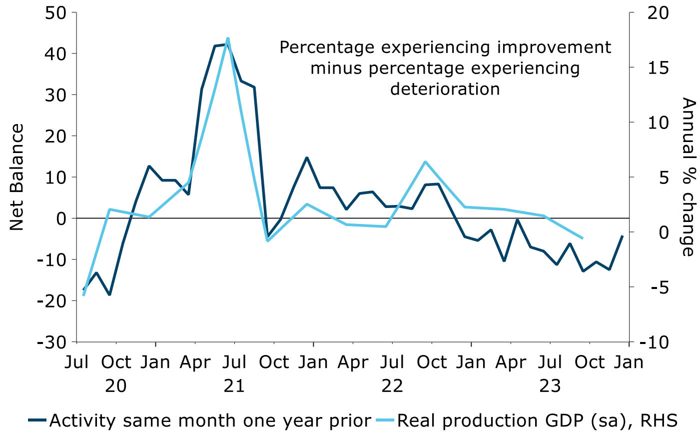
Table 2. Heatmap

	Levels					Monthly changes				
	Retail	Mfg	Agric	Constrn	Serv	Retail	Mfg	Agric	Constrn	Serv
Business Confidence	24.0	34.0	33.3	51.4	33.7	-8.0	5.7	23.8	18.8	-0.2
Own activity outlook	22.0	38.3	23.8	25.7	32.4	-4.0	15.4	-4.8	11.7	2.6
Activity vs. same month one year ago	-26.0	2.1	9.5	-34.3	6.4	-7.6	31.3	23.8	-1.7	8.8
Exports	18.9	25.0	25.0	8.3	5.8	13.3	15.7	-13.9	11.6	-3.6
Investment	4.1	13.3	-9.5	5.7	0.0	-1.9	2.9	4.8	15.0	-6.5
Capacity Utilisation	22.4	31.9	15.8	0.0	18.4	4.0	23.6	11.0	-4.7	5.7
Residential Construction	…	…	…	28.6	…	…	…	…	28.6	…
Commercial Construction	…	…	…	6.7	…	…	…	…	-9.1	…
Employment	-8.2	29.8	19.0	2.9	5.4	-6.2	21.5	9.0	2.9	-2.9
Employment vs. same month one year ago	0.0	-8.5	-5.3	-34.3	4.2	-10.4	2.1	9.0	-6.4	3.0
Profits	2.0	19.1	-23.8	8.6	2.9	-2.0	21.2	4.8	13.3	-3.6
Ease of Credit	-14.0	-6.4	-28.6	8.6	-6.4	6.0	15.3	23.8	17.9	6.5
Costs	72.0	72.3	80.0	67.6	78.8	3.2	8.5	18.1	-1.4	-2.8
Pricing Intentions	52.0	53.2	36.8	47.1	50.0	6.2	4.3	13.0	5.6	-0.3

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

Reported past activity has a good correlation with both the QSBO experienced domestic trading activity and GDP. It's consistent with the economy continuing to gradually lose momentum on an annual change basis. It ticked up this month but more evidence would be required to call a bottom.

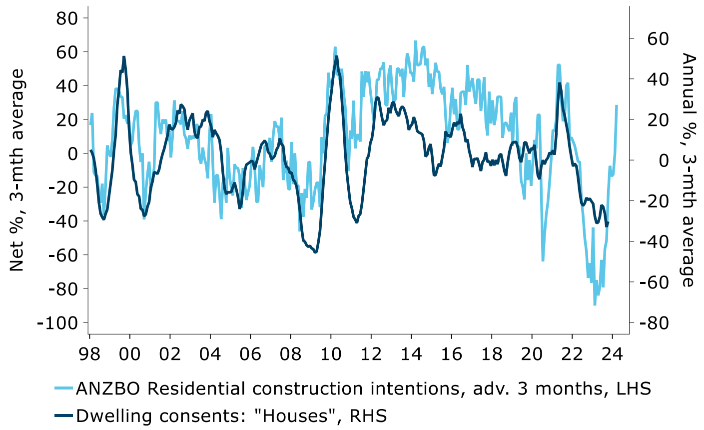
Figure 7. Past activity and GDP



Source: Macrobond, ANZ Research

The surge in residential construction intentions is startling, and suggests that dwelling consents (and before long, residential construction) are about to find a floor, so to speak (figure 8).

Figure 8. Residential construction intentions vs. dwelling consents

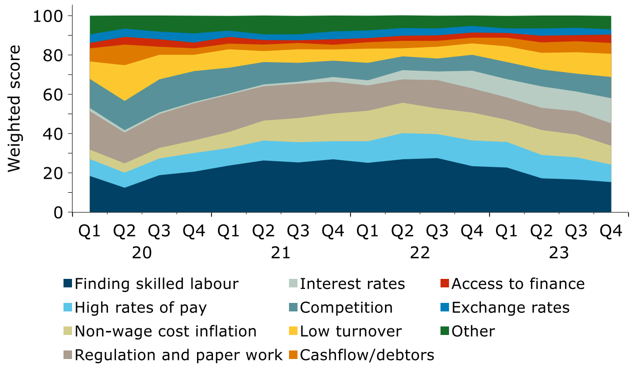


Source: Stats NZ, Macrobond, ANZ Research

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. However, the share of problems that are inflationary (finding labour, high wages, high other costs, and regulation and paperwork) continues to decline, while the disinflationary problems of low turnover and competition are growing, albeit while still small in the scheme of things.

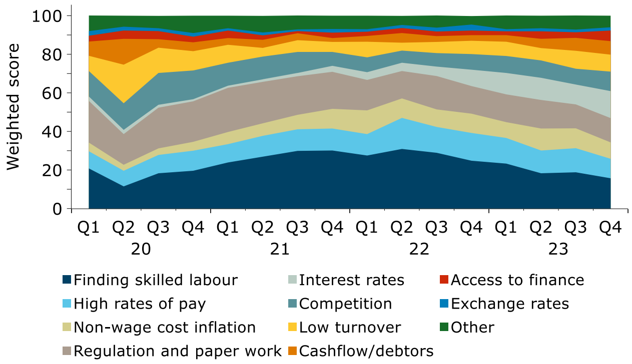
For retail (figure 10), the picture is very different. Low turnover is by far the biggest problem (and is growing), while the difficulty of finding skilled labour has dropped away sharply. That's a far more disinflationary picture. For construction, finding skilled labour ticked up again as a problem this quarter, but high wage rates as a concern have shrunk hugely (figure 13). And the agriculture sector is the most concerned by far about interest rates (figure 14).

Figure 9. Economy-wide biggest problems, weighted



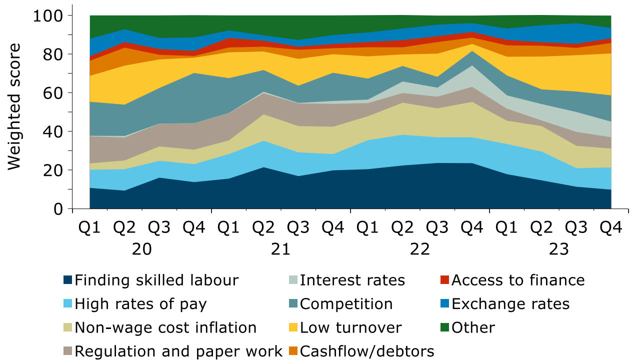
Source: ANZ Research

Figure 12. Services biggest problems, weighted



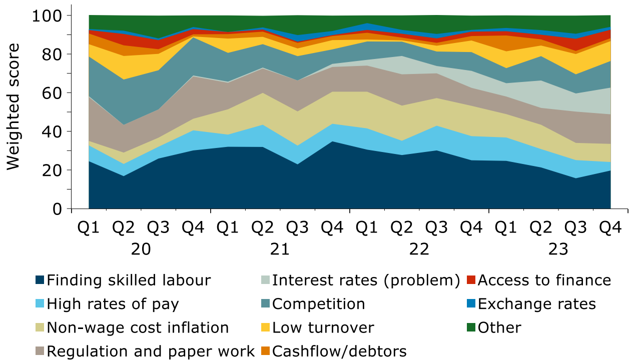
Source: ANZ Research

Figure 10. Retail sector biggest problems, weighted



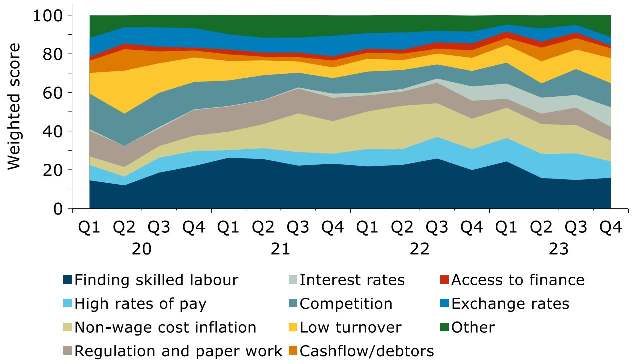
Source: ANZ Research

Figure 13. Construction biggest problems, weighted



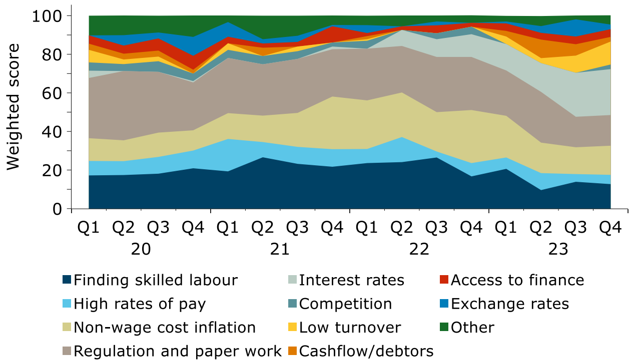
Source: Macrobond, ANZ Research

Figure 11. Manufacturing biggest problems, weighted



Source: ANZ Research

Figure 14. Agriculture biggest problems, weighted

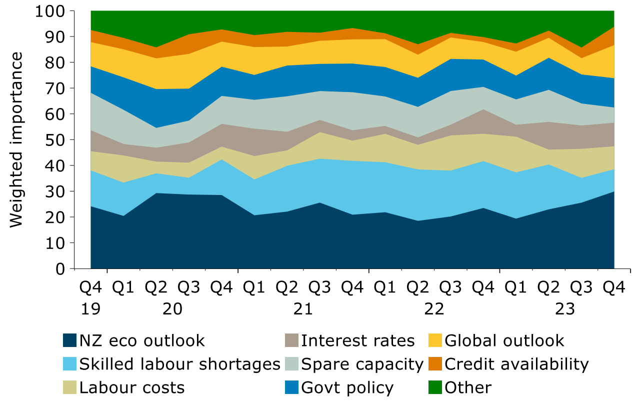


Source: ANZ Research

We also ask firms every three months what is driving their investment decisions. Figure 15 shows that of those firms who are intending to increase their investment (currently 21% of survey respondents, versus 18% who are expecting to reduce it), far fewer are doing it to replace hard-to-find labour, and more are investing due to the economic outlook.

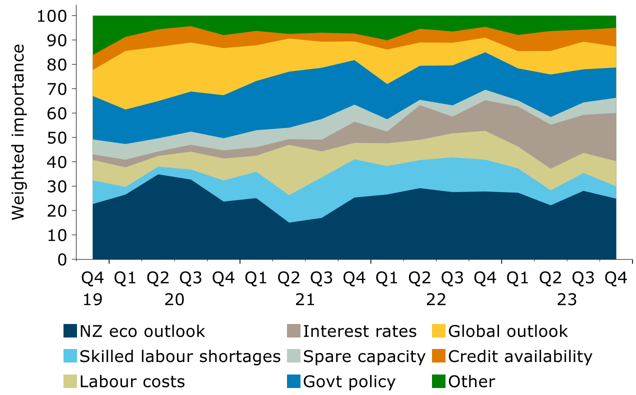
Of those intending to invest less (figure 16), wariness about the domestic economic outlook is still highest on the list, but interest rates are coming second.

Figure 15. Reasons for investing more



Source: Macrobond, ANZ Research

Figure 16. Reasons for investing less



Source: Macrobond, ANZ Research

Our take

The New Zealand economy has certainly been through a very rough patch, as amply demonstrated by the much lower Q3 GDP outturn than expected, and significant downward revisions to past GDP as well. However, the ANZ Business Outlook survey suggests the outlook is improving – and the backward-looking questions suggest that experienced activity may also be past the worst. The rebound in residential construction intentions is particularly striking, suggesting consents may soon start lifting meaningfully. Things are clearly very weak on a per capita basis, but population growth of more than 2½% does put a floor under how far aggregate activity can fall.

So is it per capita or total activity that determines inflation? That depends on a complex web of impacts of migration on the demand and supply side of the economy. The RBNZ noted last month that the surge of workers had clearly had a disinflationary impact on the labour market, but that the demand-side pressures were still playing out and could cause inflation to hold up longer than anticipated.

And the inflation indicators in the survey were mixed at best. Inflation expectations took a decent leg lower, but these tend to lag inflation by quite some way. The share of firms intending to raise their prices, a long-running reliable lead indicator for inflation, has been flat to rising for six months, and the expected price change over the next three months has been stuck in a 2-2.4% range over the same timeframe. It could be that the proportion of firms expecting to imminently raise their prices is about to plunge lower after this hiatus, but here and now, it's not encouraging data for the inflation outlook.

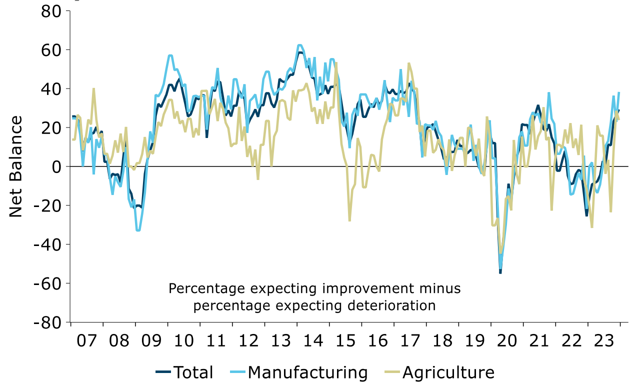
The RBNZ has made it clear that they have zero tolerance for more delays in bringing inflation down. There's a lot more data to come between now and the February OCR decision, but this survey read won't be one of the Committee's favourites. While GDP data showed the RBNZ has gotten a lot more traction than they knew last month, and that's very important, it's also important to remember that a recession was their plan, and that the question of how much pain is needed to get inflation all the way down to 2% isn't in fact settled.

Survey Results December 2023

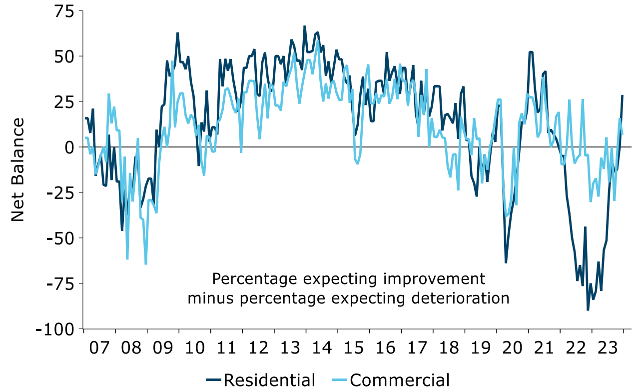
Net Balance	December	Previous (Nov)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	33.2	30.8	24.0	34.0	33.3	51.4	33.7
Own Activity Outlook	29.3	26.3	22.0	38.3	23.8	25.7	32.4
Export Intentions	11.4	9.2	18.9	25.0	25.0	8.3	5.8
Investment Intentions	2.7	4.5	4.1	13.3	-9.5	5.7	0.0
Cost Expectations	76.2	73.9	72.0	72.3	80.0	67.6	78.8
Capacity Utilisation	18.4	11.7	22.4	31.9	15.8	0.0	18.4
Residential Construction	28.6	0.0	…	…	…	28.6	…
Commercial Construction	6.7	15.8	…	…	…	6.7	…
Employment Intentions	7.0	5.4	-8.2	29.8	19.0	2.9	5.4
Profit Expectations	2.7	1.5	2.0	19.1	-23.8	8.6	2.9
Pricing Intentions	50.2	46.8	52.0	53.2	36.8	47.1	50.0
Ease of Credit Expectations	-8.7	-17.3	-14.0	-6.4	-28.6	8.6	-6.4
Inflation Expectations (%)	4.61	4.79	4.46	4.83	4.41	4.57	4.61
Activity – same month one year ago	-4.2	-12.5	-26.0	2.1	9.5	-34.3	6.4
Employment – same month one year ago	-3.1	-3.4	0.0	-8.5	-5.3	-34.3	4.2
Price Expectations – 3 months from now (%)	2.2	2.1	2.2	2.2	2.5	1.5	2.3
Cost Expectations – 3 months from now (%)	3.4	3.4	3.3	2.6	5.1	2.2	3.6
Wages/Salaries – next 12 months (%)	3.6	3.6	3.1	4.1	4.3	3.6	3.4
Wages/Salaries – same month a year ago (%)	4.5	5.1	4.8	4.4	4.5	3.8	4.7

Charts

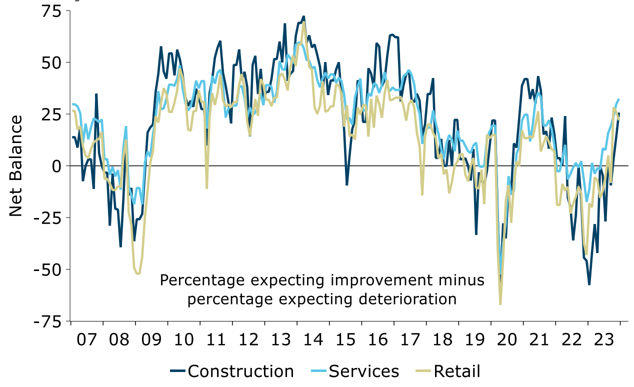
Activity outlook index



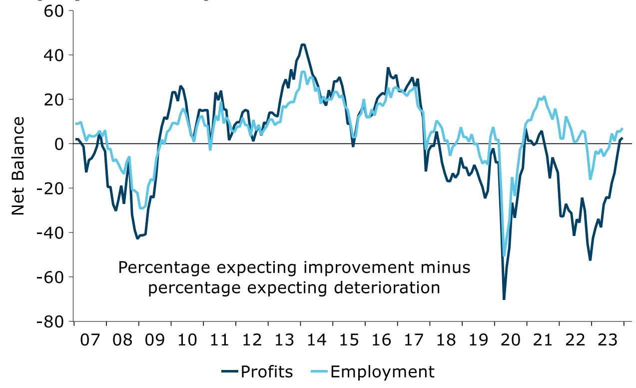
Construction intentions



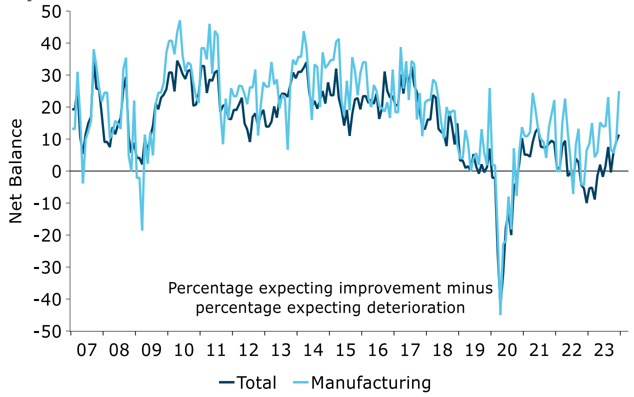
Activity outlook index



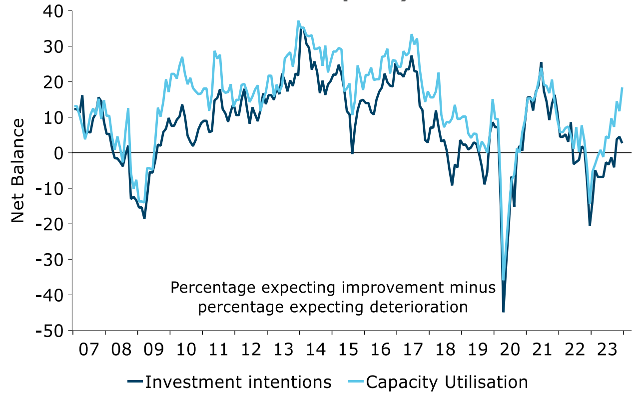
Employment and profit outlook



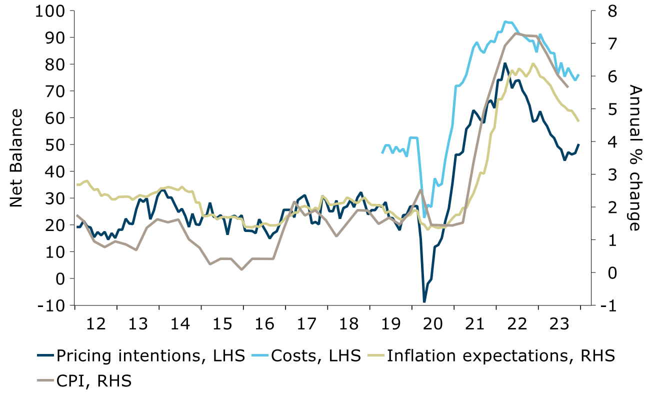
Export sales volumes



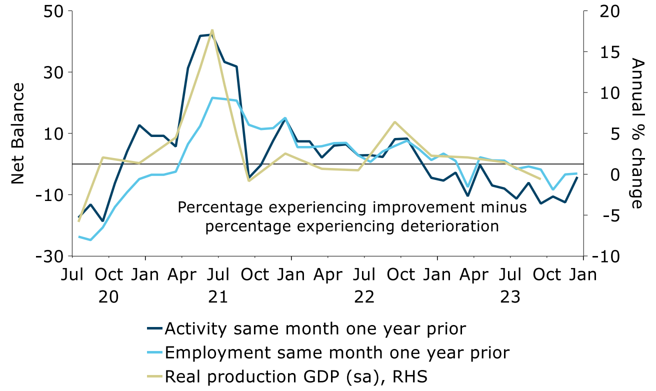
Investment intentions and capacity utilisation



Cost and inflation pressures



Experienced activity and employment and GDP



Source: ANZ, Statistics NZ, Macrobond

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