

# ANZ New Zealand Business Outlook

28 March 2024



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## Contact

Sharon Zollner for more details.

See page 9.

The next release of the ANZ *Business Outlook* is due on **30 April 2024 at 1pm.**

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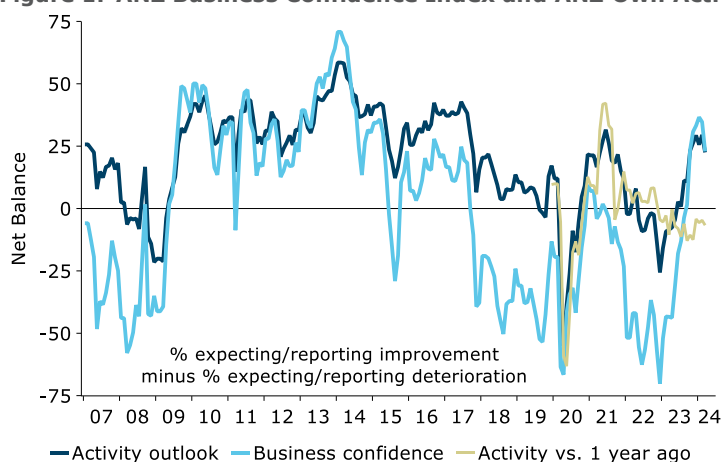
Confused by acronyms or jargon? See a glossary [here](#).

## Softer

### Key points

- Business confidence fell 12 points to +23 in March. Expected own activity fell 7 points to +23. Past activity eased 2 points to -7.
- Pricing intentions eased a little and inflation expectations fell from 4.0% to 3.8%. Cost and wage pressures remain very high, however.

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



Source: Macrobond, ANZ Research

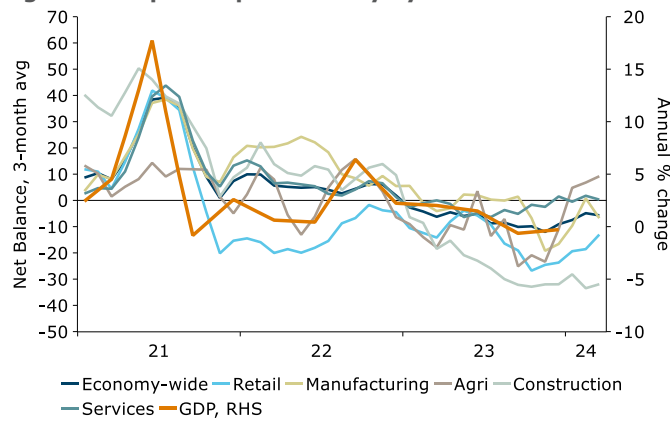
Table 1: Results versus last month

Net Balance	Mar	Feb	Comment
Business Confidence	22.9	34.7	Fall driven by a big drop for services.
Own Activity Outlook	22.5	29.5	Retail rose but all other sectors fell.
Export Intentions	7.8	12.7	Hanging in there in a challenging time.
Investment Intentions	3.9	12.0	Gave up much of its February jump.
Cost Expectations	74.6	73.5	A mix of rises and falls by sector.
Wage Expectations	80.5	78.9	Holding up. Retail, construction highest.
Capacity Utilisation	11.7	10.8	Manufacturing fell, construction rose.
Residential Construction	7.4	7.4	Better times are expected.
Commercial Construction	-3.3	-3.4	Could be worse.
Employment Intentions	3.5	6.2	Eighth consecutive month in the black.
Profit Expectations	-3.8	5.3	Construction and agri weakest by far.
Pricing Intentions	45.1	48.2	Finally a decent drop in services.
Ease of Credit	-4.2	5.0	Weakest for agriculture.
Inflation Expectations	3.80%	4.03%	Finally a 3-handle!
Activity – vs. same month one year ago	-6.7	-4.7	Overall Jan-Mar data suggests Q1 GDP was better than Q4.
Employment – vs. same month one year ago	-6.8	-5.4	Construction is the most negative by a long way (-26).

The March ANZ Business Outlook survey showed weakening activity indicators and a slight fall in inflation pressures. Reported past activity, which has the best correlation to GDP, was a mixed bag, with a bounce for retail, agriculture and construction, but falls elsewhere. Smoothing through the monthly volatility with a 3-month average (figure 2) shows construction is experiencing the largest fall in activity, followed by retail, but the picture for retail appears to be brightening. That’s an interesting contrast with the sharp fall in consumer confidence this morning. Strong population growth likely helps explain the discrepancy – even though consumers are warier, there are now a lot more of them. It’s also worth noting that given it’s an up/down question, the hurdle for reporting an improvement will have declined along with retail sales.

The economy-wide measure of past activity suggests the economy may eke out low but positive growth in Q1. That’s consistent with our current forecast of a modest 0.2% q/q lift.

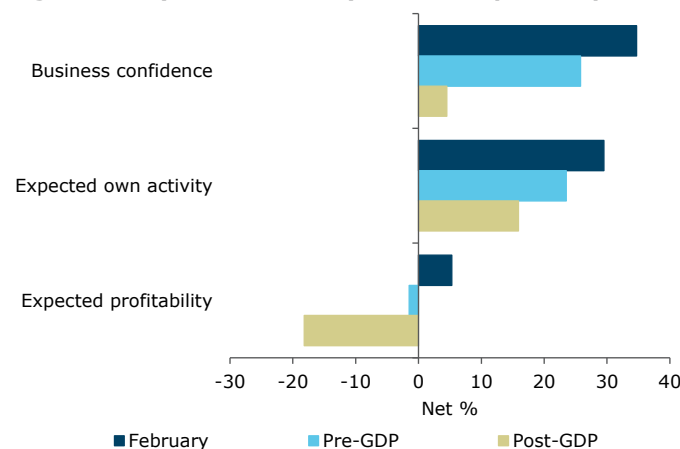
**Figure 2. Reported past activity by sector**



Source: Stats NZ, Macrobond, ANZ Research

A strong “recession headline” impact was evident in the [consumer confidence](#) data published this morning. For this survey, 14% of responses came in after the Q4 GDP data was published. And a similar pattern is evident: activity indicators were on the slide anyway, but the GDP data seems to have given things a decent shunt south (figure 3).

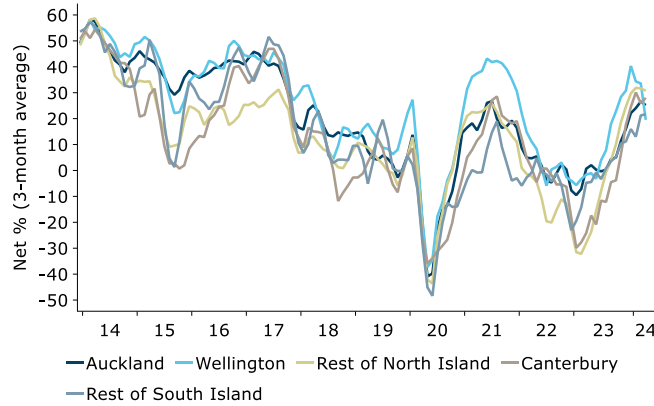
**Figure 3. Key ANZBO activity indicators pre and post 21 March GDP data**



Source: ANZ Research

Wide regional divergence was evident in the anecdotes collected from ANZ staff this month, with Wellington an outlier on the downside. This is corroborated by the regional split of ANZBO. The Wellington region, with its core public sector workers, is often somewhat insulated from the business cycle, but is in the thick of job losses now. Expected own activity has abruptly plummeted to the bottom of the pack (figure 4). The same is true of experienced activity, and the region is second-lowest for employment intentions (noting this survey consists mainly of private sector firms).

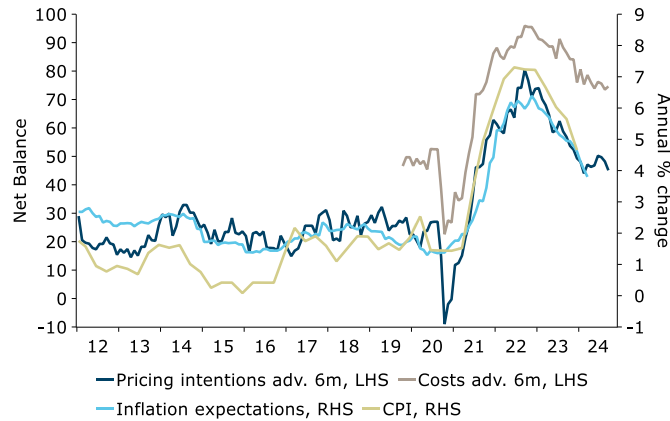
**Figure 4. Own activity by region**



Source: Macrobond, ANZ Research

Turning to inflation indicators, the net proportion of firms expecting higher costs in the next three months and the proportion of respondents expecting to raise wages over the next year both ticked higher this month. But more encouragingly, pricing intentions dipped slightly, and inflation expectations went under 4% for the first time since late-2021 (figure 5).

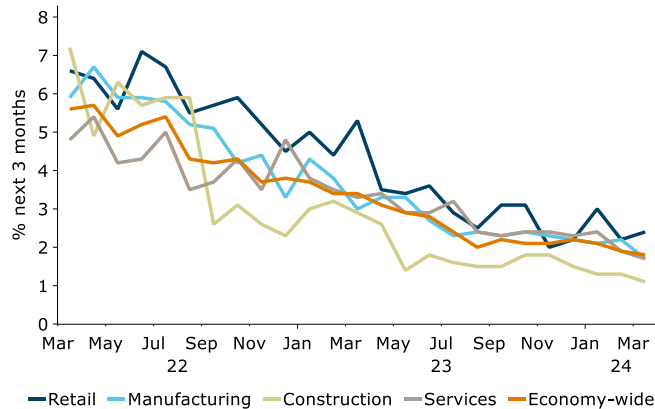
**Figure 5. ANZBO inflation indicators with timing shifts**



Source: Stats NZ, Macrobond, ANZ Research

Firms' numerical estimates of where their own selling prices will be in three months' time continues to trend down. The average dipped another 0.1%pt to 1.8%, with a lift for the retail sector outweighed by falls elsewhere (figure 6, over). The downward trend remains intact, but the descent has been slower over the past eight months than it was previously. Note the agriculture sector is omitted from the chart as that sector generally can't set its prices.

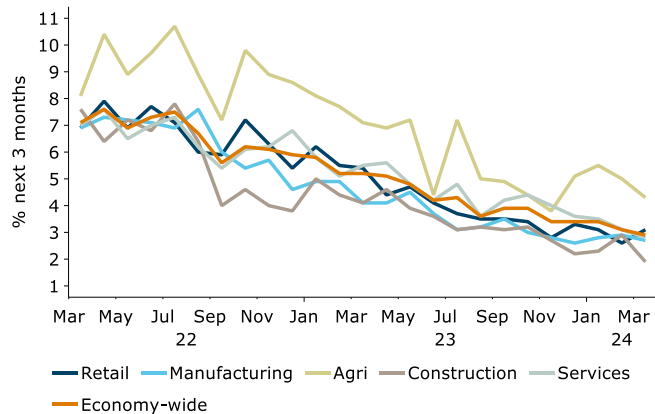
**Figure 6. Pricing intentions by sector**



Source: Macrobond, ANZ Research

While the proportion of firms expecting higher costs is going sideways, the magnitude of those expected cost increases, while still high, is falling steadily. It dropped under 3% for the first time, at 2.9% in March (figure 7). The construction sector has the lowest cost expectations (1.9%), which the RBNZ will be pleased to see, given how much construction costs have added to inflation in recent years. Agriculture sector costs are no longer growing nearly as quickly as previously but are still an outlier on the topside.

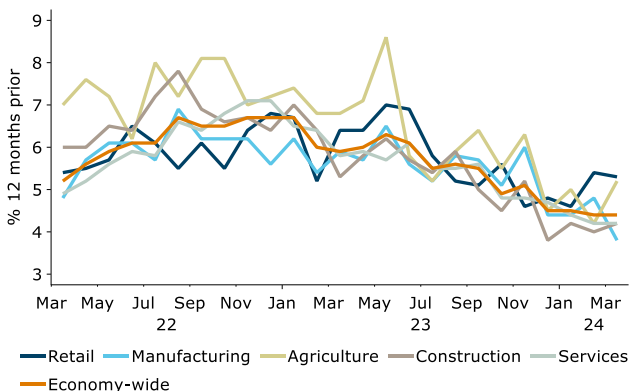
**Figure 7. Cost expectations by sector**



Source: Macrobond, ANZ Research

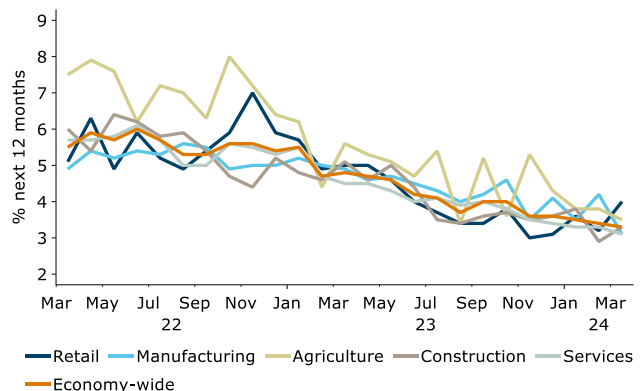
Reported past wage increases (versus a year earlier) were flat at 4.4%, with a mix of sectoral rises and falls (figure 8). Expectations for wage settlements over the next 12 months ticked down from 3.4% to 3.3% (figure 9).

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



Source: Macrobond, ANZ Research

**Figure 9. Wage growth by sector: next 12 months**



Source: Macrobond, ANZ Research

Our heatmap of indicators shows a sea of blue in the monthly changes for manufacturing and services, but the retail sector generally stronger. Given the RBNZ is assuming very weak consumer spending all year this is worth watching. That said, after the year retail has had, the bar for expecting an improvement is low. And certainly nothing in the [consumer confidence](#) release this morning suggested a rebound in per capita spending is imminent. Manufacturing is struggling, and the services sector looks to finally be cracking, a development that will be on the RBNZ's list of necessary steps to break the back of domestic inflation, given it's around 70% of GDP and more than 75% of employment.

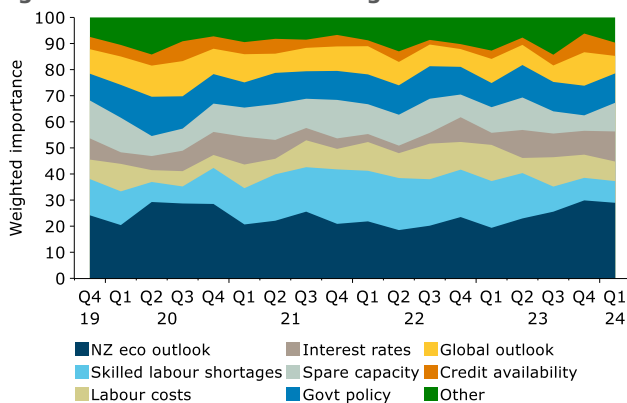
**Table 2. Heatmap**

	Levels					Monthly changes				
	Retail	Mfg	Agric	Constrn	Serv	Retail	Mfg	Agric	Constrn	Serv
Business Confidence	30.2	20.5	8.3	33.3	22.4	-1.8	-9.3	-33.4	3.0	-15.5
Own activity outlook	18.9	25.0	16.7	2.7	29.4	4.9	-6.9	-4.1	-21.5	-8.0
Activity vs. same month one year ago	-9.4	-20.5	16.7	-29.7	2.0	6.6	-22.6	25.0	18.8	-2.4
Exports	7.5	14.7	13.6	-14.3	9.5	20.3	-7.3	-8.1	-9.8	-10.5
Investment	11.3	4.7	-8.3	0.0	4.1	13.5	-15.8	-16.6	-6.1	-11.0
Capacity Utilisation	18.9	14.0	4.3	-2.7	13.6	23.0	-7.7	4.3	6.7	-3.3
Residential Construction	...	...	...	7.4	...	...	...	...	0.0	...
Commercial Construction	...	...	...	-3.3	...	...	...	...	0.1	...
Employment	7.5	9.1	-8.3	-10.8	5.3	11.5	-10.5	8.4	1.3	-7.4
Employment vs. same month one year ago	0.0	-2.3	-4.2	-25.0	-7.5	6.1	2.0	4.1	12.5	-6.9
Profits	3.8	4.5	-33.3	-29.7	2.6	-6.2	-6.4	-16.6	0.6	-10.6
Ease of Credit	3.8	-21.4	-37.5	0.0	2.0	-12.2	-4.0	-12.5	-18.2	-6.2
Costs	74.5	68.2	95.8	63.9	74.8	7.2	8.6	4.1	-20.9	0.2
Pricing Intentions	65.4	40.9	29.2	40.0	41.1	12.3	-3.8	-4.1	-8.5	-8.6

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.

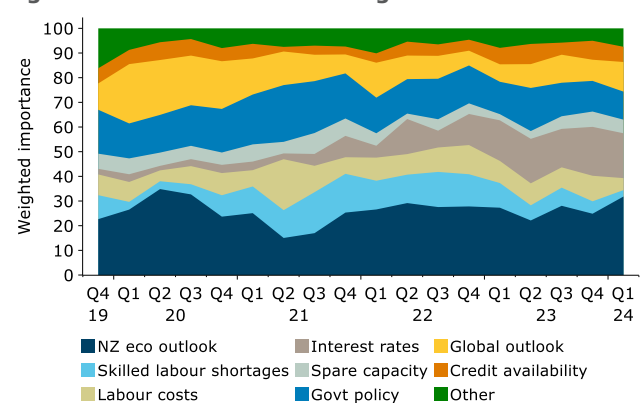
We ask firms every three months what is driving their investment decisions. The economic outlook dominates, unsurprisingly, but there are some other interesting nuances. Labour shortages are now much less important as a reason for investing (or not, for that matter – you need to be able to find someone to build and then run the machine), while interest rates are indeed increasingly constraining investment as the RBNZ intends (figure 11).

**Figure 10. Reasons for investing more**



Source: Macrobond, ANZ Research

**Figure 11. Reasons for investing less**

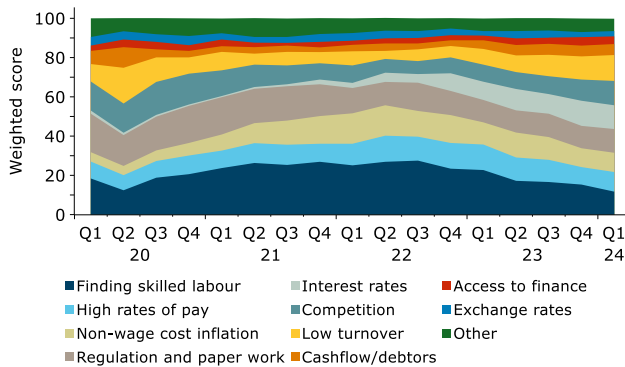


Source: Macrobond, ANZ Research

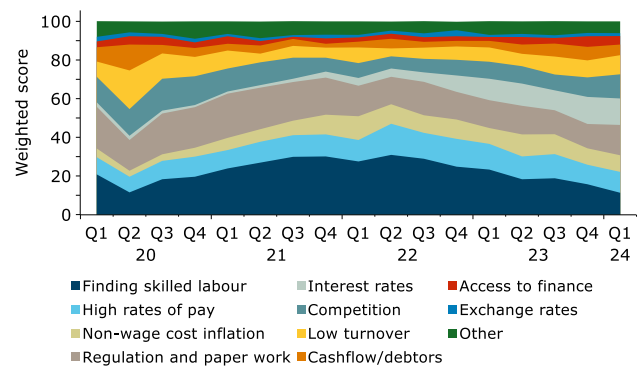
Every third month we also ask firms to rank their largest problems. Figure 12 shows that inflationary problems (finding labour, high wages, high other costs, and regulation and paperwork) continue to decline in relative importance, ceding ground to the disinflationary problems of low turnover and competition. Interest rates have also grown as a problem, unsurprisingly.

Low turnover is a particularly weighty issue for the retail sector (figure 13). The manufacturing sector is *still* grappling with skill shortages (figure 14). The turnaround in labour shortages is most dramatic for construction (figure 16). And the agriculture sector is the most concerned about non-wage costs and interest rates (figure 17).

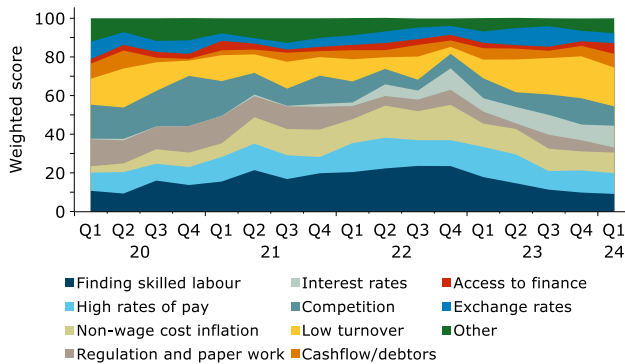
**Figure 12. Economy-wide biggest problems, weighted**



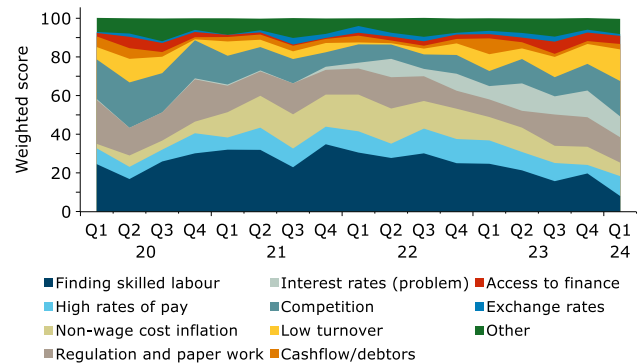
**Figure 15. Services biggest problems, weighted**



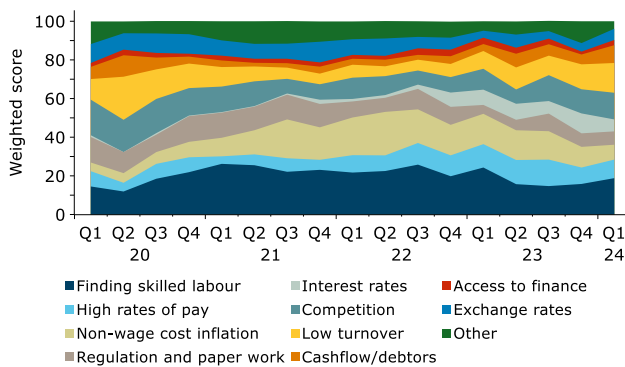
**Figure 13. Retail sector biggest problems, weighted**



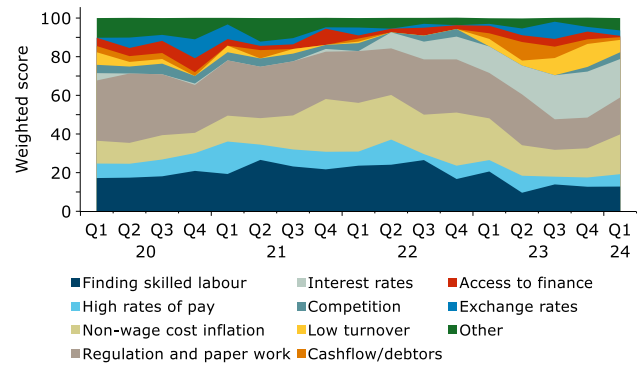
**Figure 16. Construction biggest problems, weighted**



**Figure 14. Manufacturing biggest problems, weighted**



**Figure 17. Agriculture biggest problems, weighted**



## Our take

The economy is broadly following the path laid out for it by the Reserve Bank: not a path strewn with rose petals, but a hard and rocky path through dangerous lands from which not all will emerge unscathed. It was back in November 2022 that the RBNZ admitted that they were going to deliberately engineer a recession, and here we are.

But on the other side of this painful adjustment lies not only low and stable inflation, but also a more sustainable external balance with the rest of the world. We are reliant on not so much the kindness as the self-interest of strangers abroad to fund our lifestyles, and that does put some non-negotiable limits on for how long we can keep living beyond our means. And we most certainly did that during the COVID era, as demonstrated by both the current account deficit and the fiscal deficit. Carrying on in that vein was never an option. And the sectors experiencing the biggest busts now are those that had the biggest booms.

The good news is that the economy is making solid progress. The current account deficit is narrowing. And inflation is clearly on the way down. There are some concerning signs of stickiness in some of the inflation measures in this survey, and despite the marked slowing in the economy there is still a good deal of uncertainty about the inflation outlook. It's certainly too soon to declare victory. But eyes on the prize; we're getting there.

### Survey Results March 2024

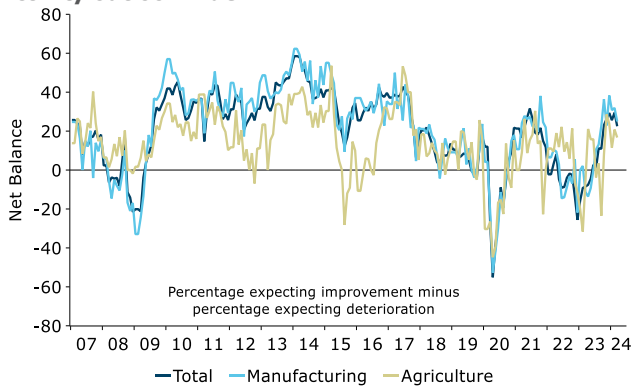
Net Balance	March	Previous (Feb)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	22.9	34.7	30.2	20.5	8.3	33.3	22.4
Own Activity Outlook	22.5	29.5	18.9	25.0	16.7	2.7	29.4
Export Intentions	7.8	12.7	7.5	14.7	13.6	-14.3	9.5
Investment Intentions	3.9	12.0	11.3	4.7	-8.3	0.0	4.1
Cost Expectations	74.6	73.5	74.5	68.2	95.8	63.9	74.8
Capacity Utilisation	11.7	10.8	18.9	14.0	4.3	-2.7	13.6
Residential Construction	7.4	7.4	...	...	...	7.4	...
Commercial Construction	-3.3	-3.4	...	...	...	-3.3	...
Employment Intentions	3.5	6.2	7.5	9.1	-8.3	-10.8	5.3
Profit Expectations	-3.8	5.3	3.8	4.5	-33.3	-29.7	2.6
Pricing Intentions	45.1	48.2	65.4	40.9	29.2	40.0	41.1
Ease of Credit Expectations	-4.2	5.0	3.8	-21.4	-37.5	0.0	2.0
Inflation Expectations (%)	3.80	4.03	3.96	3.98	3.98	3.73	3.68
Activity – same month one year ago	-6.7	-4.7	-9.4	-20.5	16.7	-29.7	2.0
Employment – same month one year ago	-6.8	-5.4	0.0	-2.3	-4.2	-25.0	-7.5
Price Expectations – 3 months from now (%)	1.8	1.9	2.4	1.7	1.3	1.1	1.7
Cost Expectations – 3 months from now (%)	2.9	3.1	3.1	2.7	4.3	1.9	2.8
Wages/Salaries – next 12 months (%)	3.3	3.4	4.0	3.1	3.5	3.3	3.1
Wages/Salaries – same month a year ago (%)	4.4	4.4	5.3	3.8	5.2	4.2	4.2



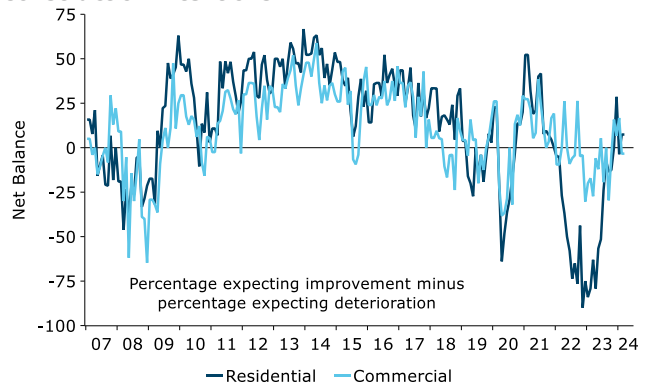


# Charts

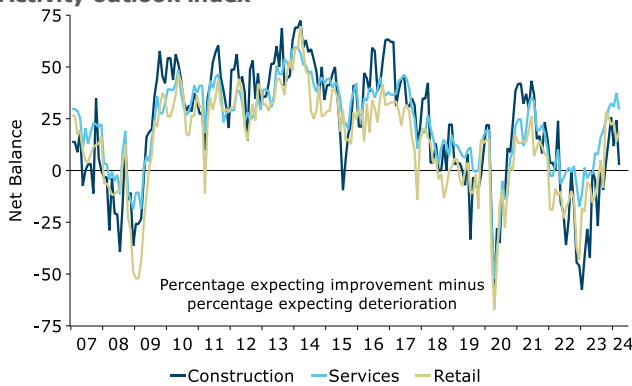
**Activity outlook index**



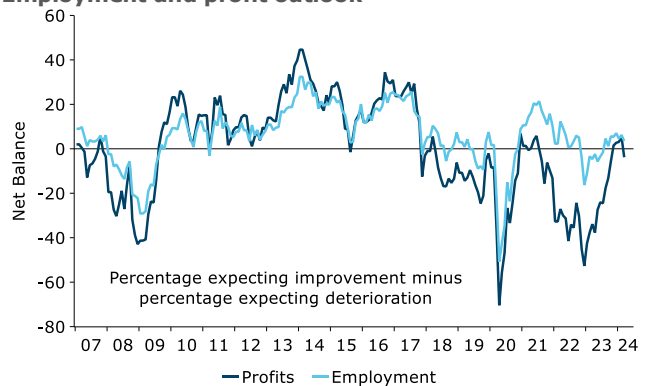
**Construction intentions**



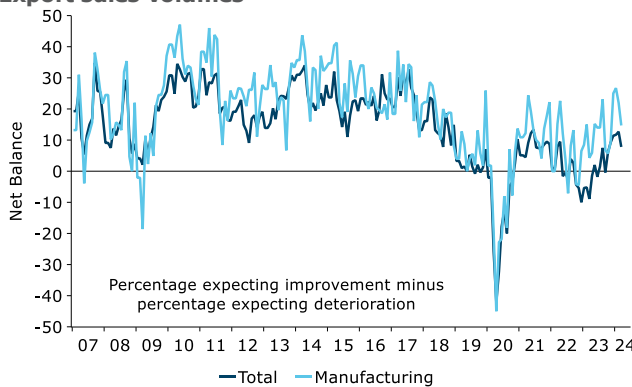
**Activity outlook index**



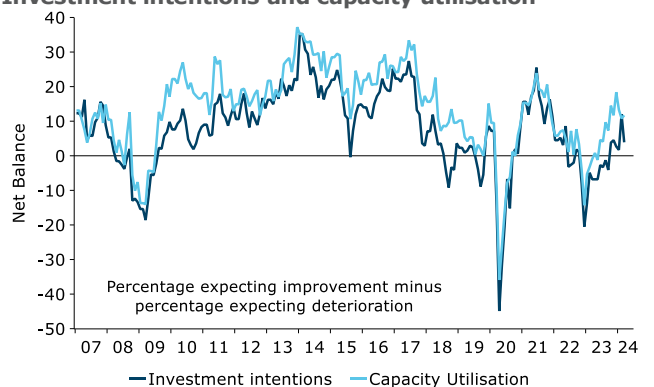
**Employment and profit outlook**



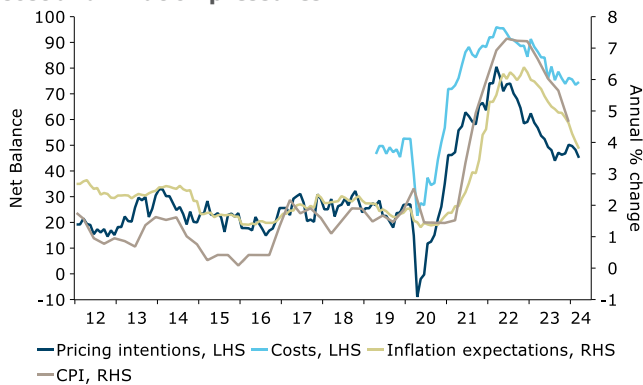
**Export sales volumes**



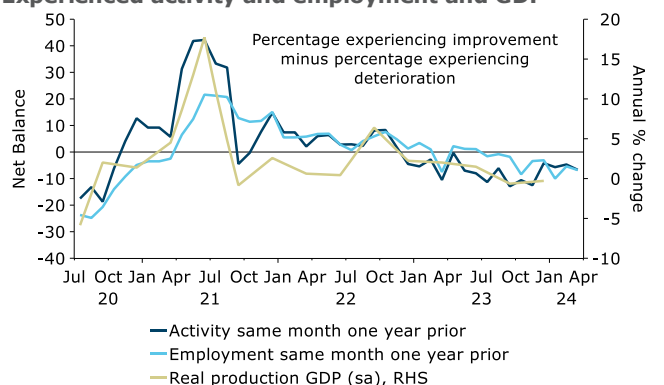
**Investment intentions and capacity utilisation**



**Cost and inflation pressures**



**Experienced activity and employment and GDP**



Source: ANZ, Statistics NZ, Macrobond





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