

ANZ New Zealand Business Outlook

27 June 2024



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Contact

Sharon Zollner for more details.

See page 7.

The next release of the ANZ *Business Outlook* is due on **31 July 2024 at 1pm.**

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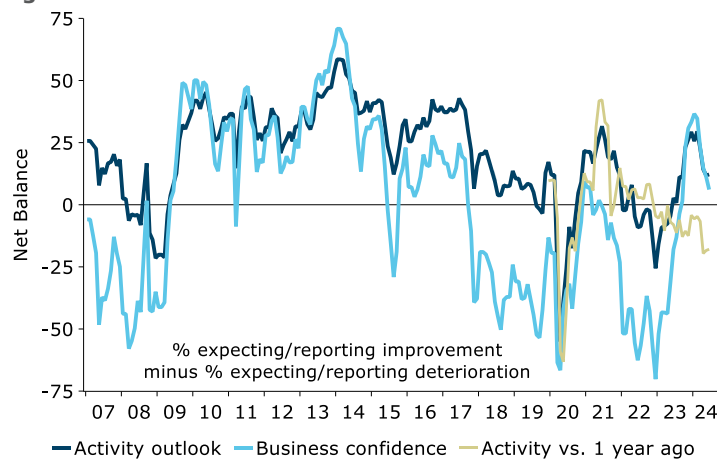
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Progress in the inflation fight

Key points

- Business confidence fell 5 points to +6 in June. Expected own activity was unchanged at +12, while past activity was flat at -18.
- Pricing intentions fell 7 points to 35, with a sharp fall in the expected magnitude of price increases as well. Cost expectations also dipped, and inflation expectations eased from 3.6% to 3.5%.

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



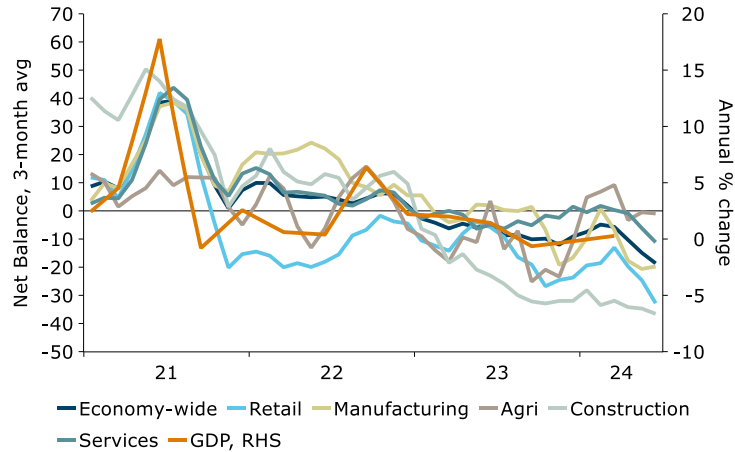
Source: Macrobond, ANZ Research

Table 1: Results versus last month

Net Balance	June	May	Comment
Business Confidence	6.1	11.2	Retail and construction jumped but services and manufacturing fell.
Own Activity Outlook	12.2	11.8	A strong bounce for retail, interestingly.
Export Intentions	0.9	2.4	Manufacturing gave up May's lift.
Investment Intentions	-4.0	-4.9	Firms are still very cautious.
Cost Expectations	69.2	72.6	Highest for agriculture, lowest for retail.
Wage Expectations	73.5	75.4	Still high but dropping fast for services.
Capacity Utilisation	4.4	2.0	May have troughed, but manufacturing fell.
Residential Construction	-11.5	-3.0	Newfound optimism is giving way.
Commercial Construction	-3.6	-25.7	Big rebound but it is volatile.
Employment Intentions	0.0	-6.9	Manufacturing strongest and rising.
Profit Expectations	-10.9	-15.3	All sectors except manufacturing rose.
Pricing Intentions	35.3	41.6	Decent fall everywhere but construction.
Ease of Credit	-12.2	-7.0	Led lower by manufacturing & services.
Inflation Expectations	3.46%	3.59%	Steadily declining.
Activity – vs same month one year ago	-17.9	-18.4	A mix of rises and falls. Agri strongest, construction and retail weakest.
Employment – vs same month one year ago	-17.2	-15.5	A sharp fall for construction, but in the red across the board.

The June ANZ Business Outlook survey remained weak in the forward-looking activity indicators with a marked decline in reported past activity, as shown in figure 2 (which charts a 3-month average). Construction is experiencing the largest fall in activity versus a year earlier, followed by retail, but every sector except agriculture is reporting weaker activity than a year earlier. While Q1 GDP was (barely) respectable, the signals for Q2 GDP are extremely weak. We have pencilled in a small decline at this early stage.

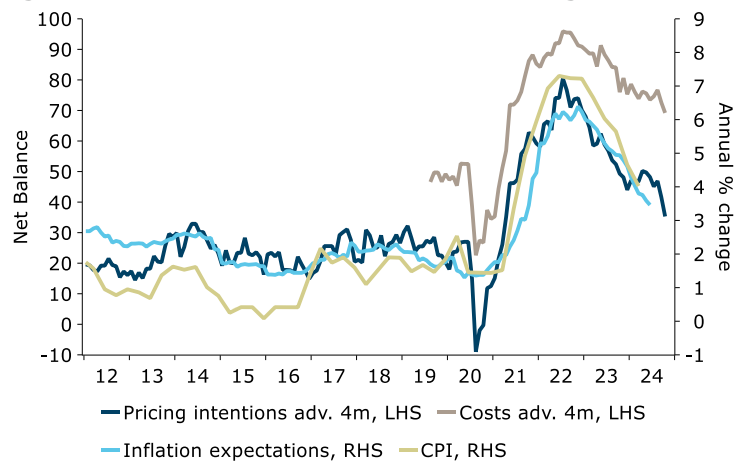
Figure 2. Reported past activity by sector



Source: Stats NZ, Macrobond, ANZ Research

Turning to inflation indicators (figure 3), the net proportion of firms expecting higher costs and expecting to raise their prices in the next three months both dropped meaningfully. Both have now fallen off the plateau they were stuck on for 8-9 months this year. Inflation expectations also continue to steadily decline.

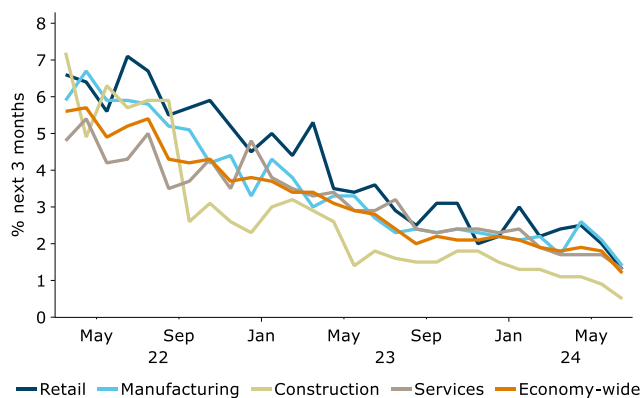
Figure 3. ANZBO inflation indicators with timing shifts



Source: Stats NZ, Macrobond, ANZ Research

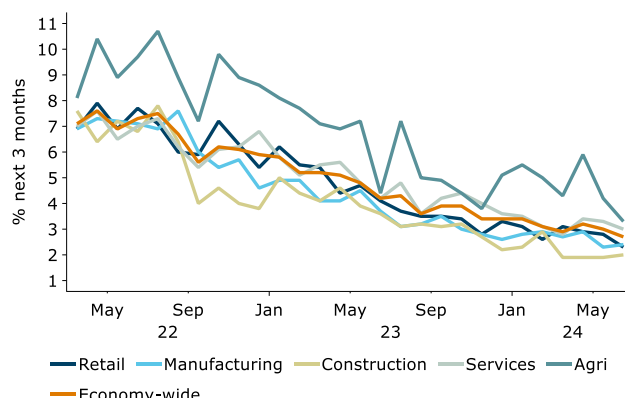
Firms' numerical estimates of where their own selling prices will be in three months' time also dropped out of the 1.8-1.9% level it has been stuck on for four months, with a 0.6%pt fall to 1.2% (figure 4, over). And the fall was broad-based, rather than driven by one sector. Average pricing intentions for the retail sector dropped from 2.0% to 1.3%. Expected price increases are highest for manufacturing, and lowest for construction. The magnitude of expected cost also eased from 3.0% to 2.7%, though here there was a mix of falls and small rises (figure 5, over).

Figure 4. Pricing intentions by sector



Source: ANZ Research

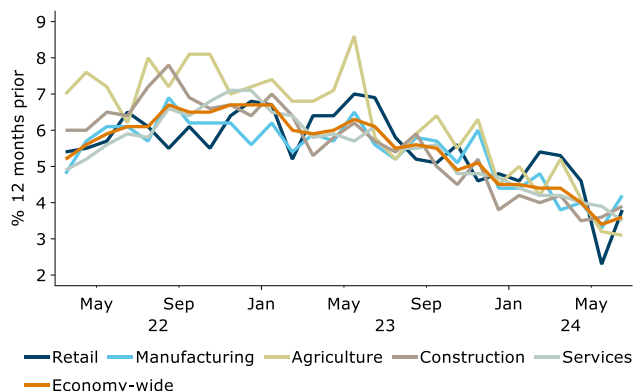
Figure 5. Cost expectations by sector



Source: ANZ Research

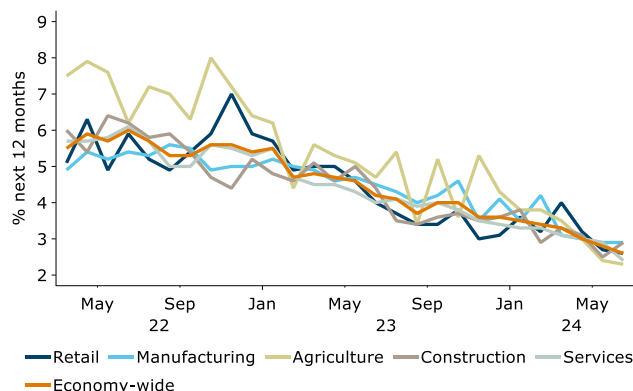
Average reported wage increases versus a year earlier rose from 3.4% to 3.6% (figure 6), but expectations for wage settlements over the next 12 months fell from 2.8% to 2.6% (figure 7). The biggest fall was in the services sector, which provides three quarters of jobs in the economy, so that's a win for the RBNZ's inflation fight.

Figure 6. Wage growth by sector: last 12 months



Source: ANZ Research

Figure 7. Wage growth by sector: next 12 months



Source: ANZ Research

Our heatmap of indicators shows a lift in most activity indicators for retail and construction in June, but a renewed downturn in manufacturing and agriculture. In good news for the RBNZ, the most consistent falls by questions were across pricing intentions and costs. In terms of the level of indicators, light blue is dominant: that implies weak, but not dramatically so versus history.

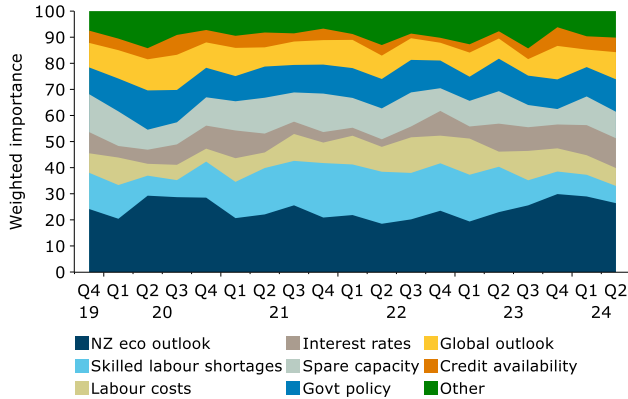
Table 2. Heatmap

	Levels					Monthly changes				
	Retail	Mfg	Agric	Constrn	Serv	Retail	Mfg	Agric	Constrn	Serv
Business Confidence	25.0	20.0	-34.6	11.8	0.6	10.2	-8.3	-18.6	6.8	-10.6
Own activity outlook	8.9	22.2	23.1	2.9	11.8	10.5	-16.9	3.1	20.4	-2.9
Activity vs. same month one year ago	-33.9	-17.8	15.4	-35.3	-13.0	-3.3	-11.3	15.4	14.7	-1.5
Exports	2.4	13.9	0.0	-9.5	0.0	9.5	-6.6	-16.7	5.9	-1.8
Investment	-3.6	0.0	-26.9	0.0	-1.2	11.4	-6.8	-18.6	12.5	0.6
Capacity Utilisation	9.3	2.3	0.0	-12.1	8.4	4.3	-17.7	-8.0	8.4	7.8
Residential Construction	...	...	...	-11.5	...	...	...	...	-8.5	...
Commercial Construction	...	...	...	-3.6	...	...	...	...	22.1	...
Employment	-8.9	20.5	-7.7	0.0	-0.6	10.5	7.5	4.3	12.5	5.2
Employment vs. same month one year ago	-21.4	-22.2	-7.7	-47.1	-8.9	9.2	-13.3	-3.2	-16.3	1.3
Profits	-10.7	-4.4	-19.2	-26.5	-6.8	7.0	-13.1	28.8	13.5	2.3
Ease of Credit	-8.9	-22.2	-50.0	8.8	-6.8	5.6	-8.9	-26.0	11.3	-5.7
Costs	54.5	71.1	88.0	62.5	71.0	-16.0	7.5	-8.0	-4.2	-1.6
Pricing Intentions	38.2	37.8	24.0	36.4	32.7	-5.1	-8.9	-24.0	4.8	-7.9

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.

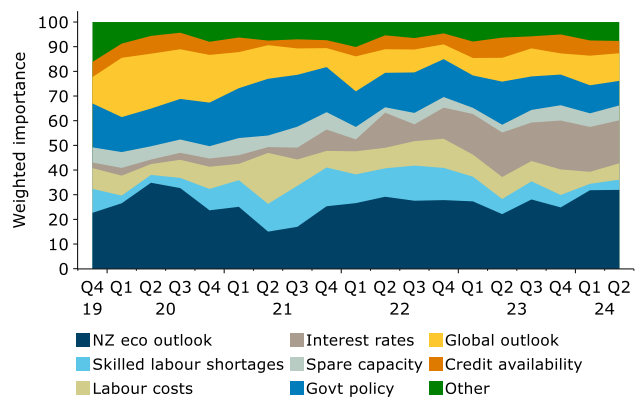
We ask firms every three months what is driving their investment decisions. The economic outlook (dark blue) dominates, unsurprisingly. Interest rates (grey) are indeed increasingly constraining investment as the RBNZ intends (figure 9).

Figure 8. Reasons for investing more



Source: Macrobond, ANZ Research

Figure 9. Reasons for investing less

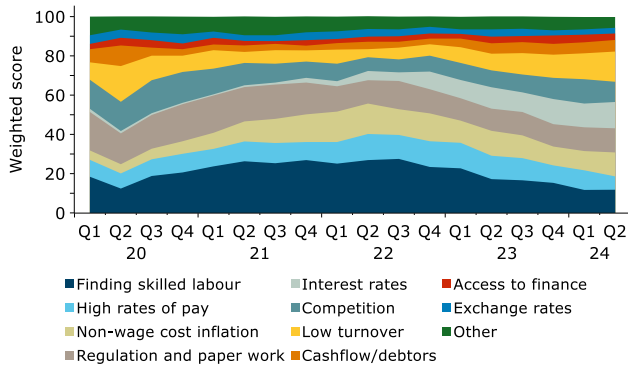


Source: Macrobond, ANZ Research

Every third month we also ask firms to rank their largest problems. Figure 10 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.

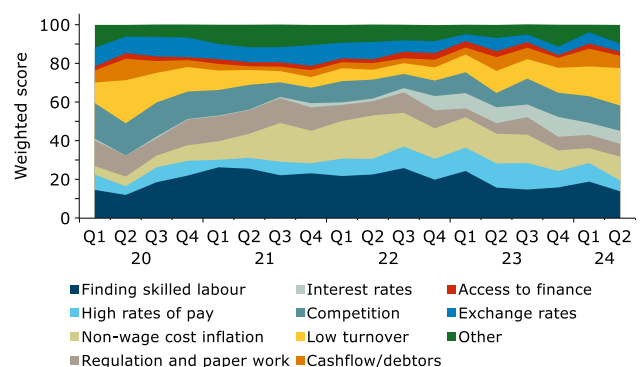
Low turnover is a particularly weighty issue for the retail and manufacturing sectors (figure 11, 12). The turnaround in labour shortages is evident across all sectors. The agriculture sector is by far the most concerned about non-wage costs and interest rates (figure 15, over).

Figure 10. Economy-wide biggest problems, weighted



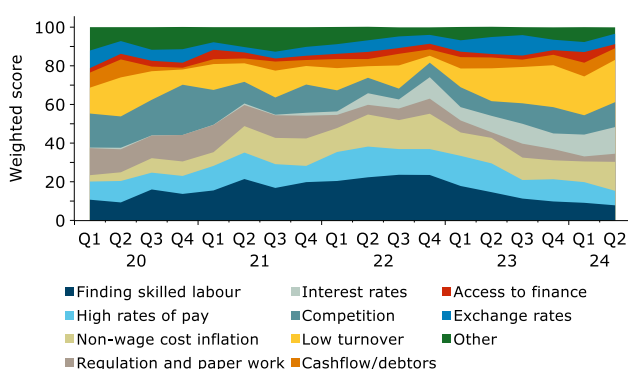
Source: ANZ Research

Figure 12. Manufacturing biggest problems, weighted



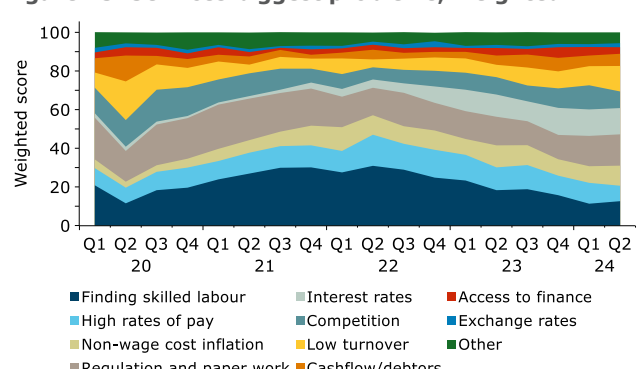
Source: ANZ Research

Figure 11. Retail sector biggest problems, weighted



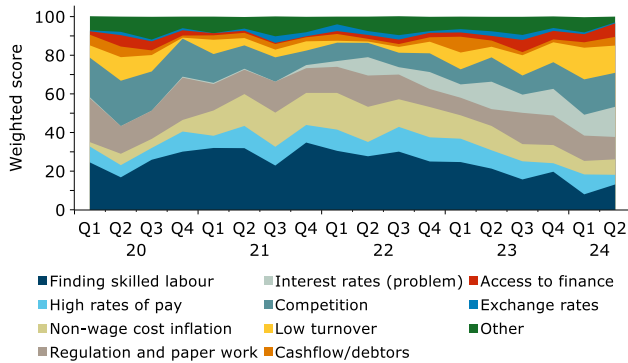
Source: ANZ Research

Figure 13. Services biggest problems, weighted



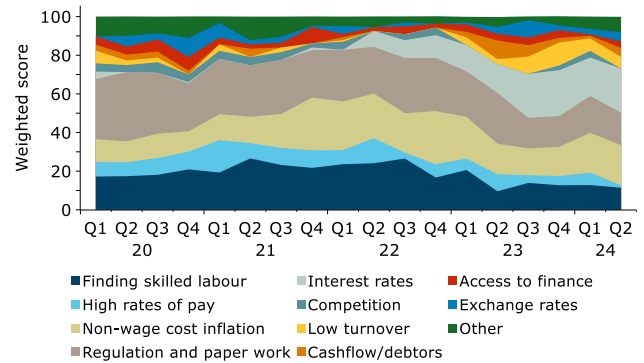
Source: ANZ Research

Figure 14. Construction biggest problems, weighted



Source: Macrobond, ANZ Research

Figure 15. Agriculture biggest problems, weighted



Source: ANZ Research

Our take

The medicine is working. The economy is clearly weak, as the RBNZ intended, but more than that, we are finally seeing renewed meaningful progress on bringing inflation pressures down. There is still a long way to go, but we are optimistic that the RBNZ will be in a position to cut the Official Cash Rate considerably earlier than August next year, as they currently expect.

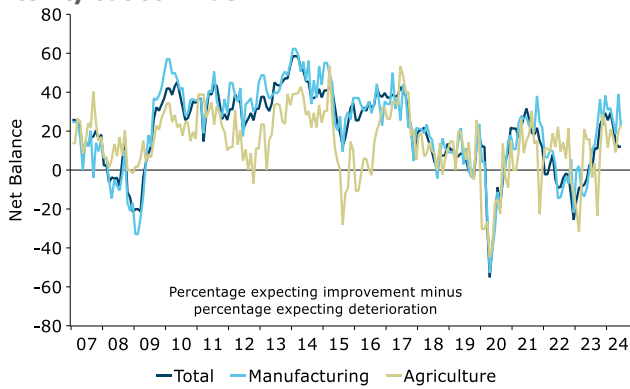
Survey Results June 2024

Net Balance	June	Previous (May)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	6.1	11.2	25.0	20.0	-34.6	11.8	0.6
Own Activity Outlook	12.2	11.8	8.9	22.2	23.1	2.9	11.8
Export Intentions	0.9	2.4	2.4	13.9	0.0	-9.5	0.0
Investment Intentions	-4.0	-4.9	-3.6	0.0	-26.9	0.0	-1.2
Cost Expectations	69.2	72.6	54.5	71.1	88.0	62.5	71.0
Capacity Utilisation	4.4	2.0	9.3	2.3	0.0	-12.1	8.4
Residential Construction	-11.5	-3.0	...	...	...	-11.5	...
Commercial Construction	-3.6	-25.7	...	...	...	-3.6	...
Employment Intentions	0.0	-6.9	-8.9	20.5	-7.7	0.0	-0.6
Profit Expectations	-10.9	-15.3	-10.7	-4.4	-19.2	-26.5	-6.8
Pricing Intentions	35.3	41.6	38.2	37.8	24.0	36.4	32.7
Ease of Credit Expectations	-12.2	-7.0	-8.9	-22.2	-50.0	8.8	-6.8
Inflation Expectations (%)	3.46	3.59	3.46	3.72	3.36	3.28	3.43
Activity – same month one year ago	-17.9	-18.4	-33.9	-17.8	15.4	-35.3	-13.0
Employment – same month one year ago	-17.2	-15.5	-21.4	-22.2	-7.7	-47.1	-8.9
Price Expectations – 3 months from now (%)	1.2	1.8	1.3	1.4	0.6	0.5	1.3
Cost Expectations – 3 months from now (%)	2.7	3.0	2.3	2.4	3.3	2.0	3.0
Wages/Salaries – next 12 months (%)	2.6	2.8	2.6	2.9	2.3	2.9	2.4
Wages/Salaries – same month a year ago (%)	3.6	3.4	3.8	4.2	3.1	3.9	3.5

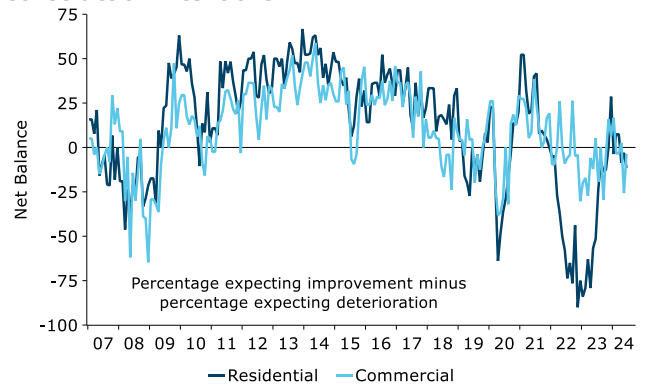


Charts

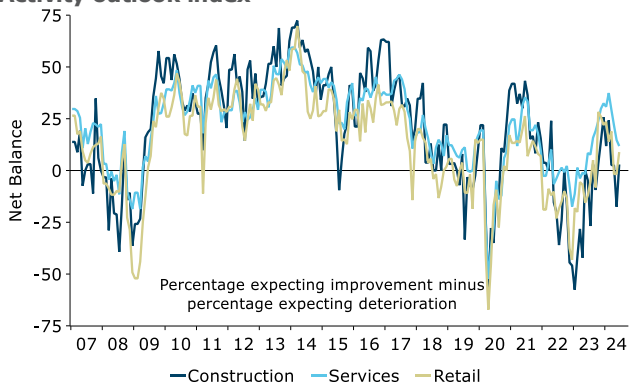
Activity outlook index



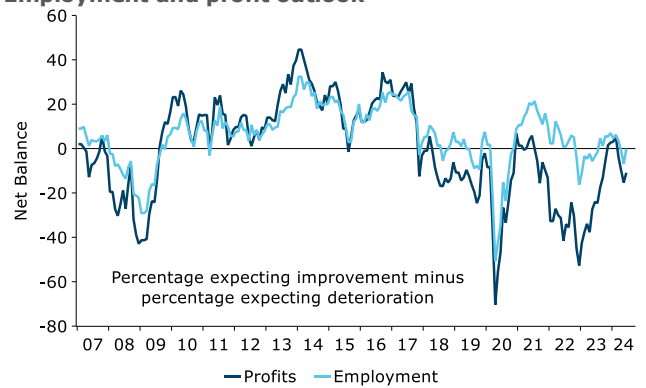
Construction intentions



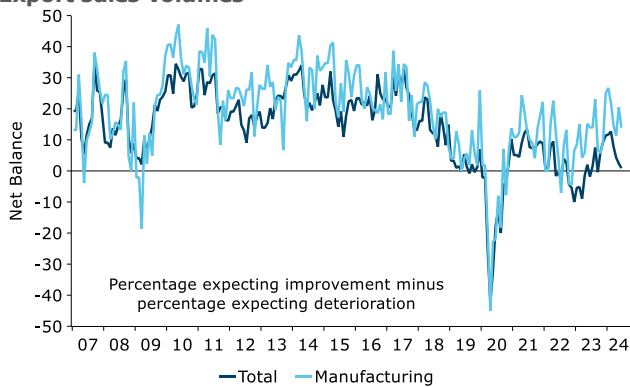
Activity outlook index



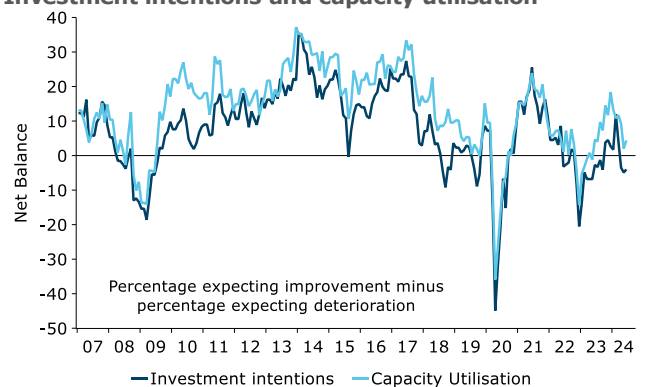
Employment and profit outlook



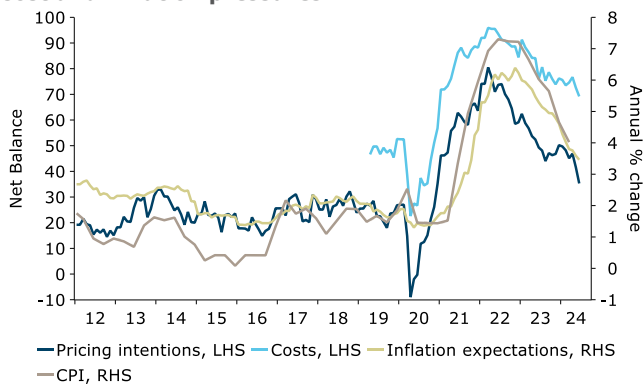
Export sales volumes



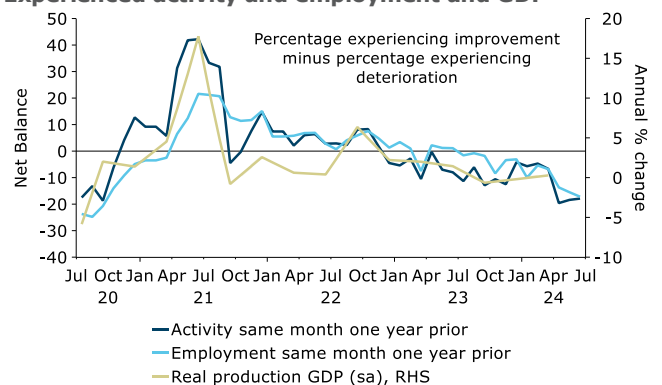
Investment intentions and capacity utilisation



Cost and inflation pressures



Experienced activity and employment and GDP



Source: ANZ, Statistics NZ, Macrobond



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