ANZ Research

ANZ New Zealand Business Outlook

30 September 2024

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Contact

Sharon Zollner for more details.

See page 8.

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

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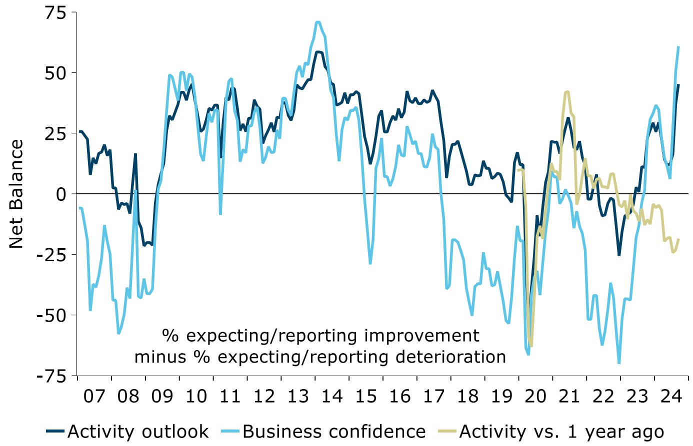
Confused by acronyms or jargon? See a glossary here.

Livin' on a prayer

Key points

- Business confidence rose 10 points to +61 in September, while expected own activity lifted 8 points to +45.
- Experienced own activity rose 4 points to -19, led higher by retail and construction, but experienced employment fell 5 points to -20.
- Pricing intentions rose 2 points to a net 43% of firms intending to raise prices soon. The average amount by which they intend to raise them was steady at 1.6%. Inflation expectations were flat at 2.9%.

Figure 1. ANZ Business Confidence, Own Activity and Past Activity



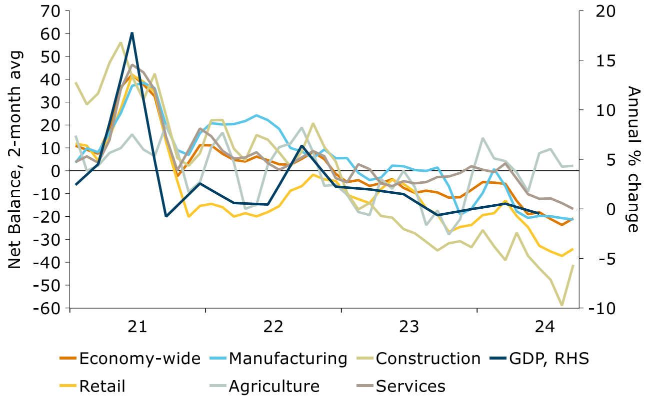
Source: Macrobond, ANZ Research

Table 1: Results versus last month

Net Balance	Sep	Aug	Comment
Business Confidence	60.9	50.6	Retail jumped from 56 to 75.
Own Activity Outlook	45.3	37.1	All sectors were higher. Manuf. top (50).
Export Intentions	13.8	8.4	Strongest since mid-2021.
Investment Intentions	9.2	6.9	Manufacturing and retail strongest.
Cost Expectations	66.8	68.3	Mix of rises and falls by sector.
Wage Expectations	76.4	75.1	Highest for construction (86).
Capacity Utilisation	19.0	12.6	Big jumps for retail and construction.
Residential Construction	38.9	19.4	Highest since mid-2021.
Commercial Construction	16.2	18.8	Much less gung ho than residential.
Employment Intentions	11.7	11.9	Big jump for retail and construction.
Profit Expectations	22.2	8.0	All sectors in the black and double-digit.
Pricing Intentions	42.8	41.0	Construction highest in 7 months.
Ease of Credit	19.1	26.9	Rose for construction, fell elsewhere.
Inflation Expectations	2.92%	2.92%	A second month sub-3%.
Activity – vs. 1 year ago	-18.5	-23.1	Retail from -36 to -25, construction from -58 to -24. Late-month responses: -9.
Employmt – vs. 1 yr ago	-20.2	-14.9	Services fell 8 points but construction rose.

Business optimism continues to rise. Forward-looking activity indicators were higher again. Reported past activity also lifted from -23 to -18.5. That's still very weak, but there was a turn higher in the hardest-hit sectors of construction and retail (figure 2) and it's also notable that late-month responses averaged -9, compared with -22 at the start of the month.

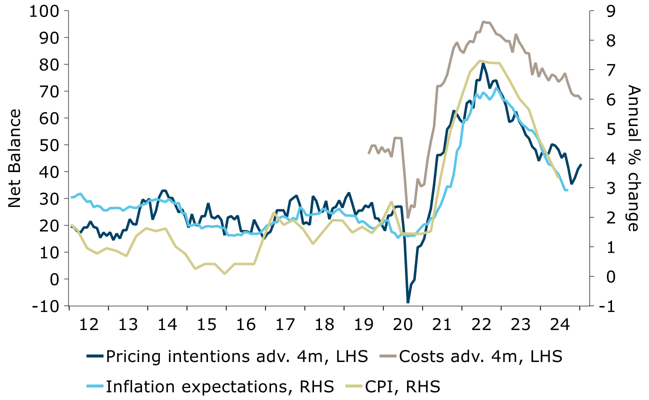
Figure 2. Reported past-month activity by sector (2-month average)



Source: Stats NZ, Macrobond, ANZ Research

The net proportion of firms expecting higher costs over the next three months eased from 68% to 67%, but the net proportion intending to raise their prices over the same timeframe lifted from 41% to 43% (figure 3). Both remain well above pre-COVID levels. Inflation expectations were flat.

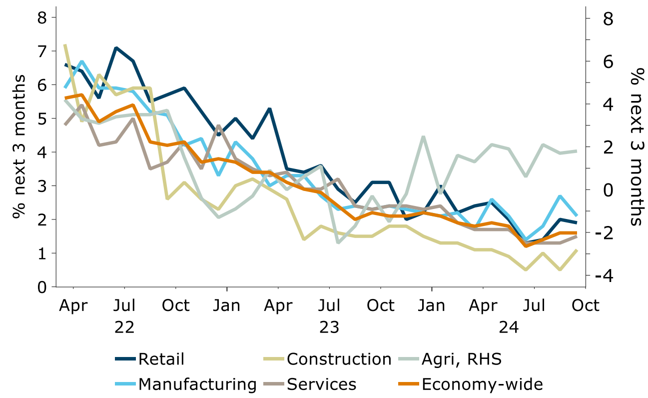
Figure 3. ANZBO inflation indicators



Source: Stats NZ, Macrobond, ANZ Research

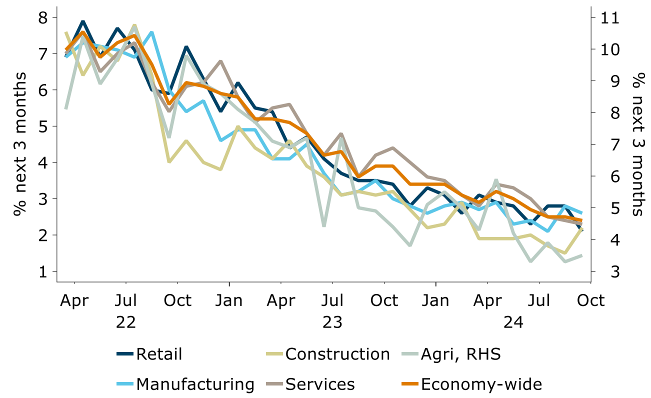
Firms' estimates of changes in their own costs over the next three months generally ticked lower (not construction), but pricing intentions were mixed.

Figure 4. Pricing intentions by sector



Source: Macrobond, ANZ Research

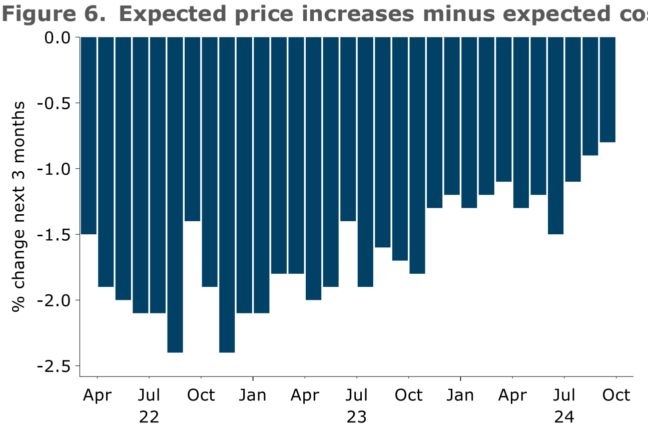
Figure 5. Cost expectations by sector



Source: Macrobond, ANZ Research

Implied margin squeeze is retreating, which is no doubt feeding into improved profitability expectations, along with higher expected turnover.

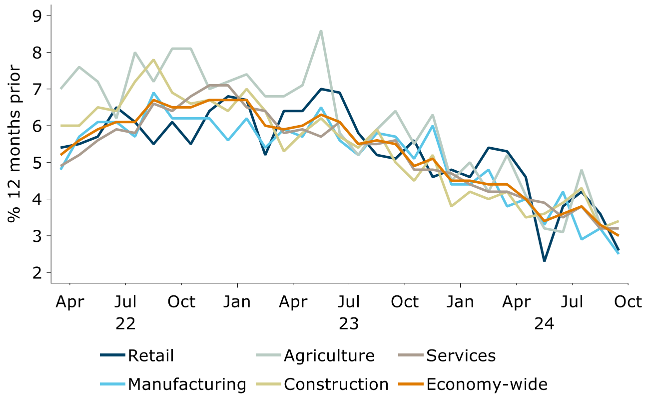
Figure 6. Expected price increases minus expected cost increases



Source: Macrobond, ANZ Research

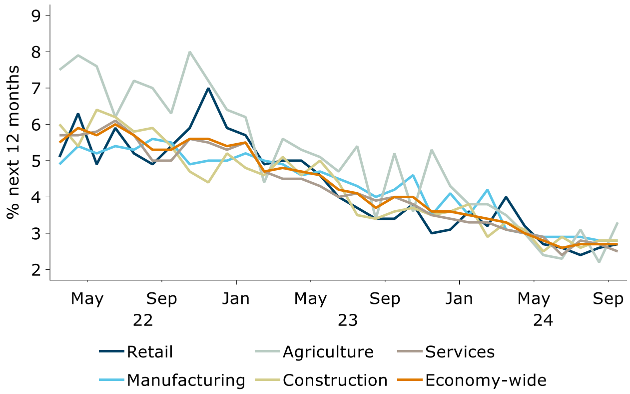
Reported wage increases versus a year earlier fell from 3.3% to 3.0% (figure 6). Expectations for firms' own wage increases over the next 12 months were flat at 2.7% (figure 7).

Figure 7. Wage growth by sector: last 12 months



Source: Macrobond, ANZ Research

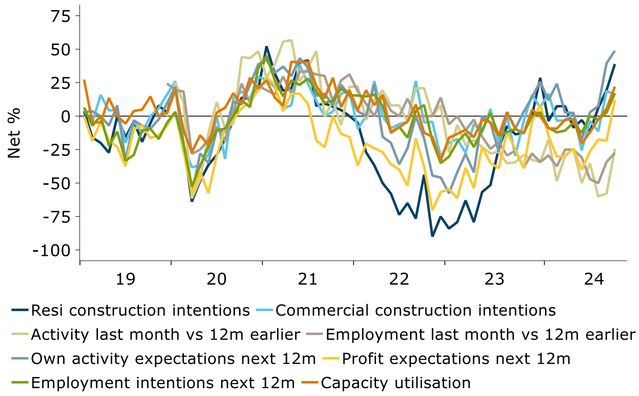
Figure 8. Wage growth by sector: next 12 months



Source: Macrobond, ANZ Research

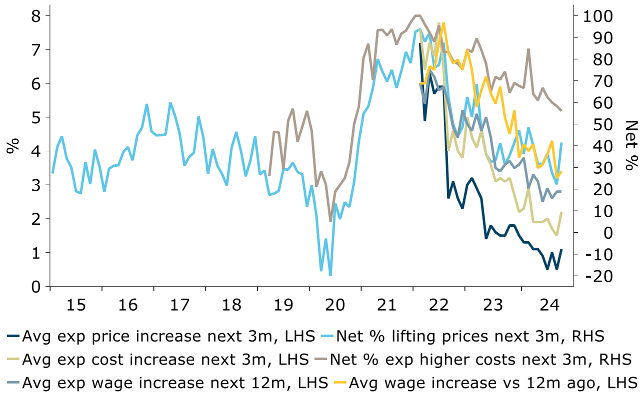
The construction sector is worthy of a closer look this month, given how sensitive the sector is to interest rates. Figures 9 and 10 show that both forward and backward-looking activity indicators have lifted markedly. Time will tell if activity will lift as strongly as anticipated (watch dwelling consents). Meanwhile cost, wage and price indicators for the sector are trending down, but its notable that a fair few measures lifted in the latest read.

Figure 9. Construction sector activity indicators



Source: Macrobond, ANZ Research

Figure 10. Construction sector inflation indicators



Source: Macrobond, ANZ Research

Our usual heatmap shows the manufacturing sector stood on the side of the dance floor this month. Looking at the indicators in level terms, the services sector is also dragging the chain in terms of recovering, just as it did it terms of being the last sector to turn lower. It is one of the less rate-sensitive parts of the economy – and also by far the largest.

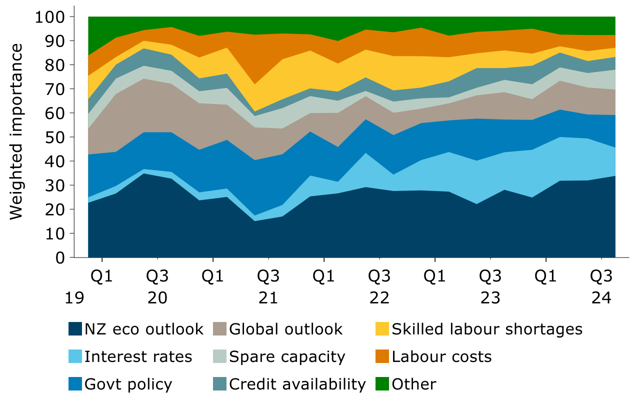
Table 2. Heatmap

	Levels					Monthly changes				
	Retail	Mfg	Agric	Constrn	Serv	Retail	Mfg	Agric	Constrn	Serv
Business Confidence	75.4	73.9	50.0	61.0	53.6	19.0	21.7	1.7	16.3	2.2
Own activity outlook	49.2	50.0	30.4	48.8	43.5	11.0	15.2	9.0	9.3	1.2
Activity vs. same month one year ago	-24.6	-19.6	4.3	-24.4	-16.3	11.8	-10.7	4.3	33.5	0.8
Exports	14.9	12.2	25.0	-11.1	18.0	10.4	-2.8	13.9	-6.8	6.2
Investment	15.0	15.6	0.0	0.0	9.3	9.4	-6.6	17.9	0.0	1.2
Capacity Utilisation	19.7	17.8	17.4	22.0	20.0	16.1	-6.1	10.5	16.4	2.5
Residential Construction	...	...	...	38.9	...	...	...	...	19.5	...
Commercial Construction	...	...	...	16.2	...	...	...	...	-2.6	...
Employment	9.8	19.6	-4.3	17.1	11.6	6.2	-6.5	2.8	14.4	-4.8
Employment vs. same month one year ago	-21.7	-26.1	-8.7	-27.5	-18.9	-5.0	-23.9	20.9	6.7	-7.7
Profits	31.1	26.1	21.7	12.2	20.2	31.1	13.1	36.0	30.6	0.2
Ease of Credit	19.7	15.6	-8.3	31.7	21.3	-9.4	-17.0	-18.6	7.4	-8.6
Costs	68.9	64.4	82.6	56.1	66.3	1.6	-7.3	6.7	-2.2	-1.4
Pricing Intentions	50.8	37.8	30.4	41.5	42.0	-0.1	-20.9	2.8	19.3	4.4

Note: Orange indicates high, and blue, low, becoming more intense at the extremes. The colours 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.

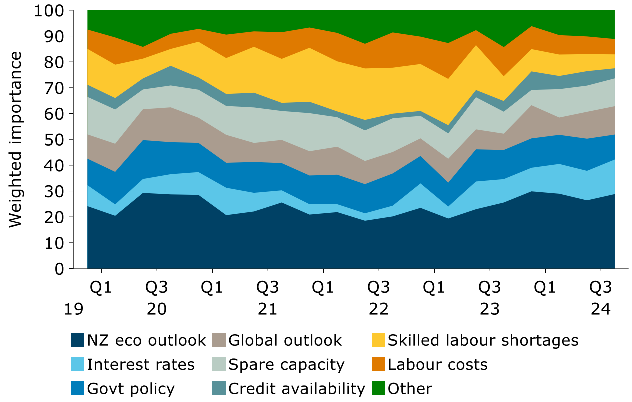
It's notable that when we ask firms who are not planning on increasing their investment what the main drivers of that decision are, interest rates (light blue) don't feature strongly (figure 11). Rather, it's the indirect impact on the economic outlook that is the deterrent. Indeed, interest rates get about the same weighting in importance as a driver for firms who *are* planning on increase investment (figure 12). If firms in aggregate don't actually think interest rates at these levels are much of a deterrence, and if confidence about the economic outlook continues to grow rather than petering out, that certainly raises the possibility that investment could recover more quickly than we or the Reserve Bank are anticipating.

Figure 11. Drivers of investment for firms planning to *decrease* investment (16% of respondents)



Source: Macrobond, ANZ Research

Figure 12. Drivers of investment for firms planning to *increase* investment (25% of respondents)



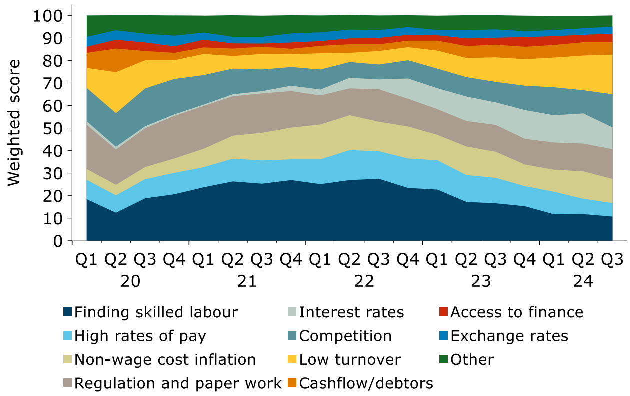
Source: Macrobond, ANZ Research

Tell us your problems

Every third month we also ask firms to rank their largest problems. Figure 13 shows that inflationary problems (finding labour, high wages, high other costs, and regulation and paperwork) continue to decline in relative importance. The largest single problem now is low turnover (yellow).

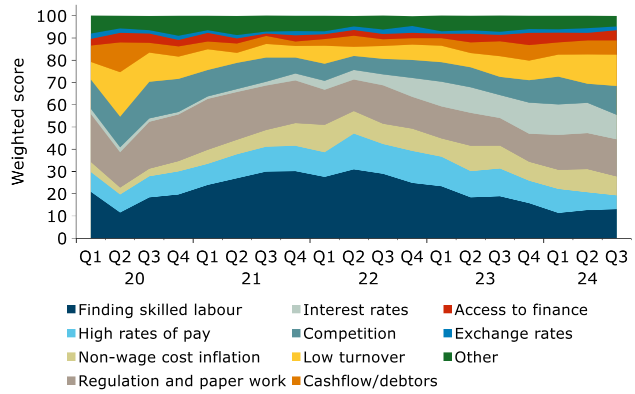
Low turnover is a particularly weighty issue for the retail, construction and manufacturing (figures 15-17). The agriculture sector is by far the most concerned about non-wage cost inflation (figure 18), and construction about competition (figure 16).

Figure 13. Economy-wide biggest problems, weighted



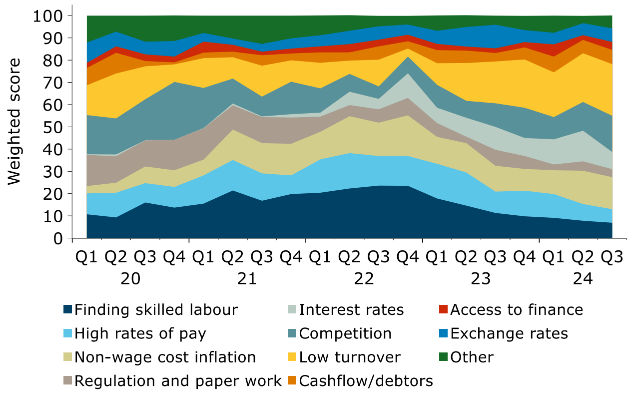
Source: Macrobond, ANZ Research

Figure 14. Services biggest problems, weighted



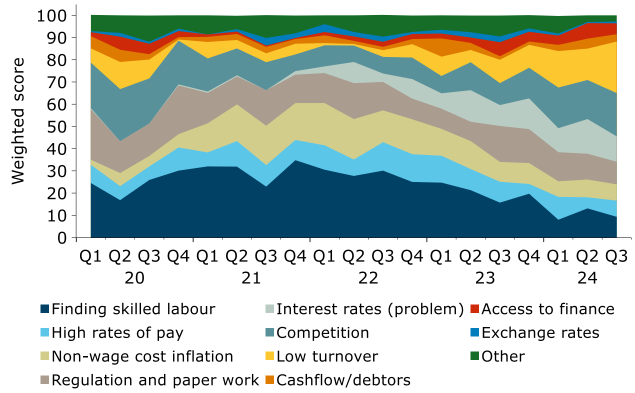
Source: Macrobond, ANZ Research

Figure 15. Retail sector biggest problems, weighted



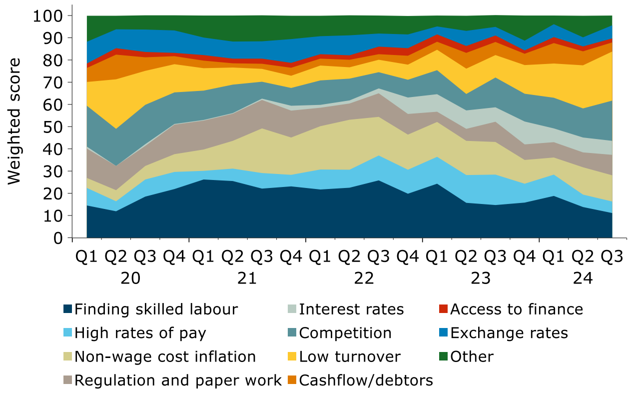
Source: Macrobond, ANZ Research

Figure 16. Construction biggest problems, weighted



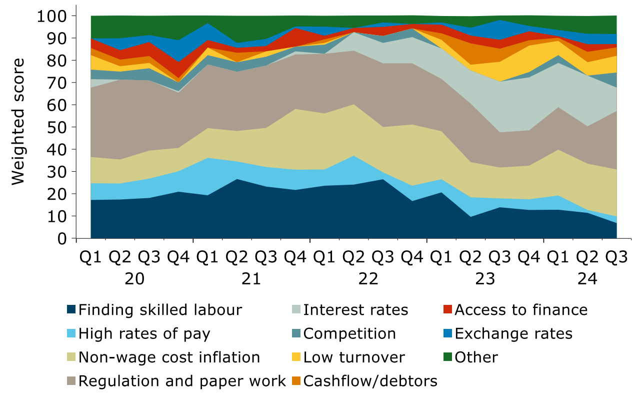
Source: Macrobond, ANZ Research

Figure 17. Manufacturing biggest problems, weighted



Source: Macrobond, ANZ Research

Figure 18. Agriculture biggest problems, weighted



Source: Macrobond, ANZ Research

Our take

The September ANZ Business Outlook survey highlights the risk that the economy's response to lower interest rates could be more vigorous than is generally expected. Markets in particular are focused on downside risks, but this month's survey showed not only that optimism about the future continues to grow, but also the first signs of improvement in current activity. While a net 19% of firms still said activity had been weaker in the past month than 12 months earlier (a small improvement from 23% in August), it was notable that it jumped markedly for the rate-sensitive sectors of construction and retail. And for the responses received later in the month (primarily on 23 September) the economy-wide read was -9, versus -22 in the early-month responses. Construction sector activity indicators have taken off.

A sharper rebound in economic activity than generally anticipated would of course be great news – as long as inflation still returns sustainably to target. On this front, news was mixed. The proportion of firms intending to raise their prices in the next three months lifted for a third consecutive month. It's the highest since April and well above pre-COVID levels. A net 51% of retailers expect to raise their prices, versus a trough of 38% in June, and 42% of construction firms expect to do so, versus 22% last month and the highest since February. The average amount by which firms are expecting to raise their prices in the next three months at 1.6%, is also well off its June trough of 1.2%. But in good news from the RBNZ's point of view, reported wage growth has dropped from 4% in April to 3% six months later, and no doubt relatedly, cost expectations have dropped steadily from 3.2% in April to 2.4% now.

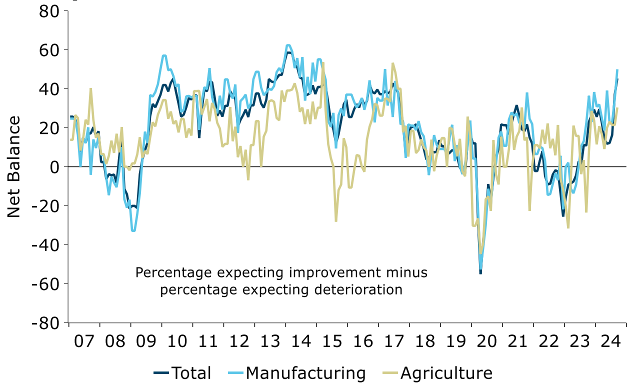
Now we'll be looking to other data such as card spending, dwelling consents, and job ads to corroborate or challenge the themes from the ANZBO. While the market seems confident rapid rate cuts are coming, everything remains data dependent.

Survey Results September 2024

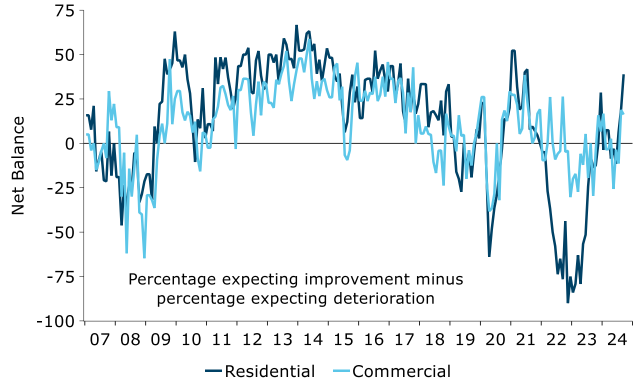
Net Balance	September	Previous (August)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	60.9	50.6	75.4	73.9	50.0	61.0	53.6
Own Activity Outlook	45.3	37.1	49.2	50.0	30.4	48.8	43.5
Export Intentions	13.8	8.4	14.9	12.2	25.0	-11.1	18.0
Investment Intentions	9.2	6.9	15.0	15.6	0.0	0.0	9.3
Cost Expectations	66.8	68.3	68.9	64.4	82.6	56.1	66.3
Capacity Utilisation	19.0	12.6	19.7	17.8	17.4	22.0	20.0
Residential Construction	38.9	19.4	…	…	…	38.9	…
Commercial Construction	16.2	18.8	…	…	…	16.2	…
Employment Intentions	11.7	11.9	9.8	19.6	-4.3	17.1	11.6
Profit Expectations	22.2	8.0	31.1	26.1	21.7	12.2	20.2
Pricing Intentions	42.8	41.0	50.8	37.8	30.4	41.5	42.0
Ease of Credit Expectations	19.1	26.9	19.7	15.6	-8.3	31.7	21.3
Inflation Expectations (%)	2.92	2.92	2.97	3.16	2.62	2.77	2.91
Activity – same month one year ago	-18.5	-23.1	-24.6	-19.6	4.3	-24.4	-16.3
Employment – same month one year ago	-20.2	-14.9	-21.7	-26.1	-8.7	-27.5	-18.9
Price Expectations – 3 months from now (%)	1.6	1.6	1.9	2.1	1.8	1.1	1.5
Cost Expectations – 3 months from now (%)	2.4	2.5	2.1	2.6	3.5	2.2	2.3
Wages/Salaries – next 12 months (%)	2.7	2.7	2.7	2.8	3.3	2.8	2.5
Wages/Salaries – same month a year ago (%)	3.0	3.3	2.6	2.5	3.0	3.4	3.2

Charts

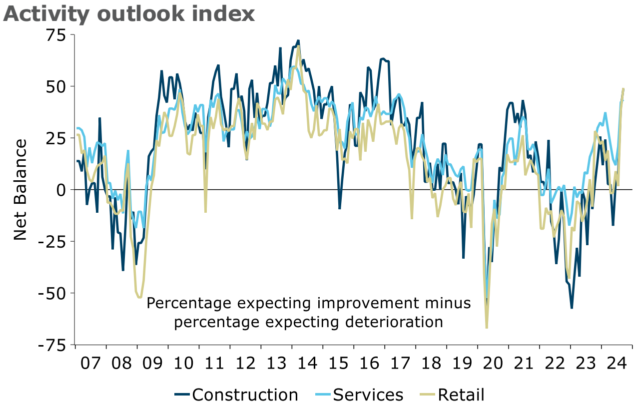
Activity outlook index



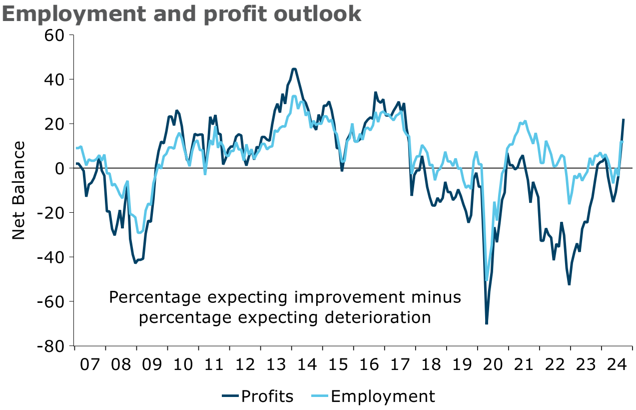
Construction intentions



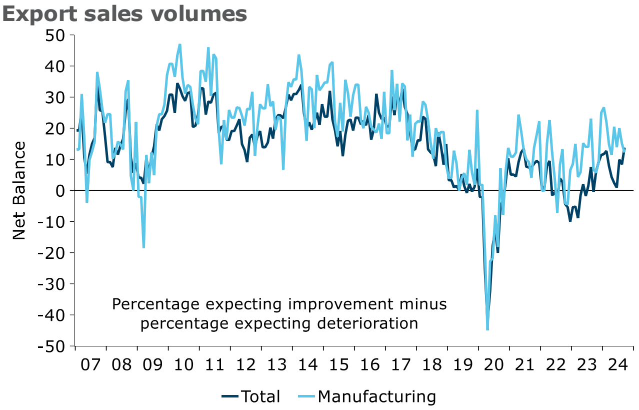
Activity outlook index



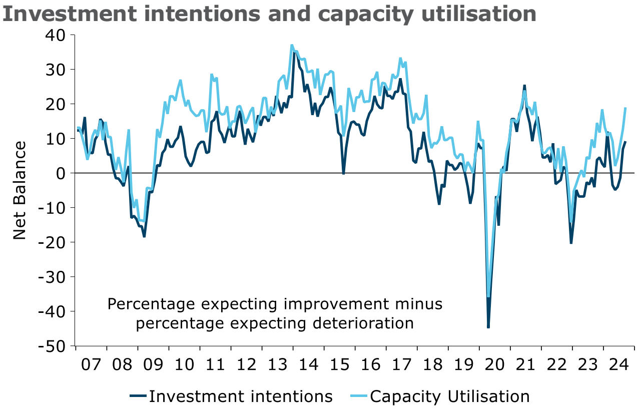
Employment and profit outlook



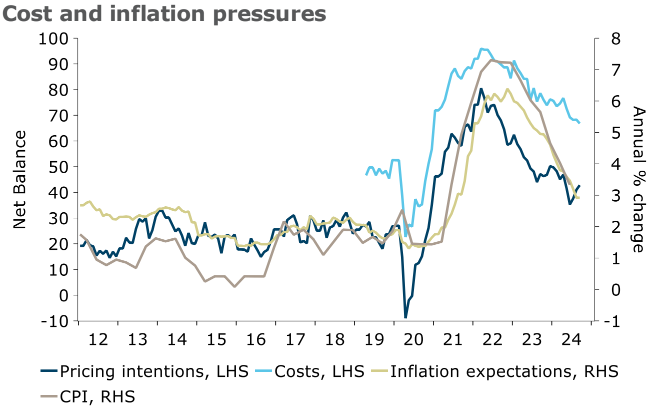
Export sales volumes



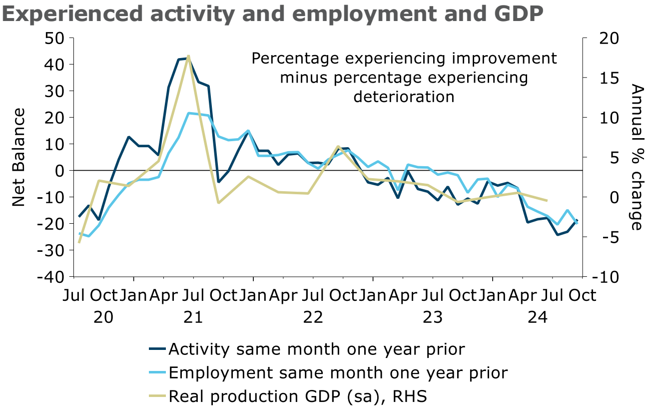
Investment intentions and capacity utilisation



Cost and inflation pressures



Experienced activity and employment and GDP



Source: Statistics NZ, Macrobond, ANZ Research

Contact us

Meet the team

We welcome your questions and feedback. Click here for more information about our team.

Sharon Zollner
Chief Economist

Follow Sharon on Twitter
@sharon_zollner

Telephone: +64 9 357 4094
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
@ANZ_Research (global)

David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022
Email: david.croy@anz.com

Susan Kilsby
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469
Email: susan.kilsby@anz.com

Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, economic developments, labour market dynamics, inflation, fiscal and monetary policy.

Telephone: +64 21 661 792
Email: miles.workman@anz.com

Henry Russell
Economist

Macroeconomic forecasting, economic developments, GDP and activity dynamics and monetary policy.

Telephone: +64 21 629 553
Email: henry.russell@anz.com

Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808
Email: natalie.denne@anz.com

Kyle Uerata
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894
Email: kyle.uerata@anz.com

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