

ANZ New Zealand Business Outlook

27 February 2020



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Business Outlook is scheduled
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at 1pm.

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Sound the alarm

Key points

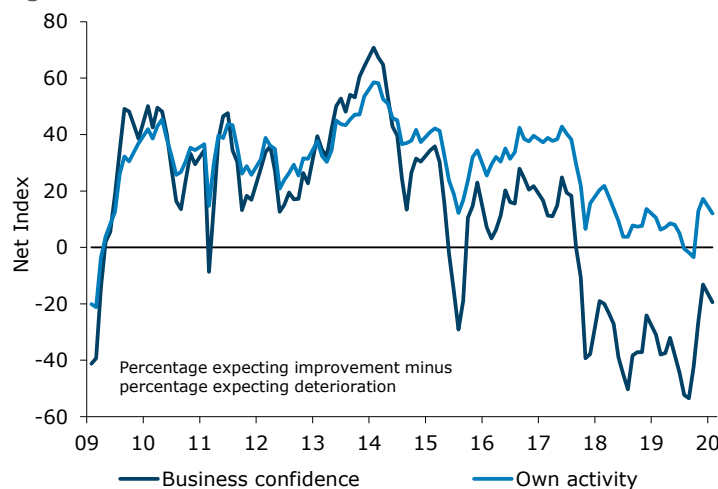
- Headline business confidence fell 6 points to -19 in February. A net 12% of firms expect stronger activity for their own business (down 5).
- Survey responses received after the COVID-19 outbreak hit the headlines (about a third of all responses) were more negative.
- Agriculture sector own activity collapsed from +16 to -30. Manufacturing own activity also fell sharply, from +24 to +4. The construction sector lifted strongly from 10% to 22% of firms expecting busier times ahead.
- Expected profitability, investment and employment intentions all fell.
- Retail sector pricing intentions soared to the highest level since mid-2008.

The February ANZ Business Outlook Survey was a game of two halves.

Taking the month as a whole, headline business confidence fell 6 points to a net 19% of respondents reporting that they expect general business conditions to deteriorate in the year ahead. Firms' expectations for their own activity, a better economic indicator, fell 5 points to a net 12% expecting higher activity over the year ahead.

In broad terms, about two thirds of responses were received at the very start of the month, and one third following a reminder email on 17 February. The first sample group scored -14% for business confidence; the second sample reported -33%. Similarly, 18% of firms responding early in the month expected stronger activity ahead for their own firm; only 4% of the later sample did. The COVID-19 outbreak in China appears to be causing widespread alarm about the outlook for both the New Zealand economy and firms' specific prospects.

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



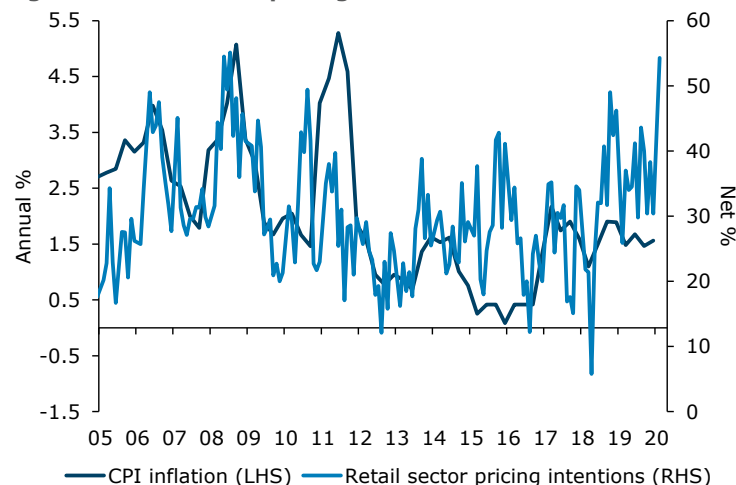
Source: ANZ Research

There were some signs of incipient inflation pressure, with costs and inflation expectations modestly higher, and retail pricing intentions leaping to the highest since mid-2008.

Turning to the detail:

- **Employment** intentions fell 6 points to a net 2% of firms intending to lift employment. The services sector is the most in the mood to hire (+10), and agriculture (-16) and retail (-6) the least. Construction employment intentions are back in the black for the first time since early 2019 at +3.
- **Investment** intentions fell 2 points to +7%, with a sharp fall for agriculture to -30, and a similar 10-point fall for manufacturing, though this sector remains at a stronger level (+11). Investment intentions overall were +12 in the early sample and -1 in the later sample.
- **Capacity utilisation**, one of the best GDP indicators in the survey, eased back to +10 from +15, giving back half of its December jump. It is strongest for construction and weakest for agriculture.
- **Profit** expectations fell 6 points to a net 8% expecting lower profitability.
- **Commercial construction** intentions lifted 10 points to 26; **residential** jumped 20 points to +23.
- **Export** intentions fell 9 points to -2, led by manufacturing and agriculture. Export intentions were +1 in the early sample and -7 in the later sample.
- Expected **availability of credit** lifted 7 points to a net 36% of firms expecting credit to be harder to get. It is deeply negative across all sectors, but lowest for agriculture (down 10 points to -67%). This data also went further south as the month went on.
- A net 53% of firms expect higher **costs**, unchanged on December. They are highest for retail (+63).
- **Pricing intentions** were unchanged at a net 27% of firms expecting to raise prices. However, they soared for retail to 54% (up 24 points), which is the highest read since mid-2008. As the chart below shows, the correlation with CPI inflation is far from perfect, but it is striking nonetheless. **Inflation expectations** rose 0.13%pts to 1.89%, close to the 2% inflation target midpoint.

Figure 2. Retail sector pricing intentions and CPI inflation

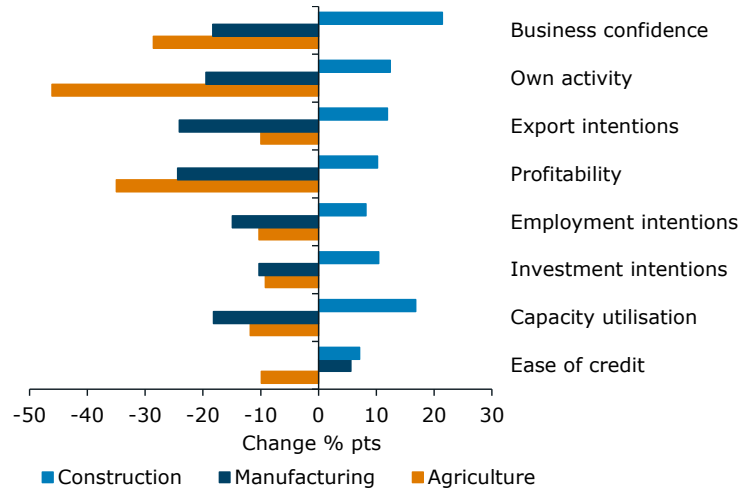


Source: ANZ Research

- We have added a couple of backward-looking questions to the survey. When asked about activity versus the same month a year earlier, a net 10% reported it to be higher, unchanged from December. It was strongest for construction (+25%) and weakest for agriculture (-3%), which was the strongest sector in December. A net 5% of firms report having lifted employment over the same period. A net 19% of construction firms report having hired more people, whereas a net 13% of retailers report having cut staff.

The biggest theme across the ANZ Business Outlook survey in February was a sharp decline in activity and sentiment indicators for agriculture and manufacturing, partly offset by a consistent rise in the indicators for construction. Construction is very domestically focused so appears to be immune from the outbreak headlines for now, although that industry does import a lot of inputs, so confidence may slip if disruption continues.

Figure 3. Change in key activity indicators: December to February

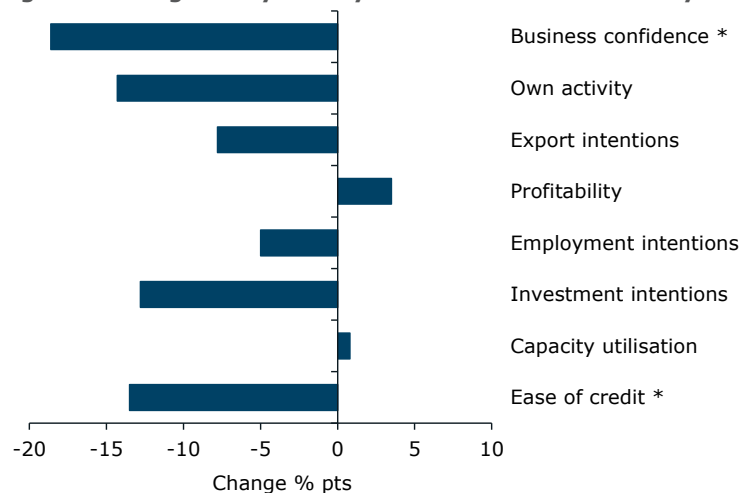


Source: ANZ Research

Sector-level data is considerably more volatile than the aggregate, so one needs to be cautious in interpreting it, but these messages are very consistent.

At an aggregate level, we can also look at how the indicators were different for the third of responses received 17-21 February versus the two thirds received 30 January – 16 February (mostly in the first day or two of this period). Significance tests revealed only business confidence and ease of credit were significantly different for the two groups¹, but the direction across most measures is pretty consistent.

Figure 4. Change in key activity indicators: mid versus early February



Note: * Statistically significant at the 10% level

Source: ANZ Research

¹ 10% level of significance. The differences were not significant at the usually accepted level of 5%.

Our take

Things were looking up for New Zealand businesses as the New Year rolled in. It's not all bad; the construction sector remains very upbeat. But it is clear that the human and economic damage being wrought by the devastating COVID-19 outbreak in China, and now in other countries, is taking a heavy toll on sentiment and confidence in the primary sector and manufacturers already (with dry conditions also weighing). And not just sentiment, but incomes, turnover and profits. How long the disruption will last is unknown, but as the news comes in we're getting more and more concerned ourselves. Our best hope is that the disruption proves short-lived, but there's no question the export-oriented economy is reeling.

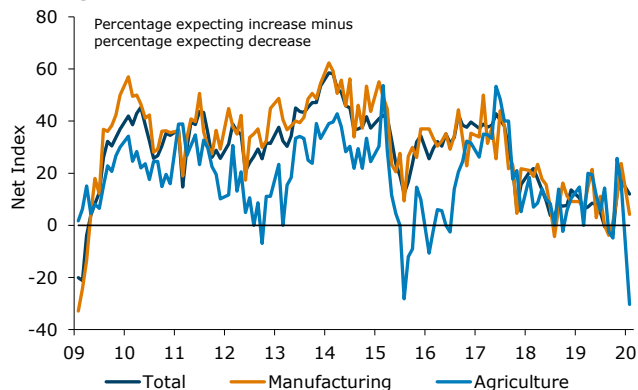
Survey Results February 2020

Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-19.4	-13.2	-19.1	-22.2	-63.6	0.0	-12.4
Activity Outlook	12.0	17.2	14.9	4.2	-30.3	21.9	19.4
Exports	-2.1	7.0	7.7	1.8	-16.1	-4.8	-2.9
Investment	7.2	8.6	4.3	11.3	-30.3	25.0	10.2
Costs	52.5	52.6	63.0	52.1	46.9	46.9	53.1
Capacity Utilisation	9.5	15.1	16.3	12.5	-6.2	19.4	8.4
Residential Construction	22.7	2.8	22.7	...
Commercial Construction	26.1	16.1	26.1	...
Employment	1.7	7.5	-6.4	-5.6	-15.6	3.2	9.6
Profits	-8.4	-2.1	-19.1	-13.9	-45.5	3.1	1.1
Pricing Intentions	27.0	26.8	54.3	30.6	-3.0	21.9	26.3
Ease of Credit	-36.2	-43.1	-23.9	-28.6	-66.7	-34.4	-36.7
Inflation Expectations	1.89	1.76	1.98	1.99	1.76	1.87	1.87
Activity outlook – same month one year ago	9.9	9.6	6.4	9.9	-3.1	25.0	10.2
Employment – same month one year ago	4.8	7.0	-13.0	11.3	6.5	19.4	4.0

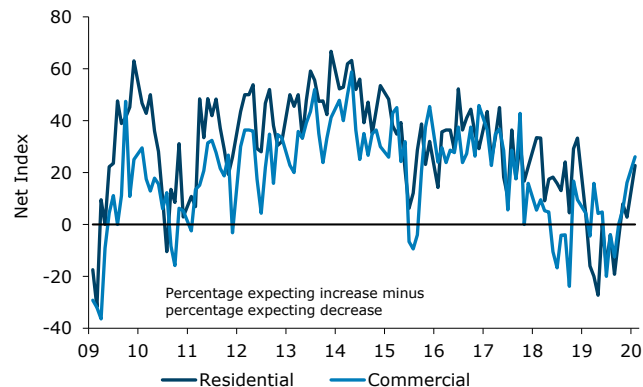


Charts

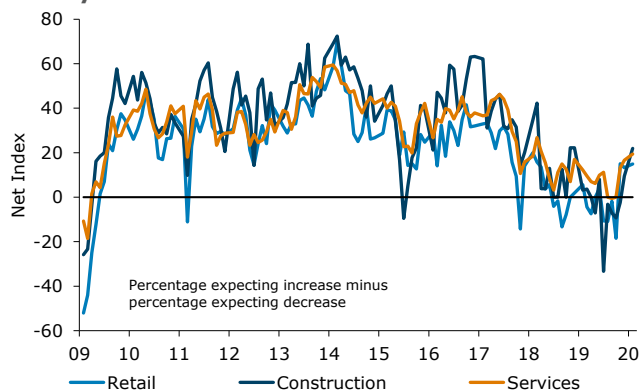
Activity outlook index



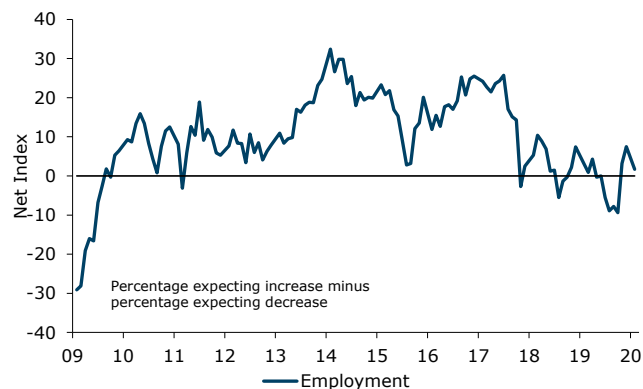
Construction intentions



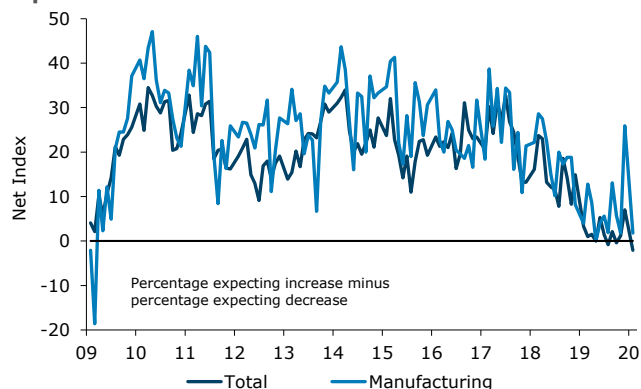
Activity outlook index



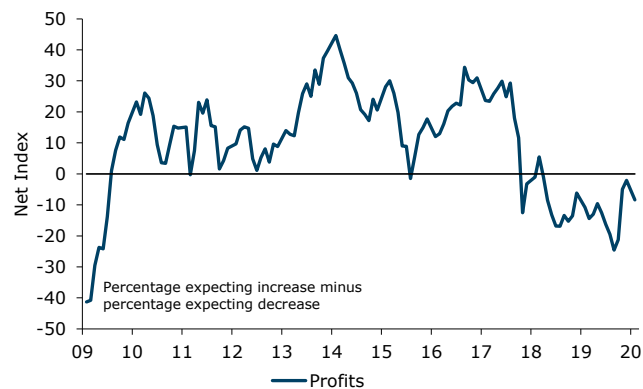
Labour market outlook



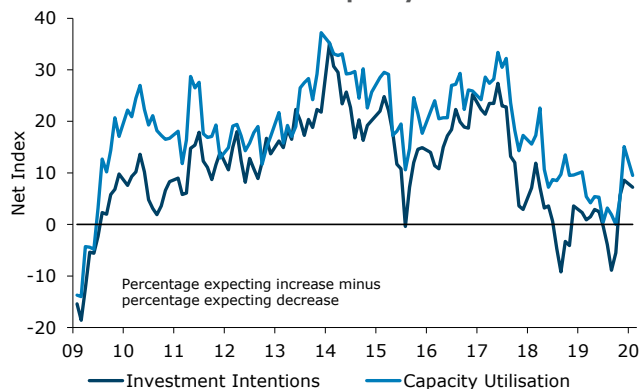
Export sales volumes



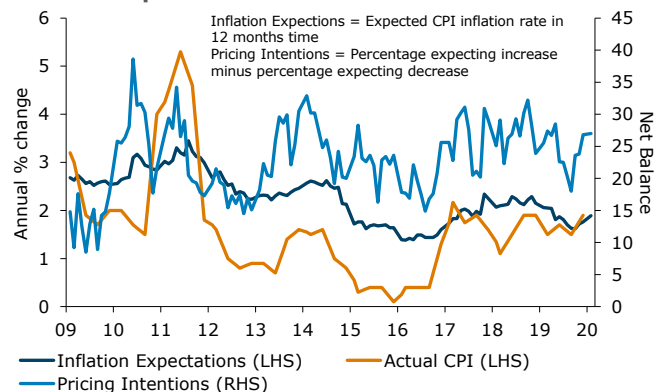
Financial outlook



Investment intentions and capacity utilisation



Inflation expectations



Source: ANZ, Statistics NZ



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