

ANZ New Zealand Business Outlook

18 December 2020



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See [page 7](#).

The next preliminary *Business Outlook* comprising early-February results at an economy-wide level will be released on 4 February 2021 at 1pm. The next standard full-month release of the ANZ *Business Outlook* is due on 25 February at 1pm.

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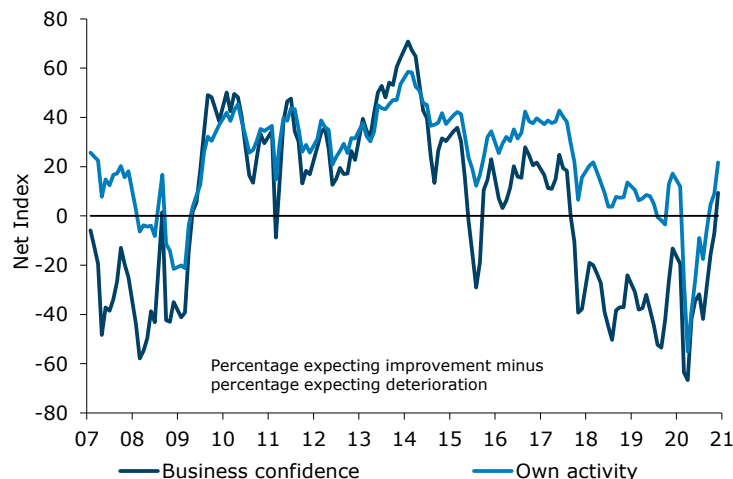
Merrily on high

Key points

- Headline business confidence, at 9.4%, is up a whopping 16 points and back in the black for the first time since August 2017. Own activity was 13 points higher, at +21.7%, its highest level since March 2018.
- Every activity indicator was higher. Inflation pressure is building.
- Construction is manic. Agriculture, while improving, remains subdued.
- Manufacturers and retailers are most impacted by supply issues from freight disruptions, while manufacturers report the most difficulty getting goods to customers.

The December ANZ Business Outlook survey was full of Christmas cheer. Both business confidence and own activity lifted strongly to multi-year highs (figure 1). All other activity indicators rose solidly too.

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

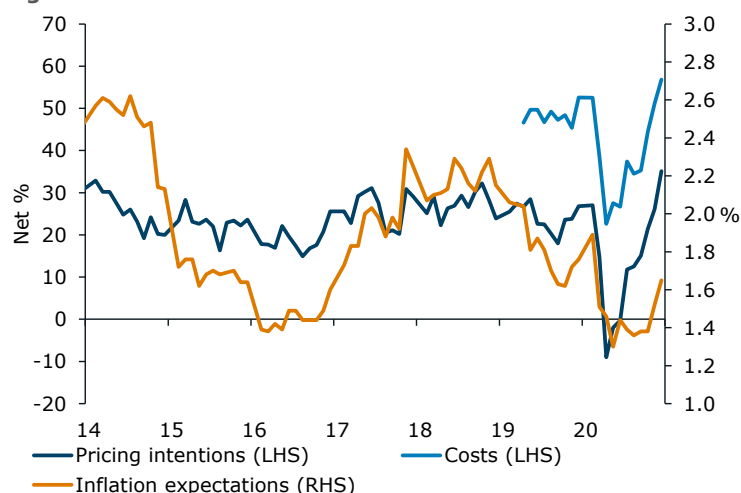


Source: ANZ Research

Turning to the detail:

- Business confidence rose 16 points to 9.4%.
- Firms' own activity rose 13 points to 21.7%.
- Investment intentions lifted 8 points, to 8.6%.
- Employment intentions rose 9 points, with a net 8.8% of respondents planning to hire more staff.
- Firms report they are flat out, with capacity utilisation up 3 points to 9.3%. This is the single best GDP indicator in the survey.
- Inflation pressure is rising. Cost expectations rose 6 points to a net 56.8% of respondents reporting higher costs. Higher costs plus robust demand equated to a net 35.1% of respondents intending to raise their prices. This is the highest level of pricing intentions since a brief spike in 2010. General inflation expectations rose from 1.52% to 1.65%, which will please the Reserve Bank.

Figure 2: ANZBO inflation indicators



Source: ANZ Research

- Firms' profit expectations are back in the black for the first time since late 2017, with a net 6.8% of firms expecting higher profits.
- Export intentions also lifted 8 points to a net 10.3%.
- Ease of credit was the only data to deteriorate over the month, down 7 points to -40.1%. This may reflect the RBNZ's signalled re-imposition of LVR restrictions, as many SMEs use housing as collateral for borrowing.
- Residential construction intentions lifted 7 points, with 20% of firms expecting higher activity. Commercial construction firms' intentions jumped 16 points, with a net 29% of firms expecting higher activity.

Our usual heat map of both levels and changes on a standardised basis (Table 1) shows that while there is a lot more green appearing, the situation remains very divergent across sectors.

Table 1. Heatmap of monthly levels and changes

	Levels					Monthly change				
	Retail	Mfg	Agri	Constrn	Services	Retail	Mfg	Agric	Constrn	Services
Business Confidence	9.8	11.7	-38.5	26.7	14.3	13.6	5.0	13.9	30.0	20.9
Activity Outlook	17.1	18.0	15.4	38.7	21.8	17.1	3.0	24.5	15.4	12.6
Activity – vs one year ago	19.5	11.7	30.8	48.4	1.4	10.1	21.7	21.7	5.1	1.4
Exports	16.0	13.7	13.0	0.0	6.2	22.5	7.6	31.2	7.1	-4.1
Investment	10.0	6.7	-7.7	25.8	7.7	11.9	1.6	25.6	22.5	3.7
Capacity Utilisation	12.5	8.6	4.0	20.7	7.4	22.5	10.3	4.0	-7.9	-2.4
Residential Construction	...	...	...	20.0	...	...	...	...	7.0	...
Commercial Construction	...	...	...	29.2	...	...	...	...	16.7	...
Employment	-2.4	9.8	-11.5	35.5	9.0	1.4	18.1	11.2	28.8	3.7
Employment – vs one year ago	-5.0	-8.3	7.7	22.6	-12.5	6.5	6.7	7.7	12.6	-1.7
Profits	2.4	3.3	-15.4	19.4	10.9	19.4	10.0	39.1	9.1	19.5
Ease of Credit	-36.6	-37.7	-38.5	-41.9	-41.5	5.7	-16.0	-2.1	-31.6	-4.0
Costs	65.9	53.3	80.8	58.1	50.3	7.4	-12.2	23.7	8.1	8.3
Pricing Intentions	53.7	33.3	15.4	41.9	32.0	14.1	1.1	33.6	18.6	6.8

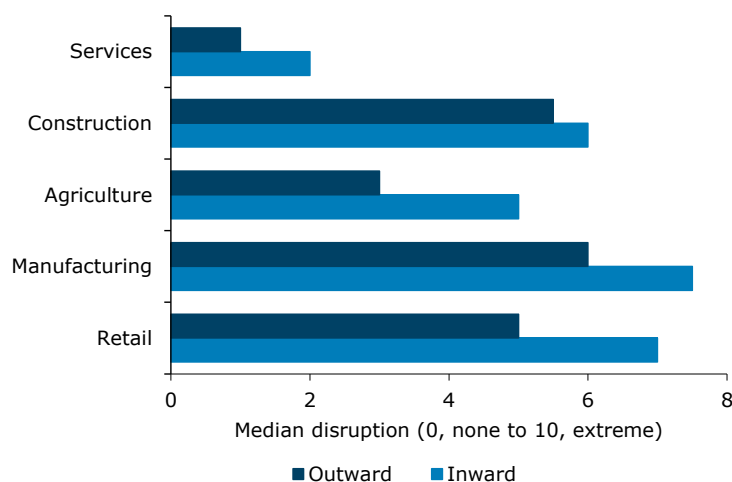
Note: the colour coding is based on standardised values that take into account the historical average and variation in each series, eg "agriculture sector employment intentions". So if, for example, a series is low compared to others but that's not unusual, it is less likely to be marked in red. The history of the activity and employment versus a year ago is unfortunately too short for historical comparisons to be meaningful but the data is included for completeness.

- Construction is an ever lovelier sea of green, and is by far the most positive sector. A remarkable net 35.5% of construction firms are planning on hiring. Good luck with that. Construction costs will not be falling any time soon.
- Agriculture improved the most over the month, but is still at subdued levels. It is the sector facing the most reported cost pressure but little power to raise prices, resulting in relatively pessimistic profitability expectations.
- Retailers are much happier, but are still wary of hiring.
- Manufacturers are busier than a year ago but nervous about exports.
- Agriculture remains by far the most pessimistic sector relative to history, but encouragingly, many indicators jumped in December.

This month we added a question about the impacts of inward and outward freight disruptions, with many anecdotes and media stories about container shortages, shipping delays, and stock shortages, with logistics experts expecting disruption to continue well into next year.

Figure 3 shows manufacturers are bearing the brunt of it currently in both directions, but retailers and construction firms are also struggling with supply of goods. With only one data point so far we don't know what "normal" is, of course, but we'll keep a close eye on whether these disruptions are getting better or worse over coming months. Inward supply disruptions are negative for growth, but positive for inflation, because they increase costs. It's the kind of inflation central banks 'look through' as far as possible, but it's inflation nonetheless, and if it impacts inflation expectations and pricing intentions persistently, the RBNZ will have to take note.

Figure 3: Median reported freight disruption (0, none, to 10, extreme)

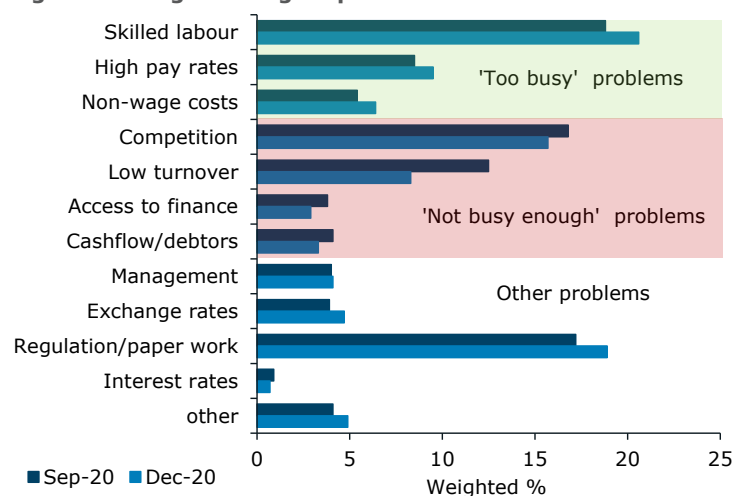


Source: ANZ Research

We also ask firms about their biggest problems every three months (figure 4, over).

- Compared to September, more firms are constrained by a lack of skilled labour and fewer are concerned about low turnover.
- Although firms report tighter credit availability in the main survey, it ranks very lowly in terms of pressing concerns.
- "Regulation and paperwork" may well be where some firms chose to express their concern about the closed border.
- Despite the exchange rate rising sharply, it still ranks very low as a problem in aggregate.

Figure 4: Weighted largest problems



Source: ANZ Research

By sector, agriculture and construction are not at all concerned about turnover. Retail and manufacturers are the most concerned about competition. Skilled labour shortages are an economy-wide issue, but had the highest weighting for construction, followed by agriculture. Cash-flow was of most concern for the services sector, but even here, was only the sixth-largest problem.

Figure 5: Ranking of the weighted 'largest problems' by sector

	Agri	Constr	Manuf	Retail	Services
Skilled labour	2	1	1	2	2
Regulation/paper work	1	2	3	2	1
Competition	8	3	2	1	3
Low turnover	11	10	4	6	5
High pay rates	5	4	7	4	4
Non-wage costs	3	5	6	7	6
Management	9	5	10	9	6
Cashflow/debtors	10	8	9	11	6
Exchange rates	4	8	5	8	11
Access to finance	7	7	11	10	10
Interest rates	11	10	12	11	12

Source: ANZ Research

Our take

The New Zealand economy is showing impressive resilience. After a 14% bounce-back in the September quarter, the economy is the same size it was pre-COVID.

It's not the same shape though. Behind the numbers lie some real stresses and strains, in both overheated sectors like construction, and chilled ones like tourism. We expect a technical recession in Q4 and Q1 as the policy-fuelled bounce fades and the tourism hole hurts, though the imminent prospect of travel bubbles is very encouraging. But as regards the recent growth bounce, increasing debt, whether public through fiscal policy, or private sector debt, is not a sustainable source of growth. In particular, rapidly increasing house prices in this environment is outright worrying. If inflation pressures continue to rise rapidly (albeit from low levels), that will bring into question the common assumption that mortgage rates will remain rock-bottom for many years to come.

But we should celebrate the fact that our economy is going to come out of 2020 in far better shape, cyclically and structurally, than most. We pulled together, stayed apart, eliminated COVID-19 twice and reaped the economic and broader wellbeing rewards. Wishing a very, very merry Christmas to you and yours.

Survey Results December 2020

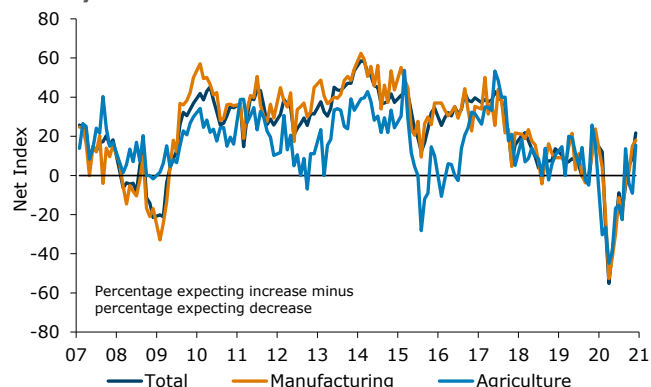
Net Balance	December	Previous (November)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	9.4	-6.9	9.8	11.7	-38.5	26.7	14.3
Own Activity Outlook	21.7	9.1	17.1	18.0	15.4	38.7	21.8
Export Intentions	10.3	2.4	16.0	13.7	13.0	0.0	6.2
Investment Intentions	8.6	0.6	10.0	6.7	-7.7	25.8	7.7
Cost Expectations	56.8	51.1	65.9	53.3	80.8	58.1	50.3
Capacity Utilisation	9.3	5.9	12.5	8.6	4.0	20.7	7.4
Residential Construction	20.0	13.0	...	...	...	20.0	...
Commercial Construction	29.2	12.5	...	...	...	29.2	...
Employment Intentions	8.8	0.0	-2.4	9.8	-11.5	35.5	9.0
Profit Expectations	6.8	-11.0	2.4	3.3	-15.4	19.4	10.9
Pricing Intentions	35.1	26.1	53.7	33.3	15.4	41.9	32.0
Ease of Credit Expectations	-40.1	-33.0	-36.6	-37.7	-38.5	-41.9	-41.5
Inflation Expectations (%)	1.65	1.52	1.74	1.88	1.57	1.43	1.59
Activity – same month one year ago	12.7	4.1	19.5	11.7	30.8	48.4	1.4
Employment – same month one year ago	-4.9	-9.2	-5.0	-8.3	7.7	22.6	-12.5

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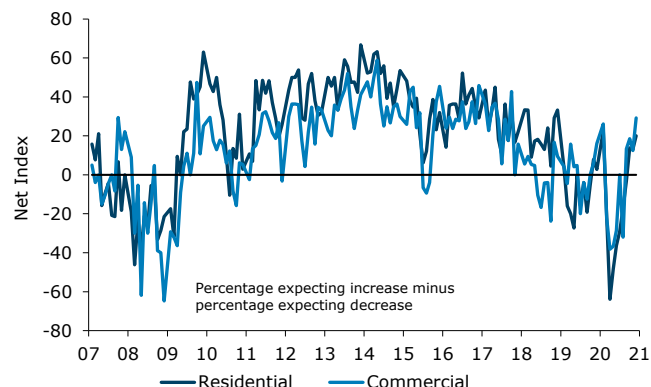


Charts

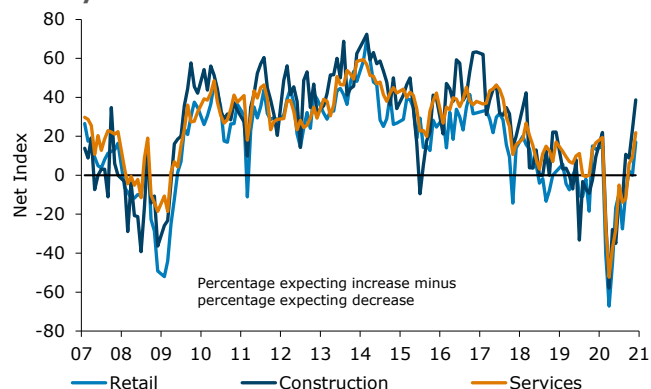
Activity outlook index



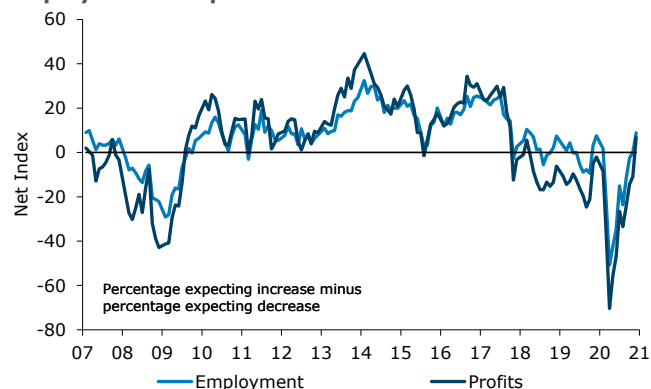
Construction intentions



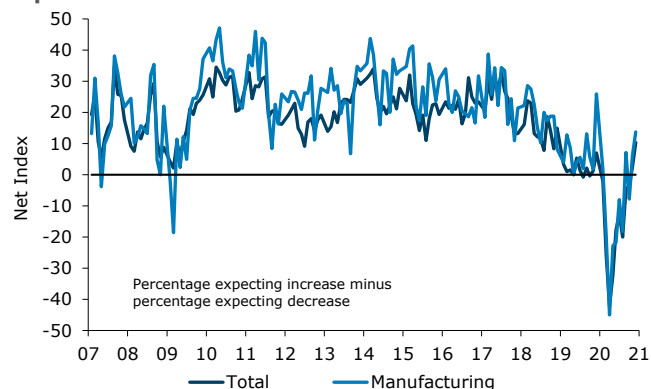
Activity outlook index



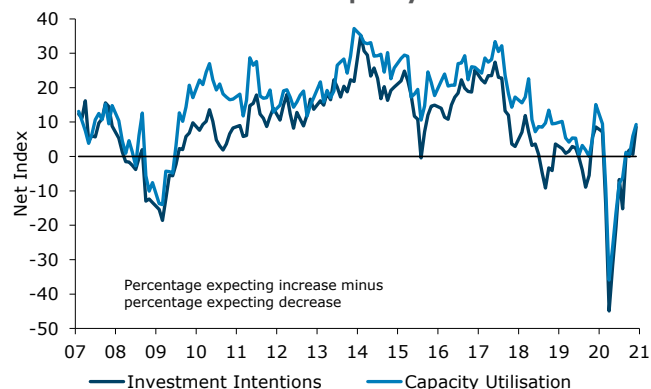
Employment and profit outlook



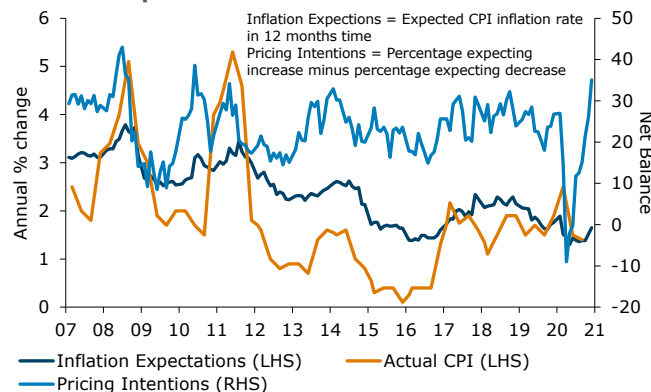
Export sales volumes



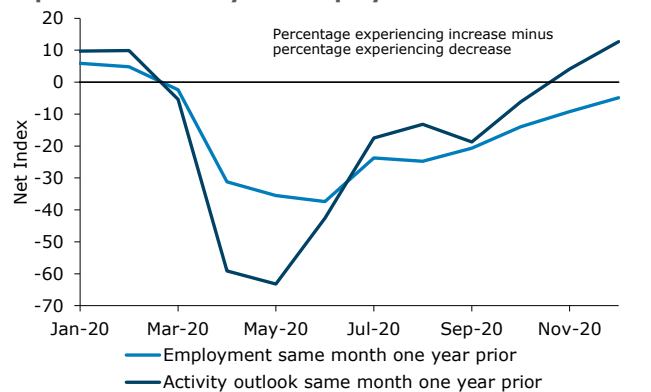
Investment intentions and capacity utilisation



Inflation expectations



Experienced activity and employment



Source: ANZ, Statistics NZ



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