

# ANZ New Zealand Business Outlook

30 March 2022



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See [page 8](#).

The next release of the ANZ *Business Outlook* is due on **28 April at 1pm**.

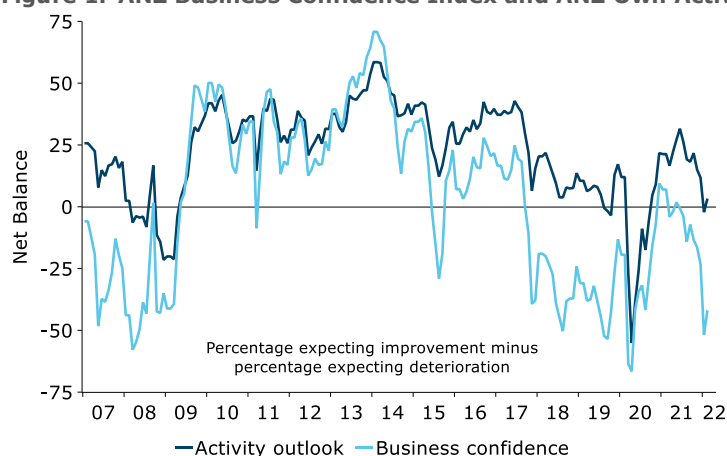
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## Decidedly unbouncy

### Key points

- Business confidence recovered 10 points in March, while own activity lifted 5 points, compared to February. Both remain considerably lower than at the end of last year.
- Activity indicators generally lifted slightly across the board, with the marked exception of residential building intentions, which tanked.
- Inflation pressures continue to intensify and broaden to every corner of the economy. Measures are simply off the charts.

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



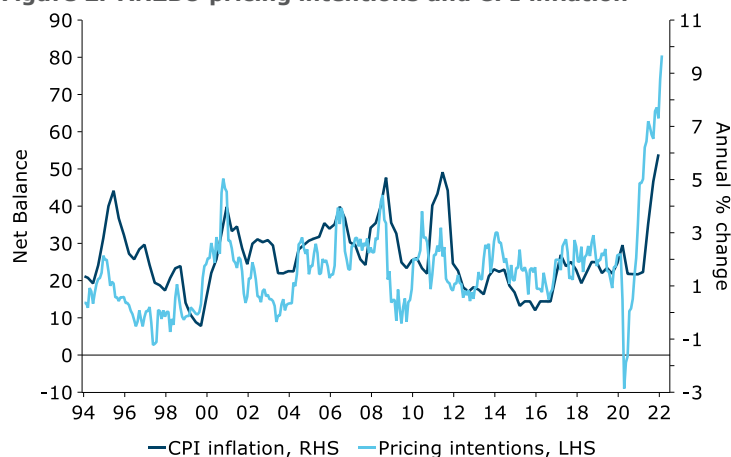
Source: Macrobond, ANZ Research

**Table 1: Results versus last month**

Net Balance	Mar	Feb	Comment
Business Confidence	-41.9	-51.8	Call that a bounce?
Own Activity Outlook	3.3	-2.2	This ball looks pretty flat too.
Export Intentions	7.9	0.9	A solid bounce – close to 2021 average.
Investment Intentions	5.2	4.5	Flat at fairly subdued levels.
Cost Expectations	95.9	92.0	Could hardly be higher.
Capacity Utilisation	7.0	5.8	Middling.
Residential Construction	-26.9	-5.0	A sharp fall as the housing market cools.
Commercial Construction	0.0	-9.5	Could be worse.
Employment Intentions	12.3	2.3	A decent bounce. Higher than Dec.
Profit Expectations	-27.1	-32.7	Still dreadful.
Pricing Intentions	80.5	74.1	Still further into uncharted territory.
Ease of Credit	-64.4	-74.0	A rare improvement.
Inflation Expectations	5.51%	5.29%	Totally inconsistent with RBNZ target.
Activity – vs. same month one year ago	2.1	7.4	Omicron disruption evident.
Employment – vs. same month one year ago	5.8	5.5	Little changed.

The March ANZ Business Outlook survey saw most activity indicators bounce back a little, perhaps as the worst fears about the impact of Omicron waned. But it was nothing spectacular. And inflation pressures continued to lift, with the commodity price impact of Russia's invasion of Ukraine giving pressures fresh impetus. Inflation expectations rose 0.3%pts to a new record high of 5.5% and pricing intentions took yet another meaningful leg higher to a net 81%. Indeed, the latter suggests CPI inflation is moon-bound (figure 2). A remarkable net 96% of firms report that they expect higher costs. Can't get much more broad based inflation pressure than that.

**Figure 2. ANZBO pricing intentions and CPI inflation**

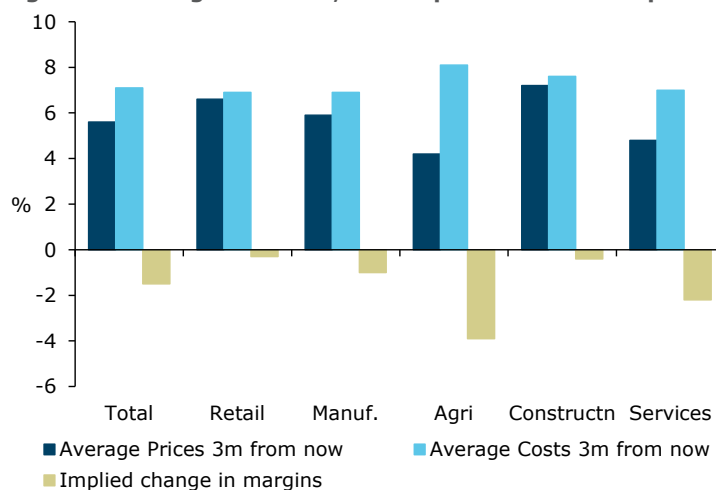


Source: Stats NZ, Macrobond, ANZ Research

But the news gets even worse if you split the sample into the early and the later part of the month. Amongst the 29% of firms who responded after the reminder email went out on 21st March, a net 99% expected higher costs in the next three months, and 1-year-ahead inflation expectations were a startling 5.9%, nearly three times the RBNZ's 2% target midpoint.

Given the overwhelming consensus about cost and price escalation, we've tweaked the questions to ask for numerical estimates, rather than asking firms simply whether their costs and prices will go up, down, or stay the same over the next 3 months. We only have one data point, but it makes for interesting reading. (Note these numbers cannot be interpreted as annual percentages).

**Figure 3. Pricing intentions, cost expectations and implied margin change**



Source: ANZ Research

- All sectors are anticipating more margin pressure ahead.
- The sector experiencing the highest cost pressures is agriculture, but they also have the lowest pricing intentions, reflecting a lack of pricing power.
- The construction sector has the second-highest expected average costs, and the highest pricing intentions (figure 3).
- After agriculture, services sectors are implicitly suggesting the biggest deterioration in profit margins, with the third-highest cost increase expectations but the second-lowest pricing intentions.

We now also ask for a numerical estimate of wage rises in the last year and expected in the next 12 months (figure 4). The strongest wage pressure is in agriculture, followed by construction. There's little evidence of a wage price spiral here, insofar as most firms are anticipating similar wage lifts next year as those delivered in the past 12 months, with the biggest anticipated increase in wage settlements being in the services sector (around 1% higher than in the last 12 months). The retail sector is alone in intending to give smaller wage increases.

**Figure 4. Wage growth: last year, this year and implied change**



Source: ANZ Research

Our usual heatmap of indicators by sector shows the theme of modest lifts in the month, but in the context of quite subdued levels. Key points:

- The fall in residential construction intentions was large, even accounting for the usual volatility in the series. This is consistent with the sharp turn evident in house sales data.
- Investment intentions fell for manufacturing, agriculture and construction (with the latter two now negative), but rose for the services sector. We discuss the drivers of investment in the next section.
- The lift in pricing intentions was strongest for manufacturing.
- Indicators for the retail sector and services generally declined in March, consistent with our view that households are doing it tough.
- Despite strong wage pressure, employment intentions in agriculture are weak, quite possibly reflecting there are simply no staff to be had.

**Table 2. Heatmap**

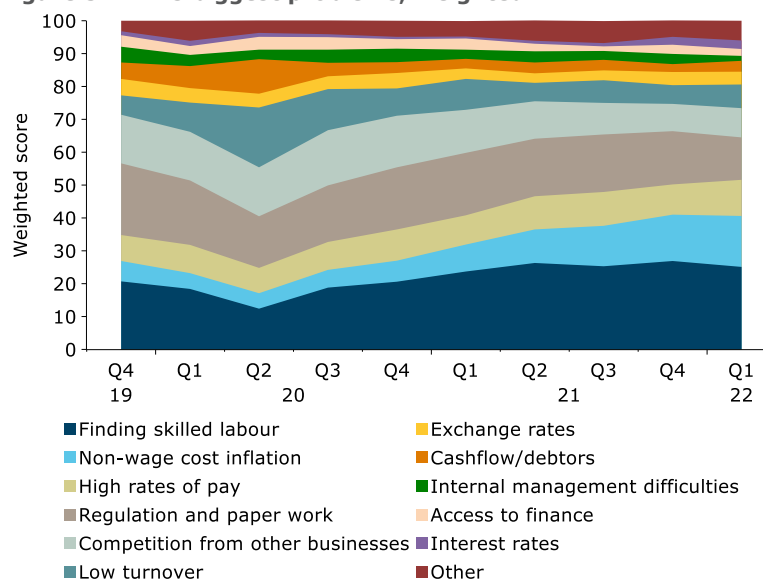
	Levels					Monthly changes				
	Retail	Mfg	Agric	Constrn	Serv	Retail	Mfg	Agric	Constrn	Serv
Business Confidence	-43.9	-35.1	-71.4	-38.2	-42.7	20.3	10.1	-4.7	9.9	6.3
Own activity outlook	-8.8	10.4	9.5	0.0	3.5	10.1	3.9	-1.6	-3.7	6.1
Activity vs. same month one year ago	-19.3	22.4	-9.5	-2.9	2.1	1.1	3.0	-26.2	-25.1	-6.6
Exports	10.5	15.2	4.8	-6.2	3.5	10.5	15.2	-11.9	-6.2	4.6
Investment	1.8	9.2	-14.3	-5.9	9.1	3.7	-8.8	-19.9	-17.0	9.1
Capacity Utilisation	-1.9	8.1	4.8	19.4	7.5	11.8	3.1	-0.8	15.1	-5.9
Residential Construction	...	...	...	-26.9	...	...	...	...	-21.9	...
Commercial Construction	...	...	...	0.0	...	...	...	...	9.5	...
Employment	-1.8	18.2	-4.8	14.7	16.1	3.9	6.9	11.9	-0.7	14.7
Employment vs. same month one year ago	-8.9	17.3	20.0	9.1	3.5	-1.5	-3.7	8.2	-9.4	2.1
Profits	-29.8	-20.8	-21.1	-20.6	-31.9	6.0	6.6	-4.4	16.4	3.2
Ease of Credit	-64.9	-66.2	-61.9	-64.7	-63.2	20.0	4.3	21.4	2.0	8.5
Costs	96.4	94.7	100.0	100.0	94.7	7.5	1.3	0.0	0.0	4.6
Pricing Intentions	89.1	86.7	57.9	93.8	73.3	5.8	11.3	7.9	1.2	3.6

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 in blue. The history of the activity and employment versus a year ago is unfortunately too short for historical comparisons to be particularly meaningful but the data is included for completeness.

The March survey includes the quarterly questions about problems firms are facing, and investment intentions.

Figure 5 shows that finding skilled labour remains firms' biggest problems, though it isn't getting worse, while non-wage cost inflation and high rates of pay are growing as problems. Traditional recession-type problems such as cashflow/debtors and low turnover remain well down the list.

**Figure 5. Firms biggest problems, weighted**

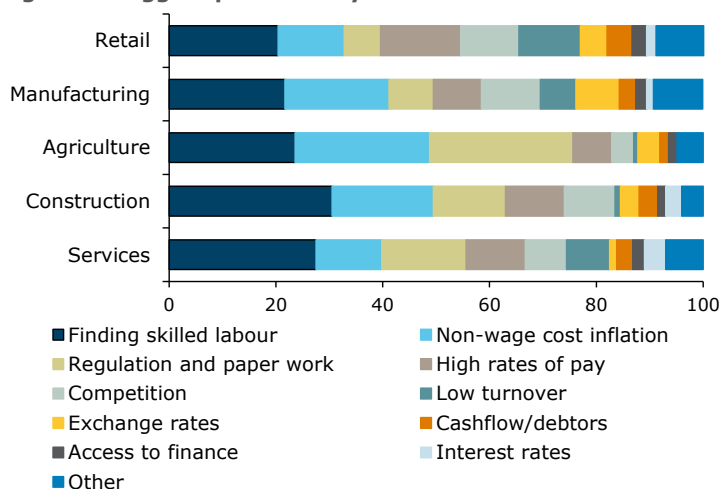


Source: Macrobond, ANZ Research

That said, if we look at the data by sector, experiences are quite varied (figure 6, over).

- The sector most struggling with finding skilled labour is construction. They also weight non-wage costs highest.
- Agriculture puts the highest weight on regulation/paperwork.
- Manufacturing is most worried about competition, but retail isn't far behind.
- Retail is also the sector most concerned about pay rates, and low turnover – it's their third-biggest problem.
- Manufacturing is the sector most concerned about the exchange rate, though it's well down the list.

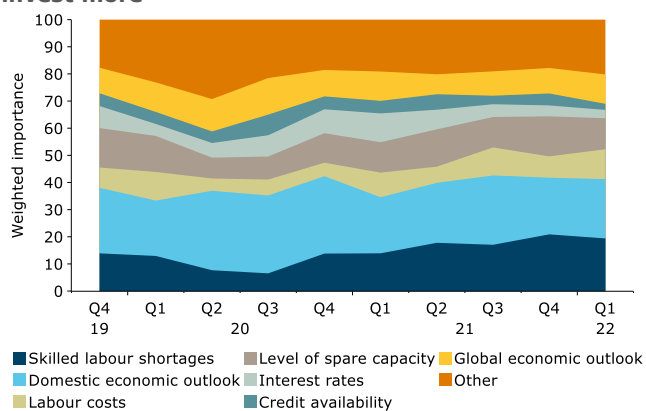
**Figure 6. Biggest problems by sector**



Source: ANZ Research

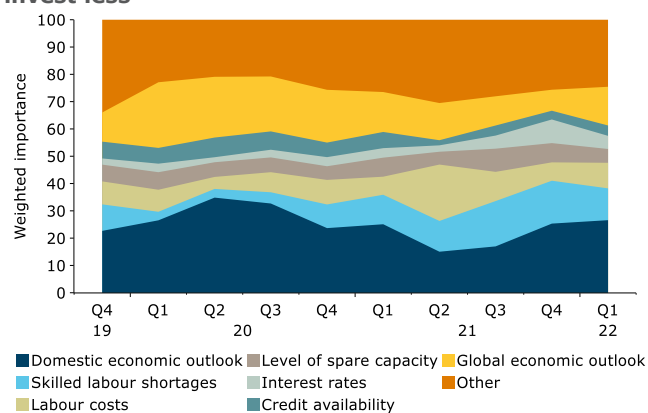
In terms of what's driving investment decisions, interest rates are not yet a significant factor for either firms intending to invest, or those not. Concern about the domestic economic outlook is rising, and is the top factor constraining investment by quite some way. For those intending to invest more, labour costs are an increasing driver, but the domestic economic outlook and skilled labour shortages remain considerably more important.

**Figure 7. Weighted drivers for firms intending to invest more**



Source: Macrobond, ANZ Research

**Figure 8. Weighted drivers for firms intending to invest less**



Source: Macrobond, ANZ Research

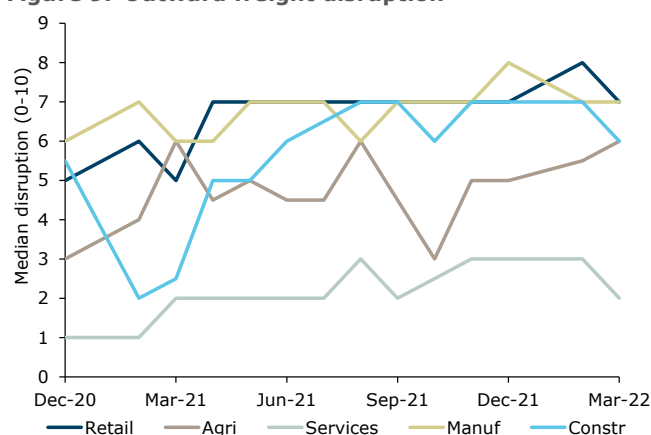
## Our take

There's a wariness evident across the ANZ Business Outlook survey that doesn't seem likely to be entirely due to the current Omicron outbreak. Overall, the themes are consistent with the themes outlined in our recent [forecast update](#) and [OCR call change](#):

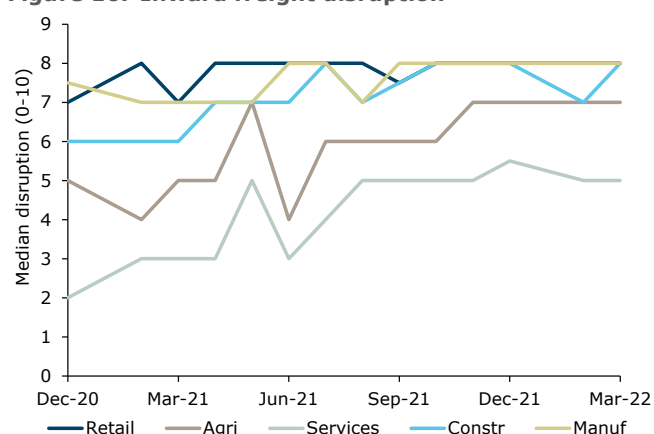
- The housing market and the outlook for speculative construction is weakening quite rapidly;
- Households are facing increasing headwinds and budgetary pressures, and are reducing their discretionary spending;
- Firms' margins are getting squeezed;
- Inflation pressures are extremely broad-based and still intensifying.

It's not a very pleasant mix, and the near-term growth outlook is clouded. But with inflation pressures now so extreme, and the RBNZ's inflation-targeting credibility on the line, it's full steam ahead for rate hikes – we're forecasting 50bp hikes in both April and May. It could well be a rough ride, but maintaining medium-term price stability is the best contribution monetary policy can make to New Zealand's big-picture economic prospects from this very difficult starting point.

**Figure 9. Outward freight disruption**



**Figure 10. Inward freight disruption**



Source: ANZ Research

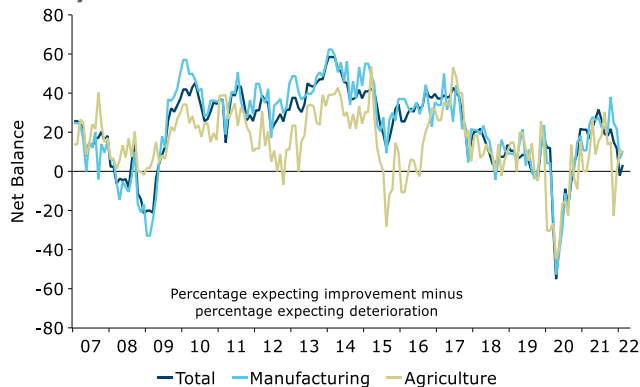
#### Survey Results March 2022

Net Balance	March	Previous (Feb)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-41.9	-51.8	-43.9	-35.1	-71.4	-38.2	-42.7
Own Activity Outlook	3.3	-2.2	-8.8	10.4	9.5	0.0	3.5
Export Intentions	7.9	0.9	10.5	15.2	4.8	-6.2	3.5
Investment Intentions	5.2	4.5	1.8	9.2	-14.3	-5.9	9.1
Cost Expectations	95.9	92.0	96.4	94.7	100.0	100.0	94.7
Capacity Utilisation	7.0	5.8	-1.9	8.1	4.8	19.4	7.5
Residential Construction	-26.9	-5.0	...	...	...	-26.9	...
Commercial Construction	0.0	-9.5	...	...	...	0.0	...
Employment Intentions	12.3	2.3	-1.8	18.2	-4.8	14.7	16.1
Profit Expectations	-27.1	-32.7	-29.8	-20.8	-21.1	-20.6	-31.9
Pricing Intentions	80.5	74.1	89.1	86.7	57.9	93.8	73.3
Ease of Credit Expectations	-64.4	-74.0	-64.9	-66.2	-61.9	-64.7	-63.2
Inflation Expectations (%)	5.51	5.29	5.84	5.47	5.72	5.60	5.37
Activity – same month one year ago	2.1	7.4	-19.3	22.4	-9.5	-2.9	2.1
Employment – same month one year ago	5.8	5.5	-8.9	17.3	20.0	9.1	3.5
Price Expectations – 3 months from now (%)	5.6	--	6.6	5.9	4.2	7.2	4.8
Cost Expectations – 3 months from now (%)	7.1	--	6.9	6.9	8.1	7.6	7.0
Wages/Salaries (%)	5.5	--	5.1	4.9	7.5	6.0	5.7
Wages/Salaries – same month a year ago (%)	5.2	--	5.4	4.8	7.0	6.0	4.9

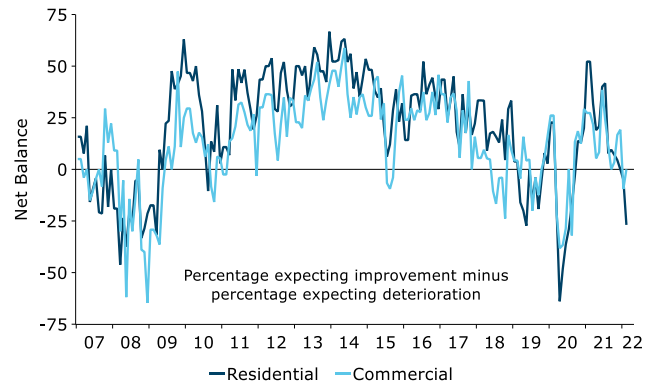


## Charts

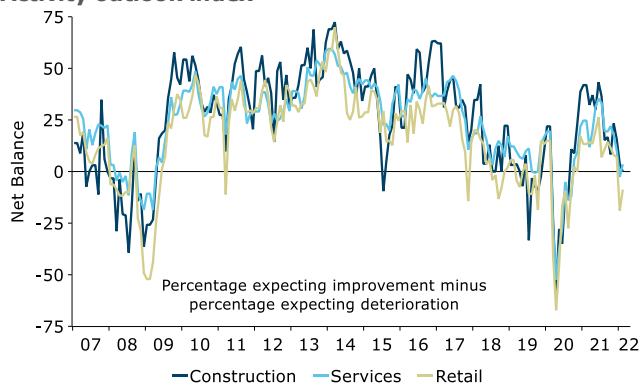
**Activity outlook index**



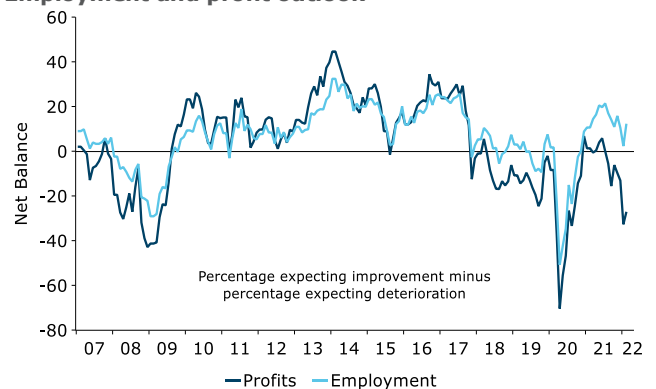
**Construction intentions**



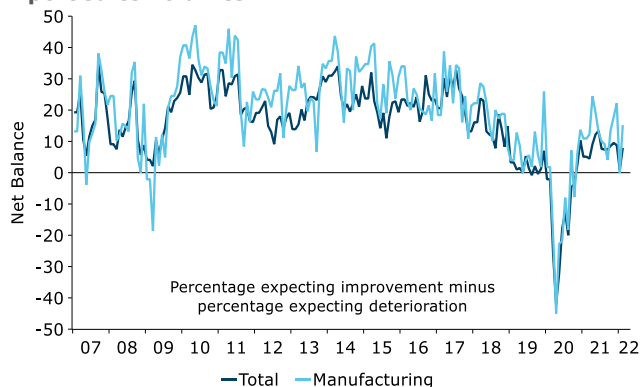
**Activity outlook index**



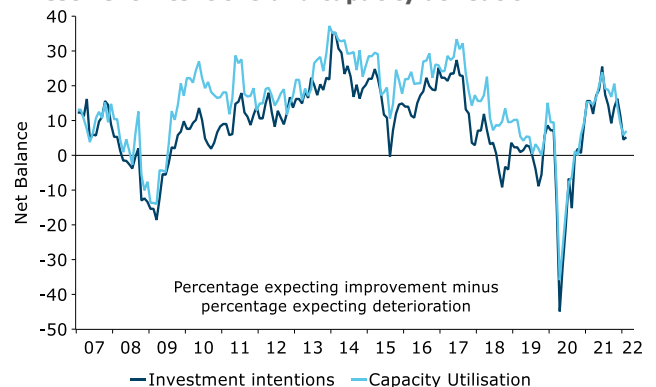
**Employment and profit outlook**



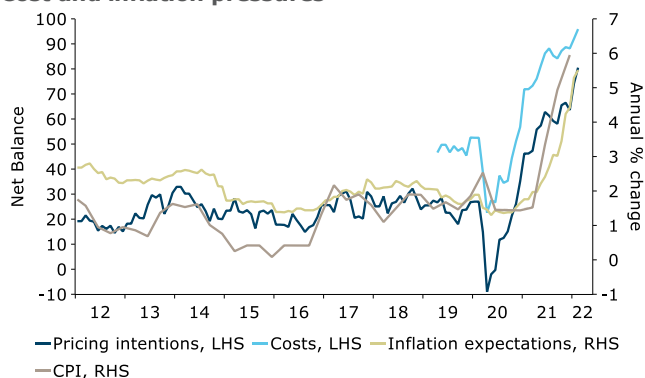
**Export sales volumes**



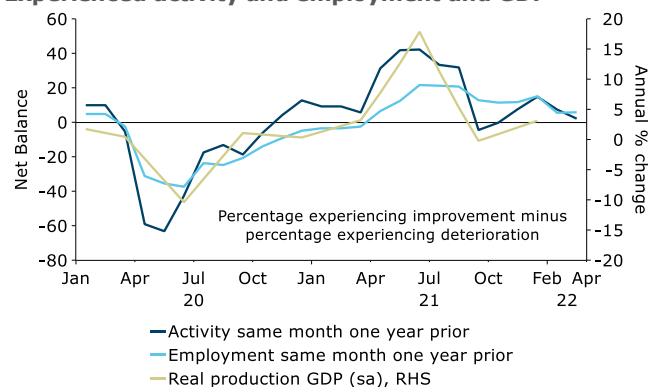
**Investment intentions and capacity utilisation**



**Cost and inflation pressures**



**Experienced activity and employment and GDP**



Source: ANZ, Statistics NZ, Macrobond





## Contact us

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