

ANZ New Zealand Business Outlook

28 July 2022



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Contact

Sharon Zollner for more details.

See page 7.

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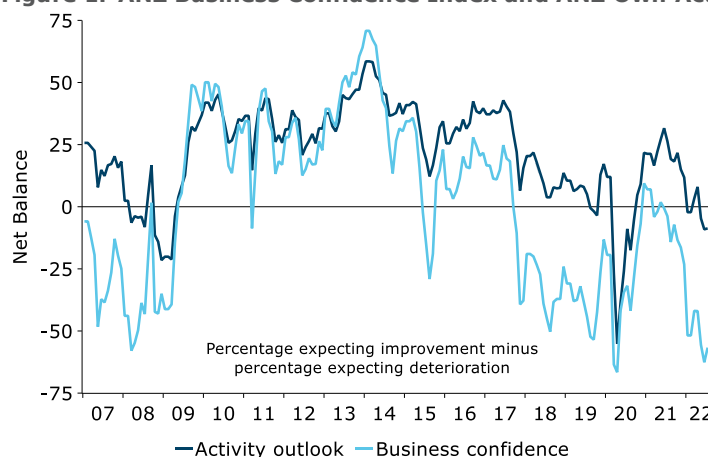
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Holding pattern

Key points

- Business confidence bounced 6 points in July to -56.7, while expected own activity was little changed at -8.7.
- Most activity indicators were little changed, but residential construction intentions plummeted again to a fresh record low.
- Inflation pressures remain intense, but may be topping out.

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



Source: Macrobond, ANZ Research

Table 1: Results versus last month

Net Balance	July	June	Comment
Business Confidence	-56.7	-62.6	A small bounce but still very low.
Own Activity Outlook	-8.7	-9.1	Flat at low levels.
Export Intentions	-2.7	-0.5	China concerns weighing, perhaps.
Investment Intentions	-2.6	-3.2	Little changed.
Cost Expectations	91.3	93.5	Still stratospheric.
Capacity Utilisation	7.2	1.1	No signs of capacity stretch easing.
Residential Construction	-73.7	-57.9	A truly spectacular crash to fresh lows.
Commercial Construction	-5.9	-9.1	Much more resilient than residential.
Employment Intentions	1.1	0.7	Little changed.
Profit Expectations	-34.1	-41.5	A little better but still historically low.
Pricing Intentions	74.0	73.7	Holding up regrettably well.
Ease of Credit	-63.8	-62.8	Pretty steady at low levels.
Inflation Expectations	6.23%	6.02%	A fresh high, unhelpfully.
Activity – vs. same month one year ago	2.9	2.8	Fairly subdued.
Employment – vs. same month one year ago	0.7	2.8	Slipping everywhere except retail.

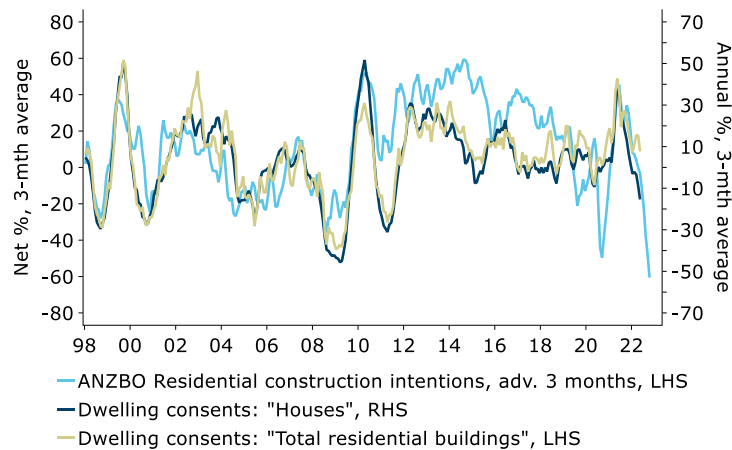
The key themes of the July survey were:

- Activity indicators were fairly steady (though late-month responses were weaker, on the whole – particularly for employment and investment intentions);
- Inflation pressures remain intense but are not obviously worsening;
- The outlook for house-building has hit a brick wall.

To expand on the last point, the chart below shows the sharp fall in residential construction intentions. Note the fall in early 2020 was due to lockdown – it's difficult to imagine what would lead to such a rapid bounce this time.

Housing consents are now dropping, as foretold by the ANZBO data three months ago. Broader "dwelling" consents (including apartments etc) are holding up better for now, but don't tend to diverge from housing consents for long. The ANZBO data suggests consents may have a lot further to fall yet.

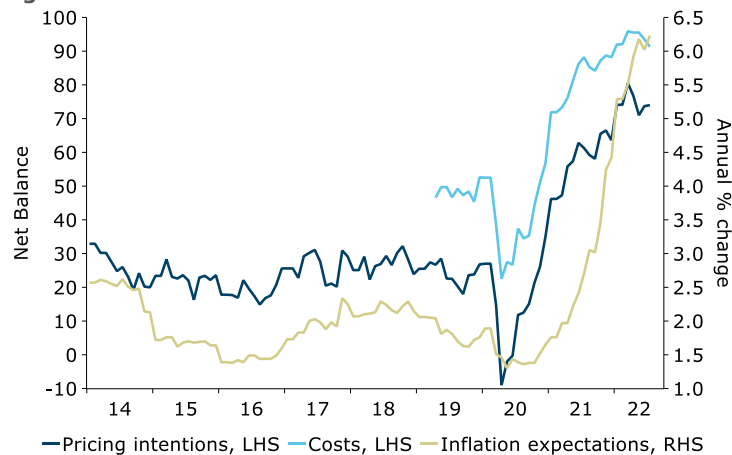
Figure 2. ANZBO residential construction intentions and consents



Source: Stats NZ, Macrobond, ANZ Research

Economy-wide inflation pressures remain intense, as captured by inflation expectations, cost expectations, and pricing intentions. The rate of increase in costs appears to have stabilised, but is still far too high.

Figure 3. ANZBO inflation indicators



Source: Macrobond, ANZ Research

The relatively new questions that ask respondents for numerical estimates of the change in their costs and prices in three months' time show a mixed picture. The agriculture sector is expecting the highest cost inflation by far, but has little pricing power, while the retail sector has the highest pricing intentions – and their pricing decisions have the largest direct impact on the CPI (figures 4 and 5).

Figure 4. Cost expectations by sector

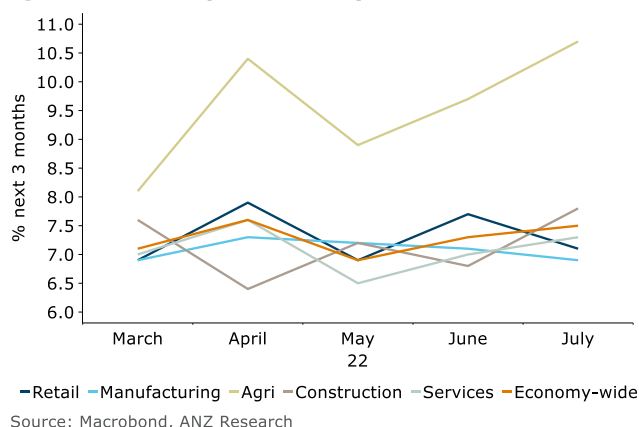
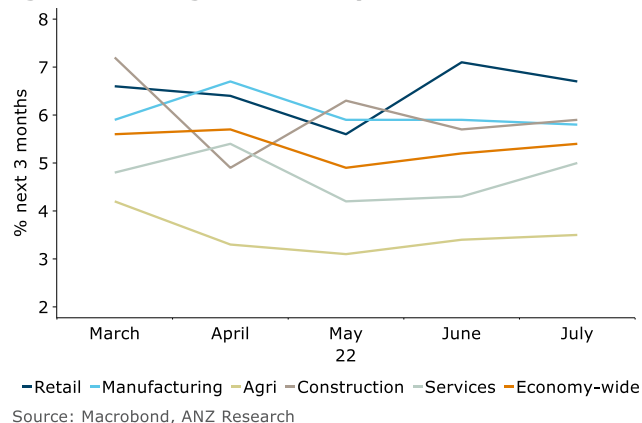


Figure 5. Pricing intentions by sector



The outlook for wage growth is a crucial determinant of the likely path of non-tradable inflation. In terms of estimated wage inflation last year and this year, agriculture remains an outlier here too, with by far the greatest reported wage pressure of all sectors. Firms' reported wage inflation for the last 12 months has a clear upward trend (with only manufacturing potentially showing a turn downwards, figure 6), whereas it is harder to discern any trends in expected wage growth in the next 12 months by sector (figure 7). The RBNZ can take some comfort that there is at least no strong upward trend in expected wage growth.

Figure 6. Wage growth by sector: last 12 months

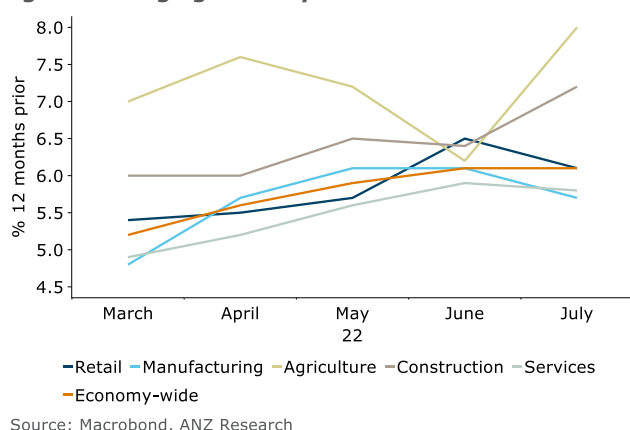
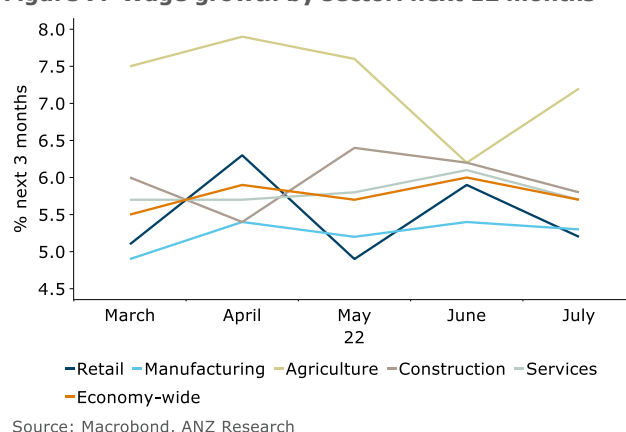


Figure 7. Wage growth by sector: next 12 months



This month it's worth discussing the late-month responses separately. These responses (30% of the sample) were received following the RBNZ's (well-anticipated) 50bp OCR hike and Statistics NZ's staggering CPI print for the June quarter. This sub-sample is more volatile due to the smaller number of responses, but it is notable that employment intentions fell to -11 for this group (vs +6 for the early-month sample), and investment intentions dropped sharply to -21 for the late sample, versus +6 for the early crowd. In both cases, that's an unusually large gap. Perhaps it's a sign that interest rates have hit some kind of pain threshold.

The heat map of indicators by sector shows a relatively positive month in terms of the bounce seen across many indicators, but the subdued messages coming out of the level of most of the activity indicators are clear from the sea of blue. Unfortunately, costs and pricing intentions continue to run hot.

Other points of interest:

- The biggest bounce in activity indicators this month was in the retail sector, followed by services.
- The sharpest drops in activity indicators were in agriculture and construction. The fall in manufacturing export intentions was also notable.
- In levels terms, in addition to headline business confidence, expected profitability remains a particularly weak point in the survey, along with expected ease of credit. The backward-looking questions are holding up best. The most resilient forward-looking indicator is capacity utilisation, which aligns with anecdotes about super-busy, understaffed, stressed-out firms.

Table 2. Heatmap

	Levels					Monthly changes				
	Retail	Mfg	Agric	Constrn	Serv	Retail	Mfg	Agric	Constrn	Serv
Business Confidence	-42.9	-62.0	-76.2	-64.0	-54.6	17.9	-0.7	18.2	4.0	4.8
Own activity outlook	-18.4	-14.0	9.5	-36.0	-0.8	4.7	0.5	-12.7	-16.0	3.1
Activity vs. same month one year ago	-8.2	12.0	9.5	8.0	0.8	5.5	-4.1	-1.6	0.0	0.8
Exports	2.9	-7.1	0.0	-18.2	-2.7	5.8	-10.9	-17.6	-2.8	2.6
Investment	4.3	4.0	-28.6	-16.0	-1.6	10.2	5.6	-6.4	-8.0	-1.6
Capacity Utilisation	13.0	10.0	9.5	-8.3	6.6	15.0	6.7	-1.6	4.2	4.1
Residential Construction	...	...	...	-73.7	...	...	...	...	-15.8	...
Commercial Construction	...	...	...	-5.9	...	...	...	...	3.2	...
Employment	-6.2	0.0	0.0	-8.0	5.4	-6.2	0.0	-5.9	4.0	3.1
Employment vs. same month one year ago	12.8	6.1	-9.5	0.0	-4.7	12.8	-5.4	1.6	-4.0	-6.3
Profits	-32.7	-38.0	-47.6	-40.0	-30.0	9.6	7.2	13.5	-4.0	8.0
Ease of Credit	-65.3	-74.0	-71.4	-60.0	-58.5	0.1	-9.5	-10.3	-8.0	4.6
Costs	95.7	85.1	100.0	95.5	89.6	-2.3	-4.7	0.0	7.5	-3.8
Pricing Intentions	91.3	71.7	47.6	77.3	72.2	-4.8	-4.6	3.2	1.3	5.3

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.

Our take

New Zealand businesses are well aware that the Reserve Bank is on a mission to reduce customer demand for their wares in order to reduce inflation. No wonder they're feeling apprehensive.

While they wait for that hammer to fall, supply-side factors continue to cause headaches, including ever-higher costs, and, as we saw from the quarterly "biggest problems" question last month, a severe lack of labour. In theory, there will be a sweet spot at some point in the future where easing demand meets easier supply conditions. In practice, one suspects that that moment may prove fleeting.

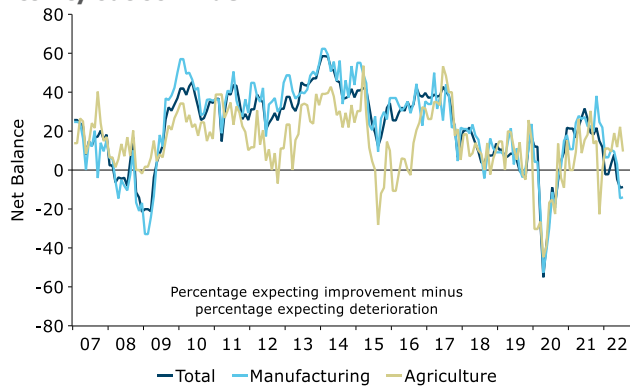
Survey Results July 2022

Net Balance	July	Previous (June)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-56.7	-62.6	-42.9	-62.0	-76.2	-64.0	-54.6
Own Activity Outlook	-8.7	-9.1	-18.4	-14.0	9.5	-36.0	-0.8
Export Intentions	-2.7	-0.5	2.9	-7.1	0.0	-18.2	-2.7
Investment Intentions	-2.6	-3.2	4.3	4.0	-28.6	-16.0	-1.6
Cost Expectations	91.3	93.5	95.7	85.1	100.0	95.5	89.6
Capacity Utilisation	7.2	1.1	13.0	10.0	9.5	-8.3	6.6
Residential Construction	-73.7	-57.9	...	...	...	-73.7	...
Commercial Construction	-5.9	-9.1	...	...	...	-5.9	...
Employment Intentions	1.1	0.7	-6.2	0.0	0.0	-8.0	5.4
Profit Expectations	-34.1	-41.5	-32.7	-38.0	-47.6	-40.0	-30.0
Pricing Intentions	74.0	73.7	91.3	71.7	47.6	77.3	72.2
Ease of Credit Expectations	-63.8	-62.8	-65.3	-74.0	-71.4	-60.0	-58.5
Inflation Expectations (%)	6.23	6.02	6.19	6.36	7.08	6.07	6.09
Activity – same month one year ago	2.9	2.8	-8.2	12.0	9.5	8.0	0.8
Employment – same month one year ago	0.7	2.8	12.8	6.1	-9.5	0.0	-4.7
Price Expectations – 3 months from now (%)	5.4	5.2	6.7	5.8	3.5	5.9	5.0
Cost Expectations – 3 months from now (%)	7.5	7.3	7.1	6.9	10.7	7.8	7.3
Wages/Salaries – next 12 months (%)	5.7	6.0	5.2	5.3	7.2	5.8	5.7
Wages/Salaries – same month a year ago (%)	6.1	6.1	6.1	5.7	8.0	7.2	5.8

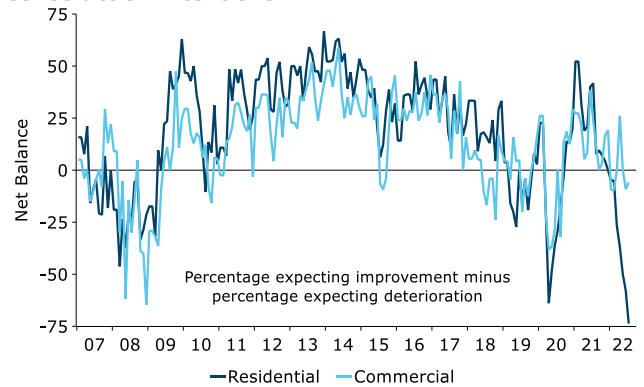


Charts

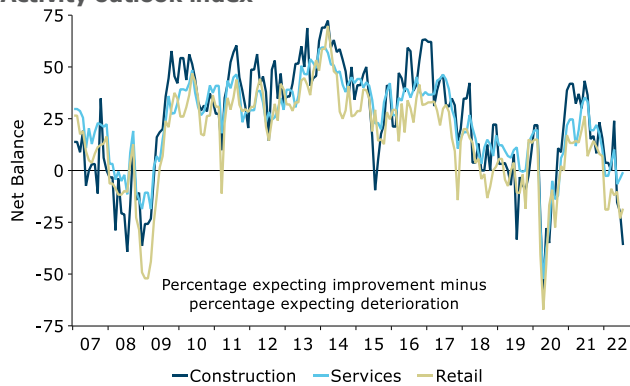
Activity outlook index



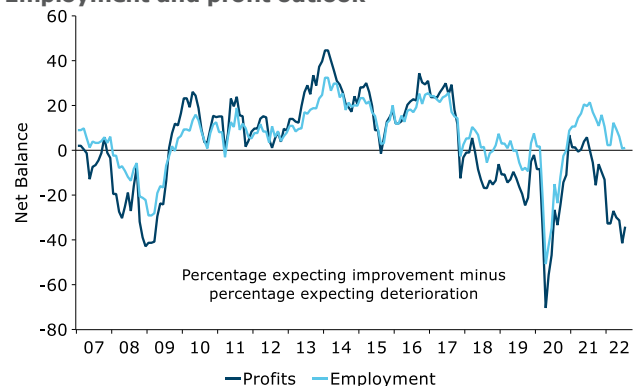
Construction intentions



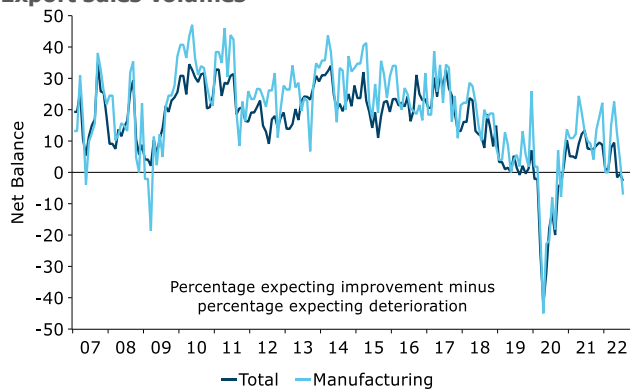
Activity outlook index



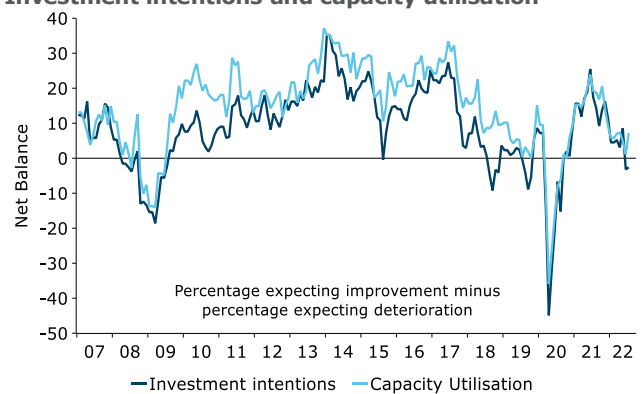
Employment and profit outlook



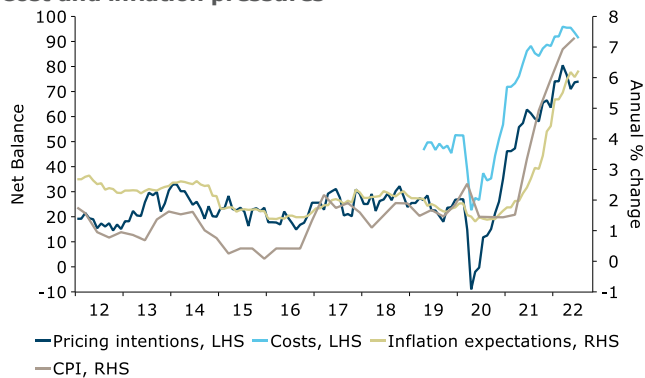
Export sales volumes



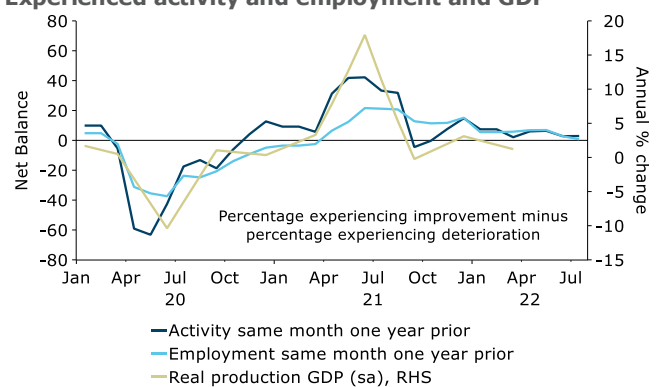
Investment intentions and capacity utilisation



Cost and inflation pressures



Experienced activity and employment and GDP



Source: ANZ, Statistics NZ, Macrobond



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