

ANZ New Zealand Business Outlook

27 April 2023



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Contact

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See page 8.

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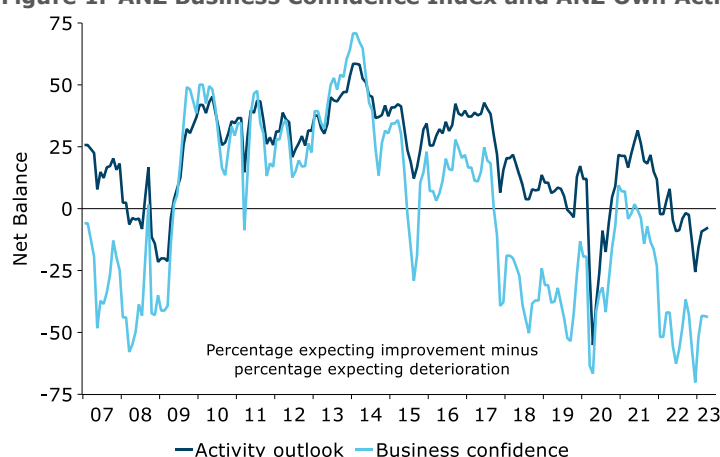
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On track

Key points

- Business confidence and expected own activity were all but unchanged in April.
- Inflation indicators continue to fall, as the RBNZ will be expecting, given their forecast for inflation to fall steadily over the next year.

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



Source: Macrobond, ANZ Research

Table 1: Results versus last month

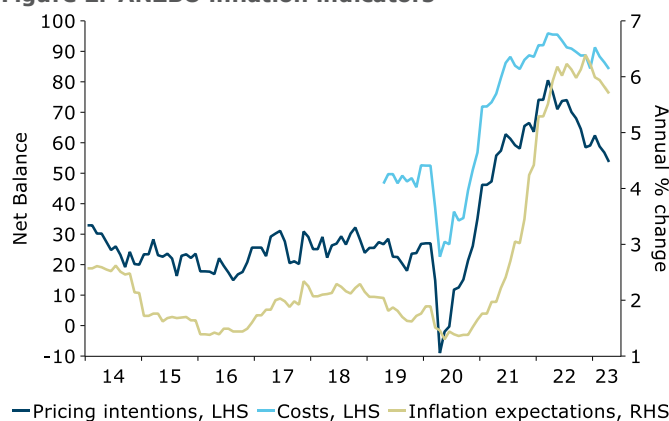
Net Balance	Apr	Mar	Comment
Business Confidence	-43.8	-43.4	Basically flat for three months now.
Own Activity Outlook	-7.6	-8.5	Well off its lows, but still subdued.
Export Intentions	-1.5	-8.9	Still low, but highest since Sep-22.
Investment Intentions	-6.8	-6.8	Steady at low levels.
Cost Expectations	84.2	86.4	How long can pricing intentions continue to fall if this holds up so high?
Wage Expectations	87.2	83.6	This one's not going the RBNZ's way yet.
Capacity Utilisation	0.8	-0.9	Back in the black (just).
Residential Construction	-79.2	-63.0	That was a short-lived bounce.
Commercial Construction	-5.9	-27.3	Well off its lows.
Employment Intentions	-2.4	-4.6	Has been negative for 6 months now.
Profit Expectations	-37.7	-33.9	Clearly still a challenging environment.
Pricing Intentions	53.7	56.8	Still double the pre-Covid normal, but it's the lowest in two years.
Ease of Credit	-48.6	-49.2	Bouncing around low levels.
Inflation Expectations	5.70%	5.82%	Getting there. Lowest since March 2022.
Activity – vs. same month one year ago	-0.3	-10.5	Construction the big drag at -18. Agriculture the most positive at +11.
Employment – vs. same month one year ago	2.2	-7.5	Likely reflects higher worker availability rather than labour demand.

April saw fairly flat activity indicators but falling inflation signals on the whole, consistent with the RBNZ gradually gaining traction. That said, it's far from "job done" with the proportion of firms experiencing high costs and intending to raise prices still problematically high.

The key themes of the April survey:

- Retail and agriculture respondents were generally more upbeat in April, while construction, manufacturing and services firms were more of a mixed bag. In levels terms, everyone's downbeat.
- Headline inflation and pricing indicators eased further (figure 2), with a clear turn downwards now evident in all three series, consistent with the RBNZ's inflation forecast. That said, they all remain far too high.

Figure 2. ANZBO inflation indicators

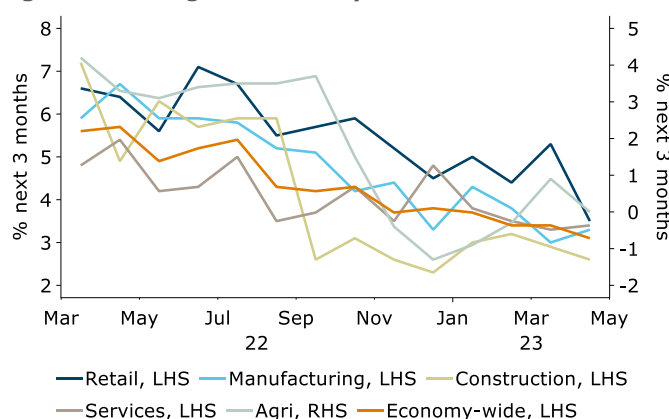


Source: Macrobond, ANZ Research

A net 66% of firms in the retail sector expect to raise their prices in the next three months – that's down 17 points to the lowest level since March 2021, and down a ton from its peak of 96% 10 months ago. On the other hand, the proportion of firms intending to raise their prices lifted in the services and manufacturing sectors.

Firms' specific numerical estimates of where their own selling prices will be in three months' time (figure 3) eased for every sector except manufacturing and services, and fell most dramatically for retail, from 5.3% to 3.5%. Note that it's an expected quarterly change in prices, not annual, so it can't be interpreted as close to the RBNZ's annual CPI inflation target band of 1-3%. But we'll take it. The economy-wide measure fell from 3.4% to 3.1%.

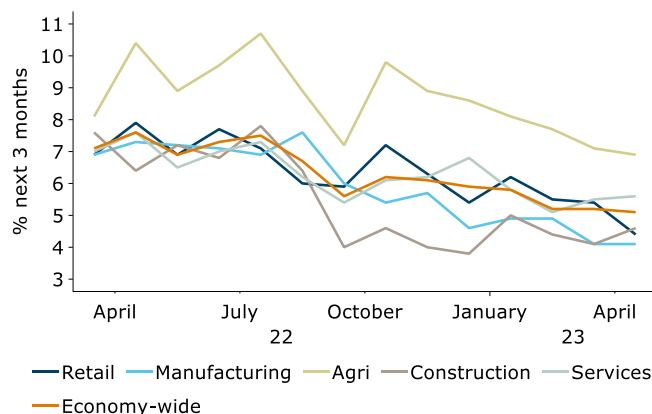
Figure 3. Pricing intentions by sector



Source: Macrobond, ANZ Research

We also survey firms' expected costs in three months' time relative to today (figure 4). A general downtrend remains evident here too. Economy-wide expectations fell from 5.2% to 5.1%, and those for retail fell from 5.4% to 4.4%. The highest expected cost growth is in agriculture (6.9%), and the weakest in manufacturing (4.1%).

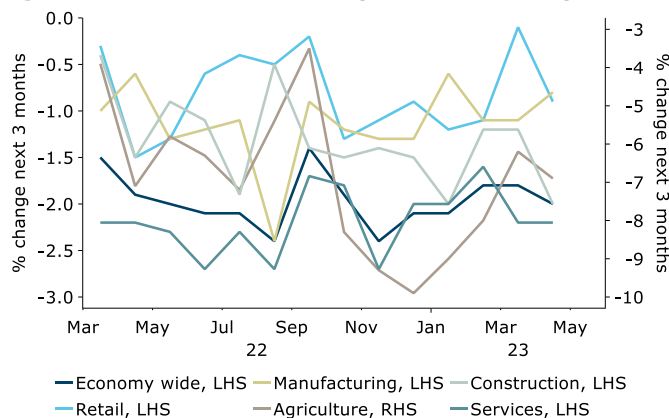
Figure 4. Cost expectations by sector



Source: Macrobond, ANZ Research

There are question marks around how far pricing intentions can fall if cost expectations remain so elevated. Figure 5 below charts the difference between cost expectations and pricing intentions by sector as a rough proxy for anticipated margin pressure. Pricing intentions have been consistently lower than cost expectations for the past 12 months.

Figure 5. Difference between price and cost expectations by sector

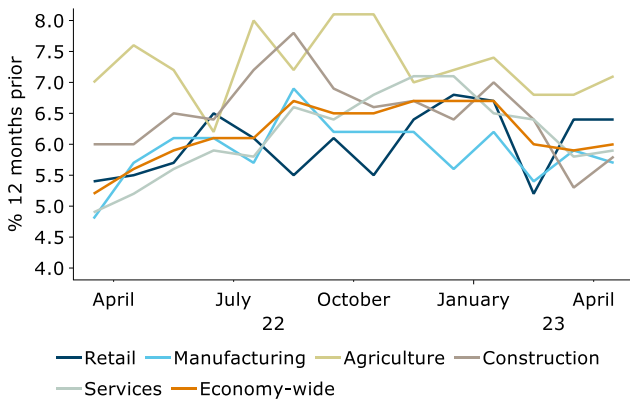


Source: Macrobond, ANZ Research

Wage growth is a key driver of non-tradables inflation, and the news for the RBNZ on this front was more mixed. The proportion of firms reporting raising wages in the past 12 months bounced back up from just under 80% to 83%, though there is likely to be seasonality in this data that we cannot identify until we have a longer data series.

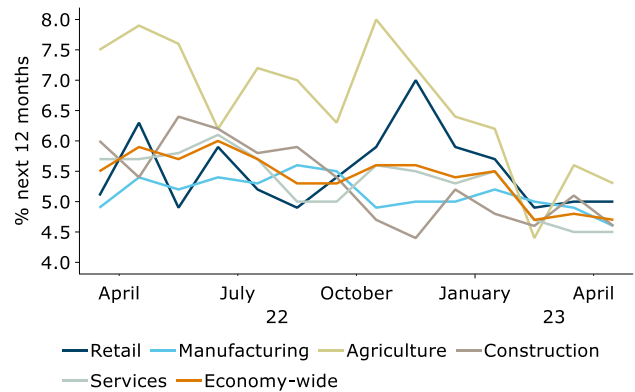
In terms of numerical estimates, reported past wage settlements were little changed at 6.0% (figure 6). Economy-wide expectations for wage settlements for the next 12 months eased from 4.8% to 4.7% (figure 7). Overall, firms are anticipating to raise wages by considerably less in the next 12 months than they did in the last (figure 8), though time will tell if this turns out to be the case. Expectations for the agriculture sector have fallen most dramatically, likely reflecting the greater availability of imported labour.

Figure 6. Wage growth by sector: last 12 months



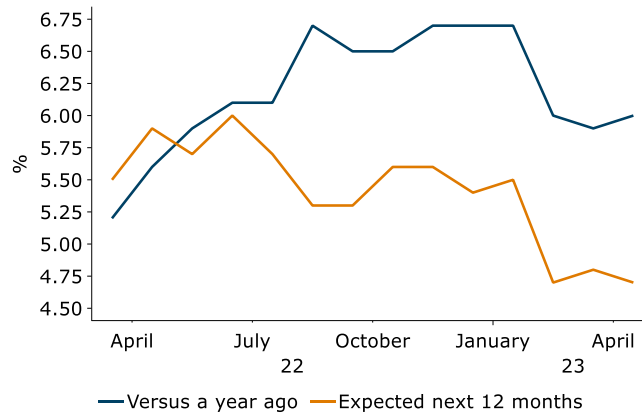
Source: Macrobond, ANZ Research

Figure 7. Wage growth by sector: next 12 months



Source: Macrobond, ANZ Research

Figure 8. Past and expected wage settlements (economy-wide)



Source: Macrobond, ANZ Research

Overall, a net 87% of respondents reported expecting to raise wages over the next 12 months, up from 84% last month (but considerably lower than its peak of 94% in June 2022).

Our heatmap of indicators by sector continues to highlight levels that are still weak, but no longer a sea of uninterrupted blue. The monthly moves were a mixed bag.

Points of interest:

- The construction sector was the outlier on the downside this month, broadly deteriorating while agriculture was the sector with the biggest lift in mood. Overall, though the levels of activity indicators remain subdued, particularly expected profitability.
- The outlook for labour demand is very mixed: retail and construction sectors both saw double-digit falls, whereas agriculture and services lifted markedly.
- Pricing intentions are no longer an uninterrupted deep orange. "Just" a net 47% of construction sector respondents are expecting to raise prices, compared to a peak of over 90% in early 2022.

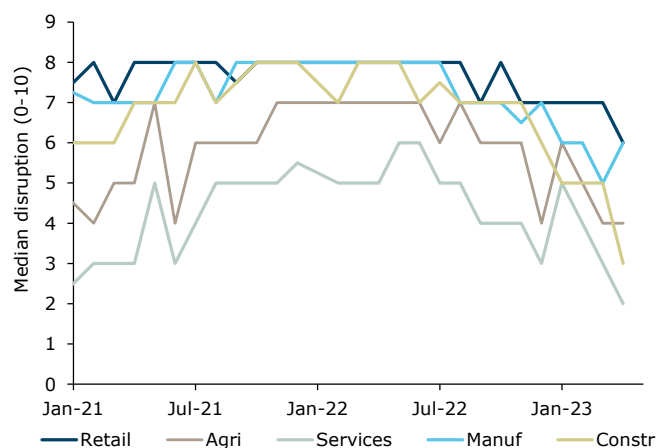
Table 2. Heatmap

	Levels					Monthly changes				
	Retail	Mfg	Agric	Constrn	Serv	Retail	Mfg	Agric	Constrn	Serv
Business Confidence	-29.3	-50.8	-68.4	-53.8	-40.4	8.4	-1.7	25.7	-7.6	-3.9
Own activity outlook	-6.9	-13.6	21.1	-42.1	-1.1	-1.3	-2.3	27.0	-13.9	2.7
Activity vs. same month one year ago	6.9	6.8	10.5	-17.9	-5.4	22.0	16.2	28.1	3.7	0.3
Exports	7.1	5.9	5.3	-9.1	-6.4	17.9	1.6	11.5	12.6	5.4
Investment	0.0	-3.5	-15.8	-15.4	-7.4	1.9	-1.6	19.5	0.0	-1.7
Capacity Utilisation	5.3	6.9	16.7	-15.8	-1.7	3.4	20.6	16.7	-5.5	-6.2
Residential Construction	...	...	...	-79.2	...	...	...	...	-16.2	...
Commercial Construction	...	...	...	-5.9	...	...	...	...	21.4	...
Employment	-3.4	-6.8	5.3	-23.1	2.7	-10.8	-3.0	17.1	-10.3	8.4
Employment vs. same month one year ago	8.9	0.0	0.0	-2.6	0.5	-4.6	11.3	11.8	7.9	12.0
Profits	-31.0	-39.0	-63.2	-53.8	-32.4	-8.8	-1.3	13.3	-15.3	-2.8
Ease of Credit	-39.7	-59.3	-78.9	-48.7	-43.3	10.3	-8.4	-14.2	-20.5	8.3
Costs	75.9	78.9	89.5	84.2	87.2	-16.4	9.7	-10.5	-5.3	-0.4
Pricing Intentions	65.5	59.6	5.3	47.4	54.9	-17.2	10.5	-0.6	-21.0	2.3

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.

Finally, consistent with the theme reducing supply-side constraints, shipping disruptions continue to ease, though they remain elevated for retail and manufacturing.

Figure 9. Median reported inward shipping disruption



Source: ANZ Research

Our take

The RBNZ will be encouraged to see the ongoing fall in the inflation indicators in the survey. While there's still a way to go, inflation is set to continue easing over the year ahead, as they and we are forecasting. It's important to note that the data does not represent a 'surprise' for the RBNZ; rather, it's what they will be expecting to see if their forecasts are to come to fruition, with the OCR able to top out shortly. There are risks on both sides: inflation could get "stuck" north of the target band, or global markets could deliver a side-swipe, for example. But the overall message from this month's survey is "on track".

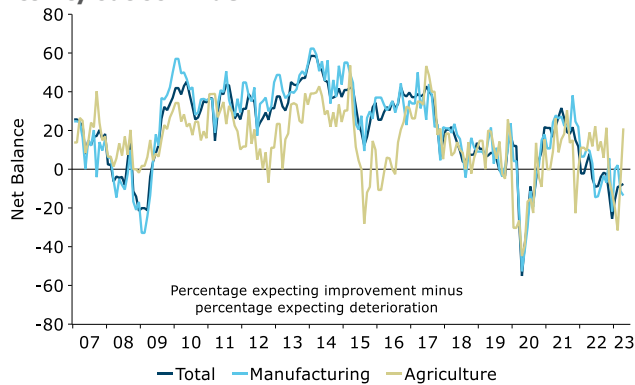
Survey Results April 2023

Net Balance	April	Previous (March)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-43.8	-43.4	-29.3	-50.8	-68.4	-53.8	-40.4
Own Activity Outlook	-7.6	-8.5	-6.9	-13.6	21.1	-42.1	-1.1
Export Intentions	-1.5	-8.9	7.1	5.9	5.3	-9.1	-6.4
Investment Intentions	-6.8	-6.8	0.0	-3.5	-15.8	-15.4	-7.4
Cost Expectations	84.2	86.4	75.9	78.9	89.5	84.2	87.2
Capacity Utilisation	0.8	-0.9	5.3	6.9	16.7	-15.8	-1.7
Residential Construction	-79.2	-63.0	...	...	...	-79.2	...
Commercial Construction	-5.9	-27.3	...	...	...	-5.9	...
Employment Intentions	-2.4	-4.6	-3.4	-6.8	5.3	-23.1	2.7
Profit Expectations	-37.7	-33.9	-31.0	-39.0	-63.2	-53.8	-32.4
Pricing Intentions	53.7	56.8	65.5	59.6	5.3	47.4	54.9
Ease of Credit Expectations	-48.6	-49.2	-39.7	-59.3	-78.9	-48.7	-43.3
Inflation Expectations (%)	5.70	5.82	5.74	6.06	6.18	5.22	5.63
Activity – same month one year ago	-0.3	-10.5	6.9	6.8	10.5	-17.9	-5.4
Employment – same month one year ago	2.2	-7.5	8.9	0.0	0.0	-2.6	0.5
Price Expectations – 3 months from now (%)	3.1	3.4	3.5	3.3	0.0	2.6	3.4
Cost Expectations – 3 months from now (%)	5.1	5.2	4.4	4.1	6.9	4.6	5.6
Wages/Salaries – next 12 months (%)	4.7	4.8	5.0	4.6	5.3	4.6	4.5
Wages/Salaries – same month a year ago (%)	6.0	5.9	6.4	5.7	7.1	5.8	5.9

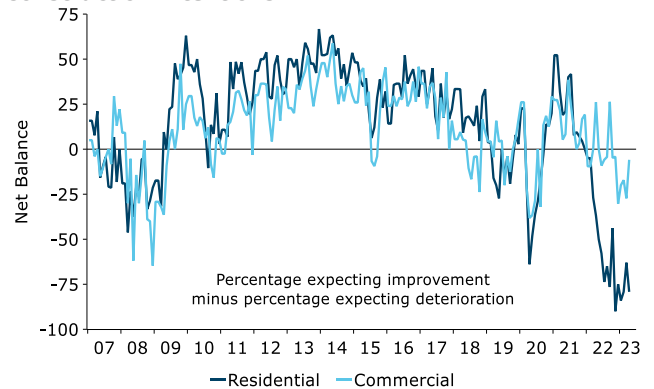


Charts

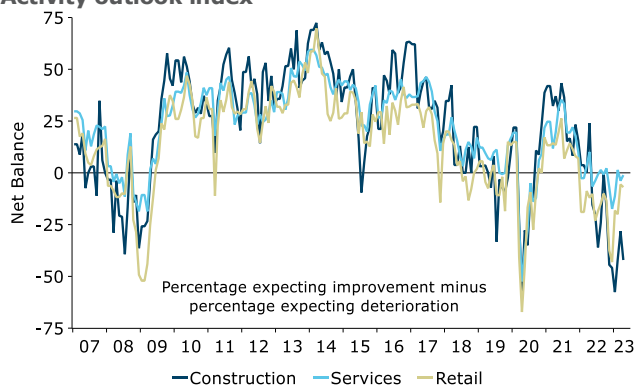
Activity outlook index



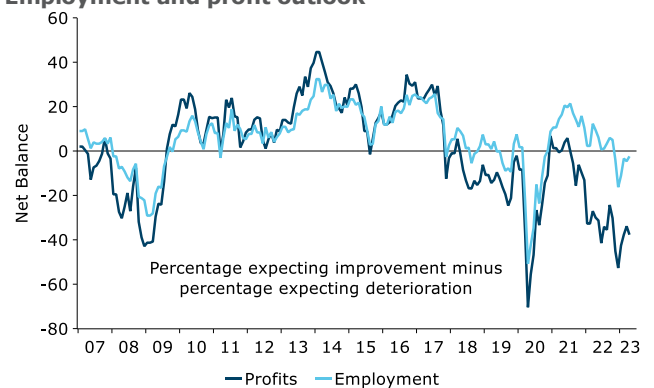
Construction intentions



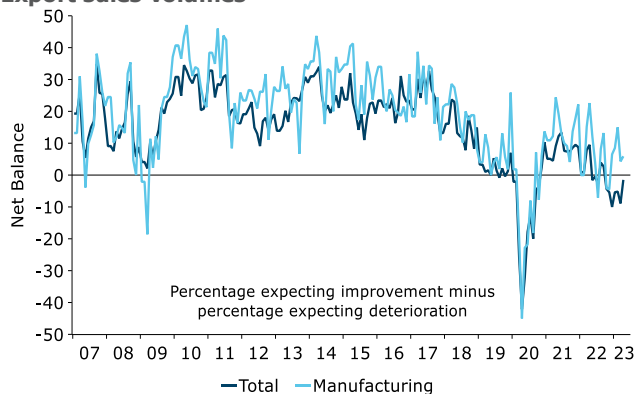
Activity outlook index



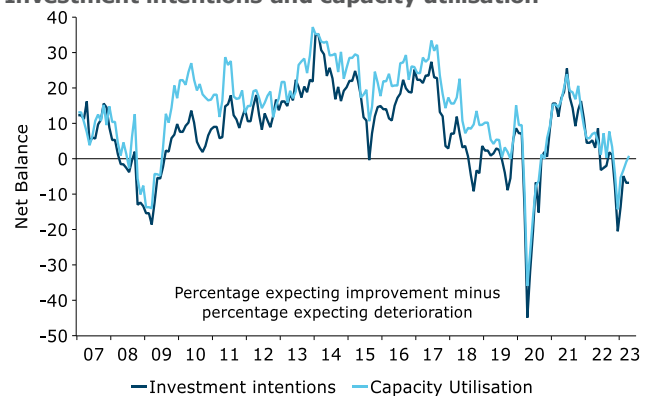
Employment and profit outlook



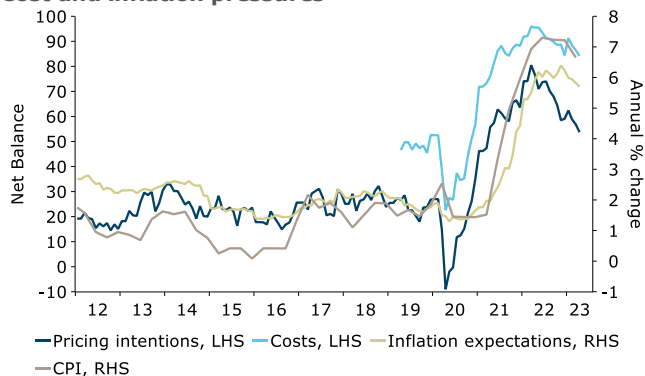
Export sales volumes



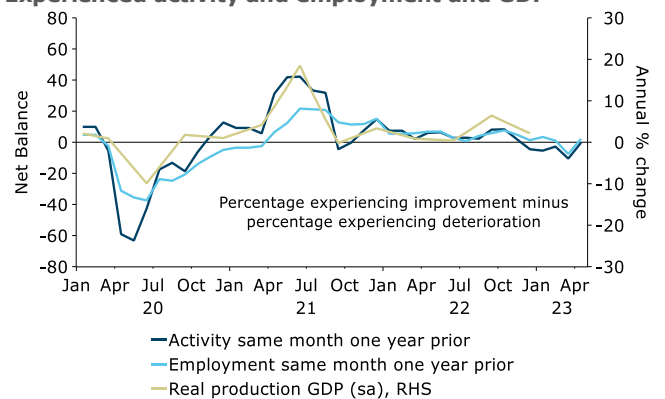
Investment intentions and capacity utilisation



Cost and inflation pressures



Experienced activity and employment and GDP



Source: ANZ, Statistics NZ, Macrobond



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