

ANZ New Zealand Business Outlook

31 August 2023



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Contact

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See page 7.

The next release of the ANZ *Business Outlook* is due on **28 September 2023 at 1pm.**

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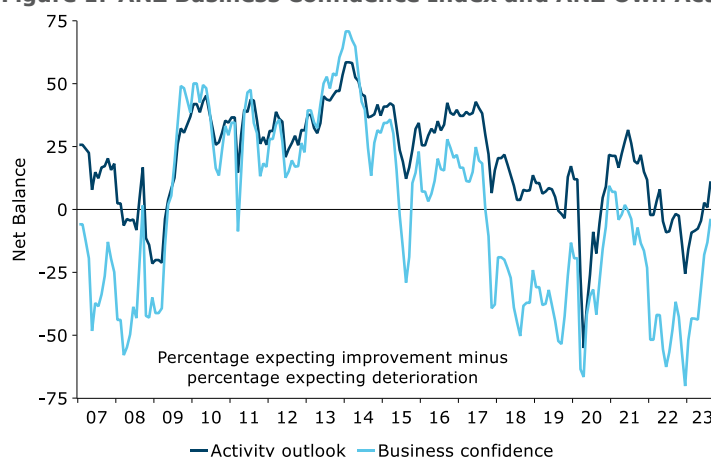
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Goldilocks is in the building

Key points

- Business confidence lifted another 9 points in August to -4, the highest read since mid-2021. Expected own activity also jumped 10 points, to +11. All activity indicators lifted.
- But we can have our cake and eat it too, for now, at least: inflation indicators continued to ease.

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



Source: Macrobond, ANZ Research

Table 1: Results versus last month

Net Balance	Aug	July	Comment
Business Confidence	-3.7	-13.1	Highest since June 2021.
Own Activity Outlook	11.2	0.8	Highest since December 2021.
Export Intentions	7.5	1.5	Surprisingly robust given China slowdown.
Investment Intentions	-1.3	-3.3	Agriculture the lowest by miles at -35.
Cost Expectations	75.3	80.6	Trending gradually lower.
Wage Expectations	80.2	81.8	Highest for manufacturing & retail.
Capacity Utilisation	9.7	4.1	Strongest since November 2021. Hmm.
Residential Construction	-7.4	-24.1	The spectacular rebound continues.
Commercial Construction	0.0	-19.4	Volatility continues.
Employment Intentions	4.6	-1.6	Back in the black, led by services. Hmm.
Profit Expectations	-17.6	-24.5	Construction, services, & manufacturing jumped; agriculture plunged.
Pricing Intentions	44.0	48.1	Continuing its downward trend. Needs to be sub-30: getting there.
Ease of Credit	-25.1	-33.3	Most bounced, especially construction.
Inflation Expectations	5.06%	5.14%	Down 1%pt in 12 months; down 1.3%pt from November 2022 peak of 6.4%.
Activity – vs. same month one year ago	-6.1	-11.3	Retail and construction fell, but manuf & services rose.
Employment – vs. same month one year ago	-0.8	-1.6	A real mixed bag by sector. Retail, agri, construction lower; manuf, services up.

While activity indicators are still at subdued levels, the August ANZ Business Outlook survey was 'the best of all worlds' in terms of the monthly moves. Economy-wide activity indicators lifted across the board, both forward and backward looking, from activity, to export, investment and employment intentions, to profitability expectations and anticipated ease of credit. Current activity and employment compared to a year ago both rose as well.

Despite a reported lift in capacity pressures, inflation expectations and pricing intentions continue to ease slowly but steadily (figure 2). Higher activity but easing inflation pressures speak to a positive supply shock. This year's surge in labour supply certainly fits that bill, but there will inevitably be demand impacts from net migration too, particularly in housing, and the net inflation impact remains a matter of conjecture.

Figure 2. ANZBO inflation indicators

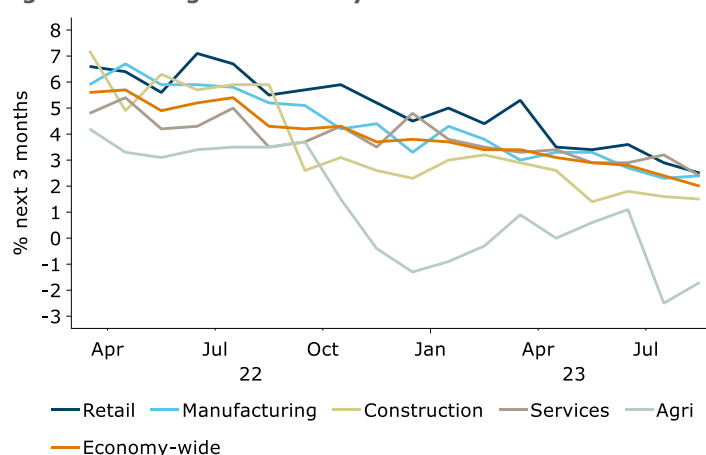


Source: Macrobond, ANZ Research

A net 54% of firms in the retail sector expect to lift their prices in the next three months, down a chunky 8 points to the lowest read since March 2021. When it comes to specific numerical estimates of where firms' own selling prices will be in three months' time (figure 3), the average read fell to 2.0% (from 2.4% in July), including a drop for the retail sector from 2.9% to 2.5%.

Note these are anticipated *quarterly* percent changes, not annual. And there could well be some seasonal impacts that we can't estimate yet. We'll have to wait for more data to be able to draw any precise conclusions about what it means for CPI inflation. But it has to be good news that pricing intentions are trending lower in a broad-based fashion.

Figure 3. Pricing intentions by sector

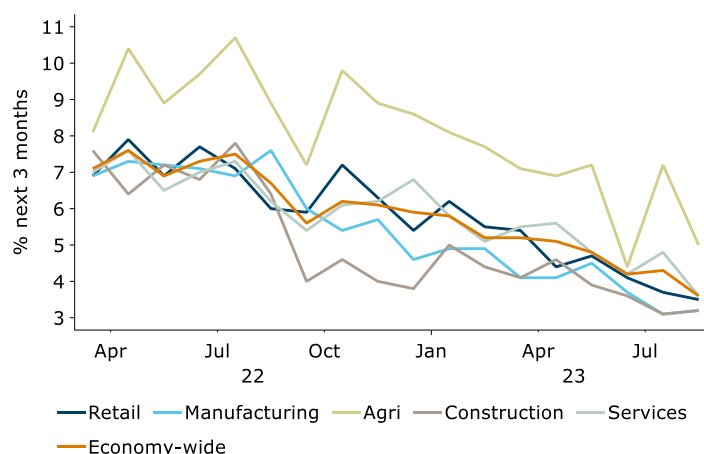


Source: Macrobond, ANZ Research

We also survey firms' expected costs in three months' time relative to today (figure 4). The economy-wide measure eased from 4.3% to 3.6%, continuing its downward trend. A small tick higher for manufacturing and construction was outweighed by falls elsewhere. Most notable was a fall in services sector expected costs from 4.8% to 3.6%, which is less than half its April 2022 peak of 7.6%. The biggest cost for services sector firms is typically wages.

Again, it's important to note when looking at the level that these data ask about increases in the coming three-month period, not over a year. But things are clearly going in the right direction.

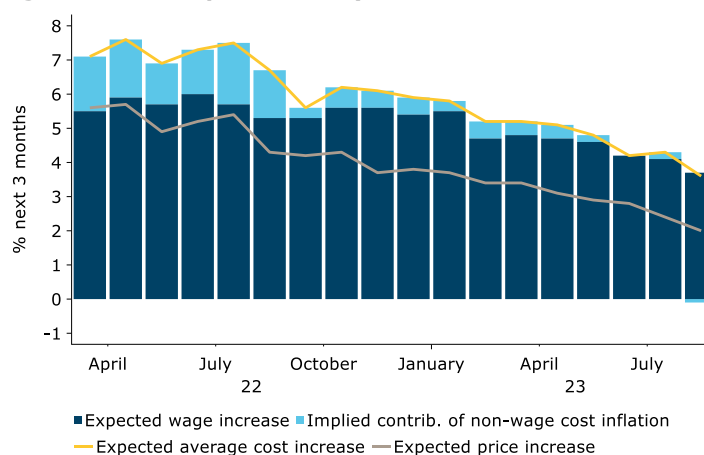
Figure 4. Cost expectations by sector



Source: Macrobond, ANZ Research

The data imply that on average, firms continue to expect margin compression, given costs are expected to lift more than prices over the next three months (3.6% versus 2.0%). Expected cost increases are now virtually identical to expected wage increases, whereas over 2022 (when this data starts), other costs (physical inputs, transport costs, rent, compliance costs etc) were expected to rise even faster than expected wages, dragging up total expected cost increases.

Figure 5. Cost expectations by sector

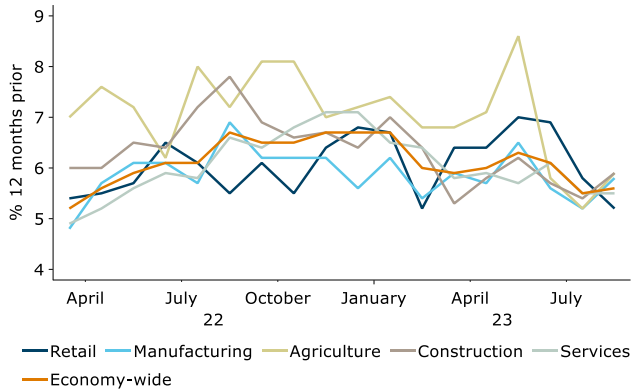


Source: Macrobond, ANZ Research

(Note the chart is only indicative as to the contribution of non-wage costs insofar as it implicitly assumes a 1% increase in wage costs equates to a 1% increase in total costs).

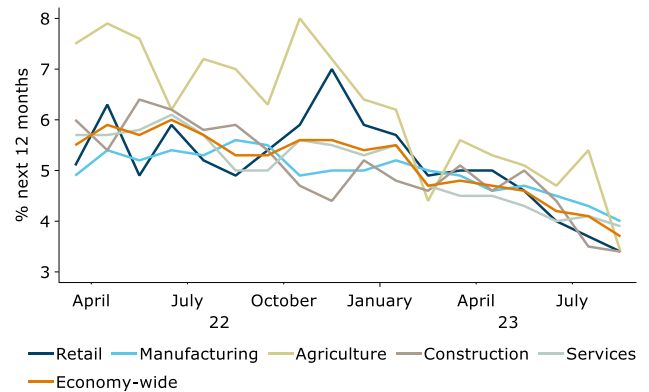
As a key component of both firms' costs and household incomes, wage growth is an important determinant of non-tradables inflation. Reported past wage increases (versus a year earlier) ticked up 0.1%pt to 5.6% (figure 6). Compared with July, only the retail sector reported lower wage increases. On the other hand, expectations for wage settlements over the next 12 months fell from 4.1% to 3.7% (figure 7).

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

Our heatmap of indicators by sector, table 2 below, continues to lighten up in terms of the levels, and has a distinctly spring-like hue to monthly changes.

- The construction and services sectors saw the most marked lift in activity indicators over the month, whereas retail and agriculture generally became more downbeat, and manufacturing was a mixed bag. Looking at the various indicators, the most consistent themes across sectors were a rise in expected own activity, but a decline in expected costs. The solid declines in the services sector's expected costs and pricing will be welcomed by the Reserve Bank, given its tight connection to non-tradable inflation.
- Pricing intentions remain very high relative to history (except for agriculture). The levels of many activity indicators remain lower than average, with pressure points being the agriculture sector's expected profitability (-76) and business confidence (-62), and low investment intentions almost across the board. Reported activity in the retail sector also took a big hit this month. But overall, the heatmap of data levels is certainly far from the sea of dark blue it was late last year.

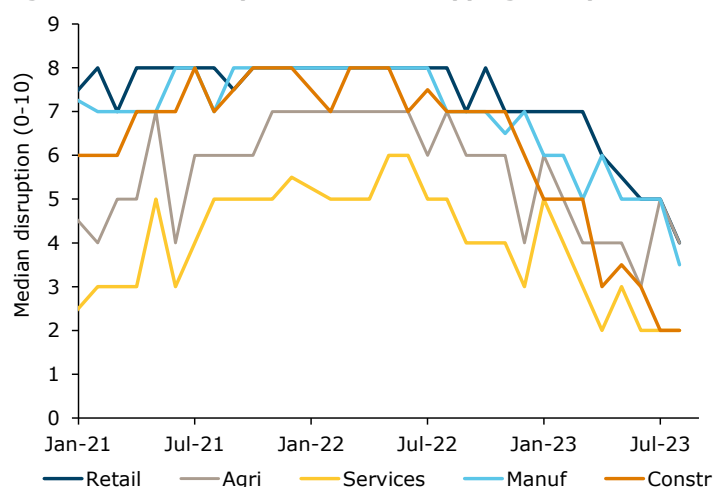
Table 2. Heatmap

	Levels					Monthly changes				
	Retail	Mfg	Agric	Constrn	Serv	Retail	Mfg	Agric	Constrn	Serv
Business Confidence	5.0	-6.6	-62.1	11.8	2.2	8.4	-1.3	-17.7	28.9	14.4
Own activity outlook	5.0	13.1	3.4	2.9	15.8	10.3	2.6	7.2	29.7	8.1
Activity vs. same month one year ago	-25.0	8.2	-6.9	-35.3	0.0	-21.4	6.4	33.8	-8.5	9.9
Exports	4.2	23.1	-11.5	-16.7	10.6	6.8	9.1	-7.2	-4.2	7.1
Investment	0.0	-1.7	-34.5	5.9	1.7	-7.1	3.8	4.0	23.0	-1.1
Capacity Utilisation	3.4	1.7	17.9	3.0	14.2	-4.0	-7.2	17.9	17.6	7.3
Residential Construction	...	...	...	-7.4	...	...	...	...	16.7	...
Commercial Construction	...	...	...	0.0	...	...	...	...	19.4	...
Employment	3.3	5.0	-13.8	-11.8	9.5	1.5	3.2	-9.8	2.8	10.6
Employment vs. same month one year ago	5.1	13.3	-24.1	-29.4	-1.1	-12.8	9.7	-16.7	-9.9	3.4
Profits	-13.3	-18.0	-75.9	-11.8	-9.9	-1.0	6.6	-22.1	27.2	8.9
Ease of Credit	-16.7	-24.6	-65.5	-5.9	-25.7	4.0	10.5	-2.5	23.4	6.7
Costs	80.7	68.3	82.1	70.6	74.6	-1.1	-1.3	-9.9	-1.2	-9.4
Pricing Intentions	54.4	50.0	-7.1	41.2	47.7	-7.4	5.4	8.9	7.9	-8.8

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 blue. Note the versus a year ago questions began in December 2019.

Finally, shipping disruptions are now a non-event.

Figure 8. Median reported inward shipping disruption



Source: ANZ Research

Our take

Things could be (and were) worse, according to what firms are telling us in our survey. Many firms appear to have been pleasantly surprised at how well demand has held up, considering; and the Reserve Bank has stopped raising the OCR (while reserving the right to change their minds), which may be creating a sense that the worst is over. Workers are much easier for firms to find but unemployment is still very low, and inflation signals are dropping away very tidily. The agriculture sector is certainly in a very different world, with prices and expected profitability plummeting, but on the other hand the construction sector appears to have taken real heart from the turnaround in the housing market. Does it add up to enough to get inflation all the way down to the target band sustainably? Here's hoping.

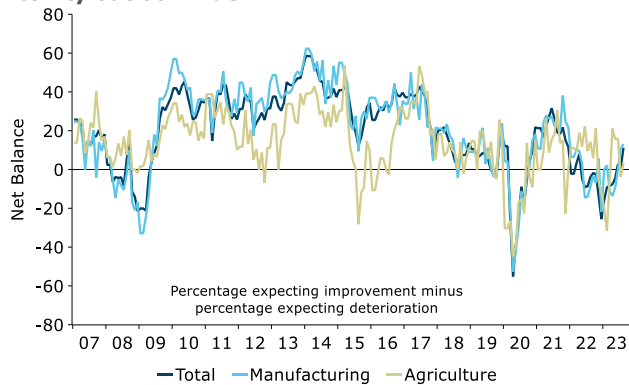
Survey Results August 2023

Net Balance	August	Previous (July)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-3.7	-13.1	5.0	-6.6	-62.1	11.8	2.2
Own Activity Outlook	11.2	0.8	5.0	13.1	3.4	2.9	15.8
Export Intentions	7.5	1.5	4.2	23.1	-11.5	-16.7	10.6
Investment Intentions	-1.3	-3.3	0.0	-1.7	-34.5	5.9	1.7
Cost Expectations	75.3	80.6	80.7	68.3	82.1	70.6	74.6
Capacity Utilisation	9.7	4.1	3.4	1.7	17.9	3.0	14.2
Residential Construction	-7.4	-24.1	...	...	...	-7.4	...
Commercial Construction	0.0	-19.4	...	...	...	0.0	...
Employment Intentions	4.6	-1.6	3.3	5.0	-13.8	-11.8	9.5
Profit Expectations	-17.6	-24.5	-13.3	-18.0	-75.9	-11.8	-9.9
Pricing Intentions	44.0	48.1	54.4	50.0	-7.1	41.2	47.7
Ease of Credit Expectations	-25.1	-33.3	-16.7	-24.6	-65.5	-5.9	-25.7
Inflation Expectations (%)	5.06	5.14	5.08	5.20	5.53	4.84	4.96
Activity – same month one year ago	-6.1	-11.3	-25.0	8.2	-6.9	-35.3	0.0
Employment – same month one year ago	-0.8	-1.6	5.1	13.3	-24.1	-29.4	-1.1
Price Expectations – 3 months from now (%)	2.0	2.4	2.5	2.4	-1.7	1.5	2.4
Cost Expectations – 3 months from now (%)	3.6	4.3	3.5	3.2	5.0	3.2	3.6
Wages/Salaries – next 12 months (%)	3.7	4.1	3.4	4.0	3.4	3.4	3.9
Wages/Salaries – same month a year ago (%)	5.6	5.5	5.2	5.8	5.9	5.9	5.5

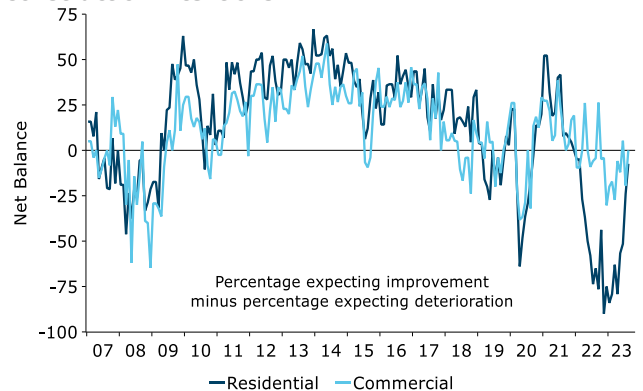


Charts

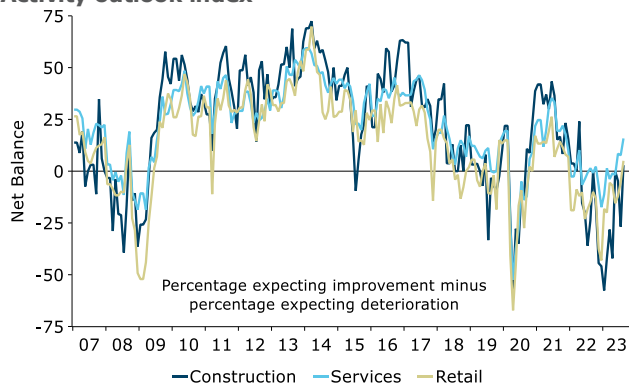
Activity outlook index



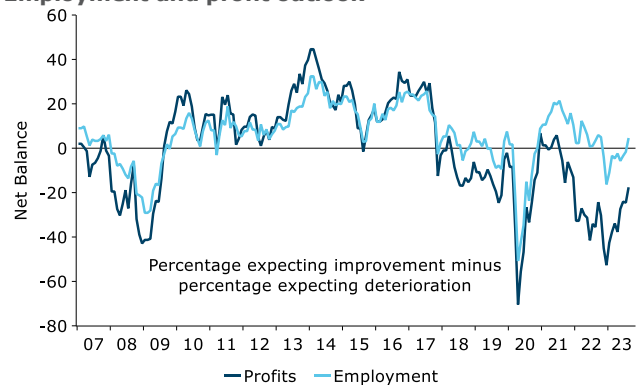
Construction intentions



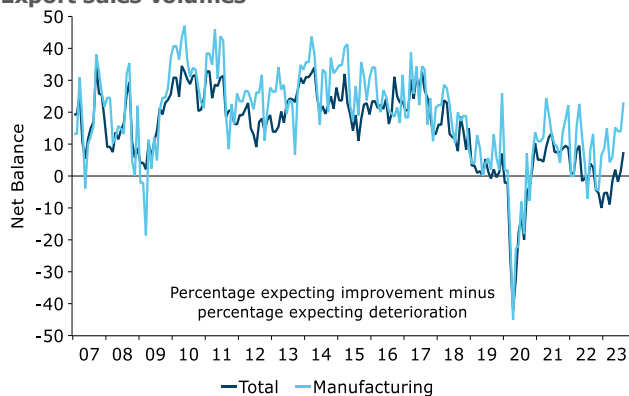
Activity outlook index



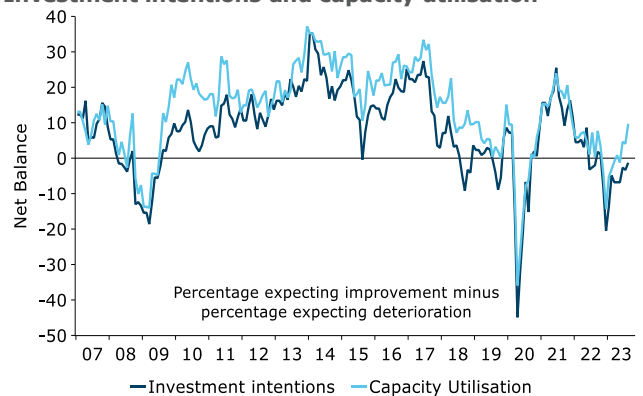
Employment and profit outlook



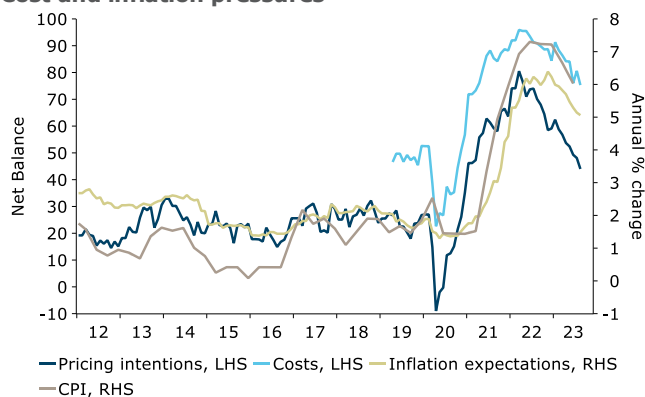
Export sales volumes



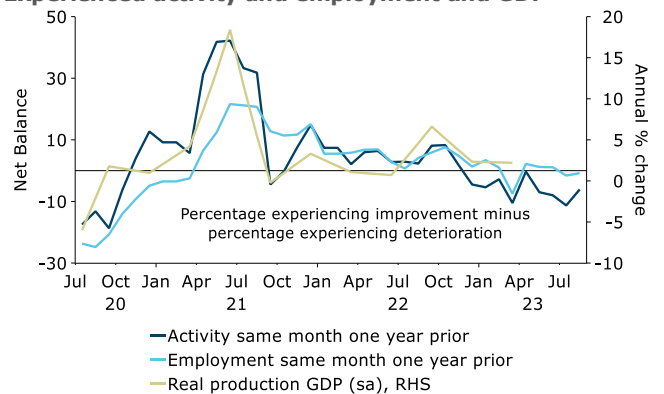
Investment intentions and capacity utilisation



Cost and inflation pressures



Experienced activity and employment and GDP



Source: ANZ, Statistics NZ, Macrobond



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