

ANZ New Zealand Business Outlook

31 October 2023



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Contact

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See page 7.

The next release of the ANZ *Business Outlook* is due on **30 November 2023 at 1pm.**

If you would like to be a part of our survey, please click [here](#).

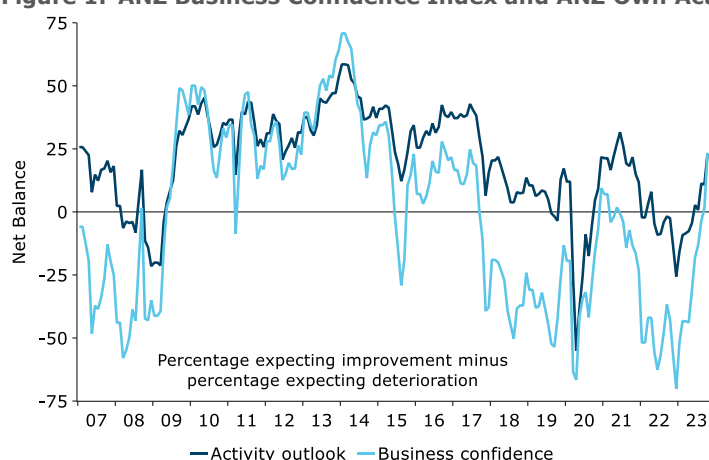
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(Almost) All in the Black

Key points

- Business confidence jumped 21 points to +23 in October. Expected own activity rose 12 points to +23. Activity indicators jumped in the early-month sample and jumped again in the second half of the month.
- Inflation indicators were mixed – the RBNZ needs to see more progress.

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



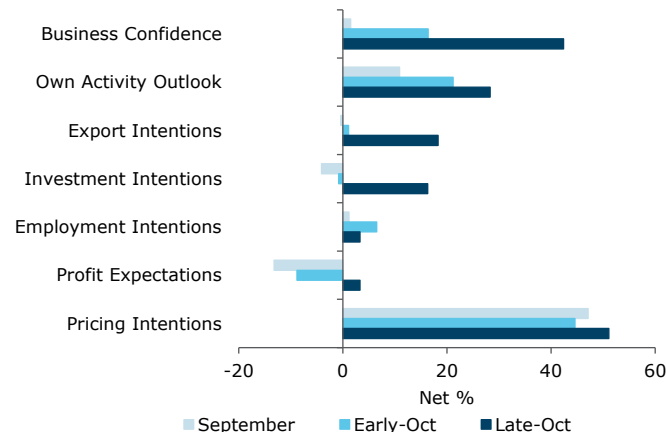
Source: Macrobond, ANZ Research

Table 1: Results versus last month

Net Balance	Oct	Sep	Comment
Business Confidence	23.4	1.5	Firms are more confident about “general business conditions” in 12 months’ time.
Own Activity Outlook	23.1	10.9	Manuf. strong; construction & agri weak.
Export Intentions	6.1	-0.4	Taking heart from dairy price floor?
Investment Intentions	3.8	-4.1	Back in the black, led by manufacturing.
Cost Expectations	76.0	78.6	Not giving ground easily. Services 82.
Wage Expectations	81.3	82.2	Jumped for manufacturing (90.9).
Capacity Utilisation	14.5	7.3	Range: construction -13, manuf. +25.
Residential Construction	-12.5	-13.6	Hanging in there.
Commercial Construction	-4.0	-29.6	The zig-zag continues.
Employment Intentions	5.6	1.2	Big range: constr. -13 to manuf. +18
Profit Expectations	-5.6	-13.2	Highest since Aug-21, but construction & agriculture pretty grim.
Pricing Intentions	46.3	47.1	Mix of rises and falls in this flat result.
Ease of Credit	-20.8	-23.5	Weakest by far for agri, unsurprisingly.
Inflation Expectations	4.94%	4.95%	Unchanged, still high. Outside of agri (5.4%), clustered in 4.70-4.94% range.
Activity – vs. same month one year ago	-10.6	-12.9	Big fall for manufacturing offset by increases elsewhere.
Employment – vs. same month one year ago	-8.4	-1.8	A pretty chunky fall. Only agriculture increased versus the previous month.

The October ANZ Business Outlook survey saw a bounce in most activity indicators following the All Blacks' successful progression to the World Cup final – and the election. Figure 2 below shows September results, the early-October read, and finally the roughly 25% of responses that came in mostly around 19-20 October following the reminder email.

Figure 2. Evolution of results

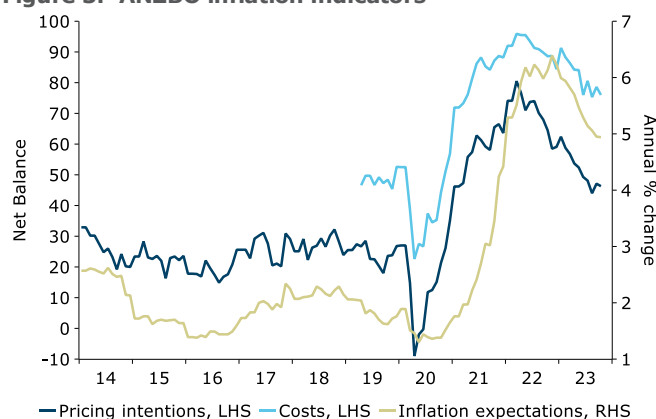


Source: ANZ Research

Of course, most activity indicators have been trending higher all year, and there is also always a degree of sample noise, so not all of the difference over the month should be simply ascribed to events that occurred between the two samples. That said, it would clearly be a stretch to argue there's been no election impact. But importantly, it doesn't follow that the results are spurious. Rather, the question becomes whether firms will follow through on these more robust intentions or not. The first test will be whether these stronger numbers persist or peter out. Second, we will have to wait and see what actually happens to investment, employment, activity etc. That will in turn depend on whether firms' expectations of higher activity come to fruition or not. It is fair to say that the historical data and experience suggests that people may overestimate the near-term impact of a change in Government on the business cycle, in either direction.

Turning to inflation indicators, the proportion of firms expecting higher costs and intending to raise their prices soon were little changed. However, the proportion of firms in the manufacturing sector expecting to raise wages rose to 91%, the highest since March, and the size of expected wage settlements in that sector lifted too, to the highest since May. That's counterintuitive, given the surge in labour supply from net migration. Meanwhile, economy-wide inflation expectations were pretty flat at around 5% (figure 3).

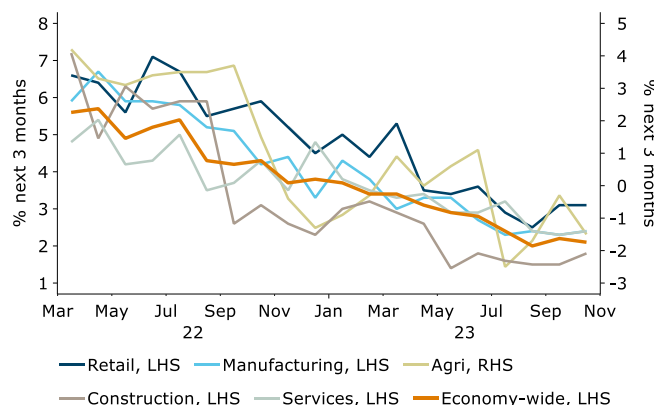
Figure 3. ANZBO inflation indicators



Source: Macrobond, ANZ Research

Firms' average estimate of where their own selling prices will be in three months' time is currently going broadly sideways at 2.1% (versus 2.2% in September) (figure 4).

Figure 4. Pricing intentions by sector

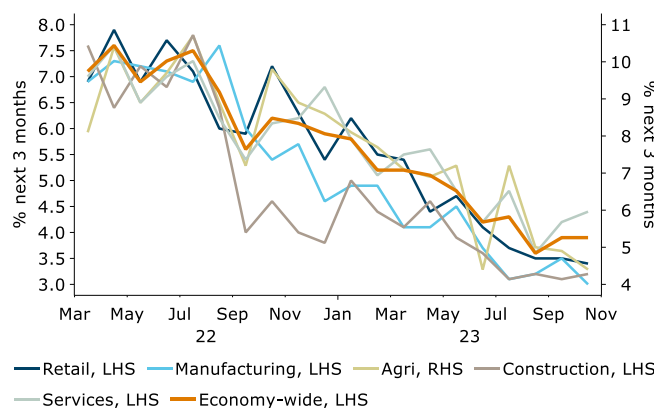


Source: Macrobond, ANZ Research

On average firms are expecting their costs in three months' time to be 3.9% higher than today, the same as September (figure 5). The agriculture and services sectors expect the highest cost increases (4.4% higher in three months' time).

It's important to note when looking at these data, our survey asks about increases in the coming three-month period, not over a year – the numbers clearly remain too high to be consistent with inflation returning to the 2% target any time soon, so the RBNZ needs to see solid further declines over coming months.

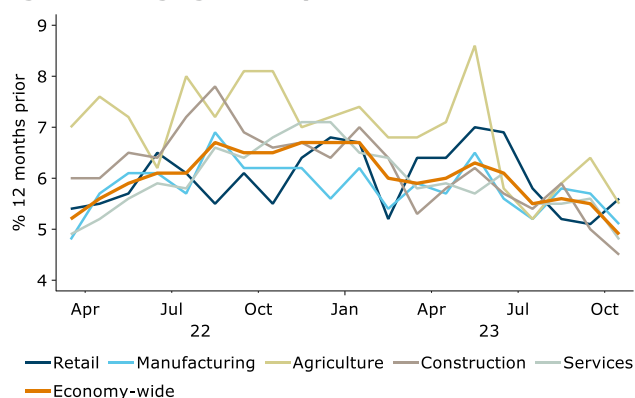
Figure 5. Cost expectations by sector



Source: Macrobond, ANZ Research

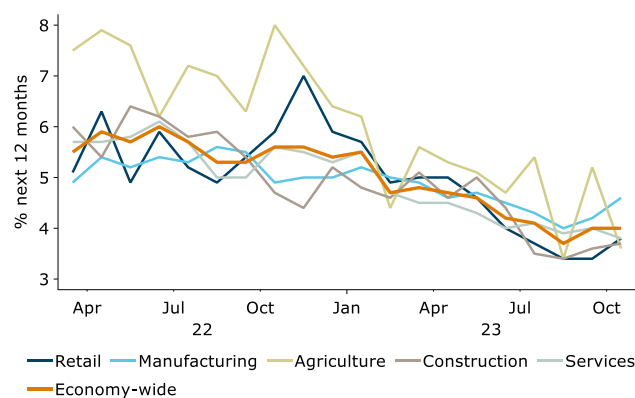
Encouragingly for the Reserve Bank, reported past wage increases (versus a year earlier) dropped to 4.9% (figure 6, over), a decent fall and the lowest read since we started asking this question in March 2022. The services sector reported wage increases of 4.8%, also the lowest thus far. It wasn't one-way traffic – reported wage increases in the retail sector ticked up from 5.1% to 5.6% – but overall past wage settlements are going the way the RBNZ needs them to go. On the other hand, expectations for wage settlements over the next 12 months were steady at 4.0% (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, shows a cheerful swathe of orange over the month, with most indicators lifting. Swimming against the tide were manufacturing activity and employment versus a year ago, some construction sector indicators, and retail experienced employment.

In levels terms, construction and agriculture are the most downbeat sectors, and manufacturing and retail are the most upbeat (relative to their own histories).

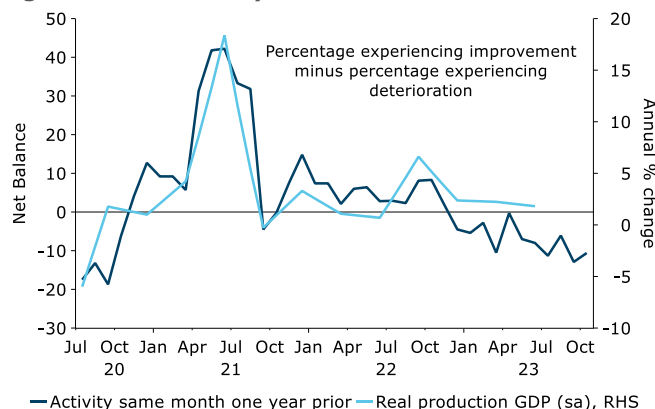
Table 2. Heatmap

	Levels					Monthly changes				
	Retail	Mfg	Agric	Constrn	Serv	Retail	Mfg	Agric	Constrn	Serv
Business Confidence	38.3	37.2	-12.0	26.7	20.2	24.0	29.5	32.4	29.8	18.6
Own activity outlook	28.3	36.4	8.0	3.2	23.9	36.5	13.8	31.5	12.6	4.7
Activity vs. same month one year ago	-26.7	-22.7	-28.0	-29.0	0.5	1.9	-17.0	-0.2	5.4	6.0
Exports	0.0	5.7	-13.6	-4.8	14.2	0.0	-1.0	15.8	12.8	10.0
Investment	0.0	18.6	-40.0	3.2	6.4	0.0	20.5	10.0	6.3	8.1
Capacity Utilisation	17.8	25.0	20.0	-12.9	16.2	9.3	2.4	8.9	-3.5	12.2
Residential Construction	...	...	...	-12.5	...	...	...	...	1.1	...
Commercial Construction	...	...	...	-4.0	...	...	...	...	25.6	...
Employment	-11.1	18.2	-8.0	-12.9	10.9	-9.0	12.5	8.7	-3.2	7.0
Employment vs. same month one year ago	-2.2	-7.0	-12.5	-38.7	-3.8	-8.6	-14.5	15.3	-12.9	-2.1
Profits	4.3	2.3	-56.0	-38.7	2.7	16.5	8.0	5.1	-13.7	9.8
Ease of Credit	-8.7	-25.0	-64.0	-16.1	-17.6	7.6	5.2	-2.9	-3.6	3.8
Costs	72.1	65.9	72.0	64.5	82.0	-2.4	-6.6	-5.8	-9.7	0.4
Pricing Intentions	60.5	54.5	-4.0	35.5	50.8	-4.1	7.4	-9.6	4.3	1.4

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.

Reported past activity has a good correlation with GDP and is consistent with the economy continuing to gradually lose momentum (figure 8).

Figure 8. Past activity and GDP



Source: Macrobond, ANZ Research

Our take

Just as we thought that the rebound in activity indicators in the ANZ Business Outlook survey might be running out of steam, we've seen a marked jump across most. Before we judge the importance for the economic outlook, particularly given the noise of the election, we'll see whether the newfound (relative) optimism persists over the next few months. Especially since the All Blacks lost the final.

Meanwhile, inflation pressures are gradually waning in the big picture, but there hasn't been a great deal of progress in the last couple of months. It's still a very long way back to the inflation target, and we continue to expect it'll take at least one more OCR hike to get us there.

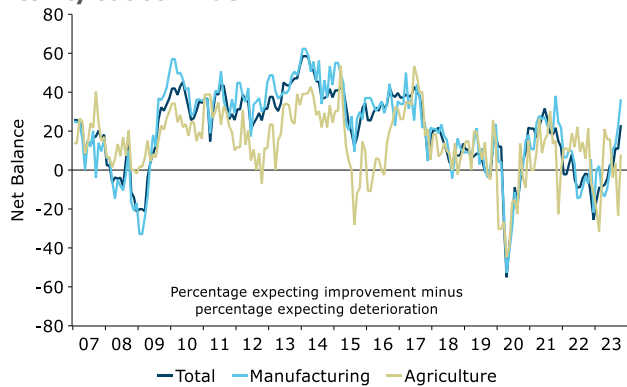
Survey Results October 2023

Net Balance	October	Previous (Sep)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	23.4	1.5	38.3	37.2	-12.0	26.7	20.2
Own Activity Outlook	23.1	10.9	28.3	36.4	8.0	3.2	23.9
Export Intentions	6.1	-0.4	0.0	5.7	-13.6	-4.8	14.2
Investment Intentions	3.8	-4.1	0.0	18.6	-40.0	3.2	6.4
Cost Expectations	76.0	78.6	72.1	65.9	72.0	64.5	82.0
Capacity Utilisation	14.5	7.3	17.8	25.0	20.0	-12.9	16.2
Residential Construction	-12.5	-13.6	...	...	...	-12.5	...
Commercial Construction	-4.0	-29.6	...	...	...	-4.0	...
Employment Intentions	5.6	1.2	-11.1	18.2	-8.0	-12.9	10.9
Profit Expectations	-5.6	-13.2	4.3	2.3	-56.0	-38.7	2.7
Pricing Intentions	46.3	47.1	60.5	54.5	-4.0	35.5	50.8
Ease of Credit Expectations	-20.8	-23.5	-8.7	-25.0	-64.0	-16.1	-17.6
Inflation Expectations (%)	4.94	4.95	4.94	4.93	5.42	4.70	4.89
Activity – same month one year ago	-10.6	-12.9	-26.7	-22.7	-28.0	-29.0	0.5
Employment – same month one year ago	-8.4	-1.8	-2.2	-7.0	-12.5	-38.7	-3.8
Price Expectations – 3 months from now (%)	2.1	2.2	3.1	2.4	-1.5	1.8	2.4
Cost Expectations – 3 months from now (%)	3.9	3.9	3.4	3.0	4.4	3.2	4.4
Wages/Salaries – next 12 months (%)	4.0	4.0	3.8	4.6	3.6	3.7	3.8
Wages/Salaries – same month a year ago (%)	4.9	5.5	5.6	5.1	5.5	4.5	4.8

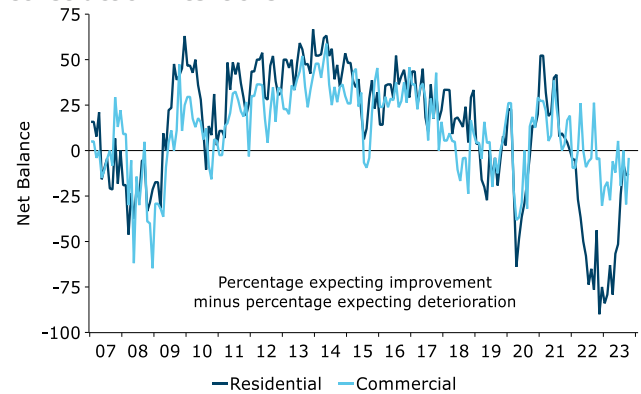


Charts

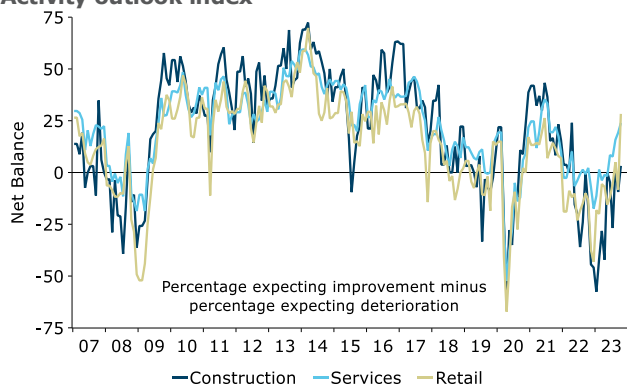
Activity outlook index



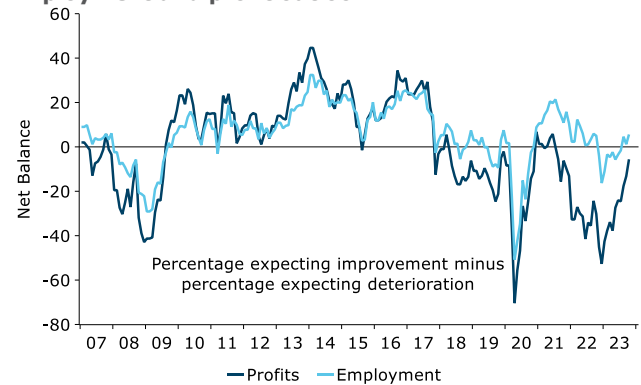
Construction intentions



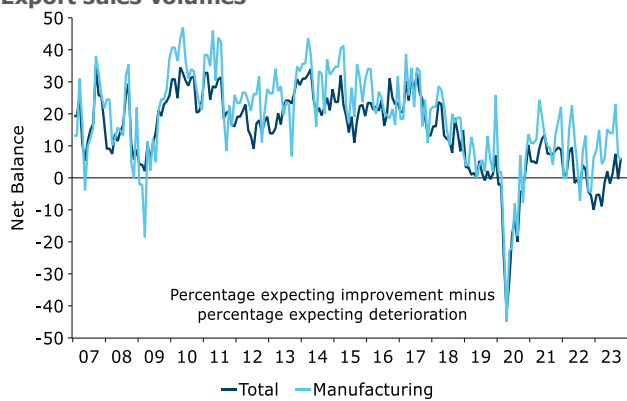
Activity outlook index



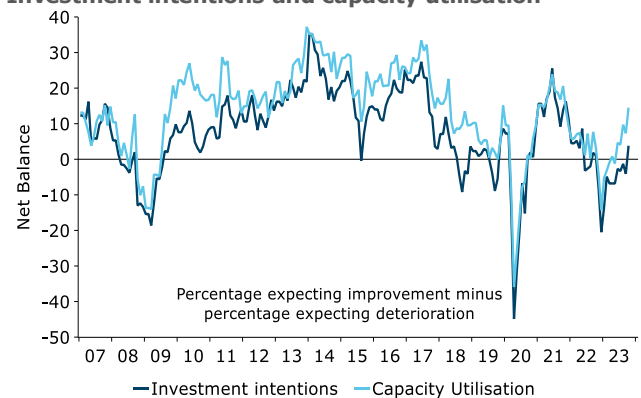
Employment and profit outlook



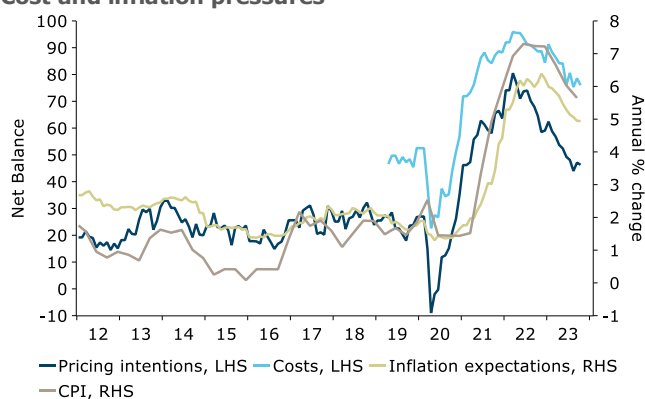
Export sales volumes



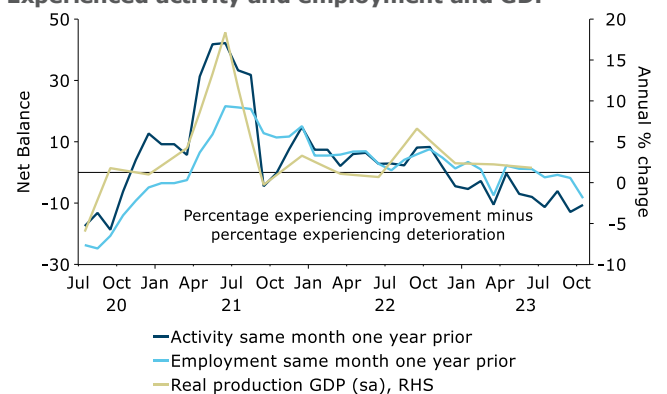
Investment intentions and capacity utilisation



Cost and inflation pressures



Experienced activity and employment and GDP



Source: ANZ, Statistics NZ, Macrobond



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