

ANZ New Zealand Business Outlook

31 January 2024



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Contact

Sharon Zollner for more details.

See page 8.

The next release of the ANZ *Business Outlook* is due on **29 February 2024 at 1pm.**

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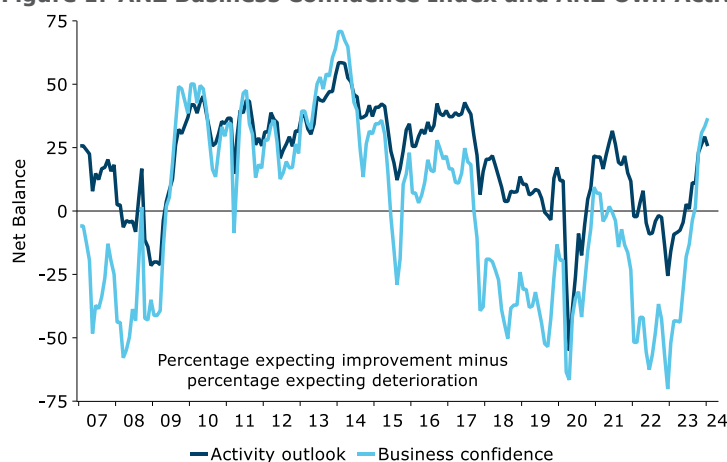
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Unders and overs

Key points

- Business confidence rose 4 points to +37 in January, while expected own activity fell 3 points to +26. The recent dramatic lift in residential construction gave up quite a bit of ground this month.
- Inflation expectations took a step lower, but the proportion of firms expecting to raise their prices remains stubbornly high.

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



Source: Macrobond, ANZ Research

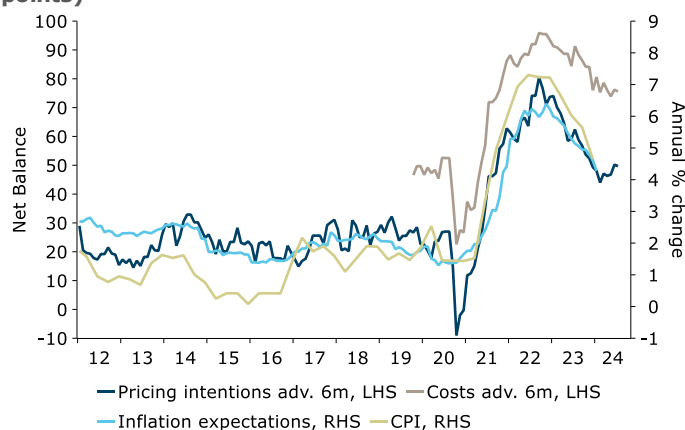
Table 1. Results versus last month

Net Balance	Jan	Dec	Comment
Business Confidence	36.6	33.2	The glass is half full.
Own Activity Outlook	25.6	29.3	Looking pretty solid at this point.
Export Intentions	11.7	11.4	Manufacturers most positive since Apr-18.
Investment Intentions	1.7	2.7	Going nowhere fast.
Cost Expectations	75.6	76.2	Holding up at too-high levels.
Wage Expectations	81.4	83.0	Retail rising, rest falling.
Capacity Utilisation	13.3	18.4	Construction in the red.
Residential Construction	-3.7	28.6	Reality bites after an impressive rally.
Commercial Construction	16.7	6.7	Looking respectable.
Employment Intentions	4.6	7.0	Construction and agri in the red.
Profit Expectations	3.1	2.7	Big fall construction; big jump services.
Pricing Intentions	49.7	50.2	Unwelcome big jump for retail.
Ease of Credit	-0.9	-8.7	Highest since April 2016, led by builders.
Inflation Expectations	4.28%	4.61%	Lowest since November 2021.
Activity – vs. same month one year ago	-5.7	-4.2	Construction and retail lifted but are still the most negative sectors.
Employment – vs. same month one year ago	-10.0	-3.1	Construction most negative by far, at odds with jobs filled data.

The January ANZ Business Outlook survey was a mixed bag. Forward-looking activity indicators were little changed (with the exception of a sharp fall in residential building activity, but it's volatile). On the inflation side, inflation expectations took a step lower, but cost and price expectations are holding up, with a solid (if not outright concerning) jump for the retail sector from 52% to 66% of firms expecting to raise their prices in the next 3 months. We double-checked the seasonality of pricing intentions, and there's nothing there to explain it.

Inflation expectations eased by 0.3%pts, a decent fall, but they are still too high at 4.3%, and they also tend to reflect where inflation currently is or has recently been, whereas pricing intentions, like expected costs, tend to give a pretty reliable signal regarding where annual inflation will be in around six months (figure 2). And those indicators are not falling.

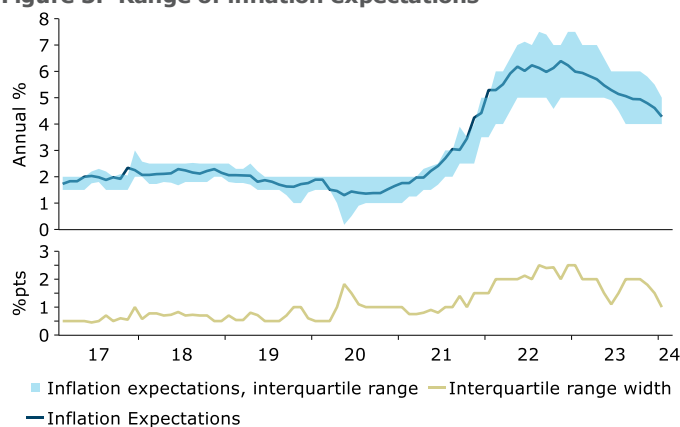
Figure 2. ANZBO inflation indicators (with timing shifts to line up turning points)



Source: Stats NZ, Macrobond, ANZ Research

The distribution of inflation expectations shows that the decline has been driven by a decline in the top estimates. The 4% floor for lower estimates is still holding; the 5% floor did before it, for quite some time (figure 3). The range of expectations is still much wider than when inflation was low, but is much narrower than it was when inflation was at its peak. Inflation uncertainty has an economic cost in and of itself.

Figure 3. Range of inflation expectations

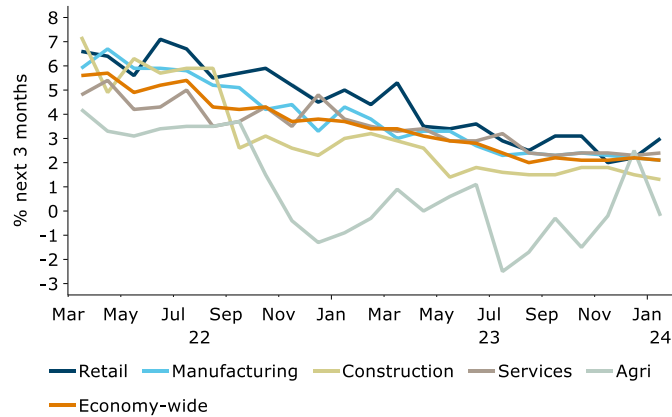


Source: Macrobond, ANZ Research

Given that a net 50% of firms (and 66% of firms in the retail sector) expect to lift their prices in the next three months, are they at least expecting to raise their prices by less? Unfortunately not. Firms' specific numerical estimates of what they expect to do with their own selling prices in three months' time

(note: *not* in a year's time) was at 2.1%, and has been going sideways for seven months. Notable moves this month included a lift for retail from 2.2% to 3.0%, and a fall for construction from 1.5% to 1.3% (figure 4).

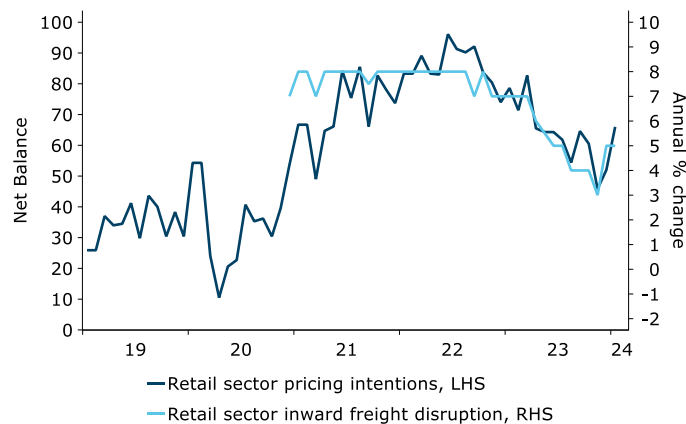
Figure 4. Pricing intentions by sector



Source: ANZ Research

Renewed shipping woes may be contributing to some extent: retailers' reported inward freight disruption has lifted off its lows. It could be coincidence; it certainly won't be the full explanation. The lift in freight costs is very recent and, while sharp, is small compared to the chaos of the COVID era.

Figure 5. Retail sector freight disruption and pricing intentions

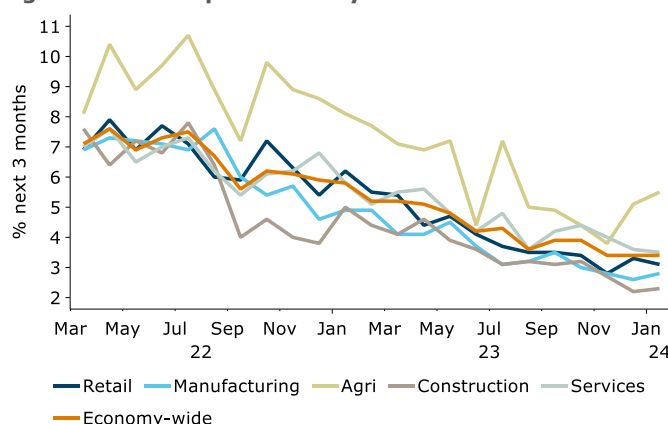


Source: Macrobond, ANZ Research

However, it's worth noting that the proportion of retailers expecting higher costs in the next 3 months rose from 72% to 76% this month, and the size of retailers' expected cost increases eased slightly but remains higher than November.

Overall, across the economy expected cost rises are still a full percent higher than expected price rises, so firms are certainly not expecting to be able to pad margins. Expected cost growth is 3.4% (unchanged) while expected price growth was 2.1%. Figure 6 (over) shows a mixed bag. Most helpfully for the RBNZ, construction sector respondents now expect just 2.3% cost inflation over the next three months, the lowest across the five sectors and a sharp fall from the peak of 7.8% in mid-2022.

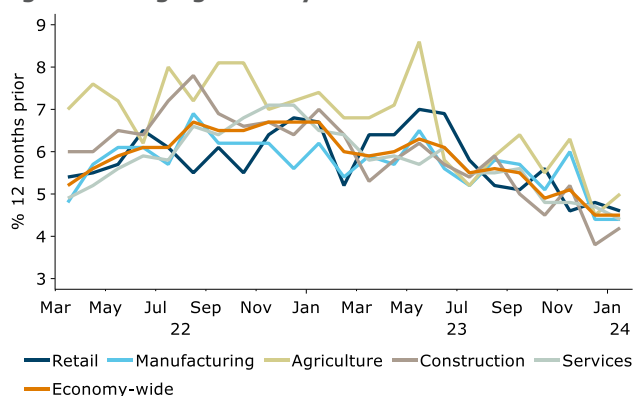
Figure 6. Cost expectations by sector



Source: Macrobond, ANZ Research

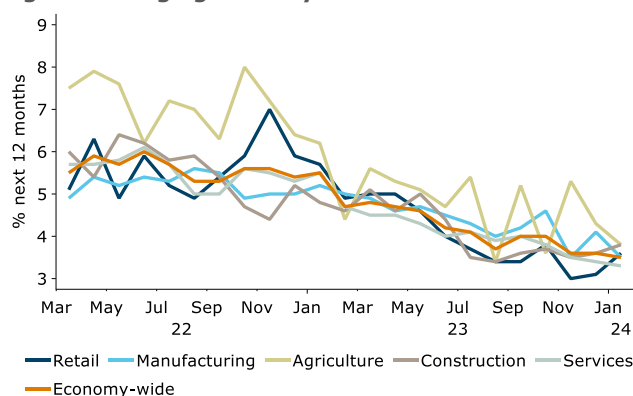
Reported wage increases versus a year earlier were flat at 4.5% but are trending lower (figure 7). Average expected wage settlements over the next 12 months fell slightly from 3.6% to 3.5%, but appear to be flattening out (figure 8). Retail sector wage expectations at 3.6% are in line with the average across the economy but noticeably up from their low of 3% in November – both the proportion of retailers intending to raise wages (86% in January versus 72% in November) and the expected size of wage increases are telling the same story.

Figure 7. Wage growth by sector: last 12 months



Source: Macrobond, ANZ Research

Figure 8. Wage growth by sector: next 12 months



Source: Macrobond, ANZ Research

Our heatmap of indicators by sector, table 2, shows pale blue (a bit less positive) dominating the monthly changes for manufacturing, agriculture and construction (though certainly not across the board), whereas retail is more positive and services a mixed bag. The more positive vibe in the retail sector is rather surprising on the face of it, but it does match up with a similar message out of the most recent [NZIER QSBO](#) survey.

In level terms, the construction sector remains the most downbeat, though one bright spot is the expected ease of credit, likely related to a broad expectation that interest rates have peaked. Pricing intentions remain historically extreme for the retail, manufacturing and services sectors, but are back around 'normal' levels for agriculture and construction.

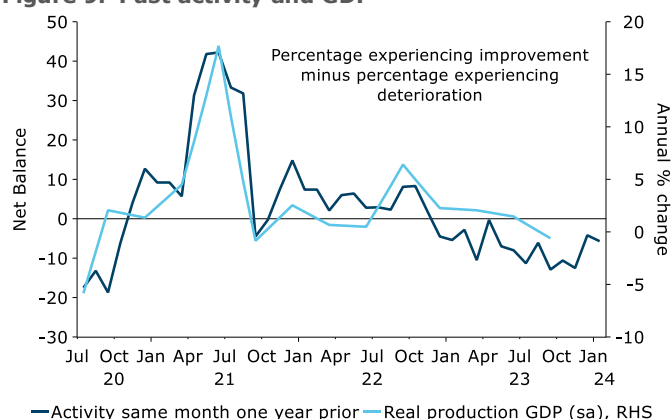
Table 2. Heatmap

	Levels					Monthly changes				
	Retail	Mfg	Agric	Constrn	Serv	Retail	Mfg	Agric	Constrn	Serv
Business Confidence	41.2	33.3	22.2	44.1	38.7	17.2	-0.7	-11.1	-7.3	5.0
Own activity outlook	23.5	30.8	11.5	11.8	30.8	1.5	-7.5	-12.3	-13.9	-1.6
Activity vs. same month one year ago	-13.7	-1.9	19.2	-17.6	-5.5	12.3	-4.0	9.7	16.7	-11.9
Exports	7.7	26.7	8.3	-5.6	10.4	-11.2	1.7	-16.7	-13.9	4.6
Investment	2.0	9.8	-33.3	-2.9	4.4	-2.1	-3.5	-23.8	-8.6	4.4
Capacity Utilisation	12.2	21.6	18.5	-9.1	15.7	-10.2	-10.3	2.7	-9.1	-2.7
Residential Construction	...	...	...	-3.7	...	...	...	...	-32.3	...
Commercial Construction	...	...	...	16.7	...	...	...	...	10.0	...
Employment	2.0	19.6	-7.4	-8.8	5.5	10.2	-10.2	-26.4	-11.7	0.1
Employment vs. same month one year ago	-6.0	5.8	-18.5	-29.4	-12.3	-6.0	14.3	-13.2	4.9	-16.5
Profits	3.9	-1.9	-22.2	-14.7	13.7	1.9	-21.0	1.6	-23.3	10.8
Ease of Credit	-2.0	-15.7	-14.8	20.6	1.7	12.0	-9.3	13.8	12.0	8.1
Costs	76.0	69.2	84.0	66.7	77.6	4.0	-3.1	4.0	-0.9	-1.2
Pricing Intentions	66.0	51.9	4.0	36.4	53.4	14.0	-1.3	-32.8	-10.7	3.4

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 only in December 2019.

Reported past activity has a good correlation with GDP. It eased slightly this month but still suggests that while things have been on the slide for a while, a bottom may not be far off (figure 9). This was also the message coming out of the recent [NZIER QSBO](#) survey, though the jump in that survey off its lows was much more marked.

Figure 9. Past activity and GDP



Source: ANZ Research

The surge in residential construction intentions over the past year has been startling, but it ran out of puff this month. It nonetheless suggests that dwelling consents (and before long, residential construction) are about to find a floor (figure 10). To the extent many consents were shelved in the slowdown and now may be being dusted off, the usual lag from consents to activity may not apply.

Figure 10. Residential construction intentions vs. dwelling consents



Source: Stats NZ, Macrobond, ANZ Research

Our take

The economy is at a delicate juncture. We are forecasting a pretty good outcome compared to some scenarios: the RBNZ has done enough; it'll take a while for that to be incontrovertible but by August they can commence a steady stream of OCR cuts. Growth is nothing flash (particularly per capita) and unemployment unfortunately rises above 5%, but the overall theme is that the economy continues to unwind its unsustainable COVID-era excesses without any major drama. And we're assuming no nasty global shocks, though we've built in some persistent sogginess in demand from China's consumers for our exports.

Overall, businesses also expect the worst is past. Of course, the unexpected has a habit of turning up regularly, but overall, the RBNZ has made steady progress in its inflation fight. Although the medicine has been bitter, it's working. We just need those pricing intentions to start playing ball to be sure that progress in getting inflation down will be maintained without another dose of monetary tightening.

The RBNZ has given fair warning that their patience is limited. While the market is ruling out any chance of a hike at the end of February, we would not. There are definite signs of a stall in some of the leading inflation data, and the RBNZ may just decide they need to do more to be sure progress will continue, even at the risk of making a policy mistake. The hiking cycle that ended in 2008 features *two* pauses that were followed by a resumption of hiking. It would hardly be unprecedented.

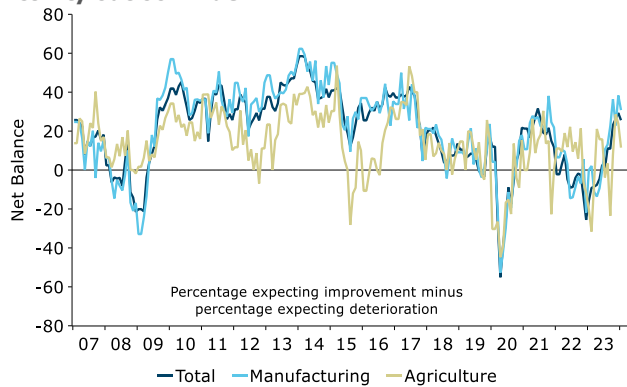
Survey Results January 2024

Net Balance	January	Previous (Dec)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	36.6	33.2	41.2	33.3	22.2	44.1	38.7
Own Activity Outlook	25.6	29.3	23.5	30.8	11.5	11.8	30.8
Export Intentions	11.7	11.4	7.7	26.7	8.3	-5.6	10.4
Investment Intentions	1.7	2.7	2.0	9.8	-33.3	-2.9	4.4
Cost Expectations	75.6	76.2	76.0	69.2	84.0	66.7	77.6
Capacity Utilisation	13.3	18.4	12.2	21.6	18.5	-9.1	15.7
Residential Construction	-3.7	28.6	...	...	...	-3.7	...
Commercial Construction	16.7	6.7	...	...	...	16.7	...
Employment Intentions	4.6	7.0	2.0	19.6	-7.4	-8.8	5.5
Profit Expectations	3.1	2.7	3.9	-1.9	-22.2	-14.7	13.7
Pricing Intentions	49.7	50.2	66.0	51.9	4.0	36.4	53.4
Ease of Credit Expectations	-0.9	-8.7	-2.0	-15.7	-14.8	20.6	1.7
Inflation Expectations (%)	4.28	4.61	4.17	4.57	4.38	4.29	4.21
Activity – same month one year ago	-5.7	-4.2	-13.7	-1.9	19.2	-17.6	-5.5
Employment – same month one year ago	-10.0	-3.1	-6.0	5.8	-18.5	-29.4	-12.3
Price Expectations – 3 months from now (%)	2.1	2.2	3.0	2.1	-0.2	1.3	2.4
Cost Expectations – 3 months from now (%)	3.4	3.4	3.1	2.8	5.5	2.3	3.5
Wages/Salaries – next 12 months (%)	3.5	3.6	3.6	3.5	3.8	3.8	3.3
Wages/Salaries – same month a year ago (%)	4.5	4.5	4.6	4.4	5.0	4.2	4.4

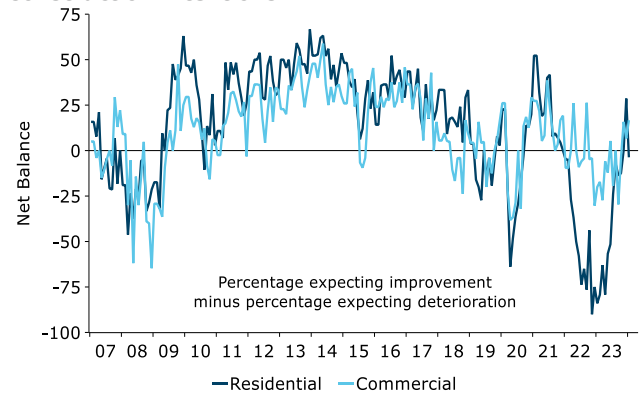


Charts

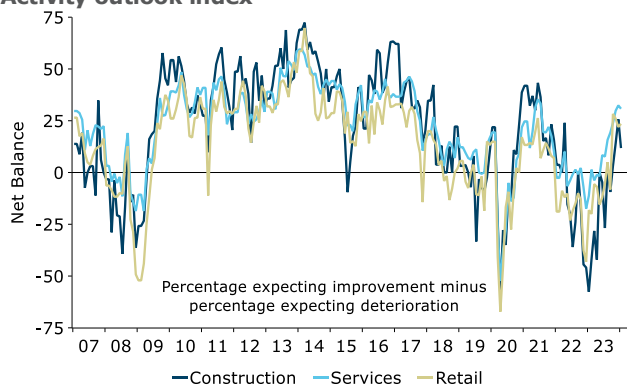
Activity outlook index



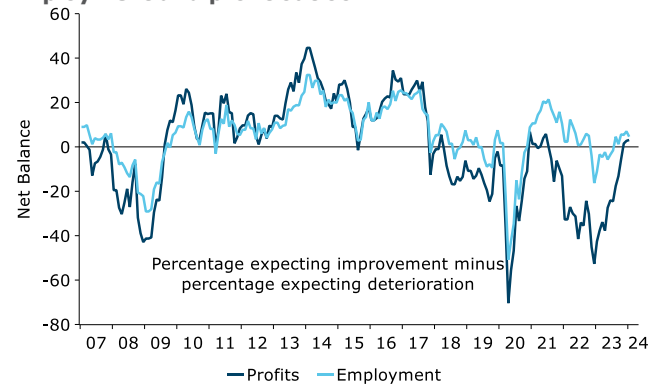
Construction intentions



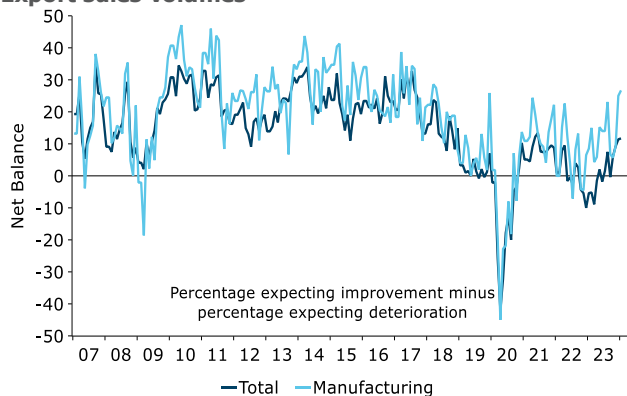
Activity outlook index



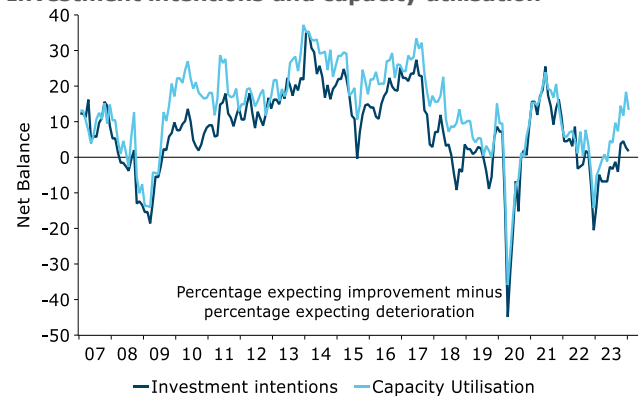
Employment and profit outlook



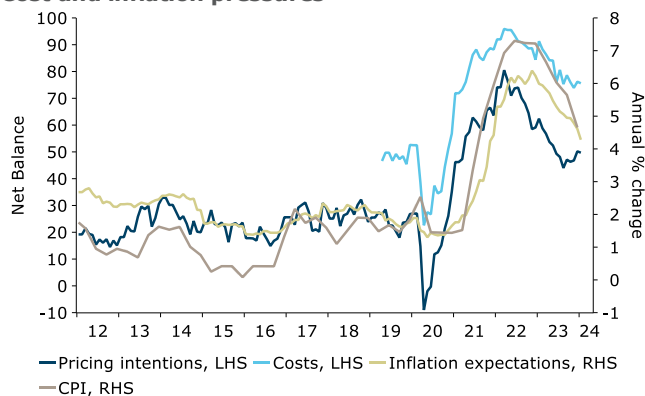
Export sales volumes



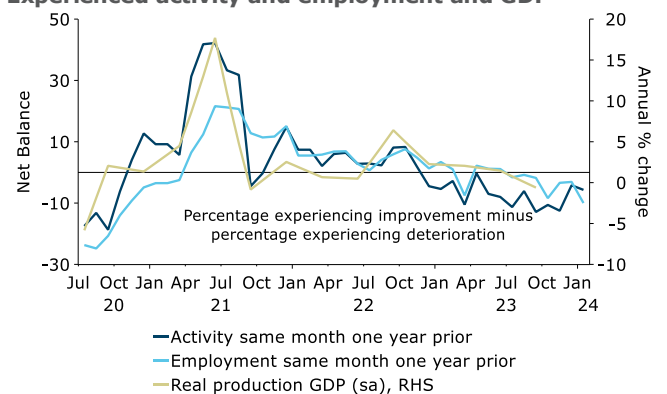
Investment intentions and capacity utilisation



Cost and inflation pressures



Experienced activity and employment and GDP



Source: ANZ, Statistics NZ, Macrobond



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