

ANZ New Zealand Business Outlook

30 April 2024



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Contact

Sharon Zollner for more details.

See page 6.

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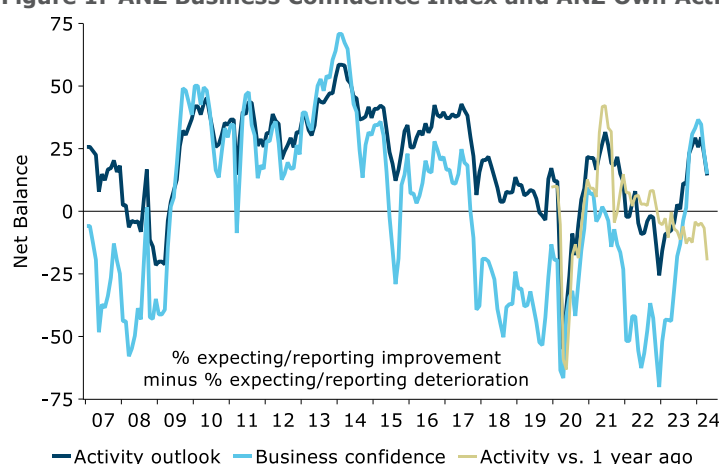
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Autumn chill

Key points

- Business confidence fell 8 points to +15 in April. Expected own activity fell 9 points to +14, and past own activity dropped 13 points to -20.
- Pricing intentions increased 2 points to 47 while inflation expectations were unchanged at 3.8%. Cost and wage pressures remain very high.

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



Source: Macrobond, ANZ Research

Table 1: Results versus last month

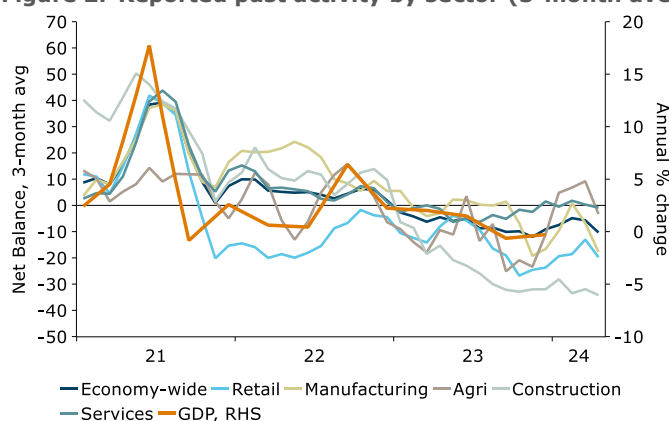
Net Balance	Apr	Mar	Comment
Business Confidence	14.9	22.9	Fell across every sector.
Own Activity Outlook	14.3	22.5	Widespread falls. Retail now in the red.
Export Intentions	4.3	7.8	Agri more optimistic than manufacturing.
Investment Intentions	-3.5	3.9	Three of five sectors now negative.
Cost Expectations	76.7	74.6	Highest since September last year, with lift led by services and manufacturing.
Wage Expectations	75.5	80.5	Still highest for construction.
Capacity Utilisation	9.2	11.7	Construction still negative.
Residential Construction	-8.6	7.4	Decent fall.
Commercial Construction	2.6	-3.3	Hanging in there.
Employment Intentions	-0.9	3.5	First negative read since July 2023.
Profit Expectations	-9.8	-3.8	Plummeted for the retail sector.
Pricing Intentions	46.9	45.1	Mixed bag of rises and falls.
Ease of Credit	-0.6	-4.2	Highest for services.
Inflation Expectations	3.76%	3.80%	Inching lower.
Activity – vs. same month one year ago	-19.6	-6.7	Ouch. All sectors now in the red. Retail and manufacturing weakest.
Employment – vs. same month one year ago	-13.7	-6.8	Weakest since Oct-20. Big drops in agriculture and manufacturing.

The April ANZ Business Outlook survey showed a clear weakening in activity and profitability indicators but mixed developments regarding inflation pressures. Cost pressure is particularly persistent.

Reported past activity, which has the best correlation to GDP, dropped sharply, with double-digit falls seen in every sector except construction, which eked out a 6-point lift, but at -24 is certainly not strong. Indeed, smoothing through the monthly volatility with a 3-month average (figure 2) shows construction continues to experience the largest recent fall in activity compared to a year earlier. But this month, the other sectors gave up some of their recent gains.

The economy-wide measure of past activity suggests the economy may eke out low but positive growth in Q1, but momentum is pretty shaky if this month's results are anything to go by.

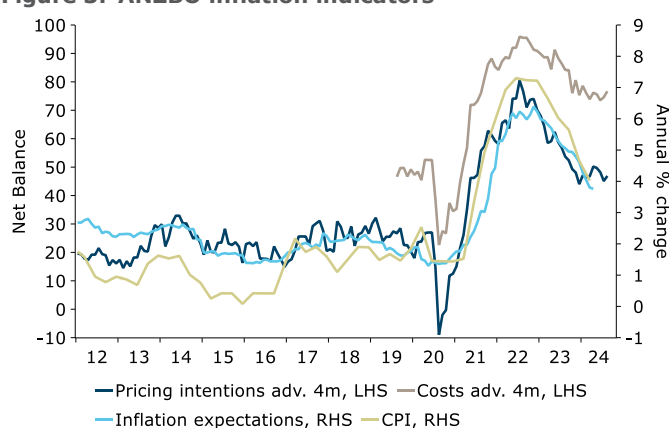
Figure 2. Reported past activity by sector (3-month average)



Source: Stats NZ, Macrobond, ANZ Research

Turning to inflation indicators, the net proportion of firms expecting higher costs and to raise prices in the next three months both lifted this month, albeit not by a lot (figure 3). This is likely related to a 5% increase in the WTI oil price since the start of March.

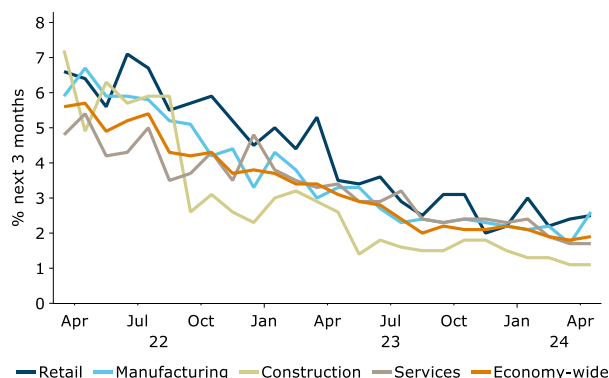
Figure 3. ANZBO inflation indicators



Source: Stats NZ, Macrobond, ANZ Research

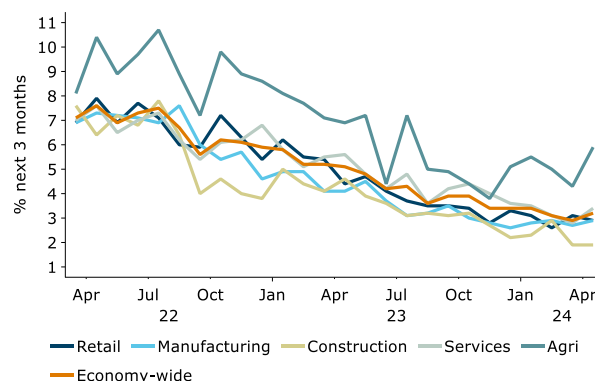
Firms' numerical estimates of where their own selling prices will be in three months' time lifted or were unchanged for every sector (figure 4, over). The average lifted marginally from 1.8% to 1.9%, driven by manufacturing. The downward trend remains intact, but the descent has been slower over the past eight months than it was previously. Note the agriculture sector is omitted from the chart as that sector generally can't set its prices.

Figure 4. Pricing intentions by sector



Source: Macrobond, ANZ Research

Figure 5. Cost expectations by sector

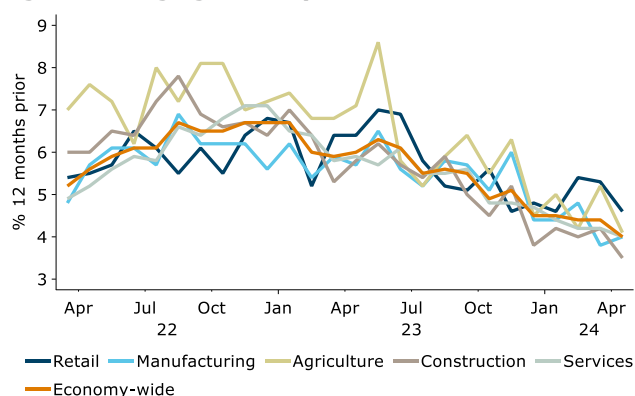


Source: Macrobond, ANZ Research

The magnitude of expected cost increases also lifted this month, indicating inflationary pressures are persisting. The measure of average costs three months from now lifted 0.3%pts to 3.2% in April (figure 5, above). The construction sector has the lowest expected cost increases (1.9%), while the agriculture sector has the highest, at 5.9%.

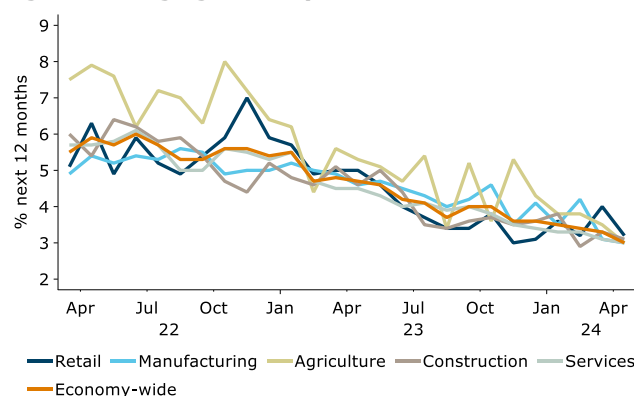
There was better news for the Reserve Bank in reported past wage increases (versus a year earlier), which fell from 4.4% to 4.0%, with falls in most sectors (figure 6). Expectations for wage settlements over the next 12 months also fell from 3.3% to 3.0%, tightly clustered by sector (figure 7).

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

The heatmap shows a lot of falls for retail, while construction had a slightly more positive vibe this month. Pricing pressures remain historically intense.

Table 2. Heatmap

	Levels					Monthly changes				
	Retail	Mfg	Agric	Constrn	Serv	Retail	Mfg	Agric	Constrn	Serv
Business Confidence	11.9	18.6	0.0	15.0	17.2	-18.3	-1.9	-8.3	-18.3	-5.2
Own activity outlook	-1.7	18.6	9.1	2.4	21.8	-20.6	-6.4	-7.6	-0.3	-7.6
Activity vs. same month one year ago	-33.9	-34.9	-18.2	-24.4	-9.0	-24.5	-14.4	-34.9	5.3	-11.0
Exports	-6.7	11.4	19.0	-15.4	8.9	-14.2	-3.3	5.4	-1.1	-0.6
Investment	5.2	-9.8	-31.8	2.4	-2.3	-6.1	-14.5	-23.5	2.4	-6.4
Capacity Utilisation	17.5	12.2	0.0	-2.4	10.5	-1.4	-1.8	-4.3	0.3	-3.1
Residential Construction	...	...	...	-8.6	...	...	...	...	-16.0	...
Commercial Construction	...	...	...	2.6	...	...	...	...	5.9	...
Employment	-6.8	0.0	-4.5	-4.9	1.7	-14.3	-9.1	3.8	5.9	-3.6
Employment vs. same month one year ago	-10.3	-20.9	-31.8	-25.0	-9.2	-10.3	-18.6	-27.6	0.0	-1.7
Profits	-22.0	-9.5	-31.8	-24.4	1.1	-25.8	-14.0	1.5	5.3	-1.5
Ease of Credit	-3.4	-9.5	0.0	-2.4	3.9	-7.2	11.9	37.5	-2.4	1.9
Costs	70.7	76.7	95.2	61.0	79.5	-3.8	8.5	-0.6	-2.9	4.7
Pricing Intentions	55.2	51.2	33.3	31.7	47.4	-10.2	10.3	4.1	-8.3	6.3

Note: Orange indicates high, and blue, low, becoming more intense at the extremes. The colours 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.

Our take

This month's survey had a fair whiff of cost-push inflation about it in a weak demand environment. Activity indicators are subdued, but many cost and inflation pressures increased. Possible culprits include the rising oil price as Middle East tensions escalate and a decline in the NZD over recent months (though it's now 1% off its lows) which are pushing up the cost of imports. The minimum wage increase on 1 April is another source of cost inflation, though this was a considerably smaller increase than in previous years.

As long as the demand side of the economy remains constrained, and that's certainly written all over this survey, the RBNZ can very reasonably hope that cost-push inflation pressures can wash through with little in the way of second-round effects. But it is certainly a reminder that the path back to the target inflation midpoint is unlikely to be a smooth one, and a 5.5% peak in the OCR remains conditional. The economy has indisputably weakened markedly in response to higher interest rates as the COVID-era excesses are unwound, but inflation still remains a long way above the target band, and domestic inflation pressures have eased a lot more slowly than the RBNZ expected when they called a halt to OCR hikes in May last year.

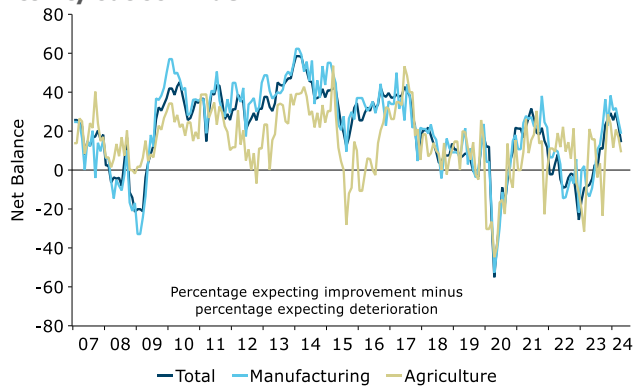
Survey Results April 2024

Net Balance	April	Previous (Mar)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	14.9	22.9	11.9	18.6	0.0	15.0	17.2
Own Activity Outlook	14.3	22.5	-1.7	18.6	9.1	2.4	21.8
Export Intentions	4.3	7.8	-6.7	11.4	19.0	-15.4	8.9
Investment Intentions	-3.5	3.9	5.2	-9.8	-31.8	2.4	-2.3
Cost Expectations	76.7	74.6	70.7	76.7	95.2	61.0	79.5
Capacity Utilisation	9.2	11.7	17.5	12.2	0.0	-2.4	10.5
Residential Construction	-8.6	7.4	...	...	...	-8.6	...
Commercial Construction	2.6	-3.3	...	...	...	2.6	...
Employment Intentions	-0.9	3.5	-6.8	0.0	-4.5	-4.9	1.7
Profit Expectations	-9.8	-3.8	-22.0	-9.5	-31.8	-24.4	1.1
Pricing Intentions	46.9	45.1	55.2	51.2	33.3	31.7	47.4
Ease of Credit Expectations	-0.6	-4.2	-3.4	-9.5	0.0	-2.4	3.9
Inflation Expectations (%)	3.76	3.80	3.60	3.94	4.47	3.80	3.68
Activity – same month one year ago	-19.6	-6.7	-33.9	-34.9	-18.2	-24.4	-9.0
Employment – same month one year ago	-13.7	-6.8	-10.3	-20.9	-31.8	-25.0	-9.2
Price Expectations – 3 months from now (%)	1.9	1.8	2.5	2.6	2.1	1.1	1.7
Cost Expectations – 3 months from now (%)	3.2	2.9	2.9	2.9	5.9	1.9	3.4
Wages/Salaries – next 12 months (%)	3.0	3.3	3.2	3.0	3.0	3.1	3.0
Wages/Salaries – same month a year ago (%)	4.0	4.4	4.6	4.0	4.1	3.5	4.0

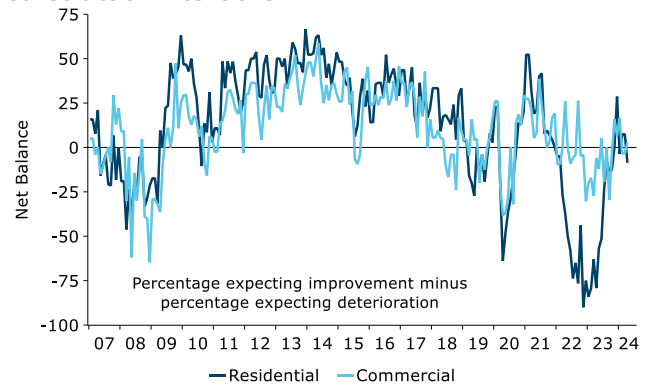


Charts

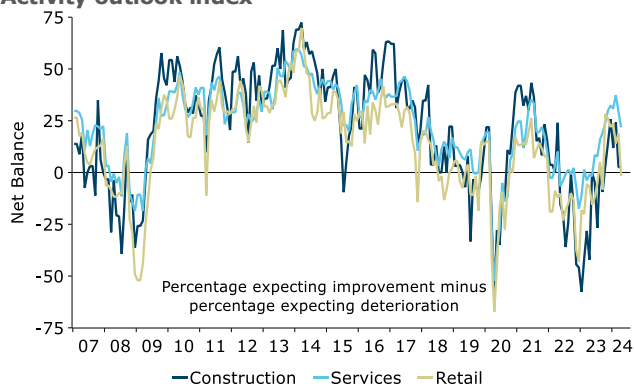
Activity outlook index



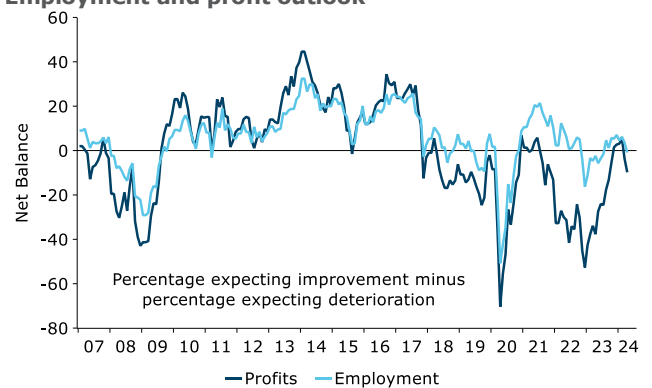
Construction intentions



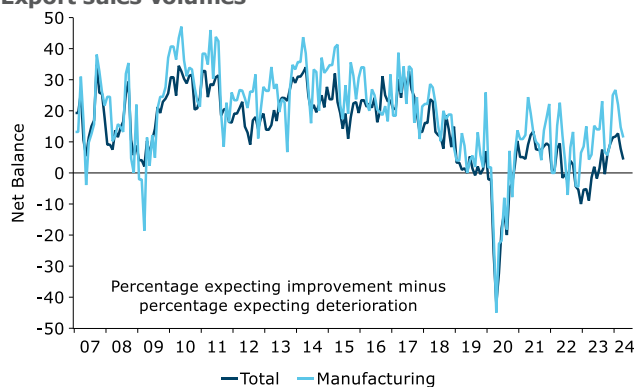
Activity outlook index



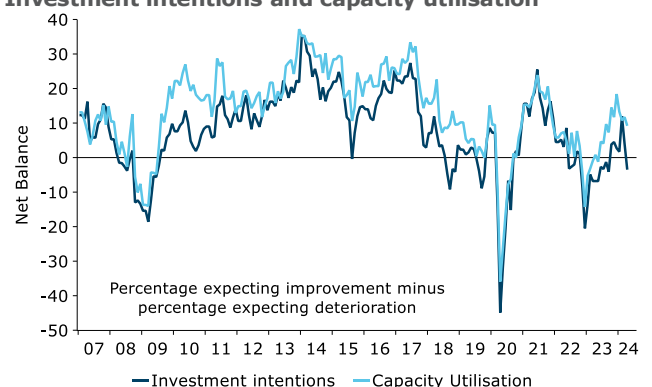
Employment and profit outlook



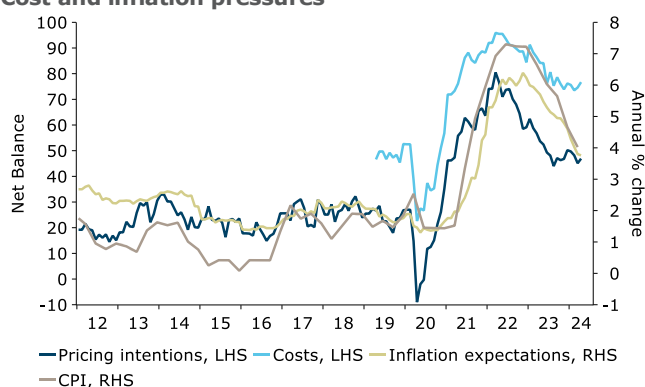
Export sales volumes



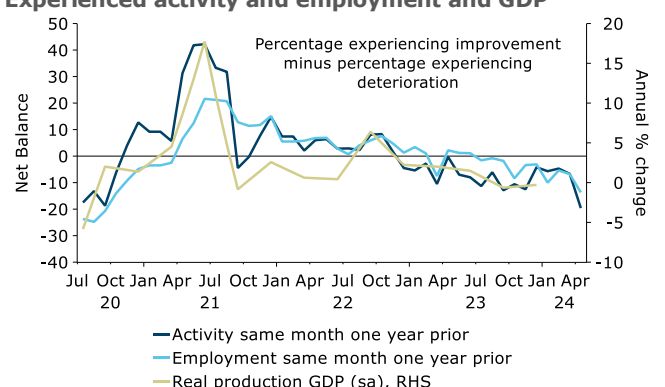
Investment intentions and capacity utilisation



Cost and inflation pressures



Experienced activity and employment and GDP



Source: ANZ, Statistics NZ, Macrobond



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