

ANZ New Zealand Business Outlook

31 July 2024



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Contact

Sharon Zollner for more details.

See page 6.

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

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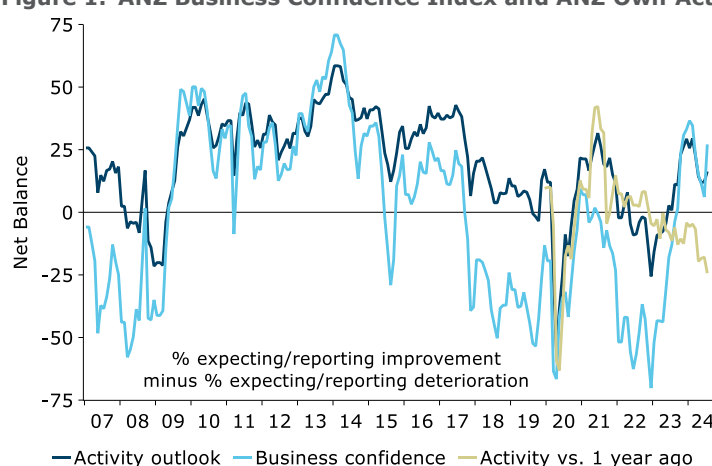
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Looking up – albeit out of a deeper hole

Key points

- Business confidence jumped 21 points to +27 in July, and expected own activity lifted 4 points to +16. To be fair, these up/down responses are relative to an ever-weaker starting point (past own activity dropped 6 points to -24), so there's a bit of a "well, can't get any worse" vibe to it.
- Pricing intentions lifted 3 points to 38, but inflation expectations eased from 3.5% to 3.2%. Inflation indicators were softer in the later sample.

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



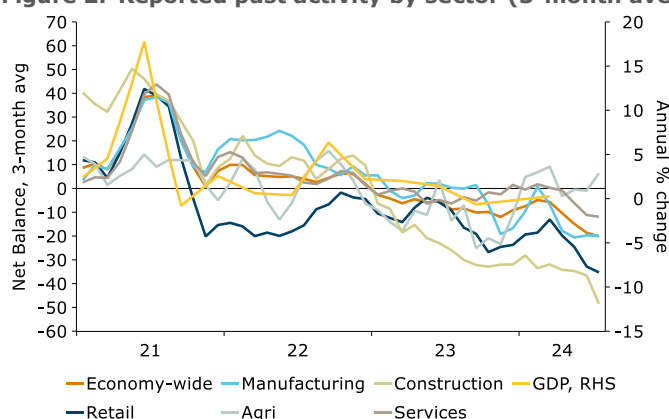
Source: Macrobond, ANZ Research

Table 1: Results versus last month

Net Balance	July	Jun	Comment
Business Confidence	27.1	6.1	Lifted for every sector except retail (flat).
Own Activity Outlook	16.3	12.2	Retail more downbeat but services higher.
Export Intentions	9.9	0.9	Almost back to January levels.
Investment Intentions	-1.4	-4.0	Still not back in the black.
Cost Expectations	68.2	69.2	Construction the lowest since late-2020.
Wage Expectations	74.6	73.5	Net 81% of construction firms still expecting to lift wages, top of the pops.
Capacity Utilisation	8.4	4.4	Decent lift for manufacturing.
Residential Construction	6.2	-11.5	Hanging in there.
Commercial Construction	-11.4	-3.6	Bouncing around in the red.
Employment Intentions	-3.6	0.0	Manufacturing the only sector in the black.
Profit Expectations	-3.6	-10.9	Construction digging itself out of the mire.
Pricing Intentions	37.6	35.3	A bounce everywhere except construction.
Ease of Credit	-0.8	-12.2	Most sectors were higher (credit is easier).
Inflation Expectations	3.20%	3.46%	The steady downward slide continues.
Activity – vs. same month one year ago	-24.3	-17.9	Yet to find a floor. Construction at -60, retail -41, manufacturing -35: ugly.
Employment – vs. same month one year ago	-20.4	-17.2	Every sector is in the red. Construction weakest at -50.

The July ANZ Business Outlook survey was a mixed bag. Forward-looking activity indicators generally bounced, but it's worth remembering that they are expressed as expectations of higher or lower versus current conditions, and those generally continue to worsen. Reported past activity, which has the best correlation to GDP, fell further to a net 24% of firms reporting that activity in the previous month was lower than a year earlier. Smoothing through the monthly volatility with a 3-month average (figure 2), it's clear that most sectors continue to deteriorate, with construction and retail the weakest sectors by quite some margin. The economy-wide indicator is looking very soft.

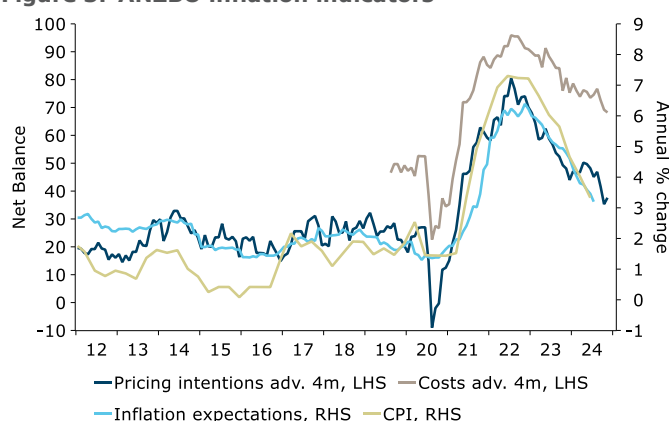
Figure 2. Reported past activity by sector (3-month average)



Source: Stats NZ, Macrobond, ANZ Research

Price and cost intentions (the net % of firms expecting increases) took a breather after a solid fall last month (figure 3). Overall, things continue to move in the right direction – not at a speed that suggests inflation will fall faster than the RBNZ expects, but rather suggesting the RBNZ can have more confidence in its forecasts of inflation returning sustainably to the target band.

Figure 3. ANZBO inflation indicators



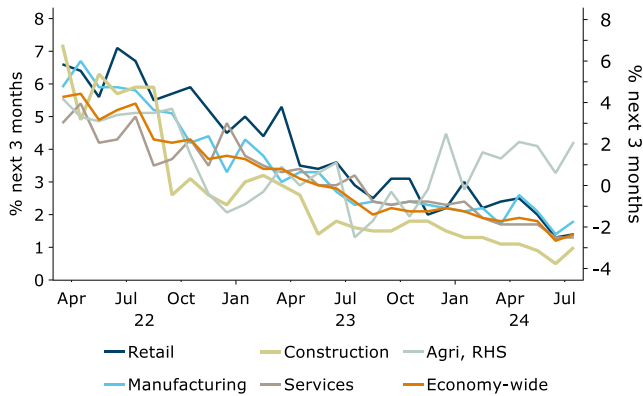
Source: Stats NZ, Macrobond, ANZ Research

Highlighting that progress is seldom a straight line, firms' numerical estimates of where their own selling prices will be in three months' time lifted for every sector except services, though not in a way that threatens the downward trend (figure 4, over). The average lifted from 1.2% to 1.4%. The construction sector has the lowest pricing intentions (1.0%). Agriculture prices are bucking the trend, but the agriculture sector's price expectations aren't a useful indicator for New Zealand inflation pressures – they are more closely related to global commodity prices.

Encouragingly for the RBNZ, the 29% of responses that came in after both the RBNZ Monetary Policy Review (10 July) and the CPI data (17 July) showed lower inflation expectations, pricing intentions and particularly cost expectations (interest rates are a cost for many businesses). The activity indicators were not notably different.

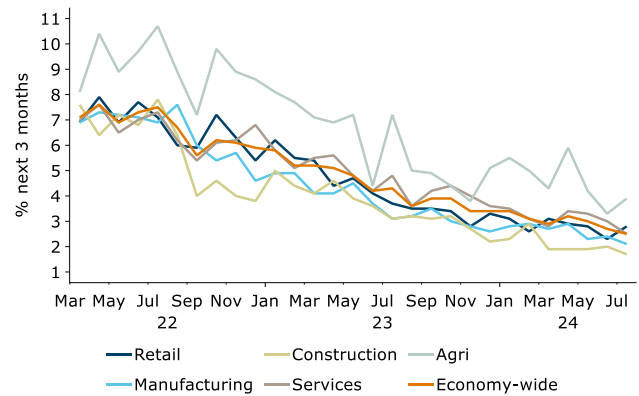
The magnitude of expected cost increases (whole sample) eased from 2.7% to 2.5% (figure 5). The construction sector has the lowest expected cost increases for the next three months (1.7%), while the agriculture sector has the highest, at 3.9%.

Figure 4. Pricing intentions by sector



Source: Macrobond, ANZ Research

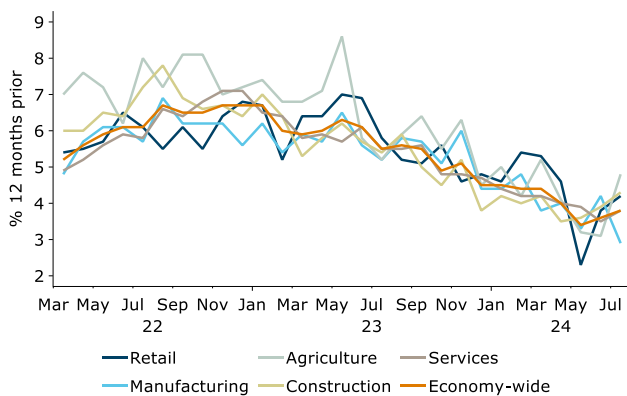
Figure 5. Cost expectations by sector



Source: Macrobond, ANZ Research

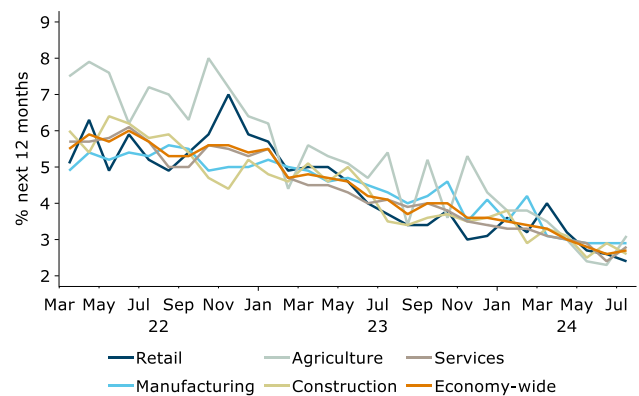
Reported wage increases versus a year earlier lifted from 3.6% to 3.8%, with a lift for every sector except manufacturing (figure 6). Arguably more importantly for the inflation outlook, expectations for wages over the next 12 months were pretty steady at 2.7% (figure 7). That's a rate of increase the RBNZ would likely be quite content with, were it to come to fruition.

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 shows a real mixed bag of rises and falls over the month for most indicators by question and sector. In level terms, construction is the most pessimistic, but firms across the economy are still pretty blue.

Table 2. Heatmap

	Levels					Monthly changes				
	Retail	Mfg	Agric	Constrn	Serv	Retail	Mfg	Agric	Constrn	Serv
Business Confidence	25.4	33.3	17.9	20.0	29.9	0.4	13.3	52.5	8.2	29.3
Own activity outlook	1.7	22.9	21.4	7.5	20.9	-7.2	0.7	-1.7	4.6	9.1
Activity vs. same month one year ago	-41.4	-35.4	3.6	-60.0	-11.2	-7.5	-17.6	-11.8	-24.7	1.8
Exports	7.0	20.0	11.1	-8.3	12.0	4.6	6.1	11.1	1.2	12.0
Investment	-8.9	10.6	-3.6	-5.0	-0.5	-5.3	10.6	23.3	-5.0	0.7
Capacity Utilisation	8.8	19.1	14.3	-2.5	7.2	-0.5	16.8	14.3	9.6	-1.2
Residential Construction	...	...	...	6.2	...	...	...	...	17.7	...
Commercial Construction	...	...	...	-11.4	...	...	...	...	-7.8	...
Employment	-10.3	10.4	-10.7	-2.5	-3.8	-1.4	-10.1	-3.0	-2.5	-3.2
Employment vs. same month one year ago	-15.5	-18.7	-21.4	-50.0	-15.8	5.9	3.5	-13.7	-2.9	-6.9
Profits	-10.5	-2.1	-10.7	-17.5	3.2	0.2	2.3	8.5	9.0	10.0
Ease of Credit	-1.7	2.1	-25.0	7.5	2.2	7.2	24.3	25.0	-1.3	9.0
Costs	70.7	58.3	81.5	60.0	69.1	16.2	-12.8	-6.5	-2.5	-1.9
Pricing Intentions	41.4	41.7	38.5	27.5	37.4	3.2	3.9	14.5	-8.9	4.7

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

We're still in a "bad news is good news" world as far as the RBNZ is concerned, but hopefully not for too much longer. With increasing evidence that monetary policy has worked and possibly rather too well, there is now a widespread expectation that the RBNZ will commence easing the Official Cash Rate this year.

Just as it took time for the pain from rate hikes to feed through into the broader economy, lower rates will not provide immediate relief to many. With unemployment rising and fiscal policy now far less expansionary, things are likely to feel worse before they feel better. But the evidence is mounting that the inflation dragon is on its last legs, which sets the New Zealand economy up for a more robust recovery than if the job were half done.

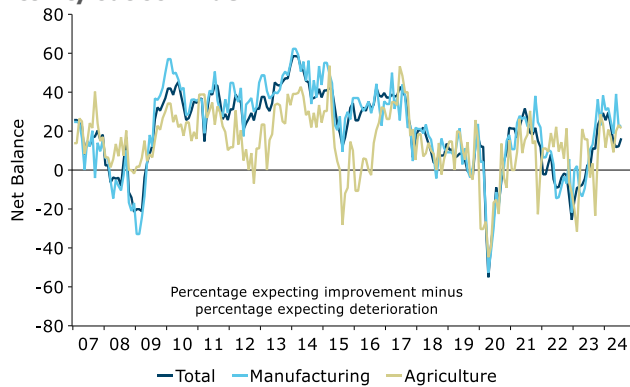
Survey Results July 2024

Net Balance	July	Previous (June)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	27.1	6.1	25.4	33.3	17.9	20.0	29.9
Own Activity Outlook	16.3	12.2	1.7	22.9	21.4	7.5	20.9
Export Intentions	9.9	0.9	7.0	20.0	11.1	-8.3	12.0
Investment Intentions	-1.4	-4.0	-8.9	10.6	-3.6	-5.0	-0.5
Cost Expectations	68.2	69.2	70.7	58.3	81.5	60.0	69.1
Capacity Utilisation	8.4	4.4	8.8	19.1	14.3	-2.5	7.2
Residential Construction	6.2	-11.5	...	...	...	6.2	...
Commercial Construction	-11.4	-3.6	...	...	...	-11.4	...
Employment Intentions	-3.6	0.0	-10.3	10.4	-10.7	-2.5	-3.8
Profit Expectations	-3.6	-10.9	-10.5	-2.1	-10.7	-17.5	3.2
Pricing Intentions	37.6	35.3	41.4	41.7	38.5	27.5	37.4
Ease of Credit Expectations	-0.8	-12.2	-1.7	2.1	-25.0	7.5	2.2
Inflation Expectations (%)	3.20	3.46	3.26	3.35	3.31	3.16	3.13
Activity – same month one year ago	-24.3	-17.9	-41.4	-35.4	3.6	-60.0	-11.2
Employment – same month one year ago	-20.4	-17.2	-15.5	-18.7	-21.4	-50.0	-15.8
Price Expectations – 3 months from now (%)	1.4	1.2	1.4	1.8	2.1	1.0	1.3
Cost Expectations – 3 months from now (%)	2.5	2.7	2.8	2.1	3.9	1.7	2.5
Wages/Salaries – next 12 months (%)	2.7	2.6	2.4	2.9	3.1	2.6	2.8
Wages/Salaries – same month a year ago (%)	3.8	3.6	4.2	2.9	4.8	4.3	3.8

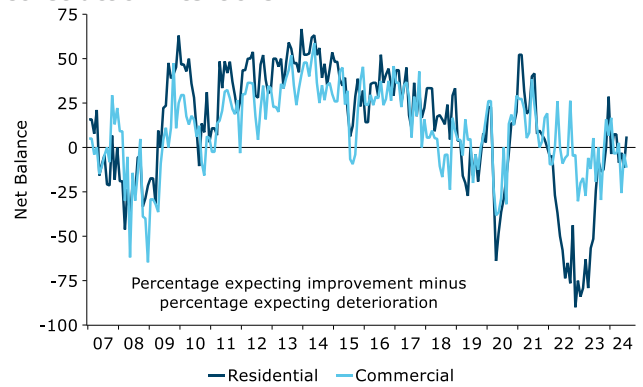


Charts

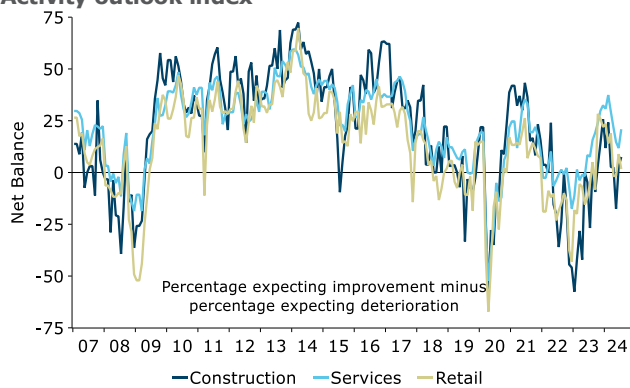
Activity outlook index



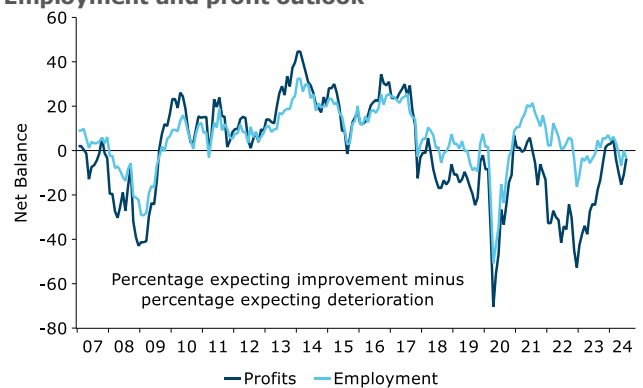
Construction intentions



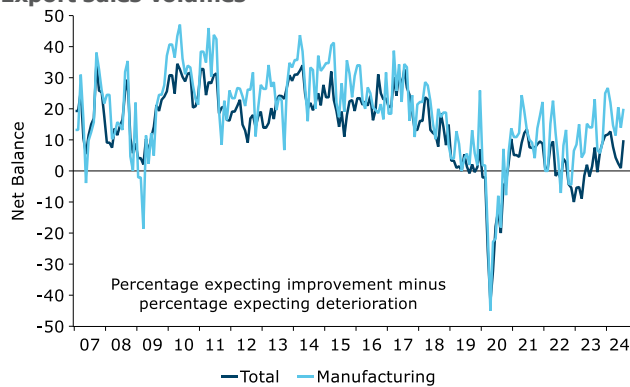
Activity outlook index



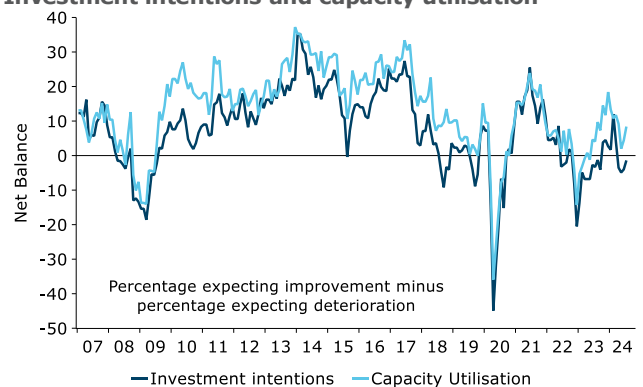
Employment and profit outlook



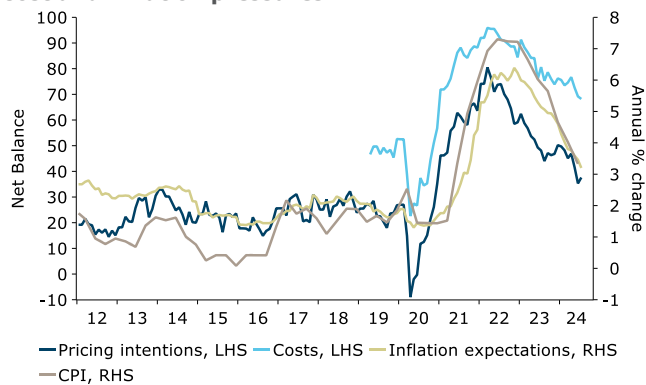
Export sales volumes



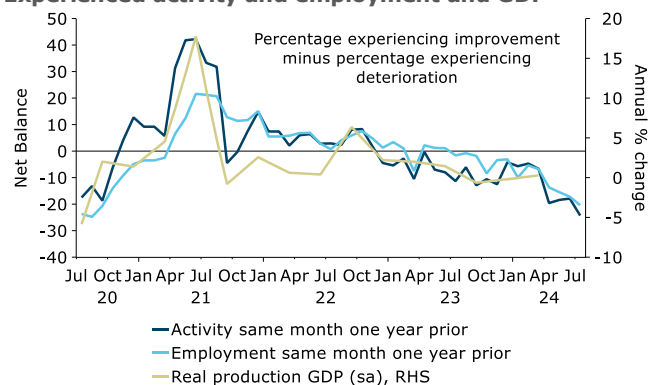
Investment intentions and capacity utilisation



Cost and inflation pressures



Experienced activity and employment and GDP



Source: Statistics NZ, Macrobond, ANZ Research



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