

ANZ New Zealand Business Outlook

30 July 2020



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The next preliminary Business Outlook comprising early-August results at an economy-wide level will be released on 10 August at 1pm. The next standard full-month release of the ANZ *Business Outlook* is due on 31 August at 1pm.

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Pause or stall?

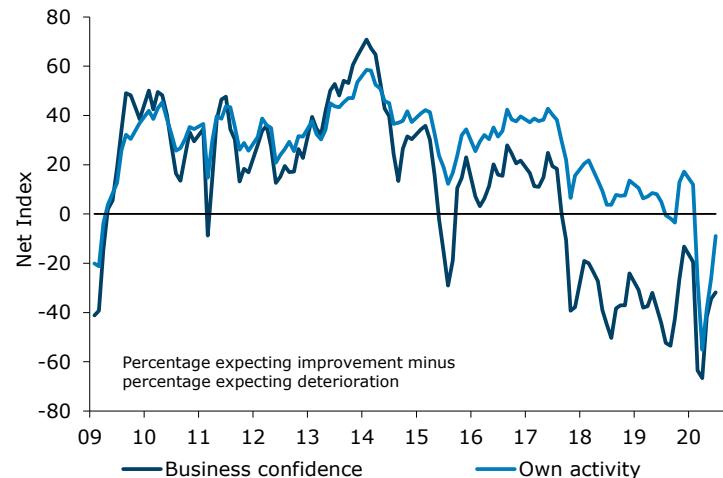
Key points

- The vigorous bounce out of lockdown appears to be topping out, with most activity indicators in the ANZ Business Outlook survey slipping slightly from their early-July preliminary reads, albeit still well up on June.
- Headline business confidence was at -32%, slightly lower than the preliminary read of -30% but better than June's -34%.
- A net 9% of firms expect weaker activity for their own business, well up on June's -26%, but the improvement has stalled (preliminary read: -7%).
- The retail sector has driven much of the rebound since June. The export-focused agriculture sector is now the most negative regarding expected activity, export intentions, profitability, credit availability, investment intentions and employment intentions.
- 31% of firms say they intend to lay off staff, and 24% say they have fewer staff than a year ago (some of these will be the same firms). These numbers have improved significantly from their lows.

The full-month July ANZ Business Outlook Survey overall continued to show a bounce versus June (figure 1), but the bounce appears to be running out of steam, with some slippage compared to the [preliminary July read](#):

- Slightly weaker than the preliminary read:** business confidence, own activity, expected profitability, investment intentions, capacity utilisation, pricing intentions, ease of credit, activity vs. a year ago, employment vs. a year ago.
- Similar to the preliminary read:** expected costs, employment intentions, inflation expectations.
- Stronger than the preliminary read:** export intentions, residential construction intentions, commercial construction intentions.

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



Source: ANZ Research

The full month data comprises a large enough sample to examine the data by sector. Below is a heat map of both changes and levels.

	Levels					Monthly change				
	Retail	Mfg	Agric	Constrn Services		Retail	Mfg	Agric	Constrn Services	
Business Confidence	-22.6	-46.8	-54.5	-26.3	-25.2	-1.1	-23.3	8.8	21.2	9.4
Activity Outlook	-9.3	-11.3	-15.2	-10.5	-5.0	7.4	18.6	1.5	24.5	22.9
Activity – vs one year ago	-3.7	-18.0	-6.1	10.5	-31.4	47.1	26.1	-19.4	23.0	24.2
Exports	-2.8	-8.0	-20.7	-13.6	-16.9	9.4	13.8	4.3	3.1	0.7
Investment	9.6	-5.0	-24.2	5.3	-11.5	14.1	14.7	9.1	17.8	14.2
Capacity Utilisation	-7.7	-15.0	-6.1	2.7	-6.8	4.8	15.2	-2.7	24.3	6.8
Residential Construction	...	...	...	-29.0	...	...	...	...	7.4	...
Commercial Construction	...	...	...	0.0	...	...	...	...	28.6	...
Employment	-5.7	-21.0	-24.2	-10.5	-14.7	22.0	17.8	2.5	12.0	24.2
Employment – vs one year ago	-34.6	-27.9	-12.1	-7.9	-25.8	10.7	-1.0	4.6	9.6	20.0
Profits	-20.4	-33.9	-57.6	-29.7	-18.1	19.6	13.9	12.4	27.8	25.1
Ease of Credit	-35.2	-45.2	-54.5	-31.6	-44.4	4.8	10.7	0.7	-4.1	-0.2
Costs	55.6	43.5	48.5	18.9	31.4	14.7	11.7	25.2	13.9	6.3
Pricing Intentions	40.7	14.5	-12.1	13.5	6.9	18.0	13.0	24.6	33.5	6.4

Note: the colour coding is based on standardised values that take into account the historical average and variation in each series, eg "agriculture sector employment intentions". So if, for example, a series is low compared to others but that's not unusual, it is less likely to be marked in red.

Some themes that emerge from this:

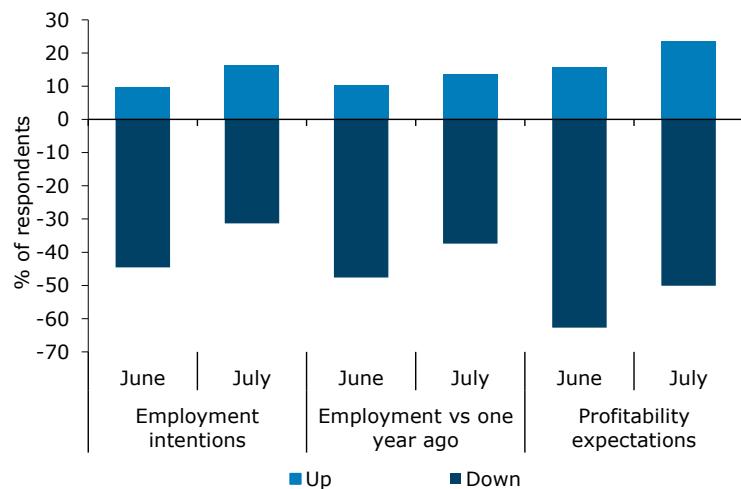
- On the activity side, a particular weak spot is agriculture export intentions, while more broadly, the weaker sectors are manufacturing, agriculture and services. Retail is now one of the more optimistic sectors, as is construction.
- Looking at how the data has changed compared to June, increasing pressures on the agriculture sector are again evident. Business confidence in the manufacturing sector also fell unusually sharply, which may be related to renewed Covid-19 troubles in the key market of Australia.
- Cost pressures and pricing intentions are continuing to lift off their lows, though to a lesser extent in the services sector.
- The labour market is looking a little better – employment intentions in the services sector bounced back considerably, though levels remain weak, with hospitality and tourism under extreme pressure. Retail sector employment intentions have also bounced back, and to stronger levels, presumably as a result of the sharp bounce in spending seen post-lockdown. However, on net the sector is still intending to reduce employment.

We typically report numbers on a net basis, but at times of turmoil it can be useful to delve into the nuance. Figure 2 (over) shows that for employment data, compared to June:

- a higher proportion of firms say they intend to take on staff;
- a lower proportion say they intend to let staff go;
- a higher proportion of firms say they have more staff than a year ago; and
- a lower proportion say they have fewer staff than a year ago.

And every sector reported higher employment intentions. The improvement is therefore certainly not a statistical quirk. However, the weight of the responses is still towards a weakening labour market, in line with still-weak profitability expectations.

Figure 2. The employment picture



Source: ANZ Research

Our take

The New Zealand economy is in a relative sweet spot. Of course there's the massively important fact that we don't have community transmission of Covid-19 and therefore have fewer restrictions on our lives than almost anywhere else in the world. But also, we're in a sweet spot in terms of the evolution of activity. Bounces are fun, but this one has probably nearly run its course.

The rebound out of lockdown has been enthusiastic for retail, domestic tourism, and the housing market. Households have had a very happy time spending their holiday savings and the money that they would have spent during lockdown, if the shops had been open. And the economic pain arising from the closed border and sharply weaker global growth is yet to be fully felt – partly because an economy is just a slow ship to turn, but partly because of the enormous fiscal stimulus such as the wage subsidy scheme that is masking the real income hit that the economy is experiencing.

Unfortunately, that blow is coming; it's inevitable. That the border will remain closed for the rest of the year is one of the few certainties in our economic forecasts at the moment. And that fact, in and of itself, means a big hole in economic activity, centred on tourism and the foreign education sector.

The blow won't be felt evenly – the country will effectively split into two economies – the tourism-dependent regions and the rest. But the blow will be felt, and looking at the full-July Business Outlook data versus the more-optimistic take at the beginning of the month, the post-lockdown bounce may be running out of puff. Gravity is calling.

All up, this might be as good as it gets for a while. Still, looking at what's happening abroad, we can count our lucky stars.

Survey Results July 2020

Net Balance	Total	Prelim July ⁴	Previous (June)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-31.8	-29.8	-34.4	-22.6	-46.8	-54.5	-26.3	-25.2
Own Activity Outlook	-8.9	-6.8	-25.9	-9.3	-11.3	-15.2	-10.5	-5.0
Export Intentions	-12.7	-14.7	-17.8	-2.8	-8.0	-20.7	-13.6	-16.9
Investment Intentions	-6.7	-4.5	-20.5	9.6	-5.0	-24.2	5.3	-11.5
Cost Expectations	37.4	37.5	26.7	55.6	43.5	48.5	18.9	31.4
Capacity Utilisation	-7.8	-3.4	-16.4	-7.7	-15.0	-6.1	2.7	-6.8
Residential Construction	-29.0	-34.8	-36.4	...	...	...	-29.0	...
Commercial Construction	0.0	4.3	-28.6	...	...	...	0.0	...
Employment Intentions	-15.1	-15.3	-34.7	-5.7	-21.0	-24.2	-10.5	-14.7
Profit Expectations	-26.6	-25.8	-46.8	-20.4	-33.9	-57.6	-29.7	-18.1
Pricing Intentions	11.8	14.1	-0.3	40.7	14.5	-12.1	13.5	6.9
Ease of Credit Expectations	-42.9	-36.5	-45.0	-35.2	-45.2	-54.5	-31.6	-44.4
Inflation Expectations (%)	1.39	1.4	1.44	1.47	1.65	1.22	1.33	1.34
Activity outlook – same month one year ago	-17.5	-14.2	-42.6	-3.7	-18.0	-6.1	10.5	-31.4
Employment – same month one year ago	-23.7	-21.4	-37.4	-34.6	-27.9	-12.1	-7.9	-25.8

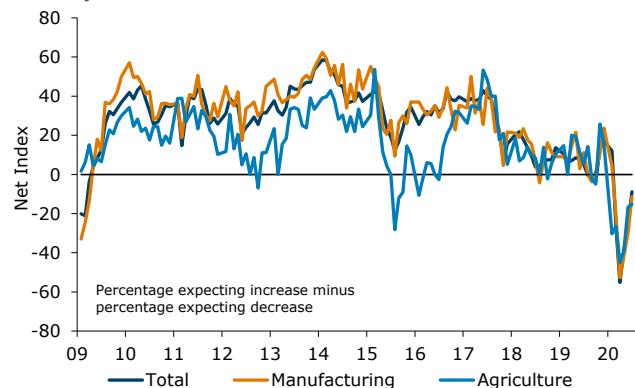
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⁴ These results include data collected in the first week of the July survey and were published on 9 July.

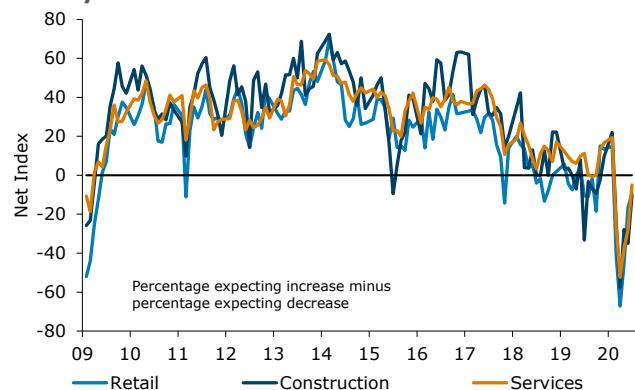


Charts

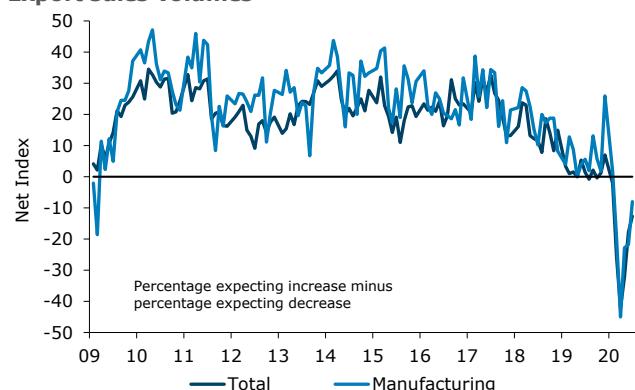
Activity outlook index



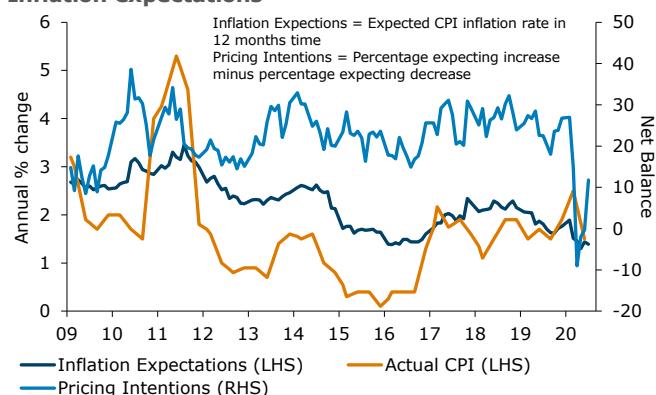
Activity outlook index



Export sales volumes

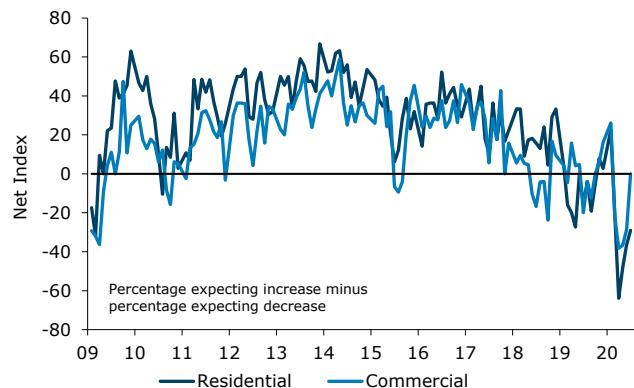


Inflation expectations

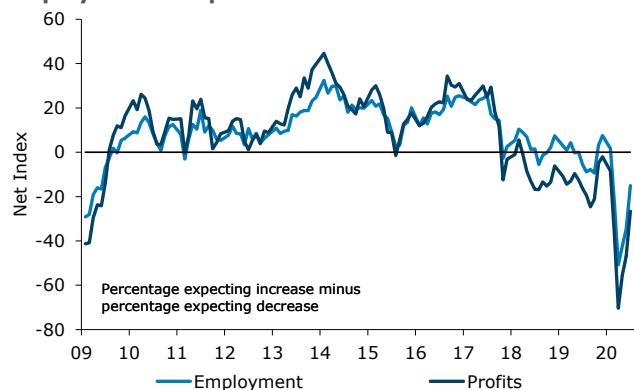


Source: ANZ, Statistics NZ

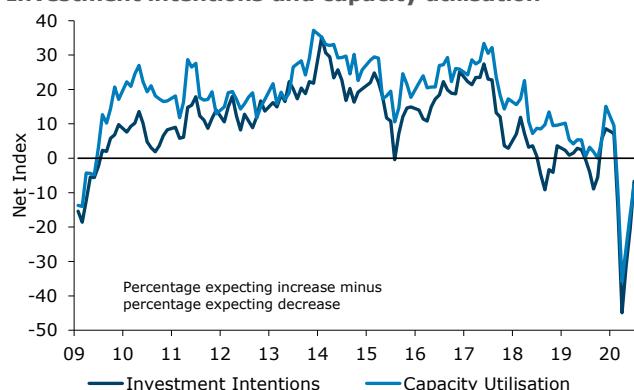
Construction intentions



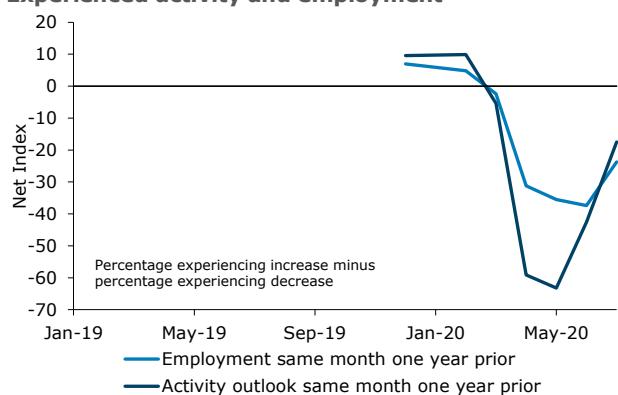
Employment and profit outlook



Investment intentions and capacity utilisation



Experienced activity and employment





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