

ANZ New Zealand Business Outlook

30 April 2020



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The next preliminary Business Outlook comprising early-May results at an economy-wide level will be released on 11 May at 1pm. The next standard full-month release of the ANZ *Business Outlook* is due on 28 May at 1pm.

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Past the extreme lows

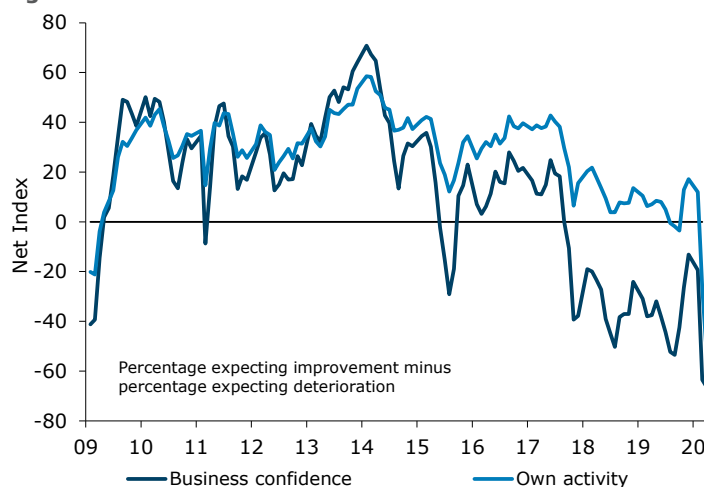
Key points

- Results for the full month of April were slightly less bleak than the early-month results released on the 8th.
- Compared to March, April headline business confidence fell a further 3 points to -67%, but this was a small improvement versus the preliminary April read of -73%. A net 55% of firms expect weaker activity for their own business, awfully weak, but again, higher than the preliminary April data (-61%).
- Retail sector own activity is the weakest at -67%, with construction at -58%.
- Expected profitability, investment and employment intentions, while all deeply negative, saw small bounces from early April. A net 51% of firms intend to lay off staff, with remarkably even results across sectors.
- Inflation expectations also bounced to 1.46%, still well short of the 2% target midpoint but an improvement on the 1.28% level in the preliminary data.

The full-month April ANZ Business Outlook Survey was, while still dire, a slight improvement on the preliminary early-April results. A glimmer of light at the end of the tunnel emerged over the month, with the country making solid progress in its COVID-19 battle. But there was also a technical element to the lift: given the questions are typically whether things will go up, down or sideways, for the roughly one third of the economy that couldn't operate at all under Level 4 lockdown, 'down' wasn't an option, for activity levels at least.

About two thirds of responses were included in our preliminary release on 8 April. The first sample group scored -73% for business confidence; the second sample reported -58%. Similarly, a net 61% of firms who responded early in the month expected weaker activity ahead for their own firm; a net 47% of the later sample did. At least the data have found a floor, albeit a damp, cold basement.

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



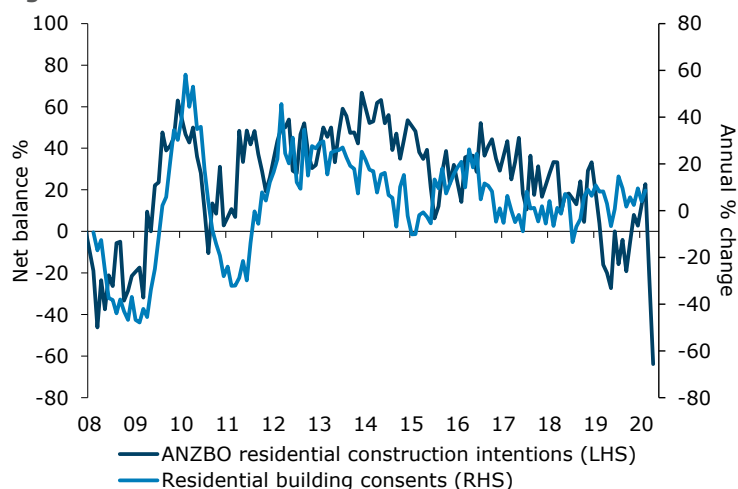
Source: ANZ Research

Inflation expectations also bounced compared to the preliminary data, but cost expectations and pricing intentions continued to ease over the month.

Turning to the detail:

- **Employment** intentions show a net 51% of firms intending to reduce employment, with the various sectors in a tight range. The data is similar to the preliminary results (-54%). However, the net percent of firms saying they now have fewer employees than a year ago continues to deteriorate, with a net 36% in the late-month sample versus 28% in the preliminary results (month total: -31%).
- **Investment** intentions are -45%. They remain lowest for agriculture, with retail close behind. Investment intentions overall lifted over the month: they were -50% in the early sample and -37% in the later sample.
- **Capacity utilisation**, one of the best GDP indicators in the survey, continued to decline over the month, from -35% in the early-month sample to -38% in the later sample.
- **Profit** expectations are abysmal at -70% but again, they improved over the month (preliminary: -73%, late-month -67%). Somewhat surprisingly perhaps, they are weakest for agriculture (-86%) and least negative for construction (though it would be misleading to put much of a positive spin on -58%).
- **Commercial construction** intentions fell another 16 points from -22% in March to -38%; **residential** plunged from -21% to -64%. We don't publish preliminary data for these series as the sample size is too small.

Figure 2. ANZBO residential construction intentions and dwelling consents



Source: Statistics NZ, ANZ Research

- **Export** intentions, at -42%, were similar to the preliminary April read.
- **Activity versus a year ago** continued to deteriorate over the month. A net 59.1% of firms (and a net 81% of retailers) report lower activity than the same month a year ago.
- Expected **availability of credit** fell slightly from the preliminary read with a net 46% of firms expecting credit to be harder to get.
- A net 23% of firms expect higher **costs**, with expectations lowest for services (14%). This data was little changed over the month.
- **Pricing intentions** eased slightly over the month, with a net 9% of firms expecting to cut prices. They were weakest for agriculture, construction and services. **Inflation expectations** have bounced markedly from their low of 1.2% in the second half of March to 1.7% in the second half of April.

Our take

It doesn't get much worse for a peacetime economy than Level 4 lockdown. It's good to look at the early versus late data split of the April ANZ Business Outlook data, as it shows that many business activity and confidence metrics are in fact off their lows. That isn't clear from the full month data that's charted on pages 1 and 4.

But that's not a great deal of comfort. The levels of most indicators remain at levels that were frankly unthinkable before COVID-19 reached our shores. Businesses are really hurting. And it's not just expectations. The proportion of firms that have already seen lower activity and have let staff go continues to rise. That will clearly remain a theme for some time.

The Reserve Bank and the Government clearly have their work cut out to get this economy back on track. The Reserve Bank will be pleased to see the decline in inflation expectations arrested, suggesting that the launch of aggressive quantitative easing has had some success in demonstrating their commitment to keeping inflation within the target band. But with the survey data confirming a period of significant weakness ahead for the economy, they can't relax.

Nor can business owners. It's a very bumpy road ahead as we take our first tentative steps back to normality. The nearly month-long level 4 lockdown was a triumph in terms of achieving its medical goals, but at an enormous economic cost. It has bought us a degree of certainty about the path forward of which most countries would be deeply envious. But it could still go awry. Let's all do our part to do this exit right, lock in our hard-won gains, and make sure we never see Level 4 lockdown again.

Survey Results April 2020

| Net Balance | Total | Prelim April ¹ | Previous (Mar) | Retail | Mfg | Agric | Constrn | Services |
|--|-------|---------------------------|----------------|--------|-------|-------|---------|----------|
| Business Confidence | -66.6 | -73.1 | -63.5 | -70.7 | -65.3 | -89.7 | -71.8 | -60.3 |
| Activity Outlook | -55.1 | -61.2 | -26.7 | -67.2 | -52.7 | -44.8 | -57.9 | -52.4 |
| Exports | -42.1 | -43.6 | -25.8 | -43.6 | -45.0 | -40.7 | -23.8 | -43.5 |
| Investment | -44.9 | -50.2 | -14.4 | -53.6 | -42.3 | -62.1 | -31.6 | -42.8 |
| Costs | 22.6 | 24.4 | 38.6 | 31.0 | 28.4 | 34.5 | 28.2 | 14.0 |
| Capacity Utilisation | -35.9 | -34.8 | -9.4 | -42.9 | -38.0 | -7.4 | -27.0 | -39.4 |
| Residential Construction | -63.9 | ... | -20.7 | ... | ... | ... | -63.9 | ... |
| Commercial Construction | -38.2 | ... | -21.9 | ... | ... | ... | -38.2 | ... |
| Employment | -50.8 | -53.8 | -22.5 | -50.0 | -45.9 | -51.9 | -52.6 | -52.4 |
| Profits | -70.4 | -73.4 | -36.8 | -72.4 | -64.9 | -86.2 | -57.9 | -71.4 |
| Pricing Intentions | -9.0 | -8.1 | 14.8 | 10.5 | 2.7 | -31.0 | -17.9 | -14.9 |
| Ease of Credit | -46.1 | -44.4 | -41.3 | -53.4 | -41.4 | -58.6 | -10.5 | -51.9 |
| Inflation Expectations | 1.46 | 1.28 | 1.51 | 1.90 | 1.74 | 1.38 | 1.30 | 1.27 |
| Activity outlook – same month one year ago | -59.1 | -53.4 | -5.4 | -80.7 | -45.8 | -34.5 | -61.5 | -61.2 |
| Employment – same month one year ago | -31.2 | -27.6 | -2.4 | -52.7 | -11.4 | -17.2 | -28.2 | -35.1 |

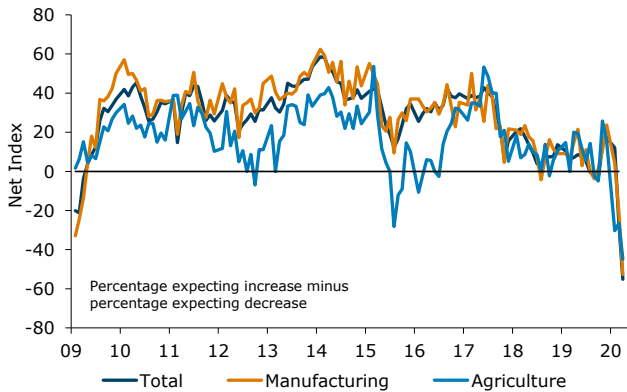
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¹ These results include data collected in the first week of the April survey and were published on April 8.

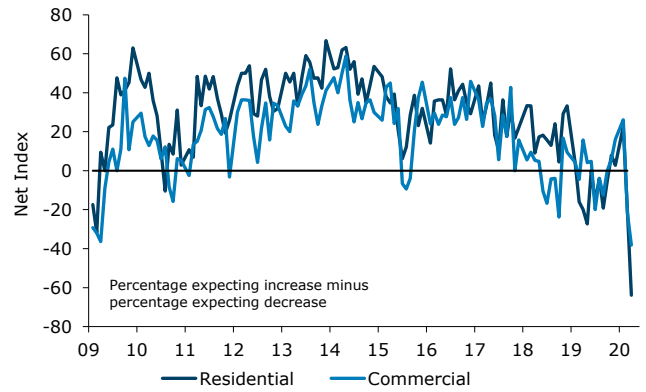


Charts

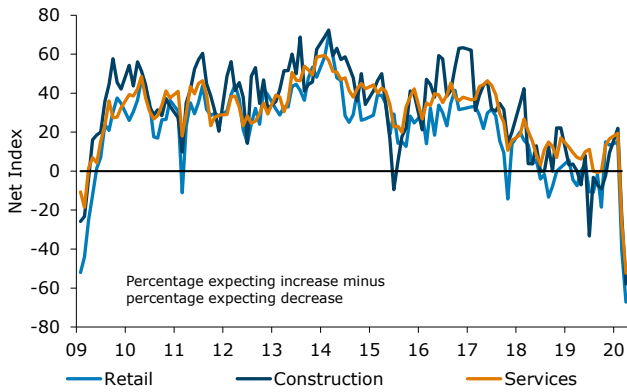
Activity outlook index



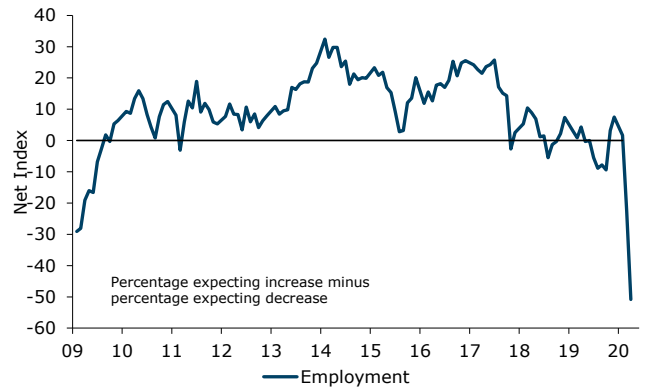
Construction intentions



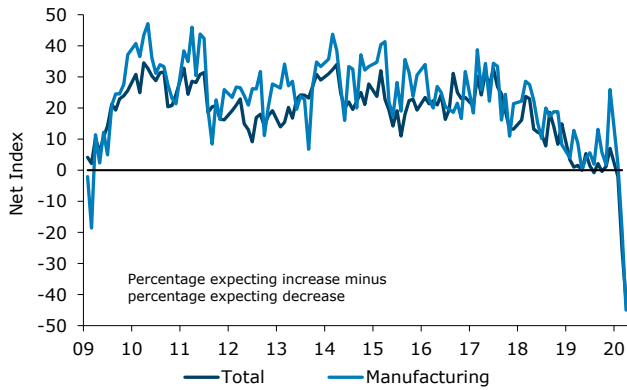
Activity outlook index



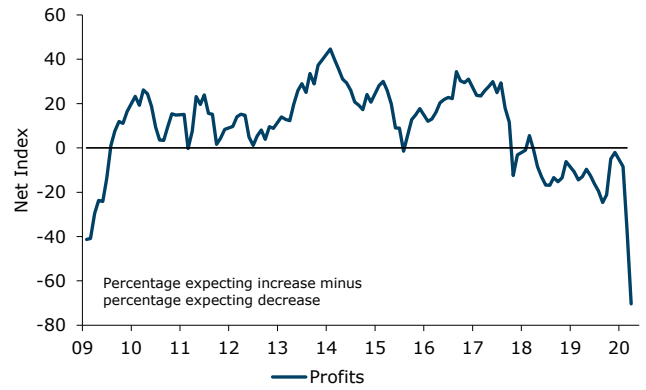
Labour market outlook



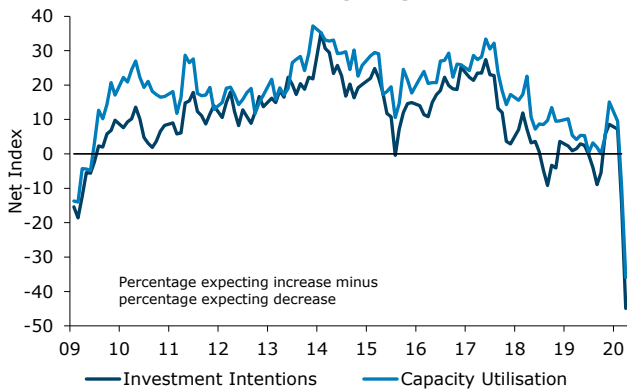
Export sales volumes



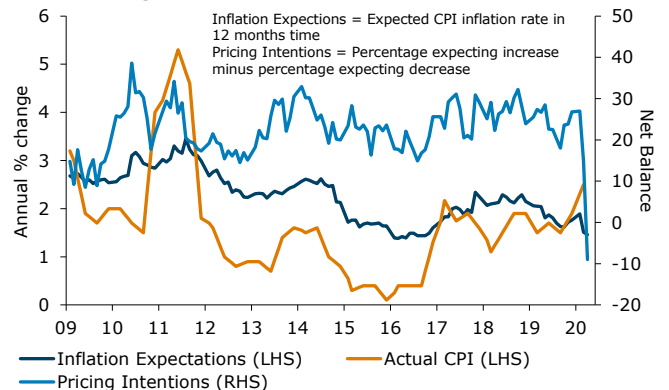
Financial outlook



Investment intentions and capacity utilisation



Inflation expectations



Source: ANZ, Statistics NZ



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