

ANZ New Zealand Business Outlook

28 May 2020



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The next preliminary Business Outlook comprising early-June results at an economy-wide level will be released on 9 June at 1pm. The next standard full-month release of the ANZ *Business Outlook* is due on 30 June at 1pm.

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One step at a time

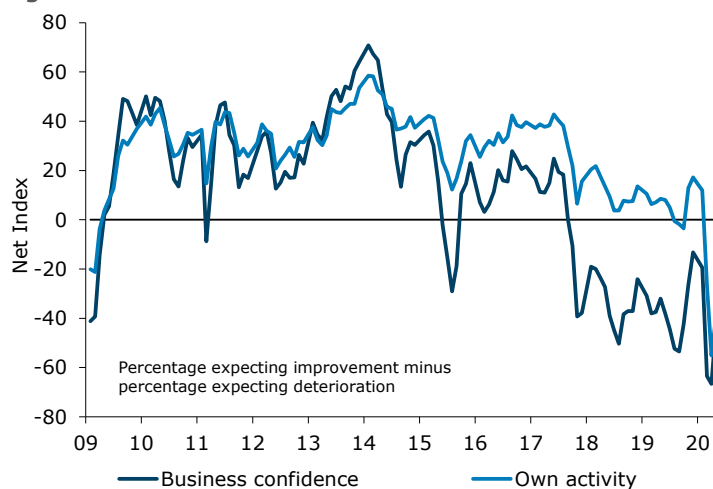
Key points

- Headline business confidence continued to lift over May, up a further 4 points to -42%. A net 39% of firms expect weaker activity for their own business, still well below 2008/09 lows. The retail sector is the most pessimistic on this front.
- Although we are making progress opening the economy, Business Outlook activity indicators are improving painfully slowly. Expected profitability, investment and employment intentions, lifted but are all still deeply negative.
- A net 42% of firms intend to lay off staff (just over half before subtracting the positives), with retail the hardest hit and agriculture the least.
- Inflation expectations were unchanged at 1.3%, sitting near the bottom of the RBNZ's 1-3% CPI target range.

The full-month May ANZ Business Outlook Survey showed small further lifts in most indicators versus the preliminary results as the country continued to make good progress on beating back COVID-19 and loosening restrictions on economic activity. However, the levels of the indicators remain pretty bleak. While the outright disruption is easing, the recession is just getting started.

About two thirds of responses were included in our preliminary release on 11 May. The first sample group scored -46% for business confidence; the second sample reported -32%. Similarly, a net 42% of firms who responded early in the month expected weaker activity ahead for their own firm; a net 30% of the later sample did. It's not as gruesome as it was, but it's hardly happy days out there. To put it in context, expected own activity would need to rise another 17 points just to reach its *lows* from the 2009 recession.

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



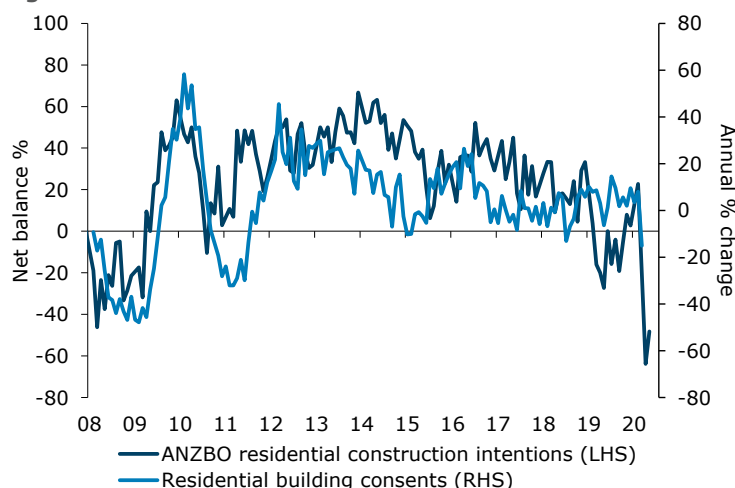
Source: ANZ Research

Inflation expectations were unchanged, but cost expectations and pricing intentions continued to recover over the month.

Turning to the detail:

- **Employment** intentions show a net 42% of firms intend to cut staff. The data is similar to the preliminary results (-45%). The net percent of firms saying they now have fewer employees than a year ago held steady at a net 36%. Around a net 56% of retail and services firms say they have cut staff numbers, while only a net 4% of agricultural firms report having done so.
- **Investment** intentions remain very low at -32%. Manufacturing is the least pessimistic at -18%. Investment intentions overall lifted over the month: they were -38% in the early sample and -18% in the later sample.
- **Capacity utilisation**, one of the best GDP indicators in the survey, lifted over the month as activity restrictions eased further, from -30% in the early-month sample to -18% in the later sample.
- **Profit** expectations remain very low at -56% but again, they improved over the month (preliminary: -59%, late-month -46%). They remain weakest for agriculture (-71%) and least negative, though still grim, for construction at -42%.
- **Commercial construction** intentions were pretty steady at -37% while residential was up a touch to a net 48% of firms expecting less work going forward.

Figure 2. ANZBO residential construction intentions and dwelling consents



Source: Statistics NZ, ANZ Research

- **Export** intentions, at -32%, were similar to the preliminary read (-35%).
- **Activity versus a year ago** continued to deteriorate over the month. A net 63% of firms (and around net 70% of those in the retail and services sectors) report lower activity versus the same month a year ago. Agriculture is by far the least negative on this score (-11%).
- Expected **availability of credit** rose slightly from the preliminary read with a net 44% of firms expecting credit to be harder to get.
- A net 28% of firms expect higher **costs**, with expectations lowest for construction and services (22%).
- Also supporting the notion that the initial disinflationary pulse may be waning, **pricing intentions** lifted slightly over the month, with a net 2% of firms expecting to cut prices. They were strongest for retail where a net 21% intend to raise prices, but the average for the past five years for this sector is 29%. **Inflation expectations** were steady at 1.3%.

Our take

It's a long way back to normality. The improvement seen across the activity indicators brings them closer to their typical historical ranges, but likely primarily reflects the easing of the disruption, as the country has exited the more severe levels of lockdown. The recession is just starting to make itself felt.

Businesses are really hurting, and it's evident in both experienced activity and employment, and expectations for what lies ahead.

The economy needs to reshape to face the new reality, and in particular, the loss of international tourists – completely for now, but likely still at a hugely significant scale for years, even if a trans-Tasman bubble becomes a reality.

COVID-19 is on the brink of being eradicated in New Zealand, though constant vigilance will be required to keep it that way. We are, increasingly, free to get on with our lives. But those lives have abruptly changed for the worse, for many. Thousands of jobs have been lost; many more are tenuous. Firms' balance sheets have taken an enormous hit from a prolonged period with zero revenue or close to it. Fiscal and monetary policy are doing what they can to cushion the blow and sow the seeds of recovery, but it's going to be a long haul.

Survey Results May 2020

Net Balance	Total	Prelim May ¹	Previous (Apr)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-41.8	-45.6	-66.6	-37.5	-31.1	-82.1	-52.8	-39.4
Activity Outlook	-38.7	-42.0	-55.1	-45.3	-41.9	-39.3	-27.8	-37.4
Exports	-32.2	-34.7	-42.1	-43.9	-22.8	-45.8	-25.0	-31.8
Investment	-31.7	-37.5	-44.9	-37.5	-18.3	-53.6	-27.8	-32.1
Costs	27.5	23.0	22.6	39.7	31.9	35.7	22.2	22.2
Capacity Utilisation	-26.3	-29.7	-35.9	-26.2	-39.1	-28.6	-14.3	-22.6
Residential Construction	-48.3	...	-63.9	-48.3	...
Commercial Construction	-36.7	...	-38.2	-36.7	...
Employment	-42.4	-45.0	-50.8	-48.4	-45.8	-32.1	-37.1	-41.2
Profits	-55.6	-59.3	-70.4	-64.1	-52.7	-71.4	-41.7	-54.1
Pricing Intentions	-2.0	-9.5	-9.0	20.6	5.5	-42.9	-2.8	-5.6
Ease of Credit	-43.6	-44.6	-46.1	-37.5	-45.2	-55.6	-37.1	-45.2
Inflation Expectations	1.30	1.28	1.46	1.65	1.51	1.16	0.95	1.19
Activity outlook – same month one year ago	-63.2	-61.1	-59.1	-71.4	-64.4	-10.7	-47.2	-70.1
Employment – same month one year ago	-35.5	-35.6	-31.2	-55.6	-22.2	-3.6	-25.0	-41.1

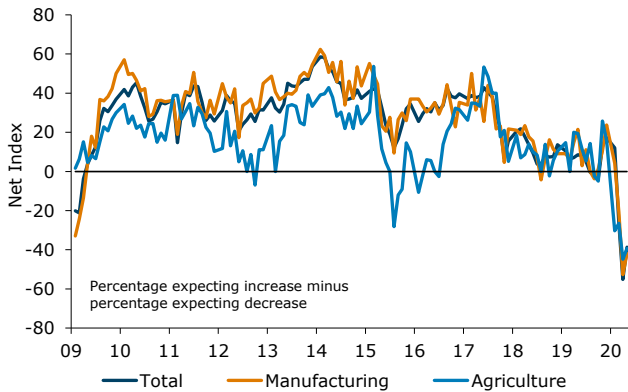
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¹ These results include data collected in the first week of the May survey and were published on May 11.

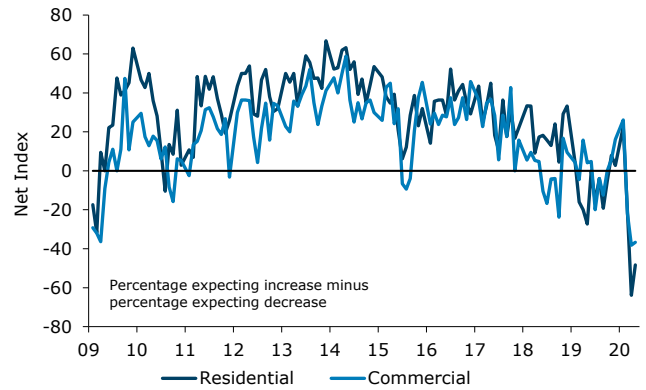


Charts

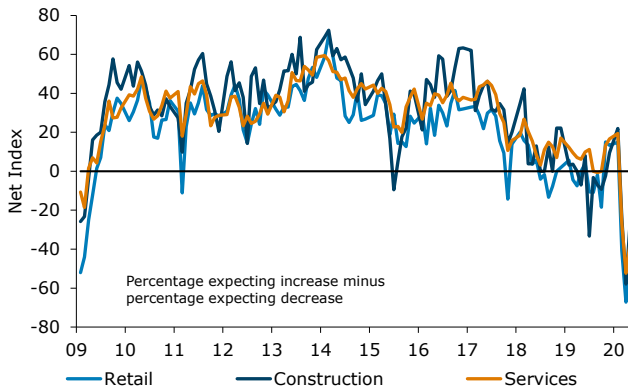
Activity outlook index



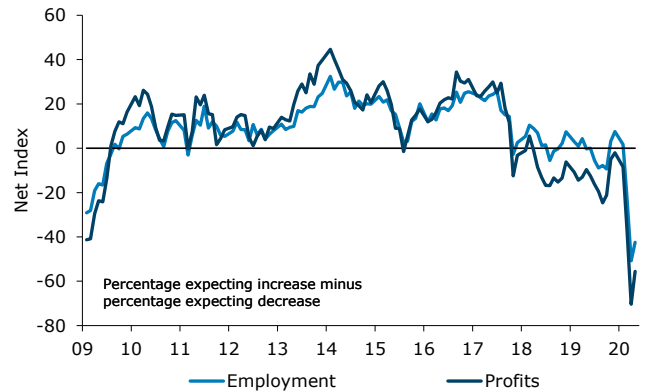
Construction intentions



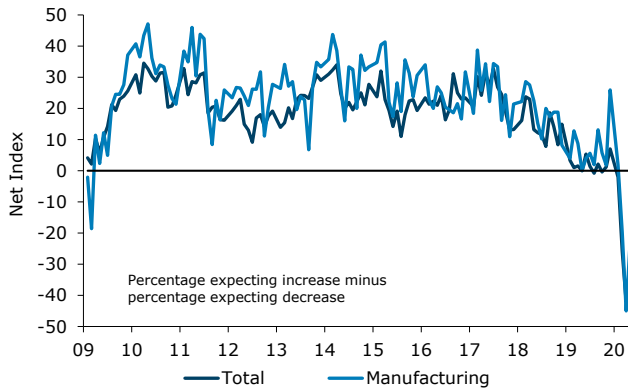
Activity outlook index



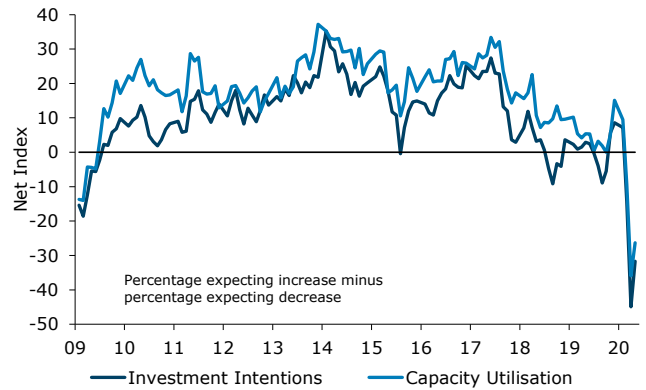
Employment and profit outlook



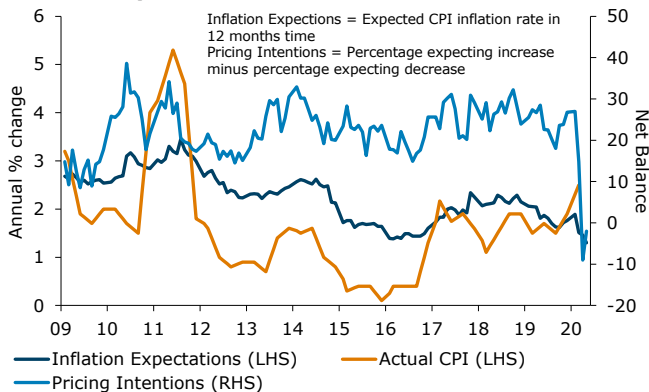
Export sales volumes



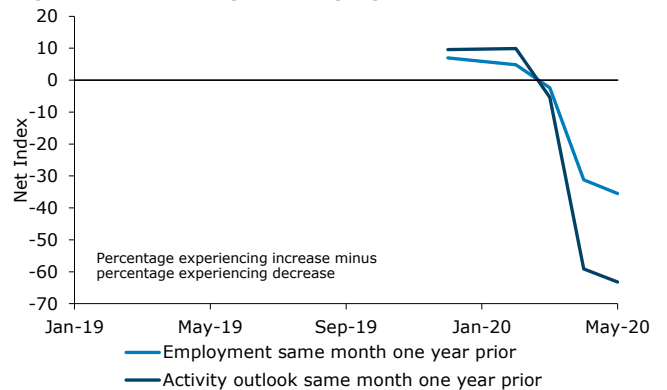
Investment intentions and capacity utilisation



Inflation expectations



Experienced activity and employment



Source: ANZ, Statistics NZ



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