

ANZ New Zealand Business Outlook

31 August 2020



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Contact

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See [page 6](#).

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

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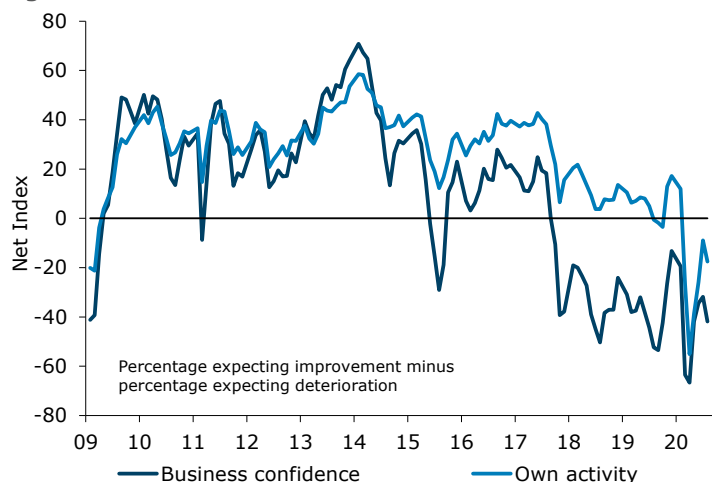
Feeling the pressure

Key points

- Activity indicators in the ANZ Business Outlook survey slipped a little from their early-August preliminary reads, but on the whole, were relatively robust to the re-emergence of COVID-19 in the community on 12 August.
- Headline business confidence, at -41.8%, was little changed from the early-month read, as was own activity, at -17.5%. Both of these reads are weaker than July, but didn't deteriorate markedly as August progressed.
- However, Auckland businesses are much more downbeat than elsewhere, particularly regarding current activity, unsurprisingly, but also the outlook.
- The retail sector has driven much of the rebound in ANZBO activity indicators since June, but is losing heart rapidly.

The full-month August ANZ Business Outlook survey overall confirmed the decline evident in the preliminary data in business sentiment and intentions versus July. This includes business confidence and own activity expectations (figure 1).

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

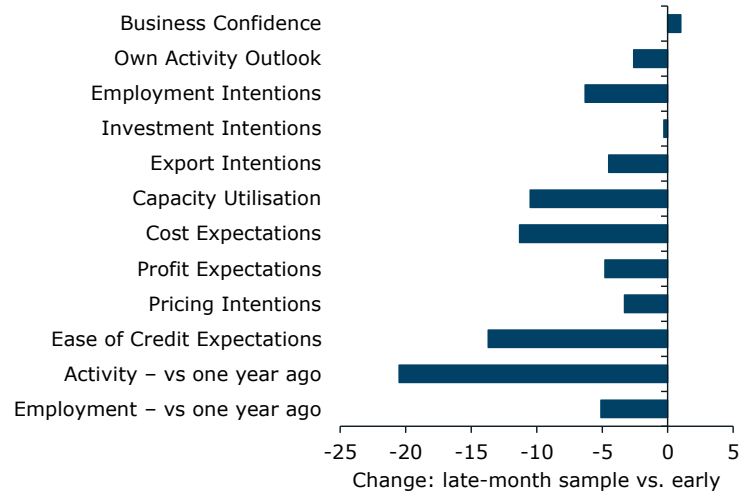


Source: ANZ Research

Just a few days after the publication of the [preliminary August Business Outlook](#), COVID-19 was discovered in the Auckland community. Only five responses came in between the two events, meaning that the later responses provide a pretty clean read on the impact of the news.

Overall, business sentiment and activity expectations have held up better than one might expect, to take a glass half-full view of things. The largest falls were in experienced activity, perceived credit availability, how busy firms say they are (capacity utilisation), and cost expectations. Smaller falls were seen for employment intentions, export intentions, profit expectations and employment versus a year earlier. And there was little change over the month for headline business confidence, firms' own activity outlook, investment intentions and pricing intentions. See figure 2 (over).

Figure 2. Change in indicators: late-month sample vs. preliminary August

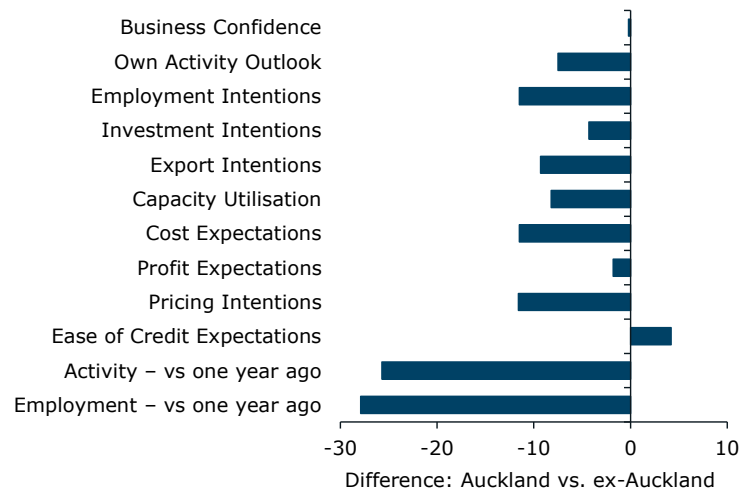


Source: ANZ

However, the Alert levels differed between Auckland and the rest of New Zealand. Figure 3 shows the difference between Auckland and the rest of the country for the key indicators out of the survey.

Unsurprisingly, there was a hefty impact on current levels of both activity and employment compared to the same month a year earlier. But Auckland firms are broadly more downbeat compared to their peers elsewhere when it comes to the outlook as well. We'll be keeping a close eye on what happens to this gap as the alert level in Auckland normalises.

Figure 3. ANZBO indicators: Auckland vs. ex-Auckland

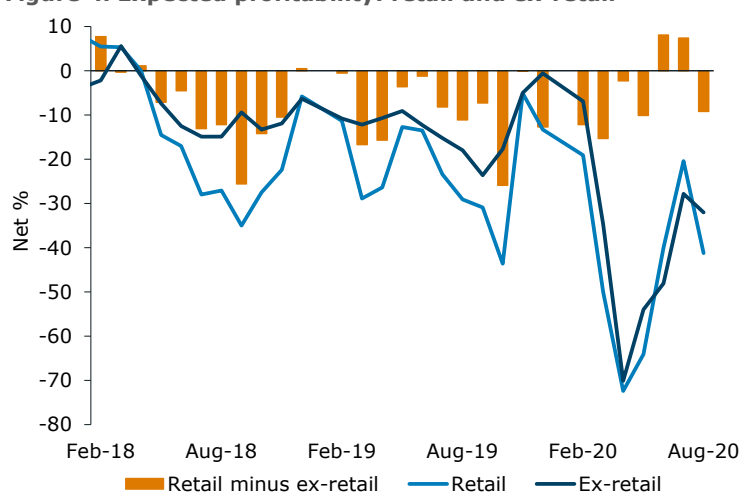


Source: ANZ

Having a full month of data enables us to examine the data by sector. The retail sector is worthy of particular attention. It has been on a wild ride in recent times. Let's zoom in on expected profitability, though similar trends are evident across most indicators.

The retail sector has typically been less optimistic about profitability than the rest of the economy over the past couple of years – and further back too. Retail is a tough gig, with relatively low barriers to entry and the move to online retail and increasingly indebted consumers making for a downbeat sector in a relative sense. But in June and July, for a brief period, retail was relatively optimistic, as the bounce out of the initial lockdown period was more vigorous than anticipated. However, in August the sector fell back below the other sectors (figure 4).

Figure 4. Expected profitability: retail and ex-retail



Source: ANZ

That's consistent with our consumer confidence survey, indicating households' wariness about spending is increasing in this uncertain environment.

Looking more broadly at the sector breakdown, a heat map of both levels and changes on a standardised basis shows:

- The decline in retail fortunes is clear to see (lots of orange in the monthly change column). However, agriculture is more downbeat (compared to history) in both level and change terms. They are the sector most exposed to the global outlook, which hardly inspires confidence. Services is also particularly glum, reflecting their outsized exposure to tourism and lockdown.
- The construction sector is now a relative bright spot, and broadly lifting.
- Despite tough times, pricing intentions for the retail sector are not low, and nor are costs, particularly.

Table 1. Heatmap of monthly levels and changes

	Levels					Monthly change				
	Retail	Mfg	Agri	Constrn	Services	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-33.3	-37.3	-80.6	-16.1	-43.3	-10.7	9.5	-26.1	10.2	-18.1
Activity Outlook	-27.5	-19.4	-22.6	-12.1	-13.9	-18.2	-8.1	-7.4	-1.6	-8.9
Activity – vs one year ago	-2.0	-10.9	-3.2	-9.1	-21.2	1.7	7.1	2.9	-19.6	10.2
Exports	0.0	-18.2	-33.3	-16.7	-23.5	2.8	-10.2	-12.6	-3.1	-6.6
Investment	-4.1	-3.1	-38.7	-21.9	-17.6	-13.7	1.9	-14.5	-27.2	-6.1
Capacity Utilisation	-8.5	-4.5	-6.5	6.2	-8.6	-0.8	10.5	-0.4	3.5	-1.8
Residential Construction	...	...	...	-17.2	...	...	...	...	11.8	...
Commercial Construction	...	...	...	-32.0	...	...	...	...	-32.0	...
Employment	-23.5	-21.2	-38.7	-9.4	-24.5	-17.8	-0.2	-14.5	1.1	-9.8
Employment – vs 1 year ago	-36.0	-20.6	-6.5	-18.8	-28.8	-1.4	7.3	5.6	-10.9	-3.0
Profits	-41.2	-31.3	-67.7	-9.1	-30.2	-20.8	2.6	-10.1	20.6	-12.1
Ease of Credit	-45.1	-43.3	-56.7	-30.3	-42.0	-9.9	1.9	-2.2	1.3	2.4
Costs	45.1	44.8	29.0	21.9	31.1	-10.5	1.3	-19.5	3.0	-0.3
Pricing Intentions	35.3	9.0	-22.6	6.2	14.5	-5.4	-5.5	-10.5	-7.3	7.6

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. The history of the activity and employment versus a year ago is unfortunately too short for historical comparisons to be meaningful but the data is included for completeness.

Our take

The recent re-emergence of COVID-19 is disheartening, and has taken a real toll on businesses, particularly in Auckland. However, it appears that firms are looking through it to some extent, in that intentions and expectations saw relatively modest falls compared to the first half of the month. Should daily cases and hence restrictions drag on longer than expected, the negative impacts will accumulate. And the significant fall in experienced activity shouldn't be downplayed, as it demonstrates that businesses' balance sheets have taken a hit, even if firms appear relatively optimistic that activity levels will normalise once the renewed lockdown ends.

Also, although the changes in the data after COVID reappeared were relatively muted, the fact remains that activity indicators are sitting at levels consistent with recession. The post-lockdown bounce was already showing signs of running out of puff in July as pent-up demand was inevitably starting to wane. The pain from the loss of international tourism will be felt most keenly once summer arrives and some of the fiscal support measures start to ease off, highlighting that it is still early days in terms of the economic impact of this pandemic. The fiscal response is slowing the impact but can't prevent it; the monetary response is boosting the housing market but will have a very limited impact on business investment as long as such extreme uncertainty remains.

A challenging road lies ahead for the economy, but New Zealand has advantages and choices that other countries would love to have. There are no 'good' outcomes for a tourism-dependent economy in a global pandemic, but there are certainly worse ones.

Survey Results August 2020

Net Balance	Final August	Prelim August ⁴	Previous (July)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-41.8	-42.4	-31.8	-33.3	-37.3	-80.6	-16.1	-43.3
Own Activity Outlook	-17.5	-17.0	-8.9	-27.5	-19.4	-22.6	-12.1	-13.9
Export Intentions	-20.0	-18.5	-12.7	0.0	-18.2	-33.3	-16.7	-23.5
Investment Intentions	-15.2	-15.1	-6.7	-4.1	-3.1	-38.7	-21.9	-17.6
Cost Expectations	34.5	38.4	37.4	45.1	44.8	29.0	21.9	31.1
Capacity Utilisation	-6.2	-2.8	-7.8	-8.5	-4.5	-6.5	6.2	-8.6
Residential Construction	-17.2	-13.6	-29.0	...	...	...	-17.2	...
Commercial Construction	-32.0	-38.9	0.0	...	...	...	-32.0	...
Employment Intentions	-23.6	-21.4	-15.1	-23.5	-21.2	-38.7	-9.4	-24.5
Profit Expectations	-33.4	-32.2	-26.6	-41.2	-31.3	-67.7	-9.1	-30.2
Pricing Intentions	12.5	13.9	11.8	35.3	9.0	-22.6	6.2	14.5
Ease of Credit Expectations	-43.0	-38.9	-42.9	-45.1	-43.3	-56.7	-30.3	-42.0
Inflation Expectations (%)	1.36	1.4	1.39	1.54	1.55	1.32	1.22	1.25
Activity – same month one year ago	-13.2	-6.6	-17.5	-2.0	-10.9	-3.2	-9.1	-21.2
Employment – same month one year ago	-24.8	-23.1	-23.7	-36.0	-20.6	-6.5	-18.8	-28.8

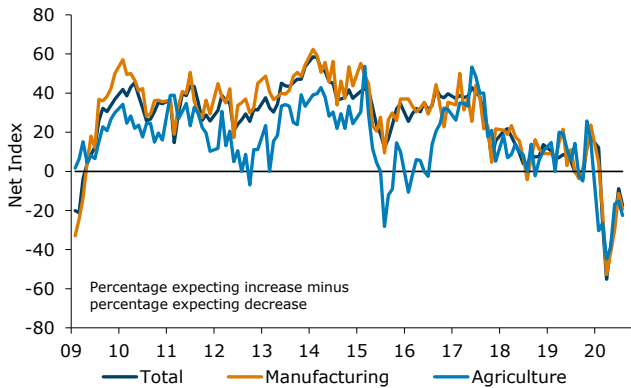
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⁴ These results include data collected in the first week of the August survey and were published on 10 August.

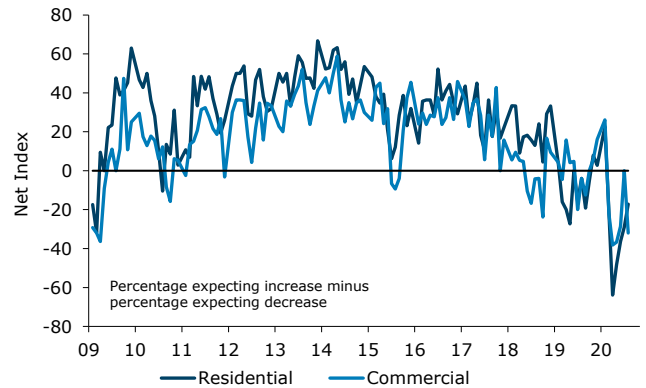


Charts

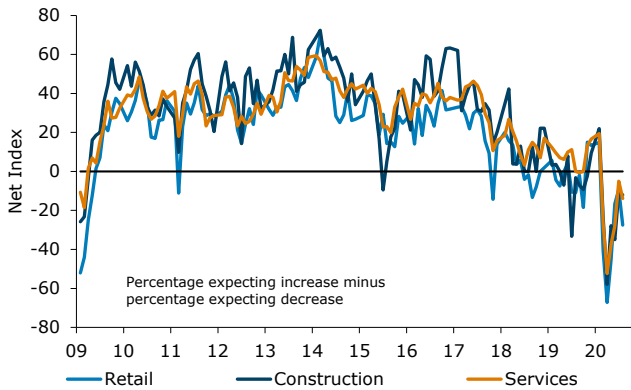
Activity outlook index



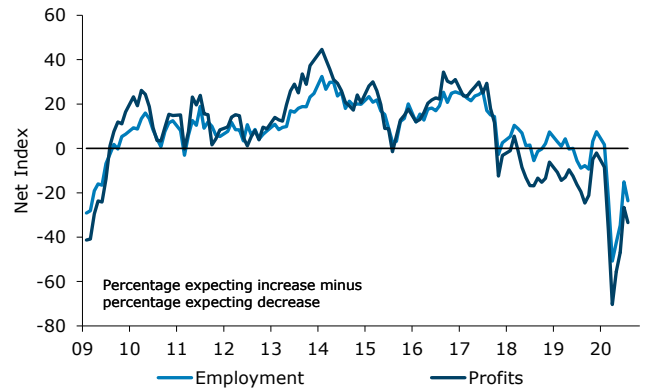
Construction intentions



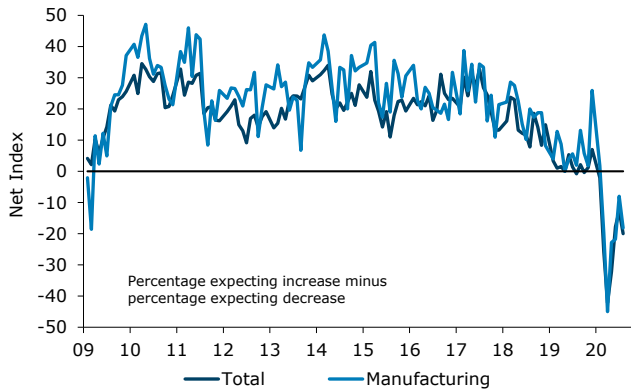
Activity outlook index



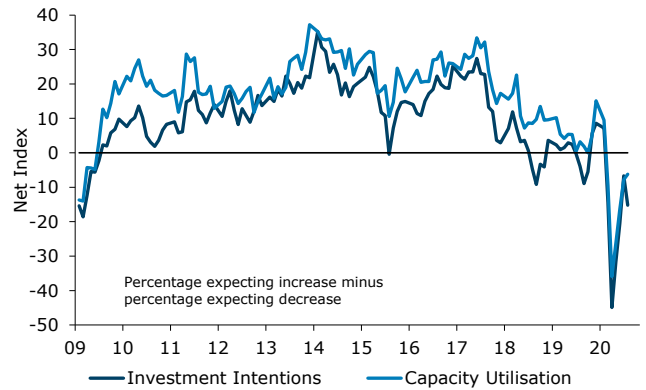
Employment and profit outlook



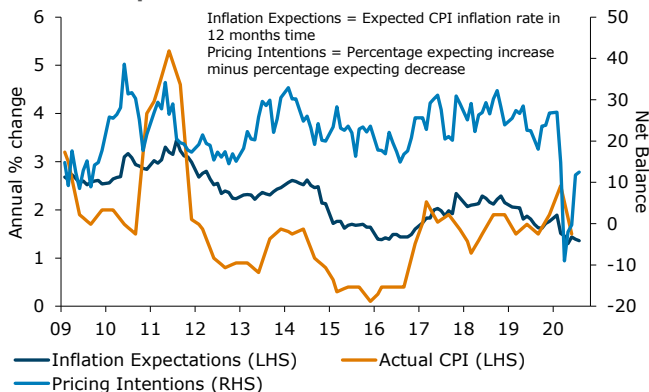
Export sales volumes



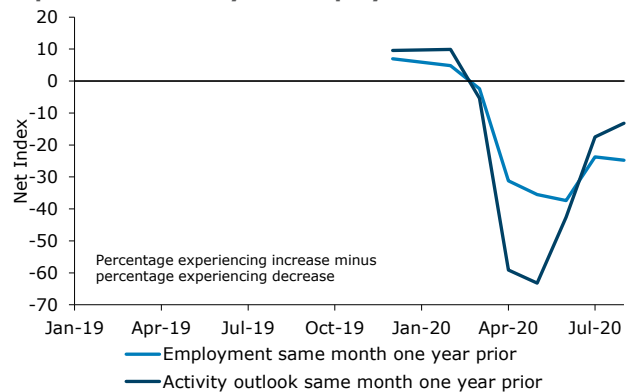
Investment intentions and capacity utilisation



Inflation expectations



Experienced activity and employment



Source: ANZ, Statistics NZ



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