ANZ Research

ANZ New Zealand Business Outlook

30 June 2020

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Nearly up to normal recession levels

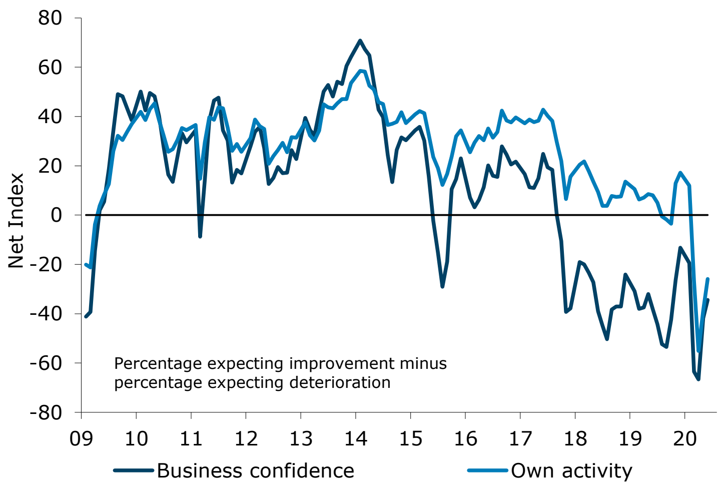
Key points

- A vigorous bounce out of lockdown is evident in the numbers, but the levels are consistent with our view that the recession is just starting.
- Headline business confidence stabilised over June, similar to the preliminary read at -34%.
- A net 26% of firms expect weaker activity for their own business, a further 3 point improvement, approaching levels typically seen in a recession.
- Retail sector expected activity bounced a lot – construction is now the most negative as regards expected activity, though their outlook improved as the month went on.
- Nearly half of respondents say they intend to lay off staff, and a similar proportion say they already have fewer staff than a year ago (some of these will be the same firms).

The full-month June ANZ Business Outlook Survey overall showed a similar picture to the preliminary read, but with some nuances:

- **Bouncing:** commercial construction intentions.
- **Slowly lifting:** own activity, residential construction intentions, employment intentions, expected profitability, activity vs. a year ago, employment vs. a year ago.
- **Fading:** expected costs.
- **Steady:** business confidence, export intentions, investment intentions, capacity utilisation, pricing intentions, ease of credit, inflation expectations.

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



Source: ANZ Research

The full month data also enables us to examine the data by sector. Below is a heat map of both changes and levels.[1]

	Levels					Monthly change				
	Retail	Mfg	Agric	Constrn	Services	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-21.5	-23.5	-63.3	-47.5	-34.6	16.0	7.6	18.8	5.3	4.8
Activity Outlook	-16.7	-29.9	-16.7	-35.0	-27.9	28.6	12.0	22.6	-7.2	9.5
Activity – vs one year ago	-50.8	-44.1	13.3	-12.5	-55.6	20.6	20.3	24.0	34.7	14.5
Exports	-12.2	-21.8	-25.0	-16.7	-17.6	31.7	1.0	20.8	8.3	14.2
Investment	-4.5	-19.7	-33.3	-12.5	-25.7	33.0	-1.4	20.3	15.3	6.4
Capacity Utilisation	-12.5	-30.2	-3.4	-21.6	-13.6	13.7	8.9	25.2	-7.3	9.0
Residential Construction	…	…	…	-36.4	…	…	…	…	11.9	…
Commercial Construction	…	…	…	-28.6	…	…	…	…	8.1	…
Employment	-27.7	-38.8	-26.7	-22.5	-38.9	20.7	7.0	5.4	14.6	2.3
Employment – vs one year ago	-45.3	-26.9	-16.7	-17.5	-45.8	10.3	-4.7	-13.1	7.5	-4.7
Profits	-40.0	-47.8	-70.0	-57.5	-43.2	24.1	4.9	1.4	-15.8	10.9
Ease of Credit	-40.0	-55.9	-55.2	-27.5	-44.2	-2.5	-10.7	0.4	9.6	1.0
Costs	40.9	31.8	23.3	5.0	25.1	1.2	-0.1	-12.4	-17.2	2.9
Pricing Intentions	22.7	1.5	-36.7	-20.0	0.5	2.1	-4.0	6.2	-17.2	6.1

Although one must be wary of monthly volatility, some broad themes are clear:

- On the activity side, particular hotspots of weakness are employment, profitability, and exports.
- Cost pressures and pricing intentions are continuing to ease across the board, but particularly in the construction sector.
- Investment intentions are recovering more quickly than employment intentions are.
- The manufacturing and services sectors are particularly subdued relative to where they usually sit; retail and construction less so. Retail and agriculture are considerably less worried about the outlook than they were last month.
- The services sector is extremely negative regarding employment intentions, relative to historical experience.
- The agriculture sector is not particularly worried about activity levels relative to normal, but remains very concerned about profits and credit availability. The sector’s employment intentions also deteriorated more than most over the month, even though they report being extremely busy in terms of capacity utilisation.
- The manufacturing sector is increasingly concerned about credit availability.

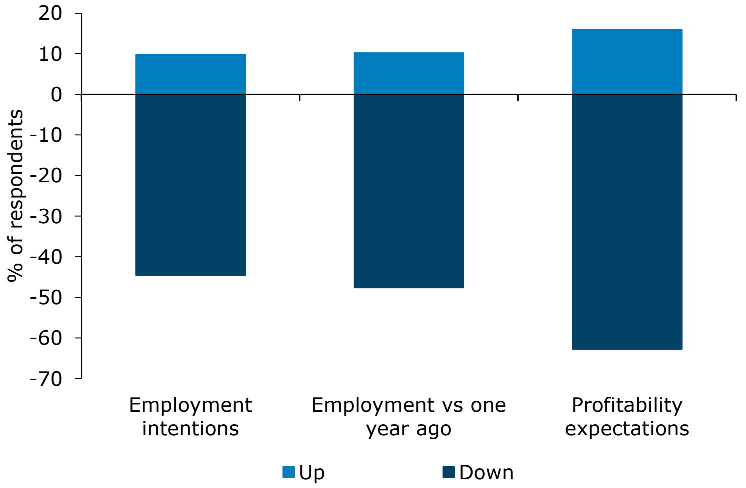
The outlook for the labour market is of particular concern at the moment, with the pressures from the loss of international tourism particularly pronounced for people-centric industries of tourism, hospitality and retail.

[1] 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.

We typically report numbers on a net basis, but at times of turmoil it can be useful to look at the nuance of the percentages of respondents reporting they expect/have higher, lower and unchanged staffing levels.

Figure 2 shows that around 10% of firms report having more staff than a year ago, but almost half report having fewer. Roughly the same percentages apply to firms' plans going forwards. And it's not hard to see why – 63% of firms are expecting lower profitability in the next year, offset by only 16% anticipating higher profits.

Figure 2. The employment picture



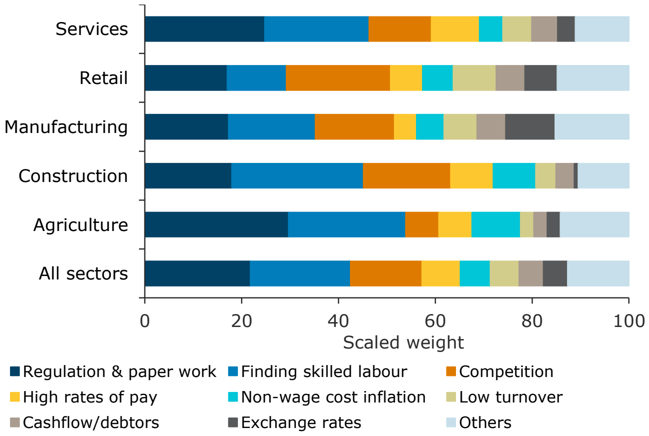
Source: ANZ Research

Every three months we ask firms about their most significant problems. Low turnover has catapulted into top spot, followed by regulation and paperwork, and thirdly, competition from other businesses. Finding skilled labour has dropped into fourth place, followed by cashflow/debtors and then high rates of pay.

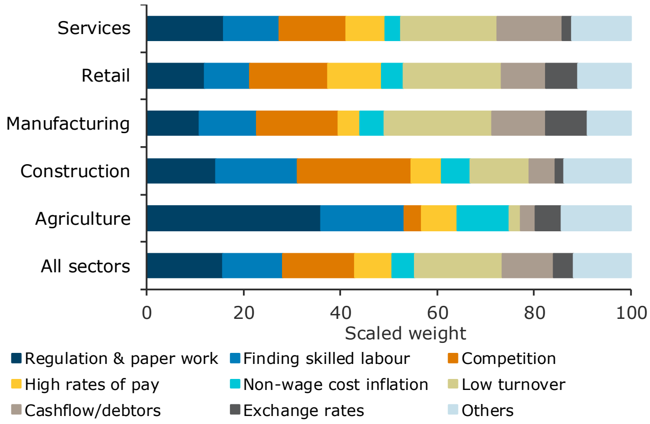
Figures 3-6 below show how the weightings have changed since December, before COVID-19 struck (the March survey was taken in the midst of the lockdown pandemonium, making the results difficult to interpret).

Figure 3 and 4. Firms' most important problems[2]

December 2019



June 2020



Source: ANZ Research

[2] Weighted using a score of 3 points for a 1st ranking, 2 for 2nd and 1 for 3rd. then scaled to 100 (ie a relative % weight) to allow better comparison across groups..

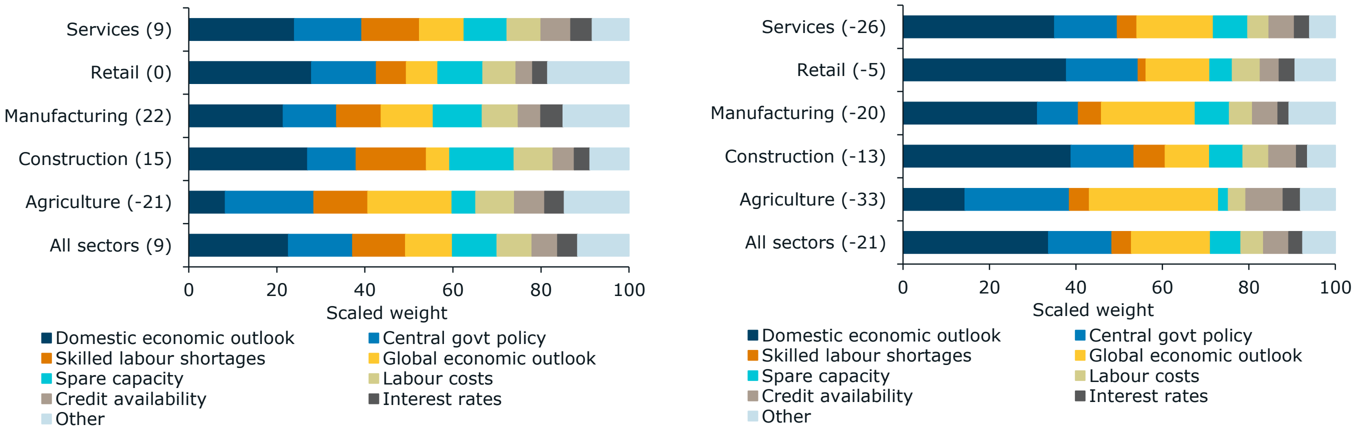
Agriculture remains the sector most concerned about regulation; construction about competition; and retail, manufacturing and services about turnover. Retail is the sector most concerned about rates of pay, while agriculture is the sector most worried about finding skilled labour – this is a sector traditionally dependent on migrant labour.

We also ask firms every three months about what is driving their investment intentions. As noted above, investment intentions remain deeply negative, particularly for the agriculture and services sectors. When asked about investment drivers, the domestic economic outlook was, unsurprisingly, the biggest driver by a long shot. The global outlook comes in a distant second, closely followed by central government policy. Spare capacity and skilled labour shortages have dropped massively as investment drivers. Interest rates were cited by very few.

The agriculture sector is an outlier, more concerned about global than domestic conditions when making investment decisions, and taking the most account of central government policy. The other sectors are broadly similar to each other. It's clear that when times are tough, it's going to be hard to convince firms to take risks. Low interest rates will only get you so far.

Figure 5 and 6. Firms' key investment drivers by sector[3]

December 2019 **June 2020**



Source: ANZ Research

Our take

New Zealand is the envy of the world, with no social distancing measures imposed upon us and restaurants, bars, sporting events, all able to carry on as normal. But the fact remains, New Zealand with a closed border is a significantly smaller economy, at least in the near term, and the recession is just starting to make itself felt.

It is encouraging to see a bounce in sentiment in the retail sector, and this tallies with anecdotes we are hearing about households rushing out to spend the involuntary savings accumulated during lockdown, as well as the money that had been squirreled away, earmarked for an overseas holiday.

[3] Weighted using a score of 3 points for a 1st ranking, 2 for 2nd and 1 for 3rd. then scaled to 100 (ie a relative % weight) to allow better comparison across groups. Numbers in brackets are each sector's investment intentions.

But these sources of spending are not particularly sustainable. Our consumer confidence survey suggests wariness on the part of households about what the future may bring, and accordingly, a desire to prune discretionary spending. The bizarreness of the lockdown experience means we must be very careful about making any inferences from current spending trends about what consumer behaviour may look like six months down the track.

It's good to see the agriculture sector in better heart, reflecting that New Zealand's commodity prices are so far proving more resilient to the marked global growth slowdown than normally is to be expected. That's really helpful, particularly when the exchange rate refuses to roll over. We need all the help we can get in this global environment.

Survey Results June 2020

Net Balance	Total	Prelim June[4]	Previous (May)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-34.4	-33.0	-41.8	-21.5	-23.5	-63.3	-47.5	-34.6
Activity Outlook	-25.9	-29.1	-38.7	-16.7	-29.9	-16.7	-35.0	-27.9
Exports	-17.8	-17.1	-32.2	-12.2	-21.8	-25.0	-16.7	-17.6
Investment	-20.5	-21.6	-31.7	-4.5	-19.7	-33.3	-12.5	-25.7
Costs	26.7	30.2	27.5	40.9	31.8	23.3	5.0	25.1
Capacity Utilisation	-16.4	-17.7	-26.3	-12.5	-30.2	-3.4	-21.6	-13.6
Residential Construction	-36.4	-39.1	-48.3	…	…	…	-36.4	…
Commercial Construction	-28.6	-44.4	-36.7	…	…	…	-28.6	…
Employment	-34.7	-37.0	-42.4	-27.7	-38.8	-26.7	-22.5	-38.9
Profits	-46.8	-51.2	-55.6	-40.0	-47.8	-70.0	-57.5	-43.2
Pricing Intentions	-0.3	1.4	-2.0	22.7	1.5	-36.7	-20.0	0.5
Ease of Credit	-45.0	-44.1	-43.6	-40.0	-55.9	-55.2	-27.5	-44.2
Inflation Expectations	1.44	1.35	1.30	1.61	1.66	1.32	1.24	1.36
Activity outlook – same month one year ago	-42.6	-46.6	-63.2	-50.8	-44.1	13.3	-12.5	-55.6
Employment – same month one year ago	-37.4	-39.2	-35.5	-45.3	-26.9	-16.7	-17.5	-45.8

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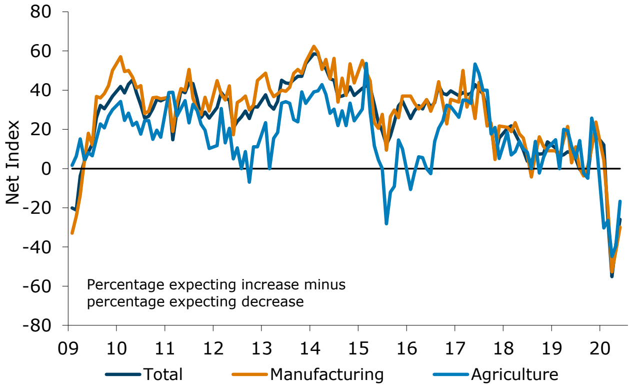
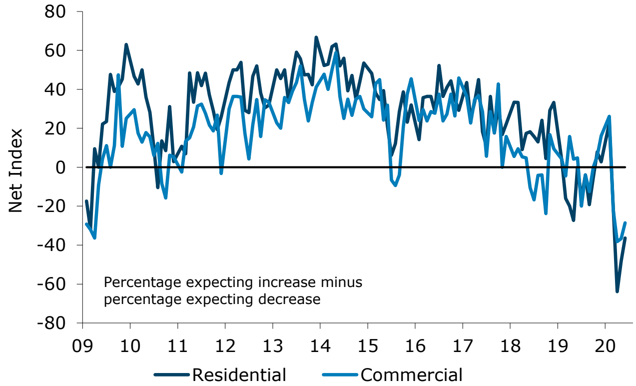
[4] These results include data collected in the first week of the June survey and were published on 9 June.

Charts

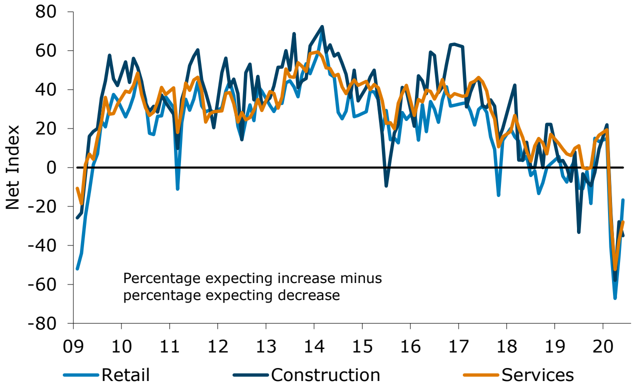
Activity outlook index



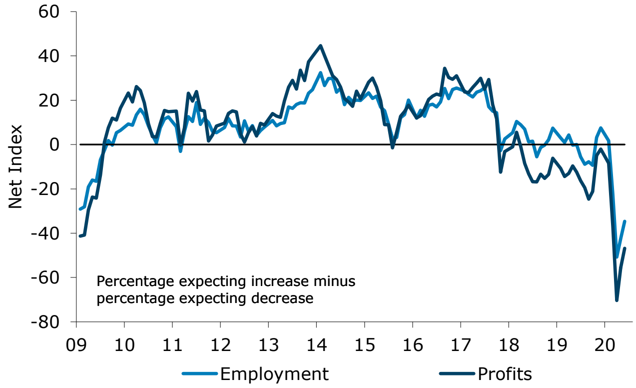
Construction intentions



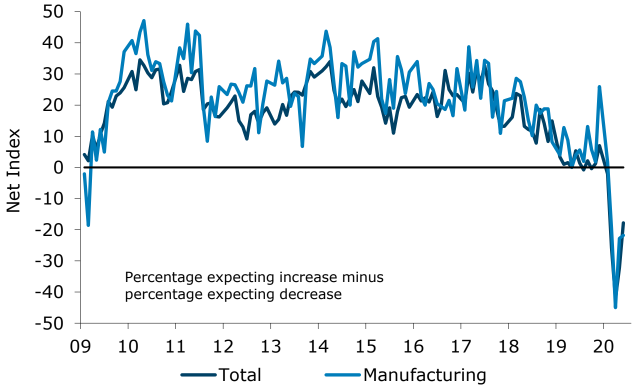
Activity outlook index



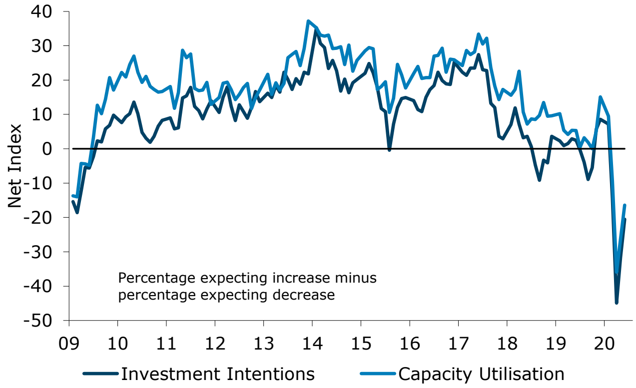
Employment and profit outlook



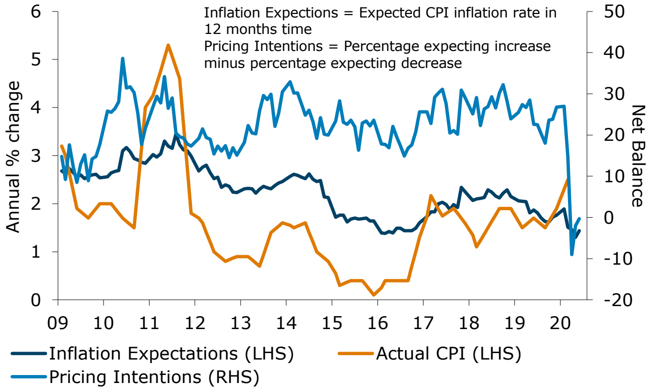
Export sales volumes



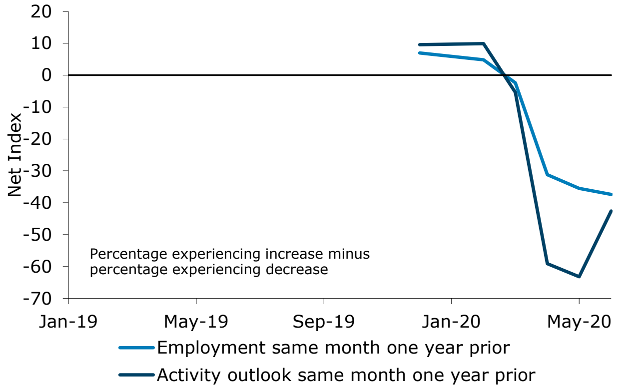
Investment intentions and capacity utilisation



Inflation expectations



Experienced activity and employment



Source: ANZ, Statistics NZ

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