

ANZ New Zealand Business Outlook

30 June 2021



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Contact

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See [page 7](#).

Please note, we are ceasing the publication of the preliminary survey results. The next standard full-month release of the ANZ *Business Outlook* is due on 29 July at 1pm.

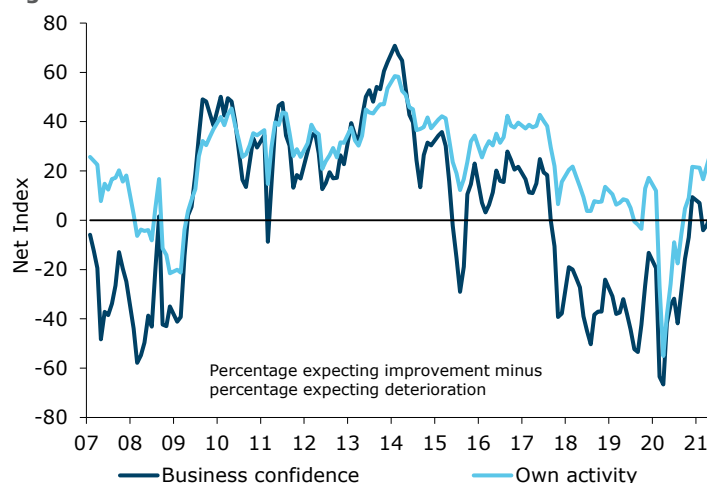
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Inflation pressures continue to build

Key points

- Compared to May, headline business confidence eased 3 points while firms' own activity rose 5 points to +32%.
- Broader activity indicators were little changed compared to the preliminary read. Now that the data has settled down we will return to monthly releases.
- Inflation pressures remain intense. Retail pricing intentions soared.

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



Source: ANZ Research

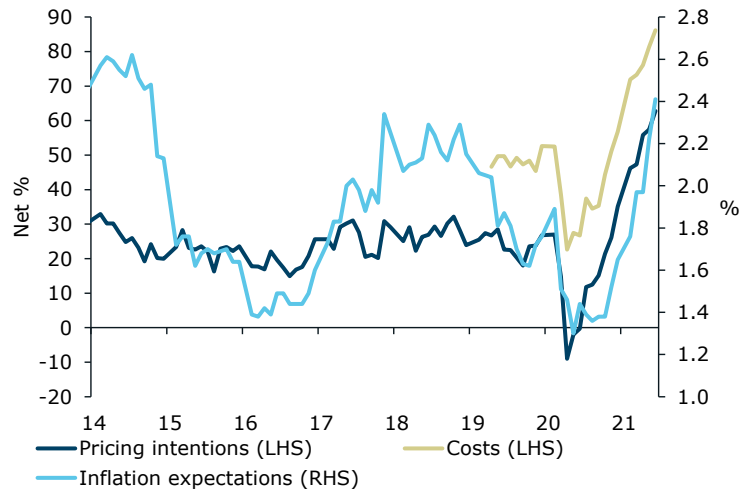
Turning to the detail, compared to the month of May:

- Business confidence was down 3 points to net -0.6%.
- Firms' own activity outlook rose 5 points to 31.6%.
- Investment intentions rose 7 points to 25.5%.
- Employment intentions eased 1 point to 19.7%.
- Capacity utilisation rose 4 points to 23.9%.
- Inflation pressures continue to lift. Cost expectations rose 5 points to net 86.2%. A net 62.8% of respondents intend to raise their prices, up 6 points. General inflation expectations rose 19bp to 2.41%.
- Profit expectations rose 2 points to 5.8%.
- Export intentions rose 1 point to +13.4%.
- A net 40.2% of firms expect credit to be harder to get, down 2 points.
- Residential construction intentions rose 19 points to 40%. Commercial construction intentions rose 31 points to net 38.5%.

Compared to the preliminary June results, activity indicators were little changed at robust levels, with the exception of the “own activity” measure, which rose another 3 points.

Indicators of inflation pressure continue to rise (figure 2).

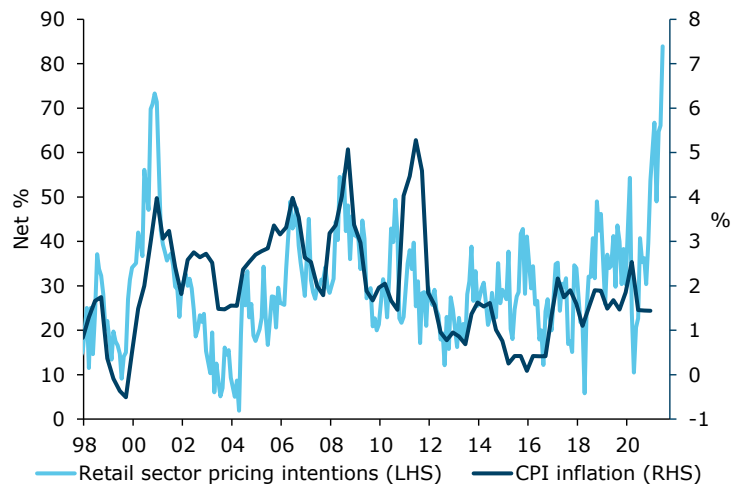
Figure 2: ANZBO inflation indicators



Source: ANZ Research

Inflation expectations at 2.41% (2.53% in the late-month sample) can no longer be said to be “close to” the RBNZ’s target range midpoint of 2%. Retailers’ pricing intentions soared to an unheard-of 84%. The risks around upcoming CPI outturns are all to the upside (figure 3), and the RBNZ needs to get a wriggle on regarding raising the Official Cash Rate.

Figure 3: ANZBO retail sector pricing intentions and CPI inflation



Source: Statistics NZ, ANZ Research

Expected costs hit the maximum possible 100% for agriculture, and are in the 90s for manufacturing and construction. Even in the laggard services sector, a net 79% of firms expect higher costs (and 54% are intending to raise their prices).

Our usual heat map of levels and changes on a standardised basis (Table 1, next page) shows the early leaders of construction and manufacturing falling back into the pack somewhat in terms of activity indicators. It shows capacity pressures in agriculture have abruptly intensified (reflecting well-publicised labour shortages), and that export intentions remain a weak point. It also shows that costs and pricing intentions are historically extremely elevated.

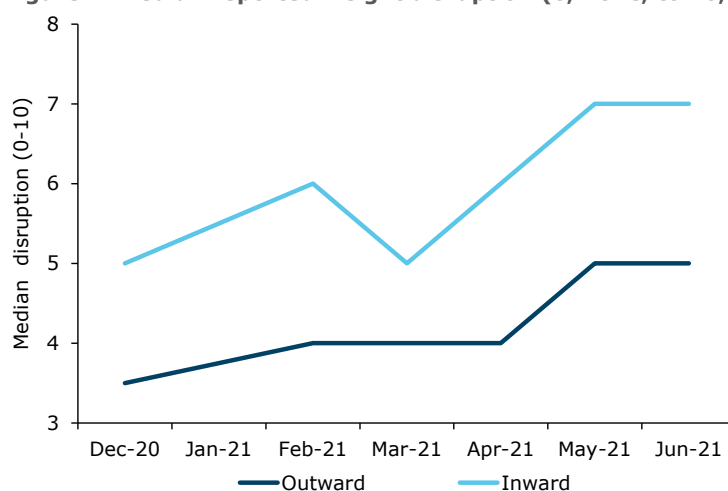
Table 1. Heatmap of monthly levels and changes

	Levels					Monthly change				
	Retail	Mfg	Agri	Constrn	Services	Retail	Mfg	Agric	Constrn	Services
Business Confidence	1.8	-9.1	-3.8	16.1	-1.8	7.2	-15.8	13.6	12.8	-6.8
Activity Outlook	26.3	27.3	15.4	43.3	35.3	6.7	1.1	6.7	13.3	3.9
Activity – vs one year ago	43.9	42.4	23.1	25.8	47.6	-0.5	8.0	14.4	-30.9	2.4
Exports	21.2	13.0	4.0	0.0	14.3	5.4	-6.2	8.8	0.0	3.5
Investment	24.1	29.7	15.4	30.0	25.5	3.7	11.1	11.1	26.7	2.1
Capacity Utilisation	25.0	21.9	23.1	40.0	21.6	6.1	4.7	36.1	-0.7	-1.9
Residential Construction	...	...	...	40.0	...	...	...	...	19.2	...
Commercial Construction	...	...	...	38.5	...	...	...	...	30.2	...
Employment	17.5	9.1	3.8	23.3	26.7	1.4	-2.4	12.5	-3.4	-1.9
Employment – vs one year ago	16.1	15.4	7.7	33.3	26.4	14.2	10.5	3.4	16.6	8.0
Profits	-7.0	0.0	11.5	16.7	9.6	-3.4	-3.3	24.5	0.0	3.3
Ease of Credit	-38.6	-32.3	-38.5	-35.5	-45.5	-8.2	2.1	-8.1	4.5	-2.1
Costs	89.5	93.9	100.0	93.5	78.8	2.0	0.5	8.7	0.2	6.6
Pricing Intentions	84.2	65.2	53.8	74.2	53.9	18.1	-6.9	19.0	-5.8	5.2

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.

Freight disruptions remain problematic (figure 4).

Figure 4: Median reported freight disruption (0, none, to 10, extreme)



Source: ANZ Research

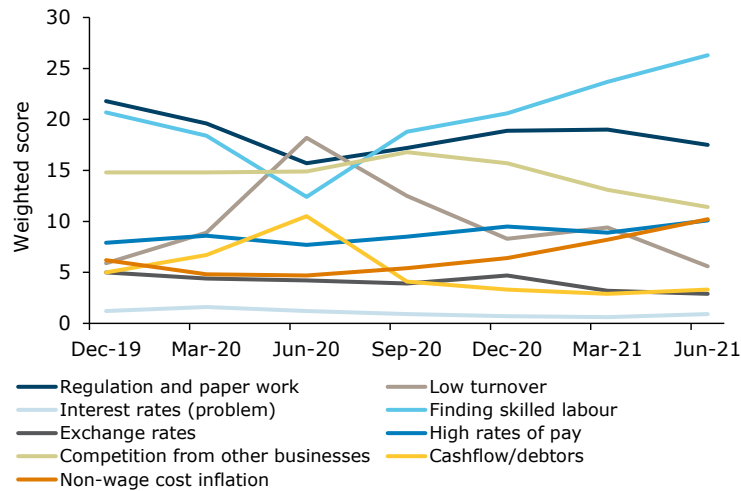
Every third month we ask about firms’ largest problems, and about what’s driving their investment intentions. Out of their rankings we create weighted scores that sum to 100%. Table 2 shows the top five overall issues by sector, with finding skilled labour ranking very highly economy-wide.

Table 2: Firms biggest problems by sector

	Retail	Manuf	Agri	Constr	Serv.
Finding skilled labour	21.4	25.5	26.6	31.9	26.9
Regulation/paperwork	10.9	12.2	26.6	12.6	21.5
Competition	11.2	12.8	4.3	12.1	11.8
High rates of pay	13.7	5.6	7.9	11.5	10.8
Non-wage costs	13.7	12.5	13.7	16.5	6.5

Figure 5 shows how (economy-wide) problems have evolved over time. Finding skilled labour is a steadily increasing problem for firms, as are non-wage costs. High rates of pay are also creeping upwards as an issue. Competition, low turnover, cashflow, exchange rates and interest rates are decreasing in relative importance.

Figure 5: Firms biggest problems over time



Source: ANZ Research

We can do a similar exercise for drivers of investment decisions. For those planning to invest more, the decision is increasingly being driven by skilled labour shortages and labour costs, but the domestic and global economic outlooks remain key. For those intending to invest less (far fewer firms), the domestic and global economic outlooks are becoming less important (as they have improved). Skilled labour shortages and labour costs were also seen as reasons *not* to invest (presumably around uncertainty about whether staff to work the machines/develop the IT could be found, and cashflow issues respectively). Spare capacity was also a more important issue for these firms, as were interest rates, somewhat surprisingly.

Figure 6a: Intending to invest more

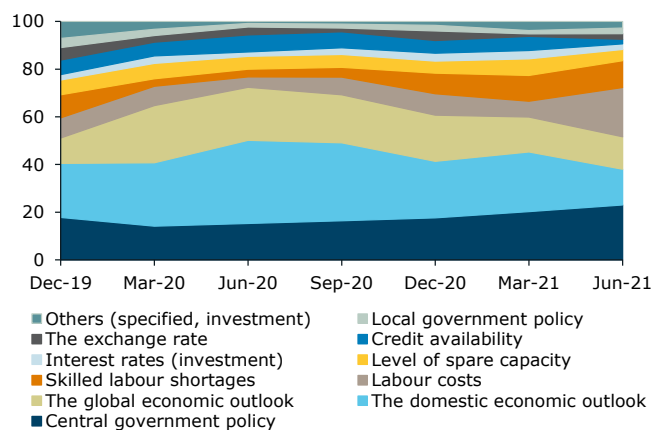
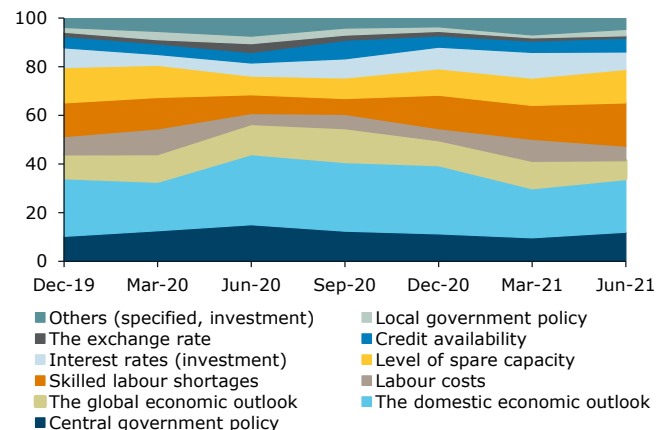


Figure 6b: Intending to invest less



Source: ANZ Research

Our take

The New Zealand economy is stretched, and firms are clearly facing enormous cost pressures. Increasingly, they are planning on raising their prices in response, with little fear evident that demand will collapse as a result. Shortages of labour are driving investment decisions to a greater extent, but it's confidence in the economic outlook that will always be key here.

With firms keen to invest and employ, and both cost-push and demand-pull factors suggesting strong inflation ahead, it's past time to unwind the emergency OCR stimulus. We are forecasting the RBNZ to raise the OCR in February next year, but odds are rising that we'll see hikes this year.

Survey Results June 2021

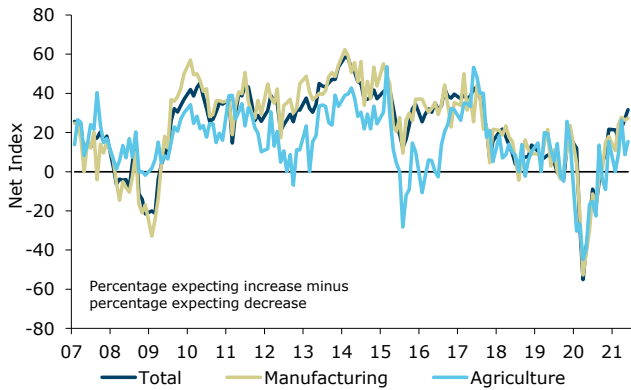
Net Balance	June	Previous (May)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-0.6	1.8	1.8	-9.1	-3.8	16.1	-1.8
Own Activity Outlook	31.6	27.1	26.3	27.3	15.4	43.3	35.3
Export Intentions	13.4	12.2	21.2	13.0	4.0	0.0	14.3
Investment Intentions	25.5	18.9	24.1	29.7	15.4	30.0	25.5
Cost Expectations	86.2	81.3	89.5	93.9	100.0	93.5	78.8
Capacity Utilisation	23.9	20.1	25.0	21.9	23.1	40.0	21.6
Residential Construction	40.0	20.8	...	...	...	40.0	...
Commercial Construction	38.5	8.3	...	...	...	38.5	...
Employment Intentions	19.7	20.5	17.5	9.1	3.8	23.3	26.7
Profit Expectations	5.8	3.9	-7.0	0.0	11.5	16.7	9.6
Pricing Intentions	62.8	57.4	84.2	65.2	53.8	74.2	53.9
Ease of Credit Expectations	-40.2	-38.0	-38.6	-32.3	-38.5	-35.5	-45.5
Inflation Expectations (%)	2.41	2.22	2.72	2.56	2.30	2.26	2.31
Activity – vs. same month one year ago	42.2	41.8	43.9	42.4	23.1	25.8	47.6
Employment – vs. same month one year ago	21.6	12.4	16.1	15.4	7.7	33.3	26.4

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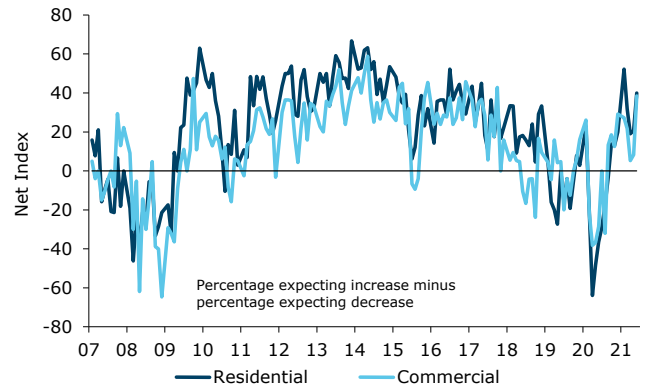


Charts

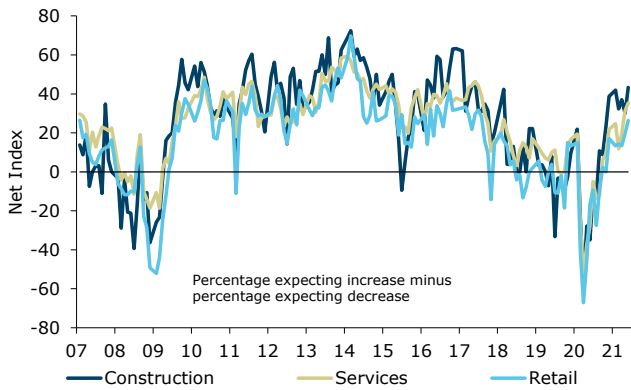
Activity outlook index



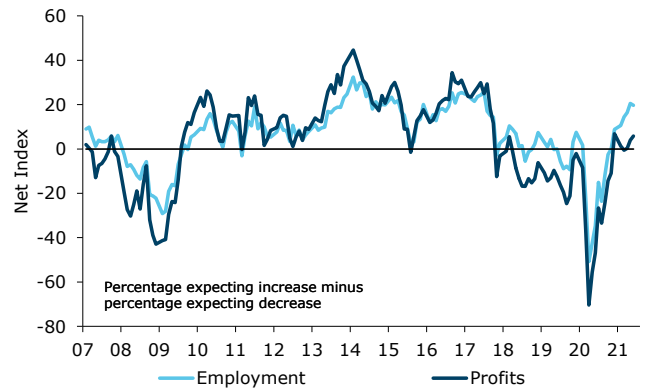
Construction intentions



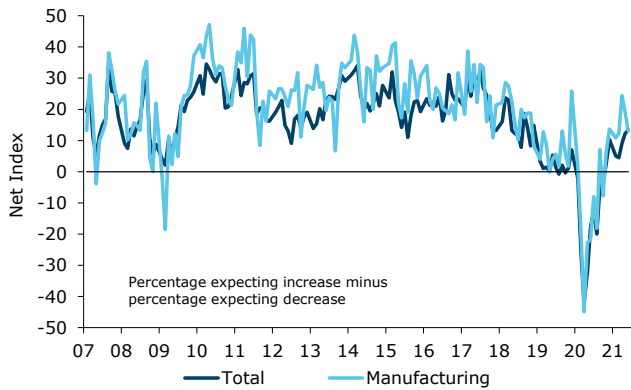
Activity outlook index



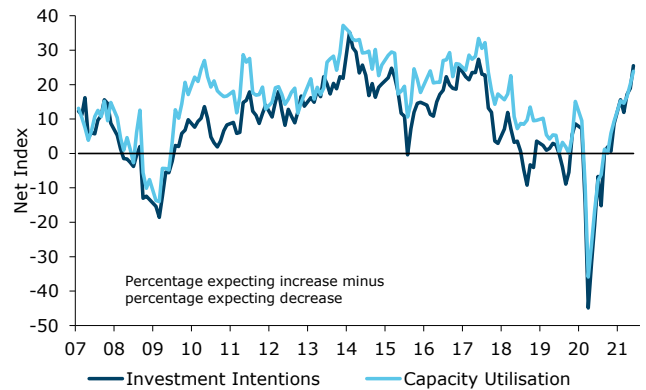
Employment and profit outlook



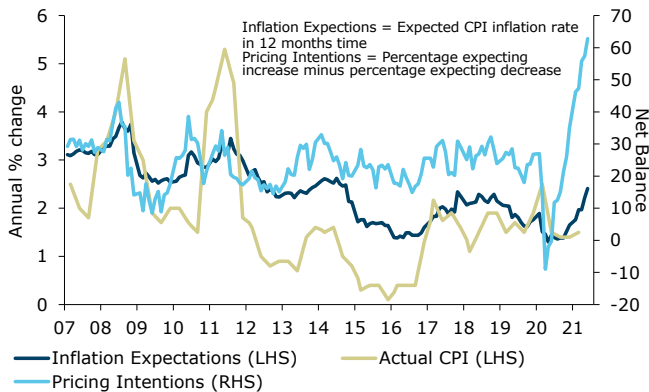
Export sales volumes



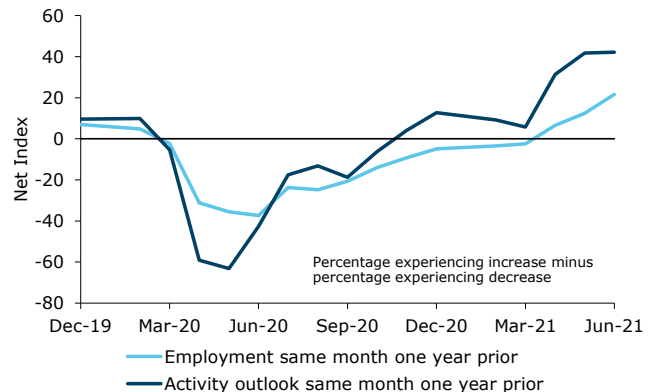
Investment intentions and capacity utilisation



Inflation expectations



Experienced activity and employment



Source: ANZ, Statistics NZ



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