

ANZ New Zealand Business Outlook

17 December 2021



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Contact

Sharon Zollner for more details.

See [page 7](#).

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A very wary Christmas and a busy New Year

Key points

- Headline business confidence fell 7 points in December, while own activity fell 3 points.
- Finding labour remains firms' biggest problem, and is getting worse, while freight disruptions are also having a growing impact.

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



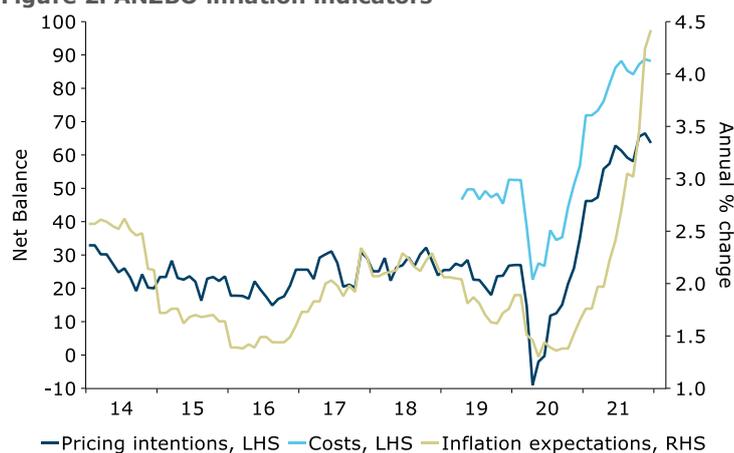
Source: Macrobond, ANZ Research

Table 1: Results versus recent history

Net Balance	Dec	Nov	Oct	Comment
Business Confidence	-23.2	-16.4	-13.4	Continuing its slide
Own Activity Outlook	11.8	15.0	21.7	Slipping but levels okay
Export Intentions	8.8	9.5	8.6	Steady
Investment Intentions	11.4	16.3	13.8	Steady
Cost Expectations	88.2	88.7	87.2	Still extremely high
Capacity Utilisation	9.2	14.1	20.6	Slipping
Residential Construction	0.0	4.5	7.1	Rolling over
Commercial Construction	19.2	16.7	3.4	Noisy but holding up
Employment Intentions	10.5	15.8	10.9	Holding up very well
Profit Expectations	-13.1	-9.7	-6.2	Nothing flash but fairly steady
Pricing Intentions	63.6	66.5	65.5	Still at extreme highs
Ease of Credit	-70.6	-64.9	-57.1	Still very low
Inflation Expectations	4.42%	4.24%	3.45%	Still rising
Activity – vs. same month one year ago	14.8	7.6	-0.3	Post-lockdown bounce
Employment – vs. same month one year ago	15.1	11.7	11.4	Consistent with HLFS

The December ANZBO showed activity indicators generally slipping further, but they remain at respectable levels. Expected own activity, export intentions, investment intentions, commercial construction intentions, employment intentions, and profit expectations all fall into that bucket. Slipping more markedly are overall business confidence, residential construction intentions, and ease of credit. Inflation expectations are still rising, while cost expectations and pricing intentions bounce about at very high levels (figure 2).

Figure 2. ANZBO inflation indicators



Source: Macrobond, ANZ Research

Our heatmaps show the cost and pricing pressure clearly, with a sea of orange at the bottom of the levels table, across all sectors. In terms of activity indicators, business confidence and export intentions are under par, and interestingly, capacity utilisation is now under its historical average for all sectors except construction. This indicator has one of the best correlations to GDP growth across the survey. The question asks specifically about capital utilisation – we know labour utilisation is sky high.

Expected profitability is a lot more 'blue' than expected activity, indicating widespread margin pressure. The discrepancy is starkest for construction, with firms in this sector expecting activity to lift but a net 16% of firms are nonetheless anticipating profitability to fall. That's undoubtedly due to the fact that a net 97% of firms in the sector expect costs to rise.

Both construction firms and manufacturers were pretty upbeat on investment intentions, however; a logical response to labour shortages.

Table 2. Heatmap

	Levels					Monthly changes				
	Retail	Mfg	Agric	Constrn	Serv	Retail	Mfg	Agric	Constrn	Serv
Business Confidence	-21.4	-15.9	-34.6	-19.4	-27.5	4.6	-0.1	6.3	-16.0	-14.6
Own activity outlook	7.0	21.9	0.0	15.6	10.1	-1.0	-2.7	22.7	-7.7	-7.7
Activity vs. same month one year ago	-7.0	21.9	3.8	21.9	21.5	9.0	0.8	17.4	28.6	6.0
Exports	2.6	22.2	4.3	0.0	3.7	-0.5	4.4	16.1	16.7	-12.6
Investment	11.1	25.4	-7.7	12.5	8.2	-11.8	2.2	-7.7	-0.8	-5.4
Capacity Utilisation	13.0	4.8	0.0	19.4	9.4	15.1	-17.0	0.0	12.7	-11.8
Residential Construction	...	...	...	0.0	...	...	...	...	-4.5	...
Commercial Construction	...	...	...	19.2	...	...	...	...	2.5	...
Employment	3.6	15.6	12.0	15.6	9.7	-6.4	-7.2	16.5	-5.1	-7.6
Employment vs. same month one year ago	7.1	23.4	7.7	31.2	12.4	11.1	9.4	-1.4	4.5	-0.6
Profits	-17.5	-7.8	-15.4	-15.6	-12.8	-9.3	-11.3	11.9	-2.3	-2.0
Ease of Credit	-68.4	-73.4	-69.2	-68.8	-71.1	7.6	-12.0	-10.1	-12.1	-5.5
Costs	89.5	96.9	92.3	96.9	81.9	-2.5	7.4	1.4	3.8	-4.1
Pricing Intentions	73.7	78.1	30.8	78.1	57.7	-4.3	2.7	3.5	-5.2	-4.7

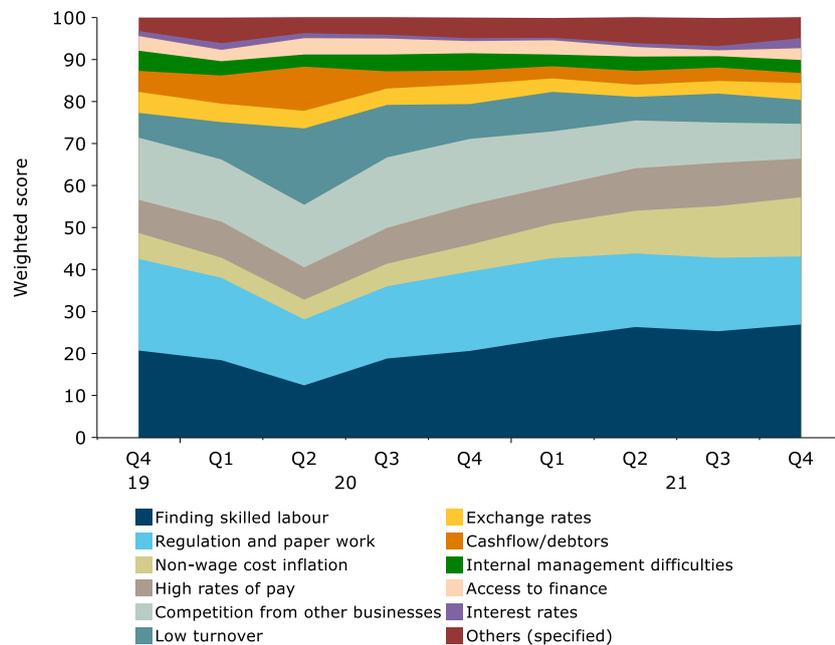
Note: Shades of orange indicate high, and shades of blue, low, becoming more intense at the extremes. The colour coding is based on standardised values that take into account the historical average and variation in each series. For example, a series may be low compared to others but if that's not unusual, it may not be in blue. The history of the activity and employment versus a year ago is unfortunately too short for historical comparisons to be particularly meaningful but the data is included for completeness.

In terms of monthly moves, agriculture and construction saw the biggest increases across activity indicators, while services saw falls, possibly in response to the introduction of the traffic light system. While this was a solid upgrade in business conditions for many Auckland firms, for the rest of the country it meant more hassle for many, and was a pretty stark reminder that COVID is coming to a town near you, if it hasn't arrived already.

What's weighing on business owners' minds?

Every three months, we ask firms about what their most pressing problems are. Data for the December quarter shows that finding skilled labour and non-wage cost inflation continue to increase in severity. Regulation and paperwork remains high up the list, but is quite stable. Problems related to weak demand, such as high rates of competition and low turnover, continue to shrink in relative importance.

Figure 3. Firms' weighted largest problems



Source: Macrobond, ANZ Research

We also ask each month specifically about freight disruptions in particular. Here, the impact continues to worsen. Issues with outward freight have gotten steadily worse over time, while issues with inward freight have been more stable, but at a more problematic level overall (figure 4, over). This makes sense – not every firm is an exporter, but the majority have some kind of exposure to imported goods.

Figure 5 shows inward freight disruption by sector. It remains worst for retail, construction and manufacturing, with agriculture not far behind. But even services, a sector that was only lightly affected initially, is now reporting quite meaningful disruption. Clearly, supply-side problems are not going away any time soon. And they're inflationary.

Figure 4. Median reported freight disruption

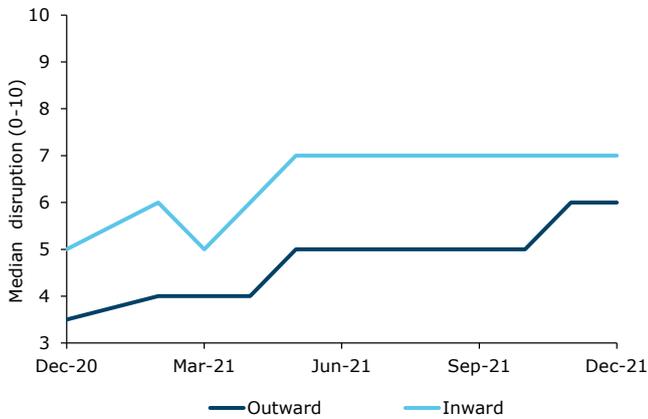
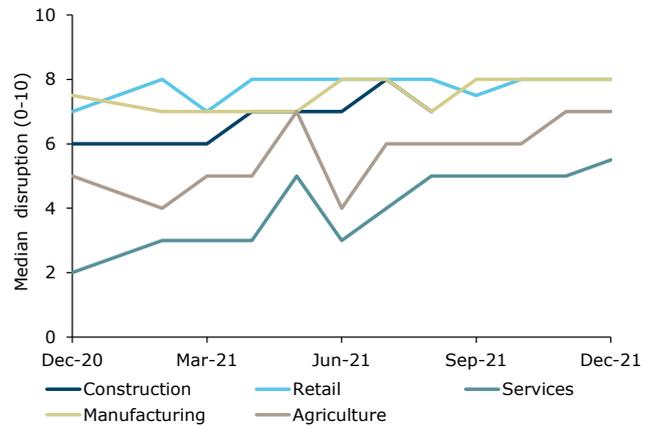


Figure 5. Inward disruption by sector

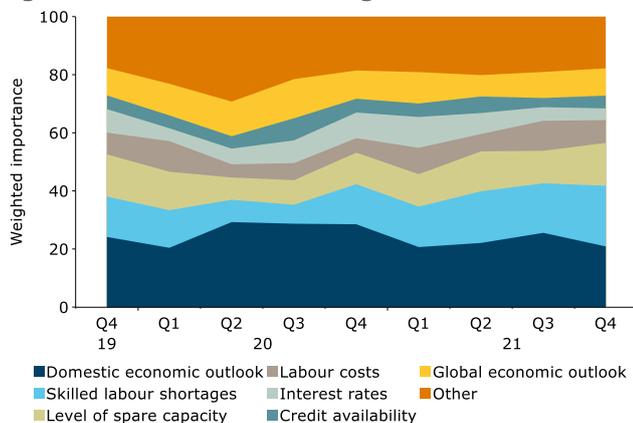


Source: ANZ Research

Finally, we also ask firms every three months about what’s driving their investment decisions. Whether firms are intending to increase or decrease investment, skilled labour shortages are a driver. A fancy machine or piece of software to replace impossible-to-find workers makes sense, but only if you can find someone to build it and run it.

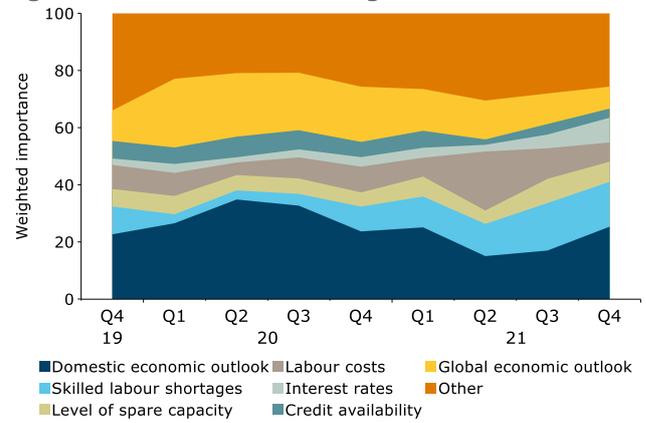
Interest rates are also becoming a factor to consider amongst firms who are planning on investing less. So too is the domestic economic outlook, but the global outlook is decreasing in relative importance.

Figure 6. Reasons for investing more



Source: Macrobond, ANZ Research

Figure 7. Reasons for investing less



Source: Macrobond, ANZ Research

Our take

It’s been a long year, particularly for those of us in Auckland. And unfortunately the cloud of uncertainty that hangs over 2022 is not a great deal smaller, nor fluffier. But we’ve come through the pandemic thus far in much better shape than many, with a record-high employment rate and businesses in remarkably good heart, given how difficult it is to plan very far ahead in this kind of environment. We have our challenges, certainly, including finding out the true lay of the land when the housing market is in retreat rather than full steam ahead. Labour shortages and cost pressures rank high in firms’ list of concerns, and freight disruptions are getting worse.

None of these problems will be quickly or easily resolved, and they're affecting both stress levels and profitability. But having trouble meeting demand is probably a better problem to have than not having enough demand. It's not an easy situation at all, but New Zealand firms are getting on with it as best they can. Wishing you and your family a restful Christmas break to recharge the batteries ready for whatever comes next.

Survey Results December 2021

Net Balance	December	Previous (Nov)	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-23.2	-16.4	-21.4	-15.9	-34.6	-19.4	-27.5
Own Activity Outlook	11.8	15.0	7.0	21.9	0.0	15.6	10.1
Export Intentions	8.8	9.5	2.6	22.2	4.3	0.0	3.7
Investment Intentions	11.4	16.3	11.1	25.4	-7.7	12.5	8.2
Cost Expectations	88.2	88.7	89.5	96.9	92.3	96.9	81.9
Capacity Utilisation	9.2	14.1	13.0	4.8	0.0	19.4	9.4
Residential Construction	0.0	4.5	...	...	...	0.0	...
Commerical Construction	19.2	16.7	...	...	...	19.2	...
Employment Intentions	10.5	15.8	3.6	15.6	12.0	15.6	9.7
Profit Expectations	-13.1	-9.7	-17.5	-7.8	-15.4	-15.6	-12.8
Pricing Intentions	63.6	66.5	73.7	78.1	30.8	78.1	57.7
Ease of Credit Expectations	-70.6	-64.9	-68.4	-73.4	-69.2	-68.8	-71.1
Inflation Expectations (%)	4.42	4.24	4.7	4.5	4.7	4.3	4.3
Activity - vs. same month one year ago	14.8	7.6	-7.0	21.9	3.8	21.9	21.5
Employment - vs. same month one year ago	15.1	11.7	7.1	23.4	7.7	31.2	12.4

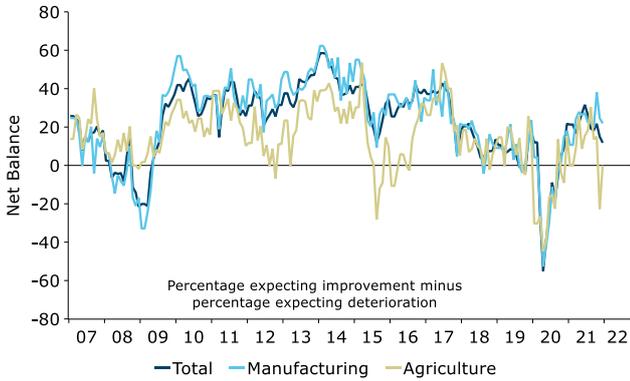
Source: Macrobond, ANZ Research

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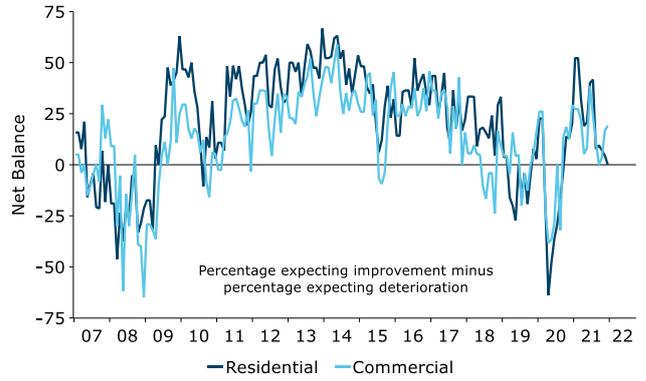


Charts

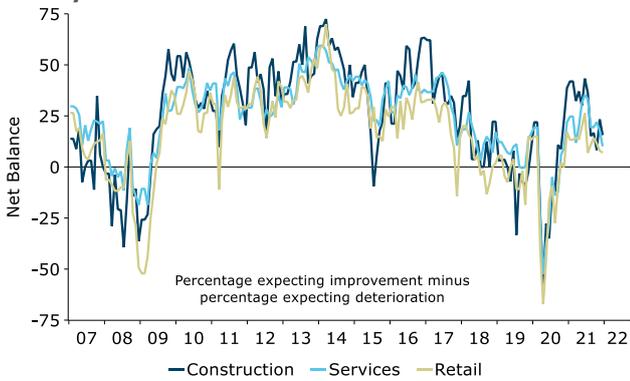
Activity outlook index



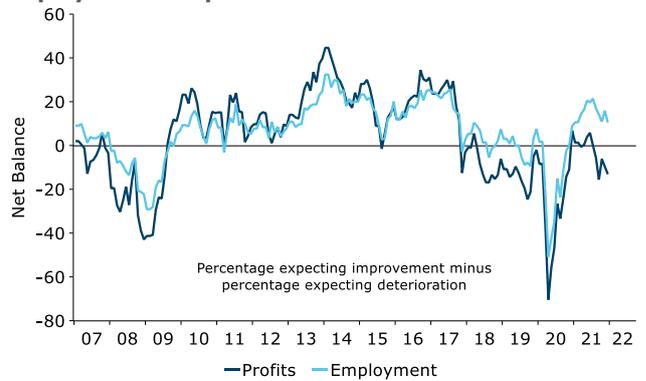
Construction intentions



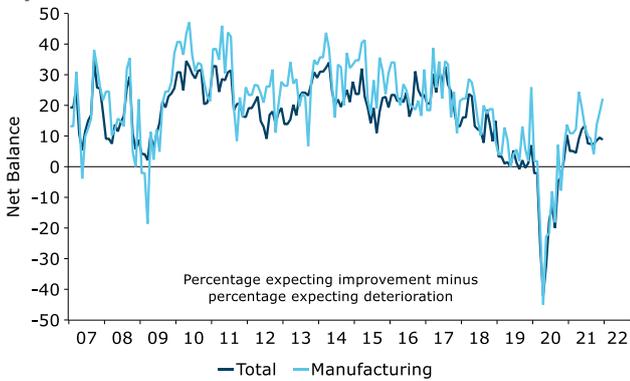
Activity outlook index



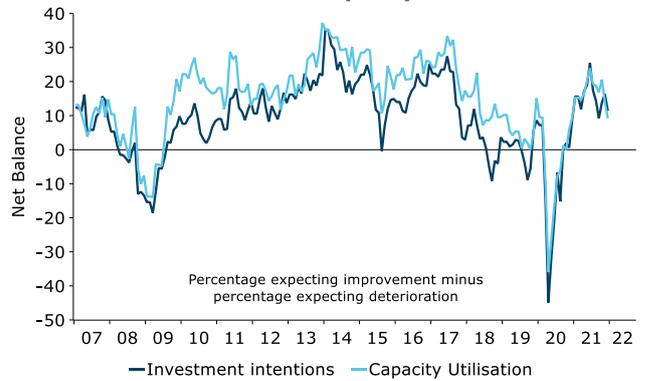
Employment and profit outlook



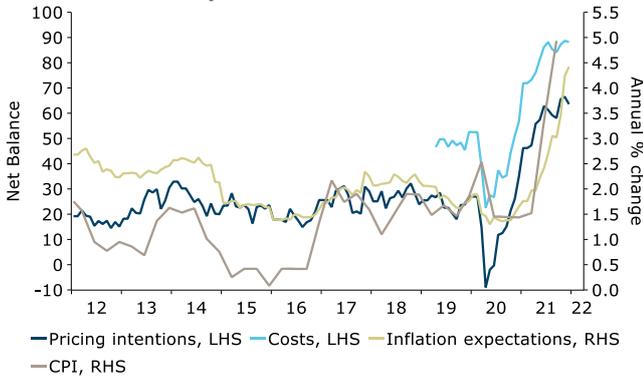
Export sales volumes



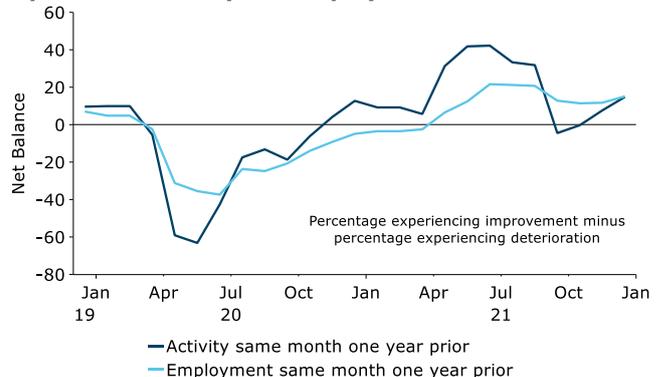
Investment intentions and capacity utilisation



Cost and inflation pressures



Experienced activity and employment



Source: ANZ, Statistics NZ, Macrobond



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Sharon Zollner
Chief Economist

Follow Sharon on Twitter
@sharon_zollner

Telephone: +64 27 664 3554
Email: sharon.zollner@anz.com

General enquiries:
research@anz.com

Follow ANZ Research
@ANZ_Research (global)



David Croy
Senior Strategist

Market developments, interest rates, FX, unconventional monetary policy, liaison with market participants.

Telephone: +64 4 576 1022
Email: david.croy@anz.com



Susan Kilsby
Agricultural Economist

Primary industry developments and outlook, structural change and regulation, liaison with industry.

Telephone: +64 21 633 469
Email: susan.kilsby@anz.com



Miles Workman
Senior Economist

Macroeconomic forecast co-ordinator, fiscal policy, economic risk assessment and credit developments.

Telephone: +64 21 661 792
Email: miles.workman@anz.com



Finn Robinson
Economist

Macroeconomic forecasting, economic developments, labour market dynamics, inflation and monetary policy.

Telephone: +64 21 629 553
Email: finn.robinson@anz.com



Kyle Uerata
Economic Statistician

Economic statistics, ANZ proprietary data (including ANZ Business Outlook), data capability and infrastructure.

Telephone: +64 21 633 894
Email: kyle.uerata@anz.com



Natalie Denne
PA / Desktop Publisher

Business management, general enquiries, mailing lists, publications, chief economist's diary.

Telephone: +64 21 253 6808
Email: natalie.denne@anz.com



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