

Economic Note

April ANZ Business Outlook

28 April 2022

Hope Springs Creeps

- Business sentiment remains in the doldrums, with a mixed batch of April confidence readings.
- But a sprinkling of mildly encouraging signs was enough to keep our forecasts in play for low-but-ok GDP growth, and a slow easing in headline inflation from the likely H1 2022 peak.
- There was nothing to dissuade the RBNZ from hiking the OCR another 50bps in May, as remains our view, with a steady series of 25bps lifts to follow thereafter.

ANZ Business Survey 12 month outlook	April	March	12m prior	10-year average
Headline Confidence	-42	-41.9	-2	1.7
Own Activity Expectations	8	3.3	22.2	23.4
Capacity Utilisation	7.4	7	16.5	16.7
Employment Intentions	9.4	12.3	16.4	10.1
Investment Intentions	3.1	5.2	17.1	11.1
Profit Expectations	-30	-27.1	0.3	5.6
Pricing Intentions	76.7	80.5	55.8	27.6
Costs	95.5	95.9	76.1	60.8
Inflation Expectations	5.92	5.51	1.97	2.2

Key insight

The April ANZ Business Outlook was again loaded with the now-familiar themes pervading the business sector at present: low confidence, squeezed profitability, staff shortages and stratospheric inflation and cost pressures. Indeed, headline confidence fell slightly from March’s already-suppressed level.

But while all of these themes remain in play, there were some encouraging signs. Enough, for now, to keep our forecasts in play for low-but-ok GDP growth, and a slow easing in headline inflation from what we think will be the peak in H1 2022. Equally, with expectations of wage settlements reported as picking up, there was nothing in the survey to

dissuade the RBNZ from hiking the OCR another 50bps in May as remains our view, with a steady series of 25bps lifts

ANZ Own Activity and Annual GDP growth



Source: Macrobond, ASB

to follow thereafter.

Details

Below we pull out three key features of the April survey.

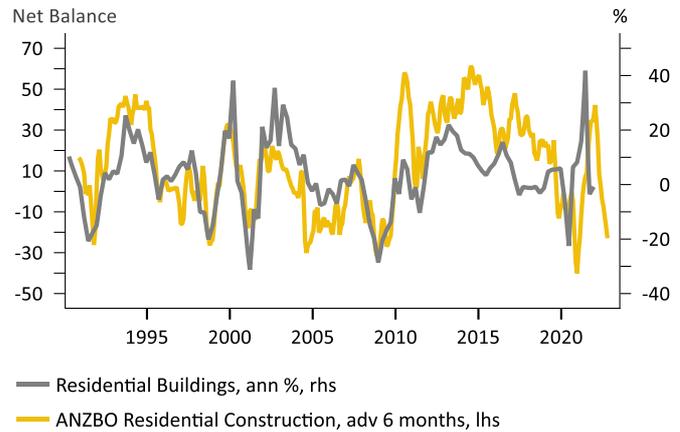
First, despite the fall in headline confidence, own activity expectations bounced, as we had been counting on. The latter index is the better lead on economic activity (see chart above) and the less negative read likely reflects the slow passing of the Omicron wave, and its attendant disruptive impacts. The construction and agriculture sectors drove most of the bounce, but it was encouraging to see the service sector’s own activity expectations creep further away from negative (net +10 from +4 last month).

Second, the other activity metrics were all a bit mixed, suggesting generally cautious business sentiment remains. Both employment and investment intentions eased up on last month, albeit the former might be related to recruitment fatigue rather than a dropping in genuine employment intentions. Profitability expectations soured even further, understandably, given still outrageously-high cost expectations (a net 96% expecting higher costs). Still, the one that most caught our eye (as with last month) was the further scuttling in residential construction expectations (-37 from -27, chart in appendix). We’d note that commercial construction intentions jumped up though (0 to +26), potentially pointing to a reallocation of resources within the sector.

Finally, firms’ pricing intentions fell slightly (a net 77% expecting to raise prices from a net 81% in March). To be sure, they remain sky-high, and consistent with 7%-odd inflation. But the fact they didn’t increase again will provide a modicum of comfort for the RBNZ. All sectors shared in April’s small decline. Inflation expectations did rise further to 5.92% but this was to be expected given expectations follow actual inflation reasonably closely.

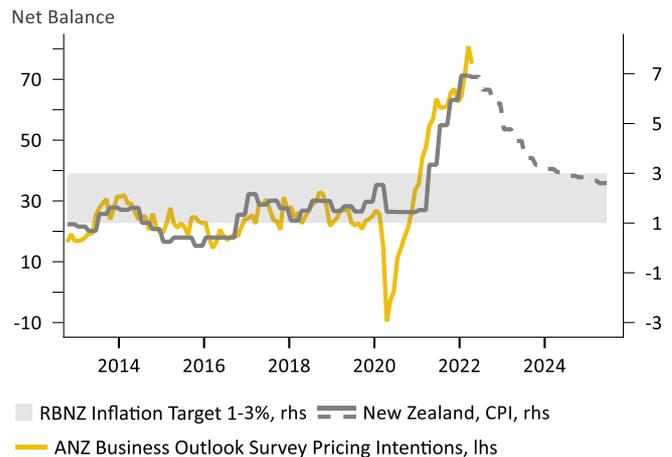
When we say “modicum” above we mean it. Given still-rampant cost inflation, stretched capacity, and reports from the survey that expected wage settlements over the next 12 months are rising for every sector except construction and services, there is no room for complacency from the RBNZ. We expect another “stitch in time” 50bps lift in the OCR in May and a steady series of 25bps lifts to follow thereafter.

Residential Investment Growth and ANZ Residential Construction Intentions



Source: Macrobond, ASB

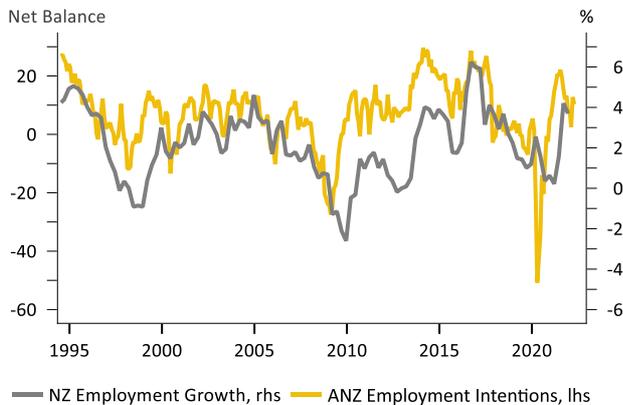
Pricing Intentions and Inflation Forecast



Source: Macrobond, ASB

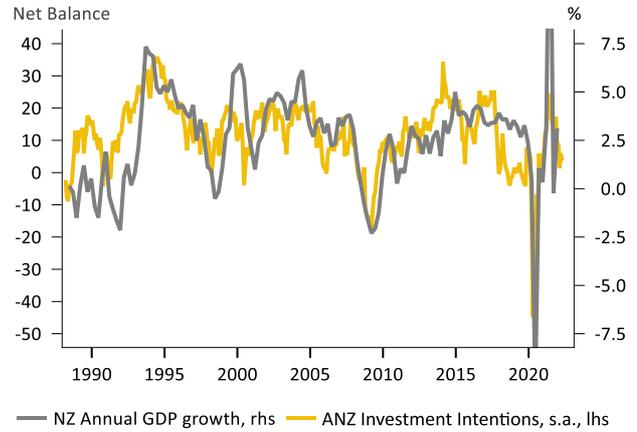
Additional Charts

ANZ Employment Intentions & NZ Annual Employment Growth



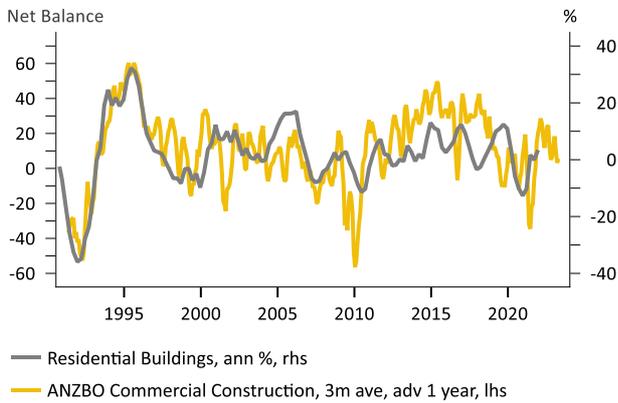
Source: Macrobond, ASB

ANZ Investment Intentions and GDP growth



Source: Macrobond, ASB

Non-Residential Investment Growth and ANZ Commercial Construction Intentions



Source: Macrobond, ASB

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