

Economic Note

Business Sentiment in May

31 May 2021

Turning up the heat

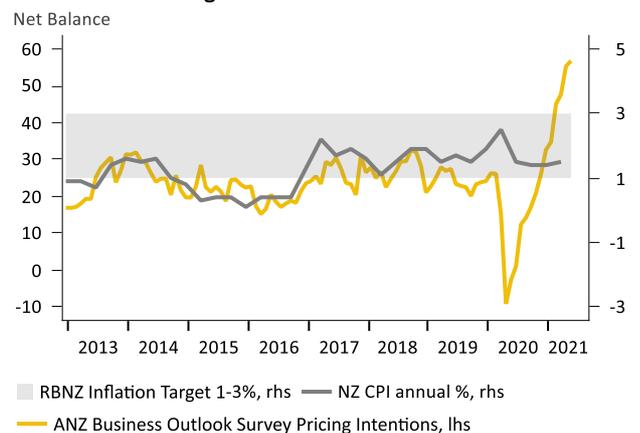
- Business sentiment measures point to firming demand and strong GDP growth over Q2 2021, with ANZ business own activity expectations slightly above decade-averages in May.
- Cost pressures continue to drive pricing intentions to record high levels.
- Cost pressures coupled with a strong demand back drop are a recipe for inflation pressures to pick up on a persistent basis.

ANZ Business Survey 12 month outlook	May	April	12m prior	10-year average
Headline Confidence	1.8	-2	-34.4	6.4
Own Activity Expectations	27.1	22.2	-25.9	25.1
Employment Intentions	20.5	16.4	-34.7	9.8
Investment Intentions	18.9	17.1	-20.5	11.2
Profit Expectations	3.9	0.3	-46.8	7.9
Pricing Intentions	57.4	55.8	-0.3	23.4

Cost pressures spark inflation concerns

As reported by the ANZ monthly business outlook survey, cost pressures continue to firm, which look to be driving pricing intentions higher along with them. The COVID-19 pandemic has disrupted global supply chains, seen shipping costs surge. The NZ border restrictions have also disrupted the labour market. For the first time in over a decade, there is genuine concern that current supply shocks and price movements could trigger a sustained lift in inflation pressure. Only time will tell how much of the lift in prices over 2021 will be transitory and how much will become more persistent. A strong demand environment (as indicated by business sentiment) suggests businesses should be able to pass on higher costs to consumers, which in turn points to some of the inflation could become more persistent. The Q2 CPI inflation read, in July, will be closely watched to see how much price pressure is coming through. Wage growth is another key area to watch going forward.

Pricing Intentions and CPI Inflation



Source: Macrobond, ASB

Business sentiment points to strong Q2 GDP growth.

Business sentiment has continued to lift throughout April and May, with ANZ own activity expectations climbing in May to be at above average levels (10-year historical average). We focus on own activity expectations over headline

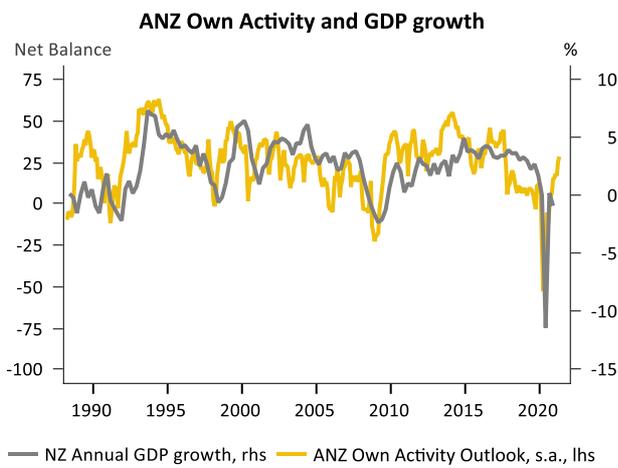
business confidence, as the former is the better indicator of GDP growth. This lift in business sentiment echoes the moves seen in other activity indicators, such as the Business NZ Composite PMI which has also lifted strongly over the first half of the year. The Business NZ Composite indicator was below 50 back in November and December but has then surged to a record high of 60 in April (on a seasonal-adjusted basis).

We monitor business confidence surveys as an early guide to GDP growth. Business confidence indicators have surged through April and May, pointing to strong economic growth over the Q2 2021. We currently have a 1.4% qoq lift pencilled in for Q2 GDP but will likely fine tune this estimate after we get the Q1 GDP figures in June.

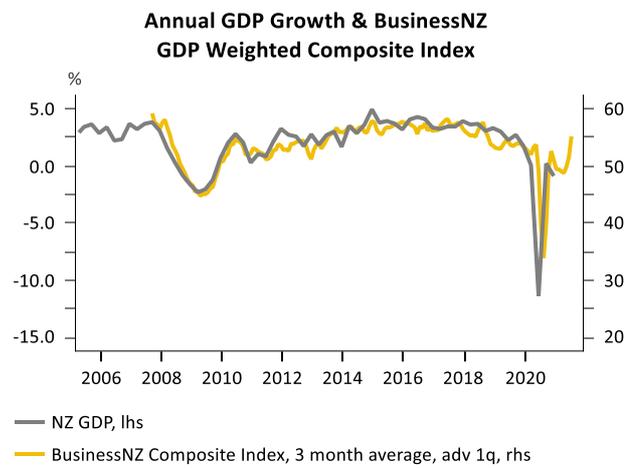
There are a number of business confidence surveys conducted in NZ, and these can provide useful and timely indicators to GDP growth over the coming 3-12 months. Over the past year, we have tended to favour the **ANZ business outlook survey – largely because it has become the most-timely indicator** of business confidence once ANZ started publishing its preliminary estimate early in the month. The ANZ survey has a long history, and we can use this to judge its accuracy as an indicator for GDP. The ANZ survey is a pretty good guide to the direction of growth.

Prior to COVID-19, we favoured NZIER’s Quarterly Survey of Business Opinion as it has the most reliable prediction of the trend rate of GDP growth. This survey has a very long history for us to judge it against. However, this survey is the least timely in terms of publication.

Business NZ also publishes its own measure of business confidence during the middle of the month via its PMI – it tends to publish its results separately as the Business NZ Manufacturing PMI and the Business NZ Services PMI. **The composite indicator is a very good guide to GDP growth.**



Source: Macrobond, ASB



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