

Economic Note

Business Sentiment in October

13 October 2021

Auckland businesses unnerved by COVID challenge

- Business sentiment remains resilient, despite the prospect of Auckland remaining under L3 restrictions for the next 4-8 weeks.
- Cost and inflation pressures remain uncomfortably high.
- RBNZ to cautiously remove monetary stimulus, returning the OCR to 1.5% by the end of 2022.

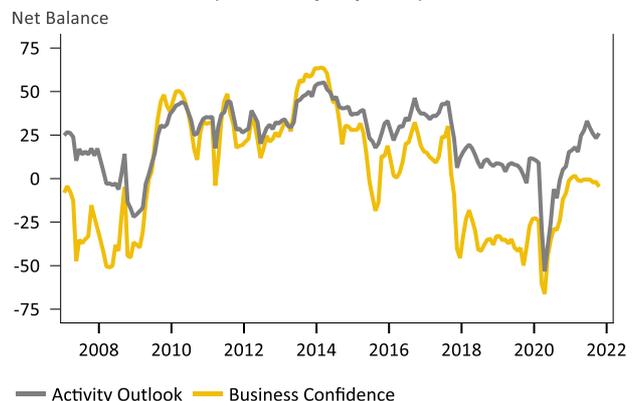
ANZ Business Survey 12 month outlook	October	September	12m prior	10-year average
Headline Confidence	-8.6	-6.8	-15.7	4.7
Own Activity Expectations	26.2	18.2	4.7	24.6
Capacity Utilisation	20.1	16.3	0	17.0
Employment Intentions	12.9	14.7	-2.5	10.0
Investment Intentions	14.3	12.2	1.9	11.4
Profit Expectations	-3	-13.1	-14.3	7.1
Pricing Intentions	63.5	55.4	21.4	25.0

Business sentiment shrugs off Delta

Business sentiment has continued to defy expectations, with the most reliable ANZ Business Outlook indicator “own activity” increasing in the early days of October. The preliminary results for October cover the period from 30 September to midnight October 10. The Government moved away from elimination on October 4th, as it outlined its new approach to relaxing specific restrictions and emphasising that increased freedom will depend on vaccination rates. Under this approach, it was indicated that it was likely to take Auckland 4-8 weeks to return to level 2 type restrictions. We had expected the prospect of a prolonged period of restrictions to take a larger toll on business confidence. Even more surprising, was that the level of optimism is actually higher in Auckland than outside of Auckland, according to ANZ.

Much of the lift in October’s Own Activity responses from September can be explained by usual seasonal patterns. Seasonally adjusted, the lift is modest (albeit the level of business optimism remains remarkably high). Many businesses are busier than usual ahead of the Christmas/NY break. Although the questions are supposed to relate to 12-months in advance, in practice we find the responses are often influenced by near-term factors and display a fairly reliable seasonal pattern.

ANZ Business Outlook Survey (seasonally-adjusted)

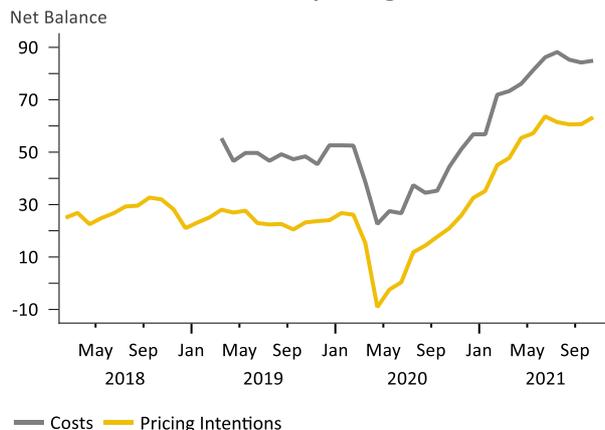


Source: Macrobond, ASB

Inflation pressures acute

Inflation and cost pressures have not abated according to the October survey and remain uncomfortably high. This contrasts with the most recent NZIER Quarterly Survey of Business Opinion, which had indicated an unexpectedly large decline in cost and inflation pressures over Q3. While the latter survey is typically considered more reliable, the results of the ANZ survey sit closer to current anecdotes. Global supply chain pressures have become more acute over the past year – feeding directly through to higher imported inflation. Meanwhile, NZ’s economy was running hot heading into the current Delta community outbreak, and the tight labour market is expected to drive domestic inflation pressures higher over the coming year. We do expect the prolonged Auckland lockdown to temper some of NZ’s excess demand – and given the mixed results from inflation indicators this remains an area we will closely monitor. However, with the RBNZ inflation mandate under threat, the RBNZ would need to see a *significant* pull back in cost and inflation pressures to see it back away from unwinding monetary stimulus over the coming year. We expect the RBNZ to cautiously and gradually lift the OCR to 1.5% by the end of 2022.

ANZ Business Outlook Survey Pricing Intentions and Costs



Source: Macrobond, ASB

About Business Confidence Surveys

We monitor business confidence surveys as an early guide to GDP growth. 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. It also contains more comprehensive activity and inflation indicators, and this survey has a very long history for us to judge it against. However, this survey is the least timely in terms of publication.

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