

Economic Note

Business Sentiment in September

13 September 2021

Businesses defiant in the face of Delta

- Business sentiment resilient in the face of Delta, and points to a strong bounce back in economic activity once Alert Level restrictions are eased.
- Business optimism may still slip once the full survey results are released, as Auckland’s Alert Level 4 drags on.
- Cost and inflation pressures remain elevated, although may be starting to turn a corner.

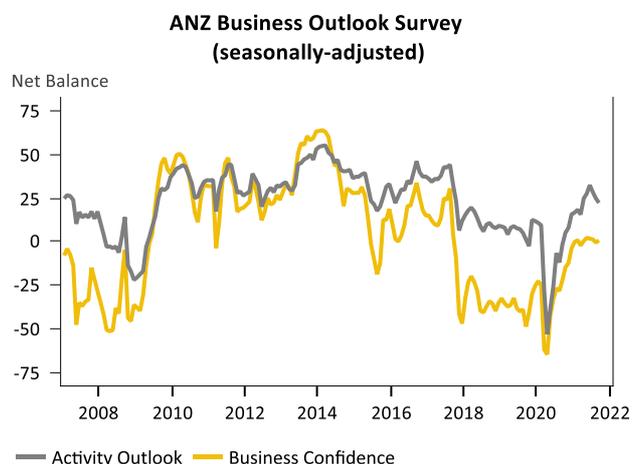
ANZ Business Survey 12 month outlook	September	August	12m prior	10-year average
Headline Confidence	-6.8	-14.2	-28.5	4.8
Own Activity Expectations	18.2	19.2	-5.4	24.6
Capacity Utilisation	16.3	18.8	1.2	17.0
Employment Intentions	14.7	17	-11.8	10.0
Investment Intentions	12.2	14.4	0.3	11.3
Profit Expectations	-13.1	-5.5	-24.4	7.2
Pricing Intentions	55.4	59.2	15.1	24.6

Business sentiment shrugs off Delta

Business sentiment has proved remarkably resilient and barely budged following the NZ Delta Outbreak in mid-August. The ANZ Business Outlook Survey’s September preliminary results provide the first clear snapshot of the impact on business sentiment of the NZ COVID-19 community outbreak and subsequent return to higher Alert levels.

The vast majority of responses for the previous August survey were already received before the first NZ community case was discovered on August 17th. However, the September survey also misses the window of all of NZ being at Alert Level 4 – with most of the rest of the country back in Alert Level 3 from September 1.

Nonetheless, we were surprised to see very little fall in the key “Own Activity” measure of business sentiment. Businesses’ expectations of their own trading activity are a better predictor of economic growth than the headline general business confidence. This measure mostly held up, at +18.2, albeit down from a peak of 31.6 in June 2021, and compares very favourably to -17.5 during the August 2020 lockdown. This suggests businesses have become more forward-looking in responding to the survey, and after learning through previous lockdown experience over the past year most businesses are confident in their ability to quickly recover once Alert Level restrictions are



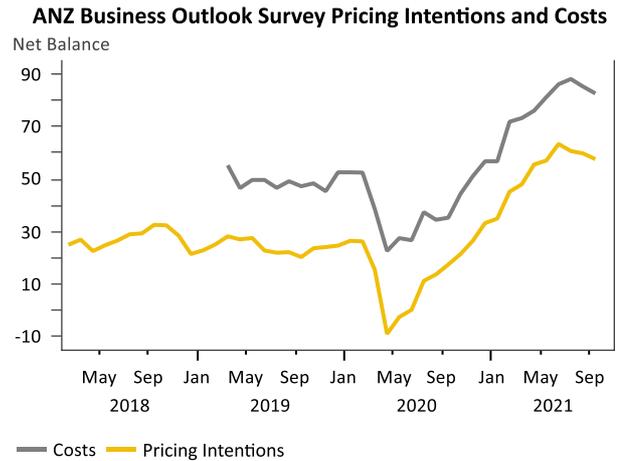
Source: Macrobond, ASB

lowered. Overall, these business survey results are very encouraging. We expect Q3 GDP to fall around 7%, but for the activity to quickly snap back 8% the following quarter.

The full September month survey results will be interesting comparison as the lockdown has dragged on in Auckland with some concern Auckland will need to remain in lockdown longer to squash Delta.

Inflation pressures acute, but may be starting to turn a corner

With activity expectations barely budging inflation pressures remain an ongoing concern, particularly for the RBNZ. The NZ economy was running hot heading into lockdown and inflation pressures were intensifying. There are some concerns that the lockdown may further disrupt supply chains in NZ (particularly given regional variations) and exacerbate existing supply shortages of key goods. However, it is interesting to note that the share of firms reporting higher costs and expecting to increase prices have edged back two months in a row now, from peaks in July. Nonetheless, cost and pricing intentions remains at extremely elevated levels and the RBNZ would need to see significant pull back to be confident of inflation remaining within its target band. Assuming NZ is on track to eliminate Delta by October, we expect the RBNZ to start lifting the OCR from its current record low.



Source: Macrobond, ASB

About Business Confidence Surveys

We monitor business confidence surveys as an early guide to GDP growth. Business confidence indicators have surged in 2021, pointing to strong economic growth over the first half of the year.

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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