

# Research Economy Watch

27 June 2024

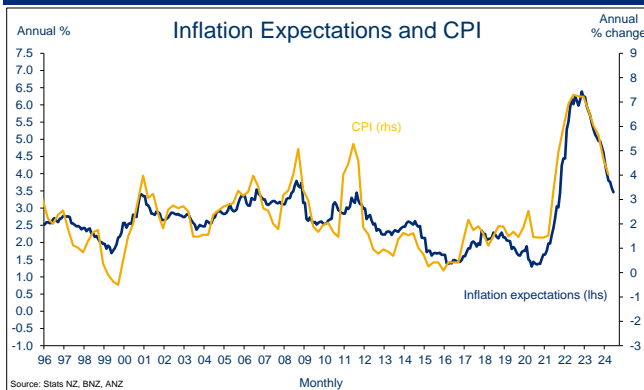
## Some More Progress

- **Inflation indicators generally moving lower**
- **But further progress required by RBNZ**
- **Business profitability remains under pressure**
- **Firms see weak growth, flat employment**

Inflation indicators are generally moving in the right direction. But they need to fall further to be consistent with the RBNZ desires.

Firms' inflation expectations in this afternoon's ANZ business survey eased a bit further to 3.46% from 3.59% in May. More progress toward the inflation target band. These levels are consistent with annual CPI inflation printing in the 3s in Q2, as seems to be the consensus view (no official polls yet).

### More progress



Supporting the idea of inflationary pressures easing was firms' pricing intentions adding to the previous month's nudge lower. June's pricing intentions fell to 35.3 from 41.6 in May and 46.9 in April. It now looks more convincing pricing intentions are trending lower again after many months of stickiness around a level that historically had been consistent with annual CPI inflation around 4%.

Encouragingly, declines in pricing intentions were reasonably widespread across sectors. This included sectors with more external exposures like manufacturing and agriculture, but also among some with more of a domestic focus like retail and services. Services pricing intentions have eased to their lowest level since 2020, if still meaningfully above their long-term average. The construction sector bucked the trend with some lift in their pricing intentions.

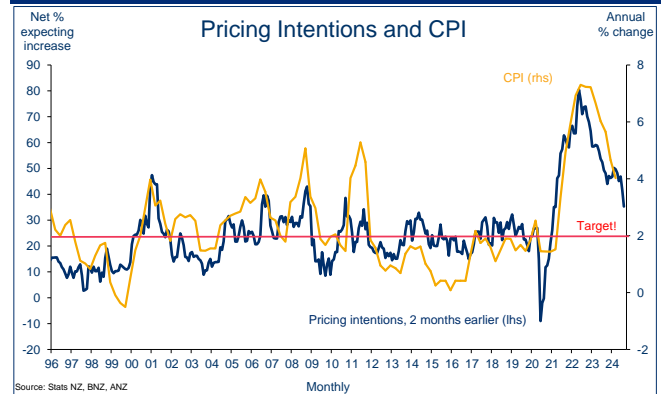
Any further meaningful decline in overall pricing intentions would see them at a level consistent with annual CPI

inflation entering the RBNZ target band. It remains to be seen if that happens but, if it does, it would be consistent with our forecast of annual CPI inflation entering the RBNZ's target band in Q3 this year.

However, thinking about near term inflation we remain wary of factors beyond pure business pricing. For example, we are wary of what will be a very large increase in local authority rates, to be stuck and enter the CPI in Q3.

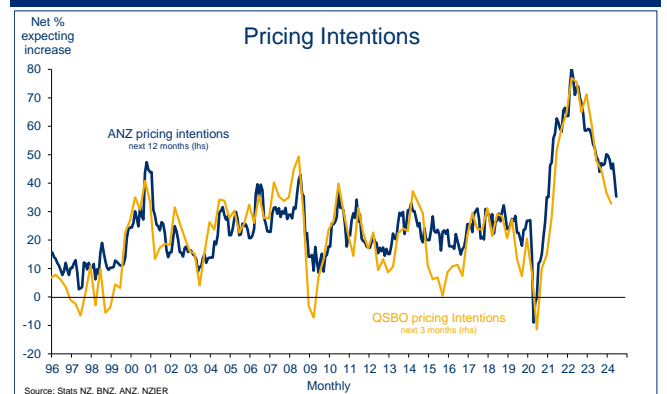
The business pricing indicators represent more 'good progress', to use the words of the RBNZ's Chief Economist in last week's speech. Even if such indicators still need to fall further to be consistent with CPI inflation falling to inside the RBNZ's target band and more so to be consistent with the 2% ideal.

### Helpful



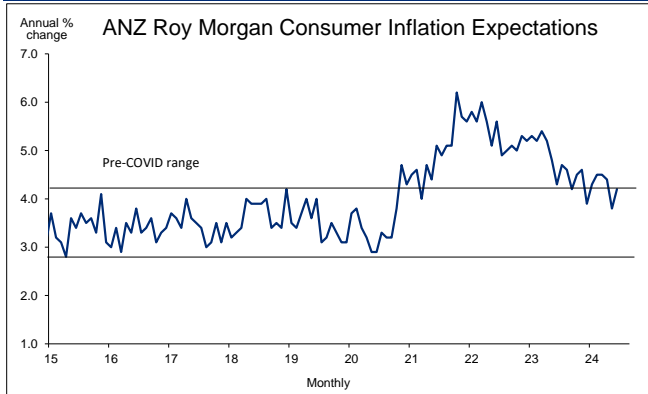
It will be interesting to see if next week's QSBO comparable gauges fall further or not. For all the decent movement in the ANZ pricing intentions over the past couple of months, it hasn't quite closed the gap to the QSBO indicator from a quarter ago. The next QSBO is due out Tuesday next week.

### Catching up



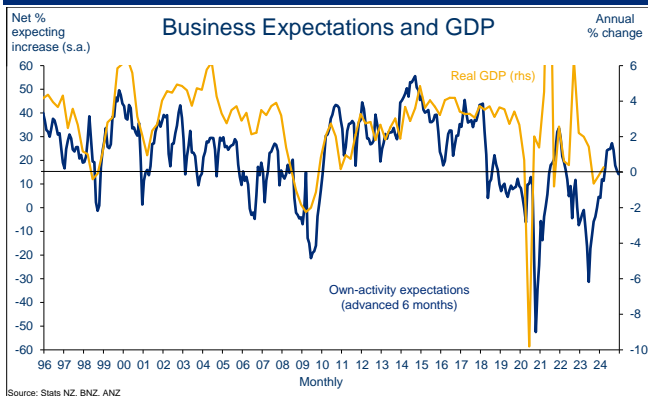
We should note that it hasn't been all one-way traffic on inflation indicators. This morning's RM-ANZ consumer confidence survey saw consumers' (2-year ahead) inflation expectations edge up to 4.2% in June from the 3.8% they fell to in May. The trend still looks downward, although perhaps more slowly than before. A bounce in the month and some slowing in the downtrend may keep the RBNZ wary on near term inflation and the risk of persistence. Consumer inflation expectations are back to the top of their pre-covid range.

**Consumers still seeing elevated inflation ahead**



Returning to the afternoon's business survey, real economy indicators remain weak. Own activity was little changed at 12.2 in June from May's 11.8. The insignificant gain turns into a small decline if you seasonally adjust the series. More importantly, these sorts of levels remain consistent with annual GDP growth near zero. This remains weaker than folk are forecasting over the coming 12 months, including the RBNZ (and us).

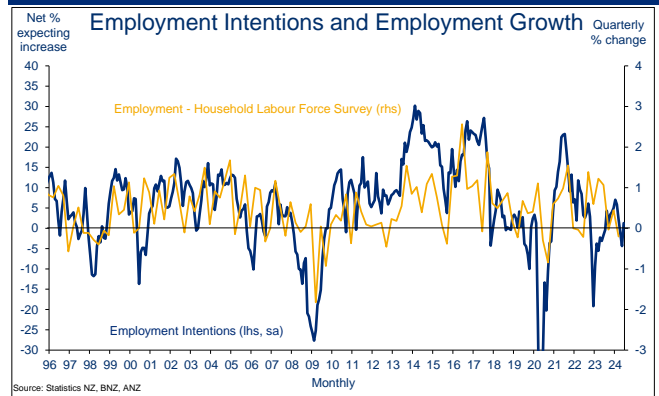
**Growth outlook soft**



Other parts of the business survey show firms' pricing power appears to be fading as demand weakens. Cost increases remain prevalent, although they did ease slightly in June to 69.2 from 72.6 in May. Profit expectations remain negative, but at -10.9 in June they were not quite as negative as May's -15.3.

Ongoing downward pressure on profitability sees firms responding with lower intentions to invest (-4.0, similar to May's -4.9). Employment intentions stabilised at zero in June (from May's -6.9) which sits better with our broadly flat near term forecast for employment and associated lift in the unemployment rate. Nothing here to suggest any changes to those thoughts.

**Employment intentions flat**



doug\_steel@bnz.co.nz

# Contact Details

## BNZ Research

**Stephen Toplis**  
Head of Research

**Doug Steel**  
Senior Economist

**Jason Wong**  
Senior Markets Strategist

**Stuart Ritson**  
Senior Interest Rate Strategist

**Mike Jones**  
BNZ Chief Economist

## Main Offices

### Wellington

Level 2, BNZ Place  
1 Whitmore St  
Private Bag 39806  
Wellington Mail Centre  
Lower Hutt 5045  
New Zealand  
Toll Free: 0800 283 269

### Auckland

80 Queen Street  
Private Bag 92208  
Auckland 1142  
New Zealand  
Toll Free: 0800 283 269

### Christchurch

111 Cashel Street  
Christchurch 8011  
New Zealand  
Toll Free: 0800 854 854

This document has been produced by Bank of New Zealand (BNZ). BNZ is a registered bank in New Zealand and is only authorised to offer products and services to customers in New Zealand.

**Analyst Disclaimer:** The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed.

BNZ maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

**New Zealand:** The information in this publication is provided for general information purposes only, and is a summary based on selective information which may not be complete for your purposes. This publication does not constitute any advice or recommendation with respect to any matter discussed in it, and its contents should not be relied on or used as a basis for entering into any products described in it. Bank of New Zealand recommends recipients seek independent advice prior to acting in relation to any of the matters discussed in this publication.

Any statements as to past performance do not represent future performance, and no statements as to future matters are guaranteed to be accurate or reliable.

Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever which may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

**USA:** If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.