31 July 2024

Challenges remain amid relief

- **Business confidence lifts**
- **But activity, employment indicators still weak**
- **Inflation indicators mixed, but still trending lower**
- **OCR cuts likely to start this year**

We wondered if today's July ANZ business survey might show some signs of relief, perhaps from the recent change of tone from the RBNZ and recent sizeable fall in wholesale interest rates. Of course, it is always difficult to know precisely what drives confidence month to month but some easing in monetary conditions can't have hurt.

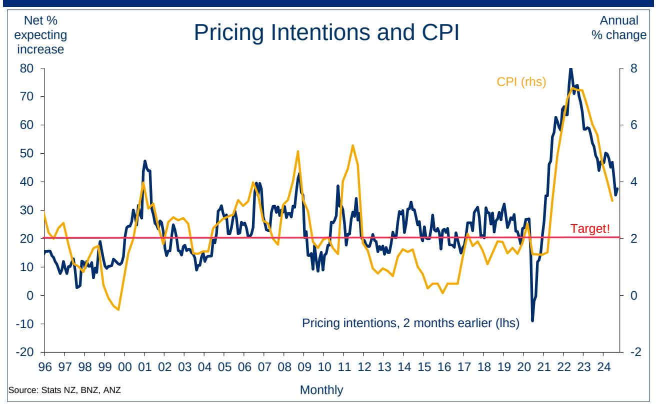
Confidence lifted to 27.1 in July from the 6.1 it had slumped to June in the wake of the prior hawkish May RBNZ statement.

Across sectors agriculture saw the latest lift in confidence to return to net optimistic, while there were strong gains elsewhere too including in services, manufacturing, and too a lesser extent construction.

That is good to see, but our attention was much more on the inflation gauges, along with activity and employment indicators.

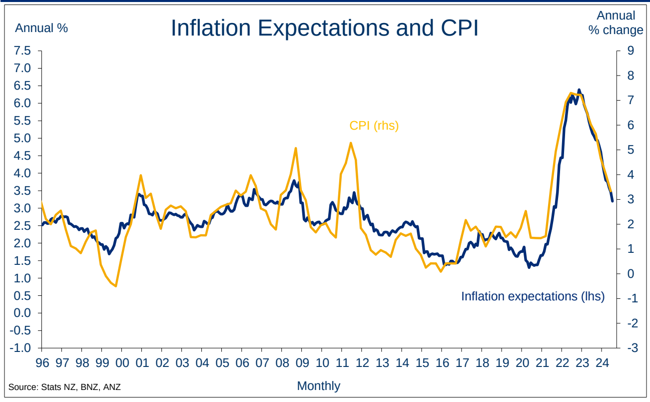
Regards inflation, the gauges were a bit mixed. Pricing intentions were a touch sticky, nudging back up to 37.6 after the previous month's slump to 35.4. That keeps it above the similar indicator from the QSBO and at a level that would be consistent with annual CPI inflation remaining above the RBNZ's target band. Meanwhile, cost and wage expectations were barely changed and remain elevated.

A touch sticky



Conversely, inflation expectations continued to trend steadily lower reaching 3.20% in July from its 3.46% reading a month earlier. These are now getting to a level consistent with the top of the RBNZ target band and still tracking firmly in the right direction.

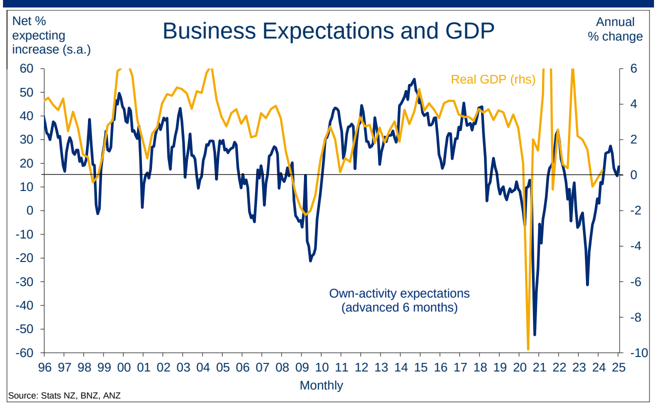
Are we there yet?



The balance of all those may well see the RBNZ hold the OCR for the time being, but the general direction of travel and weak activity and labour market indicators suggest OCR reduction is not all that far away. OCR cuts starting this year still look likely, given the lags from such changes to activity, the labour market, and onto inflation.

Businesses might be feeling quite a bit better confidence-wise, but improvement for activity remains much more circumspect. Firms' own activity expectations edged up to 16.3 from 12.2. That remains below average and under the current circumstances we estimate is consistent with minimal, but positive, economic growth over the coming 12 months. This indicator would need to lift a bit further to be consistent with our growth forecasts for next year.

Growth outlook subdued

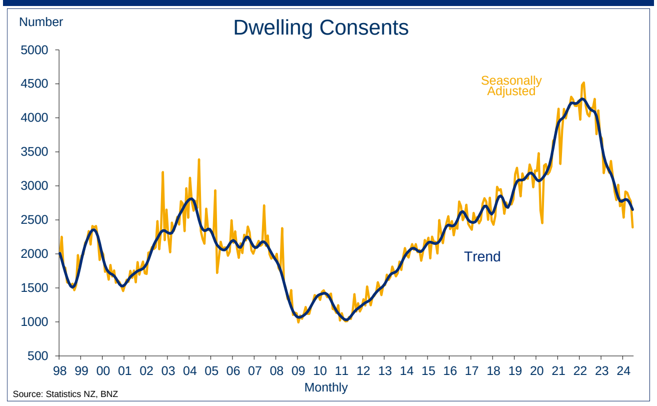


Firms' somewhat better-looking outlook should not be confused with the very challenged conditions under foot. The survey's activity reading compared to a year ago slumped further to -24.3 in July from -17.9 in June. Construction at -60 was especially weak.

That makes sense given the decline in the likes of building consents over the past couple of years. This morning's consents were that much weaker again, dropping 13.8% m/m in June to be 36% lower than a year ago. Previous hints of stabilisation in residential consents evaporated, with the trend declining anew. June saw the fewest residential consents issued in a month, on a seasonally adjusted basis, since early 2017, even including lockdown months.

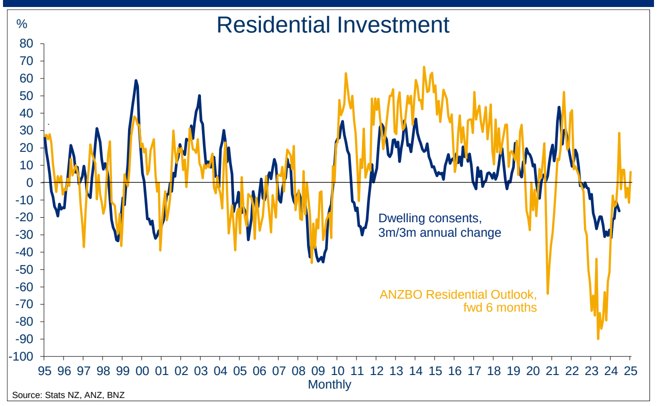
Adding to the sense of weakness in this morning's building data, the value of non-residential building consents were also well down on a year ago; -17.6% in value on a 3-month smoothed basis. We continue to forecast declines in building activity this year with the residential and non-residential consent figures adding to downside risk.

Renewed weakness



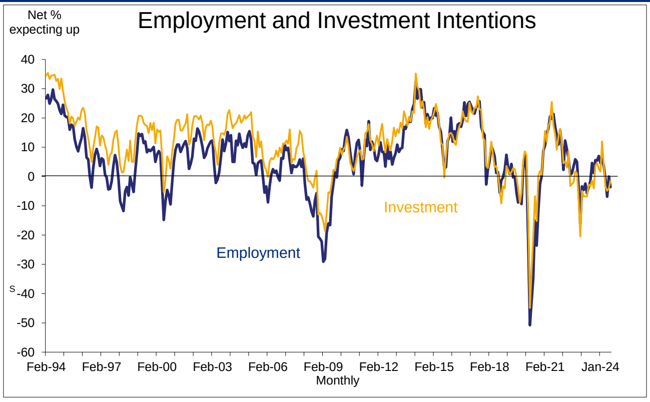
On a brighter note, construction firms in this afternoon's survey turned positive on the residential outlook for the 12 months ahead. It remains to be seen if this is monthly volatility, and another head fake like previously, or a genuine turn from a low base.

Glimmer of optimism



Other real activity indicators remain weak. Investment intentions continue to wobble around below zero, although up to -1.4 in July from -4.0, while employment intentions softened to -3.6% from flat previously.

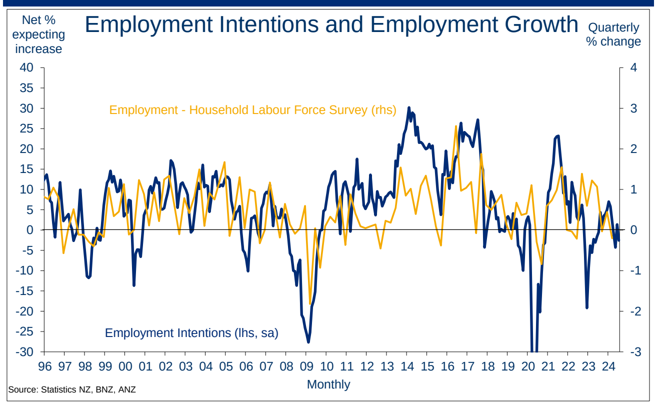
Below the line



Employment intentions in this survey have been bumping around either side of zero over recent months. They remain notably less negative than their equivalent in the QSBO. This difference might be a function of the ANZ survey asking about 12 months ahead whereas the QSBO asks businesses about 3 months ahead.

In any case, at face value today's employment intentions reading is another indicating flat to negative employment growth. That is consistent with a softening labour market – an outcome we have been forecasting for a long time now. Initially this was due to a rapid expansion of labour supply, but it is becoming increasingly a function of soft labour demand. We expect to see more confirmation of a softening labour market in next week's official Q2 data.

Employment growth looks flat to negative



All up, today's survey sees business feeling some relief which is very welcome, but across the real activity, employment, and inflation readings there remains ample evidence of very challenging business conditions. There is nothing to fundamentally change our views that near term economic growth is struggling, the labour market is loosening, and this will eventually see a material relaxation in monetary conditions as the trend in inflation remains downward.

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