

Research Economy Watch

28 November 2024

Happier New Year

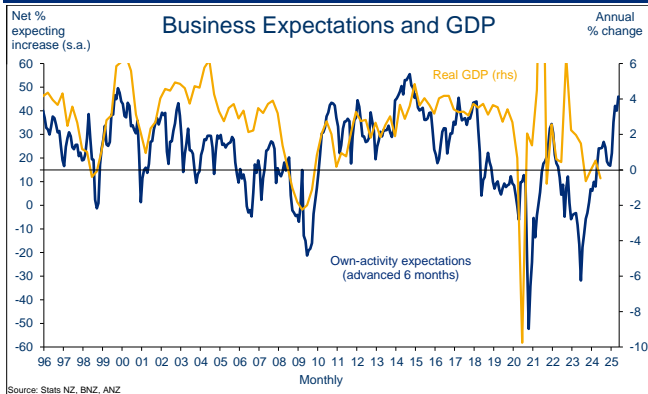
- **Businesses optimistic for year ahead**
- **But activity lower than a year ago**
- **Inflation expectations drop; pricing intentions elevated**
- **Balance supports further OCR reduction**
- **Filled jobs soft**

Forward looking indicators in the ANZ business survey maintained recent strength in November. Business confidence, activity outlook, exports, investment and employment intentions, and profitability expectations are all firmly positive.

In fact, if you seasonally adjust business confidence and firms' own activity expectations, they have both pushed on to fresh highs for this cycle and their highest levels since 2014.

That supports our, and the RBNZ's, view of economic recovery next year. The lead indicators are quite clear in direction. And, at face value, suggest some upside to our growth outlook for next year.

Optimism aplenty



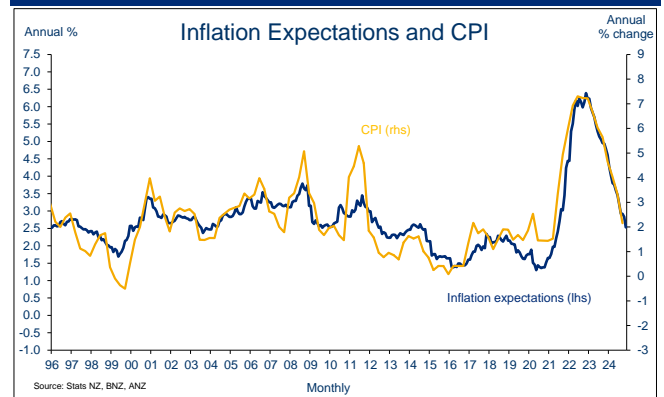
Equally, the near-term indicators are still weak, although a little less weak than they have been. It backs up what we have already seen in the likes of the PMI and PSI that collectively suggest downside risk to our near-term growth expectations.

The divergence adds to the uncertainty around the precise timing and extent of the recovery ahead. The likes of which was a key uncertainty highlighted by the RBNZ in yesterday's MPS.

The November business survey contained mixed messages on inflation, although were more encouraging than not. Business inflation expectations stepped lower to 2.53%

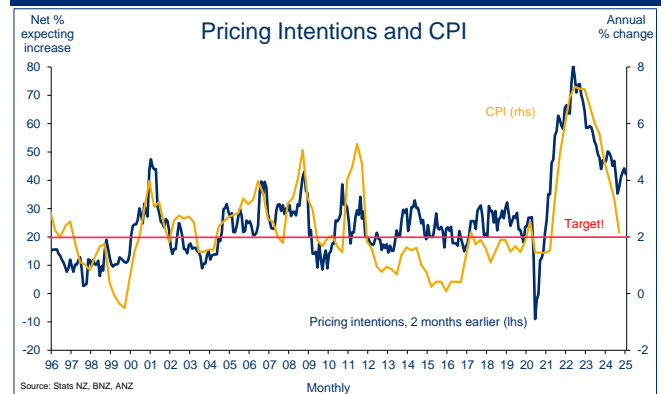
from 2.83%. The RBNZ will be very pleased with this and supports the Bank's plans to further lower the OCR. The recent drop in headline CPI inflation to near 2% can only have helped surveyed inflation expectations push lower.

Very well behaved



In contrast to well behaved inflation expectations, the pricing intentions series remains elevated. It did edge down from 44.2 to 42.2 in November, but remains at a level that is meaningfully above what has historically been consistent with annual CPI inflation at 2%.

Sticky



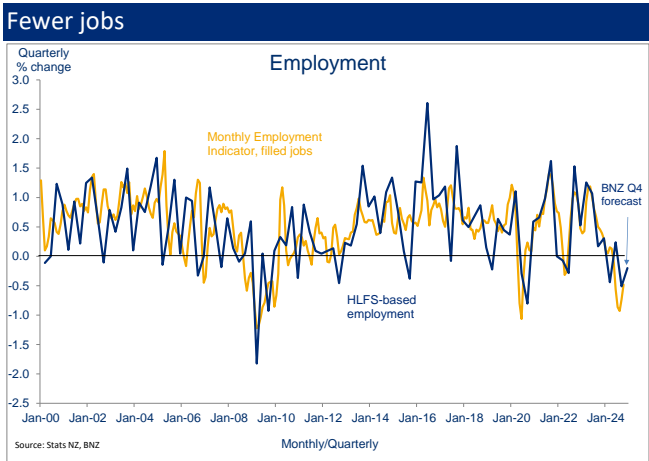
The potential for persistence in some components of inflation was one of the key risks identified by the RBNZ in yesterday's MPS. Today's elevated pricing intentions indicator and the associated risk of some stickiness in some inflation components will remain on the RBNZ's radar.

The survey showing activity has been weak and falling inflation expectations supports the case for the RBNZ to

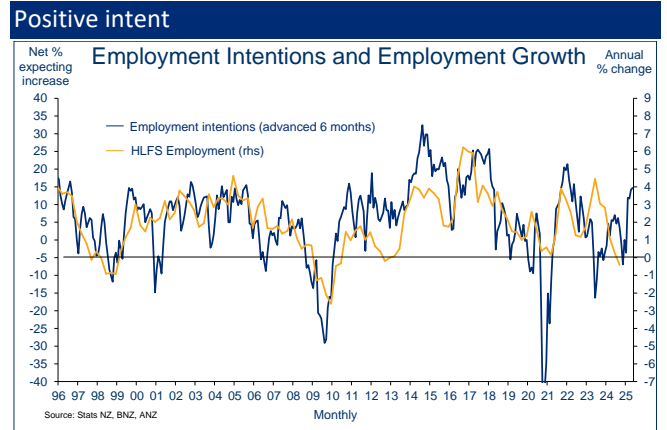
continue lowering the OCR. We do not rule out another 50-point cut in February. Indeed, as we noted yesterday, the odds of such have increased. For now, we stick with our forecast of a series of 25-point reductions. Beyond the precise trajectory, the bigger picture is that we see the OCR lower in the New Year.

The forward-looking indicators at multi-year highs and elevated firms' pricing intentions warrant respect. But there is also no denying the soft current conditions.

We had another reminder of the latter regards the labour market in this morning's employment indicators. Filled jobs eased 0.1% m/m in October. Combined with downward revisions to August and September estimates, it supports our view that the labour market is still deteriorating with a hint of downside risk to our already negative view on Q4 employment. We continue to forecast the unemployment rate to rise.



It is these soft conditions that set the context for the likes of today's positive employment intentions from the ANZ survey. It is from a low base. But, at +14.7, employment intentions look strong and imply employment growth next year well above what folk are forecasting. In isolation, it suggests upside risk to our employment forecasts over the coming 12 months, although it need not necessarily pan out that way just like strong employment intentions did not translate into actual employment in the few years after the GFC. There is also lots to monitor on the labour supply side via labour force participation and net migration inflows.



doug_steel@bnz.co.nz

Contact Details

BNZ Research

Stephen Toplis
Head of Research

Doug Steel
Senior Economist

Matt Brunt
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

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