

Research  
Economy Watch

30 January 2025

## Business Inflation Indicators Nudge Up

- **Business survey inflation gauges edge upward**
- **Supports notion dip in annual inflation has ended**
- **And a more cautious RBNZ after 50bp cut in February**
- **Firms' activity expectations remain firmly positive**

Headlines around today's ANZ business survey concentrated on a dip in business confidence and firms' expectations for their own activity. But the dips do not look material and even less so once seasonally adjusted. We could say similar things about reported activity. There was very little change there either.

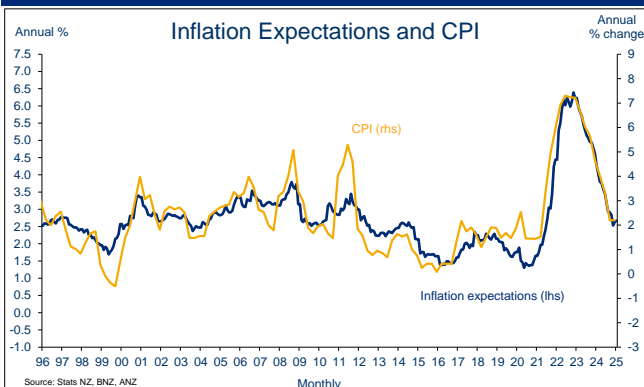
For the record, business confidence eased from its previous high, from 62.3 to 54, and firms' own activity expectations for the next 12 months eased from 50.3 to 45.8. But the good news is, firms are still strongly optimistic for the way ahead.

Firms' employment and investment intentions also remain firmly positive, as do profitability expectations and the outlook for residential and commercial construction. While the magnitudes for such things have wriggled around a bit, the broad message hasn't changed much. There was nothing in today's survey to materially change our views on the real economy.

It was the inflation gauges in today's survey that piqued our interest. Not that the moves were particularly big across the various indicators, but rather that they tended to edge a bit higher and offer evidence that the recent downtrend in annual inflation has ended.

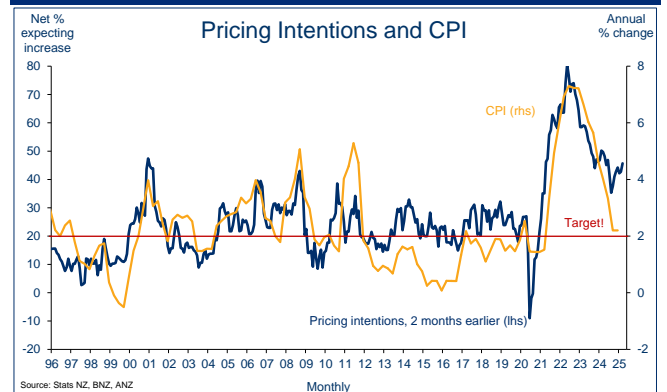
Look at inflation expectations for example. The nudge up from 2.63% in December to 2.67% in January is hardly large. And it is still consistent with annual CPI inflation near 2%, judging by historical relationships. But it is the second consecutive month of edging upward.

### Behaved



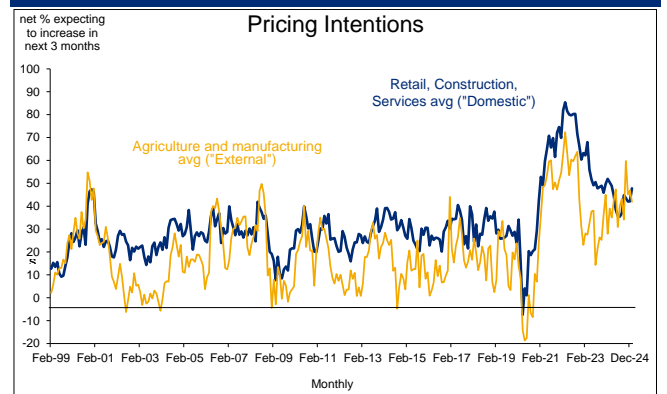
Other inflation gauges also nudged higher in January like cost and price expectations. Pricing intentions lifted from 42.7 to 45.7 and appear increasingly inconsistent with annual CPI inflation near 2%.

### Pricing intentions elevated

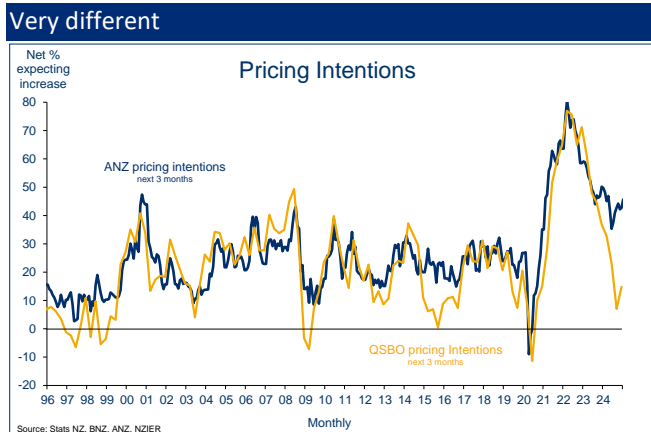


The pricing intention details were actually a bit disconcerting, being driven by domestically focused construction. There were also increases in manufacturing, retail, and services. In contrast, agriculture pricing intentions eased from 47.6 to 28.6.

### Detail disconcerting



That said, the ANZ pricing intentions series remains in contrast to a similar measure from NZIER's Quarterly Survey of Business Opinion (as well as with recent actual CPI inflation itself). We tend to place more weight on the QSBO data so are circumspect about what the ANZ series might be telling us. However, while the level of the ANZ and QSBO pricing intention indicators are different, it is notable that they both suggest the prior downtrend has halted. The RBNZ will not be overjoyed by this.



We still don't think any of this will be enough to deter the RBNZ from cutting its OCR by 50 basis points in February, but it does play to a theme of a more cautious approach thereafter as the cash rate approaches neutral.

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