

ANZ New Zealand Business Outlook

27 February 2025

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Contact

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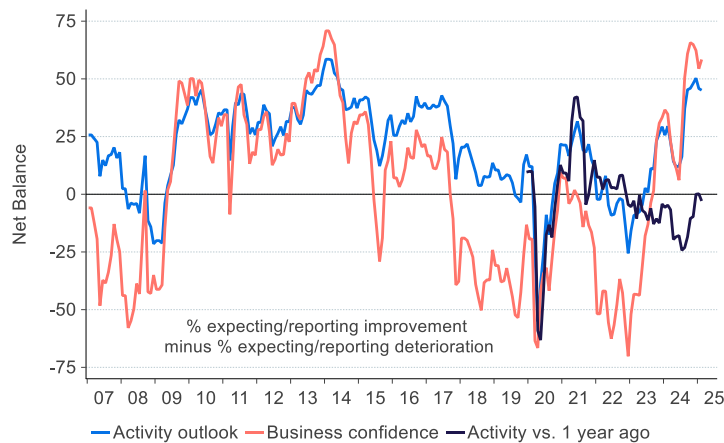


Positive thinking

Key points

- Business confidence rose 4 points to +58 in February, while expected own activity eased 1 point to +45. Past own activity (the best GDP indicator) fell 3 points to -3, while past employment was flat at -7.
- Pricing and cost indicators were mixed. One-year-ahead inflation expectations eased from 2.7% to 2.5%.

Figure 1. ANZ Business Confidence, Own Activity and Past Activity



Source: Macrobond, ANZ Research

Table 1. Results versus last month

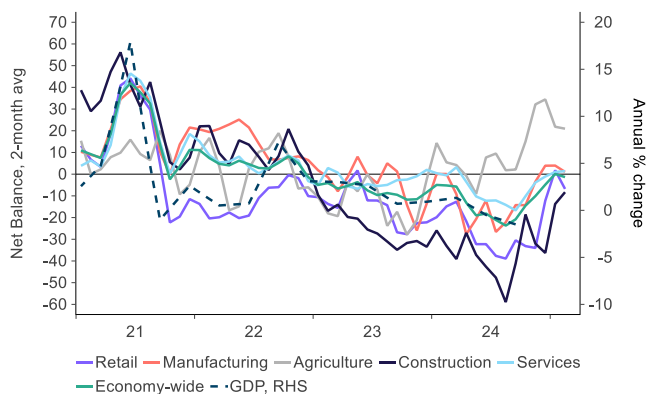
Net Balance	Feb	Jan	Comment
Business Confidence	58.4	54.4	Expectations of better times ahead remain widespread.
Own Activity Outlook	45.1	45.8	Still strong but easing – perhaps the bar for improvement is lifting.
Export Intentions	17.9	15.9	Agri is leading the charge.
Investment Intentions	18.1	14.6	Agri strongest, retail weakest.
Employment Intentions	17.0	14.4	Agri the only sector in the red. Construction top.
Residential Construction	25.8	46.2	Back around where it was in November.
Commercial Construction	30.3	38.1	Volatile, but staying in the black.
Profit Expectations	22.3	22.7	Agri the most optimistic by far on this front.
Ease of Credit	15.7	15.2	Easing off its November high.
Activity vs. 1 year ago	-2.9	0.2	Retail fell sharply and is the most negative at -16. Still tough times out there.
Employment vs. 1 yr ago	-7.4	-7.1	A slow haul back to zero. Retail and construction lowest.
Cost Expectations 3m out	71.3	73.6	A welcome fall, but rose for manufacturing – electricity and the weaker NZD perhaps?
Wage Expectations 12m out	79.2	83.1	Highest and rising for manufacturing (91).
Pricing Intentions 3m out	46.2	45.7	Manufacturing highest here too.
Inflation Expectations 1y out	2.53%	2.67%	Reassuring.

Activity indicators saw a mix of small rises and falls in February but overall continue to tell a tale of the economy recovering as interest rates fall.

Economy-wide reported past activity (the best indicator of GDP) eased a little but remains much healthier than six months ago (figure 2). The improvement has been broad-based, though there's a wide range currently, with agriculture solidly in the black, but construction and retail still in the red, with more firms reporting they were less busy in the last month versus a year ago than are saying the opposite.

The lift in reported past employment also remains in contractionary territory but continues to trend higher.

Figure 2. Past activity (2-month avg) vs GDP



Source: Stats NZ, Macrobond, ANZ Research

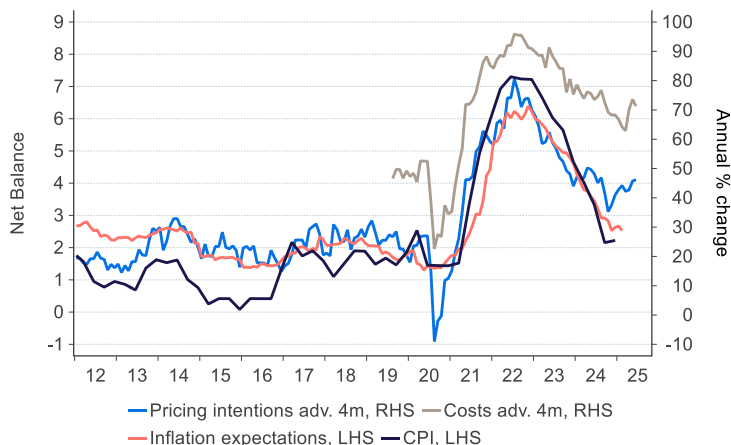
Figure 3. Past employment (2-month avg) vs actual



Source: Stats NZ, Macrobond, ANZ Research

The NZD TWI exchange rate dropped sharply over the three months to mid-December. It has flat-lined since then, but the lift in ANZBO pricing and cost indicators seen in recent months may well be related to the earlier fall, as imports have become more expensive (figure 4). However, inflation expectations remain well behaved, encouragingly, down 0.2%pts to 2.5% in February.

Figure 4. ANZBO inflation indicators

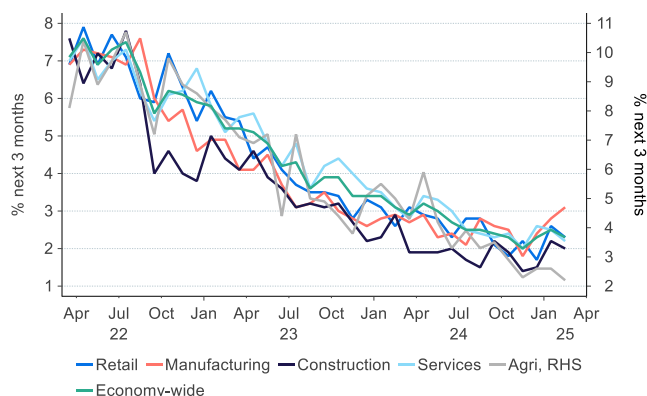


Source: Stats NZ, Macrobond, ANZ Research

The above charts are the net percent of firms saying costs and prices will be higher or lower. When we look at firms' numerical estimates of changes in their own costs and prices over the next three months, the downtrends also appear to have petered out. Firms on average expect costs to rise 2.3% over the next three months, while they expect to raise prices by 1.7% over the same period.

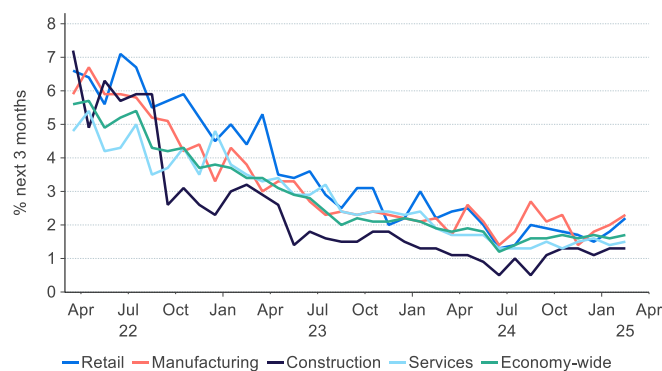
There seems to be particular cost pressure in the manufacturing sector currently. This might be related to the weaker NZD, but we are also hearing that electricity prices are a growing issue. Agriculture pricing intentions are weakest but are best thought of as commodity price expectations, given the lack of pricing power in this sector.

Figure 5. Cost expectations by sector



Source: Macrobond, ANZ Research

Figure 6. Pricing intentions by sector



Source: Macrobond, ANZ Research

Our take

The economy remains on the path to recovery as interest rates fall and our commodity export prices outperform expectations. It seems clear from a wide range of indicators that the economy returned to positive growth in the last three months of last year.

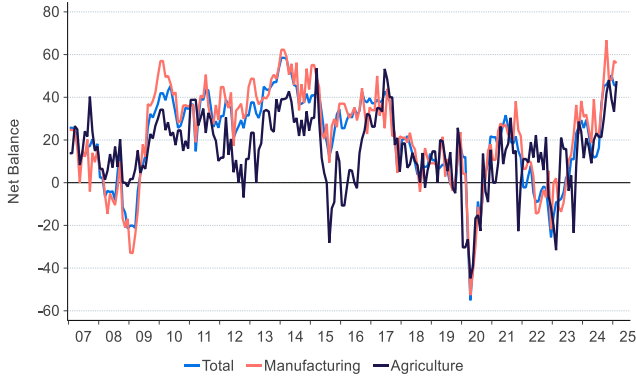
Whether that growth then falters or strengthens is a point of debate. It will depend on whether households view today's interest rates as high or low, whether global uncertainty will constrain investment and employment or whether firms take a "get on with it" attitude, and whether and when skill shortages will be a meaningful constraint on expansion. That's just three for an opening bid. As always, there will be surprises in store. But firms are confident that the ducks are lining up for better times ahead. To be fair, that's a low bar at this point. But it's a necessary, if not sufficient, condition for it to actually come about.

Survey Results February 2025

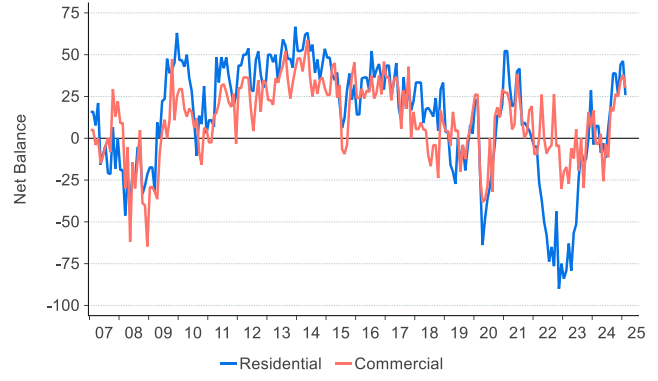
Net Balance	February	Previous (Jan)	Retail	Mfg	Agric	Constn	Services
Business Confidence	58.4	54.4	58.5	60.8	76.2	65.8	54.4
Own Activity Outlook	45.1	45.8	47.2	56.0	47.6	50.0	39.9
Export Intentions	17.9	15.9	16.7	26.2	50.0	-3.8	16.8
Investment Intentions	18.1	14.6	11.3	16.0	25.0	21.1	19.8
Cost Expectations	71.3	73.6	71.7	84.0	76.2	68.4	66.5
Residential Construction	25.8	46.2	25.8	...
Commercial Construction	30.3	38.1	30.3	...
Employment Intentions	17.0	14.4	13.2	24.0	-9.5	34.2	16.5
Profit Expectations	22.3	22.7	26.4	31.4	42.9	23.7	16.2
Pricing Intentions	46.2	45.7	56.6	62.0	33.3	44.7	39.5
Ease of Credit Expectations	15.7	15.2	3.8	20.0	19.0	13.2	18.6
Inflation Expectations (%)	2.53	2.67	2.50	2.54	2.44	2.51	2.55
Activity – same month one year ago	-2.9	0.2	-15.4	0.0	28.6	-10.5	2.3
Employment – same month one year ago	-7.4	-7.1	-19.2	-4.0	0.0	-13.5	-1.8
Price Expectations – 3 months from now (%)	1.7	1.6	2.2	2.3	2.6	1.3	1.5
Cost Expectations – 3 months from now (%)	2.3	2.5	2.3	3.1	2.2	2.0	2.2
Wages/Salaries – next 12 months (%)	2.6	2.7	2.5	3.2	2.5	2.6	2.7
Wages/Salaries – same month a year ago (%)	2.5	2.8	2.4	2.7	1.7	2.7	2.5

Charts

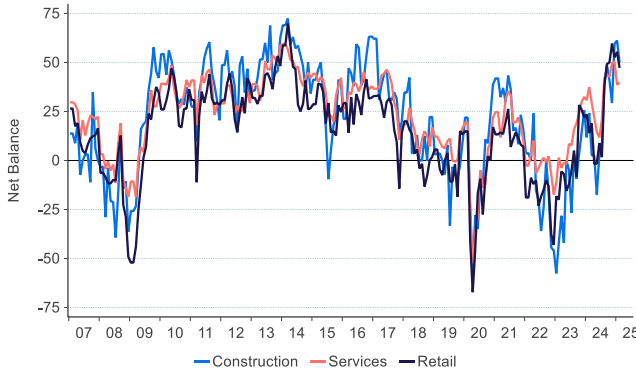
Activity outlook index



Construction intentions



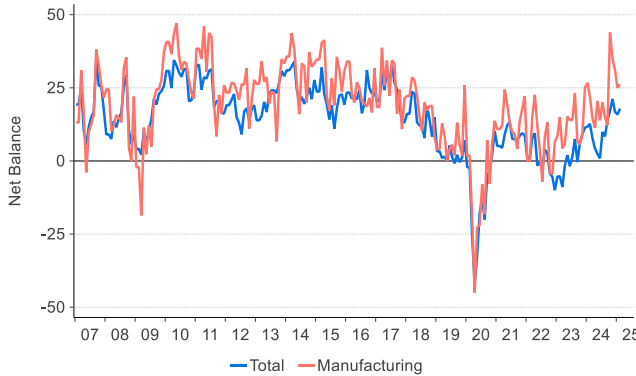
Activity outlook index



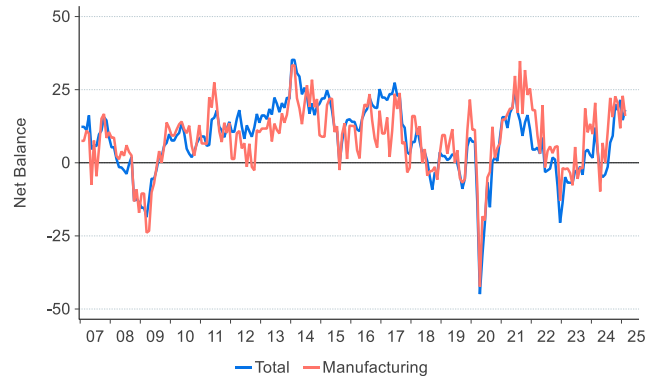
Employment and profit outlook



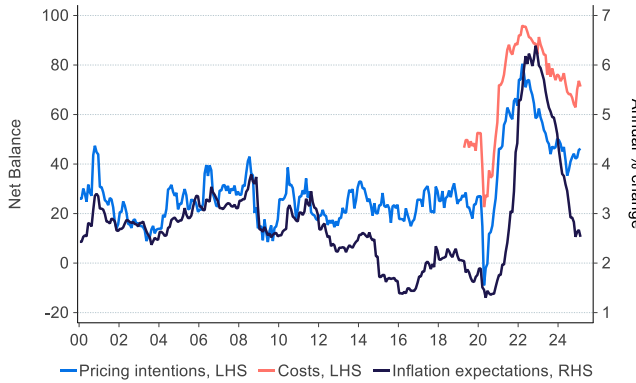
Export sales volumes



Investment intentions



Cost and inflation pressures



Experienced activity and employment vs GDP



Source: Statistics NZ, Macrobond, ANZ Research

Net balance: Percentage expecting improvement minus percentage expecting deterioration.

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