

13 October 2021

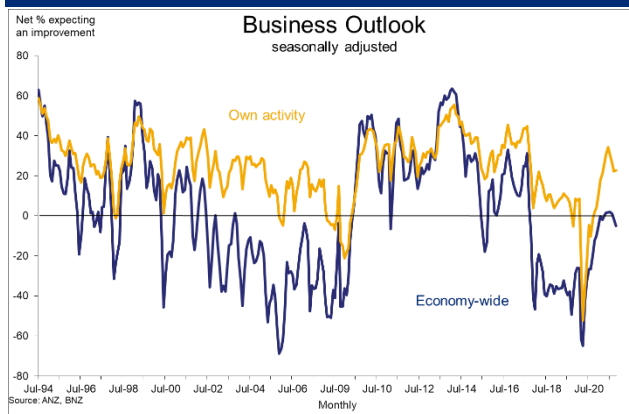
## More to Suggest Surging Inflation

- ANZ business survey maintains its message of resilience
- And its roaring pricing intentions query soft QSBO variants
- Food prices seasonally strong in Sep, rents jump at the margin
- We revise our Q3 CPI pick up to 1.7% (4.4% y/y)

Today's preliminary ANZ business survey for October was robust in its activity indicators and even more so for its pricing gauges.

Firms' own activity expectations rose to 26.2 in early October from 18.2 in September. This likely overstates the sense of improvement, in that it represents a broadly flat movement when seasonally adjusted, around the 22/23 mark. However, in being close to its long-term average it's a very solid result given the circumstances of uncertainty and changeable nature of alert level restrictions over recent months. Positive investment and employment intentions only add to the feeling of resilience across the survey.

### Resilient



It supports the idea that activity will bounce once restrictions are eased. Interestingly, surveyed businesses in Auckland were somewhat more positive (30.9) than those outside of Auckland (23.7). This probably reflects the nature of the question being asked, which is about expected changes over the coming 12 months rather than a question about conditions underfoot. Expectations of lockdowns being relaxed, at some point, brings anticipation of more activity. But we are wary that, in times like these, such questions need to be treated carefully when judging the degree of bounce in activity that might take place.

### ANZ Bank Business Outlook

(All sectors)	Oct prelim	Sep final	Change	Average
Net balance - next 12 months				
General business outlook	-8.6	-7.2	-1.4	6.4
Own business	26.2	18.2	8.0	25.3
Profits	-3.0	-15.6	12.6	7.2
Employment	12.9	14.1	-1.2	7.3
Investment	14.3	9.2	5.1	12.4
Exports	9.2	7.4	1.8	27.3
Pricing intentions	63.5	58.1	5.4	21.7
Cost expectations	84.9	84.2	0.7	
Inflation expectations	3.04	3.02	0.02	2.52
(Own activity outlook)				
Retail	n/a	14.3		22.3
Manufacturing	n/a	19.7		27.0
Agriculture	n/a	13.6		21.0
Construction	n/a	16.7		18.3
Services	n/a	19.4		28.3

While the activity indicators are interesting and encouraging, it was the pricing gauges that we were most interested in ahead of this month's survey following the markedly weaker readings regards pricing and costs in the recent Quarterly Survey of Business Opinion (QSBO). As we noted at the time that survey was released, those weaker readings looked strange given the opposing widespread anecdote and especially given the intense pressure on resources revealed in that very same survey.

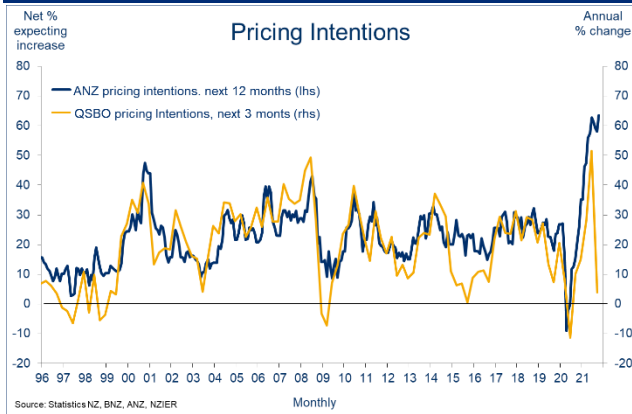
There was no such ambiguity in today's ANZ survey regards inflation. Pricing intentions, cost expectations, and inflation expectations all pushed higher.

Firm's pricing intentions lifted from 58.1 in September to 63.5 in early October. This is the highest pricing intentions reading since NZ's inflation targeting framework was bedded in back in the early 1990s. Taken at face value, it would be consistent with annual CPI lifting to around 6% over coming quarters. Firms' inflation expectations themselves rose to 3.04% from 3.02%.

Cost pressures are very widespread with a net 84.9% of firms expected higher costs ahead. A lift in capacity utilisation only adds to the sense of a more inflationary environment.

All this leaves us comfortable with our view that annual CPI inflation will continue to rise aggressively over coming quarters.

A broader perspective

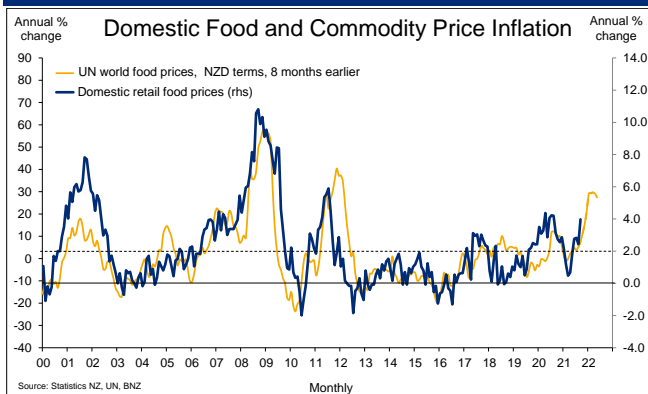


Indeed, this view was reinforced by this morning’s data on food prices and rents. Food prices rose 0.5% in September, which is more inflationary than it might look at first blush. Food prices usually drop at the start of spring, but not this year.

True, vegetable prices did ease 2.9% m/m but this was significantly less than in years gone by. Meanwhile, prices rose firmly across other food categories. This included restaurant meals and ready to eat food where annual inflation is at a punchy 4.6% (food input prices, labour shortages all part of it). Grocery prices were up 2.9% y/y, with all of that occurring in the past six months, highlighting the recent strong upward momentum.

The higher inflationary pulse is even more obvious in annual food price inflation jumping to 4.0% in September from 2.4% in August. We think annual food price inflation will continue to track higher over coming months (given higher offshore prices and a relatively subdued NZD to date).

More to chew on



September’s rent information was more mixed. The stock measure – the one that most directly feeds into the CPI – rose a modest 0.2% in the month to hold annual inflation at 3.2%. But the flow measure jumped 3.9% in September taking annual inflation to a series high of 7.8%. Some of the latter annual increase might reflect last year’s lower readings during the Government’s rent freeze – but surely can’t be the whole story. The latest flow readings suggest upwards pressure on CPI rents ahead.

Pulling it all together, we nudge our pick for Q3 CPI up a tick to 1.7% q/q and 4.4% y/y. That data is due next Monday. The higher expected starting point in Q3 now sees our forecast for annual inflation peaking at 4.8% in Q4. That is significantly above the 1% to 3% RBNZ target band for annual inflation. No wonder interest rates are on the rise.

NZ Consumers Price Index					
	Quarter	Index	Quarterly % Change	Annual % Change	Average Annual % Change
2018	March	1011	0.5	1.1	1.6
	June	1015	0.4	1.5	1.5
	September	1024	0.9	1.9	1.5
2019	December	1025	0.1	1.9	1.6
	March	1026	0.1	1.5	1.7
	June	1032	0.6	1.7	1.7
2020	September	1039	0.7	1.5	1.6
	December	1044	0.5	1.9	1.6
	March	1052	0.8	2.5	1.9
2021	June	1047	-0.5	1.5	1.8
	September	1054	0.7	1.4	1.8
	December	1059	0.5	1.4	1.7
2022	March	1068	0.8	1.5	1.5
	June	1082	1.3	3.3	1.9
	Forecasts:				
2022	September	1100	1.7	4.4	2.7
	December	1110	0.9	4.8	3.5
2023	March	1118	0.7	4.7	4.3
	June	1124	0.5	3.9	4.4
	September	1133	0.8	3.0	4.1
2023	December	1137	0.4	2.4	3.5
	March	1146	0.8	2.5	2.9
	June	1153	0.6	2.6	2.6
2024	September	1163	0.9	2.7	2.5
	December	1167	0.4	2.6	2.6
	March	1175	0.7	2.6	2.6

Source: Statistics New Zealand, BNZ

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