

# Research Economy Watch

28 September 2023

## All under control? Maybe.

- Pricing intentions rise
- But trend still down
- Confidence bounce meaningless
- Activity to remain sub par
- Evidence labour market continues to ease

There were disconcerting signs in today’s ANZ Business Survey that inflation is not falling as fast as the RBNZ might like. Disconcerting this may be but not altogether surprising given the ongoing increases in input costs that the business sector is facing. Top of the list, in this regard, are surging oil prices.

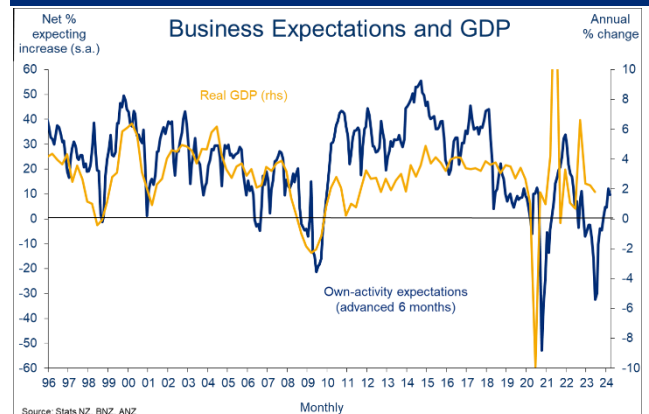
Are these inflationary signs worrying enough to have the RBNZ suggest it might be raising interest rates again some time soon? We think not. And, anyway, with mortgage rates continuing to drift higher, monetary conditions are edging tighter anyway.

The headline business confidence reading will no doubt get all the media headlines as it moved into positive territory for the first time since May 2021 and, realistically, given the COVID noise, it’s the best reading since August 2017.

Be that as it may we don’t place much weight on this series. As far as we are concerned this is as much a political poll, businesses traditionally like National Governments more than Labour ones, as it is an expectation of an improvement in the economy. It will, however, also reflect relief that staff are now easier to find and no longer such a restriction on output.

This labour market shift will also be having a significant impact on the business own activity indicator. This indicator, at 10.9, is now well off its lows but, on a seasonally adjusted basis actually dropped 2.5 points from August. We think the optimism driven by the relaxation in labour conditions is being tempered by the fact that demand for goods and services produced in New Zealand is not picking up any real momentum.

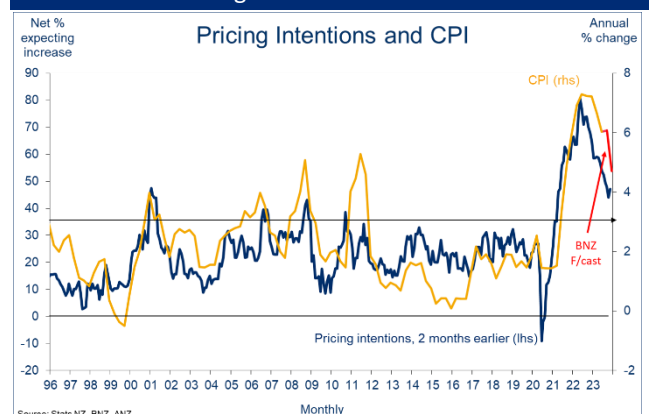
### Own activity indicator stabilises?



On the plus side, the “strength” of the own activity indicator is inconsistent with the economy going into recession. On the other hand, it also continues to suggest future growth will lie below potential which should put downside pressure on future inflation.

We certainly remain of the view inflation is on track to fall within the Reserve Bank’s target range by late 2024. But the fact that pricing intentions rose to 47.1 from 44.0 is an undesirable outcome. These intentions had been trending down strongly and need to get down to the low 20s to be consistent with a 2.0% annual CPI reading. RBNZ hawks will make a big deal about this. However, it should not be forgotten that the current level of pricing intentions is still consistent with annual CPI falling to around 4.0% by the end of this year. This is actually considerably lower than the 4.7% we are projecting for the year ended December.

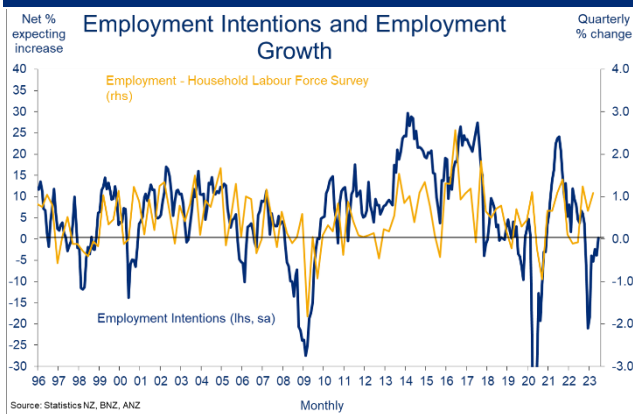
### Inflation still trending down



And Inflation expectations still nudged lower to 4.95% from 5.06% a month earlier. Its got a long way to go yet but at least it's a far cry from the 6.39% recorded as recently as November 2022, and it's the lowest reading since December 2021.

With developments in the labour market critical for the medium-term inflation view it was interesting to see employment intentions drop to 1.2 from 4.6. While still positive, the reading is suggestive that the recent spurt in employment growth may be coming to an end. This supports our view that the unemployment rate will soon start rising at a much faster pace than it has to date.

Labour market to soften



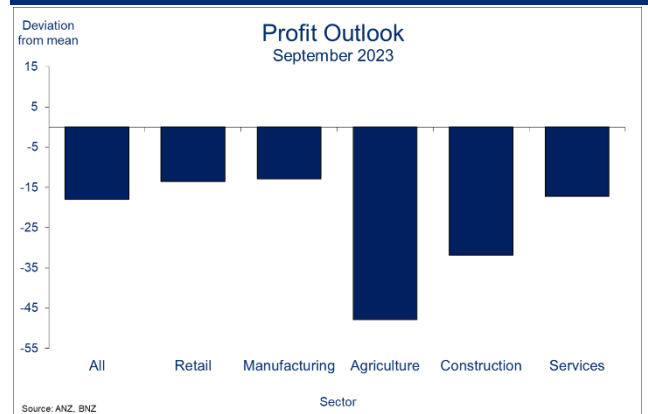
This morning's filled jobs data told a similar story. It looks to us that employment growth in Q3 will be around 0.5%. It's a solid number but with supply surging on the back of rising migration it's not enough to stop the unemployment rate from rising.

The compositional detail was also very interesting in that it shows youth employment is now in decline. Desperate employers who were having to take on school age staff to fill employment gaps no longer have to do so. Hopefully this will be matched with an increase in attendance at both secondary and tertiary learning facilities.

In theory, a softer labour market should result in lower wage inflation and, consequently, reduced general inflation. Our proxy wage inflation variable, the difference between total earnings and number of jobs filled is certainly headed back towards levels that the Reserve Bank would find acceptable. We think it will fall further yet.

Interestingly, profit expectations are slowly improving. Or, at least, expectations are getting progressively less worse. At -13 profit expectations were the strongest they have been since November 2021. It may, of course, just be that profits have already come under so much pressure that businesses can't believe that they will fall any further?

Profits still weak



Taking all the above into consideration, it is difficult to see how the detail of this survey would change whatever view the central bank currently has about the appropriate stance of monetary policy. There are certainly warning signs inflation might not fall as fast as might be considered optimal but there is nothing to suggest the Bank should respond at this stage especially given the indication that wage pressure should abate.

stephen\_toplis@bnz.co.nz

# Contact Details

## BNZ Research

**Stephen Toplis**

Head of Research  
+64 4 474 6905

**Craig Ebert**

Senior Economist  
+64 4 474 6799

**Doug Steel**

Senior Economist  
+64 4 474 6923

**Jason Wong**

Senior Markets Strategist  
+64 4 924 7652

**Stuart Ritson**

Senior Interest Rate Strategist  
+64 9 9248601

**Mike Jones**

BNZ Chief Economist  
+64 9-956 0795

## Main Offices

**Wellington**

Level 4, Spark Central  
42-52 Willis Street  
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

This document has been produced by Bank of New Zealand (BNZ). BNZ is a registered bank in New Zealand and is only authorised to offer products and services to customers in New Zealand.

**Analyst Disclaimer:** The Information accurately reflects the personal views of the author(s) about the securities, issuers and other subject matters discussed, and is based upon sources reasonably believed to be reliable and accurate. The views of the author(s) do not necessarily reflect the views of the NAB Group. No part of the compensation of the author(s) was, is, or will be, directly or indirectly, related to any specific recommendations or views expressed.

BNZ maintains an effective information barrier between the research analysts and its private side operations. Private side functions are physically segregated from the research analysts and have no control over their remuneration or budget. The research functions do not report directly or indirectly to any private side function. The Research analyst might have received help from the issuer subject in the research report.

**New Zealand:** The information in this publication is provided for general information purposes only, and is a summary based on selective information which may not be complete for your purposes. This publication does not constitute any advice or recommendation with respect to any matter discussed in it, and its contents should not be relied on or used as a basis for entering into any products described in it. Bank of New Zealand recommends recipients seek independent advice prior to acting in relation to any of the matters discussed in this publication.

Any statements as to past performance do not represent future performance, and no statements as to future matters are guaranteed to be accurate or reliable.

Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever which may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

**USA:** If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.