

# Research Economy Watch

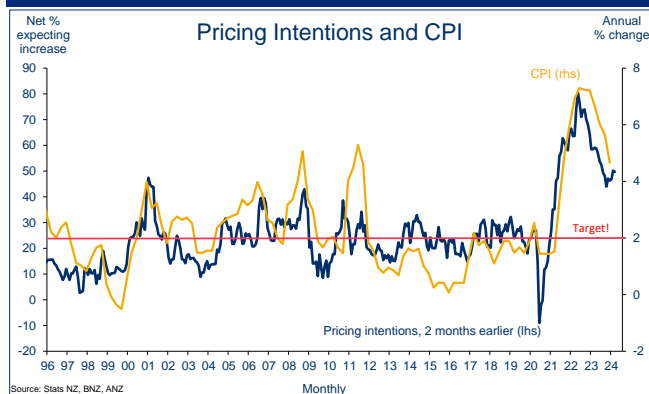
31 January 2024

## Too much inflation

- Pricing intentions elevated
- Retail particularly inflationary
- Growth indicators positive
- Still hiring
- No joy for RBNZ

For us today's ANZ Survey of Business Opinion was all about the pricing indicators. With the RBNZ very nervous about persistent inflation it's critical that businesses show they have reduced intent to raise prices. Alas, this survey showed nothing of the sort. As it turned out, a net 49.7% of businesses said they still intend raising selling prices. This was little changed from the 50.2% who thought likewise back in December. Moreover, the intent remains higher than the lows of last October.

### An unwelcome stall



As if all this wasn't disconcerting enough, pricing intentions in the retail sector were particularly lofty with a net 66% of retailers intending to increase prices. There's a lot of volatility in the pricing intentions of the sectors so this does have to be taken with a pinch of salt but it's still something to keep an eye on.

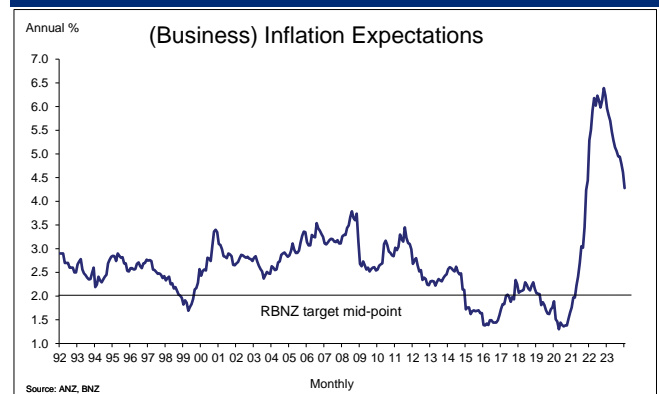
By our reckoning, the pricing intentions data are consistent with annual CPI inflation sticking around the 4.0% mark. This is clearly not what the doctor ordered. For this measure to suggest annual CPI inflation settling near 2.0% the net intention would need to fall to around the net 25% mark.

The RBNZ will not be happy with this.

Yes, you can point to the fact that inflation expectations fell to 4.28% from 4.61%, and are at their lowest since

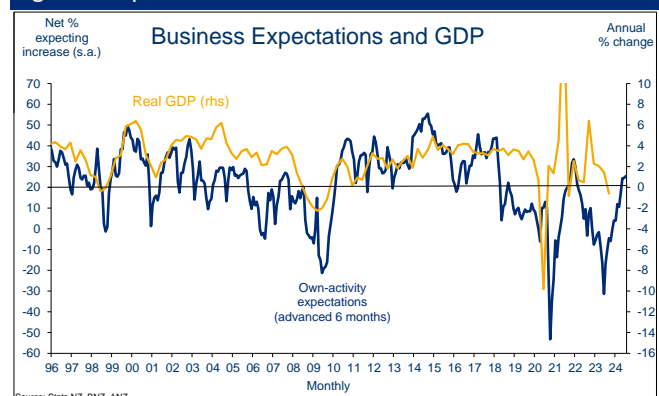
November 2021, but it's what businesses do with their prices not what they think others will do that matters most.

### At least expectations fell



In much the same way, it's the business own activity indicators that matter more as a leading indicator of growth than does the business confidence reading. With this in mind, we note that the own activity indicator, at +25.6, was broadly unchanged compared to December implying there remains hope the current downturn will be coming to an end sometime this year. While it's yet another indicator suggesting a brighter future lies ahead it's far from indicating a booming economy any time soon. Indeed, coincident indicators such as the PMI and PSI suggest that we haven't hit the bottom yet. Moreover, we're not at all sure how much of the relative strength in this indicator just reflects the fact that businesses tend to like National-led Governments more than Labour-led ones.

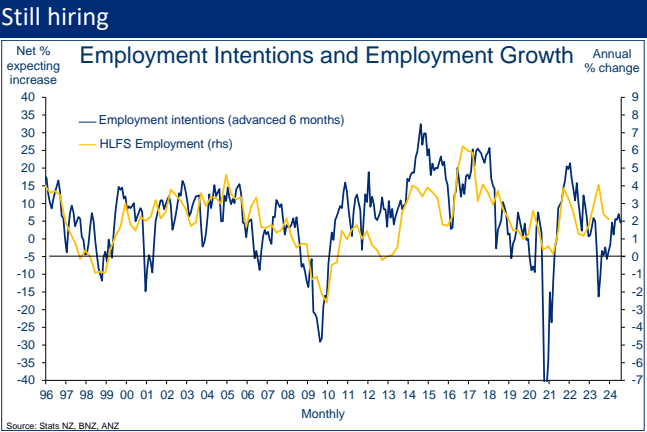
### Signs of hope



Labour market indicators have been suggesting that we may be underestimating the current pace of hiring growth. The employment intentions series in today’s survey provides supporting evidence of this. Nonetheless, we still think migration-driven labour supply is outstripping labour demand so we continue to forecast a rising unemployment rate accompanied by diminished pressure on wages.

Overall, we’re not quite sure what to make of this survey. It poses as many questions as it provides answers. But one thing’s for sure. There was nothing in the data to have the Reserve Bank scurrying to bring its first rate cut any nearer.

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