Research

Economy Watch

29 February 2024

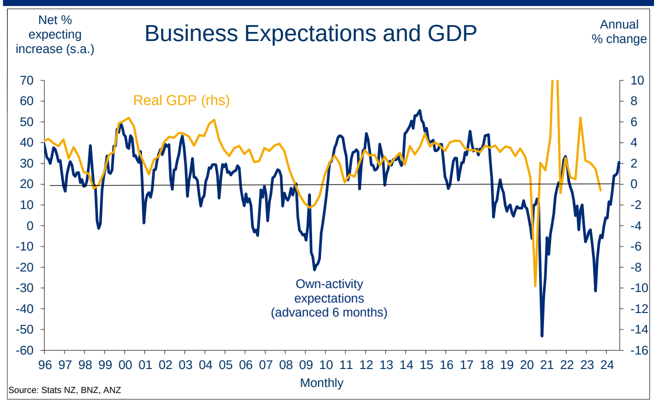
Businesses See Some Improvement In Year Ahead

- **No surprises in today's business survey**
- **Activity indicators point to circa 2% growth ahead**
- **Inflation gauges still too high, but point to lower CPI**
- **Employment intentions, filled jobs firmer**

Today's ANZ business survey contained little to change our view of the world. The outlook for activity over the coming year is somewhat better than it has been over the past year or so. Inflation is elevated and some pointers look a bit sticky, but they continue to suggest inflation is trending lower. Employment intentions is one area that does continue to raise some questions.

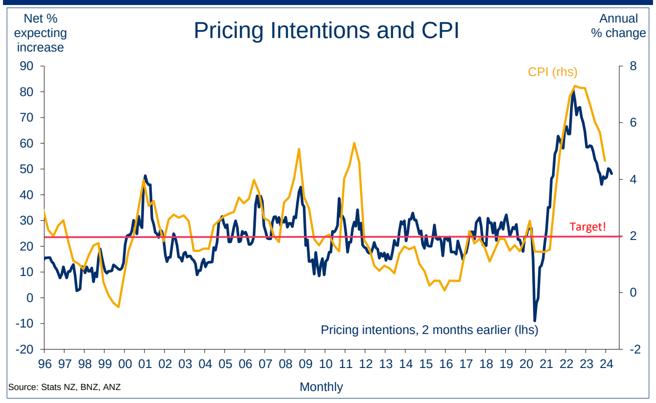
The activity outlook indicator edged up to 29.5 in February, from January's 25.6. At face value, this is consistent with annual GDP growth of around 2% over the coming 12 months. Firms' own activity expectations at these sorts of levels are broadly consistent with our GDP forecasts and at a pace that we think the output gap will continue to widen. All that is for the year ahead, for now, business continue to report that activity is lower than for the same time a year ago. Meanwhile, business confidence itself looks to be levelling off after its surge higher post-election.

Businesses See Some Growth In Year Ahead



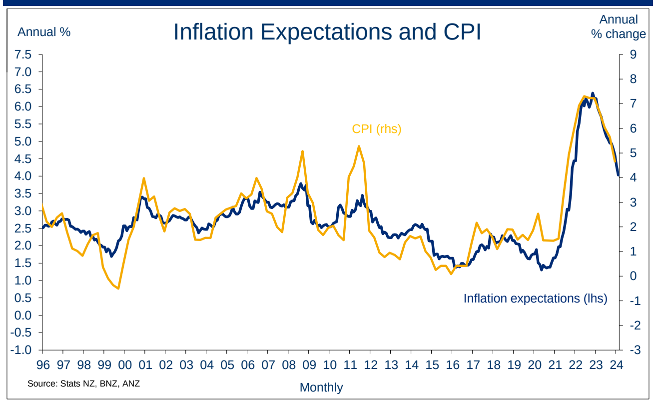
Inflation indicators were sticky to lower. Costs at 73.5 were the lowest reading since March 2021, but are still elevated and not much changed over recent months. It is a similar story for what firms intend to do with their own pricing in the year ahead. Pricing intentions were 48.2 in February, not much changed from January's 49.7. While pricing intentions have been a bit sticky, they are consistent with annual CPI inflation continuing to track lower.

Sticky But Lower



Inflation expectations gave a clearer directional view. These one-year-ahead expectations fell to 4.03% from 4.28% in January. This indicator, too, is consistent with annual CPI inflation falling to around 4% in Q1 2024. As it happens, this is our current forecast for the quarter.

High But Falling



These things are moving in the right direction for the RBNZ, but it is worth noting that the RBNZ projected a 3.8% print for Q1 CPI in yesterday's Monetary Policy Statement. Such a difference, if indeed that is how it plays out, shouldn't change the big picture. But it is a reminder that inflation is still currently elevated and needs to continue tracking lower.

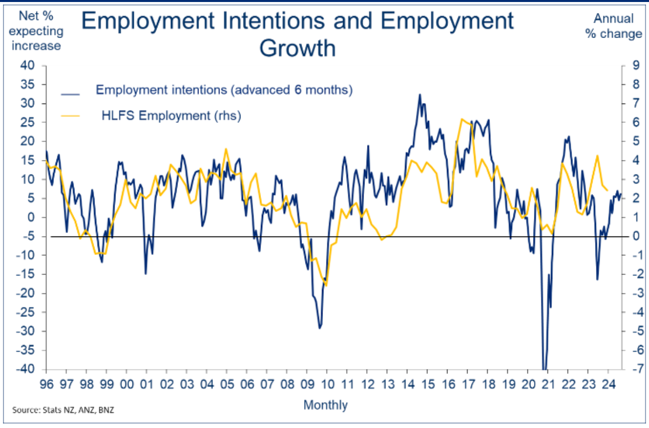
The profit outlook indicator was another that didn't change much in the month but continues to inch forward.

It rose to 5.3 in February, from January's 3.1, to record its best reading since June 2021. We read that as firms looking for somewhat better earnings off the past year's lower base. While cost pressures continue to appear widespread, profit expectations continue to nudge upwards and would fit with the firms' somewhat better expectations around activity. This seems to be adding some support to investment and employment intentions.

Investment intentions rose to 12.0 from 1.7 and employment intentions nudged up to 6.2 from 4.6. The latter is consistent with around 2% annual employment growth.

Employment intentions continue to perk our interest, not that they have moved much over recent months. But they continue to track a bit stronger than seems consistent with our current employment forecasts, pointing to some upside risk there. We wonder if higher employment intentions reflect supply side developments and the potential for lower wage inflation ahead.

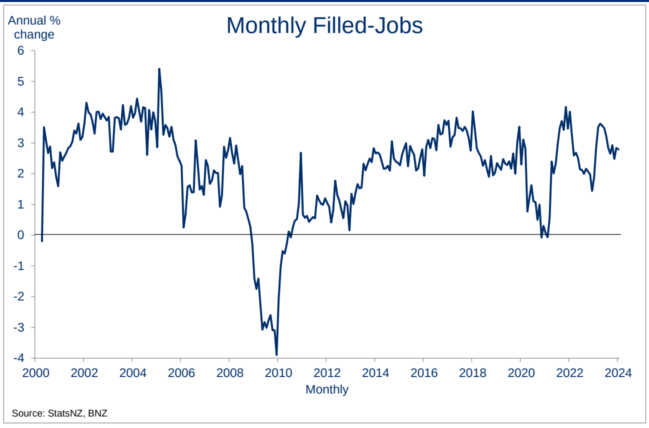
Upside Risk To Current Employment Forecasts



Positive employment intentions differ to firms' reported employment that remain lower than a year ago in the ANZ survey.

This contrasts with yesterday morning's employment indicators for January that came in stronger than we thought they might. Filled jobs rose 0.6%, to be 2.8% higher than a year ago. Even with the previous month revised downwards, this leaves more jobs than we had pencilled in for the month. Yes, there are question marks around seasonal adjustment, especially around the holiday period, but these numbers imply upside risk to our (and the RBNZ's) Q1 employment forecasts. It isn't enough to offset a host of other indicators that point to an easing in the broader labour market, so does not look like enough to prevent the likes of the unemployment rate from rising. But it is worth keeping an eye on.

January Jobs Robust



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