28 March 2024

# Confidence rise stalls

- **Business confidence edges lower**
- **Construction relatively miserable**
- **Inflation indicators moderate further**
- **But more left to be done**
- **Consumer misery rises**

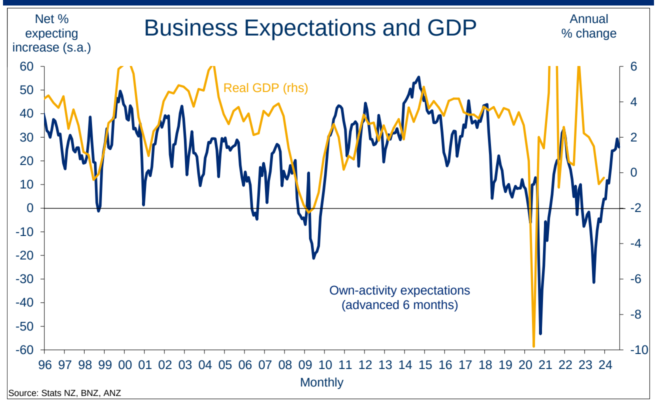
The murmurings of our corporate customer base have had us questioning whether the recent upward trend in business confidence might have stalled. Enthusiasm for a change in government is one thing but new governments can do little to immediately impact the lagged effects of past policy measures (both fiscal and monetary), structural issues and cyclical momentum. And so it came as no surprise to us that today's ANZ Business Survey reported a modest drop in business expectations.

At a headline level the drop in the key own activity indicator from 29.5 to 22.5 looks fairly awful but around half of this can be attributed to seasonal factors. Seasonally adjusted the decline was from 29.4 to 25.8.

One month's drop does not necessarily represent a turning point. Moreover, the broader trend in the series is still upward. However, given the ongoing build up of pressure on the economy, we think confidence will get stuck at current levels for a while longer.

This does not disavow us of our view that GDP will start recovering towards the end of this year. But neither does it change our view that it will be some time before the strength in the economy is sufficient to start reducing spare capacity. Indeed, spare capacity will continue to expand for some time yet.

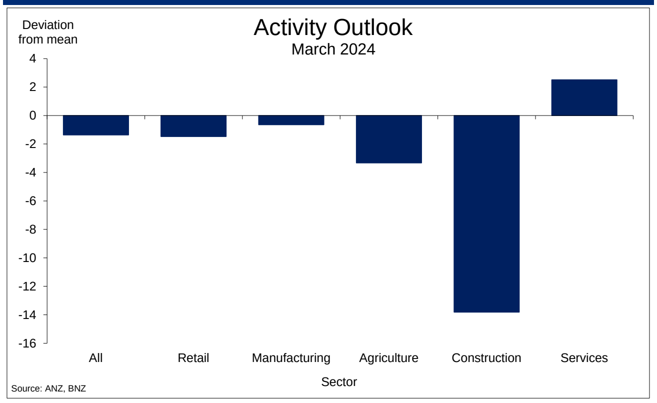
Sub-par growth




Compared with long term averages, the only sector that is more positive about its activity outlook than is normally the case is services. It would be reasonable to assume that tourism, legal and insurance services are very busy to start with.

At the other end of the scale is construction reflecting elevated interest rates, business investment uncertainty, commercial property difficulties, the rising cost of construction and falling consents, amongst other things. The construction sector also had the worst profit outlook relative to average.

Construction unhappy

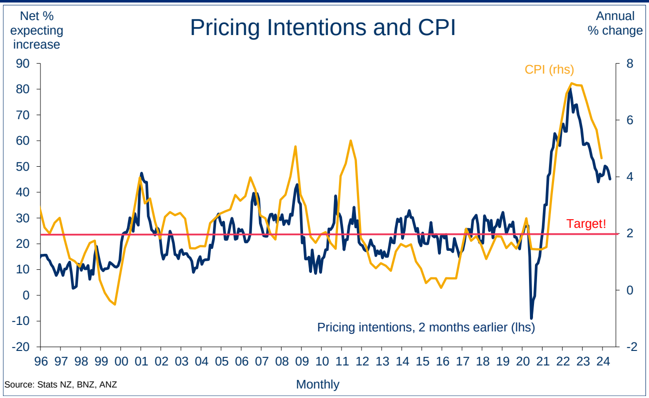



Of course, today's report, and NZIER's QSBO, are business surveys. They may not adequately reflect the pessimism sweeping the government sector. Government represents a reasonable chunk of the economy so it may be that the aggregate responses modestly overstate the strength of the broader economy.

That said, there was nothing in today's data to change our broad view of the real economy. Neither was there anything to change our inflation projections.

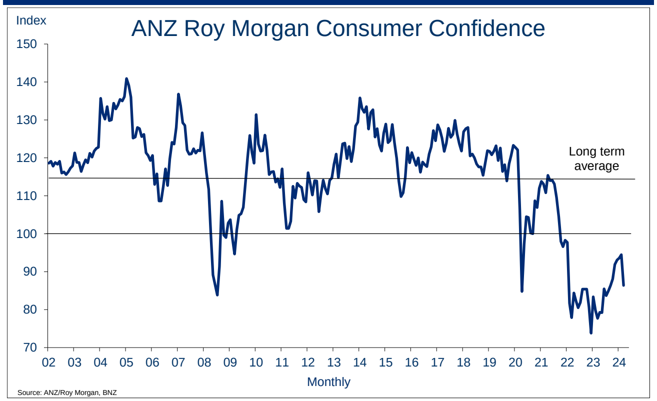
Inflation expectations dropped from 4.03% to 3.80%. This was the lowest reading since October 2021. Pricing intentions also dropped to a net 45.1% who expect to increase prices from 48.2% a month earlier. This is entirely consistent with our view that annual CPI inflation will fall to 4.2% in the March quarter 2024. To the extent that pricing intentions support a further fall in inflation it is good news, but we stress that these intentions will need to keep trending lower to around a net 35% who intend raising prices to be consistent with inflation falling to within the Reserve Bank's target band by year's end.

Inflation still falling




ANZ's consumer confidence reading was released this morning. Like the business survey, the top was knocked off the recent upward trend. Indeed, it was knocked back to its pre-election level. This is bad news for future household spending and a retail sector which is already deeply entrenched in recession territory.

Consumer confidence stumbles




Consumers had begun to dream inflationary pressures would continue to abate and interest rates might soon fall. There is good reason to believe in both. But the new fear on the block may well be job security especially for those directly and indirectly affected by major restructuring in the state sector. But it would be remiss to assume that it's just state sector jobs that are coming under pressure. Think also of the media sector, consultants, the construction industry and today's job cuts announced by One New Zealand to name but a few.

In our view the unemployment rate could well rise above 5.5% before all is said and done. This will further depress consumer confidence. On the flip side, we await confirmation of the detail of the government tax threshold adjustments. In percentage terms the biggest beneficiaries from the proposed changes will be earners in the $52,000 to $102,000 tax bracket. There are a lot of people who earn between these amounts. And they will all get a 1.4% to 1.8% boost to their after tax income. This should provide some offsetting support to the labour-market-induced drop in confidence in due course.

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