Research

Economy Watch

30 April 2024

Growth Optimism Unwound

- **Business profitability under pressure**
- **Inflation indicators mixed, will keep RBNZ on guard**
- **Real activity measures show widespread softening**
- **More downside risk to growth outlook in H2 this year**

This afternoon's ANZ business survey had two key messages. First, the previous post-election bounce in real activity is rapidly unwinding and is outright weak, if not negative. Second, inflation indicators are mixed.

The latter will keep the RBNZ on guard regards its fight to get inflation lower, while the former still suggest it is a matter of time before some monetary easing occurs. In this sense today's survey offers a bit for both the doves and the hawks and probably won't change the fundamental view of either.

Inflation indicators were mixed in April. Cost expectations remain elevated (at 76.7 in April from 74.6 in March) and continue to put significant downward pressure on firms' profitability hopes. Firms thus intend to raise prices to compensate. To what extent they are successful in that aim, with demand clearly weak remains to be seen.

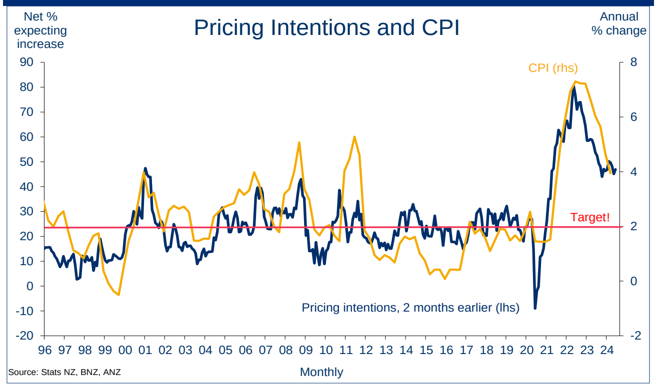
Pricing intentions sat at 46.9 in April. A bit higher than March's 45.1, although still lower than earlier in the year. These sorts of levels are consistent with annual CPI inflation at around 4%, as it was in Q1. That still looks too high for the central bank. That said, it is interesting that pricing intentions in the ANZ survey haven't pushed lower like their counterpart in the QSBO.

Maybe that difference is a timing issue. It is worth monitoring. Or perhaps it reflects the many and large influences on the economy at present. Even within today's survey, there was considerable differences across sectors with sizeable falls in pricing intentions among retailers and construction firms but increases among manufacturers, service sector firms, and those in agriculture.

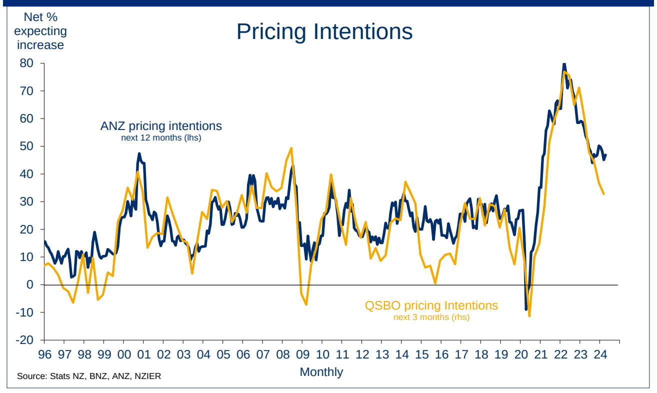
Construction sector firms' pricing intentions are now close to their long term average, while other sectors are still elevated relative to history. Speaking of construction, the sector's activity outlook returned to negative territory after a couple of odd looking positives over the previous couple of months.

More encouraging is that inflation expectations continue to ease, if only marginally. April's reading of 3.76% was slightly lower than March's 3.80% but still a decent chunk lower than 4.28% at the start of this year or the 5.70% of a year ago. Inflation expectations are still trending the right way, despite the clear cost pressures businesses are facing. This will be of some solace to the inflation fighters. Inflation expectations are consistent with annual CPI inflation continuing to trend lower and pushing below 4%.

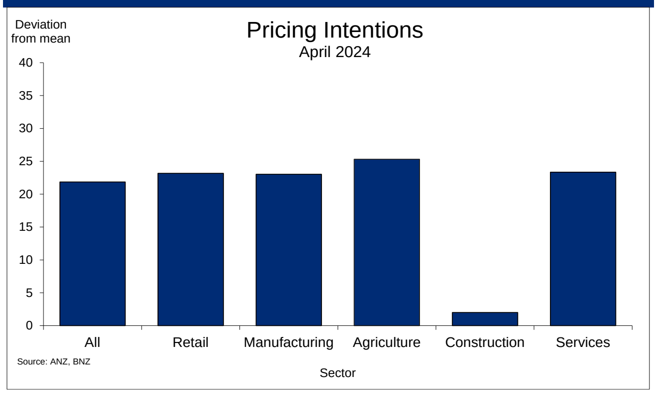
Hovering



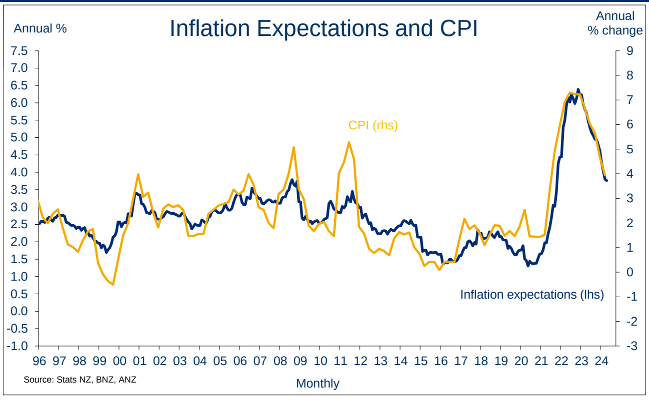
Mixed signals



Construction different



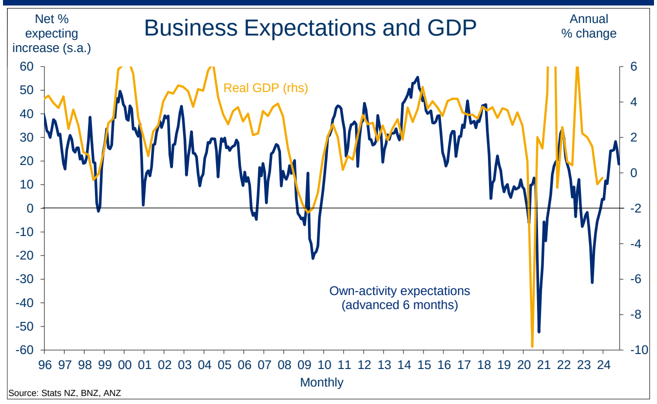
Inflation expectations still trending lower



While the inflation indicators were a bit mixed, the real economy indicators were clearly softer. We thought they would be.

From lower business confidence to firms' assessment of their own activity outlook. The latter dipped to +14.3 in April from 22.5 in March. In the current circumstances, this level would be consistent with annual GDP growth not much above zero and calls into question the extent of any recovery into the second half of 2024. We continue to mull nudging our H2 GDP growth outlook down a touch.

Prior growth optimism disappears



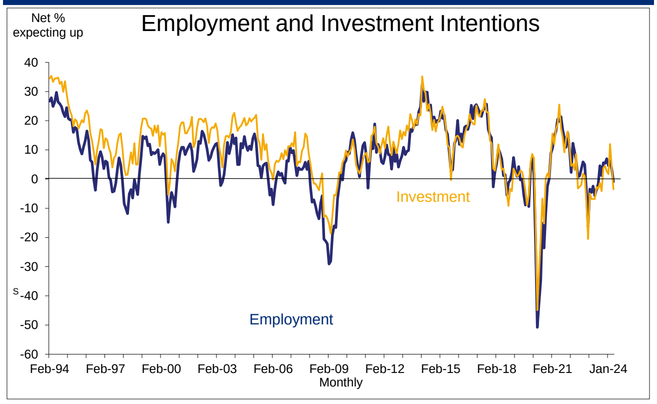
In the least, the activity indicator strongly supports our view that the economy is tracking along well below its potential pace. This will add to economic slack and, eventually, put downward pressure on inflation.

Clear pressure on business profitability has seen firms' investment and employment intentions fall back to net negative. Further evidence that growth will continue to struggle.

Weaker employment intentions are interesting in the context of tomorrow's Q1 labour market reports. Monday's filled jobs figures added to the notion that HLFS employment grew in Q1. If so, today's employment intentions suggest care should be taken in extrapolating any Q1 strength into the near future.

A softer labour market will feed back into demand and firms' pricing power. But that takes time to show in inflation, as today's indicators attest.

Expansion plans on ice



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