

Research Economy Watch

30 April 2025

Solid, But Cracks Appearing

- **Business survey headlines look solid**
- **But deterioration looks to have occurred through April**
- **As global trade and growth outlook deteriorated**
- **Signs of firms shelving investment plans**
- **Pricing intentions high, inflation expectations steady**

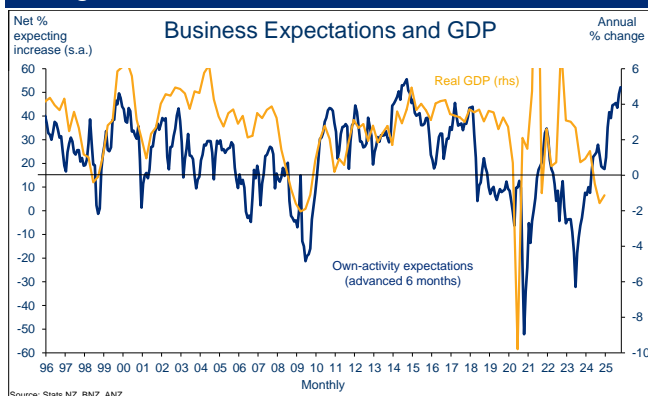
A focal point for us in today's April ANZ business survey was to see if the recent global trade angst has had any impact on NZ firm's expectations for the way ahead. In short, the headlines looked good but there are clear worries in the details.

At face value, there didn't look to be much change. The headline figures still look robust with business optimistic.

Yes, business confidence fell to 49.3 in April from 57.5 in March, but that doesn't look too far out of line with the usual seasonal pattern.

And firm's own activity expectations were 47.7, little changed from March's 48.6. Those sorts of levels would be consistent with annual economic growth of about 5%, judging by historical relationships. No one is forecasting anything of the sort, including the RBNZ.

Looks great



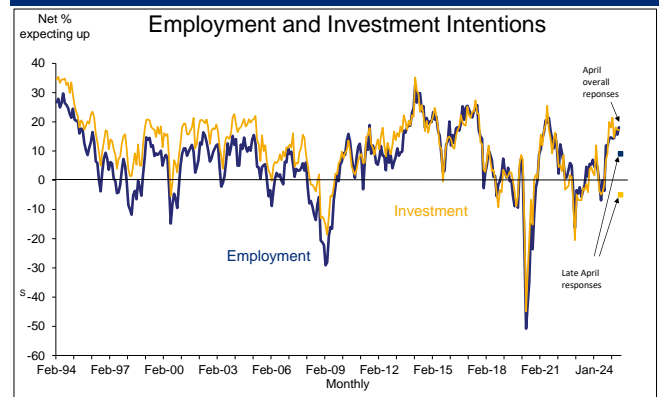
Even firms' employment and investment intentions were solid. Investment intentions at 17.2 were virtually unchanged from March's 17.3, while employment intentions strengthened to 18.1 from 15.6.

Nothing there to suggest any worry is brewing. But the monthly totals mask what was occurring *through* the month. The survey responses were usefully split into early in the month and late in the month. Early April responses

were like March outcomes. Later April responses were significantly weaker than responses received earlier in the month.

This applies to the likes of confidence, activity outlook, profit expectations, and investment and employment intentions. Some of which were materially lower in the second part of the month.

Some signs of worry here



Precise figures weren't released, but net business confidence in the latter part of April looked less than half its level in early April. Profit expectations and employment intentions were well less than half in the second part of the month compared to the first part. Investment intentions looked to have dived through the month, with strong positive readings early in the month and outright negative readings late in the month.

We have long been warning that one likely outcome of the spike in uncertainty around the global outlook is the shelving of some expansion plans in NZ. This may well have already started.

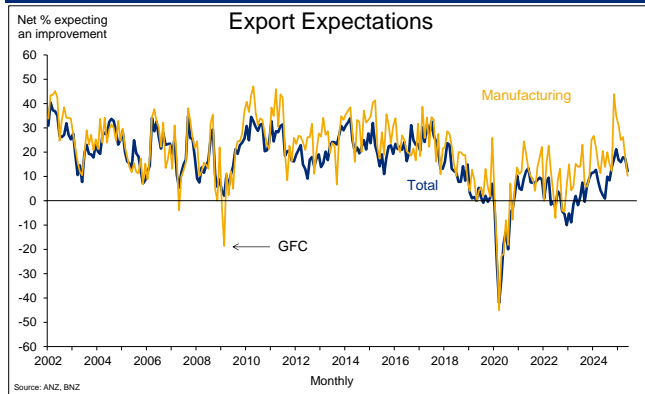
While there are legitimate questions around sub-sample estimates, there looks to have been quite a hit to the previously robust outlook through the month of April. If the late month readings flow through to the May survey, those results are going to look considerably weaker than the full April results released today.

There is a chance that the weaker looking late month results reflect the timing of the Easter/ANZAC holiday period this year. But we don't think that is the predominant driver. If it was, one would think it would

show up in reported activity. But reported activity for the early and late month periods were virtually the same. The variables that showed big differences during the month came in the forward-looking indicators, which suggests the changes are more likely related to something else with the global trade angst a leading candidate.

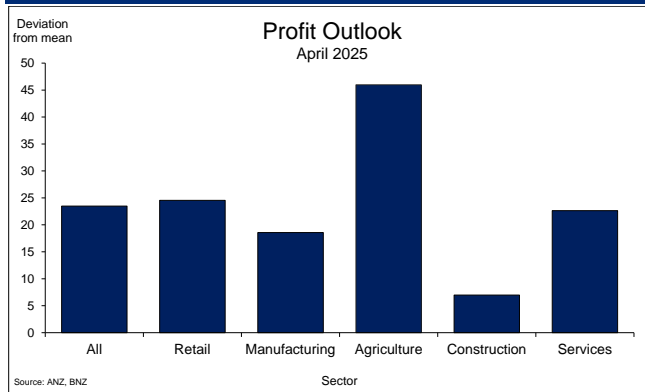
Firms' export expectations dipped a bit, to 12.2 in April from 17.3, with softer readings than in March for retail, manufacturing, construction, and services.

Positivity fading



Agriculture remains a standout performer. Not only regards exports, but also with regards to the likes of confidence and profit expectations.

Agriculture a standout

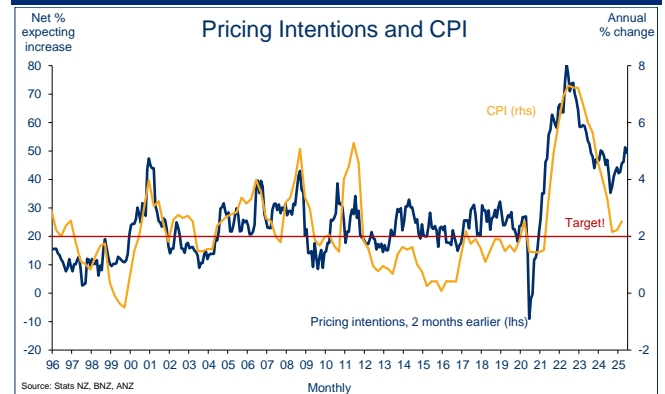


This is thanks in large part to a significant lift in primary export prices. Primary sector profitability expectations fit with our view that NZ's terms of trade is likely to hit a record high this year. The bigger question is what happens

afterward with much uncertainty around global trade. The global outlook remains the number one watch item.

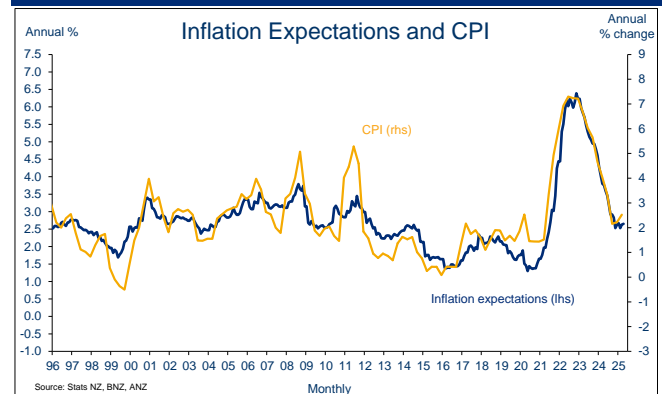
On the inflation front, cost pressures remain. And firms' pricing intentions remain elevated and well above similar measures from other surveys, even though today's reading edged marginally lower to 49.4 from March's 51.3. If the RBNZ were not worried about this indicator before, there is no more reason to be worried by it now.

Still elevated



Conversely, inflation expectations remain behaved at 2.65% in April. This was little changed from March and have remained in a 2.5% to 2.7% range for the past six months. The RBNZ will be pleased with the level and stability of this, despite a push higher in the March 2025 quarter annual CPI inflation. Firms' inflation expectations still look well contained and consistent with annual CPI inflation within the RBNZ's target range.

Still behaved



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