

# Research Economy Watch

29 May 2025

## ANZ Survey Surprisingly Robust?

- **Growth indicators slump**
- **But levels remain remarkably high**
- **Inflation expectations edge higher**
- **Domestic profits look poor**
- **RBNZ will be unmoved**

With high frequency data front of mind for the Reserve Bank, today's ANZ business opinion survey was front of mind for us.

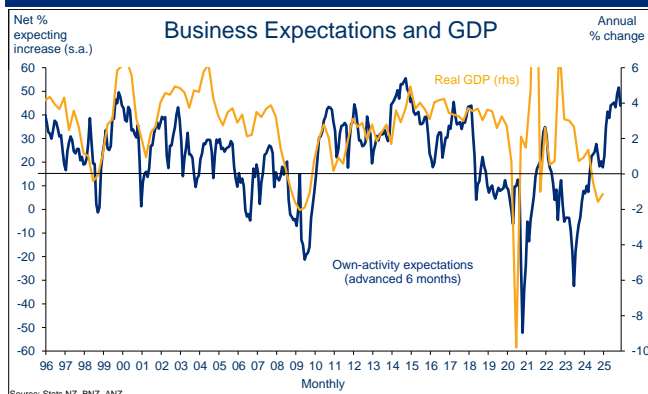
At first glance the figures rolling across the screens looked simply awful. Business confidence down, activity outlook down, exports down, investment intentions down, residential construction down, commercial construction pummelled, employment down, profits pummelled.

It would be easy to conclude that the economy was about to implode and that the central bank needed to slash interest rates soon. But it actually says nothing of the sort.

There are two reasons for this. Firstly, businesses have a seasonal proclivity to become more miserable in May, as winter approaches. And, secondly, the starting point for many of these series was very high and weirdly so.

For example, the drop in the own-activity index still leaves the index at a level which would be consistent with much higher growth than anyone is currently forecasting. Similarly, the employment index is consistent with employment growth of around 2.0%, well above expectations.

### Starting to make sense?

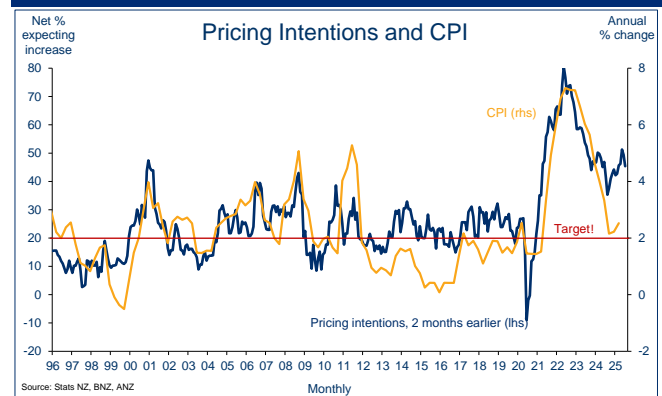


So rather than portending doom we'd prefer to interpret the outcome as a long overdue correction. The decline will certainly not have the central bank rushing to lower its

growth forecasts which are already at the pessimistic end of the scale.

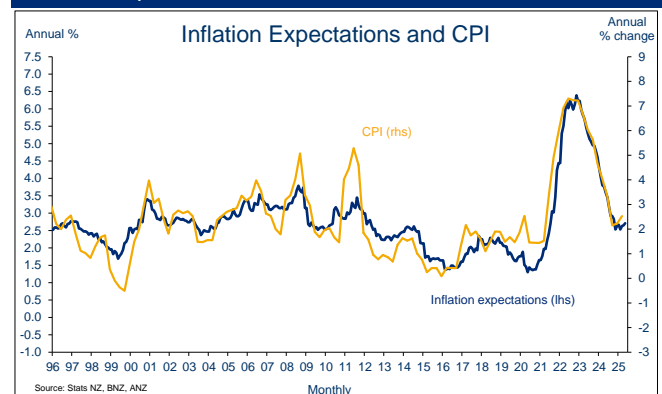
In fact, the RBNZ might well be more bothered with the inflationary pulse that remains in the survey. Pricing intentions fell from a net 49.4% of businesses intending to raise prices down to a net 45.4% but this is still well above the level normally associated with price stability.

### Pricing intentions still too high



Disconcerting was the news that inflation expectations actually edged higher to 2.71% from 2.65% but this is entirely to be expected given that inflation expectations tend to follow actual inflation, which is currently rising. Nonetheless the RBNZ is clear that it doesn't want inflation expectations to rise meaningfully and/or sustainably so keep an eye on all these expectations' series.

### Inflation expectations rise

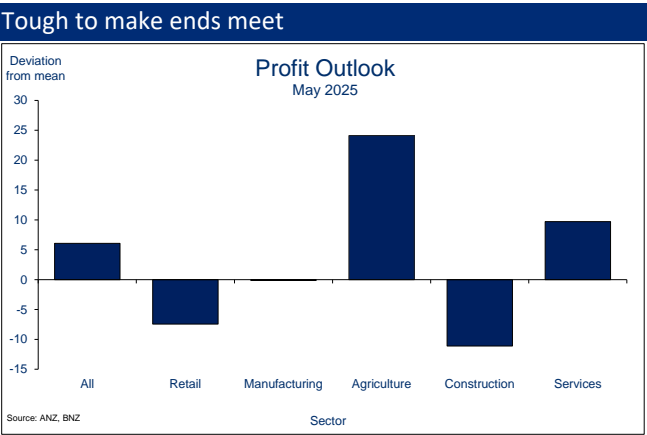


For us the key message we took from this survey is the ongoing pressure on businesses facing into the domestic economy. Activity levels might be holding up, but businesses are struggling to make any money out of it.

Both the retail and construction sectors report that they expect profits to fall. While there is a tendency for businesses to be pessimistic regarding profitability, the weakness expressed in retail and construction is well below average. The fact that a net 61.8% of retailers still intend to raise prices might be as much about trying to stay afloat as anything else.

In contrast, the agriculture sector again stands out as the best place to be in the economy right now with profit expectations (relative to average) much stronger than any other sector. Folk in the cities would do well to remember that the country, as a whole, would be performing so much worse were it not for the income flows currently coming through rural New Zealand.

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