Research

Economy Watch

30 September 2025

Optimistic business outlook

- **Activity expectations move higher**
- **Consistent with economic recovery**
- **Manufacturing leads the way**
- **Inflation expectations tick up slightly**

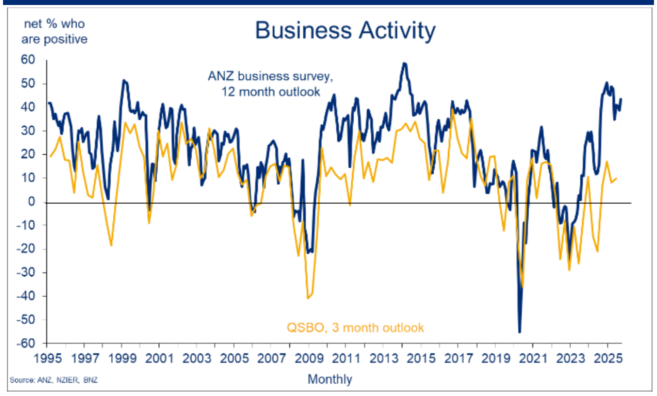
Businesses remain firmly optimistic and have positive expectations for activity, according to the latest ANZ Business Outlook survey. Firm's own activity expectations for 12-months ahead increased from 38.7 to 43.4 in September, with lifts broad based across all sectors. Based on historical relationships, this would imply annual economic growth a touch over 3%. That is consistent with our forecasts for the next 12 months. It is reassuring to see more evidence of businesses expecting recovery.

On an economy-wide level, the forward-looking indicators in today's survey remain robust. Business expectations for activity (43.4%), profit (20.2%), investment (17.5%), and employment (16.4%) are all above their long-run averages. Conditions are still tough out there, but firms are clearly optimistic about the year ahead. It should provide the RBNZ some assurance that activity will improve and the slump in Q2 GDP was temporary.

The RBNZ will also be monitoring the latest pricing indicators in their assessment of the economy. Inflation expectations lifted slightly from 2.63% to 2.71% in September. It's only a small change, but the direction is unhelpful at this stage in the easing cycle.

The Quarterly Survey of Business Opinion (QSBO) next Tuesday will give another guide to business activity, pricing and capacity pressures. Activity expectations in the QSBO have been much weaker than the ANZ survey recently. We believe there are principally two reasons behind this.

Mind the gap



First, the QSBO doesn't include the agriculture sector, which continues to stand out and be a strong support to New Zealand's economic recovery. Second, the longer time horizon (12-months) in the ANZ survey means firms are likely to be more confident that currently weak conditions will improve.

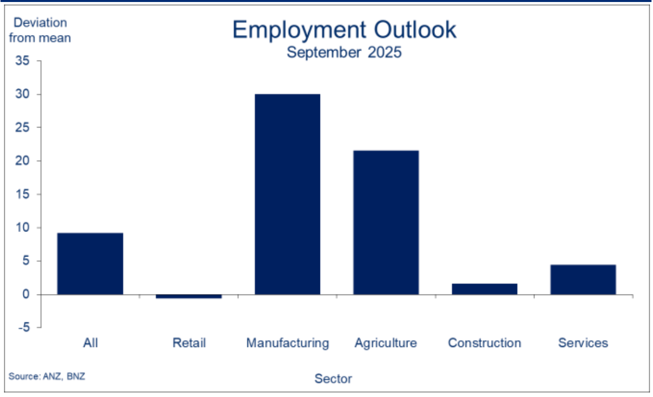
There were some familiar themes in today's data. The net percentage of firms reporting more activity than a year ago nudged up to 4.5% but remains at a subdued level. In particular, the construction sector continues to struggle with a net 29.1% of respondents reporting reduced activity compared to a year ago.

Building consents data for August are released tomorrow and will give a guide to the outlook for construction activity. Construction sector firms in today's survey remain optimistic for activity in the year ahead for both residential and commercial building.

For the RBNZ, it is both the starting point and the trajectory from here that matter. Q2 GDP was much weaker than expected at -0.9% q/q. We have pencilled in +0.7% q/q for Q3 GDP, underpinned by a solid bounce back in manufacturing.

Today's data supports a bounce in activity ahead, with a noticeable jump in manufacturing confidence from 55.3 to 70.8. Some of the lift was seasonal as we move out of winter, but it is now at its second highest level since 1994. Employment intentions for manufacturing also lifted markedly from 6.2% to 35.4%. We will wait to see if the latest optimism is backed up by the September Performance of Manufacturing Index (PMI) due for release on 10 October.

Manufacturing jumps up



matt_brunt@bnz.co.nz

Contact Details

BNZ Research

Stephen Toplis
Head of Research

Doug Steel
Senior Economist

Matt Brunt
Economist

Jason Wong
Senior Markets Strategist

Stuart Ritson
Senior Interest Rate Strategist

Mike Jones
BNZ Chief Economist

Main Offices

Wellington
Level 2, BNZ Place
1 Whitmore St
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch
111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854