31 August 2021

Confidence collapse invisible so far

- **Businesses are more miserable about future activity**
- **But the COVID-2020 collapse has not yet been repeated**
- **Inflationary pressures remain elevated**
- **And staffing issues not being relieved**
- **Roll on the next set of business surveys**

So far, not so bad was the key message from today's ANZ Business survey. All eyes were on the split between the responses of those who were surveyed prior to the current lockdown (75% as it turns out) and those after (25%). The post-lockdown results were always going to be more miserable than pre. The question was, by how much? As it turns out, not too much at all.

Pre lockdown the own activity outlook stood at 20.2, post it fell to 16.0. Compare these to a reading of 26.3 for the month of July. So, expectations were on the wane anyway and COVID tipped them over the edge a bit further. That said, around half the decline between and July and the first part of August was seasonality at play rather than anything more sinister. The drop is unwelcome but it needs to be put into perspective.

In February 2020 the own activity indicator stood at 12.0. It slumped to -26.7 in March and then -55.1 in the Level 4 lockdown at the time. What we are seeing now is still light years away from that slump in confidence, and we remain quietly confident that, while we expect confidence to drop further, history will not repeat.

Own activity has not collapsed

The Reserve Bank will be watching these indicators very closely and, at least at this stage, should be comfortable with its post MPS musing that the economy will hang together and will not prevent the Bank from raising interest rates.

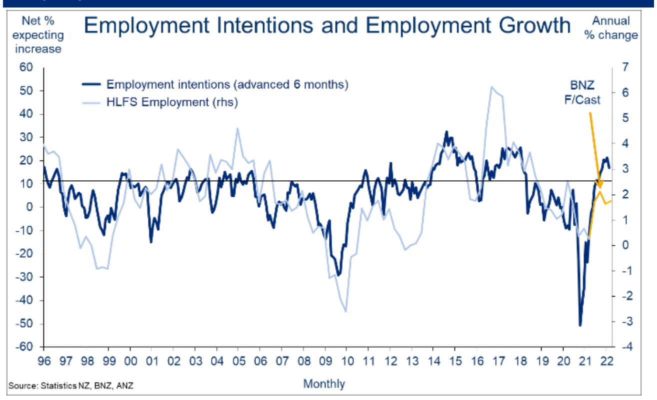
Anecdotal evidence from our own client base supports the general level of confidence espoused in today's survey. Thanks to past experience, businesses are not now in a state of panic and confusion as they were first time around, they have planned for the likelihood of another COVID outbreak, their balance sheets are in good order and they can ride a period of inactivity. More importantly, they can see a way out the other side because either we eliminate (albeit no doubt temporarily) COVID again or we vaccinate sufficiently to eventually moderate the need for future lockdowns.

This is not to deny the pain that will be felt for many businesses, particular in the tourism and hospitality sectors, for some of whom the current lockdown may be the final straw.

Prior to this lockdown, the biggest concern we had was that inflationary pressures were rising aggressively and labour shortages would get even worse. There was nothing in today's survey to suggest anything was changing (or would change) on this front.

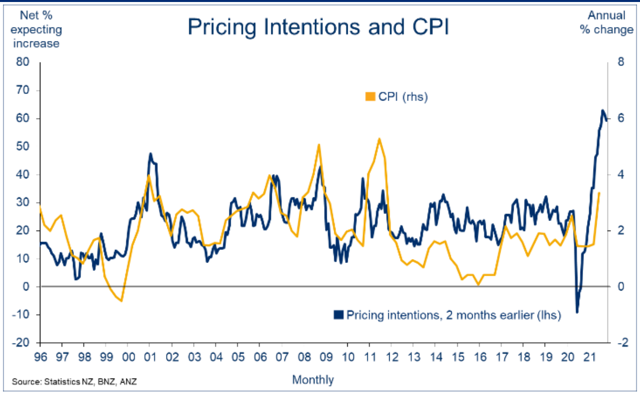
Employment intentions averaged 17.0 for the month falling to 13.9 in the latter period of the survey. Even at 13.9 employment intentions remain consistent with employment growth at an annual pace of over 2.5%. This is simply not tenable given how low the unemployment rate is and the lack of available supply of labour. What's more, labour supply is being further dented because of the current COVID restrictions , including absenteeism from isolating workers, and the reduced availability of MIQ rooms for folk coming into New Zealand from offshore.

Employment intentions elevated



And on the inflation front, there is simply no let up. A net 59% of respondents intend to raise prices. The figure would have been higher had it not been for a slump in expectations for the agriculture sector to 26% (from 46% a month earlier). A record net 85.5% of retailers say they intend raising prices. At the same time, inflation expectations rose to 3.05%, their highest level since November 2011.

Inflation aplenty



It's early days yet. Goodness knows whether or not we will be able to contain the current COVID outbreak. But, so far at least, the signs are promising. If they remain so, then the new normal will return relatively quickly. And while there are signs this might be the case any drop in activity that we are experiencing now should not pummel confidence. If this is how things pan out then talk will quickly return to the excesses in the labour market and the inflationary pressures that abound. In turn the RBNZ will lift its foot off the accelerator and encourage interest rates to float higher.

Indeed, higher interest rates look the most likely outcome even if current difficulties are more pronounced than expected. That said, the wheels can fall off. If they do then we will be forced to further lower our growth expectations and the RBNZ may have to ponder going into hibernation for a while.

With real world data published with often long lags, we will continue to watch business indicators very closely. The ANZ will (during this lockdown) return to providing partial updates of its survey with the first such partial due for release on September 13. We, in conjunction with Business New Zealand, will also be producing the Performance of Manufacturing and Performance of Services indices on September 17 and 20 respectively. These are not forwarding looking confidence indicators, as such, but will give us insight into the state of New Zealand business currently, well in advance of the official statistics. Similarly, we hope to continue providing you with titbits of information from our own database as and when we are able.

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