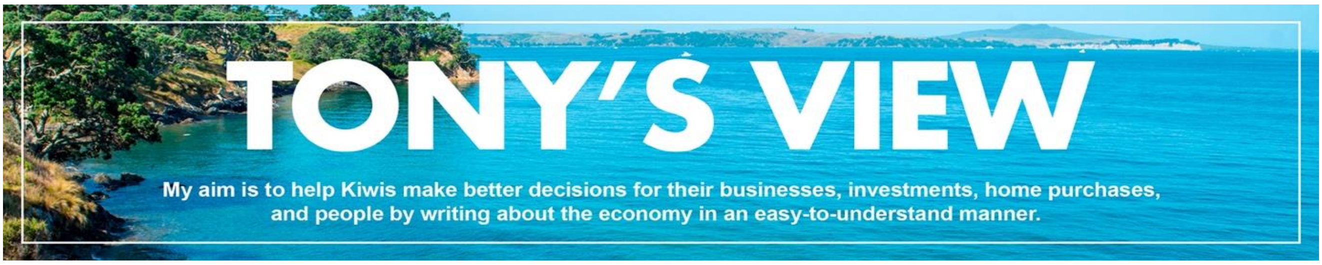

Input to your Strategy for Adapting to Challenges

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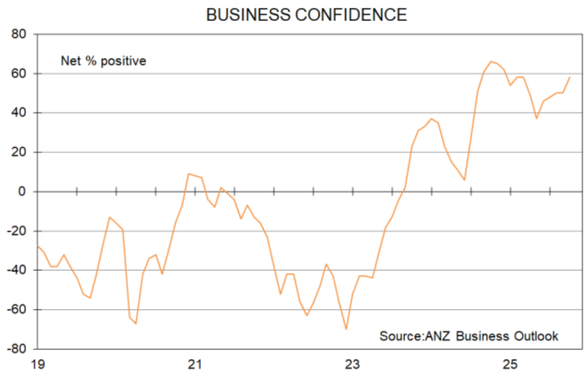
Businesses hopeful

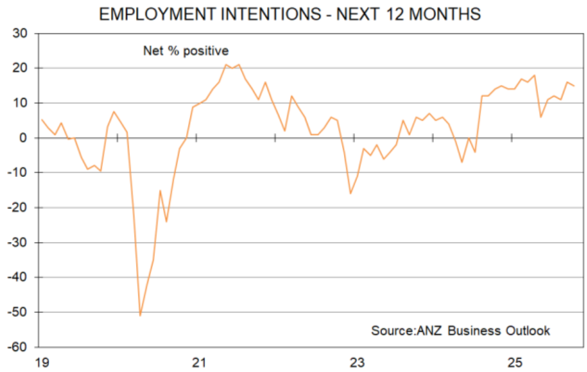
Last Thursday ANZ released their monthly Business Outlook report. This is a useful and reasonably timely set of data which usually attracts attention for the level of business confidence about the economy and their expectations for how their own activity levels will look in a year's time.

Those two measures improved in October to net 58% and 45% positive respectively from 50% and 43% last month. The ten year averages are -7% and +17% respectively so the latest and recent results are very good. They provide a firm basis for accepting a view that the economy is going to nicely improve over the coming year.

But I like to look underneath these headline numbers at three other main things. First, are businesses willing to back their view by hiring more people. A net 15% have just said yes versus an average of 8%. This is good but not stellar.

It tells us one can reasonably expect an improving labour market. Should we be disappointed that 15% is only just above average? Not really because the labour market follows the economic cycle with a lag and it seems fair to reckon that having been wrong twice before in anticipating that the next year will be good businesses will exercise some caution for a tad longer than usual this time around.



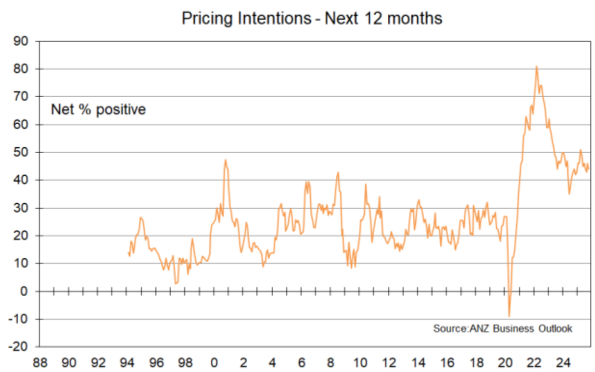


If they do and the initial rise in employment is muted in 2026 then there arises a risk of a scramble late in the year to secure people in an environment of labour shortages worsened by weak net migration gains.

Second, I look at measures showing whether businesses will back their economic and activity outlook by expanding capital spending. This time around a net 22% of business say they will invest more in plant and machinery, up from 18% a month earlier and a ten year average of 7%. Sounds good.

Good also are the net 37% of builders in the residential sector expecting to get busier, and the net 33% in the commercial construction sector who also expect to get busy.

Third, I keep a close eye on measures which may tell us where inflation is headed. A net 44% of businesses from 46% last month expect to raise their selling prices in the coming year.



This measure has been stuck close to this level for two years now despite the gross weakness in the economy and bouts of sentiment collapse. It is above the 26% average since 1992 when inflation fell away to average 2.3% ever since.

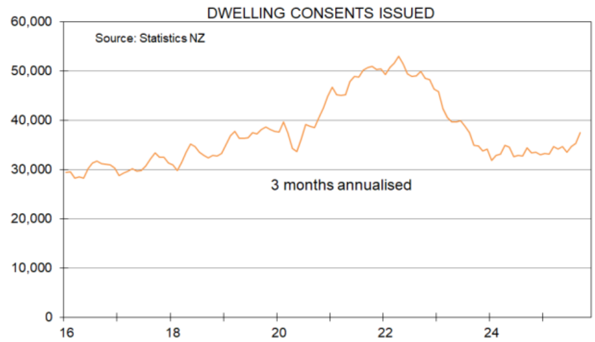
As such, the measure remains in concerning territory for upside business pricing risk and inflation once the economic upturn gets cracking. But for now it provides no fresh signal of deterioration in the inflation outlook.

Overall, I see nothing in the survey justifying either a return of pessimism about the economy or extra special and new optimism. Upturn coming, inflation risk present further out.

House construction to grow

Statistics NZ this week released data showing us that the residential construction sector is undergoing some new growth. The seasonally adjusted number of consents issued for new dwellings to be built around the country grew by 7% in September after rising 6% in August and 6% in July. The 12.1% growth for the quarter is the strongest since the end of 2020 and means the unadjusted annual total of consents now sits at 34,900 from 33,700 a year ago.

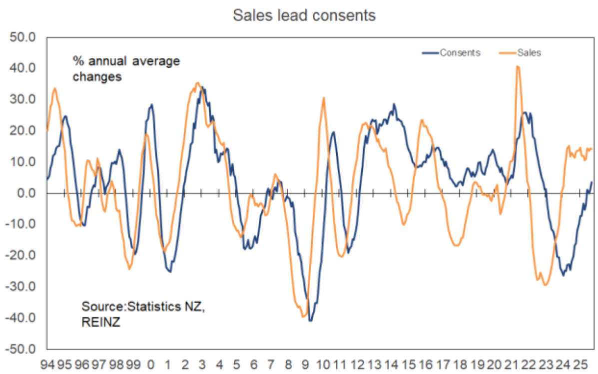
This graph annualises the three month total and shows things going back up after a flat period from the middle of 2023.



There is no obvious reason for believing that the proportion of consents issued now will result in less actual work done than in the past. That, plus the ANZ survey data noted above showing a net 37% of builders of houses expecting to get busier means we can talk in terms of house construction rising.

But there is no valid reason at this stage for talking about a construction boom. This next graph shows the very good correlation between annual average changes in dwelling sales and then annual average changes in dwelling consents.

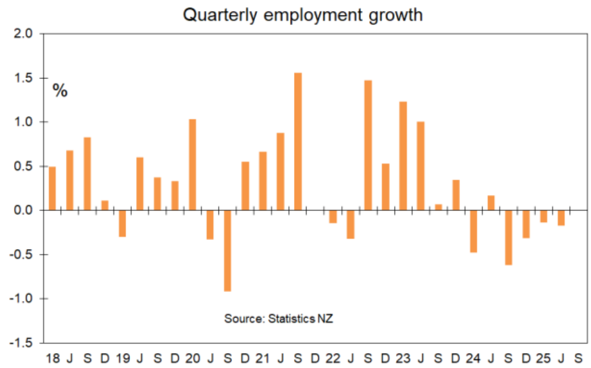
Sales growth represented by the orange line has plateaued for some time near 14% and that may be where consent growth is headed – not the 26% growth of late-2021.



This is an important development because it adds to the stimulus to growth coming from higher export prices, a lower NZ dollar, lower interest rates, and higher infrastructure spending.

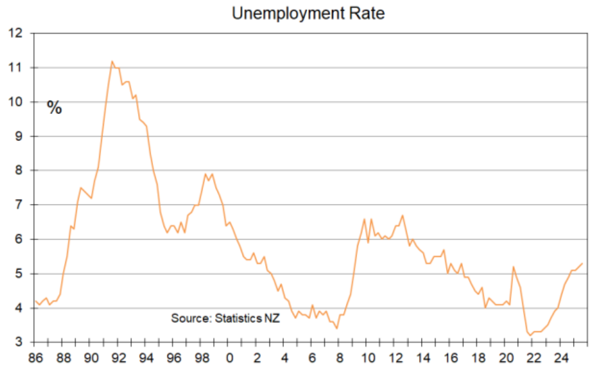
Only two elements in the picture are missing – solidly upward trending consumer spending and an improving labour market.

Which brings us to the employment data released yesterday. During the September quarter there was no net growth in job numbers in New Zealand, and this means employment was 0.6% weaker than a year earlier and 1.5% down from the peak reached at the end of 2023.



The lack of jobs growth yet small rise in the number of people in the labour force produced a rise in the unemployment rate to a nine year high of 5.3% from 5.2% in the June quarter. If we ignore the unsustainably low rate of 3.2% reached during the pandemic binge, then this 5.3% rate is appreciably but not horribly above the 4% rate we entered the pandemic with.

The average unemployment rate over the past decade has been 4.4%. Again, the latest rate of 5.3% is high but not extreme. In 2012 the unemployment rate was 6.7% and in 1991 over 11%.



Of interest each quarter when these data are released are the numbers on wages growth derived from the Quarterly Employment Survey. The measure most commonly focussed on there over the past couple of decades is the change in average hourly ordinary time earnings in the private sector.

This measure peaked at an annual growth rate of 8.2% at the start of 2023 but is now 4.1% due to a 0.7% rise in the September quarter and 1.9% rise in the June quarter. The average rise for this measure over the past decade has been exactly 4.1% and the average rise sine 1992 when inflation settled just over 2% has been 3.3%.

As such one cannot say that wages growth is unusually low. In fact, it is unusually high considering the nine year high for the unemployment rate. That makes for a worrying situation for inflation once job growth returns and businesses begin more strongly competing for labour.

Already from a number of sources we can see early signs of a labour market upturn.

But for now, the overall interpretation of the data is that they provide scope for the Reserve Bank to cut the official cash rate one more time as they – in my opinion – set the scene for over-stimulation of the economy and an inflation surge come 2027.

But for now, the policy doves remain in the ascendancy.

If I were a borrower, what would I do?

With regard to the outlook for inflation as the pace of growth in the NZ economy picks up, the monthly ANZ Roy Morgan survey of consumers recorded a rise in the average expectation for where inflation will be in a year. This measure went up from 4.8% to 5.1%. The direction is worrying, however the level remains within the range of recent results, and the lift is not surprising considering the recent rise in recorded inflation from 2.7% to 3%.

But it is worth noting the upside surprise to inflation in Australia, which was briefly noted here last week, despite some weakness in their labour market. Plus, it pays to note that prices of key things in New Zealand continue to rise as companies in sectors dominated by a few large operators continue to exercise their power and boost prices to consumers. Think councils, electricity, gas, building materials. Air NZ calling for route subsidies? Sounds like the scene being set for higher prices on average.

Inflation has not died despite the recent weak state of our economy. Upside risks now loom as growth returns, consumers start to spend, and businesses seek to rebuild crunched margins.

This week wholesale interest rates have finished just slightly lower than last week.

To see the interest rates currently charged by major lenders go to www.mortgages.co.nz

Nothing I write here or anywhere else in this publication is intended to be personal advice. You should discuss your financing options with a professional.