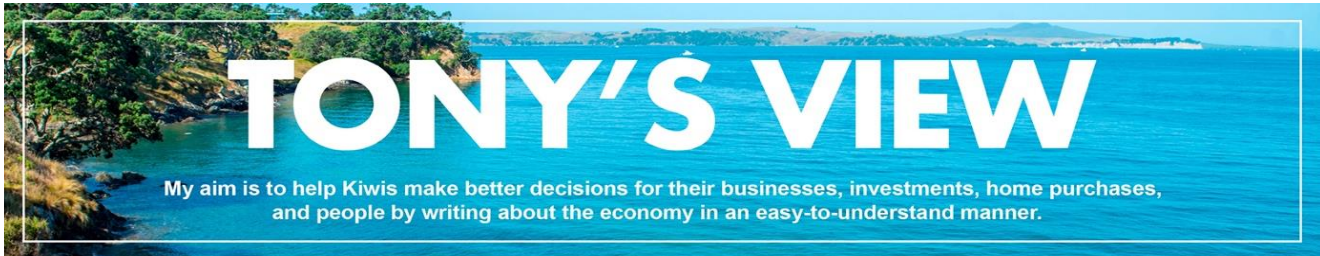


Input to your Strategy for Adapting to Challenges

Feel free to pass on to friends and clients wanting independent economic commentary

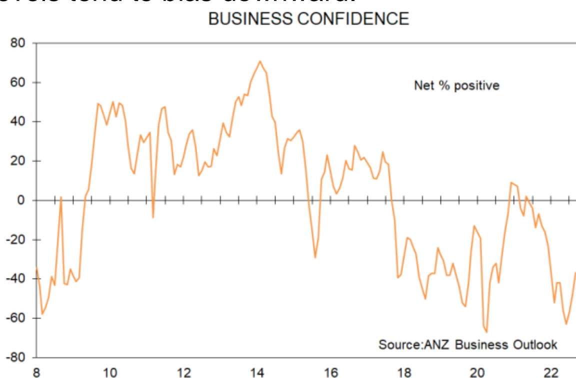
ISSN: 2703-2825
Thursday 6 October 2022
Sign up for free at www.tonyalexander.nz

Business sentiment

Last Thursday ANZ released the results of their monthly Business Outlook Survey. What do they tell us that is worth commenting on here?

The first thing we economists always take a look at when examining the ANZ business outlook survey is the headline confidence number. It, alongside the activity expectations measure, gives us some good insight into what the rate of growth in the economy is likely to be in the future.

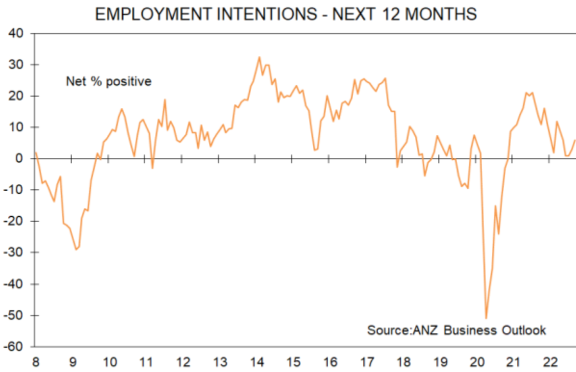
Of course, we do have to make allowances along the way for a few things such as the fact that when a Labour government is in power confidence levels tend to bias downward.



The latest survey shows that a net 37% of businesses have a negative view on the economy over the next 12 months which is the least pessimistic view since December last year. The worst reading was a net 63% feeling negative back in June. So, things have improved and that is good news. But the reading is still negative, and it remains reasonable therefore that we should expect only weak growth in the New Zealand economy in the near future.

And that is where we need to make the leap to looking at more relevant indicators as to what the confidence level businesses have means for their actions. Specifically, we look at their intentions with regard to capital expenditure and also hiring people.

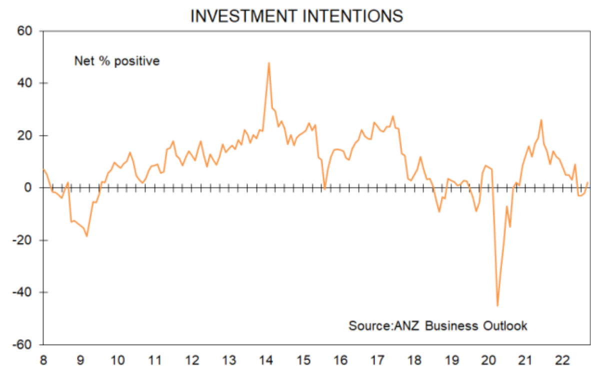
A net 6% of businesses plan hiring more people which is only just below the 8% average for the month of September over the past decade. The obvious point to note here is that there is a strong disconnection between the level of sentiment which businesses reveal and their hiring intentions.



On the face of it the good employment intentions measure, which is up from a low point of only a net 1% in July planning to hire more people, should make us feel optimistic about things like consumer spending and demand for housing. We would also be thinking that the strong labour market will actively discourage people from leaving the country and we could anticipate a good rate of population growth which again will be supportive of consumer spending and the housing market.

But of course, there is a major problem. Despite very strong employment intensions over the past year there has in fact been no net jobs growth in New Zealand for three quarters in a row because of the deficiency of labour supply. That deficiency is still getting worse with baby boomers retiring and many young people moving to Australia for the higher wages, cheaper housing, and lower cost of living available over there. There is also the simple reflex action of wanting to get out of the country after being restricted by the pandemic for 2 1/2 years.

We economists also looked gain insight as to what businesses are going to do by looking at the investment intentions measure. The latest reading is a net 2% of businesses saying they plan to boosting their levels of capital expenditure over the next 12 months. This is the best reading since May. But as the graph shows this measure has not really been trending anywhere for most of this year.

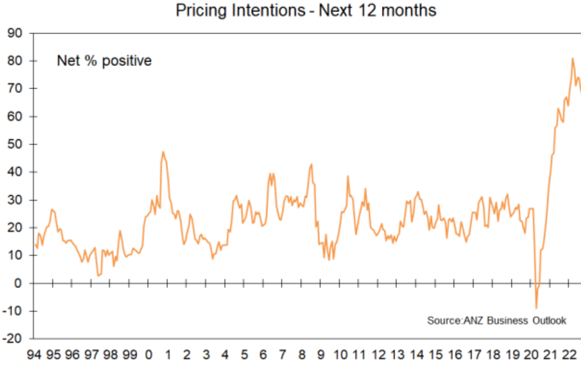


These are the usual indicators we look at when examining this monthly survey. But the thing we are all particularly interested in at the moment is insight into inflationary pressures delivered by a couple of series in the survey.

PROPERTY DEVELOPMENT MADE EASY.
Ashcroft Homes
SMARTER THINKING, GREATER RETURNS.
Find out what you could build at your place, no cost, no obligation. Visit ashcrofthomes.co.nz

Specifically, businesses are asked to estimate what they think the rate of inflation will be in a year's time. In that regard the latest news is good with an average expectation of inflation in the coming year at 5.98% which is down from 6.13% last month and a peak 6.23% in July.

But this rate is still well above the 10 year average of 2.4% and not likely to bring smiles to the faces of Reserve Bank officials. Particularly when they look at the other price measure from the survey which is the net proportion of businesses planning to increase their prices over the next 12 months. That reading now sits at 68% which although down from the peak of 81% in March is still much too high for comfort.



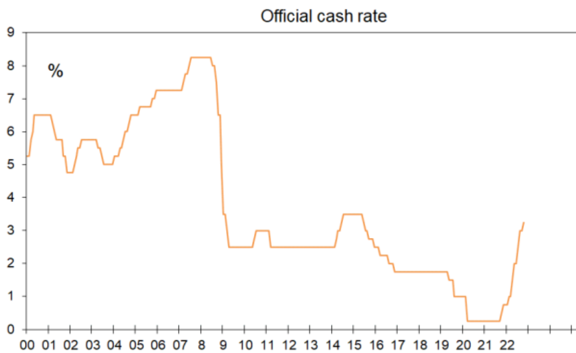
The survey does not provide a basis for expecting that inflationary pressures will ease off sufficiently in New Zealand in the near future to allow the Reserve Bank to start signalling an end to the monetary policy tightening cycle let alone the commencement of interest rate declines.

If I were a borrower, what would I do?

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.

Surprise – rates decline a bit

The Reserve Bank met expectations yesterday by increasing its official cash rate 0.5% so it now sits at 3.5%. This is where it was briefly back in 2014 and before that when it was on its way down from 8.25% in 2008.



There were no surprises in the commentary given by the Reserve Bank. They remain concerned that the economy is growing beyond the capacity of its resources to deliver in a non-inflationary way. In particular the labour market remains very tight, and they also noted that domestic spending is proving relatively resilient in the face of rising mortgage rates.

The chances are good that they will increase interest rates by another 0.5% come the final review for the year in November and after that there is a three month break until the next review in February 2023.

By then we should have a lot more information about the response of our economy to higher interest rates and the responses of economies offshore.

At the moment the financial markets around the world are in the phase of grasping at any straws of signs that inflationary pressures are abating, and then flinging those straws away and selling off when the next bunch of data come out showing that economic growth rates are high and inflationary pressures remain a problem.

We could be in this up and down phase for a long period of time, though the chances thankfully are not high that we will receive a repeat of the very poorly timed easing of fiscal policy in the United kingdom.

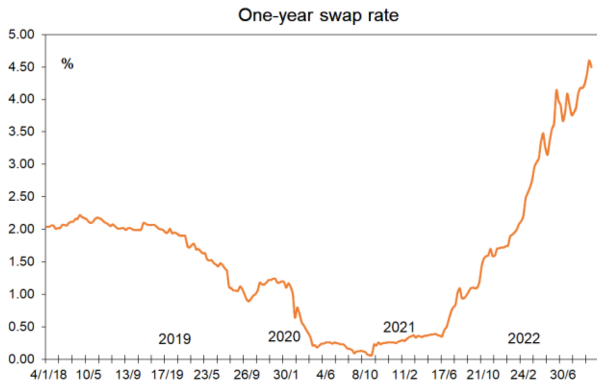
Thankfully, there has been some pulling back from the worst aspects of that fiscal policy easing but the case still remains that the UK government will be delivering a stimulus to the UK economy at exactly the same time as the Bank of England is trying to exercise some restraint. This implies still some extra upward pressure on global interest rates beyond what would otherwise have been the case. But it is also one of the factors feeding through to a view likely to gain stronger ground in the next few months that the pullback in inflation risks could be quite sudden when it happens.

In the wholesale interest rate markets in New Zealand, we have seen some decent falls in bank borrowing costs in response to the easing off of the extent of the UK fiscal easing and because of some data in the United states hinting at emerging weakness in the labour market in particular. The cost to banks in New Zealand of borrowing at a one year fixed interest rate in order to lend to you and I at a fixed rate for one year has declined to around 4.50% from

4.60% last week. A month ago, this rate was 4.2% and two months ago 3.8%.

FREE Appraisal
RayWhite. Wellington
Special Advertising Offers
Digital Targeting
Competitive Rates
Top Results!
Thinking of Selling?
halina@wellingtonresidential.co.nz
john@wellingtonresidential.co.nz
HalinaSellsHouses.co.nz Call: 0212263917

The graph shows us that this latest movement down is fairly insubstantial in the context of rises since the middle of last year.



If I were a borrower, what would I do?

I'd probably still largely fix for one year. Nothing new here really.

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

An unwavering focus on reducing your risk since 1991
- Residential Property Management
- Body Corporate Management
- Commercial Property Management
- Waiheke Island Holiday Home Management
www.apm.kiwi | 09 638 2500
AUCKLAND PROPERTY MANAGEMENT
Protect your investment, put your property in our hands

This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. To the extent that any information or recommendations in this publication constitute financial advice, they do not take into account any person's particular financial situation or goals. We strongly recommend readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. No person involved in this publication accepts any liability for any loss or damage whatsoever which may directly or indirectly result from any advice, opinion, information, representation, or omission, whether negligent or otherwise, contained in this publication.