SUMMARY

- Business confidence remains elevated, as do the majority of the survey components.
- The combination of elevated confidence across both the business and consumer sectors augurs well for growth.
- Our composite indicator is pointing to the potential for 3.7 percent growth by the end of the year.

2013 continues to unfold in an assured manner. Confidence across the business sector remains high. A net 42 percent of businesses expect general business conditions to get better over the year ahead. That's up 10 points on the month prior. Readings are now elevated across all the major sub-sectors. Sentiment is highest in the construction sector and agriculture has shaken off drought blues to be positive once again.

Firms’ remain upbeat about prospects for their own business. A net 34 percent of firms expect better times over the year ahead for themselves. Headline confidence figures can wax and wane: it is what firms think about their own business prospects that matters most.

![Business Confidence Index](image)

Similar nuances to prior months are apparent across the remainder of the survey.

- Profit expectations have risen to a 22-month high: that’s a good sign for employment and investment.
- A net 10 percent of firms expect to lift employment. That’s solid, though not stellar.
- Investment intentions remain elevated (+17), though down a smidgen on last month.
Export intentions remain weak. A net 17 percent expect an uplift. It’s positive, but well shy of the historical average.

Residential investment intentions were pared back from +50 to +33. We’re not sure why. A massive residential development plan for Auckland was announced, which comes on top of Christchurch’s needs. Our survey may have closed off too early to reap the benefit.

Pricing measures remain benign. Inflation expectations eased down to 2.2 percent. There’s been a notable drift lower within the construction sector, easing to a 3¼-year low: that’s an encouraging sign. The last thing New Zealand needs is for the RBNZ’s hand to be forced on the interest rate tiller courtesy of construction costs. Pricing intentions remained stable with a net 20 percent expecting to raise prices: that’s tame.

The construction sector remains the growth bellwether, remaining top of the pops in regard to confidence, firms’ own activity expectations, employment, investment, pricing intentions, and profitability.

Technically, we can actually see a slight softening across the survey once we strip out the seasonal factors. For some reason May tends to be a month of happy pills. Accounting for this seasonal element shows a small drop in headline confidence, firms’ own activity expectations, employment, and investment. This is the second month running for the first three of those.

We’ll discount this for now. The declines were all trivial in magnitude – confidence is high. It’s like the tempo changing on the dance floor. Think Gene Kelly rejoining the cappella group after a frenetic solo stomping.

Our combined composite growth indicator – combining indicators from both the Business Outlook survey and Consumer Confidence (a survey we also produce) – is flagging 3.7 percent growth by the end of the year.

Once again we’re left with an impression of an economy that is neither too hot nor too cold. We’re in the groove. This in itself is tremendously encouraging. Businesses respond to stability and certainty. NZ has historically been a 3-speed economy; fifth, neutral and reverse. We may have found third and fourth gear. At present there seems enough growth to grease the economy’s wheels, without the threat of the wheels coming off. However, the spoiler remains the mix of growth: those flash wheels still need to be paid for.

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<th>Net Balance</th>
<th>Total</th>
<th>Previous</th>
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