MOGULS

SUMMARY

- Headline business confidence and firms’ views of their own activity continue to recover from their post-election lows.
- Key activity indicators improved but remain well off previous highs.
- Pricing indicators eased.

Headline business confidence has traversed the dip. A net 19% of businesses are pessimistic about the year ahead, versus 38% in December. All five sectors improved this month with retail firms the closest to a positive outlook at -4%. Firms’ views of their own activity (which has the stronger correlation with GDP growth), lifted from +16 to +20. It’s hardly a gold medal performance, given the historical average is +28, but it is no longer skating on thin ice.

The economy is not breaking records at the moment. A slower housing market, a small dip in net migration, difficulty finding credit and already-stretched construction and tourism sectors are making acceleration hard work from here. But strong terms of trade and a positive outlook for wage growth are providing a push. We may not have a lot of altitude just yet, but we’re off the end of the ski jump and no longer heading downhill.

Activity indicators increased across the board but remain well off their highs.

- A net 7% of firms are expecting to lift investment, up 4 points.
- Employment intentions lifted from +3% to +5%, still subdued.
- Profit expectations inched up from -3% to -1%, still missing the cut-off.
- Export intentions rose from +13% to +16% despite the headwind from the resilient NZD.
- Residential construction intentions jumped from +22% to +33%; (volatile) commercial construction intentions fell from +16% to +6%.
- A net 24% of businesses expect it to be tougher to get credit, unchanged.
- Firms’ pricing intentions eased from +29% to +25%. Inflation expectations fell from 2.3% to 2.1%.
Our composite growth indicator, which combines business and consumer confidence, suggests growth around 2-3%. Although we are constructive on the medium-term outlook (with incomes supported by the strong terms of trade and higher wage growth), we are conservative in our productivity growth assumptions and believe households need to rebuild their saving. We accordingly see downside risk to both the Reserve Bank’s and Treasury’s growth forecasts. Growing above trend is not typical of an economy so far into the business cycle.

Despite the ongoing cooling in the housing market, confidence in the retail sector has continued to rebound. The sector now has the highest business confidence and about average own activity outlook. It also reports the second-highest profits, behind construction. That’s quite a turnaround from October-November when it was the most pessimistic sector in terms of expected profitability.

There were few signs of incipient inflation pressure in the survey. Inflation expectations and pricing intentions both eased. While we believe firms are facing cost-push pressures, it remains a difficult environment for pushing through price increases, outside of the construction sector.

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<tr>
<th>Net Balance</th>
<th>Total</th>
<th>Previous</th>
<th>Retail</th>
<th>Mfg</th>
<th>Agric</th>
<th>Constr</th>
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<td>...</td>
<td>...</td>
<td>...</td>
<td>33.4</td>
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Figure 1. Activity outlook index

Figure 2. Construction intentions

Figure 3. Activity outlook index

Figure 4. Labour market outlook

Figure 5. Export sales volumes

Figure 6. Financial outlook

Figure 7. Investment intentions

Figure 8. Inflation expectations

Source: ANZ, Statistics NZ
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