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SUMMARY

- Headline business confidence fell a further 5 points in August, but firms’ views of their own activity were steady.
- Manufacturing is now the least confident sector – likely a lagged impact from construction sector woes. The services sector is the most optimistic.
- Activity sub-indicators remain weak. This month we take a closer look at the implications of weak investment and employment intentions, and conclude the threat to near-term activity is real.

In the August ANZ Business Outlook Survey headline business confidence dropped a further 5 points to a net 50% of respondents reporting they expect general business conditions to deteriorate in the year ahead.

However, firms’ perceptions of their own prospects are a much better gauge of actual economic outcomes. This series stabilised at a net 4% expecting an improvement, well below the long-term average of +27%. By industry, manufacturers’ expectations dropped 11 points to become the least positive about their own activity (-4%), while retail and services improved somewhat.

Turning to the survey detail:

- A net 5% of firms are expecting to reduce investment, down 6 points. It is rare for this series to be negative.
- Employment intentions fell 8 points to -6%. No sectors are positive.
- Profit expectations were flat at -17%. Retail and manufacturing are the weakest sectors at -27% (up 1%pt) and -28% (down 12%pts) respectively.
- A net 36% of businesses expect it to be tougher to get credit, up 1 point.
- Firms’ pricing intentions fell 2 points to +27%. They are strongest for construction but also lifted for retail. Inflation expectations were flat at 2.2%.
- Residential construction intentions eased 3 points to +13%, while encouragingly, commercial construction intentions bounced 13 points to -4%.
Whether ANZ Business Outlook results matter for the economic outlook has been a hot topic of debate of late, and we have been looking closely at the data. What is clear is that asking firms about their actual intentions garners more accurate indicators for future GDP growth than asking about their expectations. In particular, investment intentions from the survey provide a very good directional signal for GDP growth, though not perfect (for example, in 2015 low dairy prices were seen as an economic game-changer, but in the end the very strong housing market provided an offset). In August, a net 5% of firms reported they intend to reduce investment (down 6 points). If this weakness is sustained, it will not bode well for GDP growth heading into the end of the year.

Figure 2: ANZBO investment intentions versus GDP growth

There has been a particularly sharp turnaround in the manufacturing sector. In April it was the most optimistic sector as regards their own activity, at +23. It has lost ground steadily to be the most pessimistic sector in August, with a net 4% of firms expecting lower activity. One can roughly cut the manufacturing sector into two segments: those exposed to domestic construction, and those who export (often primary sector-related goods). Manufacturers’ export expectations are holding up; we suspect this weakness is an echo of construction sector pessimism, hinting at downside risk to construction volumes.

Employment intentions continue to ease, and are weakest in the agriculture and construction sectors. This suggests weaker employment growth over coming months, consistent with stability rather than improvement in the labour market.

Figure 3: ANZBO employment intentions vs employment growth
The economy is delicately placed. But it seems increasingly inevitable that wariness amongst firms will have real impacts, in the near term at least, as investment and employment decisions are deferred.

There are still many positives in the economic picture: the OCR is low, the NZD has fallen, and fiscal stimulus will provide impetus to growth in the second half of the year. The external environment remains positive, as reflected in New Zealand’s high terms of trade. And China’s demand for our exports seemingly remains insatiable – though the weaker yuan is making them less affordable. The national housing market is broadly stable, and consumers are still feeling pretty good – as well they might, given the low unemployment rate and the prospect of a bit higher wage growth.

But firms have real concerns about industrial relations policy, minimum wage hikes and costs more generally – and particularly about their ability to pass on higher costs and maintain profitability. Troubles in the construction sector appear to be starting to cause stresses in related firms. And exporting firms will be keeping a nervous eye on signs that global growth has peaked.

It is mixed, to be sure, and we certainly do not expect growth to rocket away any time soon. But nor are we forecasting a painful slowdown. The fundamentals remain in place for ongoing growth, albeit at a more modest pace – provided we don’t talk ourselves out of it.

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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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