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CONTACT:
Sharon Zollner
Chief Economist
Telephone: +64 9 357 4094
Sharon.Zollner@anz.com

The next issue of the ANZ Business Outlook is scheduled for release on 28 March 2019 at 1pm.

Key points

- The recent improvement in business activity indicators out of the ANZ Business Outlook survey stalled in February. Business confidence fell 7 points, while firms’ views of their own activity eased 3 points.
- Activity indicators generally ticked down. Export intentions fell to the weakest since March 2009. Pricing intentions remain range-bound.
- Expected availability of credit dropped sharply.

In the February ANZ Business Outlook Survey headline business confidence gave up around half its December gain. A net 31% of respondents reported that they expect general business conditions to deteriorate in the year ahead.

Firms’ expectations for their own activity eased 3 points to a net 11% expecting a lift. The agriculture and services sectors are the most optimistic, construction the least.

Turning to the detail:

- A net 2% of firms are expecting to lift investment, down 2 points.
- Employment intentions fell 4 points to +3%.
- Profit expectations fell 5 points to a net 11% expecting profit to decline. No sector is positive. Construction is the least pessimistic (0%). Agriculture is still the most pessimistic but bounced sharply (to -18%, up from -48%).
- A net 38% of businesses expect it to be tougher to get credit, reversing an improvement to net 19% in December.
- Firms’ pricing intentions lifted 2 points to +26%. Inflation expectations eased a touch from 2.15% to 2.06%.
- Construction intentions were weaker: commercial intentions fell 6 points to +4, while residential fell 29 points (also to +4). This data is volatile but residential intentions are trending down, while commercial intentions are back in the black after being negative in June-October last year.
Key activity indicators eased in February. It’s worthwhile taking a look at the data out of the services subsector, as this tends to be a less volatile part of the economy and so have tighter correlations to overall growth. If we don’t see a marked bounce-back soon, the investment intentions and capacity utilisation data imply downside risk to economic momentum ahead, even allowing for possible political impacts in the data.

In terms of the regional story, Canterbury remains the least optimistic, while top honours go to Wellington or Bay of Plenty, depending on the indicator. In terms of the construction sector, the Bay of Plenty is the most upbeat about future activity, whereas Auckland is the least.

By sector, capacity utilisation in the construction sector is the tightest and lifting, though is well off its 2018 highs, consistent with more moderate construction cost inflation. Perceived credit availability is very weak across the board by sector, but is lowest for agriculture – and by region, in Canterbury. Perhaps influenced by this, only a net 11% of firms now expect interest rates to rise, down from over a net 50% at the end of 2017.

Source: ANZ Research
The low level of export intentions is worrying, but the correlation with exports can be a bit hit and miss. It is possible global growth concerns are at play here.

**Figure 7: Export intentions and the value of non-food manufactured exports**

Source: ANZ, Statistics NZ

Leading indicators such as business surveys and light traffic flows are suggesting that the New Zealand economy is running out of steam. Yet while Q3 GDP growth did disappoint at just 0.3% q/q, it is too soon to conclude that it is anything more than a pothole. Key indicators that will help gauge the size of the December quarter GDP bounce-back are still coming in. Anecdotally, the regional economy is booming, but there does seem to be a degree of wariness amongst firms. Increasing evidence of a global slowdown is likely playing a part, as well as the uncomfortable combination of elevated costs but limited ability to pass these costs on, which is impacting firms’ profitability.

It is disappointing that the bounce in ANZBO activity indicators seen towards the end of last year appears to be at risk of petering out. Clearly the economy is stretched at the moment, but it does appear that momentum has waned markedly over the last six months. We continue to expect that the RBNZ will, as the year goes on, become less certain that core inflation will continue rising towards the midpoint of the target band. We are forecasting a cut in the Official Cash Rate in November.

**Survey Results February 2019**

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