

ANZ New Zealand Business Outlook

28 March 2019



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The next issue of the ANZ *Business Outlook* is scheduled for release on 30 April 2019 at 1pm.

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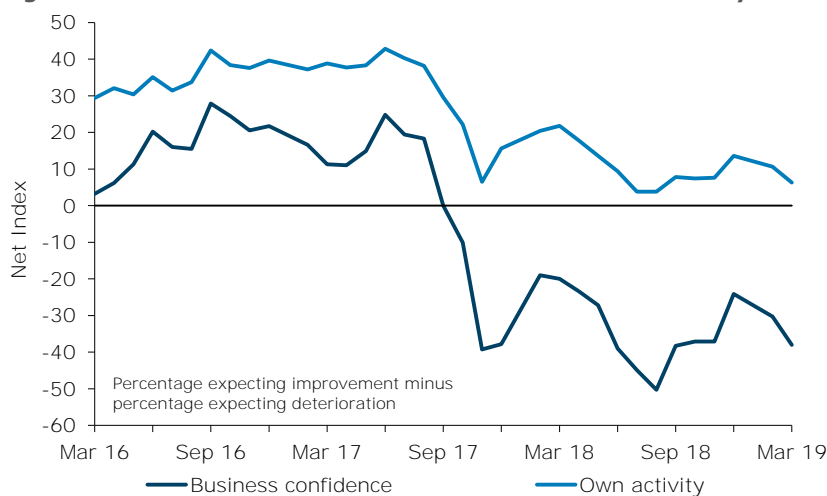
Key points

- Most activity indicators eased in March. Business confidence fell 7 points to -38, while **firms' views of their own activity** fell 5 points.
- Pricing intentions lifted very slightly. Cost pressures are reported to be particularly acute in agriculture and construction.
- Residential construction intentions plummeted to their lowest level since 2009, led by Auckland. Export intentions are near record lows.

In the March ANZ Business Outlook Survey headline business confidence fell 7 points. A net 38% of respondents reported that they expect general business conditions to deteriorate in the year ahead.

Firms' expectations for their own activity eased 5 points to a net 6% expecting a lift. The services sector is the most optimistic, retail the least.

Figure 1. ANZ Business Confidence Index and ANZ Own Activity Index



Source: ANZ

Turning to the detail:

- A net 1% of firms are expecting to lift investment, down 1 point.
- Employment intentions fell 2 points to +1%.
- Profit expectations fell 3 points to a net 14% expecting profit to decline.
- A net 40% expect it to be tougher to get credit, a deterioration of 2 points.
- **Firms' pricing intentions** lifted 1 point to +27%. Inflation expectations were steady at 2.05%. A net 55% of firms expect higher costs, led by agriculture and construction.
- Commercial construction intentions dropped back into negative; residential dropped off a cliff, led by Auckland.
- Export intentions eased to be lower than any time during the Asian or Global Financial crises.

Most activity indicators eased slightly in March, consistent with our expectation that the economy is quietly losing steam.

A marked exception was residential building intentions, which dropped sharply, led by Auckland – down 21 points, to be the weakest since 2009 (figure 2). There are reasons we may want to discount the data:

- The data can be volatile, and spikes in both directions are not uncommon, so the fall may reverse over the next couple of months.
- The sharp drop may partly be related to the possible threat of a capital gains tax, and may therefore not come to much in terms of actual activity (the final report from the Tax Working Group was released **just before this month's** survey period began).
- The expected 'own activity' measure out of the construction sector held up considerably better (see charts page 4).

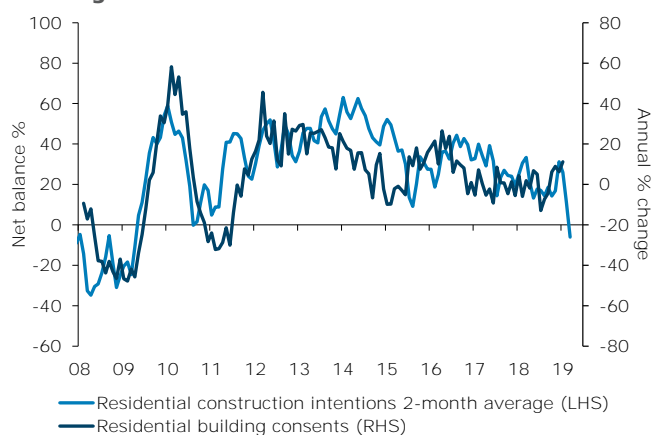
But at face value, the intentions data suggests significant downside risk for private sector residential building activity (figure 3).

Figure 2: Regional residential construction intentions (seasonally adjusted)



Source: Statistics NZ, ANZ Research

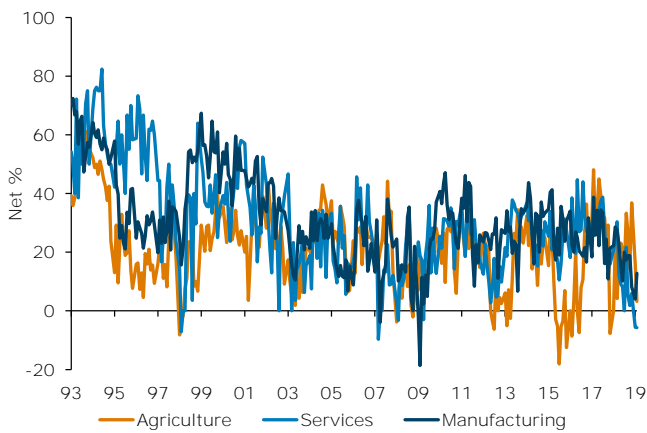
Figure 3: Residential construction intentions versus dwelling consents



Meanwhile, a further drop in export intentions takes it to levels lower than during the Asian Financial Crisis of 1998-9 and the Global Financial Crisis of 2008-9. **This doesn't** square with anecdotes and it is hard to know what to make of it. The services sector is particularly pessimistic (it has some correlation with growth in short term arrivals, which is easing), whereas export intentions out of the manufacturing sector and the agriculture sectors are trending down but are not as such dire levels (figure 4).

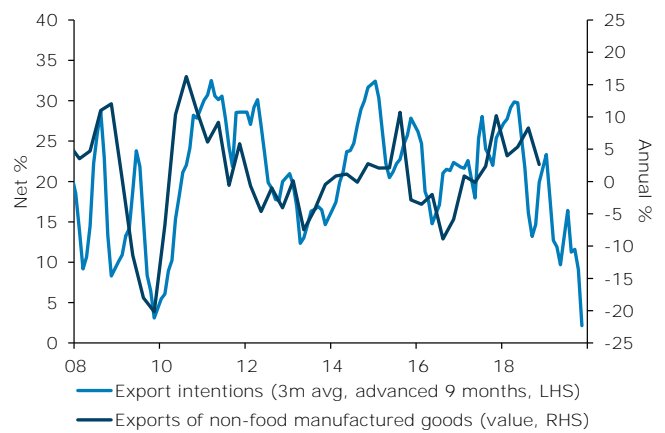
The data has not always been a good indicator for 'discretionary' exports ie non-food manufactured exports (food exports tend to be driven more by weather), but this cycle, it certainly has been (figure 5). There is no doubt global growth is slowing, so all up, the signal should certainly not be dismissed out of hand.

Figure 4: Key sectoral export intentions



Source: Statistics NZ, ANZ Research

Figure 5: Economy-wide export intentions and the value of non-food manufactured exports



The New Zealand economy is delicately poised. GDP growth has moderated but is still respectable. But leading indicators such as our ANZ Business Outlook survey and the ANZ Light Traffic Index are suggesting that the New Zealand economy is running out of steam quite rapidly. Complicating the situation, the regional story is very mixed, with the party still in full swing in some smaller centres. But it does appear that increased wariness on the part of firms is starting to feed through into intentions, **with a growing risk that the 'hard data' is going to start to roll over more markedly.**

Sharply lower export intentions despite a well-behaved exchange rate suggest global factors are a part of it, as well as disappointing profitability as firms struggle to absorb higher costs in a pricing-constrained environment. And now we have a cloud hanging over the residential construction outlook despite ongoing population growth, possibly related to credit availability and the fact that Auckland house prices are now going (modestly) backwards.

We continue to expect the next move in the Official Cash Rate to be a cut, with a growing risk that it is sooner rather than later.

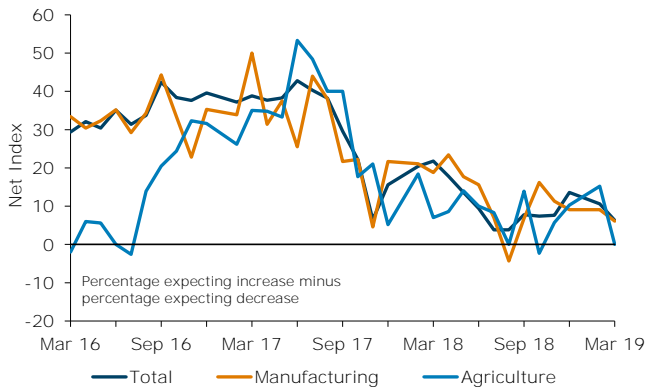
Survey Results March 2019

Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-38.0	-30.9	-44.4	-34.8	-61.1	-46.4	-30.8
Activity Outlook	6.3	10.5	-4.4	6.1	0.0	3.6	9.5
Exports	1.0	3.3	-8.3	12.8	3.2	-9.1	-5.7
Investment	0.9	2.3	-2.3	3.1	-17.1	-3.6	4.3
Costs	55.3	...	56.5	54.5	72.2	71.4	48.8
Capacity Utilisation	5.4	10.2	2.8	20.7	0.0	-4.5	1.6
Residential Construction	-16.0	3.8	-16.0	...
Commercial Construction	-4.5	4.3	-4.5	...
Employment	0.9	3.0	-4.3	-6.1	0.0	-7.1	4.8
Unemployment Rate	30.3	25.1	37.0	43.9	33.3	24.1	22.9
Profits	-14.4	-10.8	-28.9	-7.6	-44.4	-18.5	-7.7
Interest Rates	12.1	11.3	11.1	12.3	22.2	13.8	9.7
Pricing Intentions	27.4	25.5	37.0	30.3	27.8	28.6	23.5
Ease of Credit	-40.0	-38.0	-29.5	-38.1	-38.2	-44.8	-43.6
Inflation Expectations	2.05	2.06	2.14	2.14	2.12	2.19	1.95

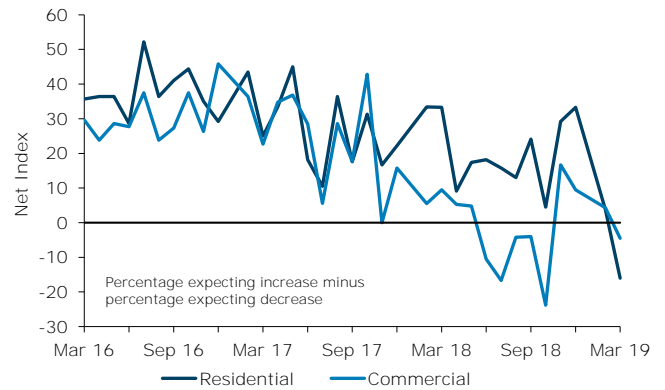


Charts

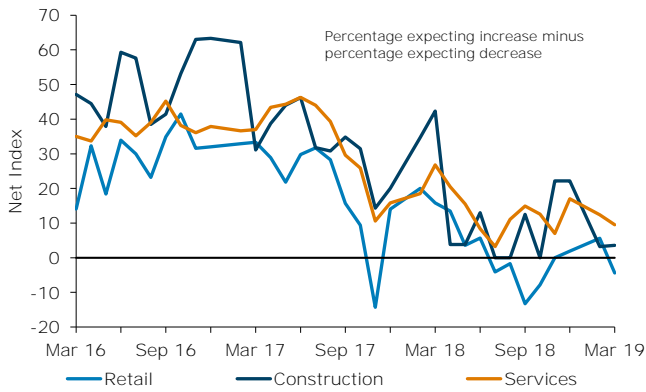
Activity outlook index



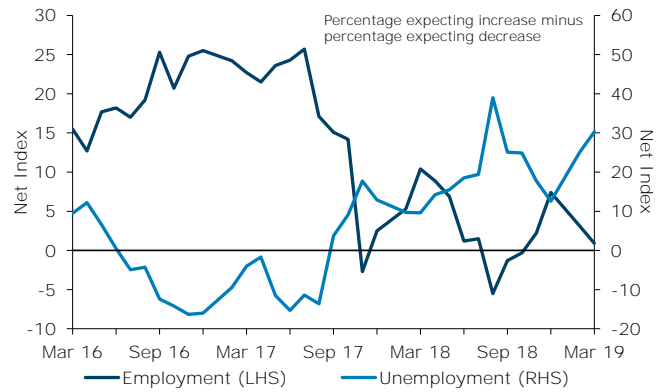
Construction intentions



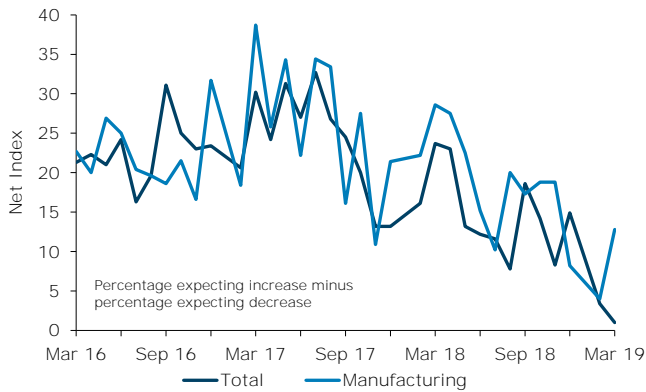
Activity outlook index



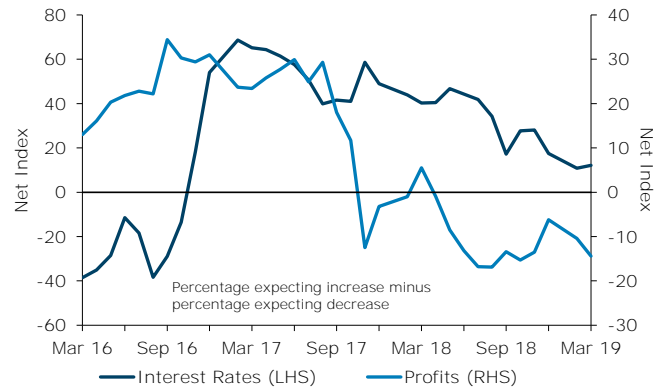
Labour market outlook



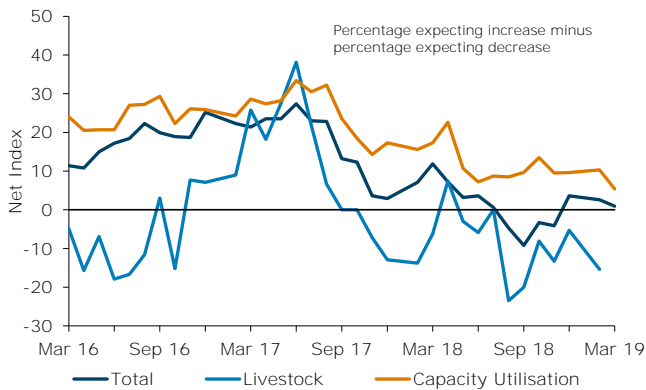
Export sales volumes



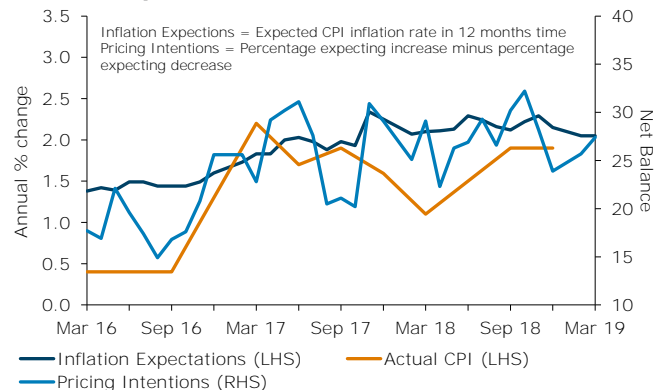
Financial outlook



Investment intentions



Inflation expectations



Source: ANZ, Statistics NZ



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