

ANZ New Zealand Business Outlook

30 April 2019



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The next issue of the ANZ *Business Outlook* is scheduled for release on 29 May 2019 at 1pm.

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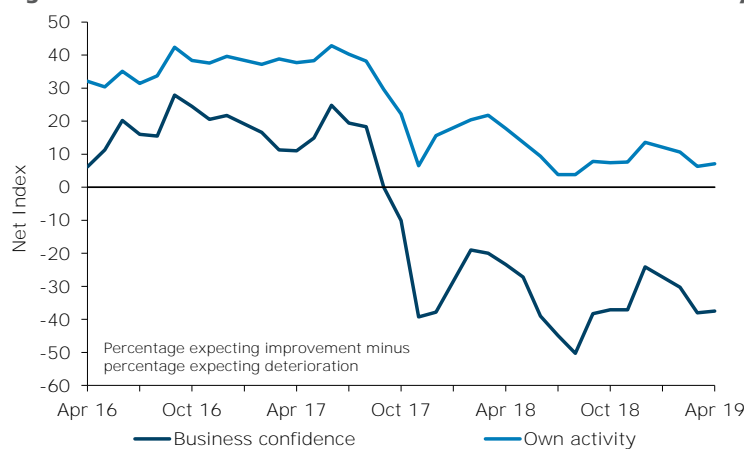
Key points

- Most ANZ Business Outlook activity indicators were little changed in April. Business confidence was flat at -38, while **firms' views of their own activity** rose 1 point to a net 7% of firms expecting a lift.
- Pricing intentions were flat and reported cost pressures eased, but profitability expectations only lifted 1 point and remain negative. A net 30% of respondents anticipate lower interest rates.
- Residential construction intentions fell again. The survey period excludes any meaningful impact from the ruling out of a capital gains tax.

In the April ANZ Business Outlook Survey headline business confidence was flat with a net 38% of respondents reporting that they expect general business conditions to deteriorate in the year ahead.

Firms' expectations for their own activity lifted 1 point to a net 7% expecting a lift. Agriculture is now the most optimistic sector, while retail remains the least.

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



Source: ANZ

Turning to the detail:

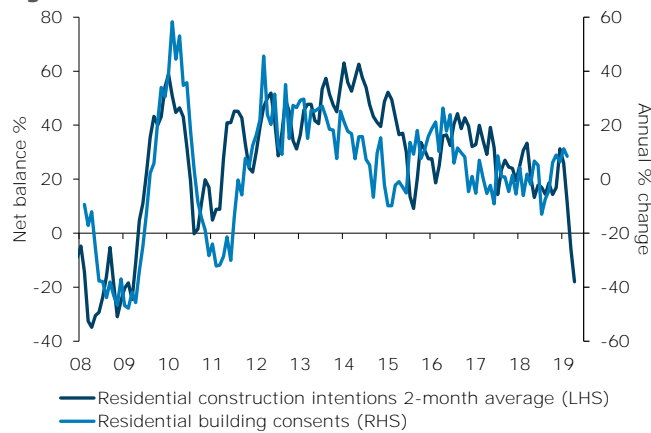
- A net 2% of firms are expecting to lift investment, up 1 point.
- Employment intentions rose 3 points to +4%. Capacity utilisation fell 1 point.
- Profit expectations rose 1 point to a net 13% expecting profit to decline.
- A net 35% expect it to be tougher to get credit, a 5 point improvement.
- **Firms' pricing intentions** were unchanged at +27%. Inflation expectations were little changed at 2.04%. A net 47% of firms expect higher costs, led by agriculture and retail, the latter likely reflecting the minimum wage increase.¹
- Commercial construction intentions bounced but residential fell further.
- Export intentions lifted 1 point.

¹ A change to the question wording means this result is not comparable to last month.

Most ANZ Business Outlook activity indicators were little changed in April, at levels that suggest the economy is experiencing something of a soft patch. Residential building intentions in particular remain worryingly low, falling 4 points to a net 20% expecting lower activity, the lowest since 2009.

There is no political bias evident in the historical relationship between these intentions and building consents, but strengthening public sector activity may mean that the fall in actual residential building activity is not as large as the chart might suggest. In addition, the ruling out of a capital gains tax came too late to have any meaningful impact on the results, but it will be interesting to see if there is a bounce next month.

Figure 2: Residential construction intentions and residential building consents

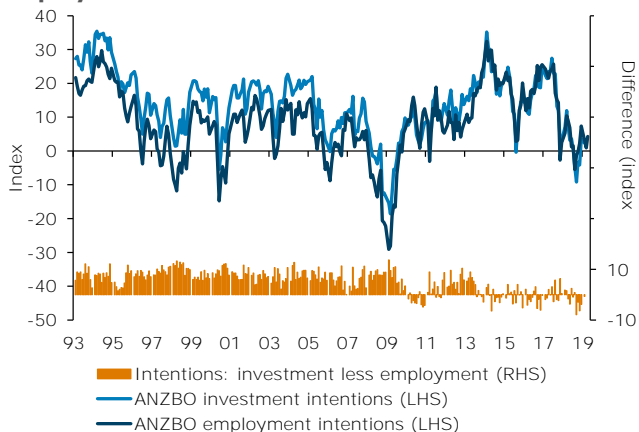


Source: Statistics NZ, ANZ Research

Export intentions remain very weak, but with data out of China lifting of late as policy stimulus gains traction and with the NZD lower, the near-term outlook for the export sector is arguably improving.

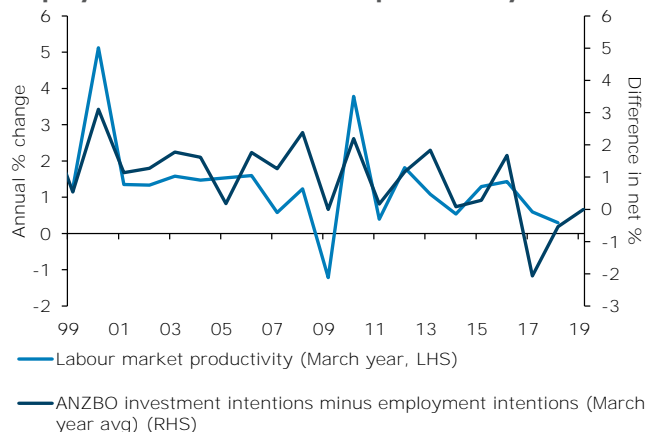
Firms can increase output by either lifting employment, or investing in capital, or some combination of the two. Over this business cycle firms have opted more heavily for labour than is typical, particularly in the past five years (orange bars, figure 3). This has absorbed the very large growth in the labour supply New Zealand has experienced via net immigration. However, it does have unfortunate implications for productivity growth, which is what drives real wage and wealth gains on a per capita basis over the medium to long term. The difference between ANZBO investment intentions and employment intentions is consistent with the broad downward trend in official labour productivity data.

Figure 3: ANZBO investment intentions and employment intentions



Source: Statistics NZ, ANZ Research

Figure 4: Difference between ANZBO investment and employment intentions versus productivity



The New Zealand economy is experiencing a soft patch that is proving reasonably long-lasting. GDP growth has steadily declined and we expect this to remain the case out to the middle of this year, based on leading indicators such as our ANZ Business Outlook survey and the ANZ Light Traffic Index. However, beyond that, easier monetary conditions and policy certainty should see momentum recover, assuming the global outlook continues to improve.

At the same time, cost pressures are expected to dissipate as capacity pressures **wane, reducing the pressure on firms' profitability. But inflation is not yet where it** needs to be and activity indicators are yet to turn upwards. Accordingly, we expect the RBNZ to cut the OCR, starting in August, to support the outlook for both growth and inflation. A net 30% of firms are now expecting lower interest rates, versus 12% last month expecting rates to lift.

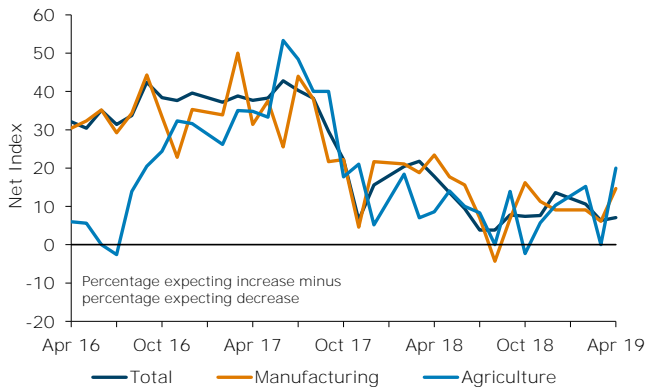
Survey Results April 2019

Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-37.5	-38.0	-44.2	-25.8	-62.9	-30.4	-35.5
Activity Outlook	7.1	6.3	-7.5	14.7	20.0	0.0	7.0
Exports	1.5	1.0	-7.4	8.7	18.5	0.0	-6.7
Investment	1.5	0.9	-1.9	7.6	-8.6	-13.0	4.3
Costs	46.6	55.3	52.8	43.3	67.6	26.1	43.5
Capacity Utilisation	4.2	5.4	7.3	16.9	9.7	-4.8	-2.3
Residential Construction	-20.0	-16.0	-20.0	...
Commercial Construction	15.8	-4.5	15.8	...
Employment	4.3	0.9	-2.0	10.3	-11.4	0.0	7.6
Unemployment Rate	36.1	30.3	37.7	33.8	40.0	17.4	38.5
Profits	-13.0	-14.4	-26.4	-2.9	-25.7	-4.3	-11.1
Interest Rates	-29.9	12.1	-19.2	-19.1	-11.4	-26.1	-40.8
Pricing Intentions	26.7	27.4	34.0	30.9	22.9	17.4	25.9
Ease of Credit	-35.1	-40.0	-24.5	-26.6	-51.5	-30.4	-39.9
Inflation Expectations	2.04	2.05	2.17	2.11	2.36	1.65	1.95

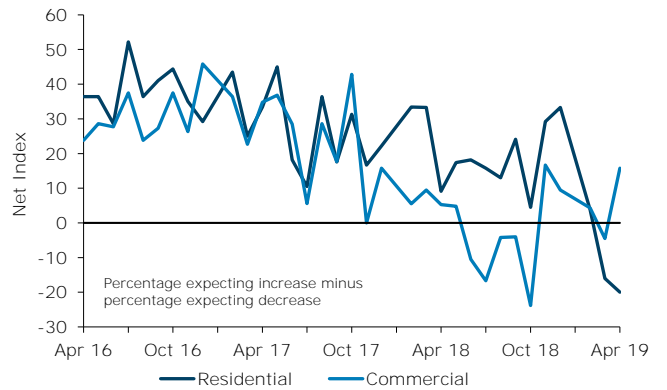


Charts

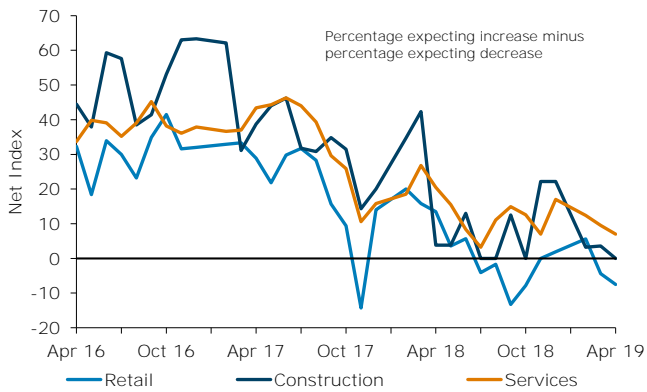
Activity outlook index



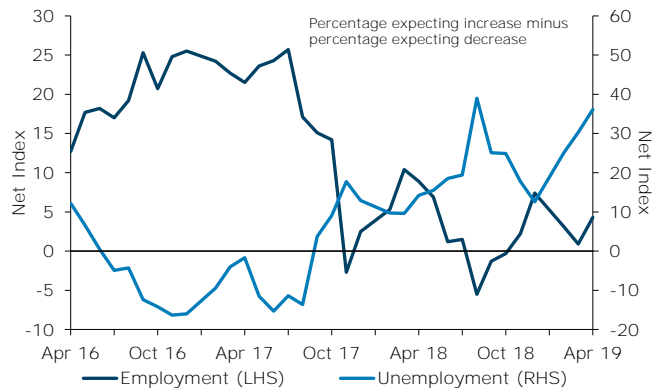
Construction intentions



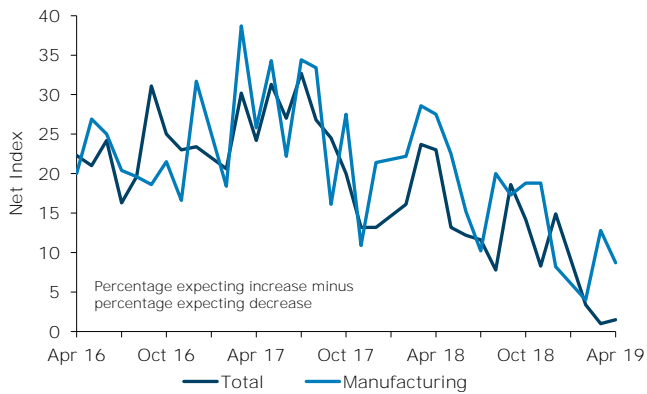
Activity outlook index



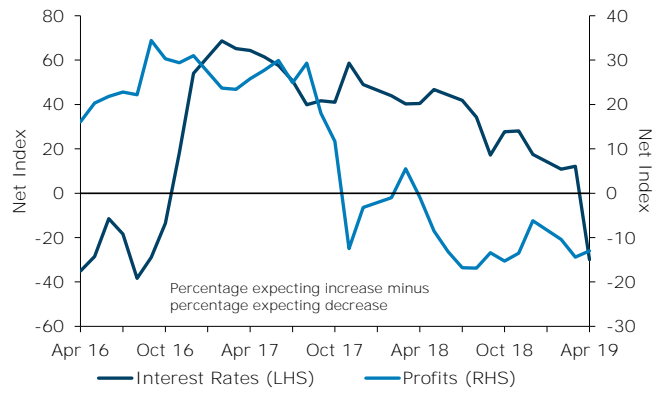
Labour market outlook



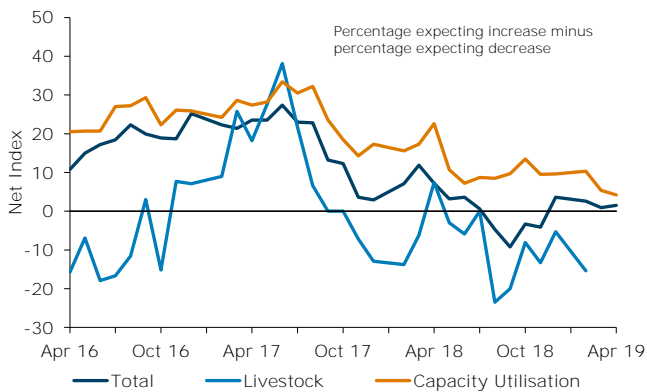
Export sales volumes



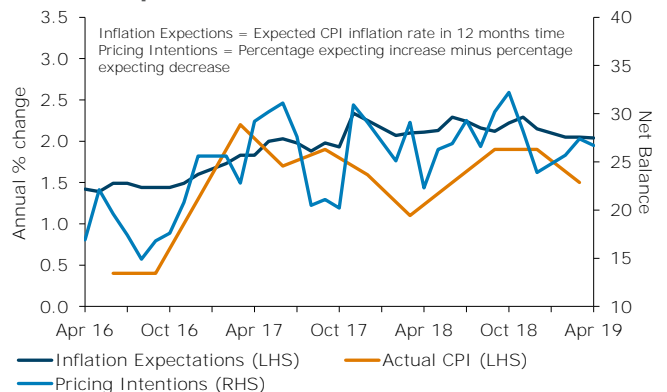
Financial outlook



Investment intentions



Inflation expectations



Source: ANZ, Statistics NZ



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