

ANZ New Zealand Business Outlook

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The next issue of the ANZ *Business Outlook* is scheduled for release on 27 June 2019 at 1pm.

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A decidedly mixed bag

Key points

- **Headline business confidence (up 6 to net -32%) and firms' views of their own activity (up 2 to net +9%) lifted in May's ANZ Business Outlook**, but other activity indicators were a mixed bag.
- Pricing intentions and reported cost pressures lifted a touch, but inflation expectations fell to their lowest level since early 2017 (1.8%).
- Residential construction intentions fell sharply again despite the ruling out of a capital gains tax. Employment intentions in the construction sector also fell sharply, to their lowest level since 2009.

In the May ANZ Business Outlook Survey headline business confidence lifted 6 points, with a net 32% of respondents reporting that they expect general business conditions to deteriorate in the year ahead.

Firms' expectations for their own activity lifted 2 point to a net 9% expecting a lift. Manufacturing is the most optimistic sector; construction is now the least.

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



Source: ANZ Research

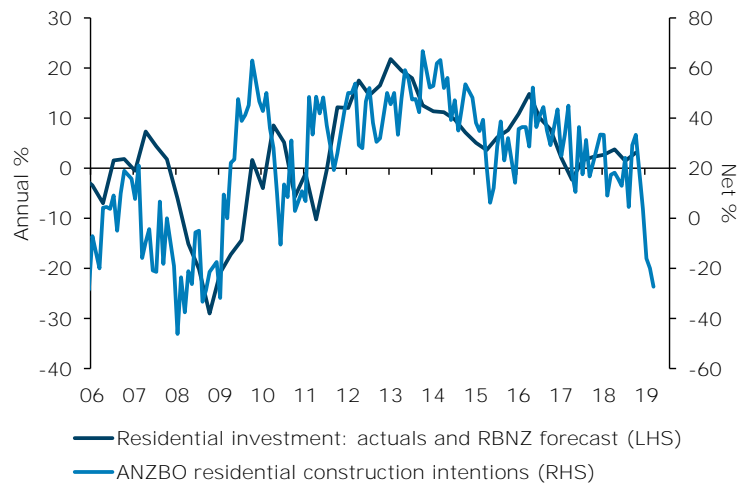
Turning to the detail:

- A net 3% of firms are expecting to lift investment, up 1 point.
- Employment intentions fell 4 points to 0. Capacity utilisation rose 1 point.
- Profit expectations rose 3 points to a net 10% expecting profit to decline.
- A net 36% of firms expect it to be tougher to get credit, down 1 point.
- **Firms' pricing intentions** lifted 2 points to +29%. A net 50% of firms expect higher costs, led by agriculture. However, inflation expectations fell to 1.81%, the lowest since early 2017.
- Commercial construction intentions fell 12 points and residential fell 7 points to a fresh 10-year low.
- Export intentions fell 2 points.

Most ANZ Business Outlook activity indicators were little changed in May, at levels consistent with the slower growth the economy is experiencing. The main red flag in the survey is residential building intentions. These fell sharply yet again, down another 7 points to a net 27% expecting lower activity, the weakest since 2009. The signal is no longer isolated to this one data series – employment intentions in the construction sector fell from flat to a net 22% of firms intending to cut jobs.

The fall came despite the ruling out of a capital gains tax. What to make of it? New Zealand needs more houses, but the construction sector is facing cash-flow and credit constraints. Despite the small sample, the data has been a pretty good indicator and suggests significant downside risk to the residential investment outlook.

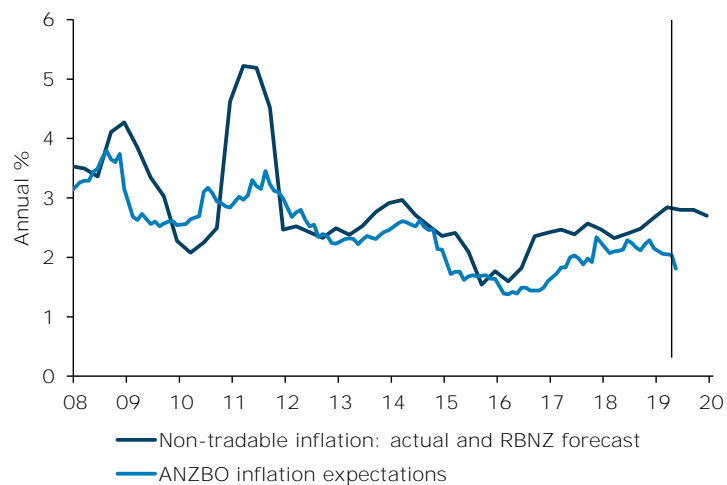
Figure 2: Residential construction intentions and residential investment



Source: Statistics NZ, RBNZ, ANZ Research

Inflation indicators out of the survey were mixed. Both pricing intentions and reported cost pressures rose slightly, but the fall in inflation expectations from 2.04% to 1.81% took it to the lowest level since early 2017. As figure 3 shows, inflation expectations more often follow inflation than lead it, but expectations entrenched away from the target would present a challenge for monetary policy. The recent fall to just under target may be related to the OCR cut in May and the associated commentary that more stimulus was required to deliver inflation at the 2% target midpoint over the medium term.

Figure 3: ANZBO inflation expectations and RBNZ CPI forecast



Source: Statistics NZ, RBNZ, ANZ Research

The economy has cooled considerably over the past couple of years. The ANZ Light Traffic Index suggests weakness will continue to mid-year. Beyond that, the lower exchange rate and interest rates should see momentum recover, assuming the global outlook and the terms of trade do not deteriorate. But how quickly the economy will bounce back is a key question. If the forward indicators start to suggest that the **Reserve Bank's relatively sharp V-shaped recovery** is overly optimistic, it will be game on for further OCR cuts this year.

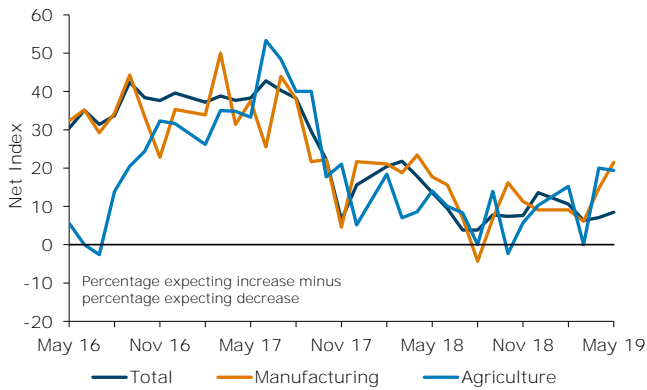
Survey Results May 2019

Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-32.0	-37.5	-24.1	-26.6	-63.9	-21.4	-31.6
Activity Outlook	8.5	7.1	0.0	21.5	19.4	-7.1	6.2
Exports	0.0	1.5	-11.8	0.0	28.0	-7.1	-3.2
Investment	2.9	1.5	3.8	11.5	-11.1	-10.7	4.8
Costs	49.7	46.6	43.6	53.8	72.2	46.4	46.0
Capacity Utilisation	5.4	4.2	-8.7	13.2	4.0	13.6	6.2
Residential Construction	-27.3	-20.0	-27.3	...
Commercial Construction	4.2	15.8	4.2	...
Employment	-0.3	4.3	-9.1	6.2	-2.9	-22.2	4.0
Unemployment Rate	31.9	36.1	40.0	36.9	36.1	17.9	27.7
Profits	-9.6	-13.0	-12.7	4.6	-11.1	-17.9	-12.4
Interest Rates	-26.7	-29.9	-29.6	-27.0	-13.9	-25.9	-27.1
Pricing Intentions	28.5	26.7	34.5	38.5	28.6	17.9	25.4
Ease of Credit	-36.3	-35.1	-25.5	-26.7	-42.4	-21.4	-44.4
Inflation Expectations	1.81	2.04	1.75	1.91	2.05	1.88	1.74

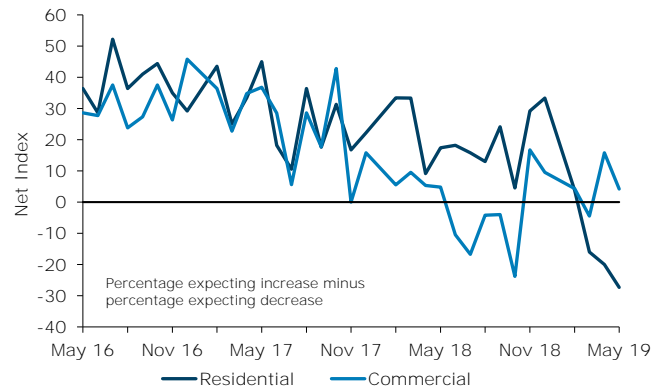


Charts

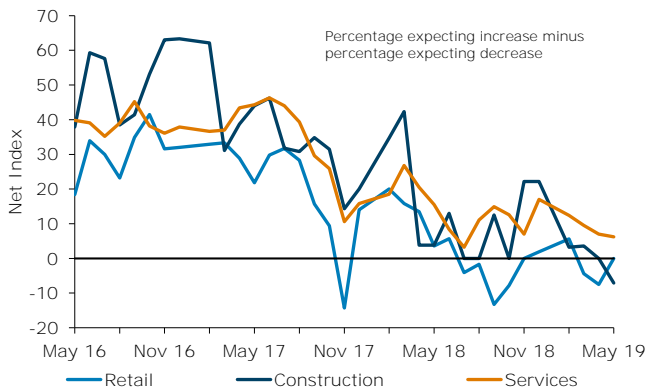
Activity outlook index



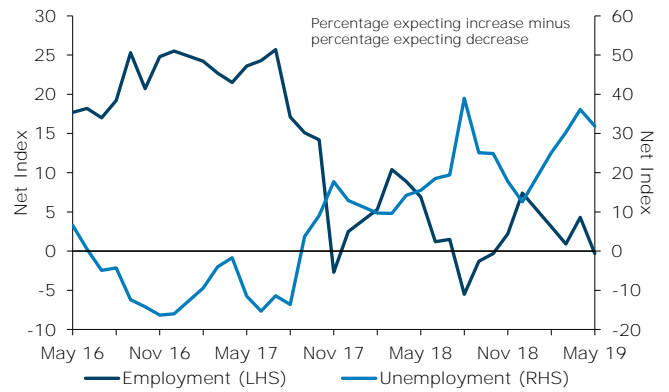
Construction intentions



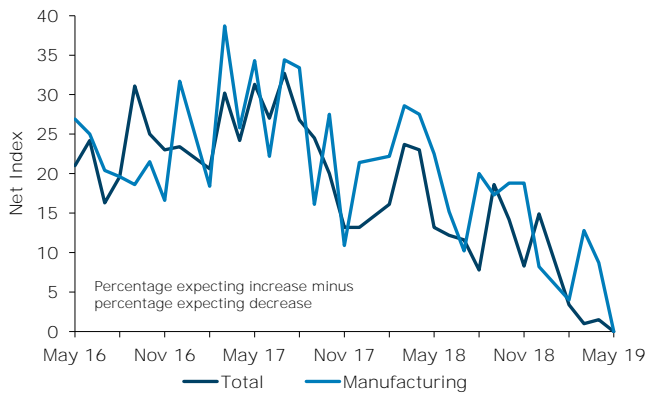
Activity outlook index



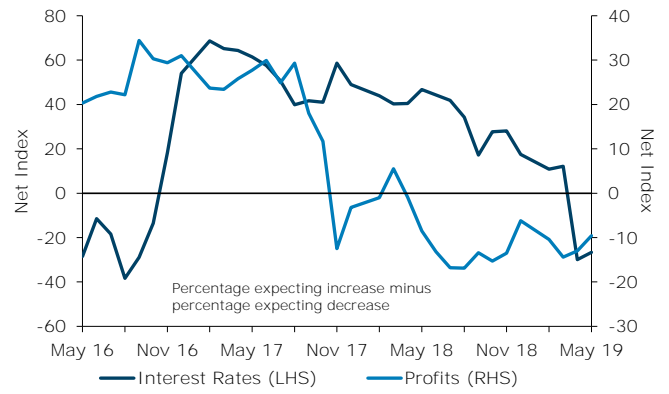
Labour market outlook



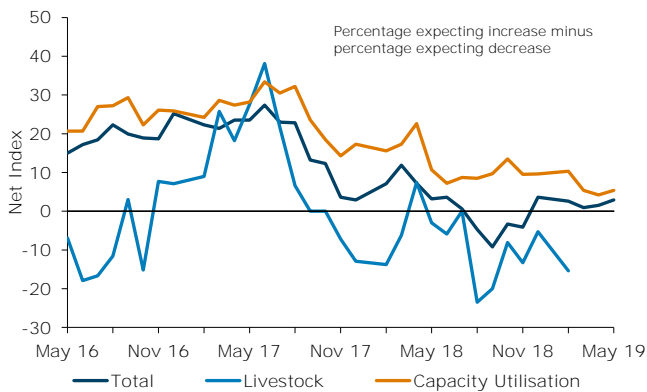
Export sales volumes



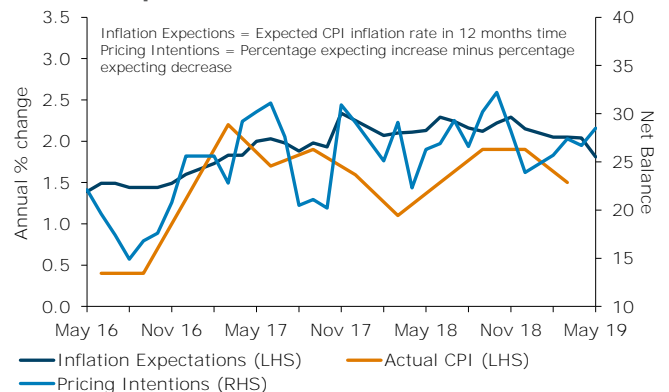
Financial outlook



Investment intentions



Inflation expectations



Source: ANZ, Statistics NZ



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