

ANZ New Zealand Business Outlook

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

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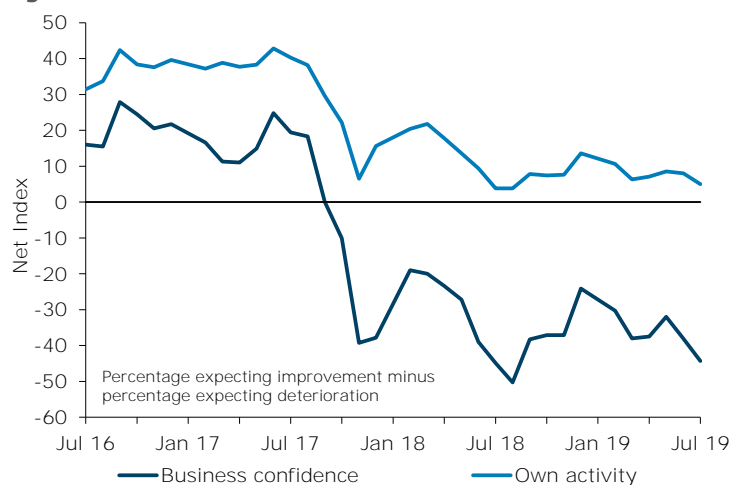
Key points

- **Headline business confidence** fell 6 points to net -44% in July's ANZ Business Outlook. **Firms' views of their own activity** fell 3 points to +5%, the lowest read since August last year. Other activity indicators were also weaker.
- Inflation indicators were slightly weaker while pricing intentions were unchanged. Reported cost pressures fell 3 points, and inflation expectations eased slightly.
- Residential construction intentions fell back into negative territory. Employment intentions and profitability expectations for the construction sector plummeted to the lowest since 2009.

In the July ANZ Business Outlook Survey headline business confidence fell 6 points, with a net 44% of respondents reporting that they expect general business conditions to deteriorate in the year ahead.

Firms' expectations for their own activity fell 3 points to a net 5% expecting a lift.

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



Source: ANZ Research

Turning to the economy-wide detail:

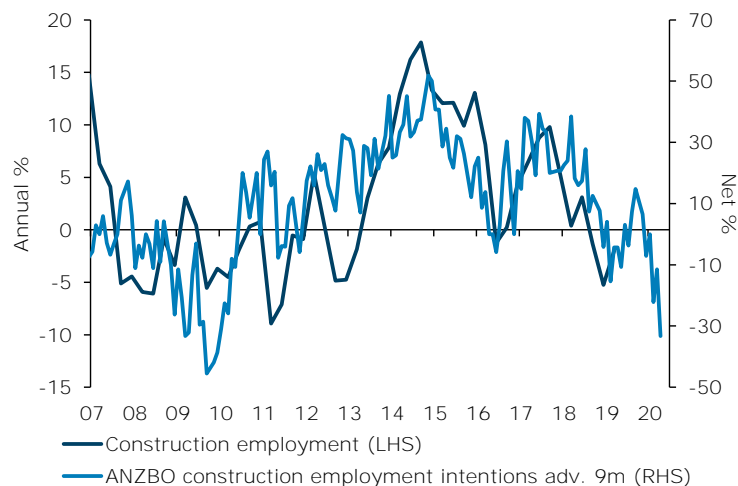
- Employment intentions fell from 0 to a net 6% of firms expecting to cut jobs. Investment intentions fell 3 points to flat. Capacity utilisation, which has one of the most reliable correlations in the survey to annual GDP growth, fell 5 points to 0, its lowest read since 2009.
- Profit expectations fell 3 points to a net 16% expecting profitability to decline.
- A net 42% of firms expect it to be tougher to get credit, down 2 points to a fresh record low since the series began in 2009. Agriculture fell to -69%.
- **Firms' pricing intentions** were unchanged at a net 23% of firms expecting to raise prices. A net 47% of firms expect higher costs, down 3. Inflation expectations eased 0.1%pts to 1.8%.

- Commercial construction intentions plunged 25 points, while residential intentions fell back into negative territory at -16%. Signals out of the construction sector are deteriorating rapidly.
- Export intentions fell 4 points to a net 1% of firms intending to lift exports.

Most ANZ Business Outlook activity indicators fell in July to weak levels. The main theme this month was a sharp deterioration in sentiment in the construction sector across a wide range of indicators.

Residential building intentions fell back into negative territory and were accompanied by a sharp fall in commercial building intentions. These data are volatile, but clearly indicate a marked fall in building activity ahead. A net 33% of firms in the construction sector are intending to cut jobs, no doubt explained by the fact that the same net percentage of firms in the sector expect lower activity. The sector has the weakest profitability expectations across the economy too, with a net 38% expecting deteriorating profits, the weakest since 2009. While the sample is small, the survey has a solid track record of anticipating developments in the sector. The construction sector currently employs 240,000 people, some 9% of total employment, making it a meaningful driver of broader employment trends.

Figure 2: Construction sector employment intentions and construction sector employment



Source: Statistics NZ, ANZ Research

The outlook for the broader labour market is also deteriorating: although the construction sector is far more negative than the rest, employment intentions are now negative in every sector. The services sector was the last domino to fall; the net -1% this month is the lowest since late 2009.

The outlook for the economy is deteriorating. Despite generally good commodity prices and interest rates at record lows, the headwinds of a global slowdown and credit and cost constraints appear to be winning out. With the inflation outlook not consistent with the target midpoint we expect two more OCR cuts this year, helping the economy to find its feet once more.

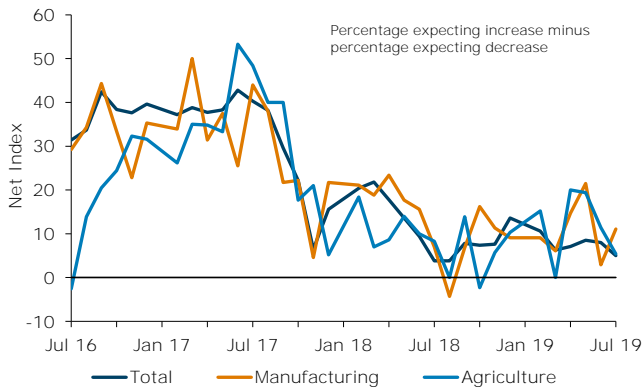
Survey Results July 2019

Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-44.3	-38.1	-30.4	-39.4	-78.4	-56.5	-39.9
Activity Outlook	5.0	8.0	-10.6	11.1	5.4	-33.3	11.2
Exports	1.4	5.3	-8.3	5.6	12.9	-9.1	0.0
Investment	-0.3	2.5	15.2	4.3	-8.6	-4.3	-4.5
Costs	46.7	49.7	51.1	41.7	62.2	29.2	47.2
Capacity Utilisation	0.4	5.3	-2.9	1.6	9.4	-5.6	0.0
Residential Construction	-15.8	0.0	-15.8	...
Commercial Construction	-20.0	4.8	-20.0	...
Employment	-5.5	0.0	-4.3	-6.9	-5.4	-33.3	-1.1
Unemployment Rate	33.6	35.9	34.8	42.3	48.6	29.2	25.7
Profits	-16.3	-12.5	-23.4	-14.1	-32.4	-37.5	-7.8
Interest Rates	-44.3	-30.1	-43.5	-38.9	-27.8	-50.0	-48.0
Pricing Intentions	22.5	22.6	29.8	23.6	13.5	29.2	22.2
Ease of Credit	-41.7	-40.0	-27.7	-39.1	-68.6	-41.7	-41.5
Inflation Expectations	1.81	1.87	1.76	1.97	1.95	1.56	1.80

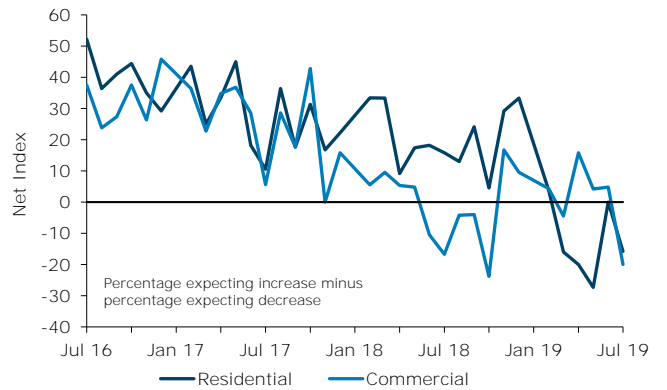


Charts

Activity outlook index



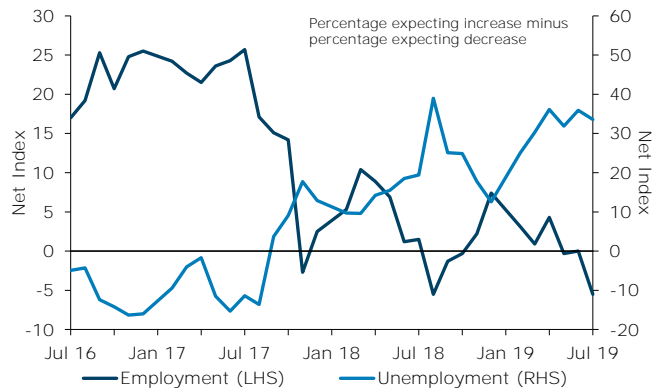
Construction intentions



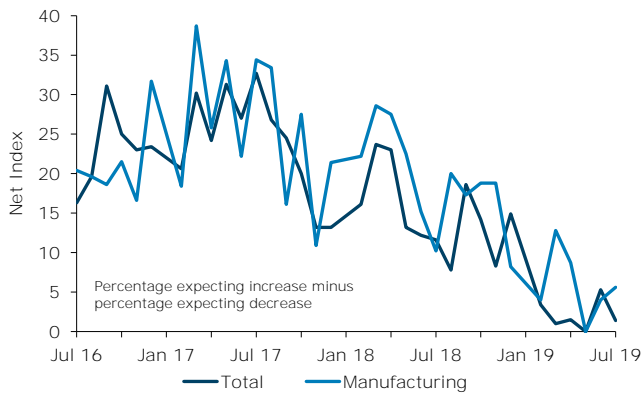
Activity outlook index



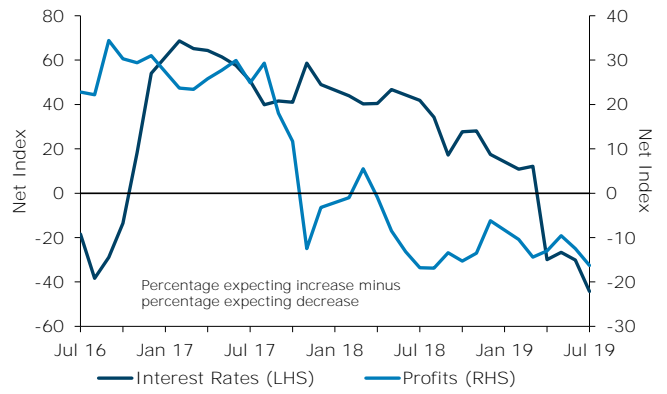
Labour market outlook



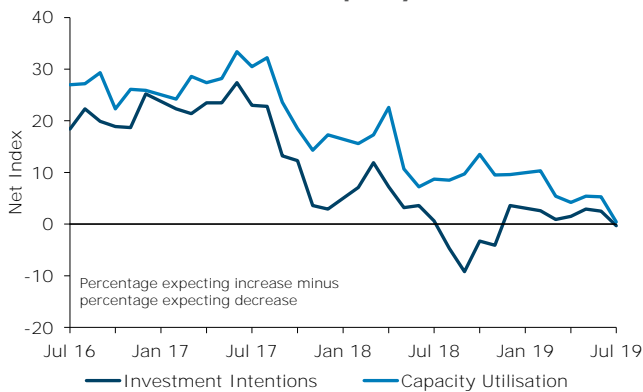
Export sales volumes



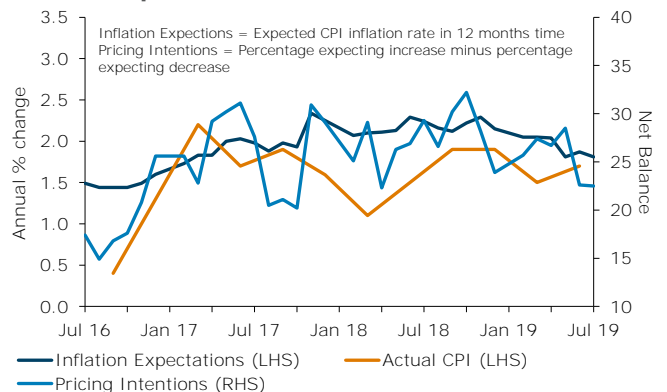
Financial outlook



Investment intentions and capacity utilisation



Inflation expectations



Source: ANZ, Statistics NZ



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