

ANZ New Zealand Business Outlook

30 September 2019



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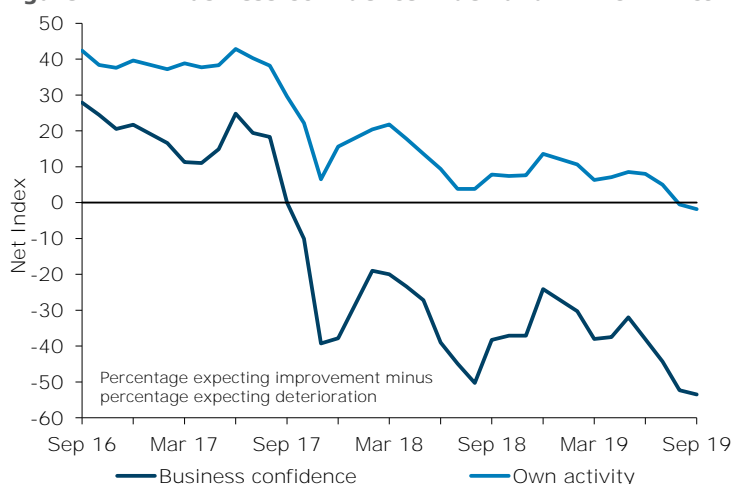
Key points

- **Headline business confidence fell 2 points to -54% in the September ANZ Business Outlook. Firms' views of their own activity fell 1 point to -2%.**
- Investment intentions and profit expectations both fell to dismal levels. Employment intentions eked out a 1 point gain but are very low.
- Costs, pricing intentions, and inflation expectations were all weaker.

In the September ANZ Business Outlook Survey headline business confidence fell 2 points, with a net 54% of respondents reporting that they expect general business conditions to deteriorate in the year ahead, the lowest since April 2008.

Firms' expectations for their own activity over the year ahead fell 1 point to -2, the fourth fall in a row, and the lowest read since April 2009.

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



Source: ANZ Research

Turning to the detail:

- Employment intentions rose 1 point to a net 8% of firms intending to reduce employment. Investment intentions fell 5 points to -9, revisiting its lows of a year ago. Capacity utilisation fell 1 point and is near decade lows.
- Profit expectations fell 5 points to a net 25% of respondents expecting profitability to decline, the lowest since April 2009.
- A net 40% of firms expect it to be tougher to get credit, up 1.
- Price-side indicators were weak. Pricing intentions fell 2 points to a net 18% of firms expecting to raise prices. Cost pressures fell 2 points to +47. Inflation expectations fell from 1.70% to 1.63% – they have fallen half a percent this year to be well under the 2% CPI target midpoint.
- Commercial construction intentions fell 9 points to -13; residential construction intentions fell 15 points to -19. Both remain negative.
- Export intentions rose 3 points to a net 2% of firms expecting exports to lift. This is quite muted considering the size of the fall in the exchange rate.

Most ANZ Business Outlook activity indicators fell again in September. The moves were relatively small in most cases, and are the continuation of a theme. However, what is emerging in the survey now is weakness in key inflation indicators.

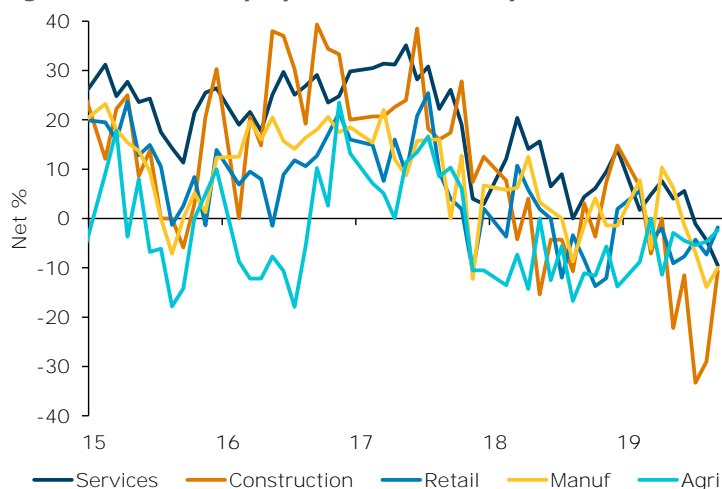
- Inflation expectations slipped again, and at 1.63% are now well below the 2% midpoint of the RBNZ’s CPI inflation target band. They were over 2% just five months ago but are now the lowest since December 2016. Declining inflation expectations were cited as a reason for the large OCR cut last month.
- Pricing intentions fell again, and are the lowest since October 2016. Only a net 18% of firms expect to raise their prices over the coming 3 months, even though a net 47% are reporting higher costs. For CPI inflation the retail sector is key. Here, 62% of retail firms are reporting higher costs (down from 69% last month), but only 40% are intending to raise their prices. These are the strongest pricing intentions across the economy, but are down from 49% in October last year.
- The combination of high cost pressures but limited pricing power is showing up in expected profitability (the lowest since 2009) and weak investment intentions.

The Reserve Bank will be disappointed that its unexpectedly large 50bp cut in the Official Cash Rate last month does not appear to have had much impact on **business’ sentiment or investment and employment intentions**.

The backbone of the New Zealand economy is still in place – commodity prices are still decent; population growth is positive; monetary conditions have eased. But the prolonged lack of confidence is starting to feed its way through the economy and is threatening the tight labour market.

One positive is that construction sector employment intentions have bounced back, though they are still negative. Construction accounts for 9% of employment. But there is still no sector of the economy that reports on net that it is planning on hiring more staff – **that hasn’t happened since 2009**. And the services sector, which employs a hefty 74% of people across the economy, is now also capitulating. This gradual but prolonged economic slowdown is at risk of ceasing to be about the data and starting to become about the people.

Figure 2. ANZBO employment intentions by sector



Source: ANZ Research

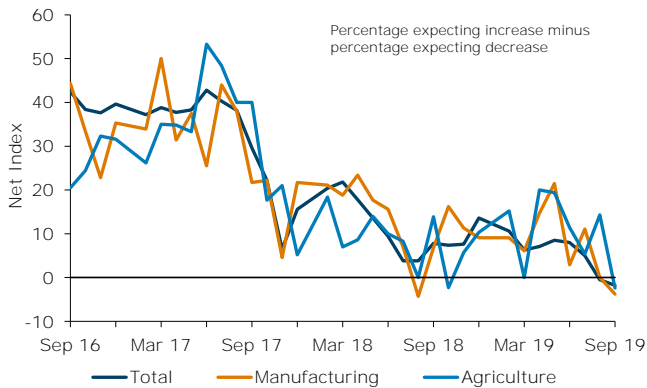
Survey Results September 2019

| Net Balance | Total | Previous | Retail | Mfg | Agric | Constrn | Services |
|--------------------------|-------|----------|--------|-------|-------|---------|----------|
| Business Confidence | -53.5 | -52.3 | -52.8 | -46.2 | -75.6 | -55.2 | -50.3 |
| Activity Outlook | -1.8 | -0.5 | -1.9 | -3.8 | -2.4 | -7.1 | -0.6 |
| Exports | 2.1 | -0.8 | -3.1 | 13.1 | 8.3 | 0.0 | -6.6 |
| Investment | -8.9 | -3.9 | -3.7 | -6.8 | -28.6 | -10.7 | -6.7 |
| Costs | 47.3 | 49.2 | 61.8 | 48.1 | 57.1 | 57.1 | 39.7 |
| Capacity Utilisation | 1.9 | 3.2 | -2.3 | 4.1 | 7.7 | 4.8 | 0.0 |
| Residential Construction | -19.2 | -4.0 | ... | ... | ... | -19.2 | ... |
| Commercial Construction | -12.5 | -4.0 | ... | ... | ... | -12.5 | ... |
| Employment | -7.8 | -8.9 | -1.8 | -10.0 | -2.4 | -10.7 | -9.5 |
| Unemployment Rate | 46.3 | 47.6 | 48.1 | 43.8 | 53.7 | 37.9 | 45.1 |
| Profits | -24.6 | -19.5 | -30.9 | -20.0 | -43.9 | -7.1 | -22.0 |
| Interest Rates | -54.6 | -58.8 | -48.1 | -51.9 | -52.5 | -65.5 | -58.0 |
| Pricing Intentions | 18.0 | 20.3 | 40.0 | 13.8 | -7.1 | 32.1 | 16.1 |
| Ease of Credit | -39.6 | -40.6 | -27.5 | -26.3 | -56.1 | -31.0 | -46.9 |
| Inflation Expectations | 1.63 | 1.70 | 1.60 | 1.72 | 1.64 | 1.74 | 1.58 |

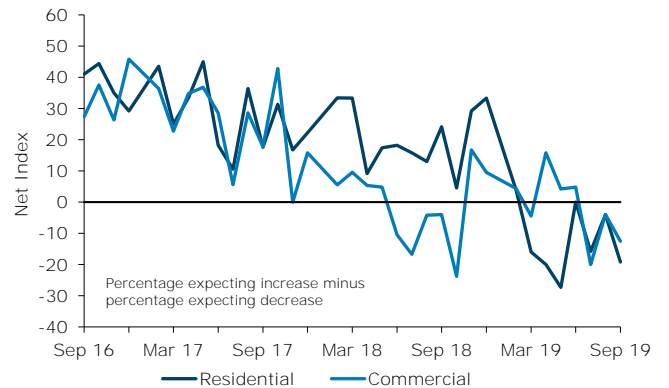


Charts

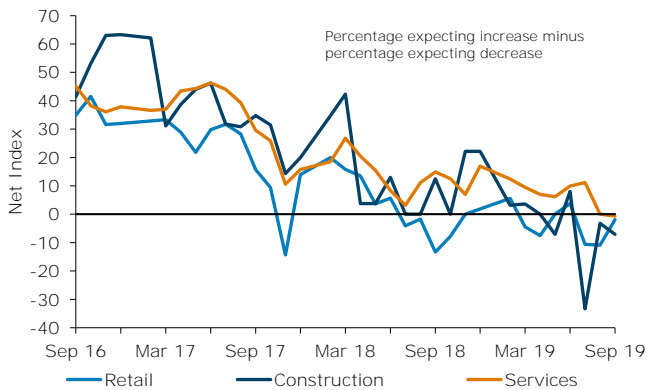
Activity outlook index



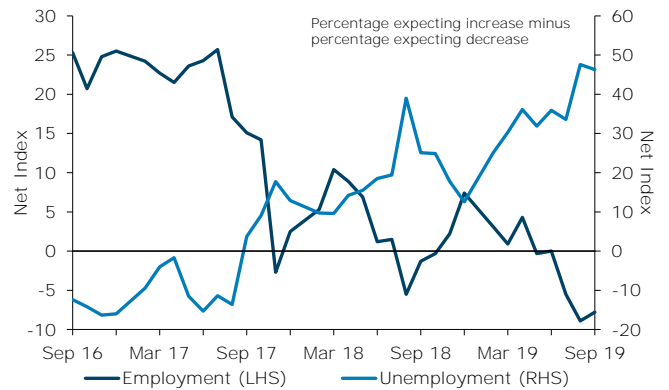
Construction intentions



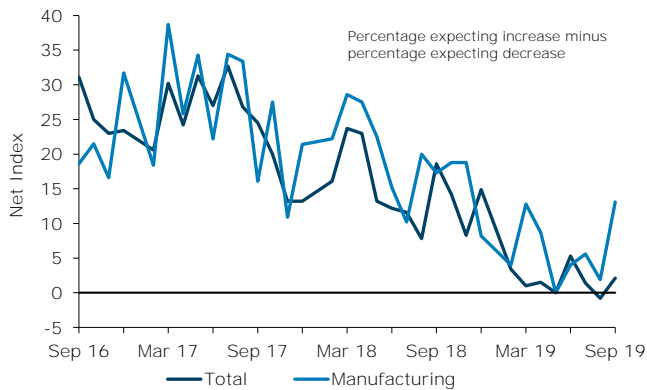
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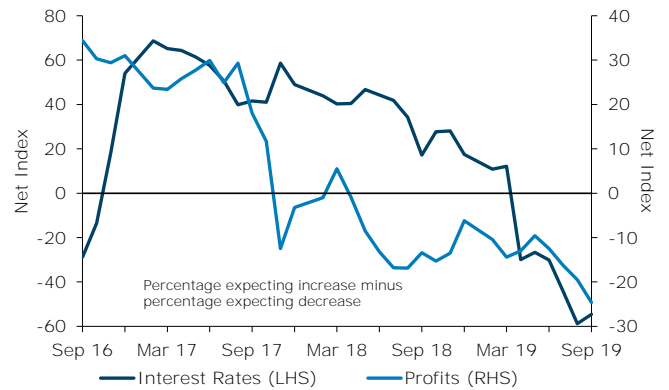
Labour market outlook



Export sales volumes



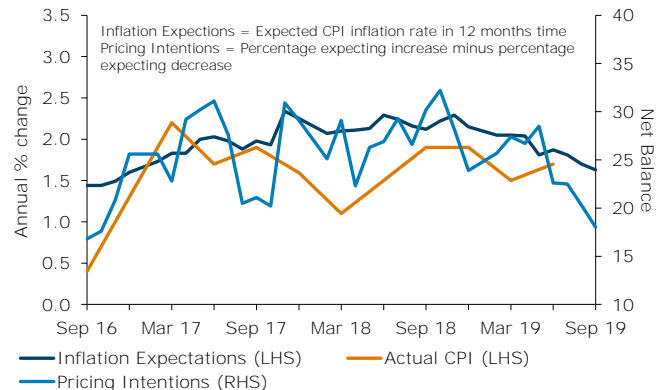
Financial outlook



Investment intentions and capacity utilisation



Inflation expectations



Source: ANZ, Statistics NZ



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