Happier

Key points

- Both headline business confidence and own activity made double digit jumps to the highest levels this year. Agriculture and retail are leading the charge.

- All activity indicators rose. Cost and pricing indicators remain mixed.

The November ANZ Business Outlook Survey was much stronger across the board. Headline business confidence jumped 16 points to a net 26% of respondents reporting that they expect general business conditions to deteriorate in the year ahead. While still not a great level, this is the highest read this year.

Firms’ expectations for their own activity over the year ahead, a better economic indicator, rose 17 points to +13. This is also the strongest read in 2019.

Turning to the detail:

- Employment intentions rose 12 points to a net 3% of firms intending to lift employment. Investment intentions rose 12 points to +6%, with lifts across every sector. Capacity utilisation rose 5 points to +5%.

- Profit expectations jumped 16 points. It remains in the red at a net 5% expecting lower profitability but that’s the strongest read in 19 months.

- Commercial construction intentions rose 6 points to +6; residential lifted 13 points to +8. But the construction sector is still planning to cut jobs.

- Export intentions rose 1 point to +1. Expected availability of credit rose 5 points but a net 31% of firms are still expecting credit to be harder to get.

- A net 45% of firms expect higher costs (down 3), the lowest print since we started asking the question in April.

- Pricing intentions were unchanged with a net 24% of firms expecting to raise prices, but they bounced back in the retail sector (+38%). Inflation expectations were up 0.1%pts to 1.72%.
There was a broad-based lift across the ANZ Business Outlook survey this month. While the increase was widespread across the survey metrics, there are some interesting themes by both sector and region.

The **agriculture** sector is feeling much happier. Although the changes to water regulation are causing concern, the combination of a weaker NZD, stronger meat and dairy prices, and an ETS lifeline have seen a sharp rise in sentiment. Expected own activity leapt 31 points to +26, its highest level since September 2017 and the highest economy-wide. The sector’s employment intentions (+6) are the second-strongest across the economy, but investment intentions at -11% remain the weakest – indeed, it’s the only sector that still has a negative read on investment intentions. While the sector’s costs remain elevated (the highest economy-wide, with a net 60% of firms expecting higher costs), the sector nonetheless has the equal-top expected profitability, with respondents equally split on whether profitability is going to rise or fall. That’s up a hefty 27 points. Agriculture’s export intentions also rose 22 points to +19. The combination of a weaker NZD and higher commodity prices is a rare but powerful one that is providing a valuable offset to other sources of uncertainty.

The lift in the housing market appears to be feeding through to the **retail** sector, building on the base of decent real household income growth. Expected own activity jumped a whopping 34 points to +15 (and it’s not just Christmas: this data is not significantly seasonal). While a net 53% of firms in the sector still report higher expected costs, this is down from a peak of +69 in August as the increase in the minimum wage was now some months ago. Higher activity and lower cost pressure is a nice recipe for expected profitability: while a net 5% of firms in the sector still expect lower profitability this is a huge 39 point bounce, and the strongest read since April 2018.

The **construction** sector continues to send decidedly mixed signals. This month both commercial and residential construction intentions bounced into positive territory. As a cross-check, the sector’s expected own activity lifted 7 points as well, but at -2% it remains the weakest across the economy. A net 49% of construction firms are reporting higher expected costs; a net 15% foresee lower profitability, the weakest sector. Perhaps surprisingly, the sector has the lowest reported capacity utilisation (and it fell further this month), which helps explain why the sector is the only one still expecting to cut jobs – indeed, construction employment intentions fell slightly this month, going very much against the flow.

The results for the **manufacturing** sector echoed the stronger PMI, though the fall in export intentions was a marked contrast to agriculture. The **services** sector was pretty steady, which saw it shift from one of the least pessimistic sectors to middle of the pack as it was overtaken by bigger bounces elsewhere.
The regional data is prone to statistical noise due to small sample sizes in some areas but some clear themes are nonetheless evident:

- Auckland is more downbeat than the rest of the country (figure 4).
- Wellington remains the most optimistic of the three main centres;
- The North Island is more positive than the South;
- Business confidence in Southland has been hit by uncertainty about the future of Tiwai Point.

**Figure 4. Auckland vs. the rest of the country**

Source: ANZ Research

The improvement in the ANZ Business Outlook survey this month was broad and consistent. The significant easing in both interest rates and the exchange rate is clearly working its way through the economy, and the remarkable resilience of New Zealand’s commodity prices is providing an invaluable buffer to the world’s woes.

However, it is important to note that the activity indicators across the survey remain subdued in level terms, despite the bounce. Headwinds for businesses persist: credit availability, capacity constraints, elevated costs, uncertainty, vigorous competition, high household debt, and the awkward fact that our biggest trading partners appear to be in a spot of macroeconomic bother. This makes for a constrained growth outlook. But as we have long said, there is no reason for the New Zealand economy to go into recession as things stand:

- monetary conditions are significantly easier;
- the terms of trade are excellent (even if we’re riding our luck to some extent);
- there’s no sign of drought (touch wood);
- household real income growth is solid and unemployment low;
- consumers still think it’s a good time to go shopping; and
- net migration may be a bit more of a mystery these days but it is clearly contributing to growth; the question is just to what degree.

We continue to expect growth in the New Zealand economy to trough shortly and increase – albeit gradually – from here. Growth bottoming out around 2% would be a pretty good outcome. Firms have clearly been deeply concerned about the outlook, not without cause, and this has dampened investment and employment this year. The global economy absolutely could still throw a curve ball in our direction. But it appears that the vibe is changing to “getting on with it”. Good stuff.
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