ANZ Research

ANZ New Zealand Business Outlook

17 December 2019

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The next issue of the ANZ *Business Outlook* is scheduled for release on 27 February 2020 at 1pm.

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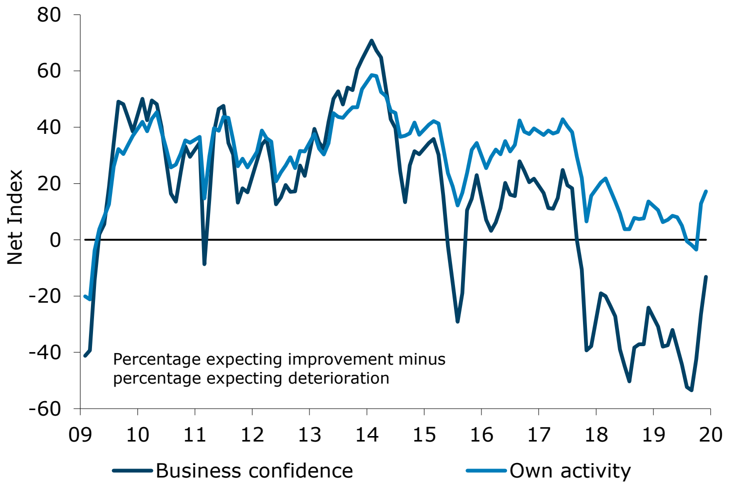
Key points

- Headline business confidence jumped another 13 points in December, while a net 17% of firms expect stronger activity ahead (up 4).
- The lifts in the manufacturing sector was particularly strong. Services and manufacturing are the most upbeat sectors; construction remains the least optimistic but is improving rapidly.
- All the main activity indicators rose except expected credit availability and residential construction intentions. Cost and pricing indicators are lifting.
- The main drivers for firms planning to lift investment are the domestic economic outlook, the level of spare capacity, and skilled labour shortages. Firms planning to cut investment cite the domestic economic outlook, central government policy and the global economic outlook as the three biggest drivers of their decision.

The December ANZ Business Outlook Survey was again stronger pretty much across the board. Headline business confidence jumped 13 points to a net 13% of respondents reporting that they expect general business conditions to deteriorate in the year ahead. While still negative, this is the highest read since October 2017.

Firms' expectations for their own activity, a better economic indicator, rose 4 points to a net 17% expecting higher activity over the year ahead. This is the strongest read since April 2018.

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



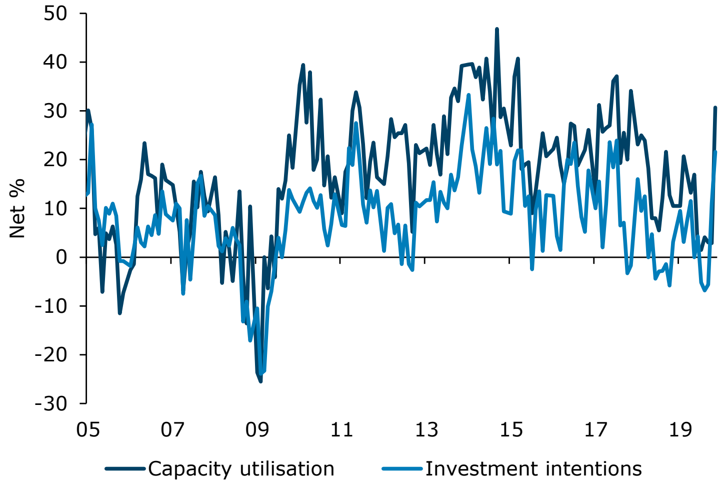
Source: ANZ Research

The lift in manufacturing was particularly notable, but the lift in the activity indicators was again quite broad-based. That said, the survey wasn't without its sour notes: expected availability of credit fell to its lowest level in at least ten years. There were some signs of incipient inflation pressure, with costs, pricing intentions, and inflation expectations all modestly higher.

Turning to the detail:

- **Employment** intentions rose 5 points to a net 8% of firms intending to lift employment. The services sector is the most in the mood to hire (+14), and agriculture and construction the least (though the latter was much improved at -5 versus -33 in July).
- **Investment** intentions rose 3 points to +9%, driven by a sharp lift in the manufacturing sector (up 11 to +22), which has had a dramatic turnaround. Investment intentions for the retail and agriculture sectors fell.
- **Capacity utilisation**, one of the best GDP indicators in the survey, jumped 10 points to +15%, again driven by manufacturing (up a sharp 28 points to +31, figure 2), but all sectors except agriculture rose.

Figure 2. Manufacturing sector capacity utilisation and investment intentions



Source: ANZ Research

- **Profit** expectations lifted 3 points to a net 2% expecting lower profitability.
- **Commercial construction** intentions rose 10 points to +16; **residential** gave up 5 points of last month's gain, falling to +3.
- **Export** intentions rose 6 points to +7, led by manufacturing, where intentions rose 24 points to +26%.
- Expected **availability of credit** fell 12 points to a net 43% of firms expecting credit to be harder to get, the lowest read since the question was first asked in June 2009. It is deeply negative across all sectors, but lowest for agriculture (-57%).
- A net 53% of firms expect higher **costs**, up 8 points to the highest read since we started asking the question in April. Construction is the sector most clearly trending up in the short data history for this question.
- **Pricing intentions** rose 3 points to a net 27% of firms expecting to raise prices. They are also the highest for manufacturing (34). **Inflation expectations** rose 0.04%pts to 1.76%, and appear likely to have bottomed out in October.

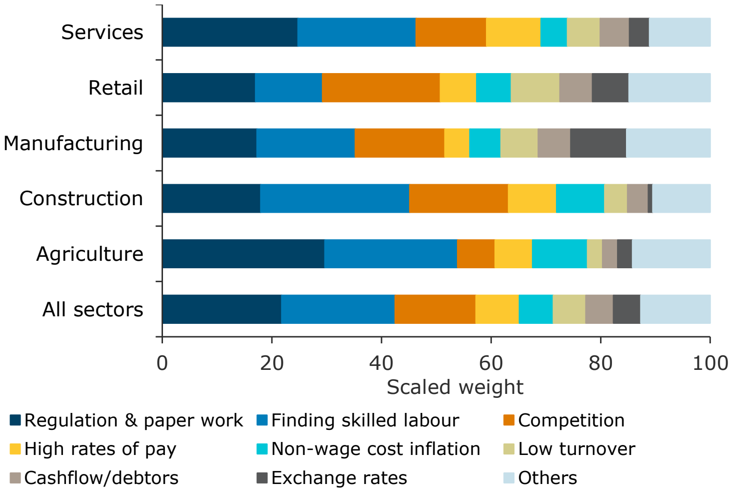
We have added a couple of backward-looking questions to the survey. When asked about activity versus the same month a year earlier, a net 10% reported it to be higher. It was strongest for agriculture (+27%) and weakest for retail (-11%). A net 7% of firms report having lifted employment over the same period. A net 24% of construction firms report having hired more people, while a net 11% of retailers report having cut staff.

The lift across the ANZ Business Outlook survey in December was again broad-based, but the clearest theme this month was a large manufacturing bounce-back. Manufacturers are reporting that they are suddenly very stretched and are expecting to be much busier still, and accordingly, are planning on employing more staff and investing. They have the strongest pricing intentions despite the weakest (though not weak) expected cost inflation, and so, understandably, have the strongest profitability expectations across the economy. Sector-level data is considerably more volatile than the aggregate, so one needs to be cautious in interpreting it, but the messages are very consistent.

The construction sector remains mixed. Commercial construction intentions rose, but residential construction intentions fell. The sector's expected own activity rose to the highest level in a year. But its reported capacity utilisation remains the weakest across the economy and the sector is still planning on reducing employment, though that indicator is well off its mid-year lows. The sector has the second-highest expected cost escalation (after agriculture), but the lowest pricing intentions, meaning profitability expectations remain negative due to anticipated margin squeeze.

This month featured the regular quarterly question on what firms consider to be their most important problems, but expanded to include the top three most important problems, ranked from most important, to third most important.

Figure 3. Firms' most important problems[1]



Source: ANZ Research

Overall, firms report that regulation and paperwork is their largest problem (22% weight), followed closely by finding skilled labour (21%), and thirdly competition from other businesses (15%). High pay rates for staff (8%) ranked fourth, followed by non-wage cost inflation (6%) and then low turnover (6%)[2].

By sector, the agriculture sector is by far the most concerned about regulation and paperwork; the construction sector views finding skilled labour as their most significant problem by some way; and retail is the only sector to view competition as their most important problem. Low turnover is more of an issue for retailers than other sectors, but ranks fourth. High pay rates are most significant for the services sector, but again only rank fourth. The exchange rate was the fourth most pressing problem for manufacturers, but barely registered for the agriculture sector. Cash-flow and debtors, access to finance, and interest rates were not identified as a top-three problem by very many firms.

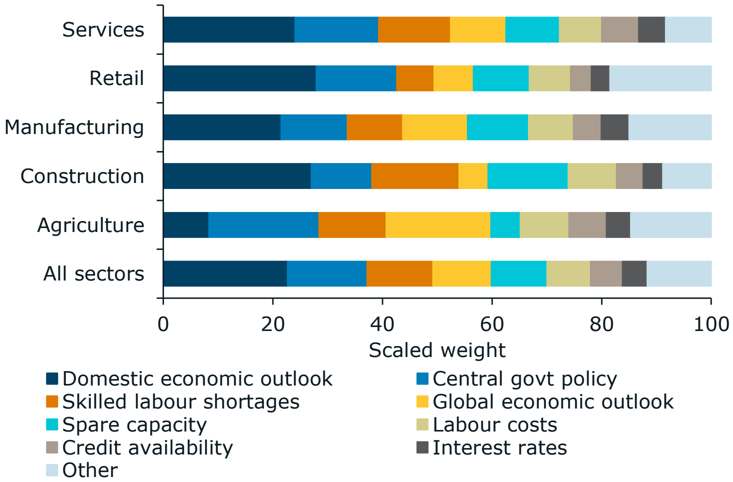
[1] Weighted using a score of 3 points for a 1st ranking, 2 for 2nd and 1 for 3rd. then scaled to 100 (ie a relative % weight) to allow better comparison across groups.
[2] The 'Others' category includes the lowest weighted problems; internal management difficulties; access to finance; interest rates; and other non-specified problems.

We have also added a quarterly question on the most important drivers of firms' decision to invest or not, and analysed it with the same methodology.

Figure 4 shows that when making investment decisions:

- Economy-wide, the biggest drivers are the domestic economic outlook (23%), central government policy (15%), skilled labour shortages (12%), the global economic outlook (11%), and the level of spare capacity (10%).
- The domestic economic situation is of most relevance to all sectors except for agriculture.
- For agriculture it is central government policy that is the largest driver of their investment decisions, followed closely by the global economy, and thirdly skilled labour shortages.
- Compared to other sectors, the construction sector gave the heaviest weighting to skilled labour shortages and the level of spare capacity as investment drivers.
- The services and agriculture sectors cited credit conditions more than others did, but they were well down the list.
- Interest rates were most relevant (though still only with a weighting of about 5%) as an investment driver to the manufacturing and services sectors – two of the three sectors who have net positive investment intentions.

Figure 4. Firms' key investment drivers by sector



Source: ANZ Research

We can also analyse the drivers of investment split by firms' stated investment intentions (figure 5, over).[3 4]

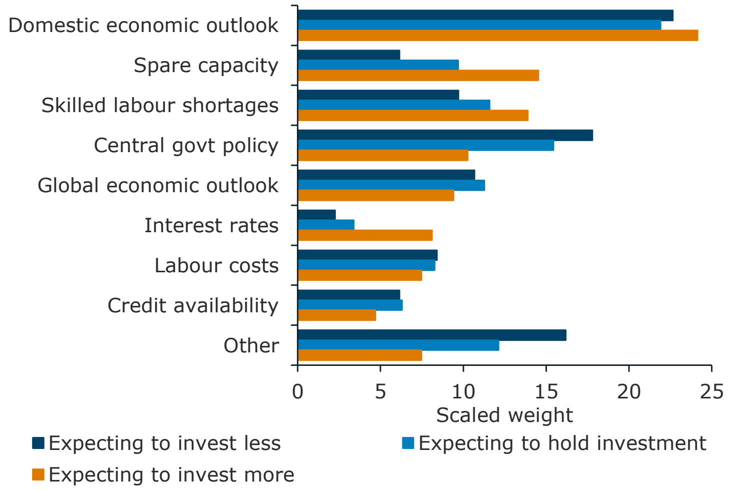
- For firms intending to increase investment, the most important factors driving the decision are the economic outlook (24% weight); the level of spare capacity (15%), skilled labour shortages (14%), central government policy (10%), and the global economic outlook (9%). Interest rates come in sixth (8%).
- For those firms planning on cutting investment, the most important factors driving the decision are the domestic economic outlook (23%), central government policy (18%), and the global economic outlook (11%). Skilled labour shortages (10%) and labour costs (8%) round out the top five.

[3] We can unfortunately not report a split both by sector and intent, as so many firms tend to report unchanged investment intentions that the up / down samples by sector can be very small.
[4] The 'Other' category includes; exchange rate; local government policy; and other reasons not specified.

- Firms who are not planning on changing their investment profile report the most important factor is the domestic economic outlook (22%), followed by spare capacity (15%), central government policy (15%), skilled labour shortages (12%), and the global economic outlook (11%). Interest rates were weighted 3% as a driver.

Credit availability scored just over 6 amongst firms who were not planning on increasing their investment over the year ahead, about twice the weighting ascribed to interest rates.

Figure 5. Firms' key investment drivers by investment intentions[5,6]



Source: ANZ Research

Our take

New Zealand businesses are rolling into the end of the year in much better heart than was looking likely just a few months ago, particularly manufacturers. Challenges remain, and time will tell how sustainable the lift in sentiment and activity proves to be, with headwinds for the economy still present and global risks not having gone away, for all that some geopolitical risks are now less prominent. But for now, surprisingly strong commodity prices and low interest rates are working their magic, and 2019 is ending on a much better note than it began. Merry Christmas!

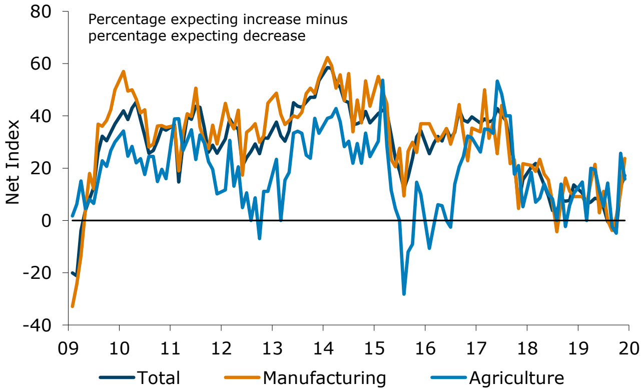
[5] Scaled to 100 for each investment group.
[6] The 'Other' category includes; exchange rate; local government policy; and other reasons not specified.

Survey Results December 2019

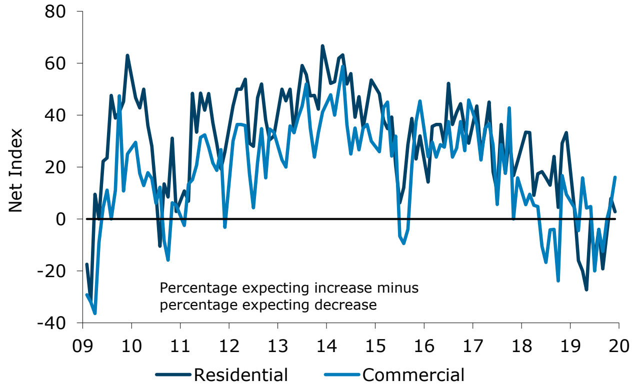
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-13.2	-26.4	-6.5	-3.9	-35.1	-21.4	-11.6
Activity Outlook	17.2	12.9	13.3	23.7	15.8	9.5	16.6
Exports	7.0	1.2	9.7	25.9	-6.1	-16.7	3.6
Investment	8.6	5.6	0.0	21.6	-21.1	14.6	9.3
Costs	52.6	45.4	52.2	48.7	59.5	56.1	52.6
Capacity Utilisation	15.1	5.1	11.4	30.7	5.6	2.6	13.8
Residential Construction	2.8	7.9	…	…	…	2.8	…
Commercial Construction	16.1	5.9	…	…	…	16.1	…
Employment	7.5	3.2	2.2	9.3	-5.3	-5.0	13.5
Profits	-2.1	-5.0	-13.3	10.5	-10.5	-7.1	-1.7
Pricing Intentions	26.8	23.8	30.4	34.2	13.5	11.9	29.5
Ease of Credit	-43.1	-30.5	-39.1	-34.2	-56.8	-41.5	-45.7
Inflation Expectations	1.76	1.72	1.70	1.80	1.77	1.79	1.75
Activity outlook – same month one year ago	9.6	…	-10.9	4.0	27.0	0.0	15.7
Employment – same month one year ago	7.0	…	-10.9	6.8	11.1	24.4	6.4

Charts

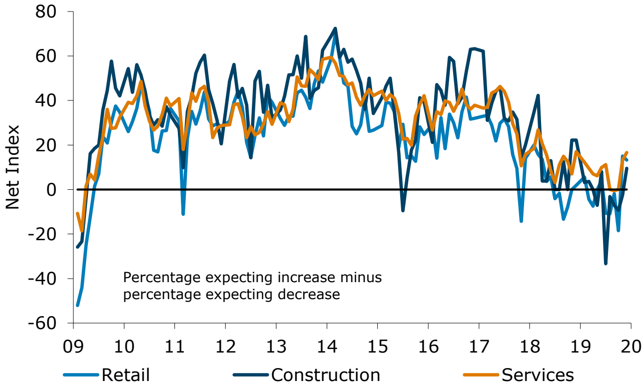
Activity outlook index



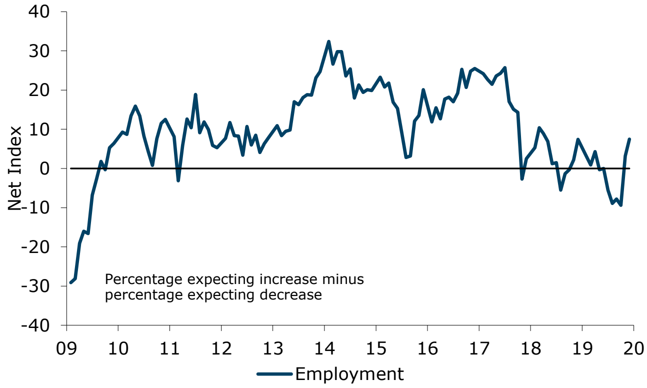
Construction intentions



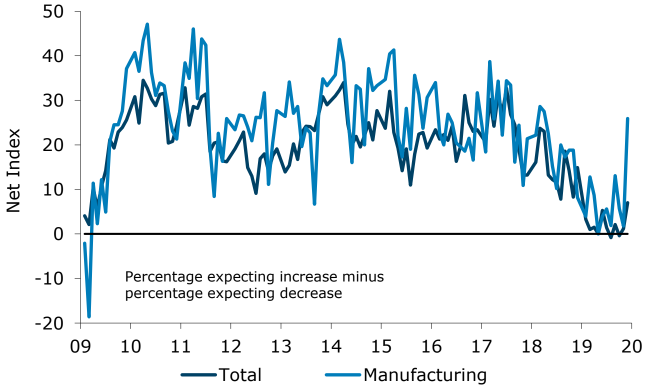
Activity outlook index



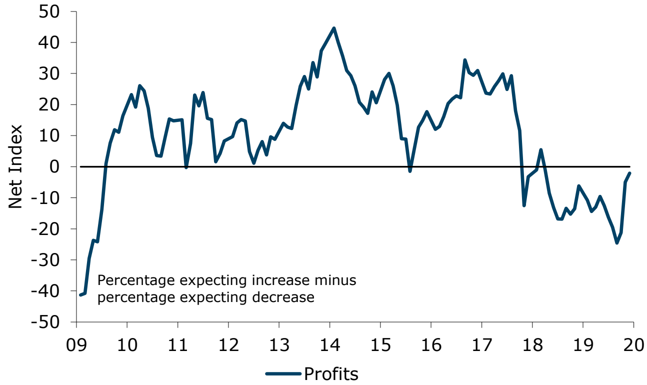
Labour market outlook



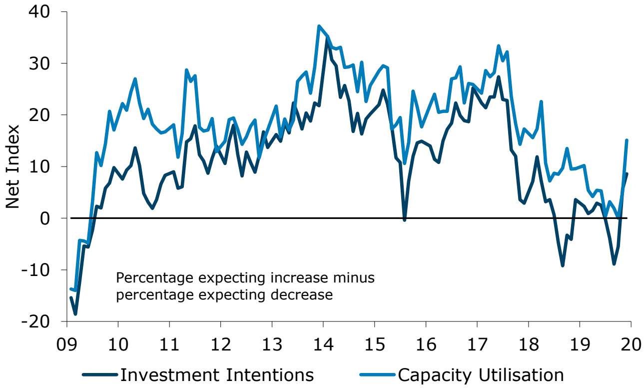
Export sales volumes



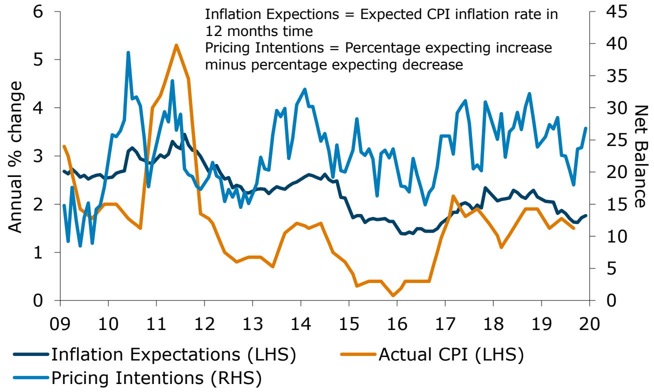
Financial outlook



Investment intentions and capacity utilisation



Inflation expectations



Source: ANZ, Statistics NZ

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