

ANZ BUSINESS OUTLOOK TAIL WAGGING THE DOG

March 2016

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The next issue of the ANZ *Business Outlook* is scheduled for release on 29 April 2016 at 1pm.

SUMMARY

- Business confidence continues to wane.
- However, firms are more optimistic about prospects for their own business and this is a far more important signal for economic direction.
- Solid growth still beckons.
- Pricing gauges remain muzzled.

Business confidence remains in the dog-house; a net 3% of businesses are optimistic about prospects over the coming year, down from a net 7% in February. Sentiment dipped into the red for retailers and manufacturers, and turned sharply more negative for agriculture. Confidence lifted in the construction and service sectors, with construction back to being the top dog. Augmenting for a slight seasonality over summer / autumn reveals confidence slightly in the red.

Businesses are nonetheless a lot more optimistic about their own prospects. Pack mentality from weak business sentiment is not driving what firms are actually doing in the yard.

- **Firms' own activity expectations** lifted from +26 to +29. The bark from weaker headline confidence had no bite.
- Profit expectations nudged up from +12 to +13. Marginal stuff but still on the right side of the ledger.
- Employment intentions rose from +12 to +16.
- Investment intentions waned from +14 to +11. Down, but far from out.
- Export intentions were lower (+21 versus +23).
- Residential investment intentions rose from +14 to +36. Commercial construction intentions lifted from +24 to +30.
- Inflation is muzzled. Inflation expectations were unchanged at 1.4% and pricing intentions didn't budge (+18).
- The picture, after adjusting for seasonality, is largely the same.

ANZ BUSINESS CONFIDENCE INDEX



Source: ANZ

ANZ BUSINESS OUTLOOK

Firms' own activity expectations, in conjunction with expectations for employment, investment and profits, are a key litmus test for whether firms are getting on with it; they appear to be.

A couple of things were notable in the survey results.

- **A clear North-South Island divide is opening up.** The North Island is far more optimistic with regard to headline sentiment, firms' own activity expectations, profits, employment and investment (bar commercial construction). On the face of it, the South Island looks like it has been collared more by dairy unease. However, sentiment across the two islands often moves in opposite directions across indicators, so we can't draw universal conclusions.
- **Firms' own activity expectations and employment intentions are flat to positive across all regions.** No one is consistently dragging their tail.
- **Some dairy-aligned regions, such as Waikato and Taranaki, are showing remarkable resilience.** Not only is New Zealand more than a bunch of cows, the cow-centric regions are too. Who said you can't teach old dogs new tricks?
- **More firms expect capacity utilisation to rise (+24).** This measure waned in mid-2015 as the economy softened, but has rebounded over late-2015 and into 2016.
- **The ease of getting credit slipped from +11 to +2.** This is still positive but worth watching, given: a) negative agriculture expectations regarding the availability of credit (a net 16% expect it to be tougher to get credit); and b) uncertainty over international funding markets.

Our composite growth indicator (which combines business and consumer sentiment so we get both the producers' and the ultimate buyers' perspective) **is flagging growth in a 2½-3½% range over the year ahead.** That's an economy dealing nicely with a few ankle biters and no more than that.

There is enough in this month's survey (headline-wise) to show that firms are obviously watchful. However, if settled times were a necessary condition for businesses to hire and invest, not much would have been done in the past seven years. **The spirit of this month's survey, as in prior months, is that firms are simply getting on with it.**

SURVEY RESULTS MARCH 2016							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	3.2	7.1	-3.1	-2.8	-45.8	21.2	15.9
Activity Outlook	29.4	25.5	14.1	33.4	-2.0	47.1	35.0
Exports	21.3	23.4	16.7	22.7	-8.6	0.0	38.5
Investment	11.4	14.0	9.5	4.3	-20.5	5.9	23.6
Livestock	-4.9	-13.2	...	...	-4.9	...	...
Capacity Utilisation	24.0	21.9	6.2	24.5	0.0	35.3	35.7
Residential Construction	35.7	14.2	...	...	...	35.7	...
Commercial Construction	29.6	24.0	...	...	...	29.6	...
Employment	15.5	11.9	9.5	19.7	-12.2	20.6	21.6
Unemployment Rate	9.5	6.9	12.3	11.3	44.0	-5.9	-1.1
Profits	13.0	12.0	-4.7	19.5	-38.0	47.1	22.0
Interest Rates	-38.6	-37.3	-36.9	-32.0	-52.0	-55.9	-33.5
Pricing Intentions	17.7	17.8	34.4	12.5	-6.2	29.4	17.6
Ease of Credit	1.7	10.6	0.0	-1.5	-15.5	12.1	5.0
Inflation Expectations	1.38	1.39	1.35	1.54	1.23	1.35	1.39

ANZ BUSINESS OUTLOOK

FIGURE 1. ACTIVITY OUTLOOK INDEX

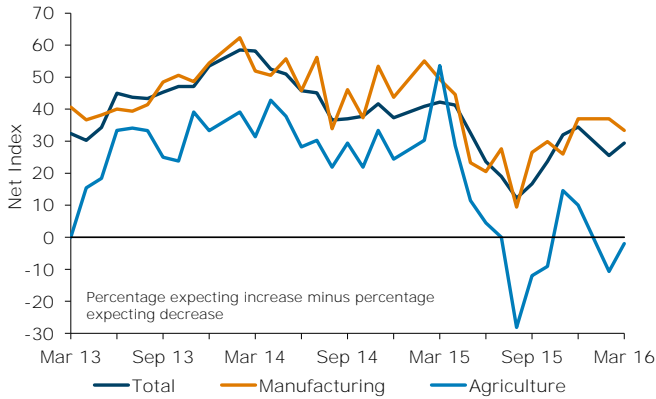


FIGURE 2. CONSTRUCTION INTENTIONS

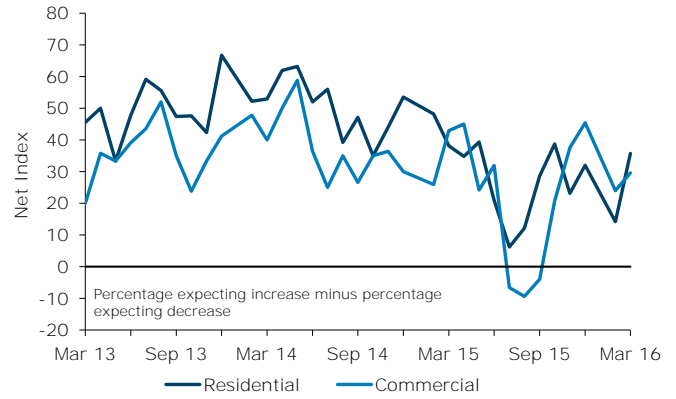


FIGURE 3. ACTIVITY OUTLOOK INDEX

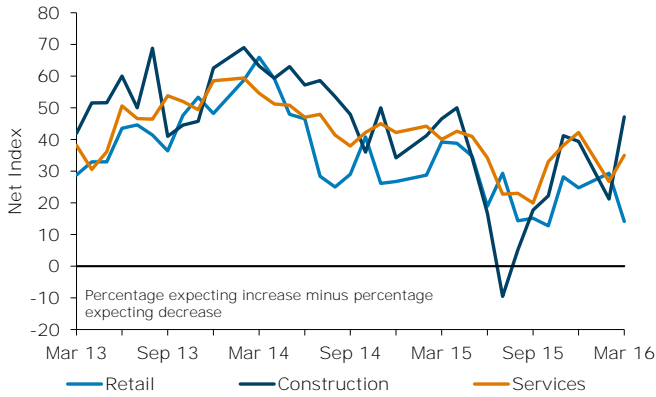


FIGURE 4. LABOUR MARKET OUTLOOK

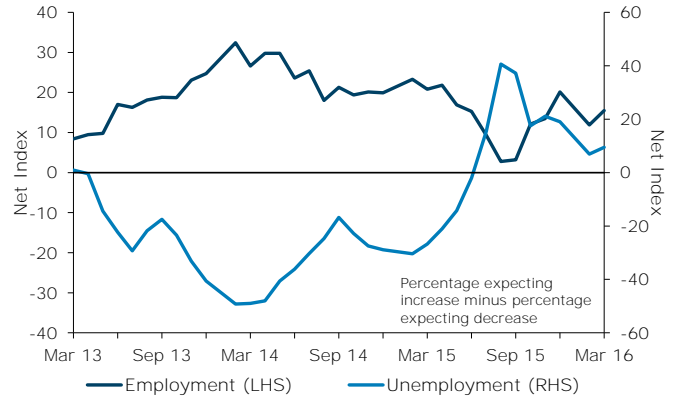


FIGURE 5. EXPORT SALES VOLUMES

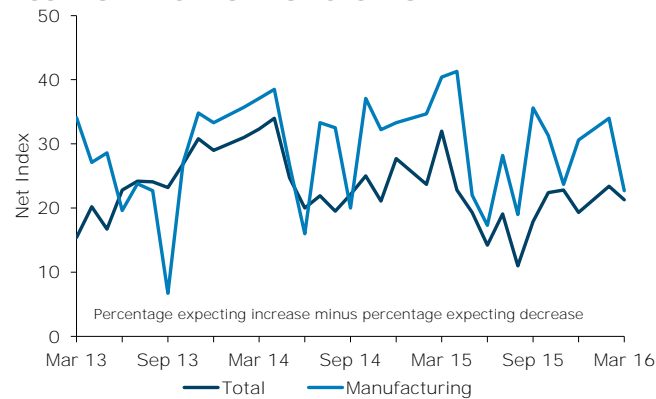


FIGURE 6. FINANCIAL OUTLOOK

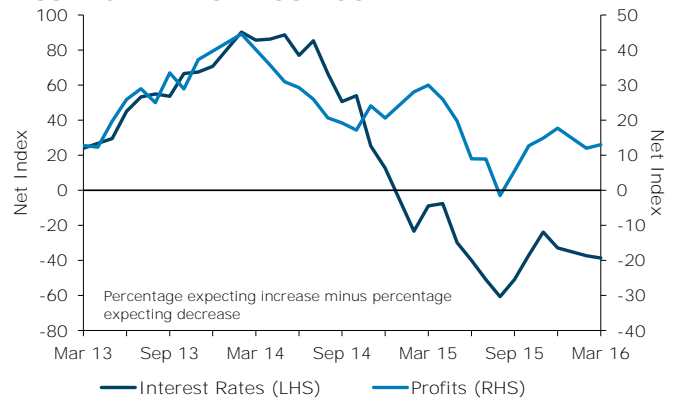


FIGURE 7. INVESTMENT INTENTIONS

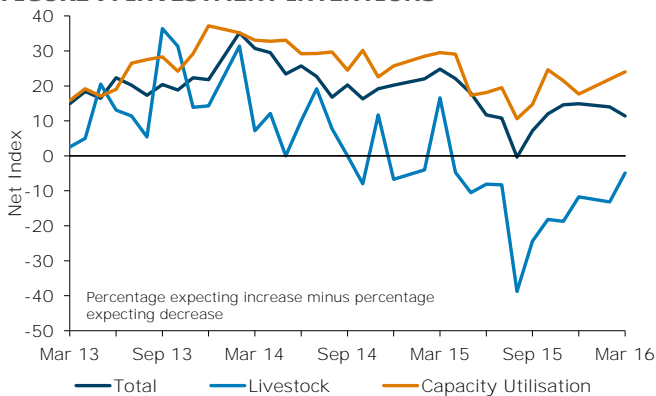
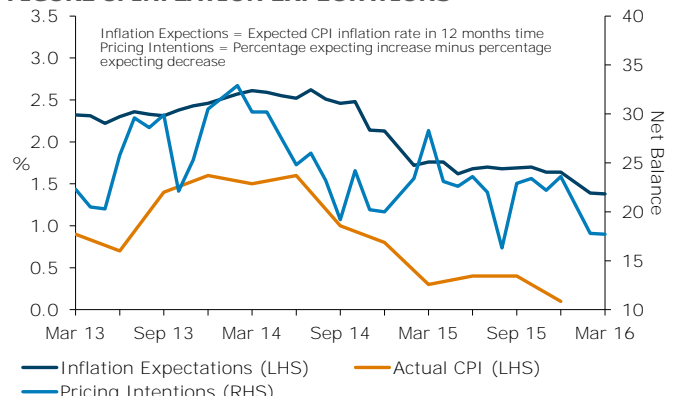


FIGURE 8. INFLATION EXPECTATIONS



Source: ANZ, Statistics NZ

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