

ANZ New Zealand Business Outlook

18 December 2018



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The next issue of the ANZ *Business Outlook* is scheduled for release on 28 February 2019 at 1pm.

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Looking up

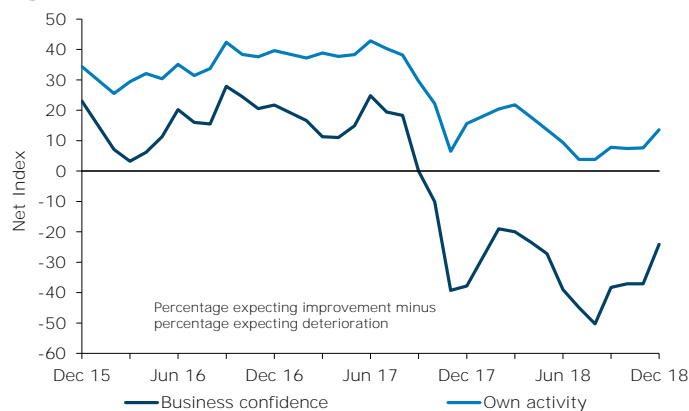
Key points

- Business confidence rose 13 points in December. Firms' views of their own activity lifted 6 points.
- Expected profitability and employment, investment and export intentions rose, and perceived availability of credit jumped sharply.
- Marring the picture a little, most indicators for the agriculture sector deteriorated.

In the December ANZ Business Outlook Survey headline business confidence lifted meaningfully. That said, it remains in the red, with a net 24% of respondents reporting they expect general business conditions to deteriorate in the year ahead.

More importantly, firms' perceptions of their own activity rose 6 points to a net 14% expecting a lift. The construction sector continued to be the most optimistic at +22%. The retail sector remains the least positive (1.9%).

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



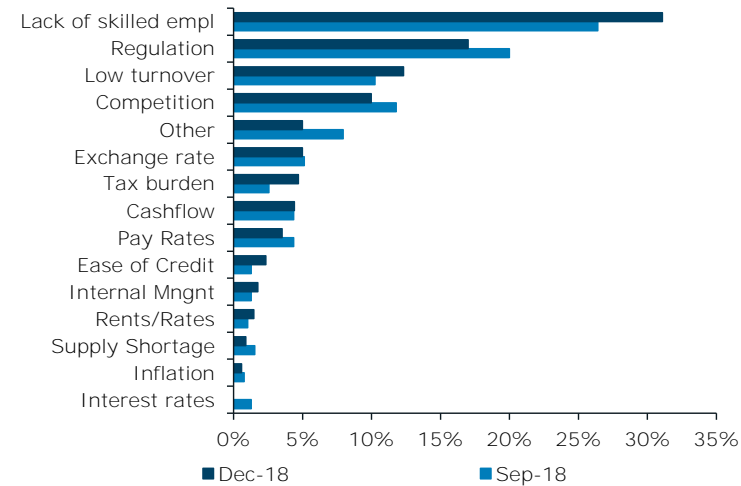
Source: ANZ

Turning to the detail:

- A net 4% of firms are expecting to lift investment, up 8 points.
- Employment intentions rose 5 points to +7%.
- Profit expectations rose 8 points to -6%. Construction is the only sector in the black (+4%). Agriculture is by far the most pessimistic (-48%).
- A net 19% of businesses expect it to be tougher to get credit, versus a net 31% last month. While still negative, it indicates that expectations of credit conditions are the least tight since October 2016. The lift was across the board but was most dramatic for agriculture and construction (up 24 and 19 points respectively, though agriculture is still finding it the toughest).
- Firms' pricing intentions fell 4 points to +24%. Inflation expectations fell 0.1%pts to 2.2%.
- Last month's lift in construction intentions was maintained.

Every three months we ask firms what their biggest problems are. They remain lack of skilled employees and regulation (figure 2). However, next up are cyclical indicators: low turnover, and the degree of competition. Exchange rates and interest rates are not the focus of many, and despite the lift in the minimum wage, pay rates barely register.

Figure 2: Firms largest problems



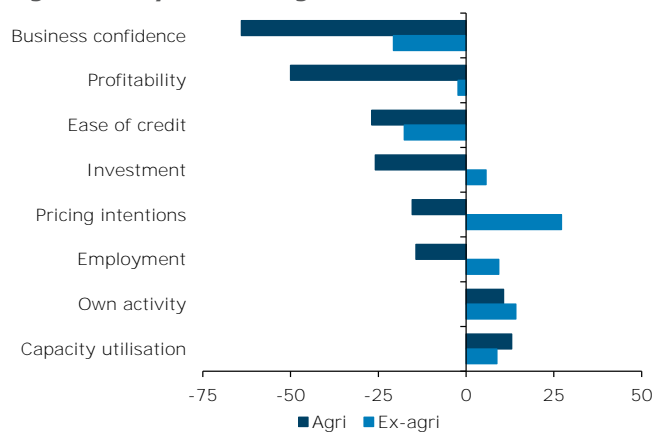
Source: ANZ

It's worth taking a closer look at agriculture sector sentiment. The sector is more negative than the rest of the business community on everything except their own activity and capacity utilisation, ie how busy they are (figure 3). The difference is particularly marked for pricing intentions, investment intentions and expected profitability.

In terms of changes for agriculture sector business confidence, profitability, investment and employment intentions deteriorated this month, while own activity, capacity utilisation and ease of credit improved.

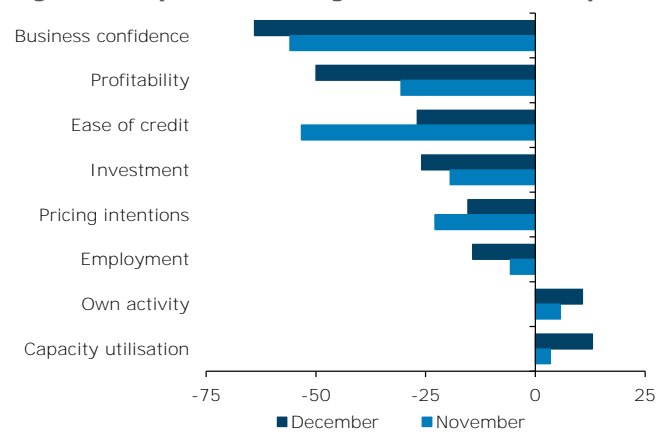
Clearly the sector has concerns beyond commodity prices, which are on the whole holding up pretty well. Anecdote suggests that a combination of factors is affecting agricultural sentiment: costs are rising (feed, fertiliser, transport, etc), environmental regulation is tightening, and there is wariness about the state of the global economy and hence the outlook for commodity prices.

Figure 3: Key metrics: agriculture vs. the rest



Source: ANZ

Figure 4: Key metrics for agriculture: Dec vs. Sep



GDP data for the September quarter is out on Thursday, with ANZ expecting an increase of 0.5% q/q **on top of the previous quarter's 1.0% growth**. Looking through the quarterly noise, the economy is tracking in line with our forecast of growth holding in a 2.5-3% range, a bit under par given capacity constraints and other headwinds. Population increases continue to flatter economic growth. But a retailer **doesn't care whether a sale is to a new New Zealander or an existing one who is spending more; it's all growth**. And this impetus is strong, with population growth running around 2% pa.

Despite strong activity levels, profitability doesn't seem to be where firms would prefer it to be. Concerns about costs are evident, yet pricing intentions are modest. **There is a degree of wariness, but the sky hasn't fallen.** Firms on net are now once again intending to employ and invest.

All up, it feels like an economy that isn't particularly in need of either more or less monetary stimulus at present, which is consistent with our view of an on-hold Official Cash Rate.

When considering what could change the picture, the international environment is front and centre. Global economic data appears to be rolling over to some degree, **including in our major trading partners.** And while **China's demand for our commodities** remains seemingly insatiable for now, it is prone to cycles just like anything else.

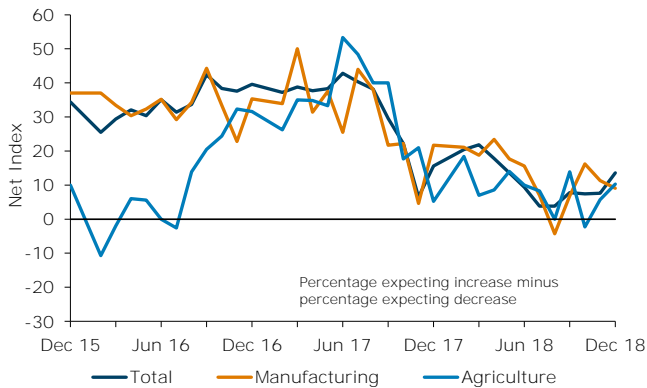
Survey Results December 2018

Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-24.1	-37.1	-25.5	-27.7	-65.4	-14.8	-16.6
Activity Outlook	13.6	7.6	1.9	9.1	10.3	22.2	17.0
Exports	14.9	8.3	16.7	8.2	36.8	28.6	5.9
Investment	3.6	-4.1	5.9	3.1	-25.0	7.4	6.4
Livestock	-5.3	-13.3	...	...	-5.3	...	...
Capacity Utilisation	9.6	9.5	6.1	10.5	12.5	21.4	6.7
Residential Construction	33.3	29.2	...	...	...	33.3	...
Commercial Construction	9.5	16.7	...	...	...	9.5	...
Employment	7.4	2.2	1.9	-1.5	-13.8	14.8	14.0
Unemployment Rate	12.6	17.8	19.2	25.8	-3.4	7.4	7.5
Profits	-6.2	-13.5	-5.8	-4.5	-48.3	3.7	-3.1
Interest Rates	17.5	28.1	7.7	18.5	20.7	18.5	19.0
Pricing Intentions	23.9	28.2	46.2	19.7	-14.8	44.4	22.3
Ease of Credit	-19.0	-31.1	-18.4	-12.7	-29.6	0.0	-25.0
Inflation Expectations	2.15	2.29	1.97	2.28	2.27	2.20	2.13

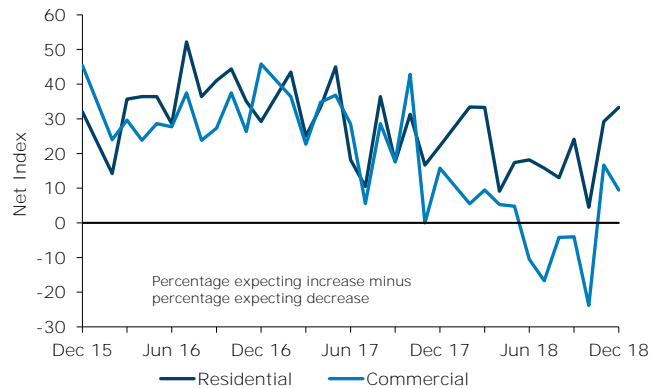


Charts

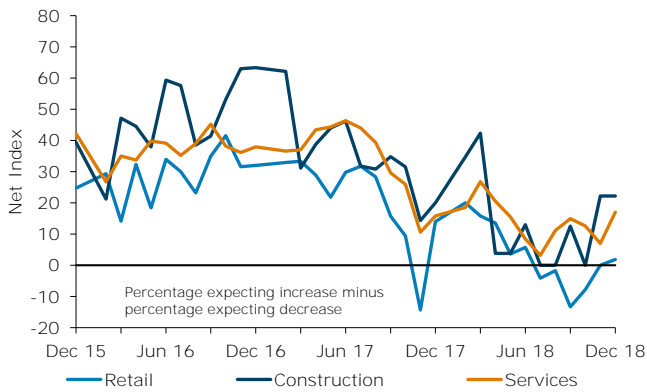
Activity outlook index



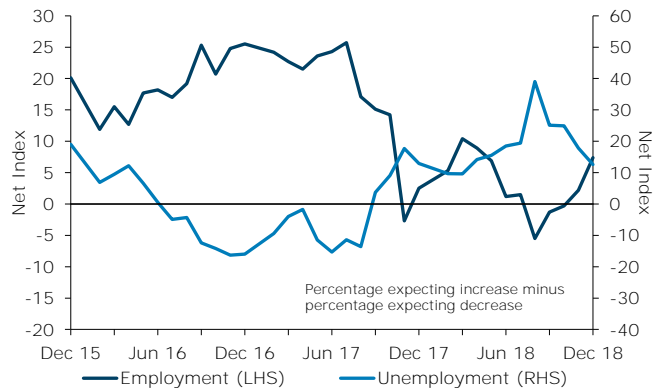
Construction intentions



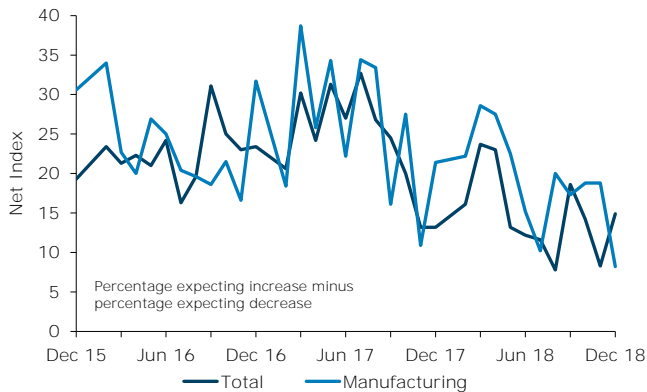
Activity outlook index



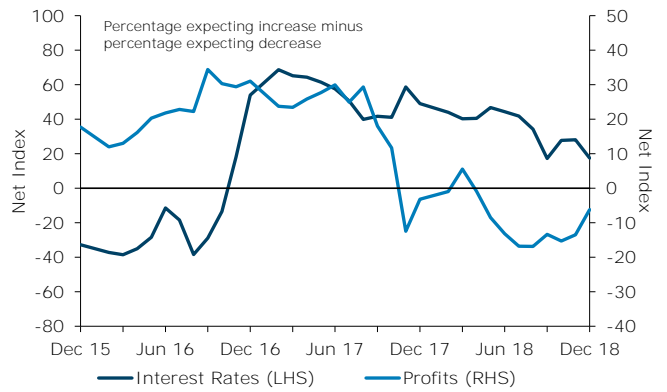
Labour market outlook



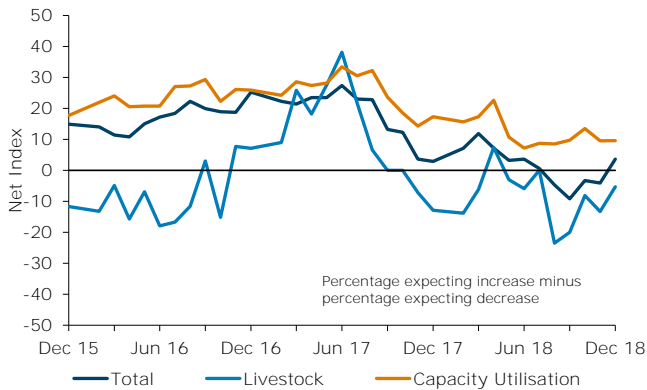
Export sales volumes



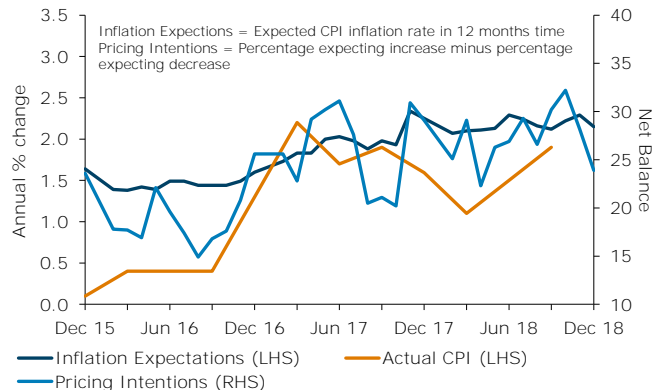
Financial outlook



Investment intentions



Inflation expectations



Source: ANZ, Statistics NZ



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