

ANZ BUSINESS OUTLOOK PERFORMANCE STILL ENHANCED

July 2016

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The next issue of the ANZ *Business Outlook* is scheduled for release on 31 August 2016 at 1pm.

SUMMARY

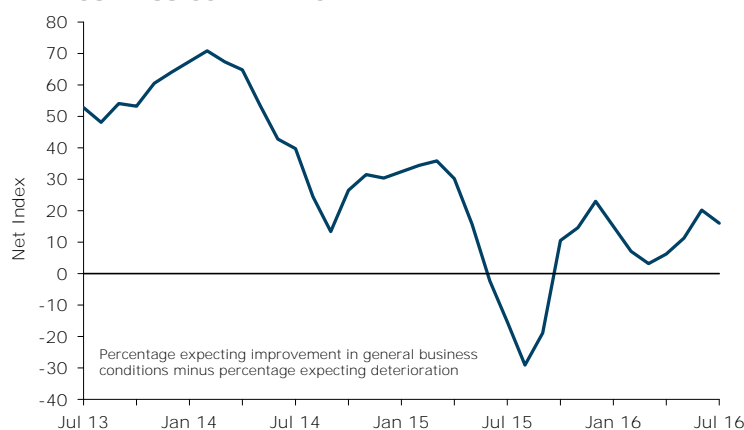
- Business confidence eased in July, a move that is largely seasonal.
- **Firms' own activity expectations**, employment and investment intentions continue to point to robust growth.
- Inflation gauges remain low.

The stimulants and beta-blockers have been evaluated by businesses; confidence eased somewhat in July. A net 16% of businesses are optimistic about prospects over the coming year, down 4 points on the month prior. Construction and services remain front of the peloton though both were dragged lower in the month. Business confidence across agriculture fell to a net 26% expecting worse times. **Business sentiment itself however, often masks what is happening across the general economy.**

The anchor leg is what firms think about their own business and strong readings continue. A net 31% of firms are optimistic about prospects for their own business. **That's** down 4 points on the month prior but still above average and largely unchanged once we account for seasonality.

- Investment intentions rose to +18, the fourth monthly rise in a row.
- Employment intentions were down a smidgen to +17 (previously +18). Still fit as but competing for staff will become more challenging.
- Profit expectations continue to rise; a net 23% of businesses expect a lift. **That's a good podium for employment and investment.** Expectations within the construction sector were all juiced up at +61.
- Export intentions dumped from +24 to +16; a high NZD does hurt.
- Residential investment intentions surged to a 19 month high (+52). Commercial construction intentions lifted from +28 to +38. Construction sector firms are key hosts at the economic party.
- Inflation expectations were unchanged at 1.5%. Still low. Pricing intentions eased. A net 17% expect to lift prices over the coming year.
- The picture, after adjusting for seasonality, is largely the same, and if anything a tad firmer.

ANZ BUSINESS CONFIDENCE INDEX

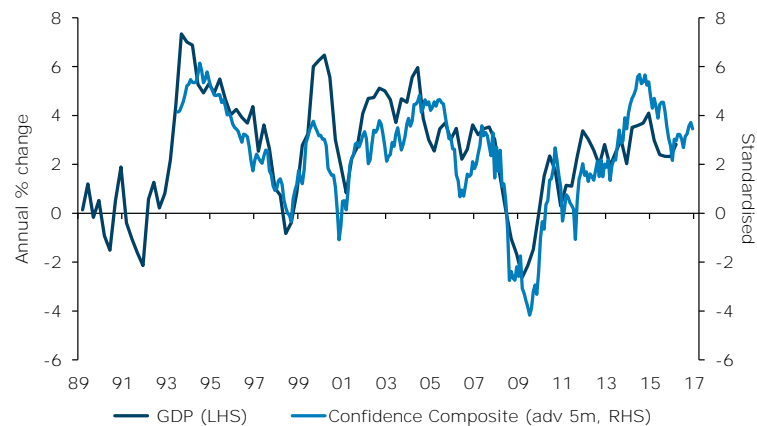


Source: ANZ

ANZ BUSINESS OUTLOOK

So survey readings continue to portray an economy with an ergonomic feel. Our composite growth indicator (which combines business and consumer sentiment so we get both the producers' and the ultimate buyers' perspective) is providing a strong hormone for growth. It's flagging growth in a 3-3½% range over the year ahead.

CONFIDENCE COMPOSITE VERSUS GDP



Source: ANZ, Roy Morgan, Statistics NZ

Survey readings are particularly encouraging given the combination of post-Brexit unease, tightening financial conditions (the higher NZD) and weaker dairy prices over the early part of the month when the survey was taken.

Both consumer and business confidence have barely flinched.

Is the economy getting too doped up? Valuation (housing) excesses are warning shots, re-leveraging behaviour (credit growth in excess of incomes) another. So too is a deterioration in household savings. **The nation is on steroids borrowing and spending its way to growth as opposed to earning it.**

The RBNZ thinks so, such that it has now banned one substance, namely >60% LVR lending into housing investors. Any impact will be masked by what looks to be a lower OCR around the corner, despite prospects for 3% plus growth saying we don't need it but pricing intentions and the NZD saying we do. The economy needs a lower currency and higher interest rates. **That's not going to happen,** so the latter will be biased lower to drag down the former. Sympathies go to the savers; the cleanest in an unclean world.

SURVEY RESULTS JULY 2016							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	16.0	20.2	13.4	12.7	-26.3	24.2	24.1
Activity Outlook	31.4	35.1	30.0	29.2	-2.6	57.6	35.2
Exports	16.3	24.2	16.0	20.4	-7.4	12.5	27.0
Investment	18.4	17.2	11.7	19.1	-23.1	24.2	29.5
Livestock	-16.7	-17.9	...	...	-16.7	...	...
Capacity Utilisation	27.0	20.7	15.3	27.4	-12.9	47.1	45.3
Residential Construction	52.2	28.6	...	...	...	52.2	...
Commercial Construction	37.5	27.7	...	...	...	37.5	...
Employment	17.0	18.2	11.8	14.1	-17.9	30.3	25.1
Unemployment Rate	-4.9	0.5	3.3	-3.1	17.9	-15.1	-13.2
Profits	22.8	21.8	18.3	23.1	-25.6	60.6	25.7
Interest Rates	-18.4	-11.5	-22.0	-32.3	-15.4	-12.5	-16.9
Pricing Intentions	17.4	19.6	20.0	12.3	15.8	39.4	16.9
Ease of Credit	-13.8	-6.5	-16.6	-5.2	-18.9	-24.2	-10.8
Inflation Expectations	1.49	1.49	1.55	1.55	1.35	1.78	1.45

ANZ BUSINESS OUTLOOK

FIGURE 1. ACTIVITY OUTLOOK INDEX

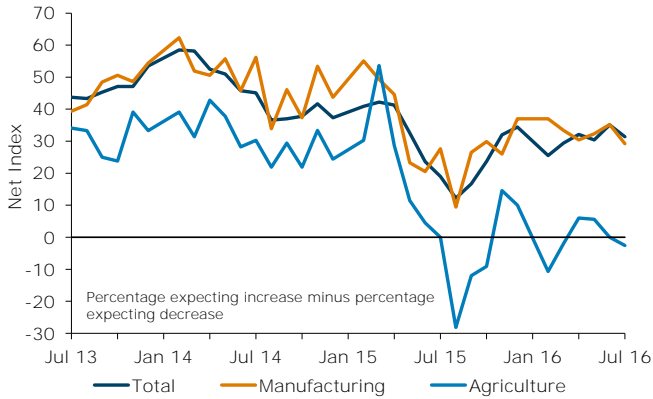


FIGURE 2. CONSTRUCTION INTENTIONS

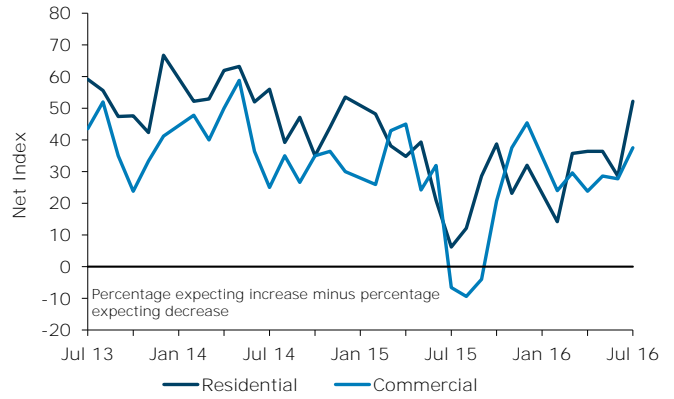


FIGURE 3. ACTIVITY OUTLOOK INDEX

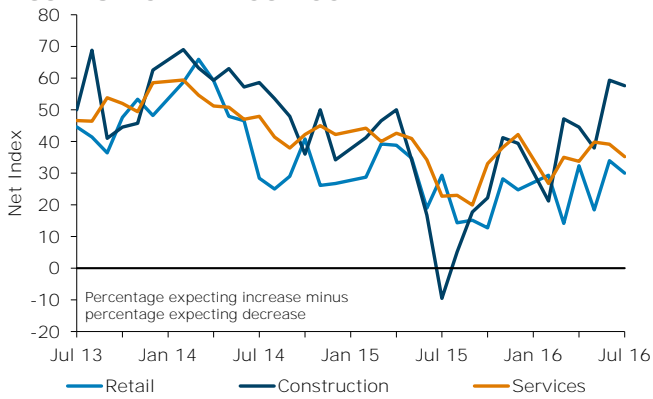


FIGURE 4. LABOUR MARKET OUTLOOK

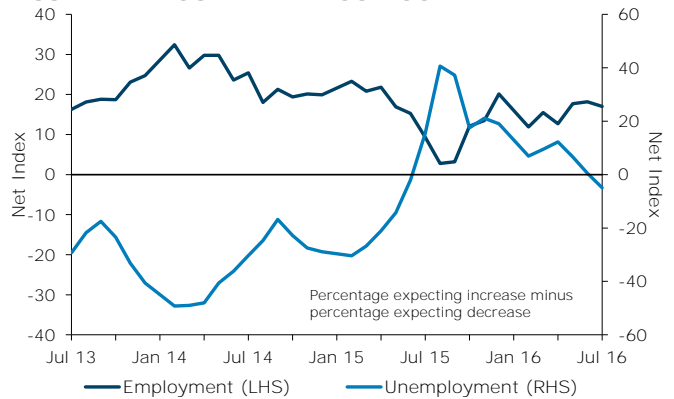


FIGURE 5. EXPORT SALES VOLUMES

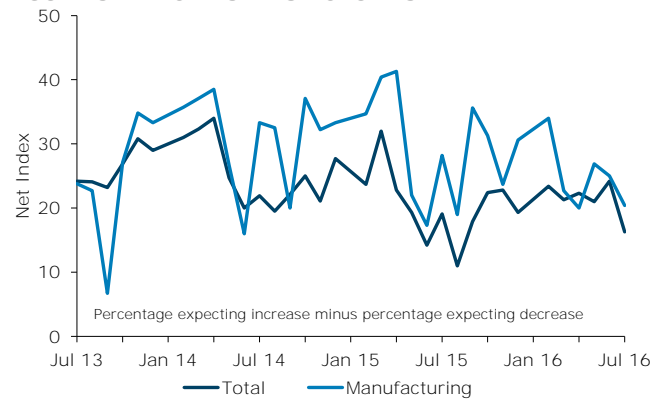


FIGURE 6. FINANCIAL OUTLOOK

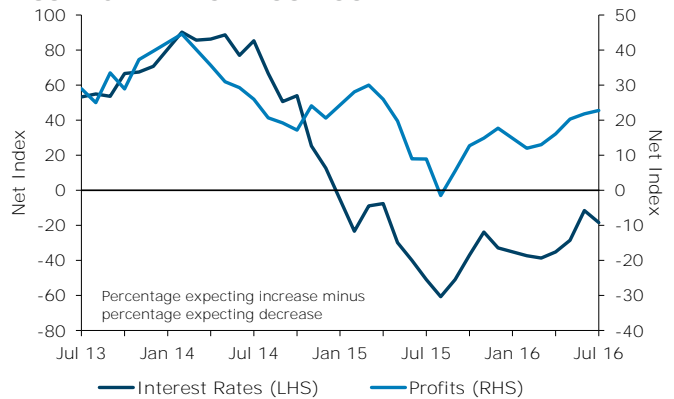


FIGURE 7. INVESTMENT INTENTIONS

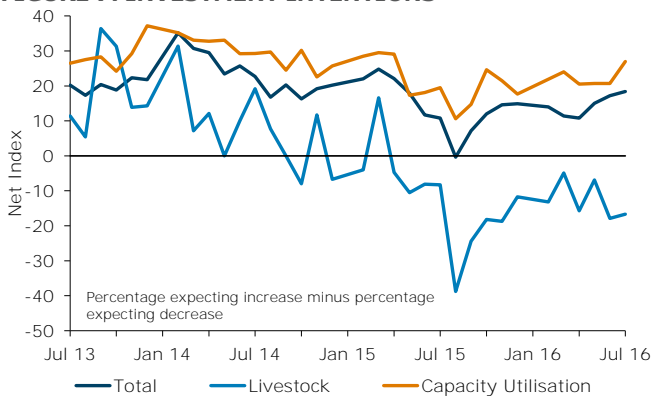
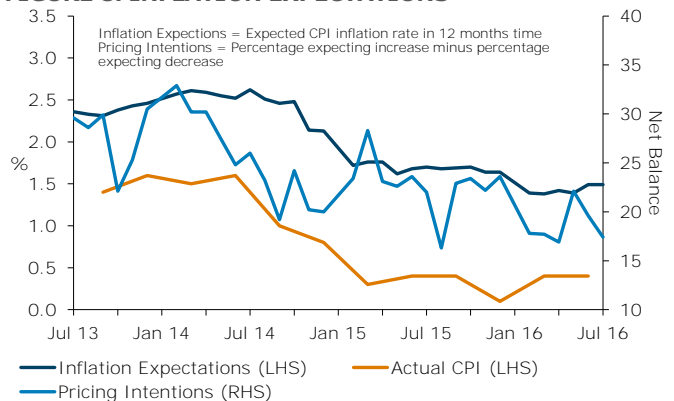


FIGURE 8. INFLATION EXPECTATIONS



Source: ANZ, Statistics NZ

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