

ANZ BUSINESS OUTLOOK

September 2018

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The next issue of the ANZ *Business Outlook* is scheduled for release on 31 October 2018 at 1pm.

BOUNCE

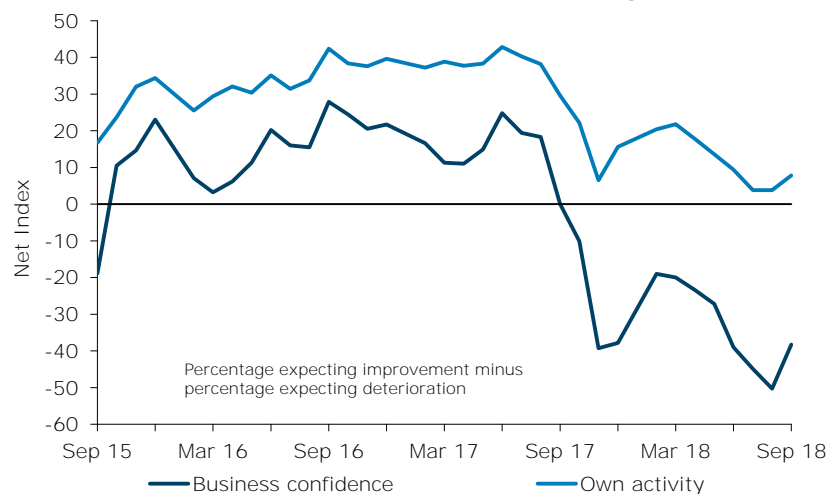
SUMMARY

- Headline business confidence bounced 12 points to -38 in September, its highest level since May. **Firms' views of their own activity** lifted 4 points to a net 8% of firms expecting an improvement.
- Employment intentions and profit expectations also lifted, but investment intentions dropped further.
- The retail sector remains particularly downbeat in terms of their expectations about both their own activity and profitability.

In the September ANZ Business Outlook Survey headline business confidence bounced 12 points to a net 38% of respondents reporting they expect general business conditions to deteriorate in the year ahead.

Firms' perceptions of their own activity prospects lifted 4 points to a net 8% expecting an improvement, still well below the long-term average of +27%. By industry, retail expectations dropped 11 points to be by far the least positive about their own activity (-13%), while services is the most optimistic sector, consistent with a large contribution to GDP growth over the June quarter.

ANZ Business Confidence Index and ANZ Own Activity Index



Source: ANZ

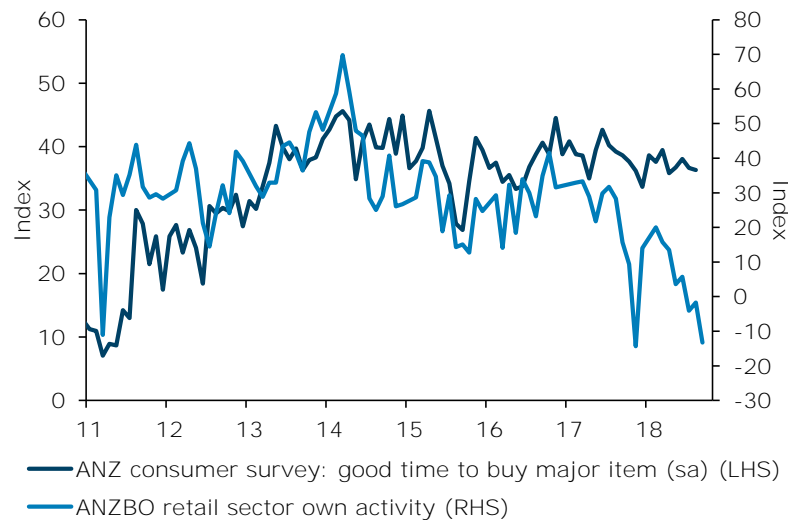
Turning to the detail:

- A net 9% of firms are expecting to reduce investment, down 4 points. This series is usually a fairly good indicator of near-term economic activity, but was an outlier this month, in that most other indicators improved.
- Employment intentions lifted 5 points to -1%.
- Profit expectations lifted 4 points to -13%. Retail is the weakest sector at -35% (down 8 points) while services bounced 9 points to -1%.
- A net 33% of businesses expect it to be tougher to get credit, little changed.
- **Firms' pricing intentions** lifted 3 points to +30%. Inflation expectations were little changed at 2.1%.
- Residential construction intentions bounced 11 points to +24%, while commercial construction intentions were unchanged at -4%.

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The retail sector was an outlier on the wrong side this month: their expectations for their own activity continue to deteriorate. The sector is surprisingly pessimistic in light of responses to the ANZ Consumer Confidence Survey that suggest households still believe it is a good time to spend. We will get another read on ANZ Consumer Confidence on Friday.

ANZBO retailer own activity expectation and ANZ consumer confidence: good time to buy major household item



Source: Roy Morgan, ANZ Research

Every third month we ask firms about the largest problem they face. Again, finding skilled labour was the biggest issue, with 26% of firms identifying this as their biggest problem. However, for the agriculture sector, regulation was of far more concern (44% vs. 17% for skilled labour). Perceptions vary by firm size: regulation outweighed skill shortages for small firms in every sector except manufacturing. Compared to three months ago, firms have become more concerned about regulation (20% in September vs. 17% identifying this as their biggest problem in June), while concerns about finding skilled labour and competition both eased very slightly.

The small increase in pricing intentions in the survey (up 3 points to 30%) likely reflects the downtrend in the trade-weighted exchange rate. Inflation expectations remain stable and well-anchored near the target midpoint.

It is encouraging that nearly all activity indicators out of the ANZ Business Outlook survey rebounded this month, with only investment intentions deteriorating further. The growth signal coming out of the survey remains weak, certainly. But if the indicators continue to rebound, it will increase the odds that while the economy may have hit a pothole, the wheels are not falling off.

The bounce in most activity indicators in the survey is encouraging. But the levels are still subdued, and the Reserve Bank made it clear in the August **Monetary Policy Statement** that they believe the economy needs to accelerate to get inflation sustainably back to the target midpoint in an acceptable timeframe. We expect that at the OCR Review this week the message will therefore continue to be that the next move in the Official Cash Rate "could be up or down", despite the stronger-than-expected June quarter GDP outturn.

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SURVEY RESULTS SEPTEMBER 2018							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-38.3	-50.3	-32.8	-37.5	-62.9	-40.6	-33.1
Activity Outlook	7.8	3.8	-13.3	6.8	13.9	12.5	14.9
Exports	18.6	7.8	16.7	17.3	33.3	0.0	21.7
Investment	-9.2	-4.7	-8.8	-2.8	-25.7	3.1	-8.9
Livestock	-20.0	-23.5	...	...	-20.0	...	...
Capacity Utilisation	9.7	8.5	0.0	12.1	3.4	23.1	15.6
Residential Construction	24.1	13.0	...	...	...	24.1	...
Commercial Construction	-4.0	-4.2	...	...	...	-4.0	...
Employment	-1.3	-5.5	-8.3	-1.4	-11.1	3.1	4.4
Unemployment Rate	25.1	39.0	35.0	35.6	22.2	15.6	19.1
Profits	-13.4	-16.9	-35.0	-19.2	-30.6	0.0	-1.1
Interest Rates	17.2	34.2	15.0	26.0	22.2	12.5	14.8
Pricing Intentions	30.2	26.6	31.7	37.5	5.7	37.5	31.7
Ease of Credit	-33.2	-35.8	-31.5	-30.4	-40.0	-34.4	-33.3
Inflation Expectations	2.12	2.16	2.17	2.26	2.30	2.09	2.04

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Figure 1. Activity outlook index

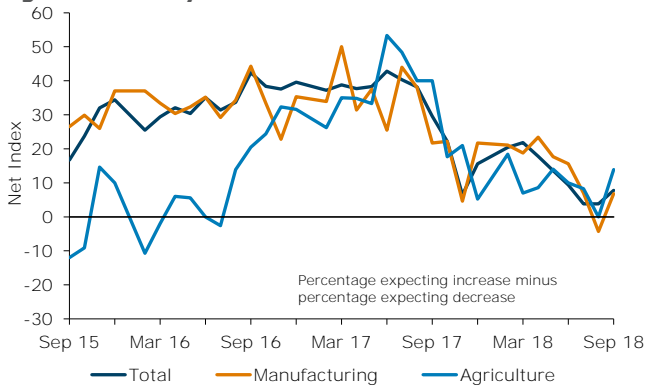


Figure 2. Construction intentions

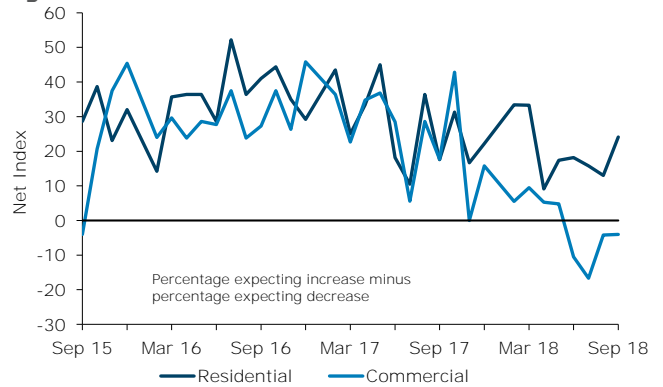


Figure 3. Activity outlook index

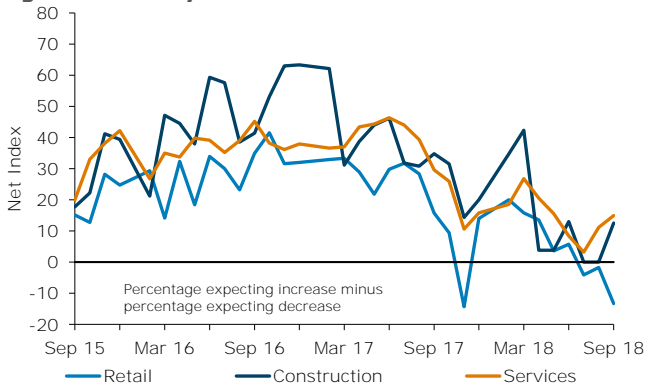


Figure 4. Labour market outlook



Figure 5. Export sales volumes

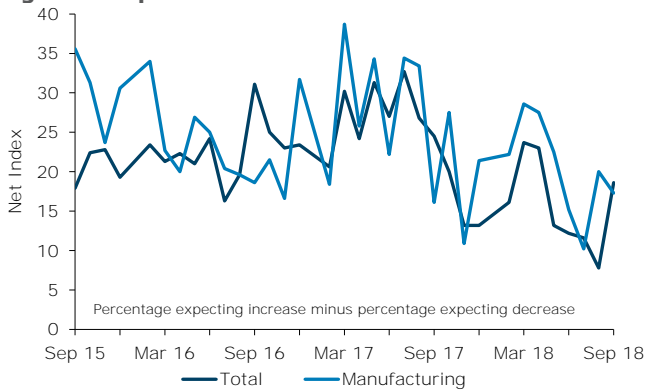


Figure 6. Financial outlook



Figure 7. Investment intentions

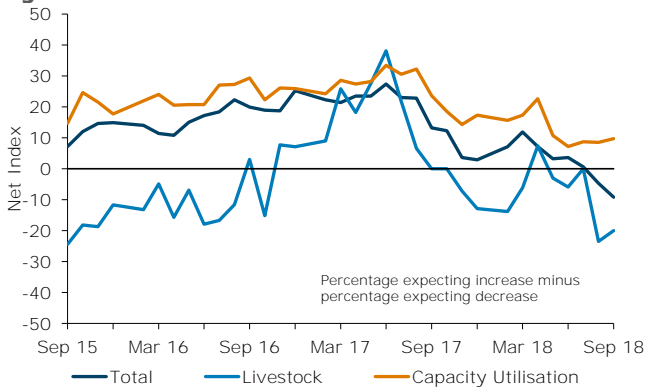
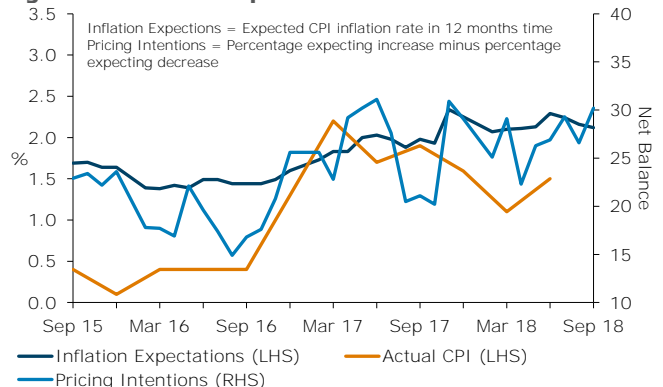


Figure 8. Inflation expectations



Source: ANZ, Statistics NZ



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