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The next issue of the ANZ *Business Outlook* is scheduled for release on 29 June 2017 at 1pm.

BODACIOUS

SUMMARY

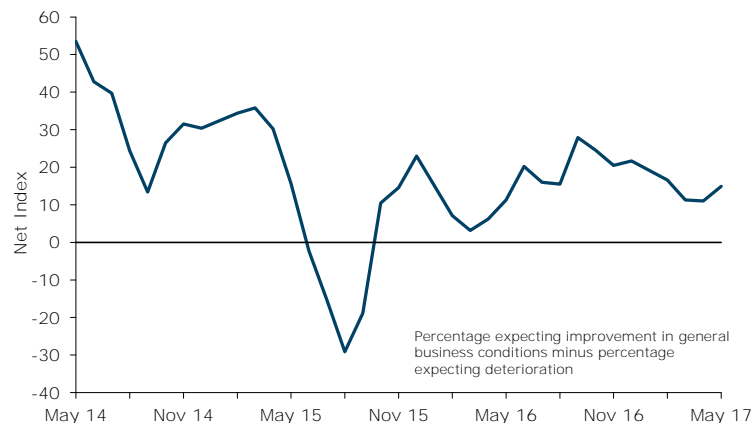
- Business confidence lifted in May.
- Broader survey gauges are very positive on the outlook for the economy.
- Our composite growth indicator is pointing to 3½-4% GDP growth.
- Inflation expectations (finally) hit 2%.

A net 15% of businesses are optimistic about the year ahead. That's up 4 points on the month prior and marks the first constructive step up since September last year. Sentiment lifted in manufacturing, retail and agriculture, was unchanged in the service sector, and fell in construction.

Survey indicators are upbeat about the economy.

- A net 38% of businesses expect better times for their own business. **That's** unchanged on last month but 10 points above the historical average. All sectors are upbeat. Retail is at the low end (+22) and services the high (+44). Party on.
- Investment intentions were unchanged at +24 (average 13).
- Employment intentions lifted from +22 to +24. Construction and services have the highest employment expectations. Excellent.
- Profit expectations rose from +26 to +28 (average 10). All sectors are expecting a better bottom line.
- Export intentions increased from +24 to +31.
- Residential construction intentions lifted from +33 to +45, a 10-month high. Commercial construction intentions rose from +35 from +37.
- **Firms' pricing intentions** lifted from +29 to +30, its highest score in over three years. Inflation expectations hit 2% for the first time since December 2014.
- A net 29% of businesses expect it to be tougher to get credit.
- The equivalent seasonally adjusted estimates rose pretty much across the board. **It's no bogus journey.**

ANZ BUSINESS CONFIDENCE INDEX



Source: ANZ

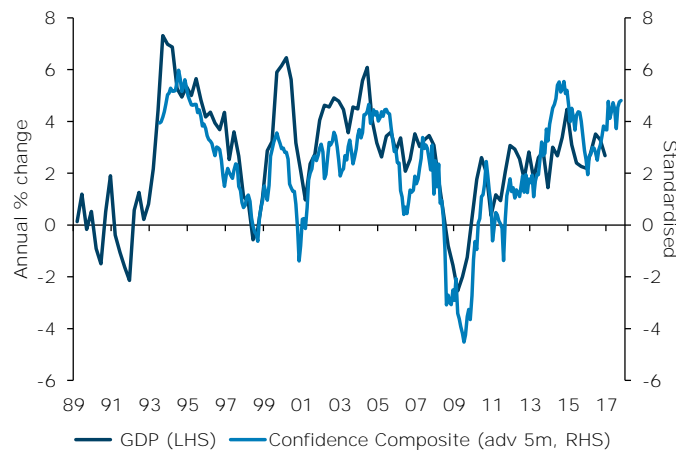
ANZ BUSINESS OUTLOOK

The economy's excellent adventure continues. Firms are upbeat, and prepared to hire and invest. That's an economic expansion that is still going full steam. Survey indicators are elevated but not stratospheric, consistent with the economy evolving into a mature stage of the expansion; we're growing nicely off a good base, as opposed to lifting rapidly off a low level.

Our confidence composite indicator combining both business and consumer sentiment **is pointing to pace-setting GDP growth of 3½-4%.**

Beyond the normal political hand-wringing (more offshore than on), firms have good reason to be upbeat. Commodity prices have recovered. The NZD is in a zone that looks broadly fair. Construction and tourism continue to boom. Interest rates are low. More arrivals (migrants) means more bums on seats. The spectre of higher interest rates (a net 61% think rates are set to move up) is not weighing on sentiment.

CONFIDENCE COMPOSITE VERSUS GDP



Source: ANZ, Roy Morgan, Statistics NZ

History shows that NZ could be 'due' a visit from the Grim Reaper in 2018. 2008, 1998, 1988, 1978 and 1968 were not great years economically. Some featured global events, but many were already self-induced corrections.

We are optimistic the pattern will be averted this time by the combination of housing shortages (we normally have an excess supply at this stage in the cycle), less exuberant consumer spending helping to tame inflation (keeping the RBNZ at bay), regulatory tightening (LVR restrictions), and banks reining in credit growth at the top of the cycle. It all means the good times can go on longer. Excellent!

SURVEY RESULTS MAY 2017							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	14.9	11.0	8.7	6.6	8.3	0.0	21.1
Activity Outlook	38.3	37.7	21.8	37.5	33.3	44.0	44.3
Exports	31.3	24.2	37.5	34.3	36.0	14.3	29.7
Investment	23.5	23.5	15.5	10.9	25.0	36.0	25.9
Livestock	27.6	18.2	...	...	27.6	...	...
Capacity Utilisation	28.2	27.4	17.4	26.5	28.6	23.1	34.4
Residential Construction	45.0	33.4	...	...	...	45.0	...
Commercial Construction	36.8	34.8	...	...	...	36.8	...
Employment	23.6	21.5	9.1	8.7	11.4	24.0	35.1
Unemployment Rate	-11.5	-1.7	-6.6	10.4	-8.3	-4.0	-20.3
Profits	27.7	25.8	19.5	29.2	11.1	48.0	31.6
Interest Rates	61.4	64.3	57.7	58.3	69.4	62.5	58.5
Pricing Intentions	30.2	29.2	30.5	16.7	36.1	60.0	31.0
Ease of Credit	-29.3	-30.2	-9.8	-20.0	-21.2	-44.0	-30.8
Inflation Expectations	2.00	1.83	1.93	1.97	1.99	1.90	2.00

ANZ BUSINESS OUTLOOK

FIGURE 1. ACTIVITY OUTLOOK INDEX

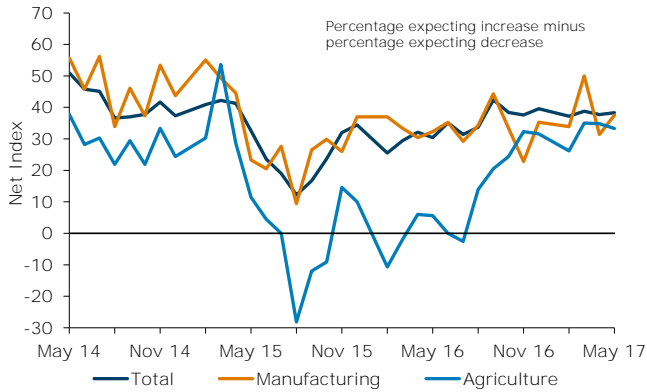


FIGURE 2. CONSTRUCTION INTENTIONS

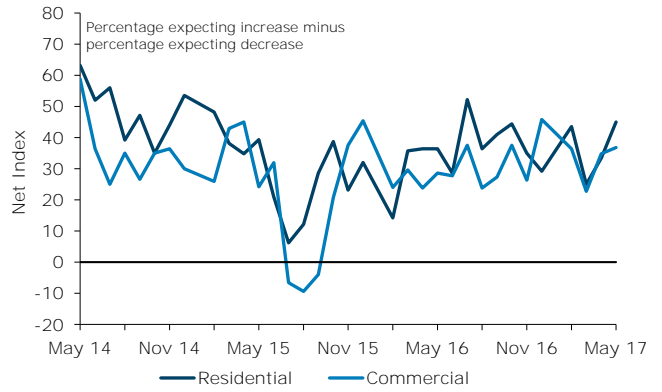


FIGURE 3. ACTIVITY OUTLOOK INDEX

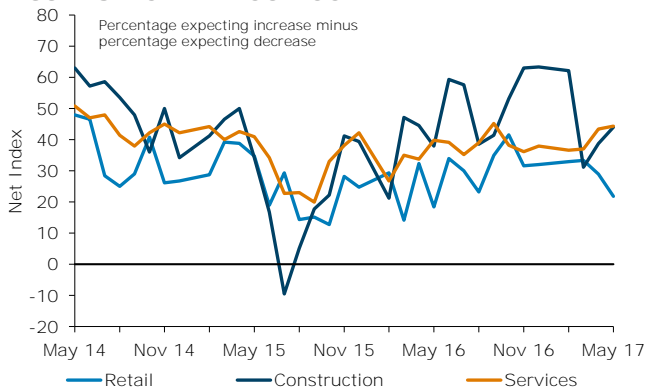


FIGURE 4. LABOUR MARKET OUTLOOK

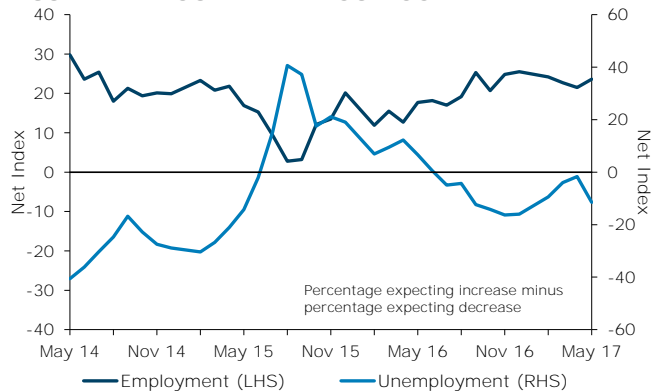


FIGURE 5. EXPORT SALES VOLUMES

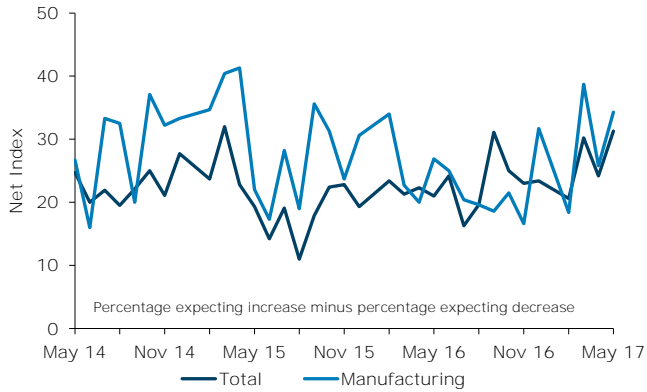


FIGURE 6. FINANCIAL OUTLOOK

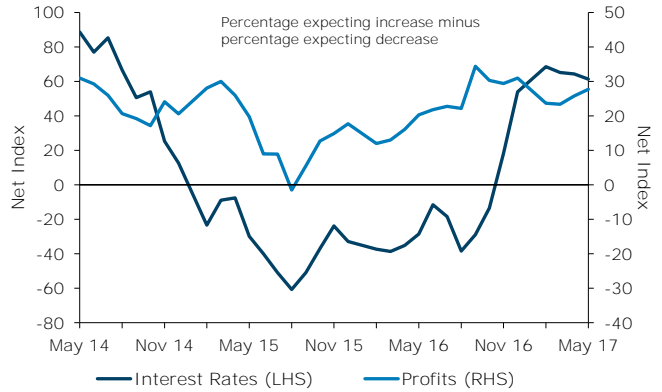


FIGURE 7. INVESTMENT INTENTIONS

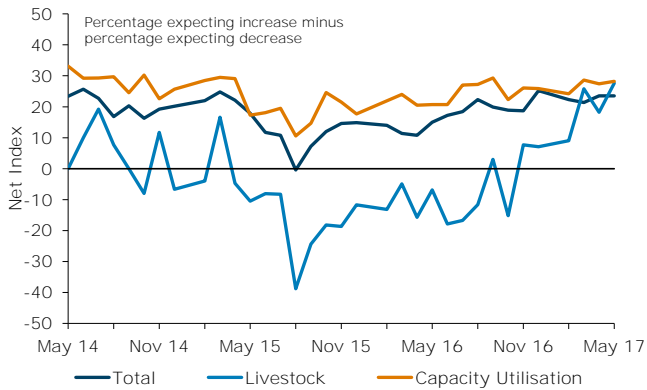
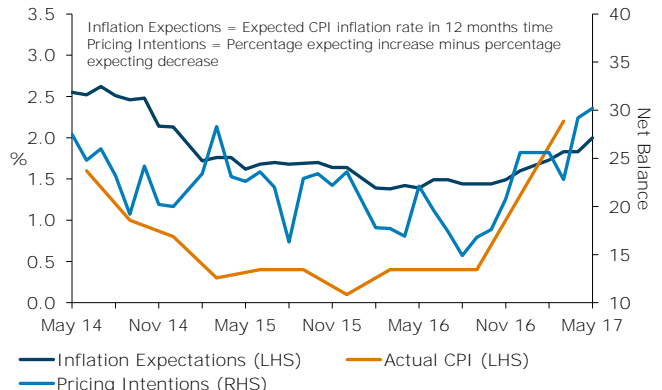


FIGURE 8. INFLATION EXPECTATIONS



Source: ANZ, Statistics NZ



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