

June 2018

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

JUNE GLOOM

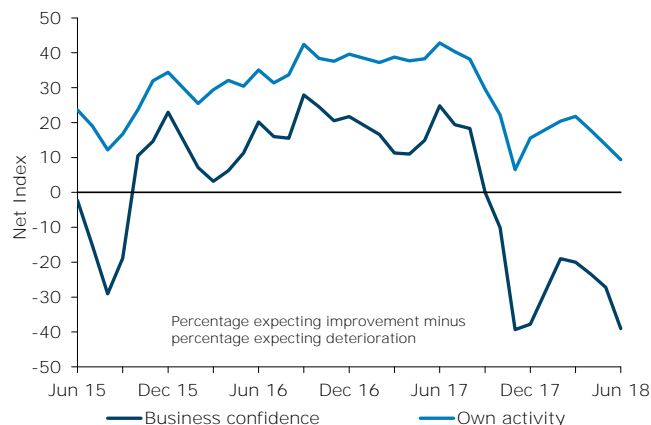
SUMMARY

- Headline business confidence and firms' views of their own activity fell in June.
- Activity sub-indicators were mixed. Inflation indicators were little changed.

Our ANZ Business Outlook Survey provides a timely gauge of sentiment in the business community and expectations regarding the outlook. **When businesses were asked what they thought about business conditions in the year ahead, a net 39% of businesses were pessimistic**, down 12 points and back at November lows. Business confidence has been falling since June last year as economic headwinds have strengthened.

Business sentiment is only one input into the decision-making that drives the economy. Firms' expectations of their own activity are a better gauge of future GDP growth. **Firms' views of their own activity dipped from +14 to +9 in June** but remain positive. Looking at own activity by industry, retailers remain the least positive (+6), while manufacturers are the most upbeat (+16).

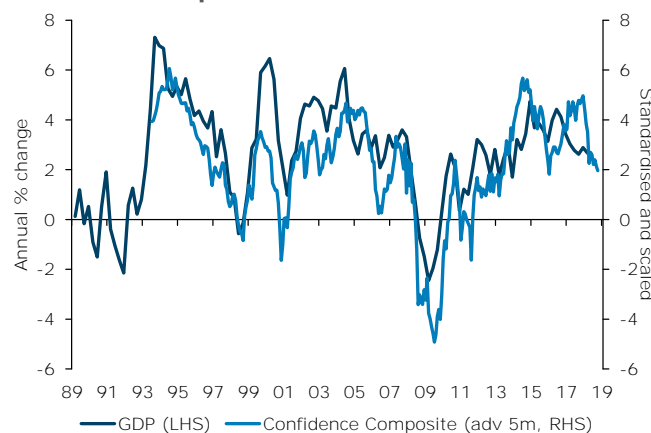
ANZ Business Confidence Index and ANZ Own Activity Index



Source: ANZ

Our composite GDP growth indicator combines business expectations and intentions with consumer confidence. This remains expansionary (with robust consumer confidence providing support), but suggests **the economy may continue gently losing steam over coming months**, despite the support coming from fiscal stimulus and high commodity prices.

Confidence Composite versus GDP



Source: ANZ, Roy Morgan, Statistics NZ

ANZ BUSINESS OUTLOOK

Going forward, we expect tailwinds in the form of fiscal stimulus and strong terms of trade will see the economy continue to grow at about par. However, cost, credit and capacity headwinds have strengthened, and firms have noticed.

- A net 4% of firms are expecting to lift investment, up 1 point but still low.
- Employment intentions fell from +7% to +1%. They are flat for retail, and negative across construction and agriculture.
- Profit expectations fell 4 points to -13%. All sectors are in the red except construction (0%); retail is the weakest sector (-17%).
- A net 32% of businesses expect it to be tougher to get credit, which is within familiar ranges seen since late 2016.
- **Firms' pricing intentions** were little changed at +27% versus +26% last month. Inflation expectations at 2.3% remain in recent ranges.
- Residential construction intentions lifted 1 point to +18%, but commercial intentions dropped sharply from +5% to -11%, the lowest level since 2010.

Every three months we ask firms the most important problem they are facing, which can provide colour on what might be driving the headline survey results.

Lack of skilled employment was the most prevalent problem (28%), particularly amongst construction, manufacturing and services firms. **Regulation was the second most important** at 17% – the highest reading for this problem since this data started being collected in March 2012. Competition and low turnover were the other top-rated problems, with 13% and 10% respectively.

While volatility should be borne in mind, it was notable that **commercial construction intentions dropped sharply this month** – it has been trending down since late 2016, despite still-low interest rates. Credit availability may be a factor.

Responses from retailers suggest little imminent CPI pressure. The sector's pricing intentions have rebounded off lows but remain in recent ranges. Expected profitability fell to -17, suggesting a limited ability to pass on cost increases in the face of strong competition. **And retailers' own activity outlook** and business confidence are the weakest of all sectors. Indeed, there seems to be something of a mismatch between consumers' and retailers' confidence at present. We will get another read on consumer confidence on Friday.

In the economy-wide inflation indicators there was again little to see. Inflation expectations and pricing intentions remain range bound.

SURVEY RESULTS JUNE 2018							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-39.0	-27.2	-48.1	-39.7	-37.5	-47.8	-34.9
Activity Outlook	9.4	13.6	5.7	15.6	10.0	13.0	8.4
Exports	12.2	13.2	4.2	15.2	23.1	0.0	9.1
Investment	3.6	3.2	11.5	4.7	-2.5	-8.7	3.9
Livestock	-5.9	-3.0	...	...	-5.9	...	...
Capacity Utilisation	7.2	10.7	-9.1	8.0	20.0	20.0	7.5
Residential Construction	18.2	17.4	...	...	...	18.2	...
Commercial Construction	-10.5	4.8	...	...	...	-10.5	...
Employment	1.2	6.9	0.0	1.6	-12.5	-4.3	6.5
Unemployment Rate	18.5	15.5	29.6	15.6	20.0	17.4	16.1
Profits	-13.2	-8.5	-17.0	-12.5	-10.0	0.0	-13.5
Interest Rates	44.3	46.7	44.4	53.1	52.5	4.3	44.5
Pricing Intentions	26.9	26.3	32.1	17.2	27.5	21.7	28.8
Ease of Credit	-32.1	-27.5	-34.7	-23.0	-32.4	-30.4	-35.2
Inflation Expectations	2.29	2.13	2.18	2.28	2.15	1.99	2.42

ANZ BUSINESS OUTLOOK

Figure 1. Activity outlook index

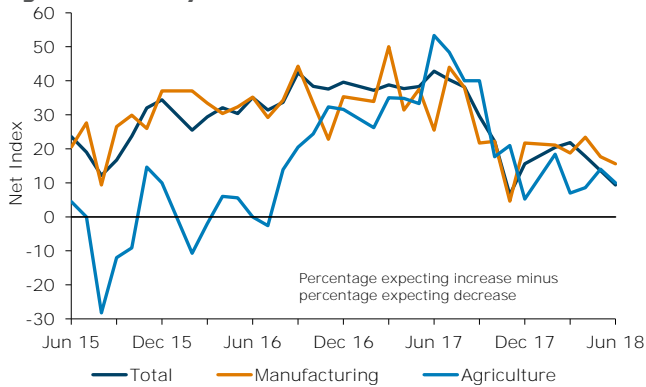


Figure 2. Construction intentions

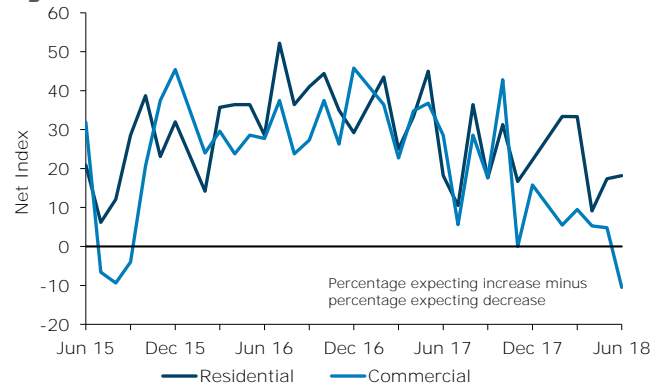


Figure 3. Activity outlook index

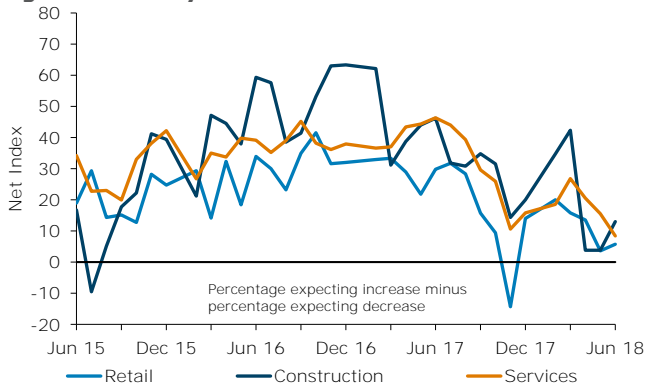


Figure 4. Labour market outlook

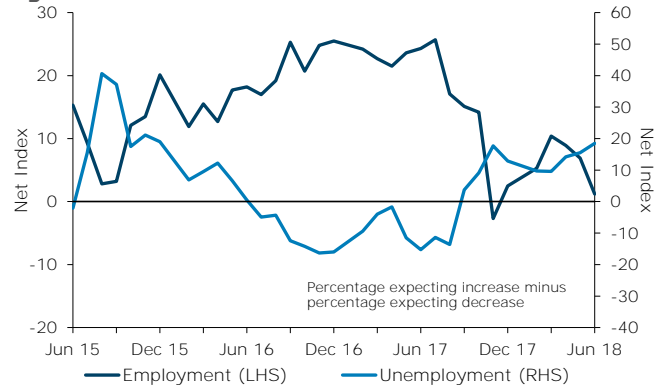


Figure 5. Export sales volumes

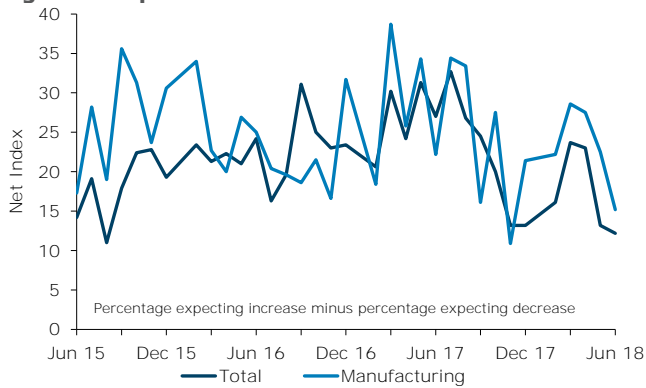


Figure 6. Financial outlook

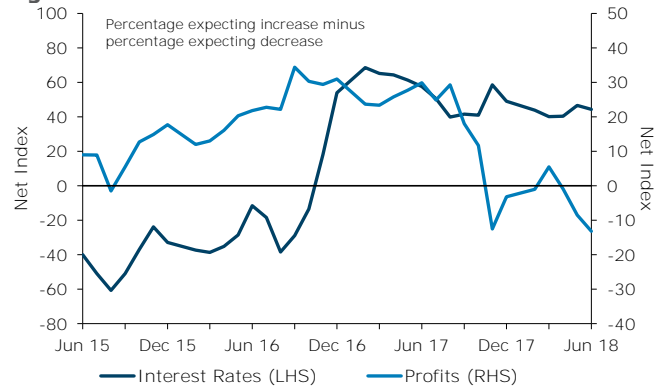


Figure 7. Investment intentions

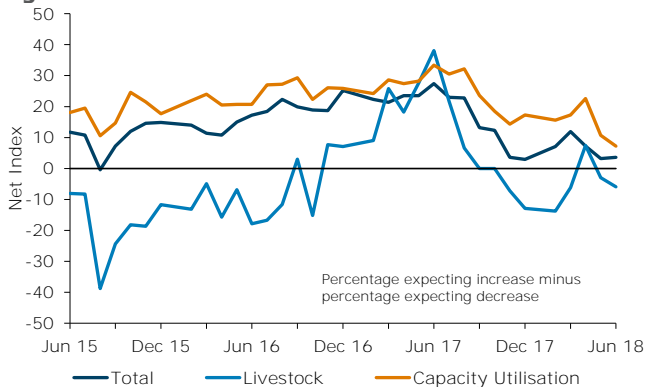
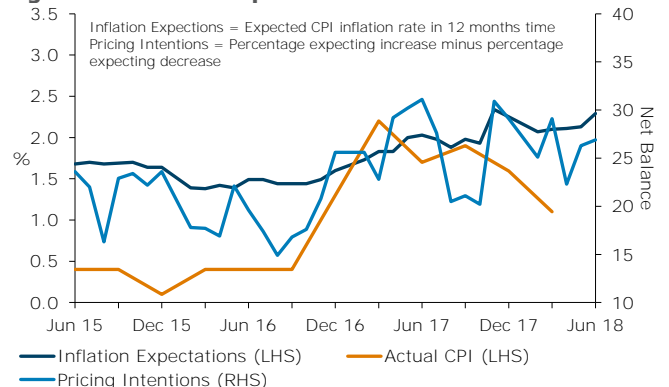


Figure 8. Inflation expectations



Source: ANZ, Statistics NZ

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