

ANZ BUSINESS OUTLOOK FEELING WHEELIE GOOD

October 2014

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

SUMMARY

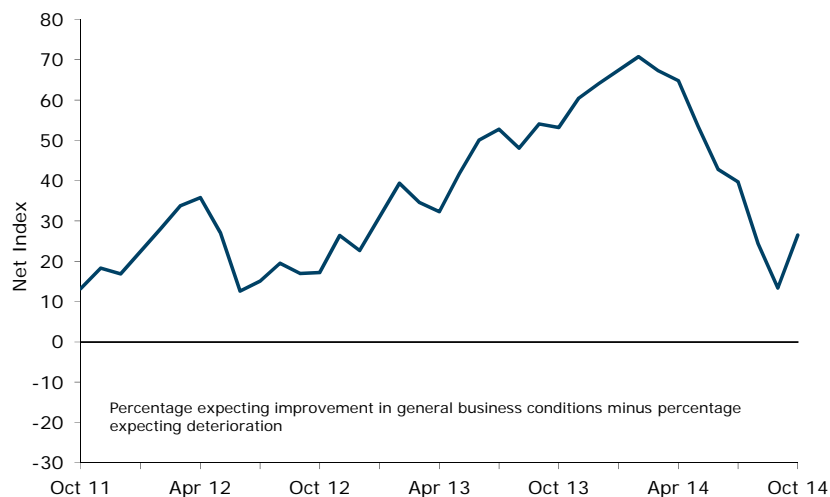
- Business confidence reversed last month's election-contrived dip.
- Readings across the broader survey measures are consistent with solid growth, employment and investment.
- Business-as-usual signals remain consistent with an economy trundling along nicely amidst an economic expansion (as distinct from a recovery).

Business confidence lifted in October. A net 27% of firms are optimistic about general prospects, up 14 points on the month prior. We put September's decline in confidence down to politics, and this month we say the same. Confidence is still well down from its February euphoria (a net 71% of firms were optimistic back then) but readings are still north of the long-run average.

Excluding the bounce in headline business confidence, the remainder of the survey resembles a mouse treading on the exercise wheel; it looks pretty familiar.

- Firms' activity expectations were basically unchanged at +38.
- Expected profitability dropped marginally (from +19 to +17). That's well down from the peak of +45 in February, but solid.
- Investment intentions eased from +20 to +16.
- A net 19% of businesses expect to be hiring more staff over the year ahead; that's down 2 points on the month prior, but okay.
- Stripping out a mild seasonal element, firms' own activity expectations, profit expectations and employment investment intentions lifted a smidgen. Life on the prairie for the average business may not be stellar but it looks solid.
- Export intentions nudged up (+22 to +25).
- Sentiment in the residential construction arena was down, but was up in the commercial sector; the levels still look reasonable.
- Pricing intentions nudged higher. A net 24% of respondents expect to be raising prices over the year ahead.

BUSINESS CONFIDENCE INDEX



Source: ANZ

ANZ BUSINESS OUTLOOK

Our Composite Confidence gauge (which combines both sentiment measures) is still projecting a strong economy into 2015. Based on the latest readings of business and consumer confidence the composite gauge is indicating the economy could post 4.7% growth by March next year. That rate is implausible given the capacity constraints. It's possible for an economy to bounce off lows in the initial stages of recovery but not beyond, in the absence of sharp uplifts in potential growth.

Leading gauges – both for the real economy and pricing side – have tended to over-estimate outturns for a number of years. That's natural when economies go through structural adjustments as well as elongated periods of weakness. Between 2008 and 2011 real GDP growth ranged from negative to +2%; that's 'grumpy growth' material. For a host of businesses, 2012 onwards couldn't have been any worse, so the 'glass half full' interpretation ruled when asked about expected future conditions.

That's not to downplay the survey's value; time and time again confidence surveys have proven to be adept at picking turning points for the economy. Business sentiment – and how expectations shape into employment and investment decisions – matters immensely.

We focus on the directional signal our gauges provide, and it's one of continued strong momentum. Even when we eye detractors from growth over the coming year such as reduced dairy incomes, the flow-on into survey indicators has been mixed. Agriculture sector confidence is naturally weaker (and more so in dairy-aligned regions), but firms' own activity expectations remain positive, and employment and investment intentions the same.

Amidst all the bigger picture stuff that sentiment and the economy can oscillate around – migration, house prices, interest rates, the NZD, commodity prices and the global scene to name but a few – it's sometimes the small and underappreciated factors that matter. It's a micro story as opposed to a macro one. It's the collection of small incremental decisions across policy-makers, businesses, individuals and households that ultimately make up an economy.

The New Zealand economy is an enviable position, experiencing strong growth and low inflation. The macro drivers of the business cycle we know about. But it's **the microeconomic facets that might be delivering the real economic muscle and allowing the economy to run faster without blowing a head gasket.**

SURVEY RESULTS OCTOBER 2014							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	26.5	13.4	26.4	27.6	-25.8	32.0	37.5
Activity Outlook	37.8	37.0	40.8	37.3	21.9	36.0	42.2
Exports	25.0	22.1	26.7	37.1	16.0	0.0	27.4
Investment	16.3	20.3	13.2	19.0	6.3	8.0	18.7
Livestock	-8.0	0.0	...	...	-8.0	...	...
Capacity Utilisation	30.2	24.5	22.7	46.8	16.0	50.0	22.4
Residential Construction	35.0	47.1	...	...	...	35.0	...
Commercial Construction	35.0	26.6	...	...	...	35.0	...
Employment	19.4	21.3	9.4	22.0	3.1	32.0	25.3
Unemployment Rate	-22.8	-16.8	-16.6	-23.7	9.4	-16.7	-34.4
Profits	17.2	19.2	14.8	13.6	-15.6	36.0	22.7
Interest Rates	54.0	50.6	50.9	52.5	53.1	45.8	55.0
Pricing Intentions	24.2	19.2	35.1	17.8	3.1	44.0	22.6
Ease of Credit	10.2	5.4	2.4	3.8	0.0	17.4	16.4
Inflation Expectations	2.48	2.46	2.65	2.49	2.42	2.72	2.41

ANZ BUSINESS OUTLOOK

FIGURE 1. ACTIVITY OUTLOOK INDEX

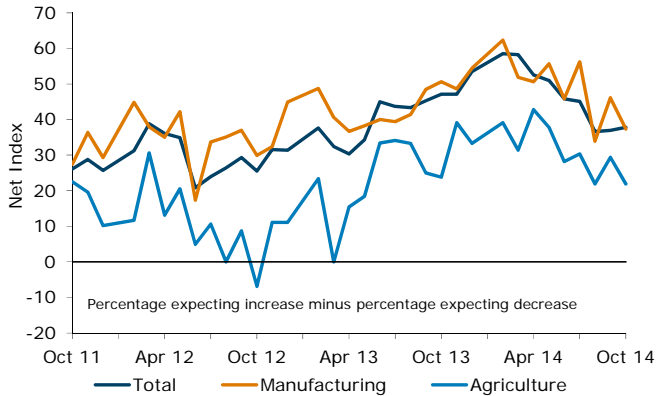


FIGURE 2. CONSTRUCTION INTENTIONS

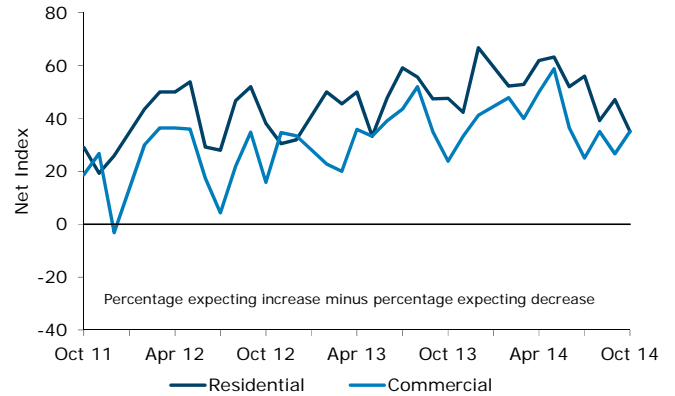


FIGURE 3. ACTIVITY OUTLOOK INDEX

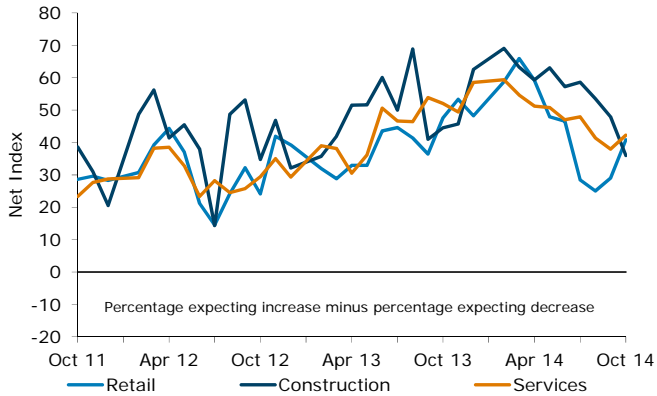


FIGURE 4. LABOUR MARKET OUTLOOK

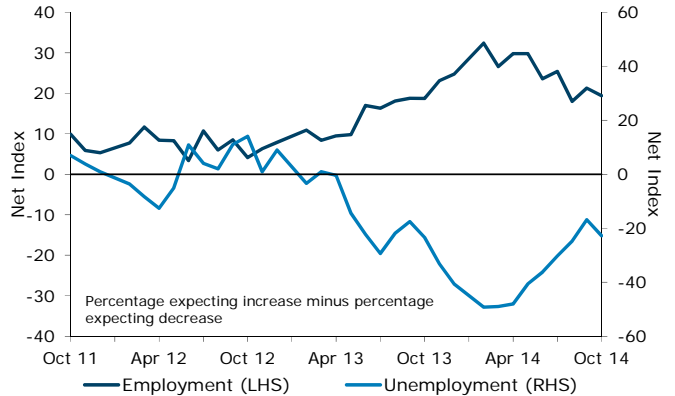


FIGURE 5. EXPORT SALES VOLUMES

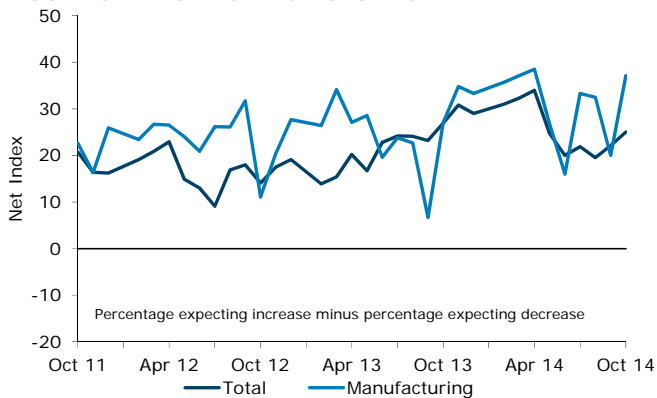


FIGURE 6. FINANCIAL OUTLOOK

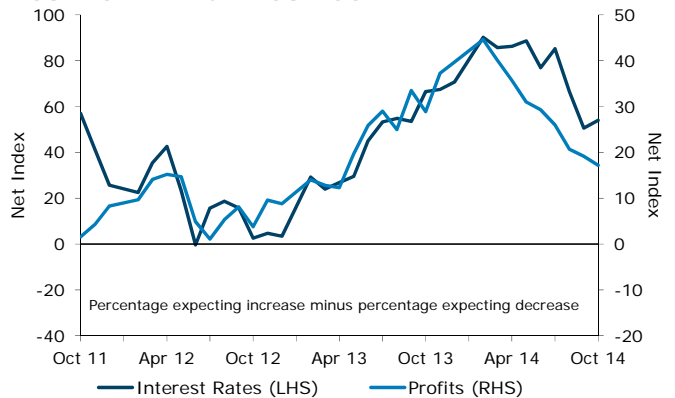


FIGURE 7. INVESTMENT INTENTIONS

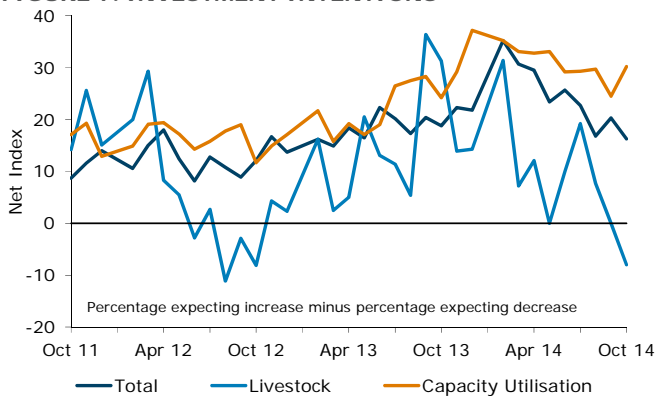
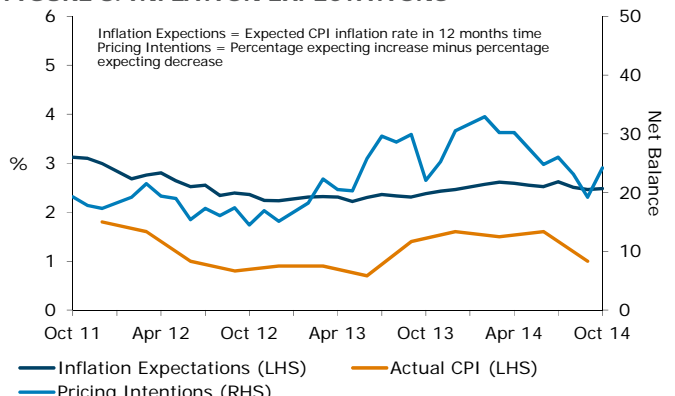


FIGURE 8. INFLATION EXPECTATIONS



Source: ANZ, Statistics NZ



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