

## ANZ BUSINESS OUTLOOK STOCKING FILLERS

December 2016

### CONTACT

**Cameron Bagrie**  
Chief Economist

Telephone: +64 4 802 2212  
E-mail: cameron.bagrie@anz.com  
Twitter @ANZ\_cambagrie

The next issue of the ANZ *Business Outlook* is scheduled for release on 28 February 2017 at 1pm.

### SUMMARY

- Business confidence rose 1 point in December.
- The economy has all the trimmings: **firms' own activity expectations are festive**, and hiring and investment expectations are strong. Those chestnuts signal a continuation of strong growth ahead.
- Inflation expectations and pricing intentions are on the rise and more firms think the next move for interest rates is up.
- Firms are reporting it is more difficult to get credit.

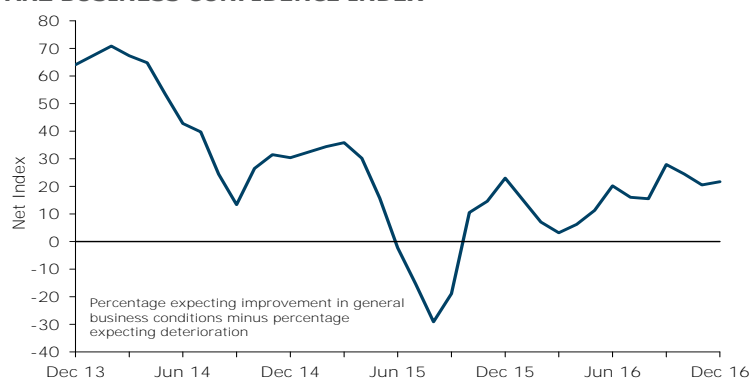
**Businesses are wrapped in optimism.** A net 22% of businesses are optimistic about the year ahead, up 1 point on the month prior. The construction sector is the most optimistic and manufacturing the least, but all sectors sit on the positive side of the ledger.

**Businesses are jolly when they consider the outlook for their own firms.** A net 40% of businesses expect better times for their own business with positivity across all the five major sectors. **That's** 12 points above the long-run average and flags very strong growth. Construction sector activity expectations are poles ahead of the others, sitting at a celebratory net 63%.

### Details of the survey were cheery.

- Investment intentions rose to +25, the highest reading since June 2014. With capacity constraints becoming more apparent, the economic expansion needs investment to kick on.
- Employment intentions are not only strong, they continue to edge higher. A net +26 are looking at greeting more staff.
- Profit expectations were a cracker at +31.
- Export intentions were unchanged at +23.
- Residential construction intentions eased from +35 to +29 (a marginal tweak from strong levels) while commercial construction intentions lifted from +26 to +46.
- **Firms' pricing intentions** rose from +21 to +26 – the highest since early 2015. Inflation expectations rose from 1.5% to 1.6%.

### ANZ BUSINESS CONFIDENCE INDEX



Source: ANZ

# ANZ BUSINESS OUTLOOK

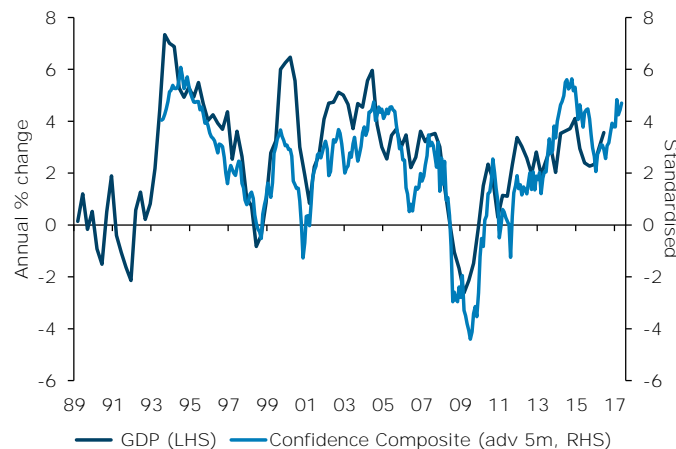
**If there was a Grinch in this month's survey it would be firms reporting more difficulty getting credit.** A net 32% of firms report it is getting tougher, a deterioration of 10 points on the month prior and the lowest reading since the question was first asked in mid-2009. **It's across all sectors.**

**Despite the tightening in this area it's encouraging to see firms remain so upbeat about broader economic prospects, particularly in association with widespread expectations that interest rates will be moving up (a net +54%).** It might be that firms are wise men (and women) and looking at the bigger picture of what ongoing strong credit growth would mean. **It's midnight at the bar, we've had a good time on the eggnog and the economy has done well.** Do we go home or stay out until 4am? History says the New Zealand economy (housing market) stays out and binges. The end result is an economic hangover as a bust follows the boom. This creates volatility across the economic cycle, which is not great for business. Curbing such volatility by rationing the drinks is a good thing for the economy and business sector.

**Last month's earthquake is a new Claus in the economic story but so far a minor one.** Confidence across Wellington, Nelson-Marlborough and Canterbury didn't appear to suffer (and in some instances rose).

**Our confidence composite indicator** combines both business and consumer sentiment (capturing both the production and consumption sides of the economic equation). **It is pointing to GDP growth accelerating from its current pace of 3½%.** Four percent growth is within reach. **Feliz Navidad to all.**

## CONFIDENCE COMPOSITE VERSUS GDP

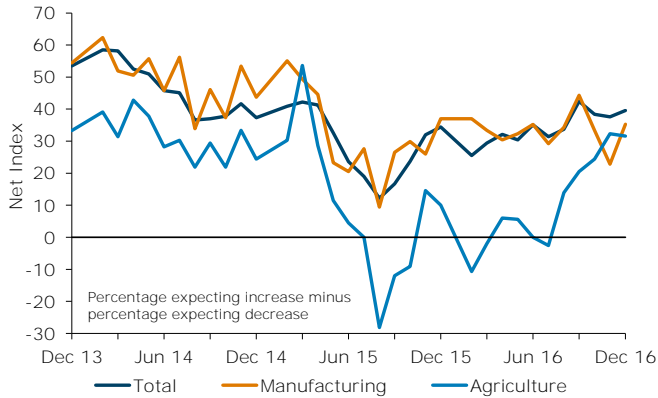


Source: ANZ, Roy Morgan, Statistics NZ

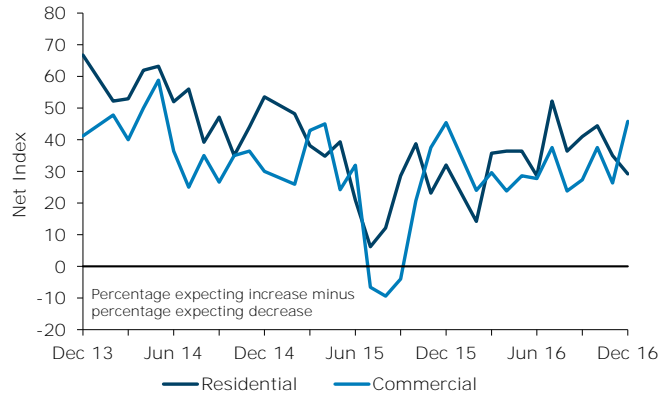
SURVEY RESULTS DECEMBER 2016							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	21.7	20.5	18.0	9.4	26.3	33.3	19.2
Activity Outlook	39.6	37.6	32.0	35.3	31.6	63.3	37.9
Exports	23.4	23.0	5.6	31.7	23.1	12.5	30.8
Investment	25.2	18.7	12.2	17.8	32.4	26.7	30.2
Livestock	7.1	7.7	...	...	7.1	...	...
Capacity Utilisation	25.9	26.1	19.1	26.1	6.6	23.5	28.1
Residential Construction	29.2	35.0	...	...	...	29.2	...
Commercial Construction	45.8	26.3	...	...	...	45.8	...
Employment	25.5	24.8	16.0	18.5	13.2	20.0	29.8
Unemployment Rate	-16.0	-16.3	-4.0	-1.5	-2.7	-6.6	-24.5
Profits	31.0	29.4	12.0	29.7	40.6	50.0	29.3
Interest Rates	54.0	18.2	44.9	50.8	64.9	46.6	57.4
Pricing Intentions	25.6	20.8	20.0	29.2	28.9	46.7	24.0
Ease of Credit	-32.1	-22.4	-21.8	-25.0	-35.3	-22.2	-37.8
Inflation Expectations	1.60	1.49	1.56	1.74	1.48	1.49	1.60

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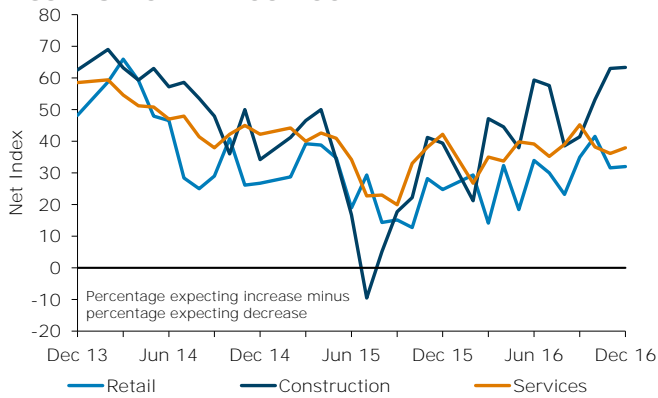
**FIGURE 1. ACTIVITY OUTLOOK INDEX**



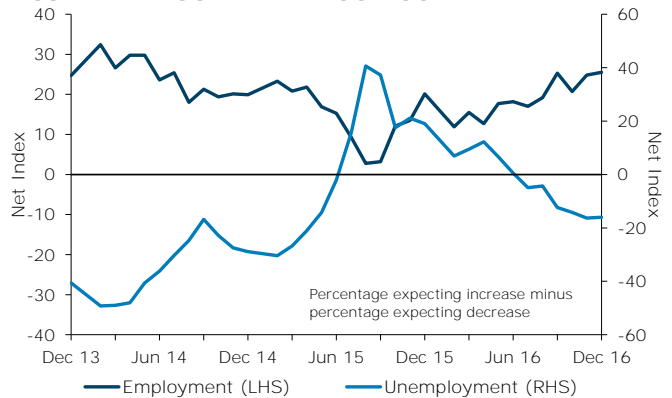
**FIGURE 2. CONSTRUCTION INTENTIONS**



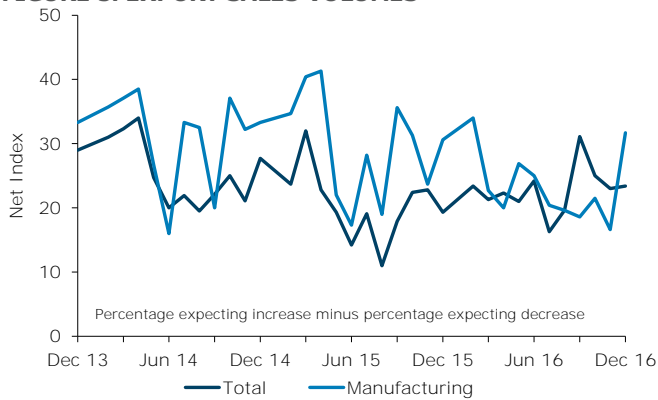
**FIGURE 3. ACTIVITY OUTLOOK INDEX**



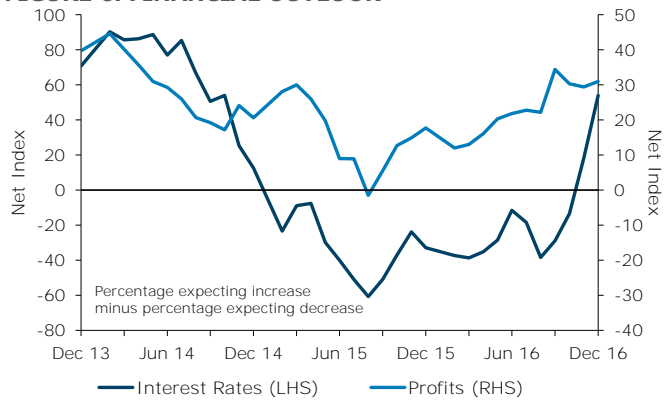
**FIGURE 4. LABOUR MARKET OUTLOOK**



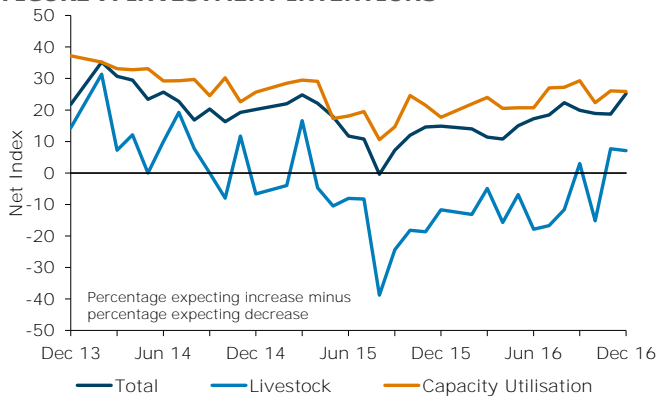
**FIGURE 5. EXPORT SALES VOLUMES**



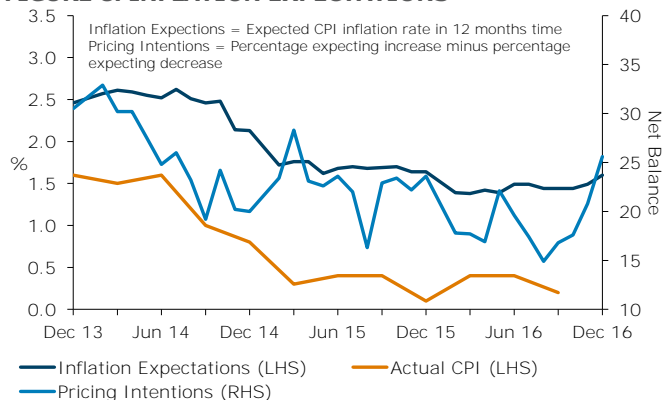
**FIGURE 6. FINANCIAL OUTLOOK**



**FIGURE 7. INVESTMENT INTENTIONS**



**FIGURE 8. INFLATION EXPECTATIONS**



Source: ANZ, Statistics NZ



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