

ANZ BUSINESS OUTLOOK SLIPPERY SLOPES

June 2015

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The next issue of the ANZ *Business Outlook* is scheduled for release on 31 July 2015 at 1pm.

SUMMARY

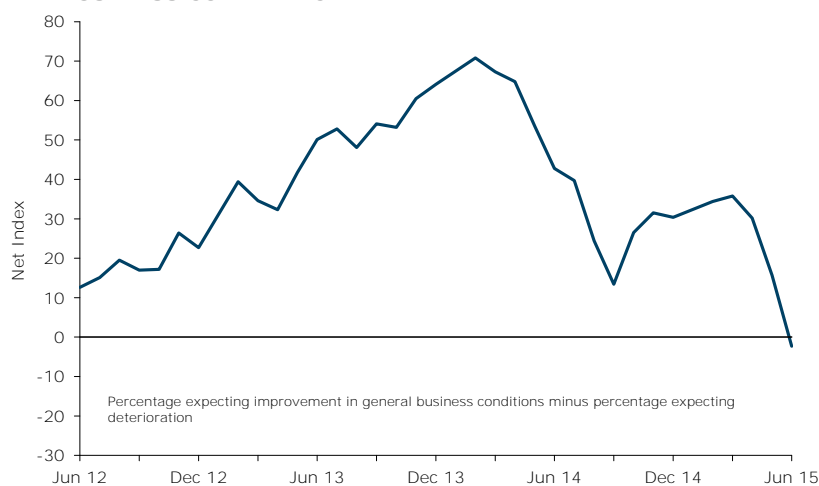
- Business confidence has slipped into the red for the first time since the February 2011 major Christchurch earthquake.
- Other survey indicators have held up better but still flag an economy **that's slipping in the growth stakes**.
- Agriculture is the most downbeat sector (no surprises there), construction sentiment is low, and Canterbury's **economic bindings are showing signs of detaching**. The economy is still growing but some parts risk heading off the groomed trail.

The economy is showing signs of heading off-piste. Business confidence has slipped into the red. The last time we saw business confidence in negative territory was post the most serious earthquake in Christchurch, and prior to that it was 2009, when the economy was in recession. **We're only just in negative:** a net 2% of businesses are pessimistic **about the general economy**. It's not a crevasse, but a crack has certainly opened up.

Other survey indicators – actually the more important ones in terms of the economic signals – still have the economy traversing okay, albeit with considerably less pizzazz than previously.

- **Firms' own activity expectations**, the single best growth indicator, eased to a three-year low of +24. It now sits below average.
- Employment intentions receded from +17 to +15 – still respectable.
- Profit expectations went from +20 to +9. A warning shot for investment and employment plans.
- Investment intentions dropped from +18 to +12.
- Export intentions fell from +19 to +14. So much for a lower NZD helping!
- Residential investment intentions dipped from +39 to +21, while commercial construction intentions lifted from +24 to +32.
- Similar movements were seen once we seasonally adjust the data so we **can't blame it on the winter blues**.

ANZ BUSINESS CONFIDENCE INDEX



Source: ANZ

ANZ BUSINESS OUTLOOK

Inflation gauges shifted from downhill to cross-country. One-year-ahead inflation expectations lifted from 1.6% to 1.7%, the first increase since October last year. Pricing intentions lifted too, though the shift was minute (from +23 to +24). That's margin of error stuff.

Three other facets are notable across the results.

- **Agriculture was universally the most downbeat sector.** Business sentiment, profits, employment and investment intentions are in the red. Few surprises here, with cash-flow into the dairy sector looking strained.
- **Construction sector sentiment has weakened.** Confidence turned negative and the sector showed the largest drop in activity expectations.
- **Sentiment in Canterbury was either flat or negative** across headline confidence, activity expectations, profitability, employment, investment (plant), and residential investment. Canterbury appears to have fallen off the ski-lift, with its twin supports of the rebuild and agriculture waning.

We are left with an overarching impression of an economy experiencing moderating momentum. That's confirmed by our Composite Confidence gauge (which combines sentiment measures from both businesses and consumers). This gauge has been signalling decelerating momentum for three months now.

There are greater economic challenges to manage compared to six months ago. Incremental impetus from the rebuild effort is fading. Ever-accelerating Auckland house prices could go right off the cliff. Commodity prices are down significantly, and sizeable falls in the terms of trade (a measure of the nation's purchasing power) are pending.

The economy still has some tricks up its sleeve. The NZD has corrected somewhat and for an exporter used to a NZD/USD of 0.80, under 0.70 looks pretty good. Forty percent of respondents expect interest rates to move down; we're more certain than that. Impetus from strong net immigration remains.

As well as these cyclical counterbalances, the medium-term picture remains solid. It's better to get on top of a runaway Auckland property market sooner rather than later. New Zealand sells butter, steak and wine, and imports technology, cars and clothes. Long-term price trends favour the former; the terms of trade will stabilise and recover over time. As Christchurch's rebuild stimulus fades, fiscal policy will step in (tax cuts in 2017, anyone?) and resources will be freed up for the swathe of necessary construction work across the rest of the country.

SURVEY RESULTS JUNE 2015							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-2.3	15.7	6.8	-16.9	-28.9	-3.4	10.1
Activity Outlook	23.6	32.6	18.9	20.5	4.5	16.7	34.2
Exports	14.2	19.3	23.3	17.3	-2.9	0.0	20.4
Investment	11.7	17.9	14.8	10.5	-15.5	13.8	18.1
Livestock	-8.1	-10.5	...	...	-8.1	...	...
Capacity Utilisation	18.1	17.3	12.2	19.0	-2.6	16.7	27.4
Residential Construction	20.9	39.3	...	...	...	20.9	...
Commercial Construction	31.9	24.2	...	...	...	31.9	...
Employment	15.3	16.9	14.9	9.5	-6.8	13.8	24.3
Unemployment Rate	-2.1	-14.3	-9.4	10.2	17.8	0.0	-10.1
Profits	9.0	19.8	12.1	1.4	-29.5	23.3	17.7
Interest Rates	-40.0	-29.8	-41.9	-27.3	-44.5	-58.7	-40.1
Pricing Intentions	23.6	22.6	24.7	29.5	9.1	30.0	22.6
Ease of Credit	9.0	16.9	4.7	2.8	4.6	13.8	15.1
Inflation Expectations	1.68	1.62	1.68	1.76	1.64	1.69	1.65

ANZ BUSINESS OUTLOOK

FIGURE 1. ACTIVITY OUTLOOK INDEX

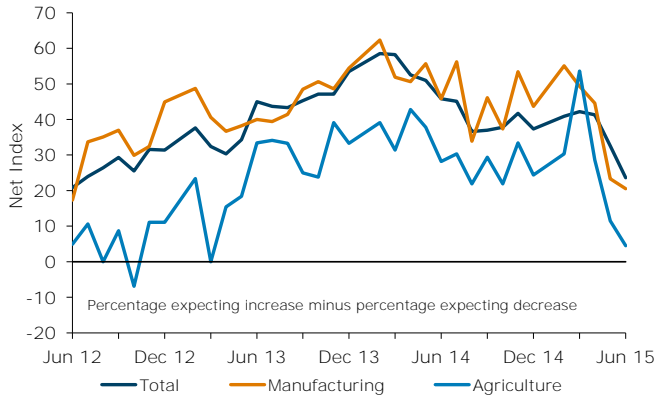


FIGURE 2. CONSTRUCTION INTENTIONS

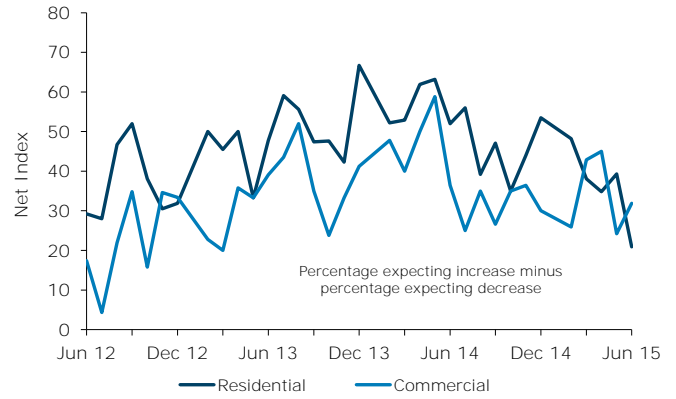


FIGURE 3. ACTIVITY OUTLOOK INDEX

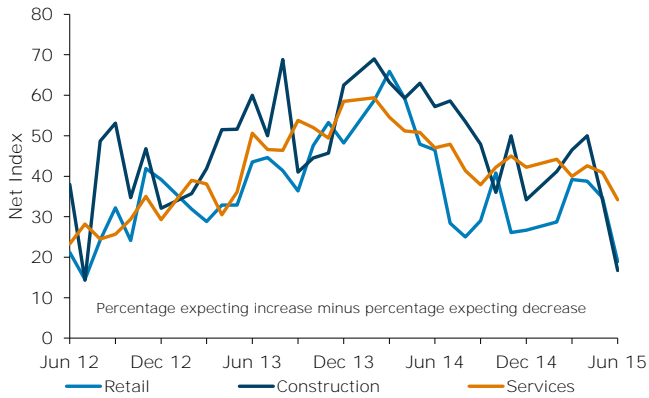


FIGURE 4. LABOUR MARKET OUTLOOK

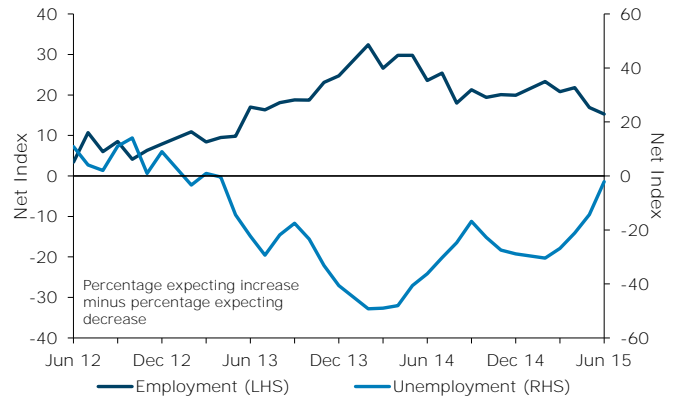


FIGURE 5. EXPORT SALES VOLUMES

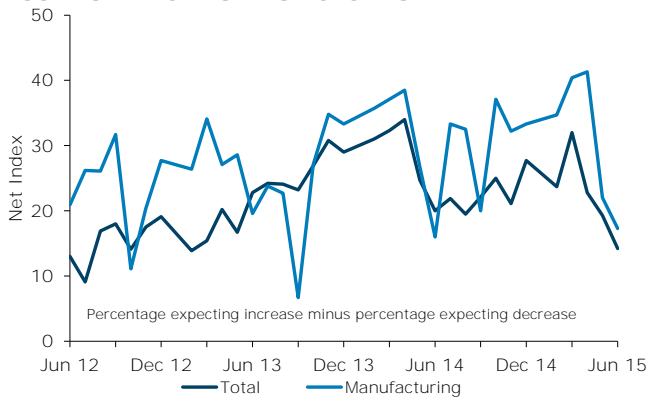


FIGURE 6. FINANCIAL OUTLOOK

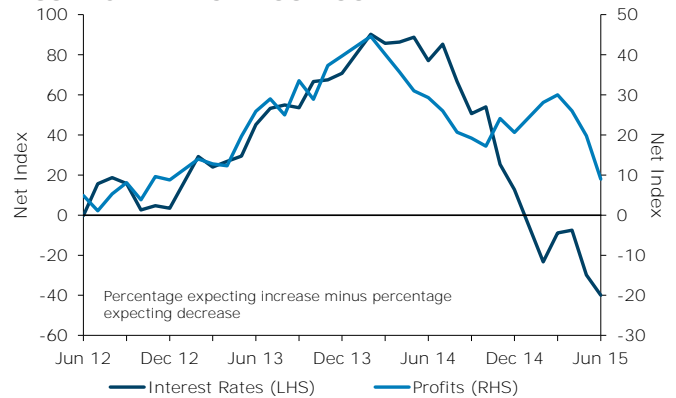


FIGURE 7. INVESTMENT INTENTIONS

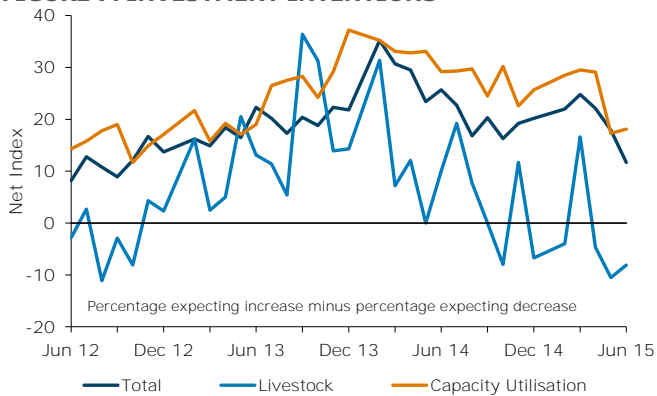
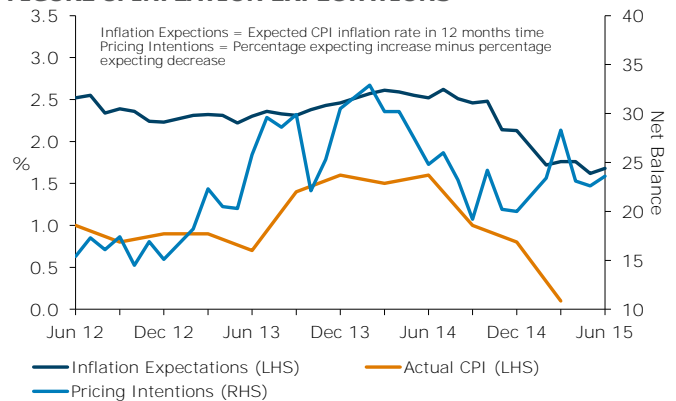


FIGURE 8. INFLATION EXPECTATIONS



Source: ANZ, Statistics NZ



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