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The next issue of the ANZ *Business Outlook* is scheduled for release on 31 October 2017 at 1pm.

THE PREVAILING BREEZE

SUMMARY

- A more cautionary stance is notable in this month's survey.
- Activity, employment and investment expectations all remain at healthy levels, though peaks have been pared back.
- Some of the paring back may reflect a maturing business expansion, but **we're more inclined to put the move down to political uncertainty.**

Businesses are eying the pause button according to the ANZ Business Outlook Survey. A net 0% of businesses are optimistic about the year ahead. That's the lowest level since September 2015.

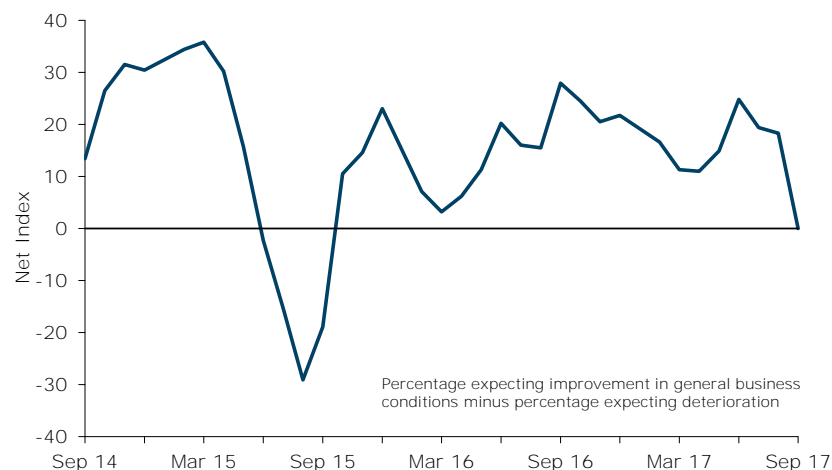
There is good news still.

- Adjusting for seasonality, business confidence is still positive. While it fell from a net 29% to a net 14%, **that's still** reasonable.
- Businesses are still uniformly positive about their own prospects, are still planning to hire and invest, and survey indicators are by-and-large still elevated in level terms.

However, there were still relatively broad-based declines on the month.

- A net 30% of businesses expect better times ahead for their own business, down 8 points on August. **Adjusting for seasonality, firms' own activity expectations fell from +45 to +36.**
- A net 13% of firms are expecting to lift investment, down from +23.
- Employment intentions pulled back from +17 to +15.
- Profit expectations fell from +29 to +18.
- Export intentions eased from +27 to +25.
- Residential construction intentions dropped from +36 to +18. Commercial construction intentions fell from +29 to +18.
- **Firms' pricing intentions were unchanged at +21.** Inflation expectations rebounded from 1.9% to 2%.
- A net 26% of businesses expect it to be tougher to get credit.

ANZ Business Confidence Index



Source: ANZ

ANZ BUSINESS OUTLOOK

Most survey indicators have been pared back to levels prevailing a few months ago so we're being careful not to read too much into it. The business cycle is also maturing; it's tougher to eke out gains late in the cycle.

Our confidence composite indicator is still pointing to annual GDP growth around 4%. We're not buying into that degree of optimism but agree that growth is set to be respectable.

However, the economy is at a delicate juncture on two levels.

The "peaks" are in for construction, migration and probably tourism.

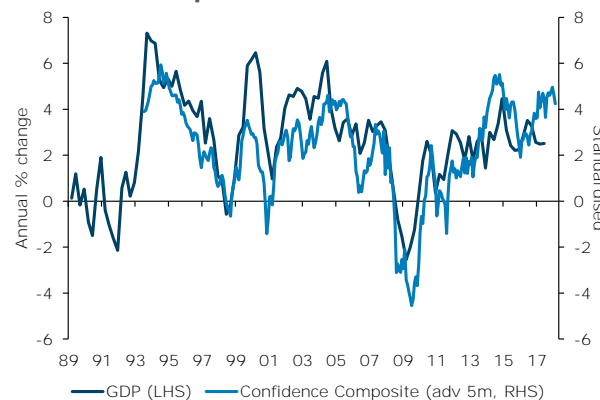
These sectors have been at the forefront of growth over prior years. **"New" economic drivers are appearing** in the form of high commodity prices, rising household incomes and expansionary fiscal policy. **It's nothing to fret about.** Night follows day just as day follows night; the business cycle evolves and goes through different stages.

Policy uncertainty will rise over the coming months as political horse trading takes place. That can be unsettling. Mind you, the wheels haven't exactly fallen off the US economy, where unemployment has fallen to 4.4%!

The last thing the New Zealand economy needs is a long, drawn-out process mired in policy uncertainty. Business confidence will be key to watch over the coming months. Change (that was not sold or communicated well) was a key factor driving business confidence into a funk in 2000, and the economy stalled. The economic wheels need to be inflated, not deflated, to keep turning.

When you run the ruler over New Zealand's political system and compare it to others (one house not two and reasonably centralist policy platforms), **there's not too much to fret about.** There'll be the odd curve-ball no doubt, but we'll deal with them as they get thrown.

Confidence Composite versus GDP



Source: ANZ, Roy Morgan, Statistics NZ

SURVEY RESULTS SEPTEMBER 2017							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	0.0	18.3	0.0	-17.4	0.0	4.3	7.6
Activity Outlook	29.6	38.2	15.7	21.7	40.0	34.8	29.6
Exports	24.5	26.8	19.1	16.1	31.8	14.3	28.2
Investment	13.2	22.8	8.0	6.5	10.3	4.3	21.3
Livestock	0.0	6.6	...	...	0.0	...	...
Capacity Utilisation	23.6	32.2	21.5	19.3	24.0	36.4	21.0
Residential Construction	17.6	36.4	...	...	...	17.6	...
Commercial Construction	17.7	28.6	...	...	...	17.7	...
Employment	15.1	17.1	4.0	0.0	10.3	17.4	26.1
Unemployment Rate	3.7	-13.6	3.9	19.6	23.4	-4.3	-5.9
Profits	18.0	29.3	10.0	4.3	20.0	30.4	14.9
Interest Rates	41.6	39.9	37.2	39.2	36.7	30.4	45.6
Pricing Intentions	21.1	20.5	17.6	19.6	6.7	34.8	28.4
Ease of Credit	-26.2	-23.3	-25.5	-12.5	-29.6	-22.8	-30.0
Inflation Expectations	1.98	1.88	2.01	2.07	1.90	1.81	1.96

ANZ BUSINESS OUTLOOK

Figure 1. Activity outlook index

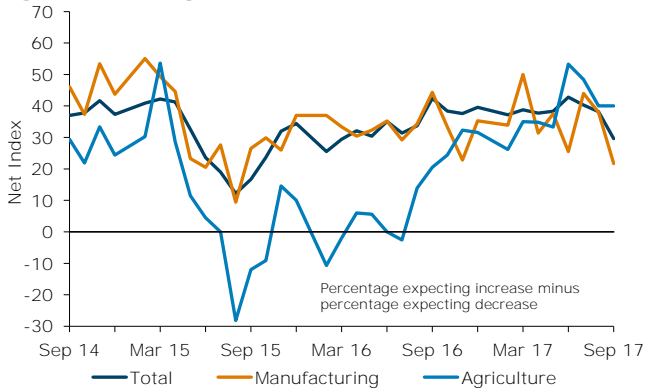


Figure 2. Construction intentions

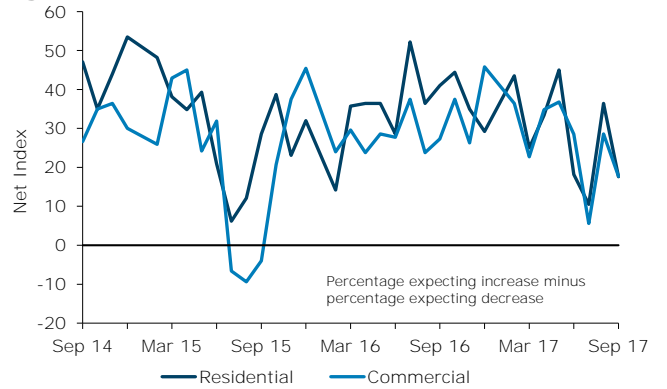


Figure 3. Activity outlook index

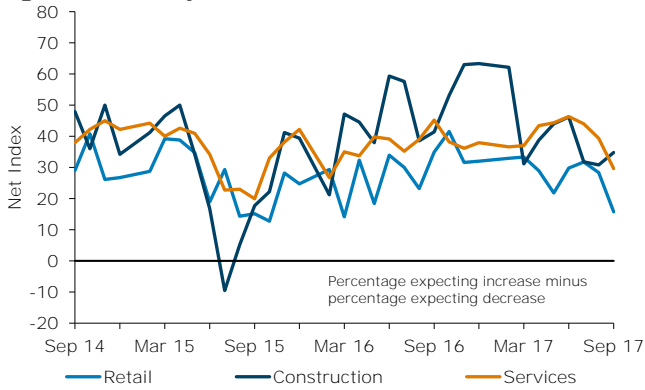


Figure 4. Labour market outlook



Figure 5. Export sales volumes

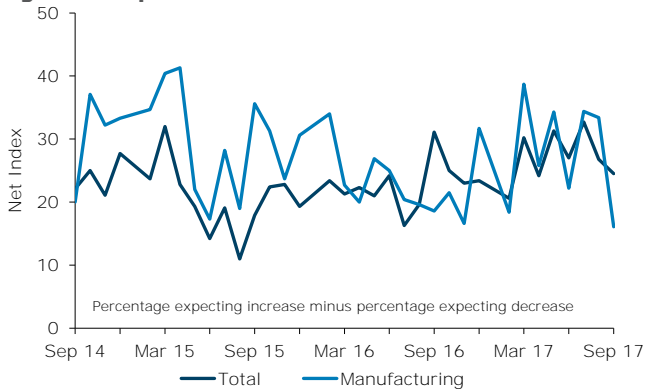


Figure 6. Financial outlook

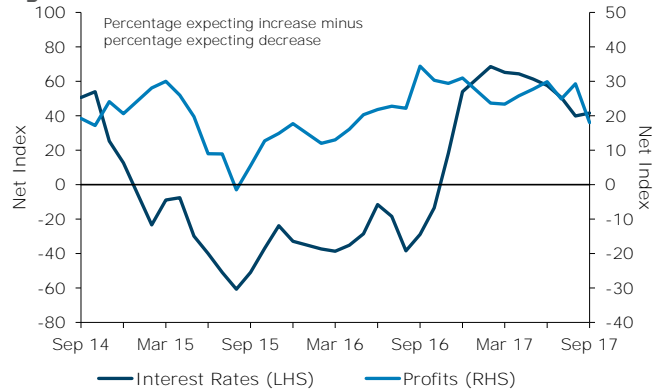


Figure 7. Investment intentions

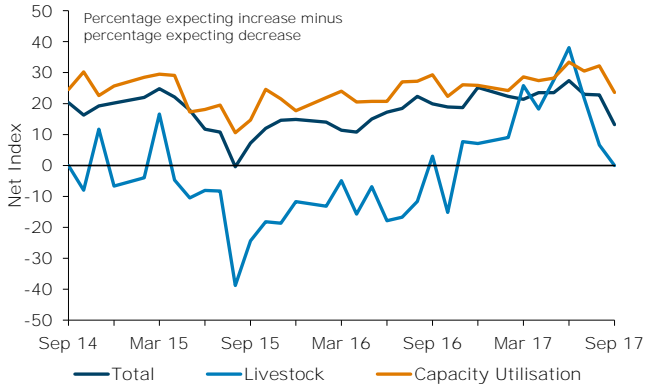
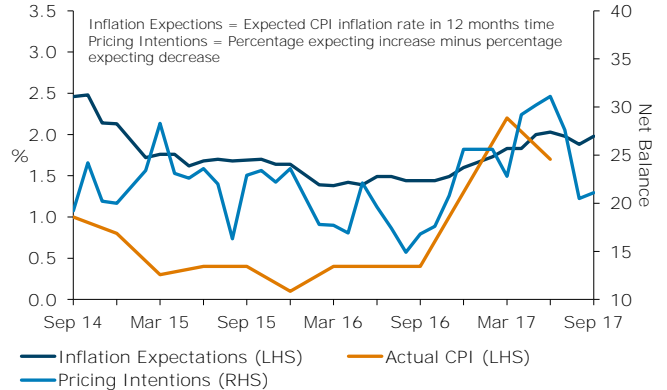


Figure 8. Inflation expectations



Source: ANZ, Statistics NZ

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