

ANZ BUSINESS OUTLOOK SUNNY SIDE UP

November 2015

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The next issue of the ANZ *Business Outlook* is scheduled for release on 18 December 2015 at 1pm.

SUMMARY

- Business confidence continued to improve in November, rising to a six-month high.
- A better economic vibe is apparent across the broader survey too. This flags stronger growth ahead.
- Our composite indicator implies over 3% growth over the coming year; **that's respectable amidst continued challenges for some sectors such as dairying, and signals a more diversified economy.**
- Pricing gauges remain tame.

Business sentiment continued to improve in November. A net 15% of businesses are optimistic about the general economy over the year ahead. The service sector is the most optimistic, and agriculture the least, although the latter still showed improvement over the month.

Growth signals from the survey are encouraging:

- **Firms' own activity expectations** rose 8 points to +32. Views here are above average and that's a big tick for the broader picture. What firms think about their own business's prospects is far more important than general business sentiment – **it's what firms know best and maps best** to GDP growth. We had to laugh at creative commentary suggesting firms manipulate headline confidence hoping for lower interest rates; **the broader survey's track record** speaks for itself.
- Profit expectations increased from +13 to +15. Firms need to be making money before looking to invest and employ; we have that.
- Investment intentions rose 3 points to +15.
- Employment intentions rose from +12 to +14. Bring it on.
- Export intentions nudged higher (+23).
- Residential investment intentions bucked the trend and eased from +39 to +23; still respectable. Commercial construction intentions improved from +21 to +38; impressive.

ANZ BUSINESS CONFIDENCE INDEX



Source: ANZ

ANZ BUSINESS OUTLOOK

Some of the lift in confidence can be put down to the approach of summer; we simply feel better with the sun on our backs and the holiday season approaching. Stripping out this mild seasonal effect saw most measures still hold onto or improve on last month's gains.

Pricing intentions were largely unchanged. A net 22% of firms expect to lift prices over the coming year. The construction sector is tops, with a net 38% expecting to lift prices. The retail sector's enthusiasm for raising prices dampened over the month; it's a case of 'all power to the consumer'. One-year-ahead inflation expectations eased a tad to 1.6%, so we still have an improving growth backdrop amidst low inflation.

Our composite growth indicator (which combines sentiment measures from both business and consumers) **is flagging the potential for GDP growth of north of 3%.** After a half-year hiatus, it's pretty clear the economy is starting to pick up again.

The economic bulls and bears have different takes on the state of play. For the latter it is all about the economy not growing fast enough to absorb new entrants into the labour market; the Auckland housing market is now flat-lining; stimulus from the Christchurch rebuild is fading; dairy prices are still low and continue to bungee from month to month; the global scene has more flip flops than Bondi Beach, with the same going for with the weather. However, the counterfactual is also compelling. Tourism and migrant inflows are huge and New Zealand is far more than a bunch of cows. Outside of Auckland, housing is starting to light (and leverage) up, and the lower NZD is a margin-Grinch for retailers but brings an early Christmas for exporters. The importer or manufacturer of those orange road cones must be doing incredibly well, going by what we see around the country. Sectors such as tourism are not doing well just because of macro forces; small things are adding to the punch. The same applies across other sectors too.

Reasonable readings for business sentiment and the sub-components of the survey in particular tell us the economy is doing okay. Whilst perhaps not a 'rock-star' in an absolute sense, we are at least successfully holding a tune while some other nations are suffering laryngitis.

Moreover, migration flows are telling; people do not tend to migrate to a bad news story. They move to (or stay within) a relatively stronger one. Of course this creates issues for housing. **It's a lot of labour supply to absorb** too. Ironically, in a world of population ageing (and low unemployment in the South Island), inflows are more than welcome. Managing a 62k annual inflow is also far preferable to managing the same but with a negative sign in front of it!

SURVEY RESULTS NOVEMBER 2015							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	14.6	10.5	12.7	0.0	-12.5	23.5	26.7
Activity Outlook	32.0	23.7	28.2	26.0	14.6	41.2	38.1
Exports	22.8	22.4	21.9	23.7	6.9	12.5	31.3
Investment	14.6	12.0	13.0	1.3	-14.7	6.1	29.3
Livestock	-18.7	-18.2	...	...	-18.7	...	...
Capacity Utilisation	21.5	24.6	14.3	25.4	0.0	14.3	34.2
Residential Construction	23.1	38.7	...	...	...	23.1	...
Commercial Construction	37.5	20.7	...	...	...	37.5	...
Employment	13.5	12.1	-1.4	1.3	4.9	20.6	25.5
Unemployment Rate	21.1	17.5	31.0	19.5	46.4	20.6	11.3
Profits	14.9	12.7	2.8	13.0	-7.3	32.3	22.6
Interest Rates	-23.8	-37.0	-23.9	-26.0	-34.1	-12.1	-23.1
Pricing Intentions	22.2	23.4	28.2	9.3	7.3	38.2	25.4
Ease of Credit	6.8	7.0	-6.3	10.0	-5.4	18.2	10.9
Inflation Expectations	1.64	1.70	1.62	1.70	1.61	1.77	1.61

ANZ BUSINESS OUTLOOK

FIGURE 1. ACTIVITY OUTLOOK INDEX

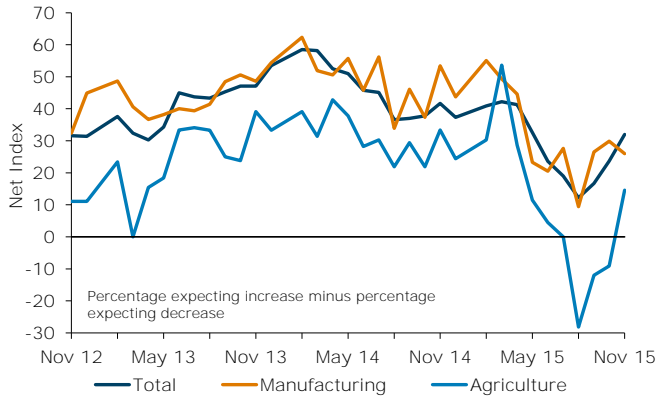


FIGURE 2. CONSTRUCTION INTENTIONS

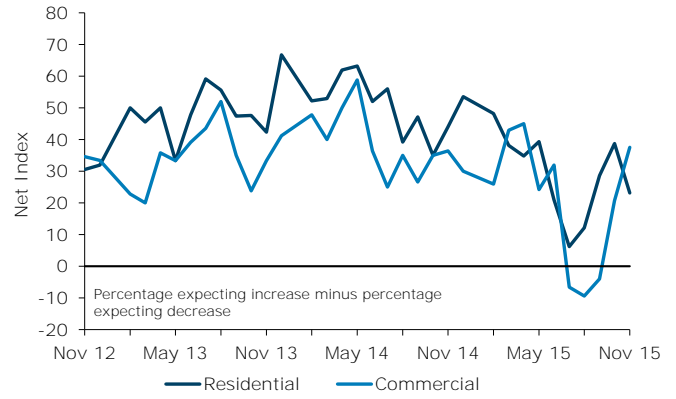


FIGURE 3. ACTIVITY OUTLOOK INDEX

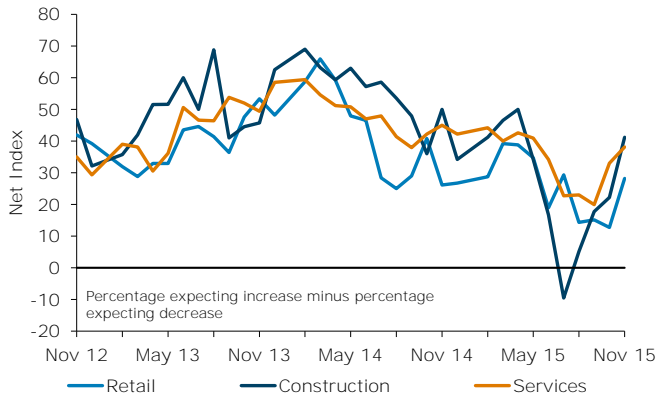


FIGURE 4. LABOUR MARKET OUTLOOK

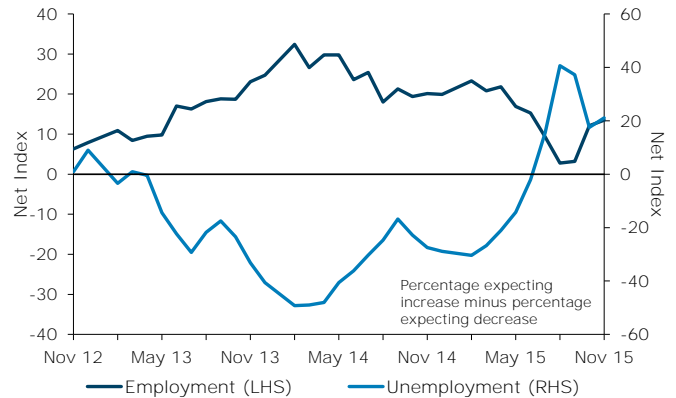


FIGURE 5. EXPORT SALES VOLUMES

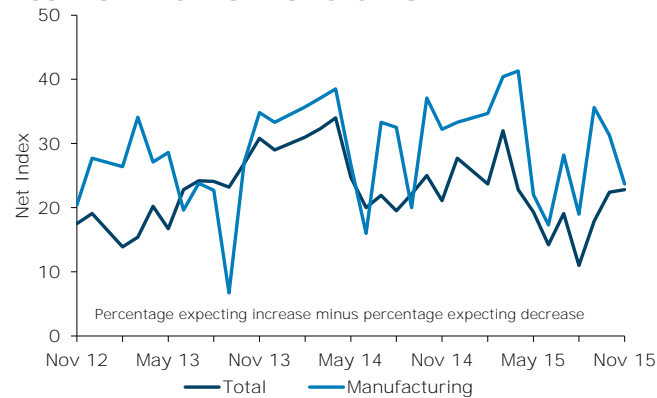


FIGURE 6. FINANCIAL OUTLOOK

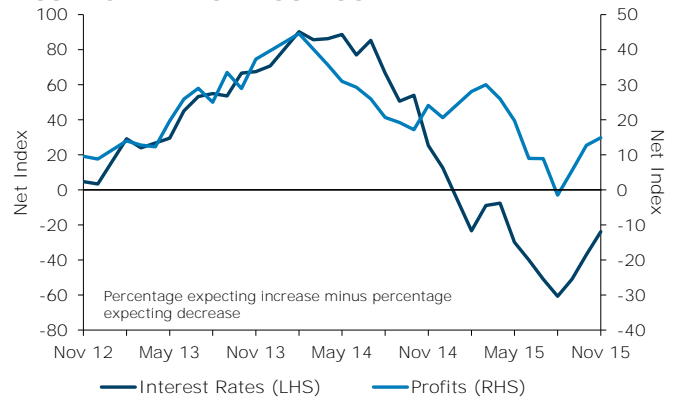


FIGURE 7. INVESTMENT INTENTIONS

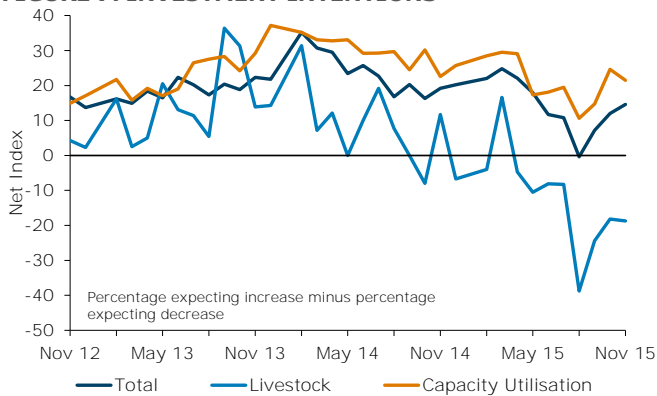
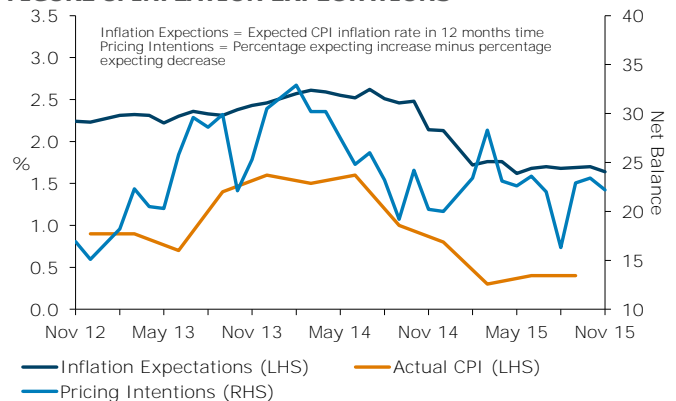


FIGURE 8. INFLATION EXPECTATIONS



Source: ANZ, Statistics NZ

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