

ANZ BUSINESS OUTLOOK HALLOWEEN PARTY

October 2016

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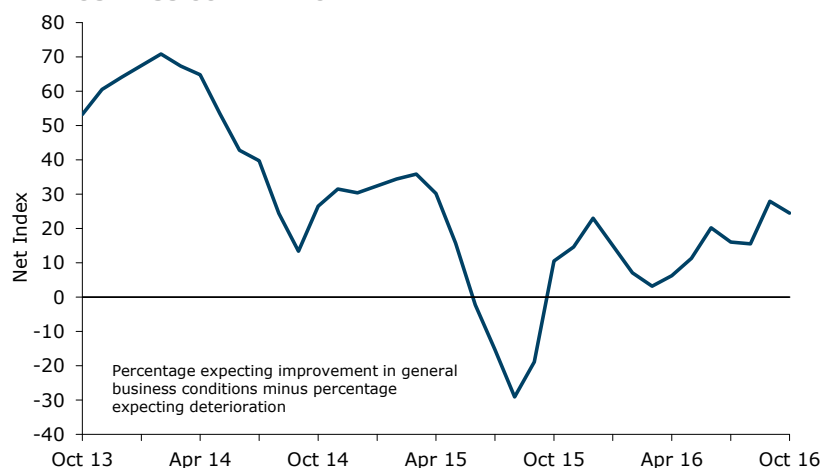
SUMMARY

- Business sentiment dipped in October. The level is still elevated so we are not reading too much into it.
- Businesses remain upbeat about the economy, their own prospects, profitability and employment.
- The economic cauldron is still boiling away nicely. However, more difficulty in accessing credit and skilled labour could tip some cold water on the fire eventually. That's a normal business cycle in operation so nothing to fret about.
- Pricing intentions are (barely) off their lows and inflation expectations are still flat at 1.4%.

There aren't many zombie firms in the New Zealand economy as business confidence remains at solid levels. A net 25% of businesses are optimistic about the year ahead, down 3 points on the month prior but still the second-highest reading this year. Service sector firms get the candy bag for first place. Agriculture is dragging the chain but is far less grave than it was at the start of the year, at +7.

Firms are bubbling along. When it comes to firms' own prospects, a net 38% of businesses expect better times, the second-highest reading this year. Construction is screaming along at +53 while agriculture has brushed off the cobwebs, lifting 3 points to 24, the highest result in 18 months. Spirits lifted in the retail sector too, but dipped for manufacturing and services. In seasonally adjusted terms, own activity expectations fell 5 points to a net 42%. That's an economy still possessed with a good vibe.

ANZ BUSINESS CONFIDENCE INDEX



Source: ANZ

Across other elements of the survey we note:

- Investment intentions eased from +20 to +19; good bones.
- A net 21% of businesses are expecting to treat themselves to more staff – down 4 points but high.
- A net 30% of businesses expect a lift in profitability, also down 4 points but still sweet.

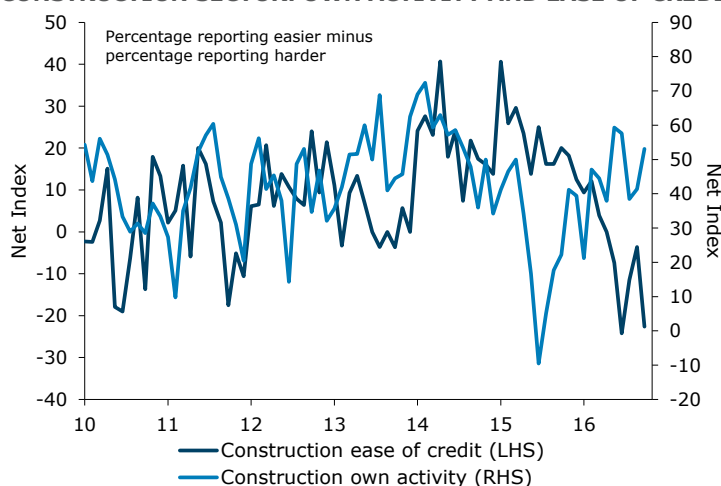
- Export intentions gave up some of last month's jump, falling from +31 to +25. The global trading environment is still tricky.
- Residential and commercial building intentions are feeling the magic, both rising further to +44 and +38 respectively.
- Firms' pricing intentions nudged up from +17 to +18 – that is still low but could inflation be rising from the grave? It's far too early to tell. Inflation expectations were again unchanged at 1.4%.

Looking at the detail:

- **Our ANZBO composite measure** (a proxy for growth based on own activity, employment, investment and profit expectations) **is highest in Otago, Nelson and Wellington.** Auckland is middle of the pack, while of the main centres, Canterbury has had the strongest lift this year.
- **Construction is the strongest sector by this measure, and services are also above average.** The agriculture composite dipped back into the red.
- **Fewer firms expect interest rates to fall** (14% versus 29% last month).
- **Firms report that credit is harder to find, with agriculture and construction finding it toughest.** Although the credit availability data series are too short to make any concrete inferences, it would seem untenable for construction activity and availability of credit to continue heading in opposite directions indefinitely (see chart).

A tightening in credit may dampen activity in the near term but it's arguably in New Zealand's medium-term economic interests. New Zealand is notorious for bingeing at the top of the cycle (rapidly accumulating leverage, pushing valuations to extremes, blowing out the current account deficit), which ultimately requires a visit from the Grim Reaper as excesses are purged. Leaning against excesses at the top will help keep that jinx at bay.

CONSTRUCTION SECTOR: OWN ACTIVITY AND EASE OF CREDIT

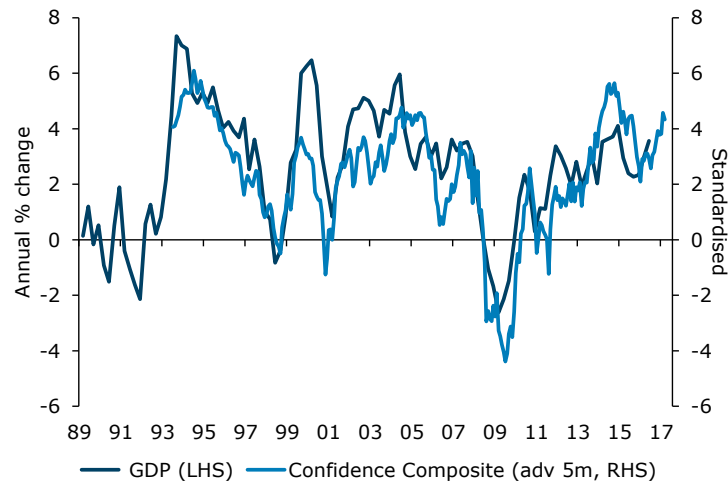


Source: ANZ, Roy Morgan, Statistics NZ

The New Zealand economy has plenty of momentum, and this looks set to continue for a while yet. Although business confidence dipped in October, it remains solid. Our confidence composite indicator, which combines business and consumer sentiment to capture both the demand and supply sides of the economy, is still pointing to GDP growth accelerating from its current pace of 3½% into next year. The economy doesn't have the capacity to do that for too long (difficulty finding skilled labour will moderate the pace of expansion) but we'll take it while we can.

ANZ BUSINESS OUTLOOK

CONFIDENCE COMPOSITE VERSUS GDP



Source: ANZ, Roy Morgan, Statistics NZ

SURVEY RESULTS OCTOBER 2016							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	24.5	27.9	22.7	16.7	7.3	25.0	34.0
Activity Outlook	38.4	42.4	41.5	33.4	24.4	53.1	38.2
Exports	25.0	31.1	22.2	21.5	26.7	28.6	32.5
Investment	18.9	19.9	23.1	8.3	2.4	19.3	25.8
Livestock	-15.2	3.0	...	...	-15.2	...	...
Capacity Utilisation	22.3	29.3	16.0	20.4	6.5	33.3	32.8
Residential Construction	44.4	41.0	...	...	...	44.4	...
Commercial Construction	37.5	27.3	...	...	...	37.5	...
Employment	20.7	25.3	17.0	20.6	2.6	34.4	23.5
Unemployment Rate	-14.2	-12.4	-16.9	1.6	2.4	-15.6	-26.4
Profits	30.3	34.4	35.9	25.4	17.0	53.1	29.3
Interest Rates	-13.5	-28.9	-15.1	-14.5	-14.6	0.0	-12.6
Pricing Intentions	17.6	16.8	27.0	6.4	12.8	48.4	16.7
Ease of Credit	-18.9	-8.7	-10.0	-13.5	-25.6	-22.6	-12.9
Inflation Expectations	1.44	1.44	1.53	1.52	1.22	1.45	1.47

ANZ BUSINESS OUTLOOK

FIGURE 1. ACTIVITY OUTLOOK INDEX

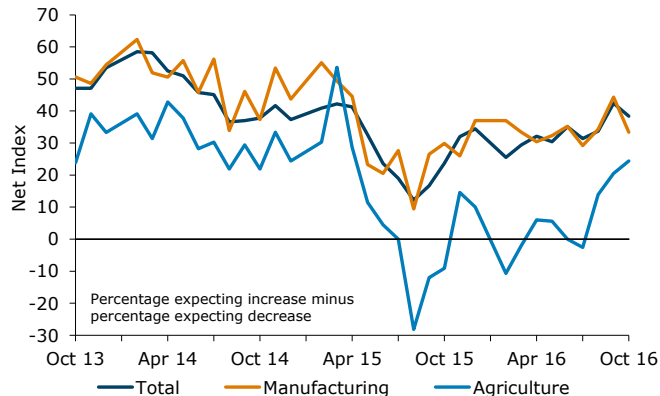


FIGURE 2. CONSTRUCTION INTENTIONS

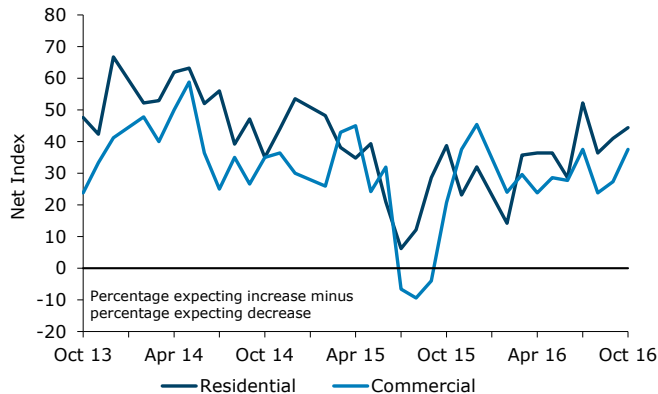


FIGURE 3. ACTIVITY OUTLOOK INDEX

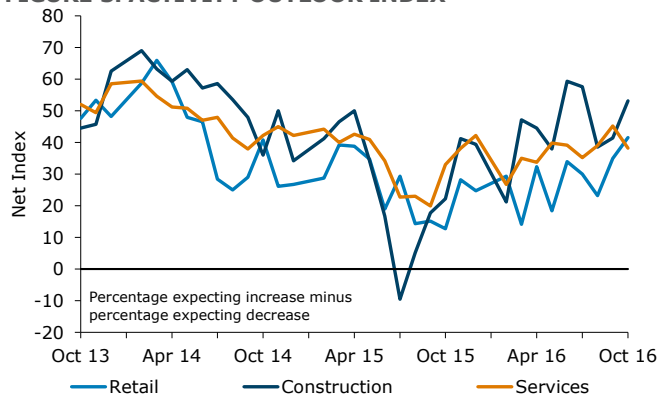


FIGURE 4. LABOUR MARKET OUTLOOK

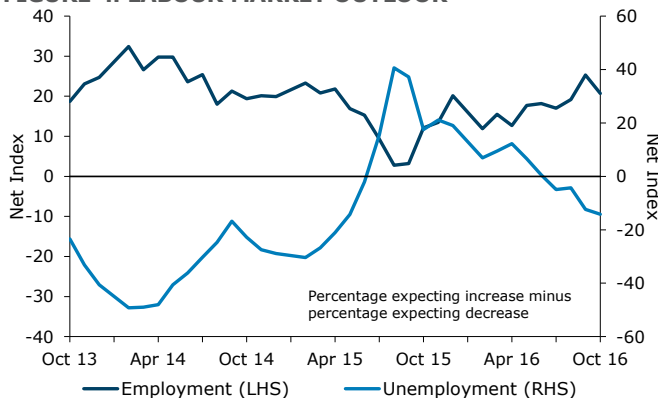


FIGURE 5. EXPORT SALES VOLUMES

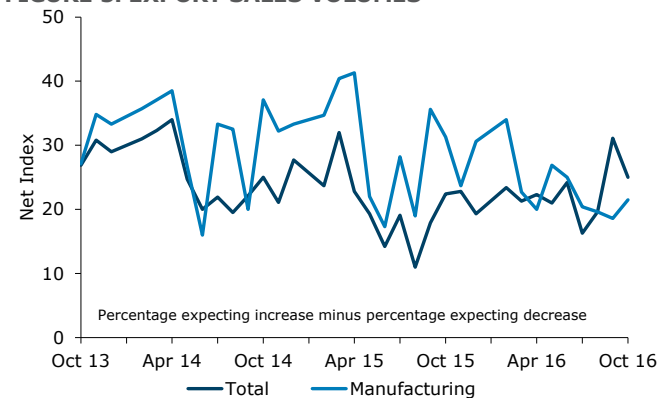


FIGURE 6. FINANCIAL OUTLOOK

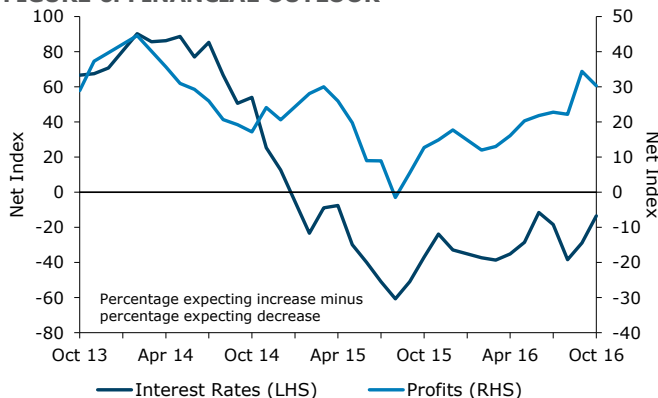


FIGURE 7. INVESTMENT INTENTIONS

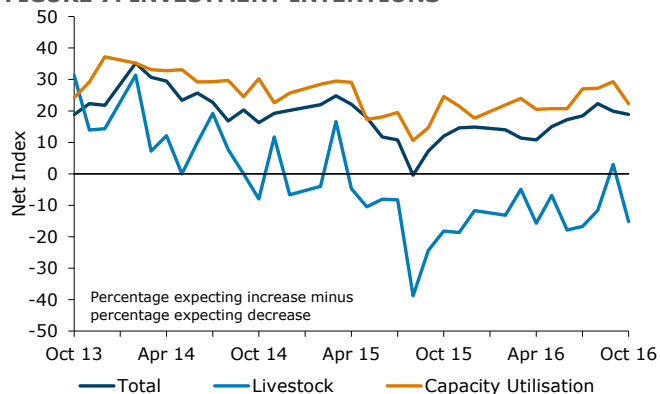
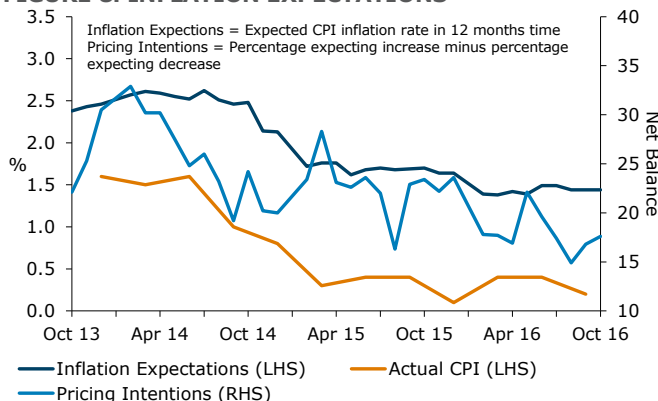


FIGURE 8. INFLATION EXPECTATIONS



Source: ANZ, Statistics NZ

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