

ANZ BUSINESS OUTLOOK OFF TO THE RACES

September 2016

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The next issue of the ANZ *Business Outlook* is scheduled for release on 31 October 2016 at 1pm.

SUMMARY

- Businesses are more upbeat with regard to the general economy, their own business, profitability and employment; a *superfecta*.
- The “*tote*” signals a further acceleration in economic momentum, off an already respectable pace.
- No change in the entry price: inflation remains low.

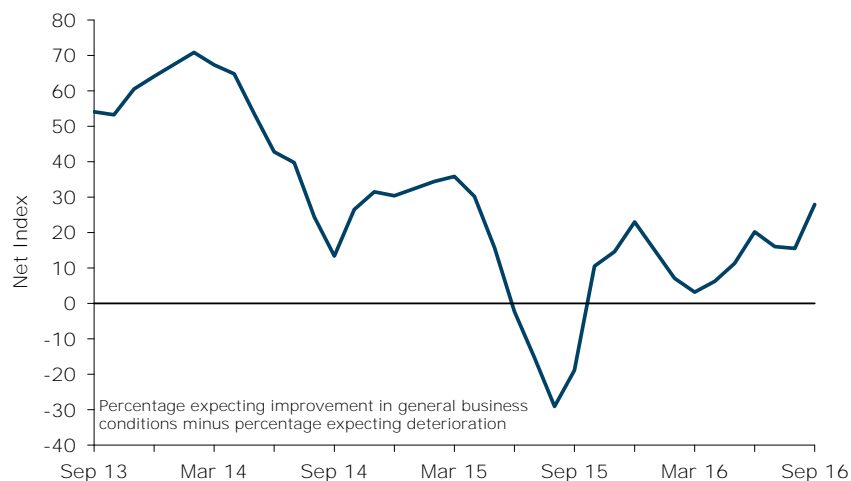
It’s no longer a bob each way as business confidence continues to lift. A net 28% of businesses are optimistic about the year ahead, up 12 points on the month prior. Service sector firms remain the front-runner. Agriculture has stormed through the field, moving from last to second place.

Firms are accelerating out of the turn. A net 42% of businesses expect better times for their own business, the highest reading since July 2014. There is ample competition across manufacturing, construction and services to be first past the post. Confidence improved across all five sub-sectors. In seasonally adjusted terms, own activity expectations rose to a net 47%.

Across other elements of the survey we note:

- Investment intentions eased from +22 to +20. **That’s still** well above the historical average of +13.
- Employment intentions are strong. A net 25% of businesses are expecting to hire.
- Profit expectations are in the money. A net 34% of businesses expect a lift in profitability, which is up 12 points.
- Export intentions lifted strongly from +20 to +31. No NZD handicap apparent.
- Residential and commercial building intentions recorded a *quinella* lift.
- **Firms’ pricing intentions** nudged up from +15 to +17 – still low. Inflation expectations were unchanged at 1.4%.

ANZ BUSINESS CONFIDENCE INDEX



Source: ANZ

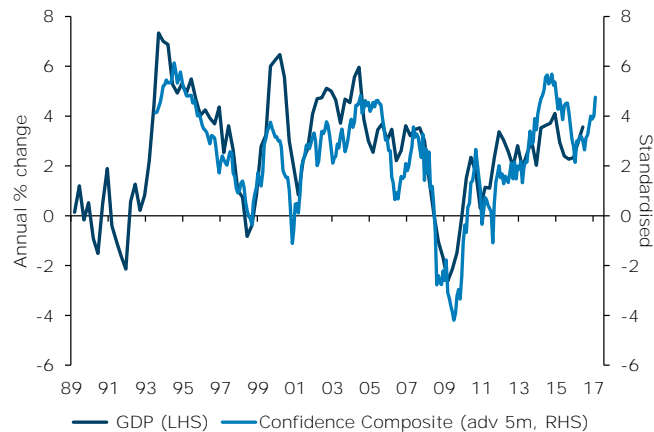
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In terms of individual form:

- **Confidence** (general, activity expectations, employment and profit expectations) **improved the most in the South Island**. The South Island now has its nose in front for the first time in over a year on many metrics.
- **Agriculture showed a decent bounce** (most notably in general business confidence and profit expectations) **but it didn't jump the most across the board**. That shows there is more to the survey's lift than simply improving dairy prices.
- **There is no red whatsoever across firms' own activity expectations**, employment, investment and profit expectations. That's a sign of a broad-based economic expansion in operation.
- **Fewer firms expect interest rates to fall** (29% versus 38% last month) so a prospective OCR cut is not in itself fast-tracking confidence higher.
- **Ease of getting credit improved (became less negative)**. We're watching this indicator closely as a) loan-to-value restrictions tighten; and b) credit growth outstrips deposit growth – an unsustainable mix. The former needs to slow and the latter lift to restore some balance. There will be consequences.

The economy remains odds-on to put in another good year. Our confidence composite indicator – which combines both business and consumer sentiment (so both the production and consumption sides of the economic equation) – is pointing to GDP growth accelerating from its current pace of 3½%. The New Zealand economy remains a furlong out in front of most developed-nation peers.

CONFIDENCE COMPOSITE VERSUS GDP



Source: ANZ, Roy Morgan, Statistics NZ

SURVEY RESULTS SEPTEMBER 2016							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	27.9	15.5	14.8	13.1	33.3	17.9	36.8
Activity Outlook	42.4	33.7	34.9	44.3	20.5	41.4	45.2
Exports	31.1	19.6	32.0	18.6	10.7	14.3	44.0
Investment	19.9	22.3	20.6	14.6	0.0	17.9	26.0
Livestock	3.0	-11.6	...	...	3.0	...	...
Capacity Utilisation	29.3	27.2	28.6	18.8	9.3	36.4	37.1
Residential Construction	41.0	36.4	...	...	...	41.0	...
Commercial Construction	27.3	23.8	...	...	...	27.3	...
Employment	25.3	19.2	12.7	18.0	10.2	39.3	29.1
Unemployment Rate	-12.4	-4.3	-3.2	-1.6	10.6	-27.6	-23.7
Profits	34.4	22.2	22.3	26.2	25.6	58.7	34.5
Interest Rates	-28.9	-38.4	-34.9	-19.7	-35.1	-41.4	-25.0
Pricing Intentions	16.8	14.9	24.2	-10.0	23.6	44.8	17.7
Ease of Credit	-8.7	-14.3	-8.4	-1.8	0.0	-3.6	-13.7
Inflation Expectations	1.44	1.44	1.55	1.54	1.39	1.27	1.42

ANZ BUSINESS OUTLOOK

FIGURE 1. ACTIVITY OUTLOOK INDEX

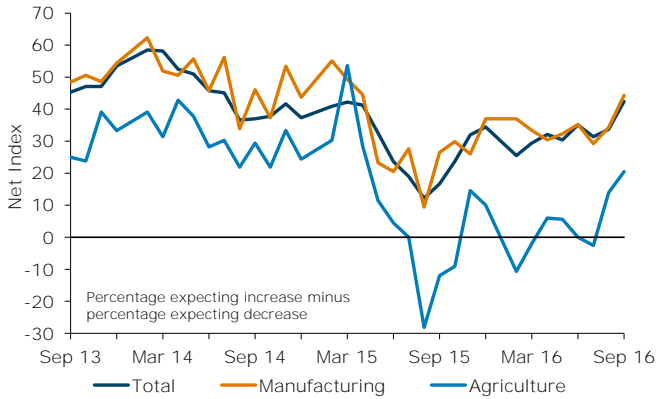


FIGURE 2. CONSTRUCTION INTENTIONS

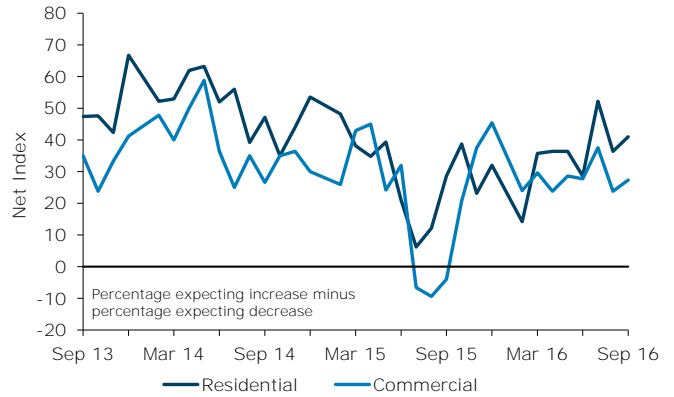


FIGURE 3. ACTIVITY OUTLOOK INDEX

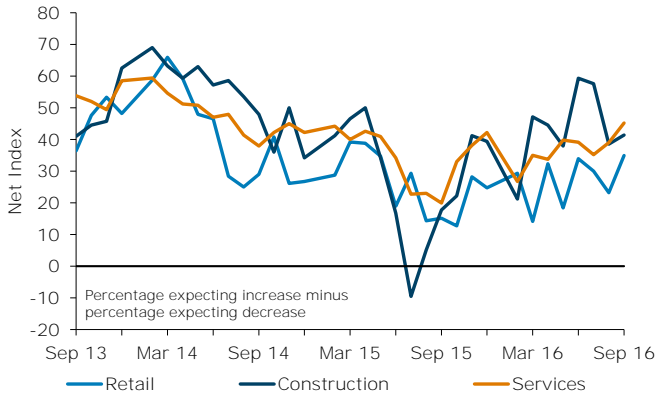


FIGURE 4. LABOUR MARKET OUTLOOK

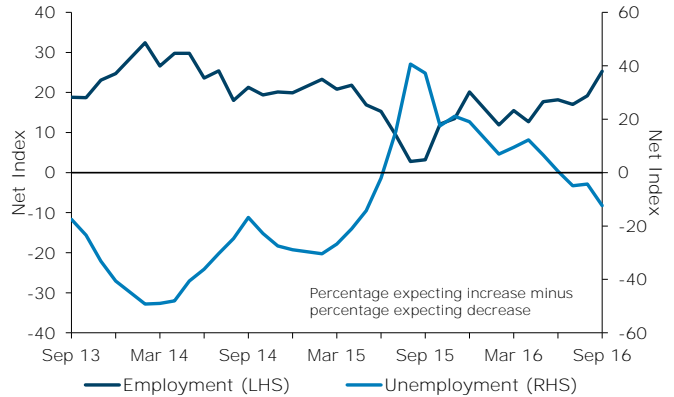


FIGURE 5. EXPORT SALES VOLUMES

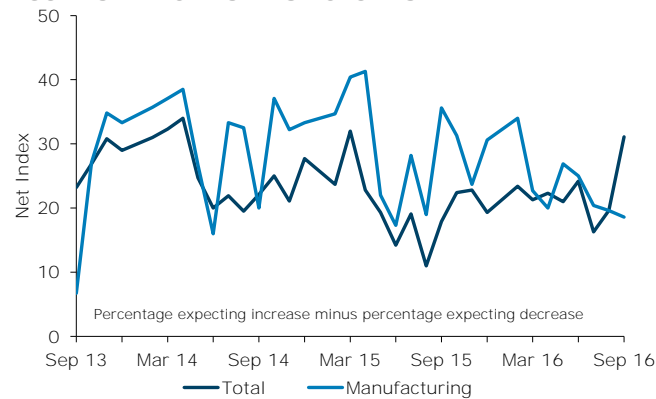


FIGURE 6. FINANCIAL OUTLOOK

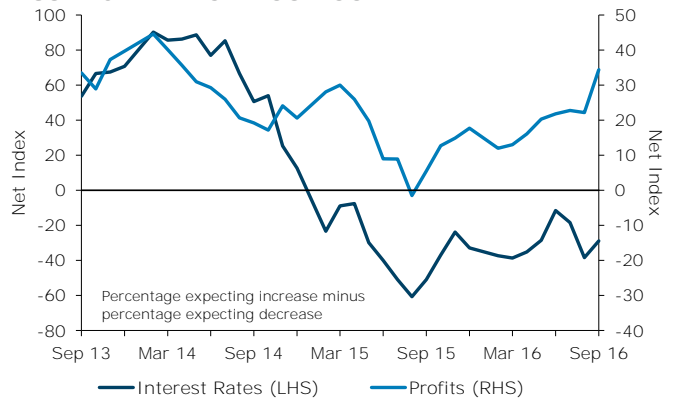


FIGURE 7. INVESTMENT INTENTIONS

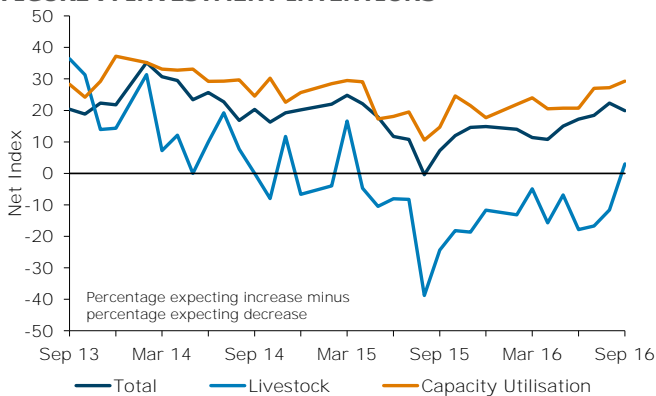
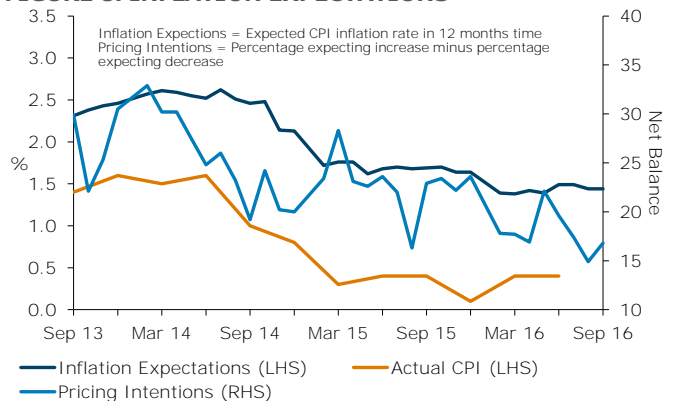


FIGURE 8. INFLATION EXPECTATIONS



Source: ANZ, Statistics NZ

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