

## ANZ BUSINESS OUTLOOK FLAGGING

July 2015

### CONTACT

**Cameron Bagrie**  
Chief Economist

Telephone: +64 4 802 2212  
E-mail: cameron.bagrie@anz.com  
Twitter @ANZ\_cambagrie

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

### SUMMARY

- Business confidence slipped further into the red in July.
- Other survey indicators have held up better but still flag an economy **that's** slowing, though far from holding up the white flag in the growth stakes.
- A downturn in construction sector sentiment is notable this month.
- Survey results point to an economy needing a tailwind in the form of a lower OCR but not CPR.

**Last month's sombre read on business confidence has been succeeded by more solemn results.** A net 15% of businesses are pessimistic about the general economy; a six year low. General business sentiment is negative across all the five sub-sectors. Agriculture is the most pessimistic; services the least.

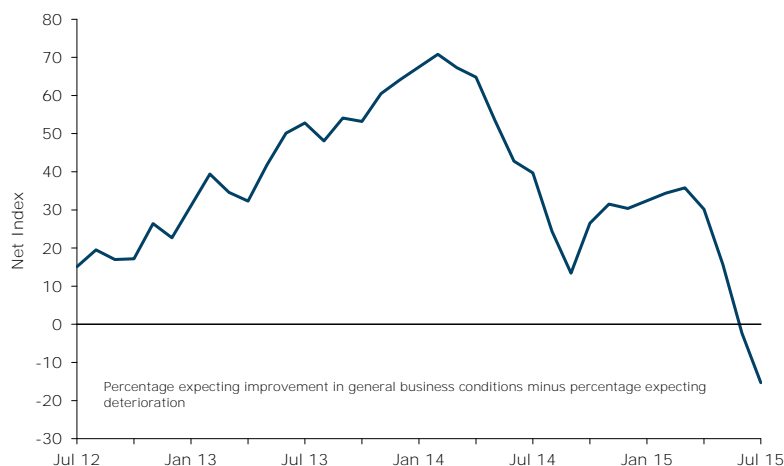
#### **Such readings in themselves do not mean the economy is becalmed.**

Political vagaries, the weather, those winter blues, and the general feel-good (or not) factor can throw headline numbers around; it is what businesses are doing and feeling about their own business that matters most.

#### **The more in-depth results are not dire and still flag growth across the economy, though nuances are more circumspect in tone.**

- **Firms' own activity expectations** hit +19 this month, down 5 points on the month prior. **It's positive**, but below its long-term average (+27). Construction is now the most negative sector by this measure.
- Profit expectations held ground at +9. Nice to see some stability but they did fall 11 points last month.
- Employment intentions continue to fade, down from +15 to +9.
- Investment intentions barely budged, dropping from +12 to +11; encouraging to see it hold up.
- Export intentions bucked the trend and lifted from +14 to +19. The NZD may be falling for a bad reason but it will stimulate export businesses.
- Residential investment intentions are non-existent; a meagre +6. Commercial construction intentions slipped into the red. Ouch.

### ANZ BUSINESS CONFIDENCE INDEX



Source: ANZ

# ANZ BUSINESS OUTLOOK

**Pricing nuances remain tame.** One-year-ahead inflation expectations were unchanged at 1.7%. Pricing intentions drifted lower from +24 to +22.

**Agriculture remains the standout downbeat sector.** Few surprises there; a sub-\$4 per kg MS milk price in the coming season, means a loss for many. Cash-flow pressures will mount. Rural regions will feel the initial squeeze.

**The mover and shaker this month was the construction sector, which showed the largest monthly fall** in own activity, expected profits, and employment and investment intentions. As a pro-cyclical component of the economy, construction sentiment is a timely barometer of rising and falling momentum. The sharp shift in the space of three months is worrying.

**Our composite growth indicator still has a steady pulse, though the signs are starting to look more ominous.** While it's disconcerting on some levels, we need to keep Chicken Little in the coop. Headline confidence is negative; the majority of the rest of the survey is not. The economy is still moving forward. A weaker NZD and lower interest rates will eventually be the tonic bringing better times (a net 51% expect interest rates to fall), but they need time to take effect. A moderate deceleration in growth in 2015, with growth reignited by a lower OCR and weaker currency in 2016 – that's Plan A. We've got our ankles, toes and fingers crossed.

**At this stage it would be wise to also consider Plan B.** Dairy prices have yet to base; it could still get uglier. Rebuild stimulus is fading. With key economic engines sputtering, the economy risks taking on glider characteristics. Most worrying are signals out of China and movements in commodity prices in general, which impacts Australia too. Suddenly the skids are being put under New Zealand's two largest trading partners.

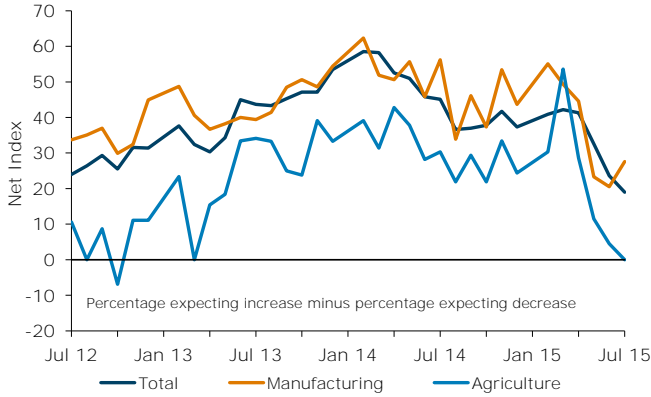
**It's time to run some ideas up the flagpole at 1 The Terrace in regards to the role fiscal policy could play.** New Zealand has the luxury of (effectively) being in fiscal surplus with low levels of net public debt (27% of GDP). Monetary policy needs mates, to lean against upswings, and support the economy during slowdowns. While monetary policy can move quickly (the NZD even more so), fiscal policy takes time to put into motion. Thinking caps need to be put on now. A fast-tracking of infrastructure projects is an obvious lever to think about pulling. It's an attractive lever too when we eye the level of interest rates, though challenges may be finding the resources and manpower in some instances.

**It might not be needed. But it'd be a nice card to have up our sleeve should Plan A fail to eventuate meaning Plan B needs fast-tracking.**

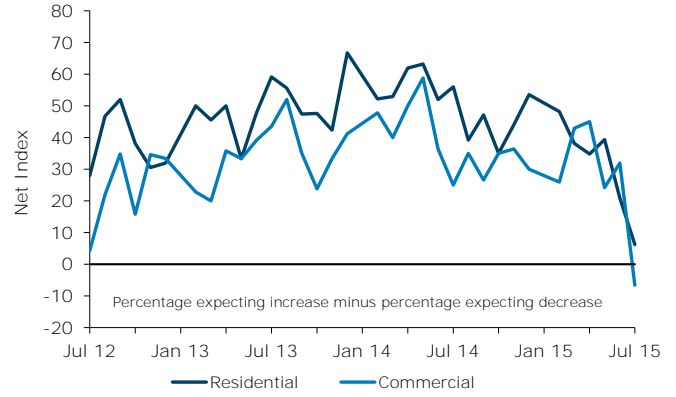
SURVEY RESULTS JULY 2015							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-15.3	-2.3	-19.0	-15.5	-45.4	-28.6	-4.8
Activity Outlook	19.0	23.6	29.3	27.6	0.0	-9.5	22.7
Exports	19.1	14.2	33.3	28.2	-5.2	14.3	17.0
Investment	10.8	11.7	10.4	12.5	-27.3	0.0	21.4
Livestock	-8.3	-8.1	...	...	-8.3	...	...
Capacity Utilisation	19.5	18.1	31.3	19.5	3.9	20.0	20.6
Residential Construction	6.2	20.9	...	...	...	6.2	...
Commercial Construction	-6.6	31.9	...	...	...	-6.6	...
Employment	9.3	15.3	10.5	0.0	-6.1	0.0	17.5
Unemployment Rate	15.5	-2.1	22.5	24.2	48.5	19.1	0.0
Profits	8.9	9.0	6.9	17.2	-21.2	4.8	15.5
Interest Rates	-50.9	-40.0	-50.0	-41.4	-60.6	-76.2	-47.3
Pricing Intentions	22.0	23.6	27.6	28.1	21.9	19.0	16.9
Ease of Credit	9.4	9.0	22.0	7.5	3.3	25.0	6.9
Inflation Expectations	1.70	1.68	1.81	1.68	1.49	1.58	1.72

# ANZ BUSINESS OUTLOOK

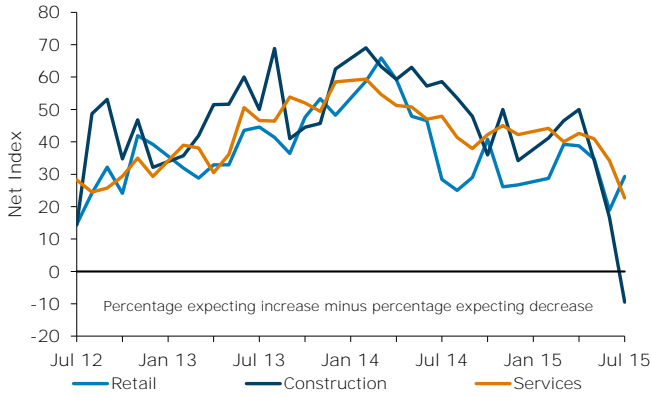
**FIGURE 1. ACTIVITY OUTLOOK INDEX**



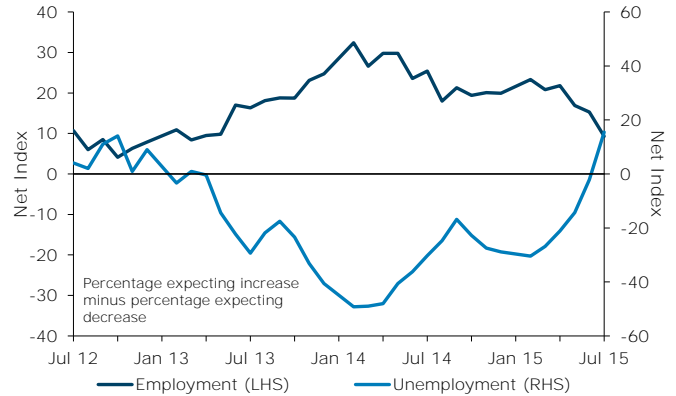
**FIGURE 2. CONSTRUCTION INTENTIONS**



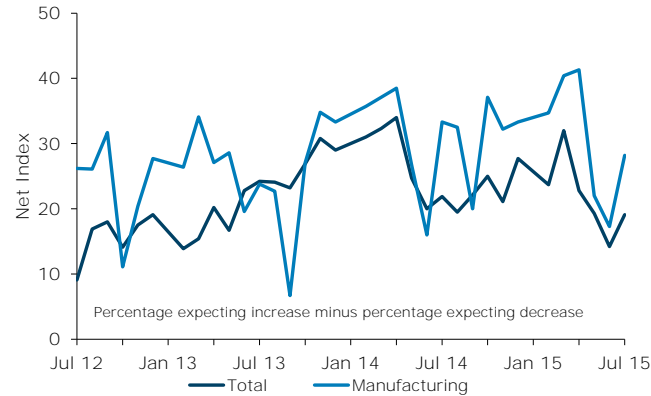
**FIGURE 3. ACTIVITY OUTLOOK INDEX**



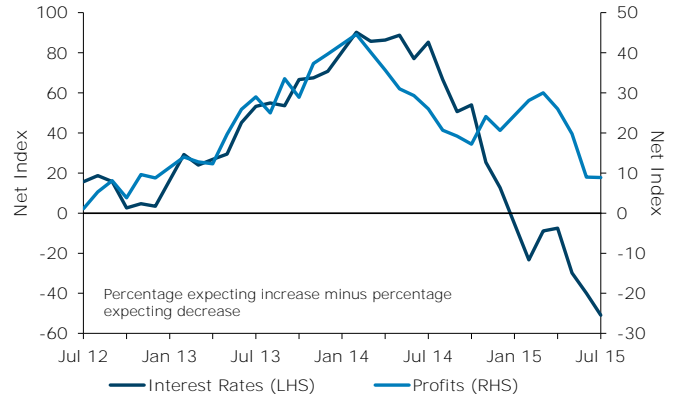
**FIGURE 4. LABOUR MARKET OUTLOOK**



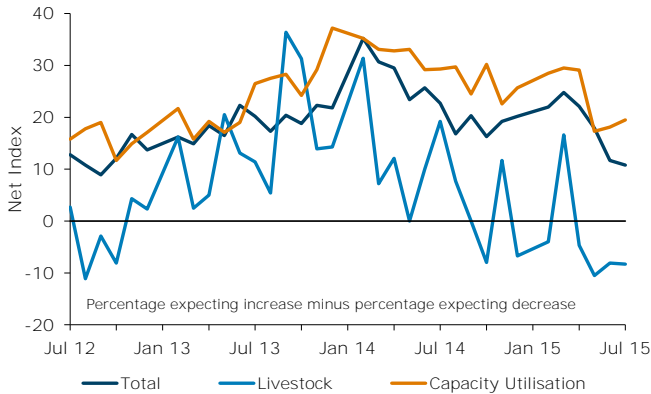
**FIGURE 5. EXPORT SALES VOLUMES**



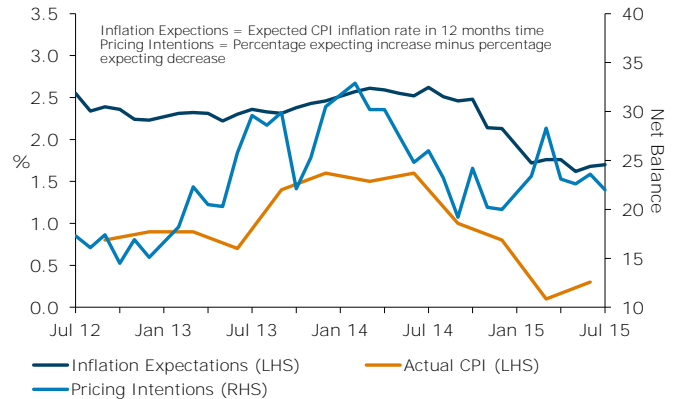
**FIGURE 6. FINANCIAL OUTLOOK**



**FIGURE 7. INVESTMENT INTENTIONS**



**FIGURE 8. INFLATION EXPECTATIONS**



Source: ANZ, Statistics NZ



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