

April 2018

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The next issue of the ANZ *Business Outlook* is scheduled for release on 31 May 2018 at 1pm.

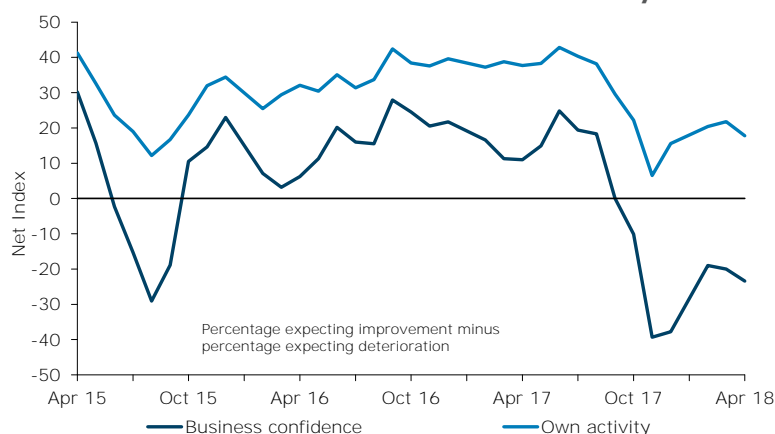
## LOWER BY CONSTRUCTION

### SUMMARY

- Both headline business confidence and **firms' views of their own activity** dipped in April. The construction sector fell sharply despite perceived easing in credit availability.
- Key activity indicators fell, but capacity utilisation increased, especially for retail and services.
- Pricing indicators eased – retail sector pricing intentions fell sharply to their lowest level since 2004.

**Headline business confidence eased further in April.** A net 23% of businesses are pessimistic about the year ahead, down 3 points from March. All sectors are in the red, with services the least pessimistic and agriculture the most. Agriculture did manage a small gain on March, but construction plummeted to its lowest level since 2008. **Firms' views of their own activity** (which has the stronger correlation with GDP growth), **eased from +22 to +18.** Manufacturing and agriculture lifted; construction fell a startling 38 points – excluding this sector the aggregate eased only 1 point.

### ANZ Business Confidence Index and ANZ Own Activity Index



Source: ANZ

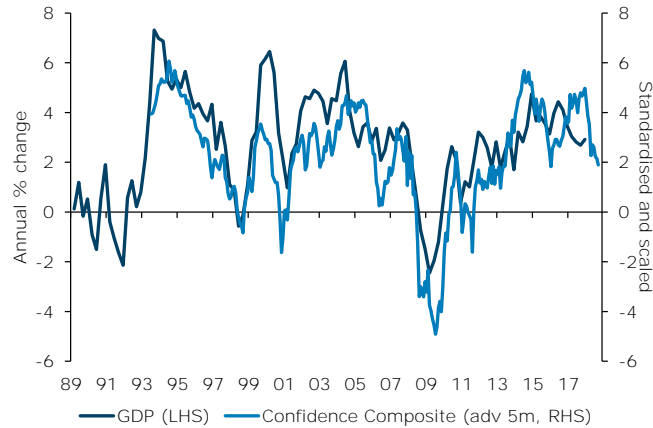
**The survey was a mixed bag this month, consistent with an economy pushing its way through capacity constraints and some residual policy uncertainty** but with some solid support from record-high terms of trade.

- A net 7% of firms are expecting to lift investment, **reversing March's lift.**
- Employment intentions eased 1 point to +9%.
- Profit expectations **reversed March's lift, back from +6 to -1%.**
- Export intentions remained solid at +23%, down 1 point.
- A net 26% of businesses expect it to be tougher to get credit, an improvement of 2 points.
- **Firms' pricing intentions** eased from +29% to +22%, with retail sector pricing intentions dropping 15 points to +6%, their lowest since 2004. Inflation expectations were again unchanged at 2.1%.
- Residential construction intentions dropped sharply from +33% to +9%. Commercial construction intentions eased from +9.5% to +5%.

# ANZ BUSINESS OUTLOOK

**Our composite growth indicator, a combination of business and consumer confidence, has now dipped to around 2% y/y growth.** We think the economy has more in the tank to keep growth above that, but with consumer confidence dipping and business growth indicators still languishing, it won't necessarily be as smooth sailing as it has been.

## Confidence Composite versus GDP



Source: ANZ, Roy Morgan, Statistics NZ

**The construction sector stood out this month.** In short: its confidence plummeted; own activity plunged; employment indicators were mixed; expected profitability plunged to the lowest level since 2009; pricing intentions eased; investment recovered; capacity utilisation was unremarkable; residential construction intentions fell to the lowest since mid-2015; commercial construction intentions fell 4 points but are still higher than November; perceived ease of credit continues to recover but remains negative.

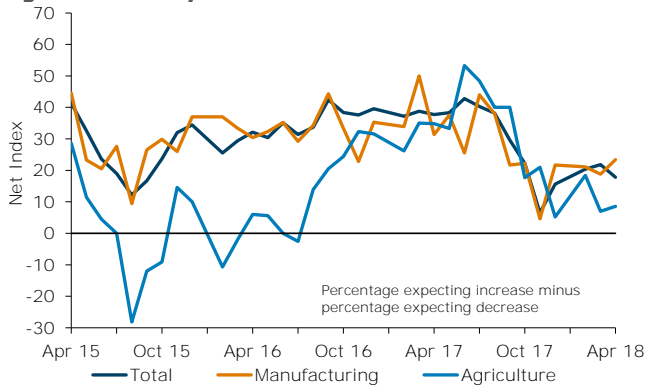
**Some of the construction sector data seems at odds with activity and pricing in the housing market having found a floor,** not to mention the KiwiBuild pipeline on offer. The data is volatile, but expected profitability has been in decline for the past 18 months, perhaps reflecting that the sector is hitting resistance in terms of its ability to pass higher costs on.

**Inflation expectations were little changed; pricing intentions fell, pulled down by the retail sector.** Cost-push pressures are real but pushing through price increases clearly remains a difficult task.

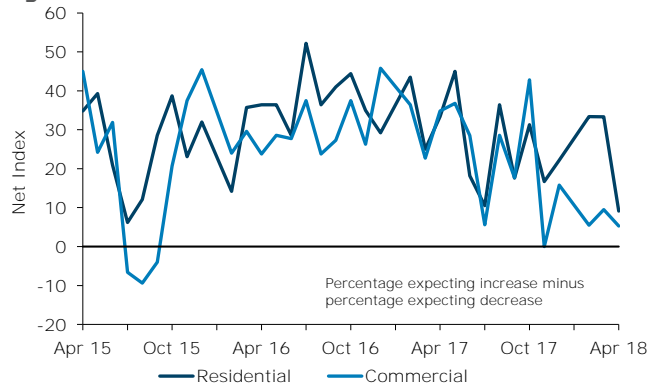
SURVEY RESULTS APRIL 2018							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-23.4	-20.0	-21.6	-25.8	-45.7	-36.0	-14.3
Activity Outlook	17.8	21.8	13.5	23.4	8.6	3.8	20.5
Exports	23.0	23.7	21.7	27.5	4.2	0.0	30.4
Investment	7.2	11.9	7.8	12.5	-21.2	7.7	11.1
Livestock	7.4	-6.2	...	...	7.4	...	...
Capacity Utilisation	22.6	17.3	23.3	23.9	4.0	25.0	27.0
Residential Construction	9.1	33.3	...	...	...	9.1	...
Commercial Construction	5.3	9.5	...	...	...	5.3	...
Employment	8.9	10.4	5.8	12.5	-14.3	4.0	14.1
Unemployment Rate	14.2	9.6	19.2	17.2	17.1	15.4	8.4
Profits	-0.9	5.5	0.0	-6.3	-40.0	-11.5	12.2
Interest Rates	40.4	40.2	38.5	39.7	48.6	26.9	41.0
Pricing Intentions	22.3	29.1	5.8	27.0	-2.9	30.8	30.8
Ease of Credit	-26.1	-28.3	-27.1	-25.0	-27.3	-16.0	-28.1
Inflation Expectations	2.11	2.10	2.08	2.30	2.15	1.97	2.04

# ANZ BUSINESS OUTLOOK

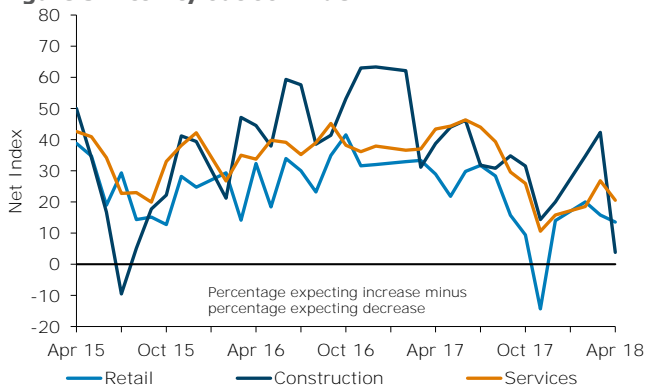
**Figure 1. Activity outlook index**



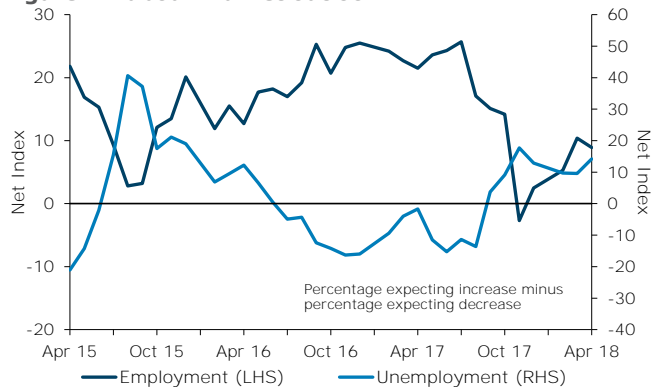
**Figure 2. Construction intentions**



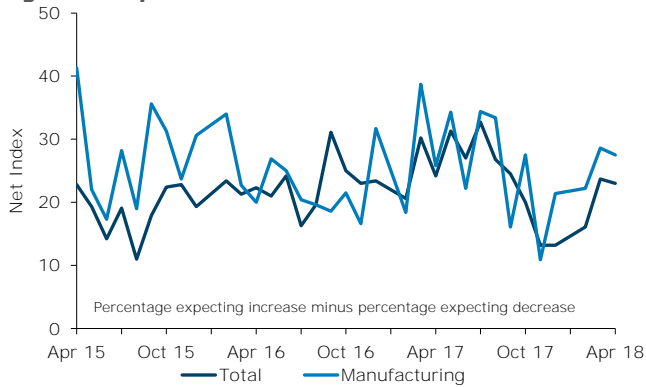
**Figure 3. Activity outlook index**



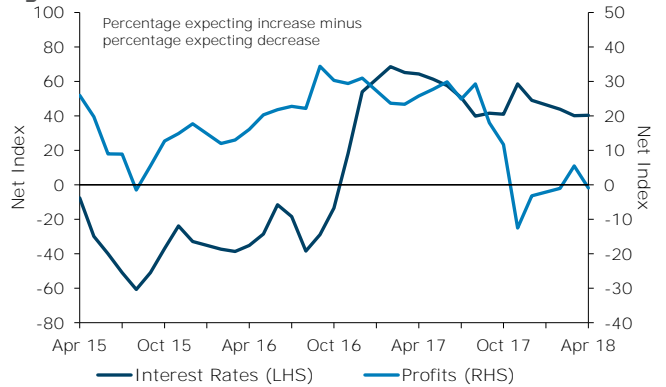
**Figure 4. Labour market outlook**



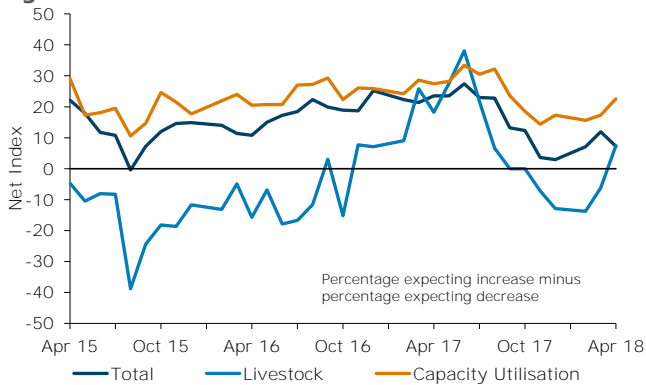
**Figure 5. Export sales volumes**



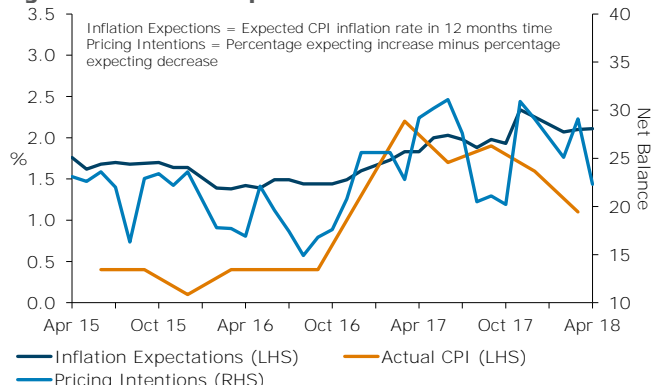
**Figure 6. Financial outlook**



**Figure 7. Investment intentions**



**Figure 8. Inflation expectations**



Source: ANZ, Statistics NZ

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