

November 2017

CONTACT

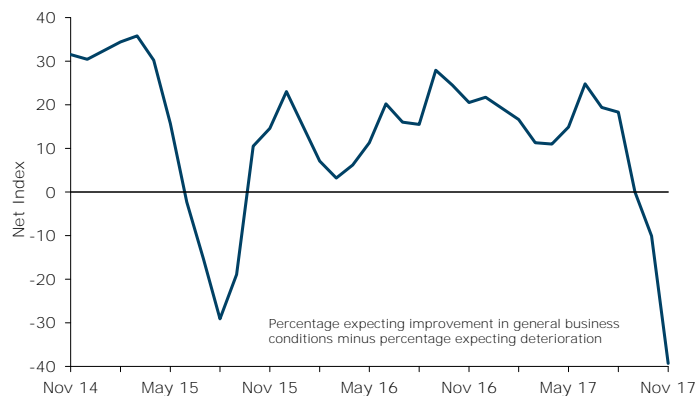
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The next issue of the ANZ *Business Outlook* is scheduled for release on 19 December 2017 at 1pm.

CRUNCH**SUMMARY**

- Business confidence turned sharply negative this month. Uncertainty around changing Government policy, a softer housing market, and difficulty getting credit are likely culprits.
- Weakness was apparent across all activity indicators, but pricing intentions, inflation expectations and interest rates expectations all increased.
- There is a non-trivial risk, given an economy at a delicate juncture, that the fall in activity expectations could prove to be self-fulfilling. Outcomes will depend crucially on how prolonged the apprehension proves to be.

Businesses are not happy. A net 39% of businesses are pessimistic about the year ahead, the lowest level since early 2009, and a decline of 29 points from the previous month. Headline business confidence is negative across all the five sub-sectors. It is weakest among agricultural firms, while the sharpest fall came in the retail sector (down 35 points).

ANZ Business Confidence Index

Source: ANZ

This month's survey responses were received after the final Government make-up was decided. However, it would be too simplistic to ascribe the full move to the change of Government. There is a lot else going on. The softening in house price inflation is one obvious factor that shouldn't be overlooked, as is the reported difficulty of getting credit (a net 41% of businesses expect it to be tougher to get credit, up from 31%. This is the highest since the question was first asked in mid-2009).

Activity indicators fell pretty much across the board.

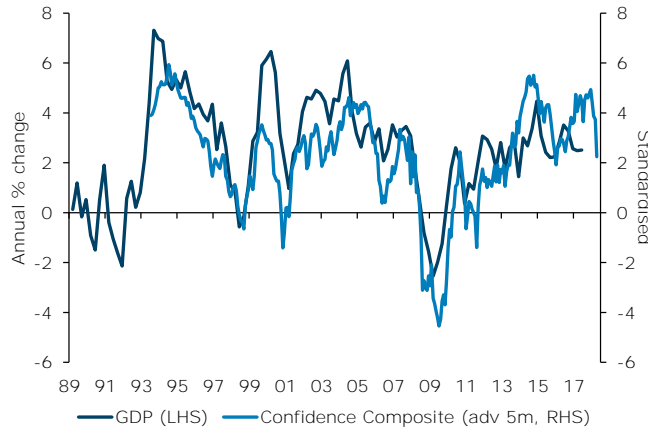
- A net 7% of businesses expect better times ahead for their own business, down 15 points on October. The historical average is 28.
- A net 4% of firms are expecting to lift investment, down from +12.
- Employment intentions plunged from +14 to -3.
- Profit expectations did likewise from +12 to -13.
- Export intentions eased from +20 to +13, despite a fall in the NZD and solid global growth.
- Residential construction intentions fell from +31 to +17; commercial construction intentions from +43 to zero. Both series have been volatile of late.

Despite the drop in activity indicators, **firms' pricing intentions lifted from +20 to +31. Inflation expectations rose from 1.9% to 2.3%, the highest since October 2014.**

ANZ BUSINESS OUTLOOK

Our composite growth indicator now suggests growth of around 2%, with resilient consumer confidence preventing it from falling further (we aggregate both confidence measures into one economy-wide measure).

Confidence Composite versus GDP

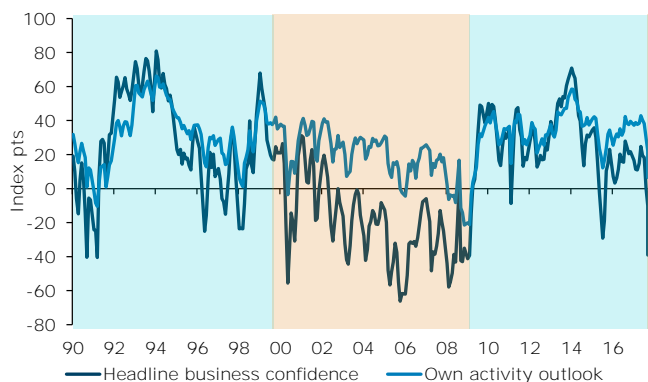


Source: ANZ, Roy Morgan, Statistics NZ

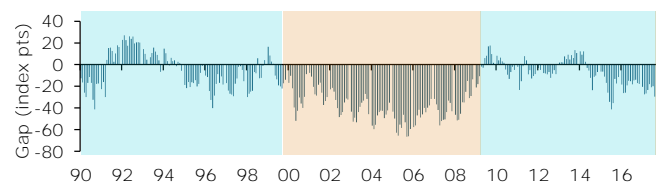
The economy is at a delicate juncture as migration, construction and housing run out of steam as growth drivers. Commodity prices are strong (notwithstanding that recent dairy auctions have been softer) and a fiscal boost will come through in time, but at such times of transition, sentiment is more vulnerable and a hiatus adds to the prospect of growth wobbles. It is crucial the policy landscape is clarified as soon as possible to provide firms and consumers the certainty they need to make optimal economic decisions.

We suspect there may well be a political protest-vote element in this month’s results. There is evidence that the gap between headline business confidence (expectations about general business conditions in 12 months’ time) and firms’ own activity (expectations about real business activity for the respondents’ own firm) varies across the political cycle. The latter tends to align better with overall economic growth.

Headline business confidence vs. own activity over the political cycle



Difference:



Source: ANZ

ANZ BUSINESS OUTLOOK

That said, **own-activity expectations dropped too (see page 4), particularly for the retail sector. We suspect the latter has as much to do with the recent softness in the housing market as the election.** We will be watching consumer confidence closely to see if retailers' pessimism is warranted.

The other thing we'll be keeping an eye on is our Monthly Inflation Gauge. The lift in inflation expectations and pricing intentions in this survey was pretty much across the board, though levels remain modest. Given proposed changes to labour market policies, we suspect we'll see stronger cost-push pressures across the economy than have been seen for quite some time.

We stated we saw downside risk to growth but upside risk to inflation versus the Reserve Bank's recent forecasts. This survey does nothing to change our minds.

SURVEY RESULTS NOVEMBER 2017							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-39.3	-10.1	-42.8	-41.5	-55.3	-26.9	-34.0
Activity Outlook	6.5	22.2	-14.3	4.6	21.0	14.3	10.6
Exports	13.2	20.0	0.0	10.9	29.2	0.0	18.2
Investment	3.6	12.3	0.0	-3.3	0.0	10.7	6.8
Livestock	-7.2	0.0	...	...	-7.2	...	...
Capacity Utilisation	14.3	18.5	-3.2	20.0	11.1	30.8	20.3
Residential Construction	16.7	31.3	...	...	...	16.7	...
Commercial Construction	0.0	42.8	...	...	...	0.0	...
Employment	-2.7	14.2	-10.7	-12.3	-10.5	7.4	4.0
Unemployment Rate	17.7	9.1	26.8	23.1	21.1	0.0	13.1
Profits	-12.5	11.7	-26.8	-18.4	-5.2	3.6	-8.0
Interest Rates	58.6	41.0	56.4	64.7	57.9	64.3	56.0
Pricing Intentions	30.9	20.2	34.6	30.8	10.8	53.5	31.8
Ease of Credit	-41.4	-30.7	-37.0	-43.3	-47.1	-17.9	-44.6
Inflation Expectations	2.34	1.93	2.37	2.48	2.37	2.30	2.25

ANZ BUSINESS OUTLOOK

Figure 1. Activity outlook index

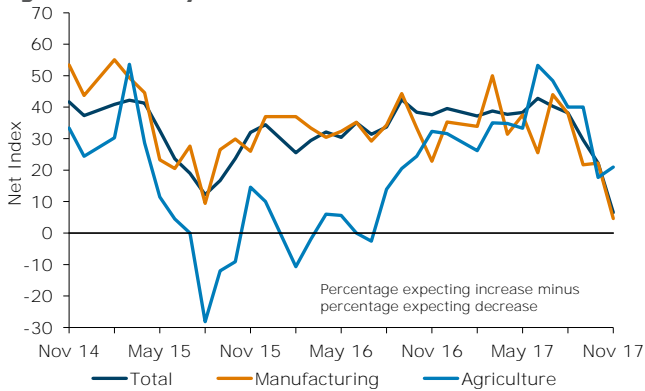


Figure 2. Construction intentions

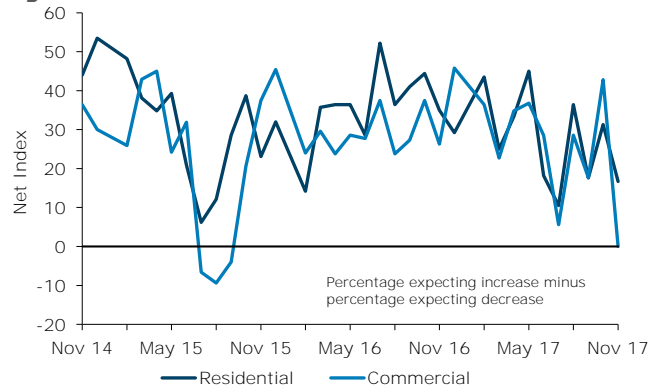


Figure 3. Activity outlook index

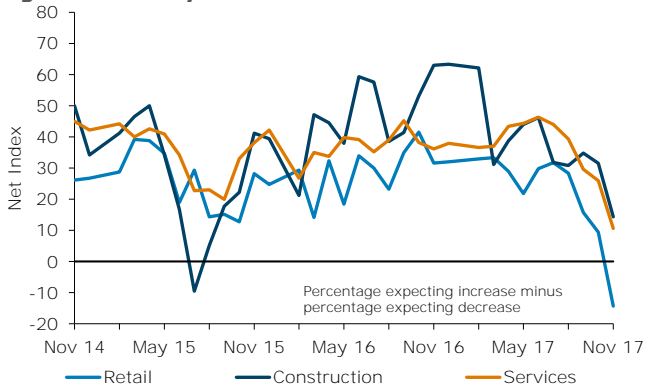


Figure 4. Labour market outlook

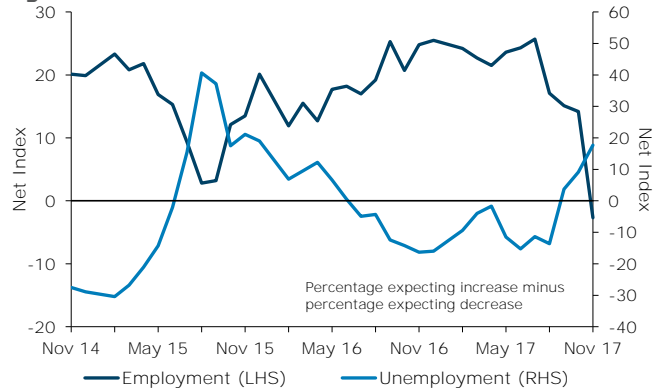


Figure 5. Export sales volumes

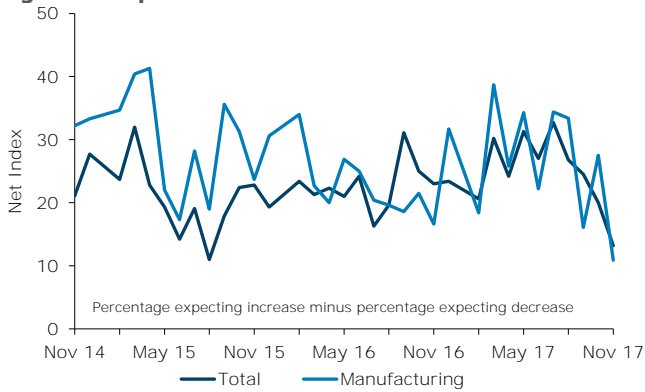


Figure 6. Financial outlook

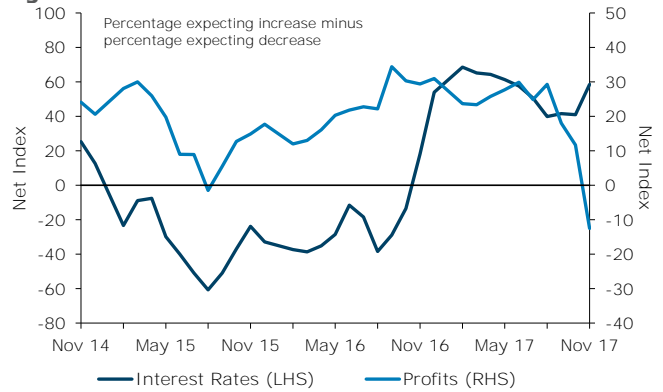


Figure 7. Investment intentions

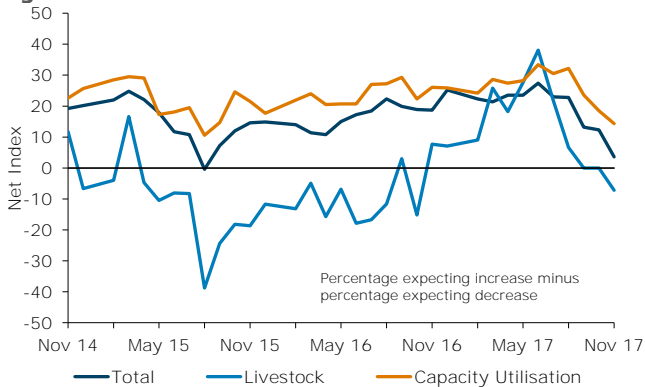
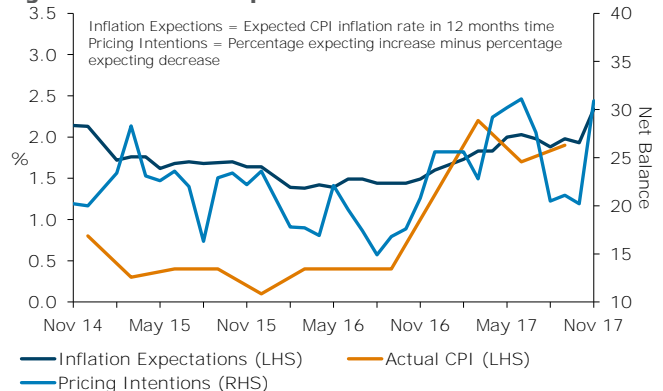


Figure 8. Inflation expectations



Source: ANZ, Statistics NZ

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