

ANZ BUSINESS OUTLOOK SWEET SPOT

November 2014

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

SUMMARY

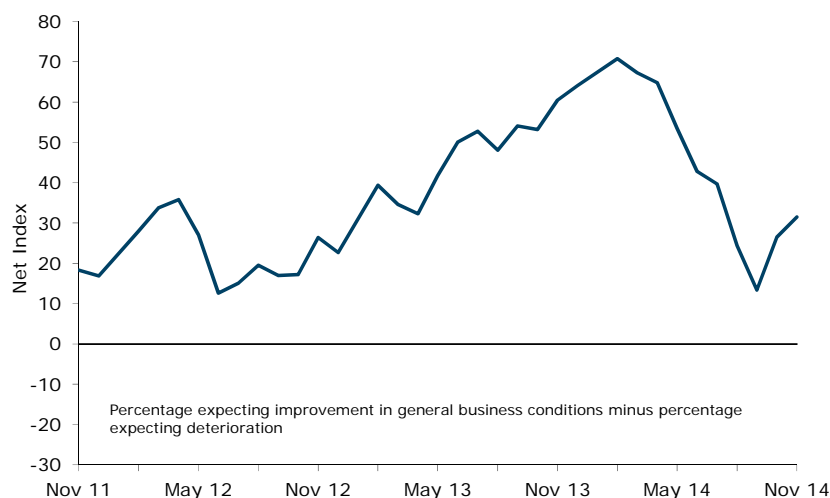
- The economy is in an enviable sweet spot; demand indicators remain strong and inflation nuances benign.
- Readings across the survey flag good growth, employment and investment.
- Inflation expectations have now fallen to within a whisker of the RBNZ's 2% target, a first since September 1999. Whether this is a one-shot wonder remains to be seen.

Good news: business confidence lifted again in November. A net 32% of firms are optimistic about general prospects, up 5 points on the month prior, further extending October's post-election recoil. Confidence was up in three segments (agriculture, manufacturing and service industries) and down in two (retailing and construction).

Pretty well all of the survey indicators moved in an encouraging direction.

- Businesses remain very optimistic about prospects for their own business – that's the real litmus test as opposed to general business confidence. A net 42% expect an improvement. That's somewhere between healthy and stellar.
- Investment intentions nudged up from +16 to +20.
- A net 20% of businesses expect to be hiring more staff over the year ahead, up a fraction on the month prior.
- Sentiment in both the residential and commercial construction arenas was up and the levels are very buoyant.
- Export intentions bucked the improving trend and eased down from +25 to +21.
- Pricing intentions dropped and inflation expectations too. A net 21% of respondents expect to be raising prices over the year ahead, down 4 points on the month prior. Inflation expectations at 2.1% are within a whisker of the RBNZ's 2% target; that's the lowest read since September 1999!

BUSINESS CONFIDENCE INDEX



Source: ANZ

ANZ BUSINESS OUTLOOK

A few things strike us about the survey results.

Firms' own activity and profit expectations, employment and investment intentions have been oscillating within a very narrow range for six months now. That's pretty remarkable when we consider a background that has involved movement in interest rates (two OCR hikes, a pause, and now prospects of it being an extended one, swings in the NZD (from 0.8825 to 0.7675 and back to 0.7850), lurching commodity prices (dairy prices getting smashed), and other vagaries – a general election for one – that can throw sentiment around.

Sentiment across the heartland showed a healthy lift; that's surprising considering continuing falls in dairy prices and real prospects of a sub-\$5 dairy payout. Headline confidence lifted sharply (less negative, moving from -25 to -4), firms' own activity expectations are strong (+33), and expected profitability is less negative. It didn't spill over into investment and employment though, a sign that the chequebook is firmly shut. We put the better nuances down to: a) Mother Nature buoying production, b) strength in commodity prices outside of dairying, c) belief that a sub-\$5/kg MS milk price is a one-year event and will cause only short-term indigestion (we see increasing risks to next year's payout as well, unfortunately), and d) greater focus within agriculture on the long-term positive story.

Inflation expectations have trended lower. They have fallen from 2.6% at the start of the year to 2.1% now, and that level is reasonably consistent across sectors. Surveyed inflation expectation surveys are notorious for having an upwards bias and an overcooked view of inflation trends. We're now seeing global measures of inflation and inflation expectations in retreat, such that it's causing central banks' heads to ache. We're now in an era where major parts of the global economy fear deflation as opposed to inflation. New Zealand is simply not in that camp; the risks are north. We never like to read too much into a month's data, but if inflation expectations can remain consistently anchored around the 2% mark, it's a pat on the back for the Reserve Bank.

Our Composite Confidence gauge (which combines both consumer and business sentiment) is projecting a strong economy into 2015. Based on the latest readings of business and consumer confidence the composite gauge is indicating the economy could post 4.4% growth by March next year. That rate is implausible given capacity constraints; finding the right labour and skills is getting harder. It's possible for an economy to bounce sharply off lows in the initial stages of an upswing but you settle into a glide path as a recovery matures. Growth is not so stellar pace wise, but with each passing day the level moves up, incomes lift and touch-wood so too do our bank balances.

SURVEY RESULTS NOVEMBER 2014							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	31.5	26.5	25.3	32.9	-4.4	29.0	42.0
Activity Outlook	41.7	37.8	26.1	53.4	33.4	50.0	45.0
Exports	21.1	25.0	2.3	32.2	23.6	22.2	22.1
Investment	19.2	16.3	22.0	21.8	2.3	18.7	20.1
Livestock	11.7	-8.0	...	...	11.7	...	...
Capacity Utilisation	22.6	30.2	3.6	28.7	17.7	61.5	25.0
Residential Construction	44.0	35.0	...	...	...	44.0	...
Commercial Construction	36.4	35.0	...	...	...	36.4	...
Employment	20.1	19.4	8.7	15.9	-2.2	31.2	30.8
Unemployment Rate	-27.5	-22.8	-20.7	-17.1	-11.1	-28.1	-38.7
Profits	24.1	17.2	15.2	30.2	-6.7	43.7	29.1
Interest Rates	25.3	54.0	28.3	18.6	26.7	12.5	27.4
Pricing Intentions	20.2	24.2	26.1	10.3	6.7	45.2	20.8
Ease of Credit	12.9	10.2	7.8	6.5	5.4	16.1	18.8
Inflation Expectations	2.14	2.48	2.18	2.13	2.32	2.12	2.09

ANZ BUSINESS OUTLOOK

FIGURE 1. ACTIVITY OUTLOOK INDEX

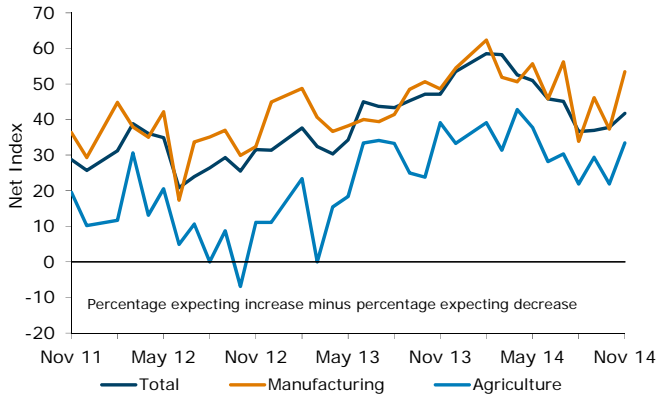


FIGURE 2. CONSTRUCTION INTENTIONS

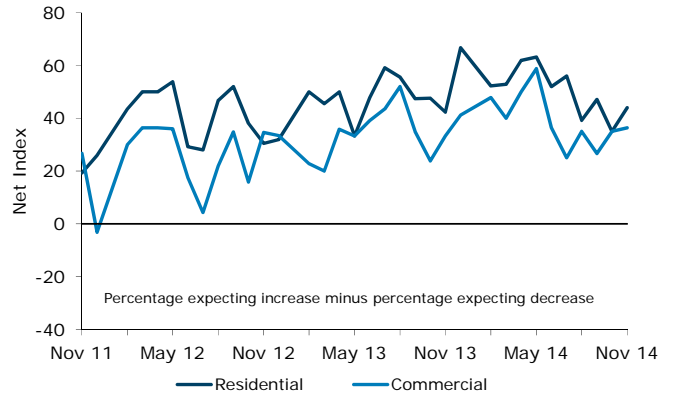


FIGURE 3. ACTIVITY OUTLOOK INDEX

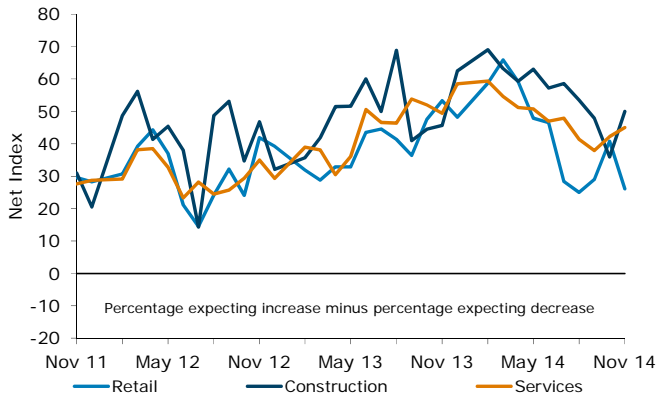


FIGURE 4. LABOUR MARKET OUTLOOK

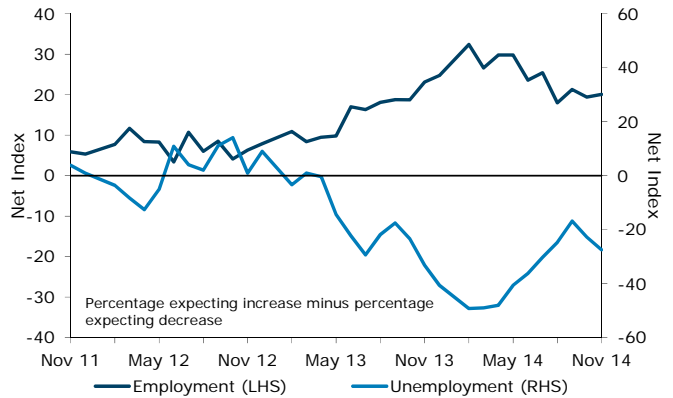


FIGURE 5. EXPORT SALES VOLUMES

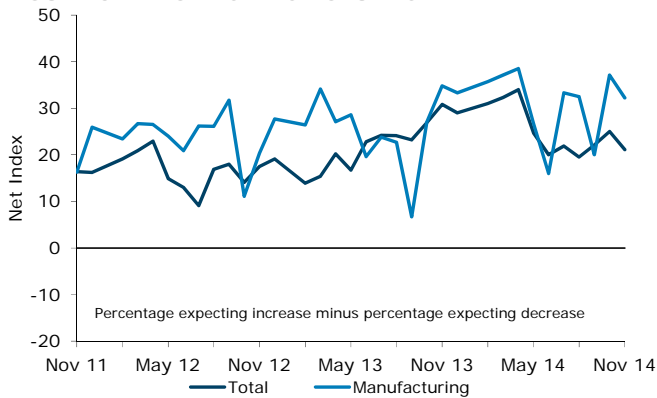


FIGURE 6. FINANCIAL OUTLOOK

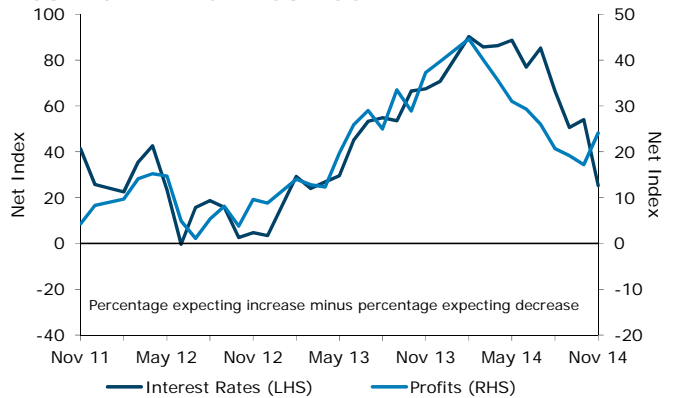


FIGURE 7. INVESTMENT INTENTIONS

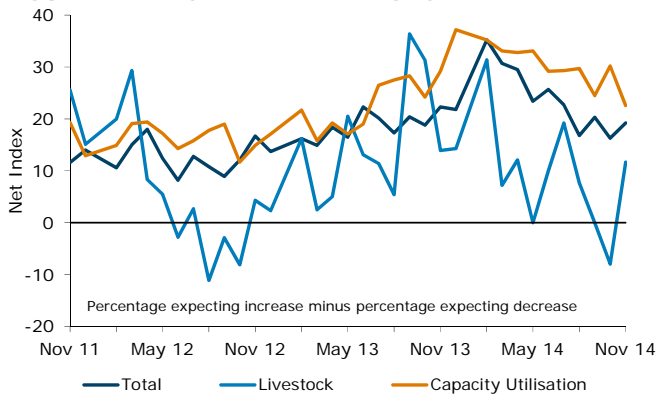
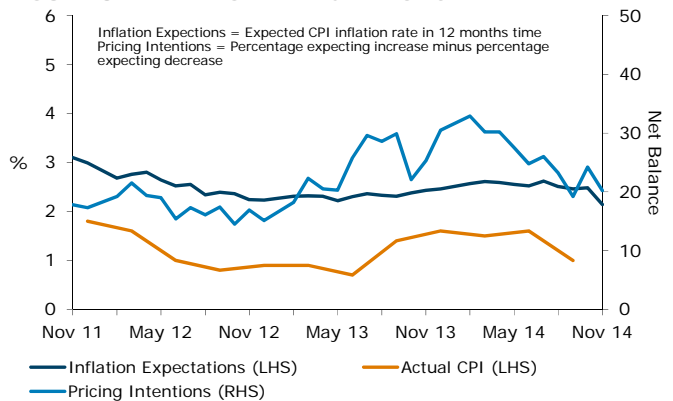


FIGURE 8. INFLATION EXPECTATIONS



Source: ANZ, Statistics NZ



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