

August 2017

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The next issue of the ANZ *Business Outlook* is scheduled for release on 26 September 2017 at 1pm.

A SOLID PLATFORM

SUMMARY

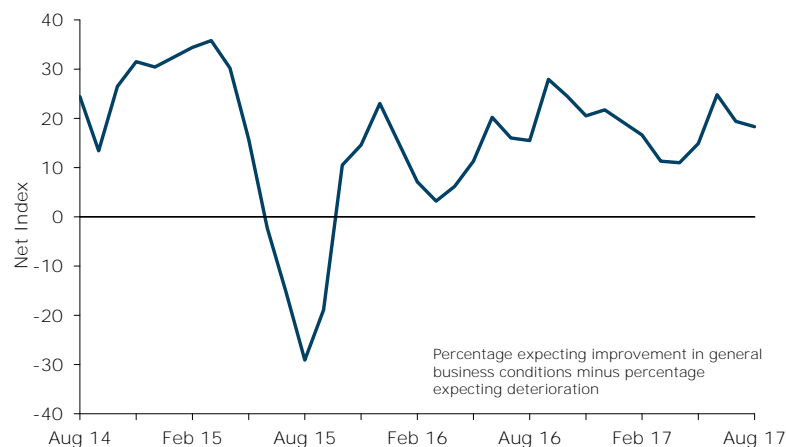
- Business confidence was largely unchanged on last month; the headline was down a tad but seasonally adjusted estimates were up.
- Activity, employment and investment expectations all remain at healthy levels and consistent with good GDP growth.
- Inflation indicators softened.

The votes are in and optimists continue to outnumber pessimists. Firms remain upbeat, according to the ANZ Business Outlook Survey. A net 18% of businesses are optimistic about the year ahead. **That's** down a smidgen from last month, but in seasonally adjusted terms business confidence actually lifted, from +27 to +30.

Firms are campaigning on good growth for their own business, and are keen to hire and invest.

- A net 38% of businesses expect better times ahead for their own business. This is a key measure that maps well to economic growth. Though down 2 points on August, **it's** polling high; the long-run average is 28. Adjusting for **seasonality, firms' own activity expectations** lifted from +45 to +46.
- A net 23% of firms are expecting to lift investment, unchanged on July.
- Employment intentions pulled back from +26 to +17. **That's the lowest** reading in over a year, but still a good platform.
- Profit expectations lifted from +25 to +29. Investment coattails profitability.
- Export intentions eased from +33 to +27.
- Residential construction intentions popped from +11 to +36. Commercial construction intentions rose from +6 to +29.
- **Firms' pricing intentions** waned from +28 to +21. Inflation expectations dipped from 2% to 1.9%.
- A net 23% of businesses expect it to be tougher to get credit.
- A net 40% of businesses expect still interest rates to rise, though **that's the** lowest reading in nine months.

ANZ Business Confidence Index



Source: ANZ

ANZ BUSINESS OUTLOOK

Swing voters are few and far between. We're seeing healthy readings for confidence, activity expectations, profitability, investment and employment across all sectors and regions. That's a broad-based economic expansion in operation.

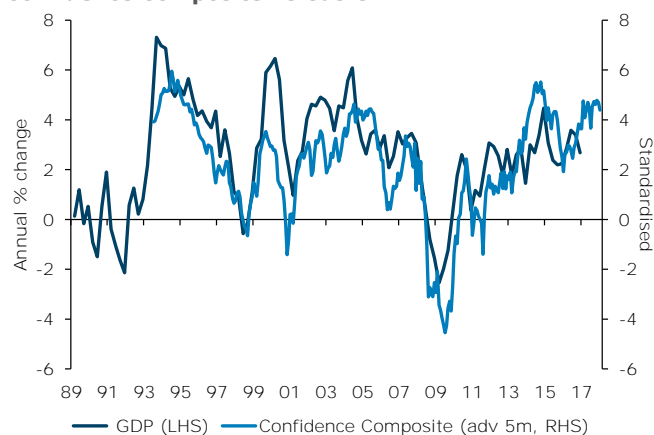
Our confidence composite indicator is pointing to annual GDP growth in excess of 4%. However, the difficulty in finding skilled labour and sub-par productivity growth puts that out of reach in practice. Employment intentions dropped a sharp 9 points to the lowest level in a year (+17), which may be linked to difficulty finding suitable candidates. **Real GDP growth around 3% is far more feasible.**

There is grass roots support from the agriculture sector. While this sector's headline confidence dipped in August, it remains the most optimistic sector in terms of business confidence and the activity outlook. The reason isn't hard to spot: commodity prices are up 21% on a year ago and up 18% y/y in local dollar terms.

As the business cycle evolves, the economic drivers change. While housing, the construction sector more broadly, tourism and net migration appear to be topping out, other growth drivers such as record-high terms of trade, a fiscal impulse and buoyant household income are stepping up.

Changes in business confidence and the consumer equivalent will be key gauges to assess how smoothly this transition is set to take place.

Confidence Composite versus GDP



Source: ANZ, Roy Morgan, Statistics NZ

SURVEY RESULTS AUGUST 2017							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	18.3	19.4	13.2	16.0	22.9	20.8	20.9
Activity Outlook	38.2	40.3	28.3	38.0	40.0	30.8	39.3
Exports	26.8	32.7	15.8	33.4	30.8	0.0	38.7
Investment	22.8	23.0	19.6	23.9	20.0	27.0	20.7
Livestock	6.6	21.7	...	...	6.6	...	...
Capacity Utilisation	32.2	30.5	38.5	37.1	21.4	10.0	34.5
Residential Construction	36.4	10.5	...	...	...	36.4	...
Commercial Construction	28.6	5.6	...	...	...	28.6	...
Employment	17.1	25.7	9.5	16.0	8.5	16.0	22.2
Unemployment Rate	-13.6	-11.4	-9.4	10.0	-8.6	-19.2	-20.7
Profits	29.3	24.9	26.4	28.5	25.7	28.0	29.1
Interest Rates	39.9	50.6	43.4	34.7	37.1	23.1	42.2
Pricing Intentions	20.5	27.6	16.9	14.6	18.1	30.8	22.2
Ease of Credit	-23.3	-27.4	-14.3	-12.8	-27.3	-19.3	-22.6
Inflation Expectations	1.88	1.98	1.90	1.95	1.85	1.56	1.91

ANZ BUSINESS OUTLOOK

Figure 1. Activity outlook index

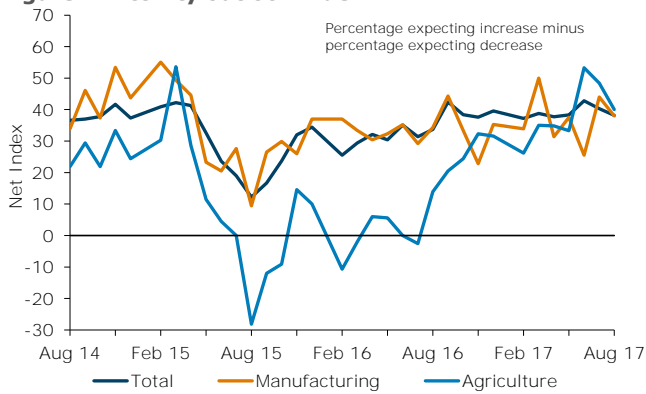


Figure 2. Construction intentions

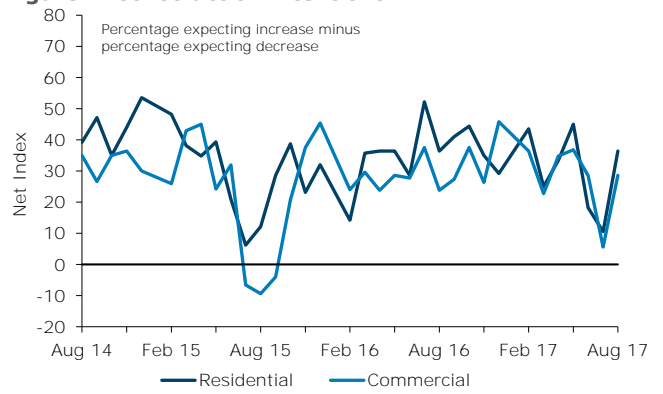


Figure 3. Activity outlook index

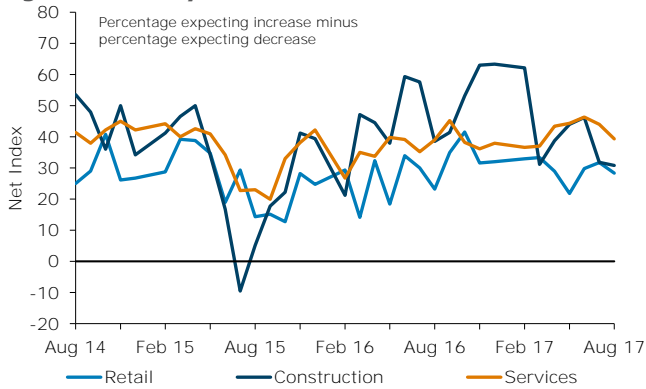


Figure 4. Labour market outlook

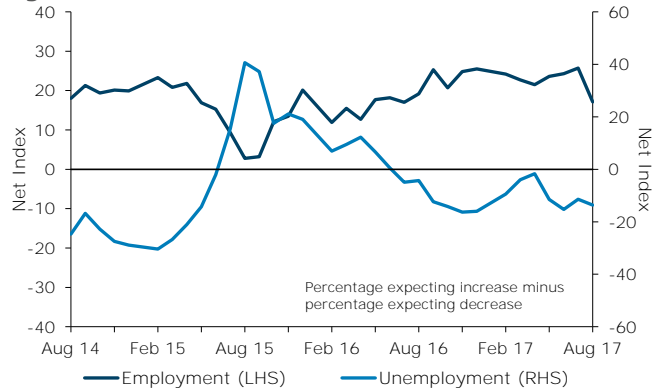


Figure 5. Export sales volumes

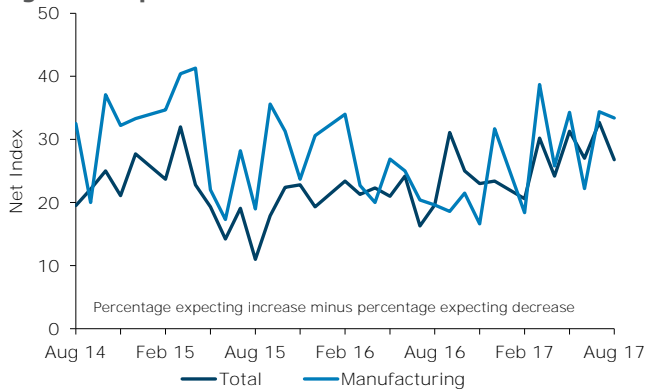


Figure 6. Financial outlook

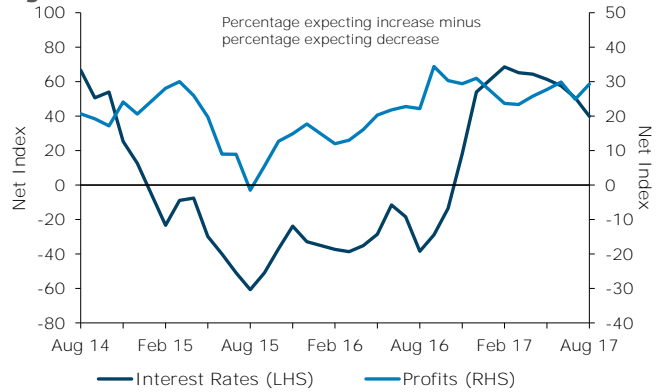


Figure 7. Investment intentions

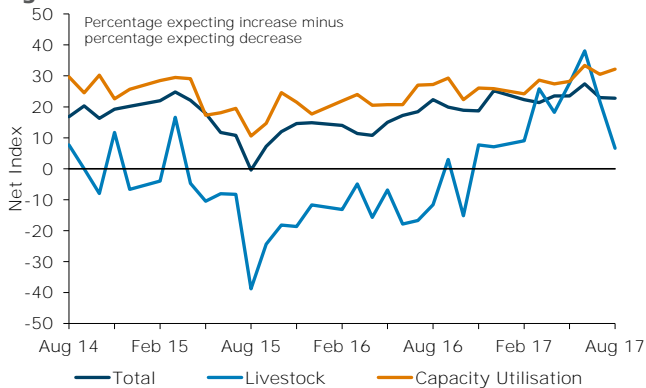
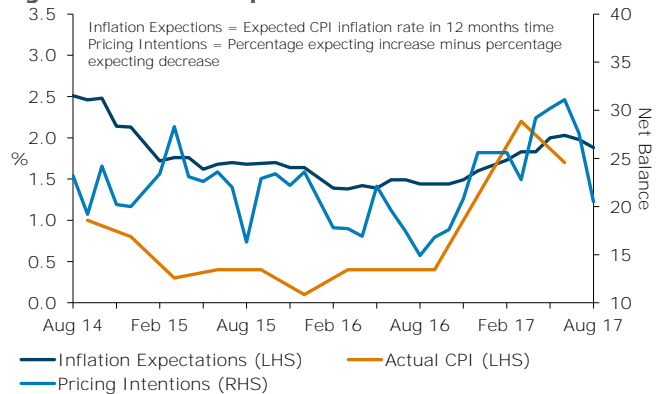


Figure 8. Inflation expectations



Source: ANZ, Statistics NZ



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