

February 2017

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The next issue of the ANZ *Business Outlook* is scheduled for release on 31 March 2017 at 1pm.

GALLOP TO A CANTER

SUMMARY

- Business confidence eased in February.
- Other survey indicators were reined in slightly; agriculture dominated but a broader slowing is natural as we enter a mature and capacity-constricted stage in the economic expansion. **We're not reading too much into it.**
- Inflation expectations continue to nudge up and more firms think the next move for interest rates is up.

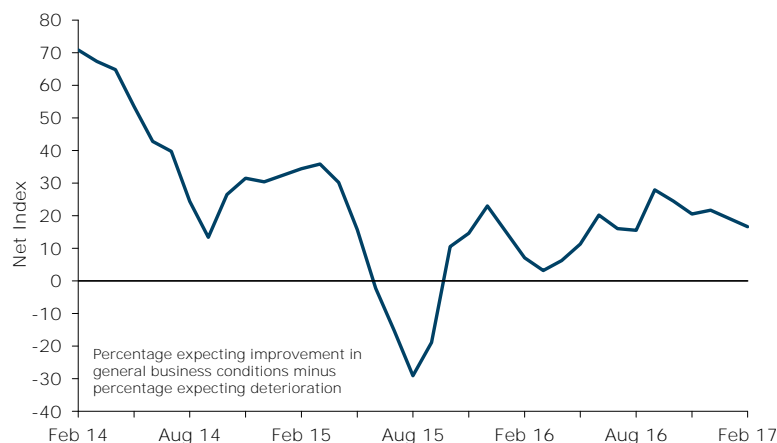
The first punt on Business Confidence for 2017 has a grindstone look about it. The tote continues to favour the optimists over the pessimists; a net 17% of businesses are optimistic about the year ahead. **That's down 5** points on December. Large drops were recorded in the construction and agriculture sectors while sentiment improved in retailing. The service and manufacturing sectors were broadly unchanged.

Businesses are still trotting along nicely though are marginally less upbeat when it comes to their own firm. A net 37% of businesses expect better times for their own business. The 3pt dip – if we can call it that – needs to be put in perspective. This series averaged 34 over 2016 and has a long-run average of 28. Businesses are still on the upbeat side of the ledger.

Details of the survey were still upbeat, just marginally less so.

- Investment intentions eased to +22. **That's down** but hardly a handicap. **It's** the second-highest reading in almost two years (December 2016 being the highest). There is still a strong desire to invest.
- Employment intentions were harnessed from lofty heights. A net +24 are looking at hiring more staff, down 2 points. Nothing to be sulky about.
- Profit expectations eased from +31 to +24, led down by agriculture.
- Export intentions drifted from +23 to +21.
- Residential construction intentions set the pace, rising in February from +29 to +44. Commercial construction intentions eased from +46 to +36.
- **Firms' pricing intentions** were unchanged at +26. Inflation expectations rose from 1.6% to 1.7%, pacing themselves towards the magical 2% mark.

ANZ BUSINESS CONFIDENCE INDEX



Source: ANZ

ANZ BUSINESS OUTLOOK

The slight drift lower in survey indicators has a strong agriculture flavour.

This sector showed the largest drop in business confidence, activity expectations, expected profitability, employment and investment. A lot of this movement looks to be recoil from a “spike” in December. Maybe the excitement associated with rising dairy prices has been dashed with reality setting in as prices have settled lower in the last two dairy auctions.

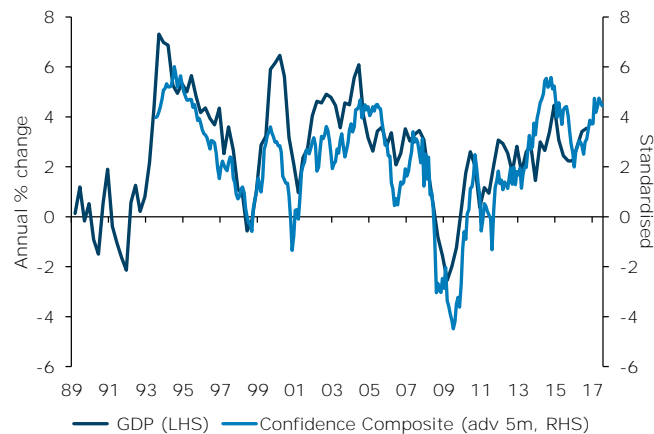
For the rest of the economy it looked very much business as usual. Survey indicators remain incredibly buoyant.

Our confidence composite indicator combines both business and consumer sentiment (capturing both the production and consumption sides of the economic equation). **It is still pointing to thoroughbred GDP growth of 3½-4%.**

Even if we take a circumspect view of survey indicators, this needs to be put in perspective.

- Survey indicators are still well above average. There is little in the survey that points to a sustained “turn” in the cycle – more like a levelling out.
- Respondents are asked whether they think things will improve, remain the same or decline. When things already look pretty darn good (which they have been of late for most New Zealand businesses), **it’s harder** to eke out incremental gains.
- The economy is moving further into a mature stage of the economic expansion. This is where availability of resources (labour and capital) becomes an active constraint; the economy needs to pace itself better in such circumstances. Such constraints can be difficult to manage, but are more appealing challenges than a lack of sales or demand.

CONFIDENCE COMPOSITE VERSUS GDP



Source: ANZ, Roy Morgan, Statistics NZ

SURVEY RESULTS FEBRUARY 2017							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	16.6	21.7	26.1	7.7	2.6	17.2	19.0
Activity Outlook	37.2	39.6	32.9	33.9	26.2	62.1	36.6
Exports	20.6	23.4	9.1	18.4	31.1	0.0	25.6
Investment	22.3	25.2	24.2	10.0	7.3	20.7	26.6
Livestock	9.0	7.1	...	...	9.0	...	...
Capacity Utilisation	24.2	25.9	18.5	12.8	12.5	40.0	31.9
Residential Construction	43.5	29.2	...	...	...	43.5	...
Commercial Construction	36.4	45.8	...	...	...	36.4	...
Employment	24.2	25.5	14.9	15.4	7.1	20.7	30.5
Unemployment Rate	-9.4	-16.0	-10.5	1.9	9.5	-17.2	-14.6
Profits	23.7	31.0	21.2	17.3	4.8	51.8	23.4
Interest Rates	68.6	54.0	59.7	59.6	68.3	62.1	72.5
Pricing Intentions	25.6	25.6	34.9	21.2	21.4	44.8	23.8
Ease of Credit	-28.4	-32.1	-20.0	-28.0	-26.5	-27.6	-30.4
Inflation Expectations	1.73	1.60	1.71	1.80	1.63	1.74	1.73

ANZ BUSINESS OUTLOOK

FIGURE 1. ACTIVITY OUTLOOK INDEX

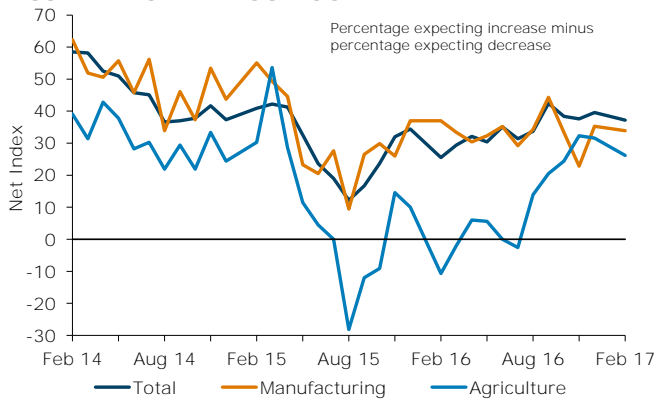


FIGURE 2. CONSTRUCTION INTENTIONS

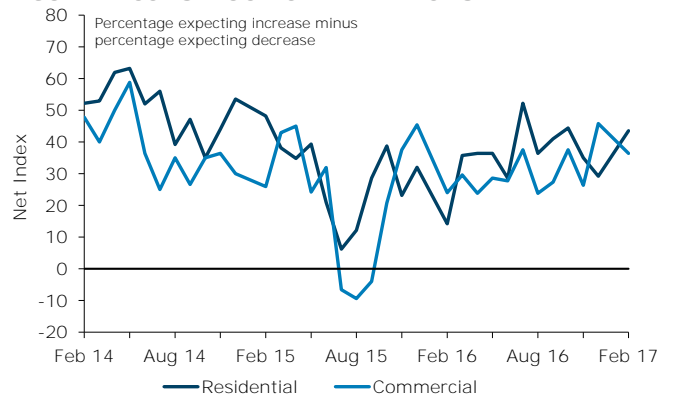


FIGURE 3. ACTIVITY OUTLOOK INDEX

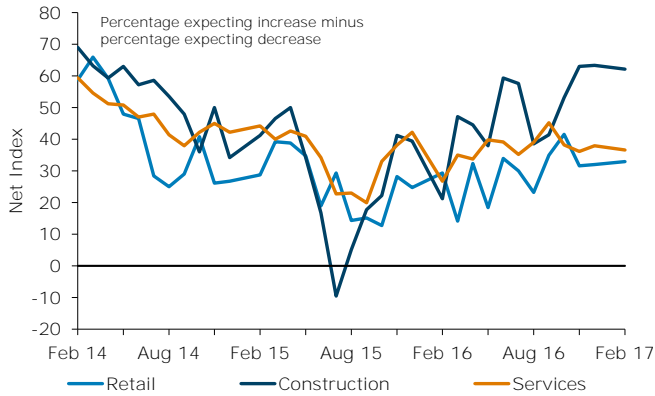


FIGURE 4. LABOUR MARKET OUTLOOK

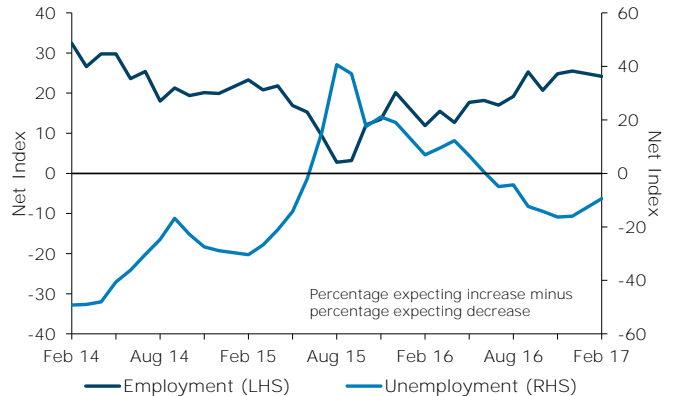


FIGURE 5. EXPORT SALES VOLUMES

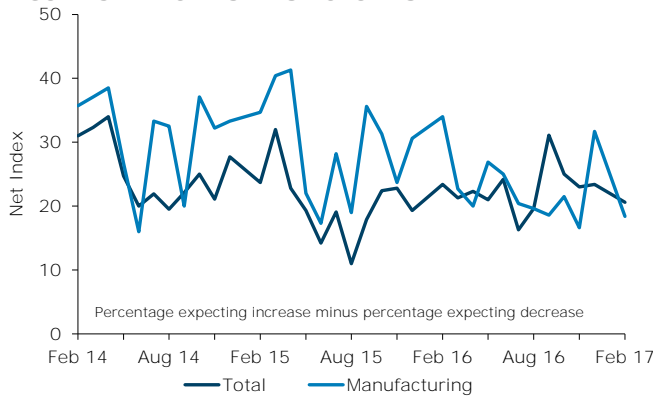


FIGURE 6. FINANCIAL OUTLOOK

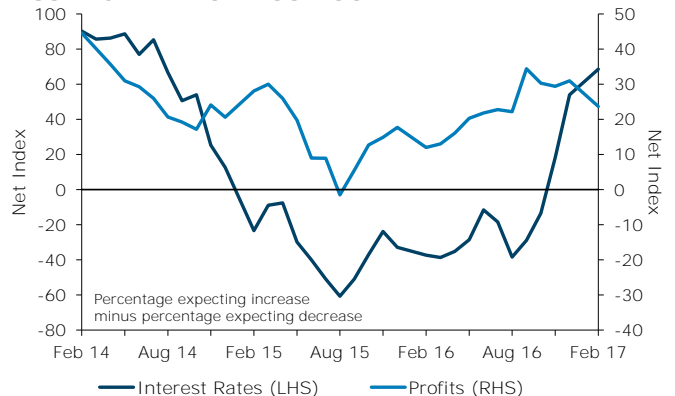


FIGURE 7. INVESTMENT INTENTIONS

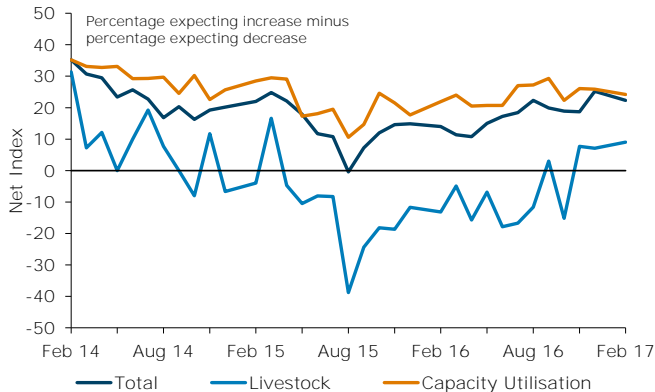
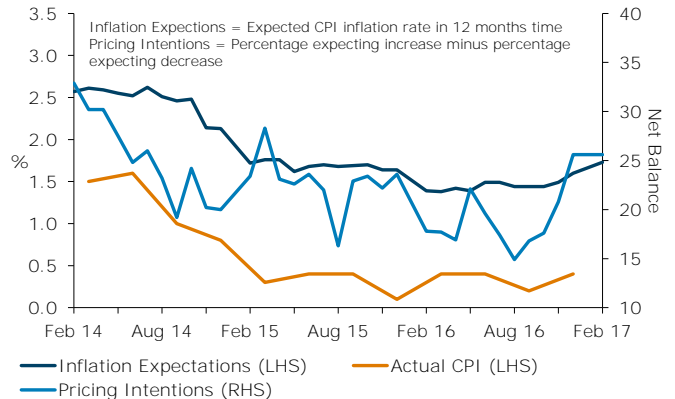


FIGURE 8. INFLATION EXPECTATIONS



Source: ANZ, Statistics NZ



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