OBJECTIVE AND HISTORY

The ANZ Business Outlook survey (ANZBO) is designed to provide a snapshot of business opinions regarding the expected future state of their business and the New Zealand economy overall. The survey provides useful information on the economy, from a business perspective, and is timelier than official statistics. It is New Zealand’s longest standing monthly business survey.

The concept of the ANZBO was formed in 1983 by the National Bank’s then-Chief Economist Don Abel. The concept was originally based on an overseas opinion survey. The first survey results – titled “Business Survey” – were published in the December 1983 edition of The National Bank Economic Review. In April 1984 the survey was renamed “Business Outlook”, and became a separate publication.

The survey today remains true to its original form, but it has widened in scope. In the beginning, National Bank branches obtained views of local businesses and reported them back to the Economics team. The original survey asked just one question (relating to inflation). The survey was rebranded from the National Bank to ANZ in October 2012. Today, consenting businesses fill in a short questionnaire, which is then compiled by ANZ Economics. The survey produces 15 indices on a monthly basis, as well as data on the biggest problems faced by businesses each quarter (see Appendix 4 for the full list).

The ANZBO is aimed at all business sectors and sizes. By surveying the entire spectrum of business types and sizes, not only can ANZ better serve its clients, but both market analysts and businesses can garner a variety of information about business views at different points of the business cycle.

GDP vs firms’ own activity expectations

Sources: ANZ, Statistics NZ
DESCRIPTION AND USES

The ANZBO is a sample survey. That is; only a proportion of the economy is used to represent the economy as a whole. Many official statistics are calculated in a similar manner; therefore – from a theoretical viewpoint – the survey process is not unusual.

The ANZBO is a monthly survey of around 1500-2000 firms, with 300-400 respondents in any given month.\(^1\) For each firm, region of residence, and firm size is recorded.\(^2\) Despite the survey’s relatively small size, the sampling is broadly representative of the New Zealand economy by both sector and region, as shown in the charts below.

The ANZBO is not a random sample; businesses are invited to participate and opt-in to the survey. We do not undertake any measures to force firms to respond (i.e. the survey itself and each question is optional, and we do not call businesses for non-response), therefore is technically subject to various forms of bias. Opt-in surveys can be subject to self-selection bias – essentially, the firms with the most firmly held opinions may be more motivated to respond in any given month. This may help explain the tendency for the headline business confidence measure to be higher/lower depending on which political party is in Government. However, the information provided by businesses throughout the survey provide valuable insights for eventual economic outcomes (see the 16 July 2018 edition of our Market Focus for more on this).

The survey asks a variety of questions. For example:\(^3\)

- a firm’s confidence in future business conditions in 12 months’ time;
- a firm’s view of where activity in their own firm is heading a year hence;
- a firm’s opinion surrounding the expected future movement in unemployment and employment, interest rates, ease of obtaining credit, investment in property, plant and equipment, and profits in a year’s time;
- a firm’s expectation of their product’s price(s) in 3 months’ time; and
- the expected level of annual inflation in 12 months’ time.

For the applicable sectors, the survey asks:

---

\(^1\) The survey is not taken in the January month.

\(^2\) Typical sector breakdowns can be found in Appendix 1.

\(^3\) The survey questionnaire can be found in Appendix 3.
in which direction a firm anticipates their export volumes will move and the expected change in livestock investment in 12 months’ time;

- in which direction a firm expects their utilisation of capacity to move in 12 months’ time; and

- an indication of the expected change in residential and non-residential building activity in 12 months’ time.

Although the survey itself is qualitative in nature, the reported statistic for each question is a single net balance number. That is, for each question the respondent is asked to indicate ‘improved’ or ‘increased’, ‘deteriorated’ or ‘decreased’, or ‘remain the same’. The responses are then converted into a net balance statistic via the calculation:

\[
\text{net balance (\%)} = \left( \frac{(i - d)}{(i + d + rts)} \right) \times 100
\]

Where

- \( i \) is the number of ‘improved’ responses;
- \( d \) is the number of ‘deteriorated’ responses; and
- \( rts \) is the number of ‘remain the same’ responses.

Every three months we also ask firms about the biggest problems they are facing, which helps add colour when interpreting the other survey data.

**FORECASTING WITH THE BUSINESS OUTLOOK**

The survey has proven to be a good predictor of the future business situation. However, current events, including political events, can sway the ‘business conditions’ responses at some points in time and our recommended approach in the use of business surveys is to extract common themes across a multitude of indicators such as employment, investment and firms’ own activity expectations and not to place too much weight on a single result. We also find that composite readings from consumer confidence and the business equivalent provides the strongest relationship with economic growth.

The Own Activity Outlook series is a statistically significant predictor of growth in the economy. This series also tends to be less volatile than the headline confidence figure. Other notable series used for forecasting include the Investment Intentions index (an explanatory variable of future gross fixed capital formation) and Employment Intentions (which match employment), while the Pricing Intentions, Expected Costs and Expected Prices data provide useful information on the pricing side of the economy. The Reserve Bank and Treasury use many of the Business Outlook series in their respective forecasting systems as indicators of the state of the economy.

**CONCLUSION**

The monthly ANZBO contains a great deal of information that can be used to assess the state of the economy.

Long lags between when official data is released (i.e. GDP data typically comes out 3 months in arrears) creates somewhat of a void in terms of assessing how the economy is performing. This void can be partially overcome by the analysis of monthly insights from businesses.

The ANZBO provides numerous series with which to analyse the economy. The forecasting ability of some of the more prominent series is reliable and significant, which is consistent with the objectives of the ANZBO: to provide a timely snapshot of the current and future state of the New Zealand economy.
APPENDIX 1: DETAILS OF THE BUSINESS OUTLOOK CATEGORIES

<table>
<thead>
<tr>
<th>Sector Categories</th>
<th>Individual Sectors</th>
<th>Regional Councils</th>
<th>Firm sizes*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>Construction Retail Services</td>
<td>Construction</td>
<td>Northland</td>
</tr>
<tr>
<td>Manufacturing</td>
<td></td>
<td>Trade</td>
<td>Auckland</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Transport</td>
<td>Waikato</td>
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<tr>
<td></td>
<td></td>
<td>Finance</td>
<td>Bay of Plenty</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Personal Services</td>
<td>Gisborne</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Communication</td>
<td>Hawke’s Bay</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Other Services</td>
<td>Manawatu-Whanganui</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Electricity, Gas</td>
<td>Nelson-Marlborough</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Mining</td>
<td>West Coast</td>
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<tr>
<td></td>
<td></td>
<td>Forestry</td>
<td>Canterbury</td>
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<tr>
<td></td>
<td></td>
<td>Fishing</td>
<td>Otago</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Southland</td>
</tr>
<tr>
<td>Agriculture</td>
<td>Construction Retail Services</td>
<td>Construction</td>
<td>Northland</td>
</tr>
<tr>
<td>Food Manufacturing</td>
<td></td>
<td>Trade</td>
<td>Auckland</td>
</tr>
<tr>
<td>Textiles</td>
<td></td>
<td>Transport</td>
<td>Waikato</td>
</tr>
<tr>
<td>Wood</td>
<td></td>
<td>Finance</td>
<td>Bay of Plenty</td>
</tr>
<tr>
<td>Paper</td>
<td></td>
<td>Personal Services</td>
<td>Gisborne</td>
</tr>
<tr>
<td>Chemicals</td>
<td></td>
<td>Communication</td>
<td>Hawke’s Bay</td>
</tr>
<tr>
<td>Minerals</td>
<td></td>
<td>Other Services</td>
<td>Manawatu-Whanganui</td>
</tr>
<tr>
<td>Metal Industries</td>
<td></td>
<td>Electricity, Gas</td>
<td>Nelson-Marlborough</td>
</tr>
<tr>
<td>Other Manufacturing</td>
<td></td>
<td>Mining</td>
<td>West Coast</td>
</tr>
<tr>
<td>Construction Retail</td>
<td></td>
<td>Forestry</td>
<td>Canterbury</td>
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<tr>
<td>Services</td>
<td></td>
<td>Fishing</td>
<td>Otago</td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td>Southland</td>
</tr>
</tbody>
</table>

*These definitions differ slightly to those used by Statistics New Zealand. Statistics New Zealand defines business sizes as the number of full-time equivalent employees (FTEs).

APPENDIX 2: HOW TO BECOME A RESPONDENT

Respondent’s Name: ..............................................................................................................................................
Company: ..............................................................................................................................................................
E-mail: .................................................................................................................................................................
(please print clearly)
Sectoral description: ............................................................................................................................................... 
Region: ....................................................................................................................................................................

Number of employees (please circle): 0-5 6-20 21-50 51+

Please fill in the form above and post it to:

Economics
ANZ Bank New Zealand Limited
PO Box 540
Wellington

Or email your details to nzeconomics@anz.com
APPENDIX 3: EXAMPLES OF THE SURVEY QUESTIONS:
A: Hardcopy Version

ANZ BUSINESS OUTLOOK QUESTIONNAIRE

A. With regard to the New Zealand Economy
   - Do you believe that General Business Conditions in 12 months time will have?
   - What do you think the annual Inflation Rate (as measured by the Consumer Price Index) will be in 12 months time?
   - How do you expect the following economic indicators to have changed in 12 months time?
     - Unemployment Rate
     - Interest Rates

B. With regard to Your Business, how do you expect the following variables to have changed in 12 months time?
   - Real Business Activity (i.e. volume, Not $ revenue)
   - Real Profits (i.e. inflation adjusted profits)
   - Employment
   - Price of your good/service (in three months time)
   - Investment in buildings, plant, equipment

If applicable:
   - Real Exports (i.e. volume, Not $ revenue)
   - Capacity Utilisation (i.e. operating rate of existing capital equipment in three months time, ignoring seasonal factors)
   - Investment in Livestock
   - If your business is involved in Construction how do you expect your Volume (Not $ value) of activity to have changed for:
     - Residential building
     - Non-residential construction
   - Will it be easier or harder to get credit in 12 months time?
Each quarter, survey respondents are given a supplementary questionnaire to fill in. This questionnaire is used to produce the quarterly ANZ Business Micro Scope.

APPENDIX 4: ANZBO INDICES/ADDITIONAL DATA
Topics covered by the ANZBO include:

- Inflation (CPI) expectations
- General business confidence
- Unemployment rate
- Interest rates
- Activity outlook (real business activity)
- Real profit expectations
- Employment intentions
- Price for good/service
- Investment in buildings, plant, equipment
- Real export expectations
- Capacity utilisation
- Investment in Livestock
- Residential building activity volume
- Non-residential building activity volume
- Ease of credit
- Most important problem facing businesses
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