

ANZ BUSINESS OUTLOOK BACKGROUND PAPER

The *Business Outlook Survey* has established itself as an important statistical time series in New Zealand. Not only is it the longest running monthly survey of business opinions but it is also a reliable and timely indicator of New Zealand's economic outlook.

This background paper describes the objective and purpose of the *Business Outlook* survey, gives a detailed description of the indices, the data set, the surveys many uses, and its forecasting ability.

OBJECTIVE AND HISTORY

The *Business Outlook* 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 coincident information on the economy and is timelier than official statistics.

The concept of the *Business Outlook* was formed in 1983 by the National Bank's then-current 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 *Business Outlook* was born.

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 affiliated with ANZ fill in a short questionnaire, which is then compiled by ANZ Economics. Today, although just one page in length, the survey produces 15 major and over 700 minor indices. It is New Zealand's longest standing monthly business survey.

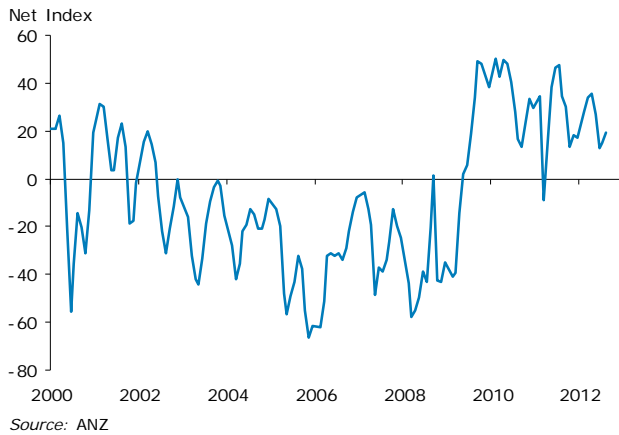
The *Business Outlook* is aimed at all business sectors and at all business sizes, since together this better represents the New Zealand economy (which is made up of many small and medium-sized firms) than large corporations alone. By surveying the entire spectrum of businesses types and sizes, not only can ANZ better serve its clients, but both market analysts and businesses people can garner a variety of information about business views at different points of the business cycle.



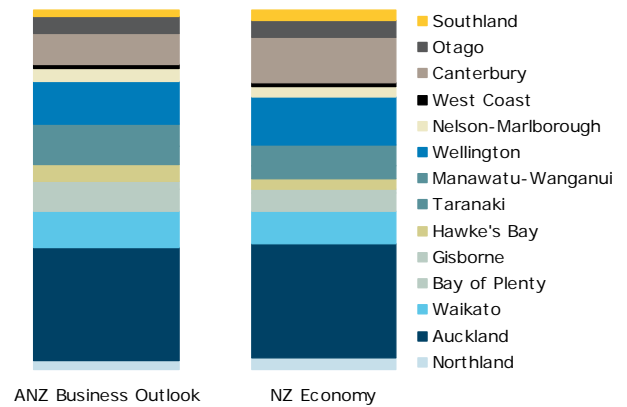
Sources: ANZ, Statistics NZ

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Business Confidence Index



Business Outlook regional breakdown

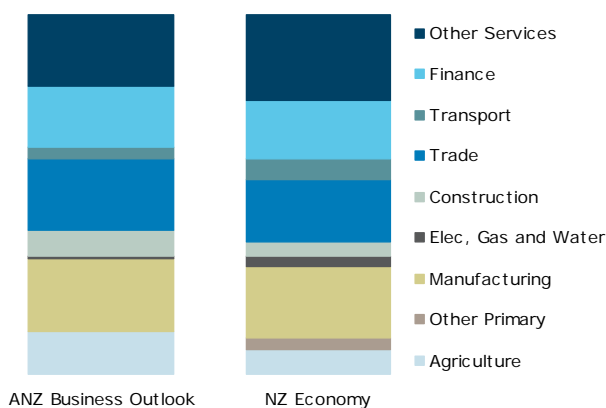


DESCRIPTION AND USES

The *Business Outlook* 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 *Business Outlook* is a monthly survey with around 500 respondents.¹ Each firm self-selects its business sector, region of residence, and firm size.² And despite the survey's apparent paucity, the sampling is stratified and collectively exhaustive. Thus, it is less variable and more reliable than a random population sample. The two charts below illustrate how encompassing this self-sampling is.

Business Outlook sectoral breakdown



The survey itself asks a variety of questions. For example:³

- a firm's confidence in future business conditions in 12 month's 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 month's time.

For the sectors that apply, the survey asks:

- in which direction a firm anticipates their export volumes will move and the expected change in livestock investment in 12 month's time;
- in which direction a firm expects their utilisation of capacity to move in 12 month's time; and
- for 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:

¹ The survey is not taken in the January month. The number of responses varies between 400 and 600 per month.

² Typical sector breakdowns can be found in Appendix 1.

³ The survey questionnaire can be found in Appendix 3.

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

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.

FORECASTING WITH THE BUSINESS OUTLOOK

The survey has proven to be a good predictor of the future business situation. However, current 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. The 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), while the Expected Prices series is watched closely by New Zealand's monetary authorities. Indeed, 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 ANZ *Business Outlook* survey contains a great deal of information that can be used to assess the state of the economy. Some people are sceptical of survey results because they lack confidence that the business community will answer honestly – yet our respondents take the exercise very seriously. Not only do they take the time to respond to the survey; many of them often provide detailed explanations of why they have the views they have. Moreover, most official statistics released by Statistics New Zealand are also surveys themselves, since they are typically inferred from samples of firms and households, rather than calculated from a full census.

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. Hard official data is merely the plural of monthly survey anecdotes.

The *Business Outlook* provides numerous series in 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 *Business Outlook*: to provide a timely snapshot of future state of the New Zealand economy.

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APPENDIX 1: DETAILS OF THE BUSINESS OUTLOOK CATEGORIES

Sector Categories	Individual Sectors			Regional Councils	Firm sizes*
<i>Agriculture</i>	Agriculture	<i>Construction</i>	Construction	Northland	Micro (0-5 employees)
<i>Manufacturing</i>	Food Manufacturing	<i>Retail Services</i>	Trade	Auckland	Small (6-20)
	Textiles		Transport	Waikato	Medium (21-50)
	Wood		Finance	Bay of Plenty	Large (50+)
	Paper		Personal Services	Gisborne	Total excluding farms
	Chemicals		Communication	Hawke's Bay	
	Minerals	Other Services	Manawatu-Whanganui		
	Metal Industries	<i>Other</i>	Electricity, Gas	Nelson-Marlborough	
	Other Manufacturing		Mining	West Coast	
			Forestry	Canterbury	
			Fishing	Otago	
			Southland		

*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

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APPENDIX 3: EXAMPLES OF THE SURVEY QUESTIONS:

A: Hardcopy Version



ANZ BUSINESS OUTLOOK QUESTIONNAIRE

(please tick appropriate box)

A. With regard to the New Zealand Economy

	IMPROVED	REMAIN THE SAME	DETERIORATED
• Do you believe that General Business Conditions in 12 months time will have?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• What do you think the annual Inflation Rate (as measured by the Consumer Price Index) will be in 12 months time?	<input style="width: 100px;" type="text"/> %		
• How do you expect the following economic indicators to have changed in 12 months time?	INCREASED	REMAIN THE SAME	DECREASED
– Unemployment Rate	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
– Interest Rates	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

B. With regard to Your Business, how do you expect the following variables to have changed in 12 months time?


	INCREASED	REMAIN THE SAME	DECREASED
• Real Business Activity (i.e. volume, Not \$ revenue)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Real Profits (i.e. inflation adjusted profits)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Employment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Price of your good/service (in three months time)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Investment in buildings, plant, equipment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If applicable:

• Real Exports (i.e. volume, Not \$ revenue)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Capacity Utilisation (i.e. operating rate of existing capital equipment in three months time, ignoring seasonal factors)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Investment in Livestock	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• If your business is involved in Construction how do you expect your Volume (Not \$ value) of activity to have changed for:			
– Residential building	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
– Non-residential construction	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	EASIER	REMAIN THE SAME	HARDER
• Will it be easier or harder to get credit in 12 months time?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

ANZ Bank New Zealand Limited Thank you for completing this questionnaire



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B: Internet Version



The New Zealand Economy

With regard to the **New Zealand Economy**,

	IMPROVED	REMAIN THE SAME	DETERIORATED
Do you believe that General Business Conditions in 12 months time will have:	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
What do you think the Inflation Rate (as measured by the Consumer Price Index) will be in 12 months time?	<input type="text" value=""/>	%	
	INCREASED	REMAIN THE SAME	DECREASED
How do you expect the following economic indicators to have changed in 12 months time?			
- Unemployment Rate	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
- Interest Rates	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



Supplemental Questions

How many **employees** do you have?

5 or less Between 6 and 20

Between 21 and 50 51 or more

What is the **most important** problem facing your firm?

<input type="radio"/> Low turnover	<input type="radio"/> Regulation & Paper work
<input type="radio"/> Lack of skilled employees	<input type="radio"/> Total tax burden
<input type="radio"/> Cashflow/Debtors	<input type="radio"/> Competition from other business
<input type="radio"/> Premises/Rent/Rates	<input type="radio"/> Internal Management difficulties
<input type="radio"/> High rates of pay	<input type="radio"/> Access to finance
<input type="radio"/> Shortage of supplies	<input type="radio"/> Interest rates
<input type="radio"/> Exchange rate	<input type="radio"/> Inflation
<input type="radio"/> Other (please specify) <input type="text"/>	



Your Business

With regard to **Your Business** how do you expect the following variables to have changed in 12 months time?

	INCREASED	REMAIN THE SAME	DECREASED
Real Business Activity (i.e. volume, Not \$ revenue)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Real Profits (i.e. inflation adjusted profits)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Employment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Price of your good/service (in three months time)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Investments in buildings, plant, equipment	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



Thank You

Thank you for taking the time to complete this survey.

Click to view:

- [Last Month's Survey Summary Report](#)
- [Business Outlook Report](#)



Your Business, continued

With regard to **Your Business** how do you expect the following variables to have changed in 12 months time?

If applicable:

	INCREASED	REMAIN THE SAME	DECREASED
Real Exports (i.e. volume, Not \$ revenue)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Capacity Utilisation (i.e. operating rate of existing capital equipment in three months time (ignoring seasonal factors))	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Investment in Livestock	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
If your business is involved in Construction how do you expect your Volume (Not \$ value) of activity to have changed for:			
- Residential building	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
- Non residential building	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	EASIER	REMAIN THE SAME	HARDER
Will it be easier or harder to get credit in New Zealand in 12 months time?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Each quarter, survey respondents are given a supplementary questionnaire to fill in. This questionnaire is used to produce the quarterly ANZ *Business Micro Scope*



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