

July 2018

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The next issue of the ANZ *Business Outlook* is scheduled for release on 30 August 2018 at 1pm.

IN A FUNK

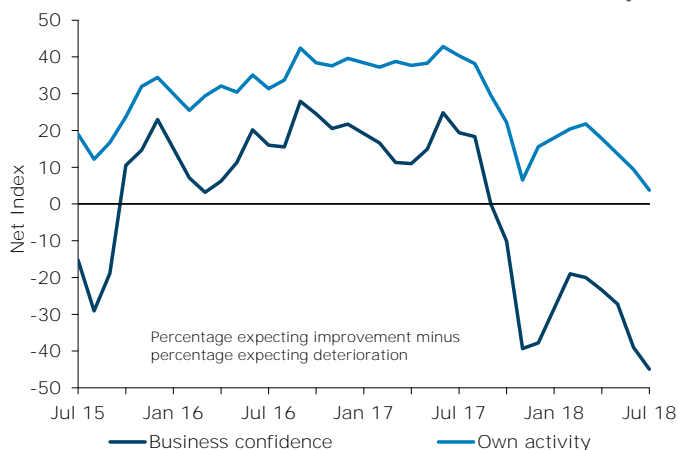
SUMMARY

- Headline business confidence and firms' views of their own activity continued to fall in July, reaching their lowest levels since May 2008 and May 2009 respectively.
- Activity sub-indicators were weak across the board; retail is the least confident sector.

The ANZ Business Outlook Survey for July paints an unhappy picture. Headline business confidence dropped to a net 45% of respondents reporting they expect general business conditions to deteriorate in the year ahead, down 5 points.

Firms' perceptions of their own prospects are a better gauge of economic outcomes, but the news wasn't upbeat here either: it dropped 5 points to a net 4% expecting an improvement. This is the lowest reading since May 2009 and well below the long-term average of +27. By industry, retailers remain the least positive about their own activity (-4%) despite still-robust consumer confidence.

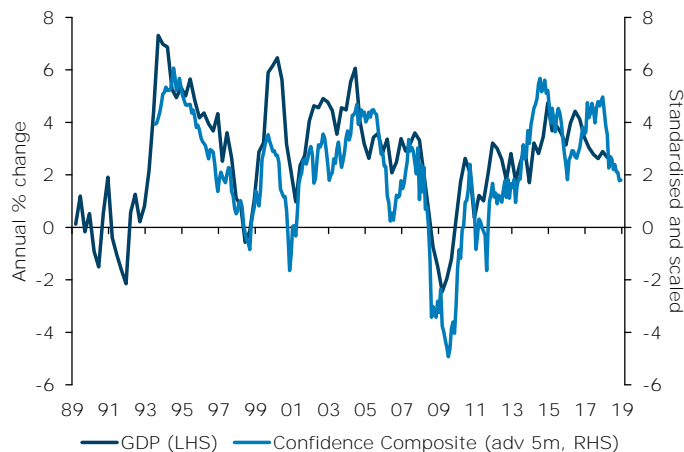
ANZ Business Confidence Index and ANZ Own Activity Index



Source: ANZ

Our composite GDP growth indicator combines business expectations and intentions with consumer confidence. This remains expansionary thanks only to resilience in the latter.

Confidence Composite versus GDP



Source: ANZ, Roy Morgan, Statistics NZ

ANZ BUSINESS OUTLOOK

This economy feels increasingly late in the cycle. Fiscal stimulus and the still-strong terms of trade will support growth. However, sustained low business confidence increases the risk that firms will delay investment and hiring decisions, in what could become something of a self-fulfilling prophecy.

- A net 1% of firms are expecting to lift investment, down 3 points.
- Employment intentions lifted 1 point to +2%. They are strongest for services, but negative across retail, construction and agriculture.
- Profit expectations fell 4 points to -16.8%. Every sector is in the red; retail is the weakest sector (-28%, down 11 points).
- A net 37% of businesses expect it to be tougher to get credit.
- **Firms' pricing intentions** lifted 2 points to +29% and are strongest for construction. Inflation expectations were little changed at 2.2%.
- Residential construction intentions eased 2 points to +16%, while commercial construction intentions continued to fall out of bed, down 6 points to -17%. This is the lowest level since 2010.

It's difficult to take a glass-half-full view of **this month's** survey results. Firms are grappling with low expected profitability; yet with no meaningful lift in pricing intentions, it seems squeezed margins are expected to persist.

The retail sector is the least optimistic about its own activity and profitability, and therefore, not surprisingly, has the lowest employment intentions. How do we square this with a still-upbeat consumer? On the activity side, high household debt, strong competition and an ongoing shift to online (including offshore) spending are suppressing turnover. On the profitability front, higher anticipated costs may also be at play. Relatively unskilled labour is a key input for this sector, meaning exposure to the minimum wage is significant. Expected costs are not surveyed, but anecdote certainly suggests a degree of concern.

The New Zealand economy is delicately placed. Fiscal stimulus and the high terms of trade will provide impetus to growth, and the external environment remains favourable. But with businesses in a funk, **it's fair to say** that the road ahead is looking less assured, and risks of a stall have increased.

SURVEY RESULTS JULY 2018							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-44.9	-39.0	-50.0	-51.4	-44.1	-56.5	-37.3
Activity Outlook	3.8	9.4	-4.1	7.0	8.3	0.0	3.2
Exports	11.6	12.2	13.0	10.2	20.8	0.0	8.2
Investment	0.6	3.6	8.0	-4.4	-2.9	13.0	-0.6
Livestock	0.0	-5.9	...	...	0.0	...	...
Capacity Utilisation	8.7	7.2	0.0	8.0	3.7	11.1	15.4
Residential Construction	15.8	18.2	...	...	...	15.8	...
Commercial Construction	-16.7	-10.5	...	...	...	-16.7	...
Employment	1.5	1.2	-12.0	0.0	-5.6	-4.3	9.0
Unemployment Rate	19.4	18.5	20.0	32.4	22.2	8.7	14.1
Profits	-16.8	-13.2	-28.0	-15.5	-19.4	-17.4	-13.5
Interest Rates	41.8	44.3	40.8	40.8	61.8	26.1	41.7
Pricing Intentions	29.3	26.9	32.0	28.6	8.6	39.1	31.8
Ease of Credit	-36.5	-32.1	-37.5	-34.3	-33.3	-27.3	-40.9
Inflation Expectations	2.24	2.29	2.31	2.34	2.29	1.87	2.22

ANZ BUSINESS OUTLOOK

Figure 1. Activity outlook index

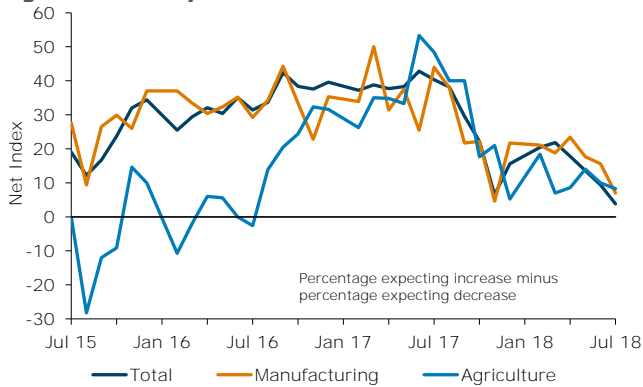


Figure 2. Construction intentions

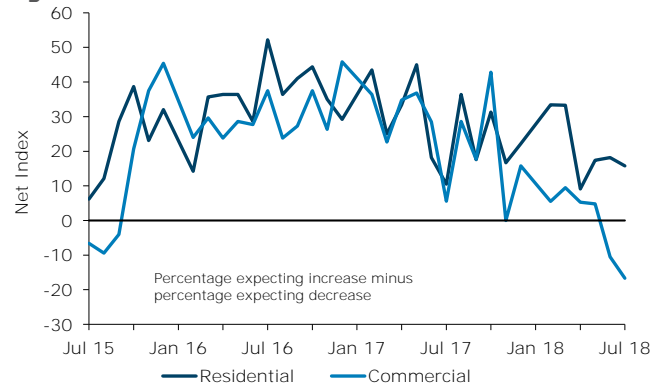


Figure 3. Activity outlook index

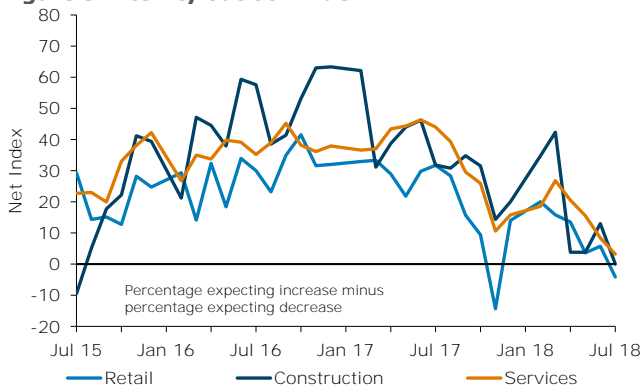


Figure 4. Labour market outlook

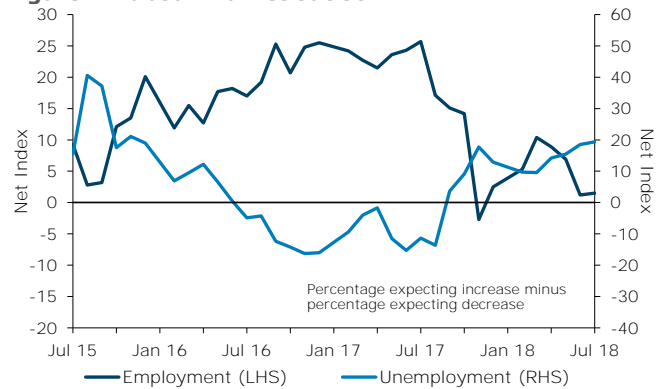


Figure 5. Export sales volumes

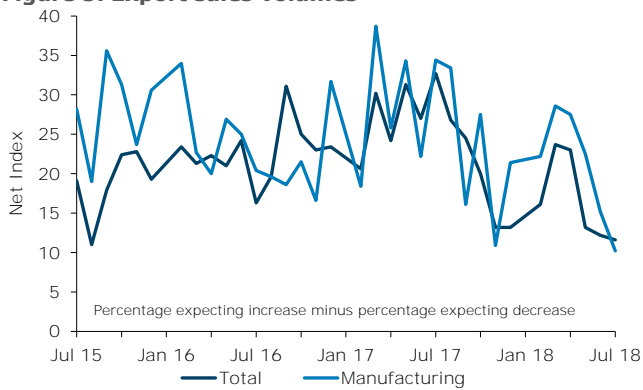


Figure 6. Financial outlook

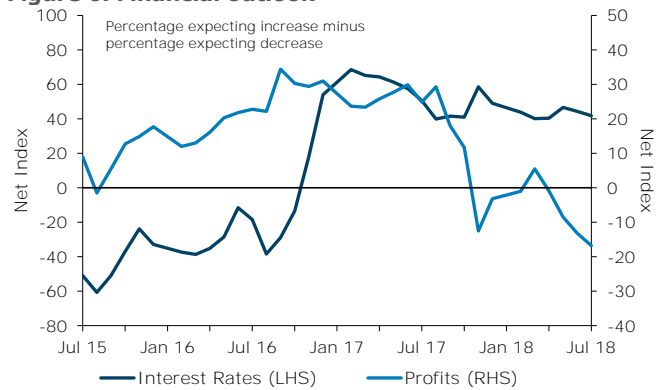


Figure 7. Investment intentions

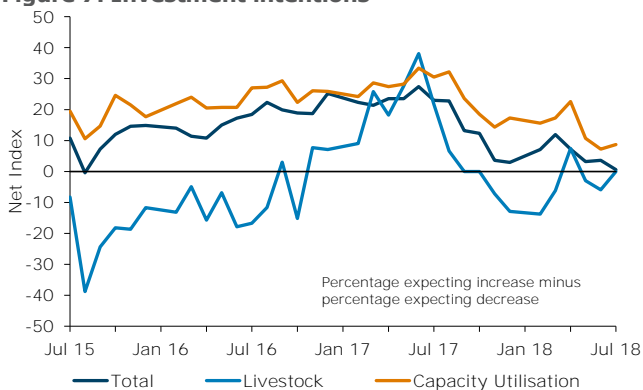
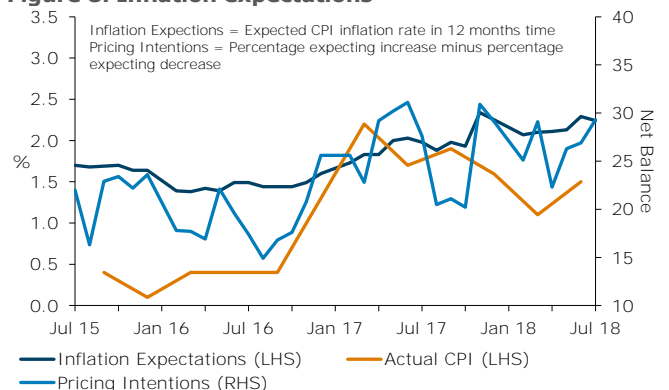


Figure 8. Inflation expectations



Source: ANZ, Statistics NZ



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