

June 2017

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

KIWIS CAN FLY

SUMMARY

- Business confidence lifted in June and broader survey sentiment also rose.
- Firms are upbeat about their own prospects, and keen to hire and invest.
- Our composite growth indicator is pointing to 4% GDP growth.
- **That's** a stretch, but the economy is running faster than current real GDP growth (2.5%) would suggest. Expect **"official"** growth to lift.
- Inflation expectations are anchored at 2%.

The economy has good upwind speed. A net 25% of businesses are optimistic about the year ahead. **That's** up 10 points on the month prior and is the highest level since September 2016. Sentiment lifted across all sectors but most notably for agriculture. The service sector sits at the bow (+33).

It's fly time.

- A net 43% of businesses expect better times for their own business, a key bellwether for economic momentum. **That's** up 5 points on last month and the highest reading since July 2014. Agriculture has stormed to the front.
- Investment intentions lifted to +27 (average 13). Employment intentions were unchanged at +24.
- Profit expectations rose from +28 to +30 (average 10). Better profitability expectations are reflected in appetites to invest.
- Export intentions were somewhat foiled, falling from +31 to +27.
- Residential construction intentions dropped from +45 to +18. That would be a worry if sustained. Commercial construction intentions continue to jibe, falling from +37 to +29.
- **Firms' pricing intentions** lifted from +30 to +31, the highest since February 2014. Inflation expectations remain steadfast at 2%.
- A net 31% of businesses expect it to be tougher to get credit.
- Seasonally adjusted estimates rose pretty much across the board.

ANZ BUSINESS CONFIDENCE INDEX



Source: ANZ

Our confidence composite indicator is pointing to GDP growth in excess of 4%. We don't think the economy has the capacity to grow that fast amidst capacity pressures (i.e. skilled staff shortages). However, there is still a large gap between signalled growth and where actual GDP growth sits (2.5%).

ANZ BUSINESS OUTLOOK

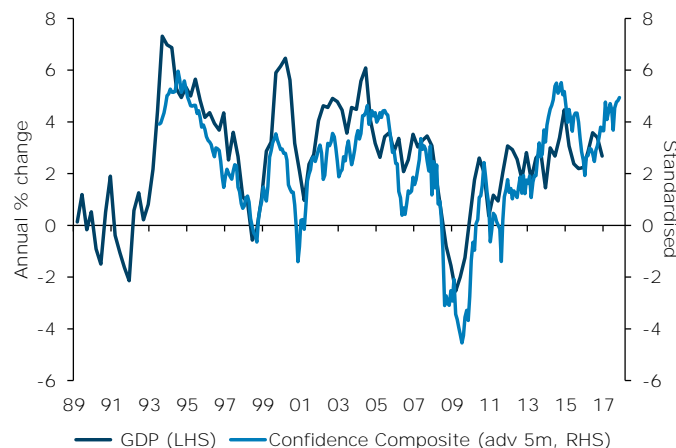
Westernised countries are struggling to achieve rates of growth that have been historically typical. The mismatch between the 'hard' data and 'soft' data apparent locally is also evident offshore. Productivity growth is weak, debt levels are high, demographics are less supportive and the global credit wheels are no longer spinning as fast. Reality is undershooting expectation.

New Zealand faces similar challenges but unlike a lot of countries around the globe, New Zealand's policy manoeuvrability is reasonable; fiscal credentials are strong (and policy will turn expansionary); the commodity cycle (and trend) is supportive, which has buoyed the agriculture sector; the migration cycle will not taper (though that does mean more infrastructure pressure); and the microeconomic policy platform has been moving forward. Large sectors such as tourism are booming and boutique sectors (pipfruit, hops, kiwifruit, viticulture etc) are getting scale.

We're seeing local partial indicators (firms' activity expectations, consumer confidence, our Truckometer and the PSI and PMI gauges) **improve** at a time the global pulse is beating a little slower.

We're expecting official growth measures to realign towards (but not completely to) the rates being flagged by our composite confidence growth measure. That's upwind of 3% as opposed to downwind of it.

CONFIDENCE COMPOSITE VERSUS GDP



Source: ANZ, Roy Morgan, Statistics NZ

SURVEY RESULTS JUNE 2017							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	24.8	14.9	12.5	17.3	26.6	7.7	32.6
Activity Outlook	42.8	38.3	29.8	25.5	53.3	46.2	46.3
Exports	27.0	31.3	17.6	22.2	45.0	14.3	34.1
Investment	27.4	23.5	31.2	23.6	16.6	23.1	34.2
Livestock	38.1	27.6	...	...	38.1	...	...
Capacity Utilisation	33.4	28.2	17.9	27.0	39.1	41.7	41.2
Residential Construction	18.2	45.0	...	...	...	18.2	...
Commercial Construction	28.5	36.8	...	...	...	28.5	...
Employment	24.3	23.6	20.8	15.7	13.4	38.5	28.2
Unemployment Rate	-15.3	-11.5	0.0	-1.9	3.4	-34.6	-23.4
Profits	29.9	27.7	16.6	21.5	46.7	42.3	30.6
Interest Rates	57.6	61.4	56.2	50.0	56.7	53.8	58.4
Pricing Intentions	31.1	30.2	29.7	16.3	53.4	53.9	30.4
Ease of Credit	-30.7	-29.3	-15.2	-14.9	-23.1	-19.3	-40.4
Inflation Expectations	2.03	2.00	2.02	2.08	1.84	1.81	2.04

ANZ BUSINESS OUTLOOK

FIGURE 1. ACTIVITY OUTLOOK INDEX

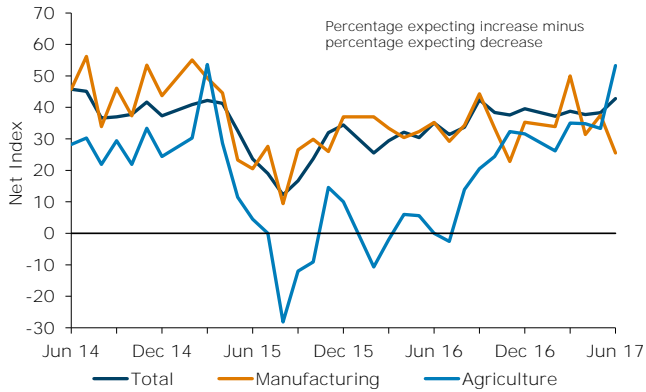


FIGURE 2. CONSTRUCTION INTENTIONS

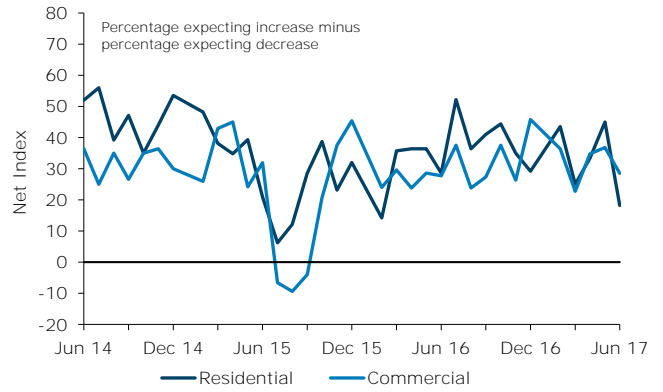


FIGURE 3. ACTIVITY OUTLOOK INDEX

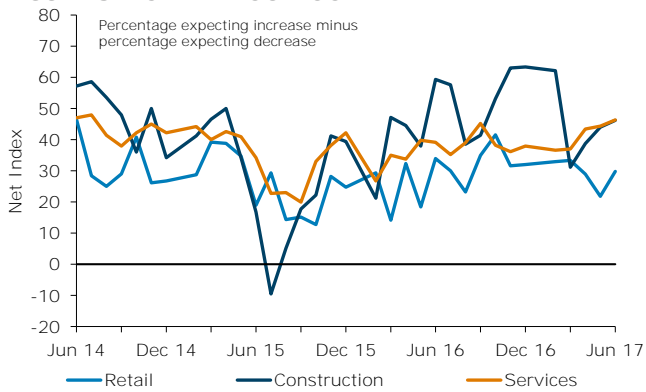


FIGURE 4. LABOUR MARKET OUTLOOK

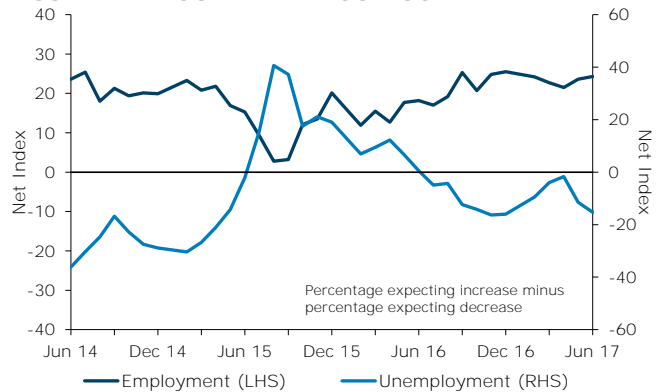


FIGURE 5. EXPORT SALES VOLUMES

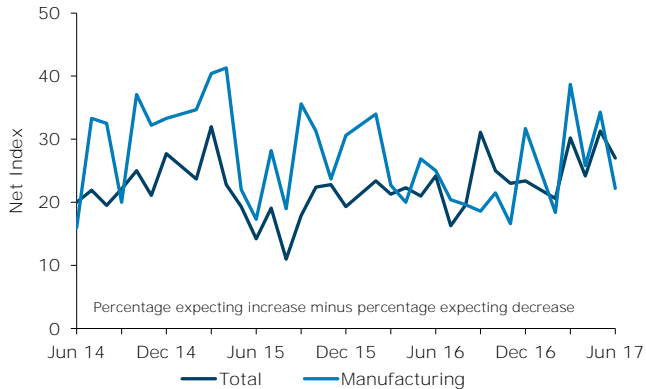


FIGURE 6. FINANCIAL OUTLOOK

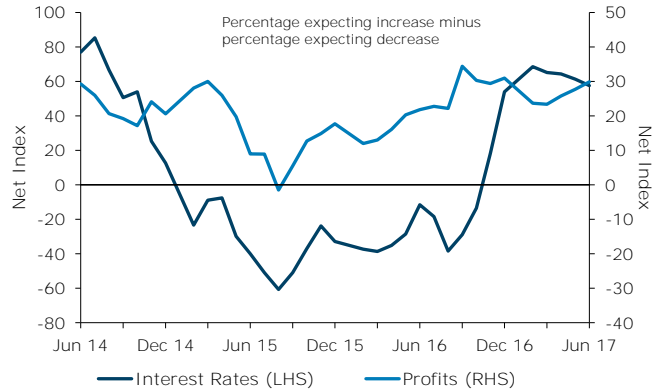


FIGURE 7. INVESTMENT INTENTIONS

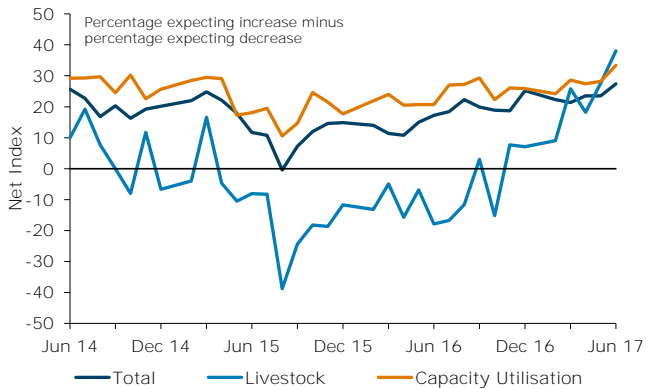
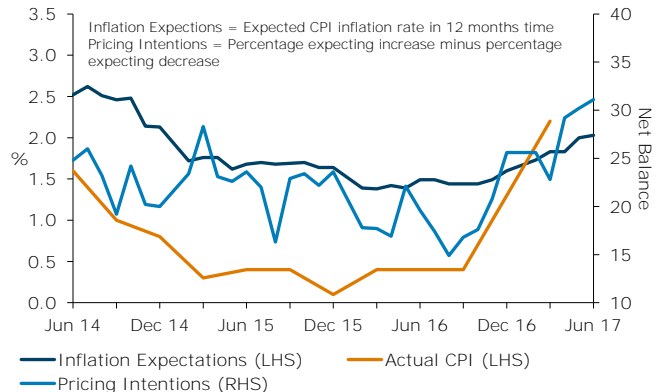


FIGURE 8. INFLATION EXPECTATIONS



Source: ANZ, Statistics NZ



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