

ANZ BUSINESS OUTLOOK SILVER LINING

March 2013

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SUMMARY

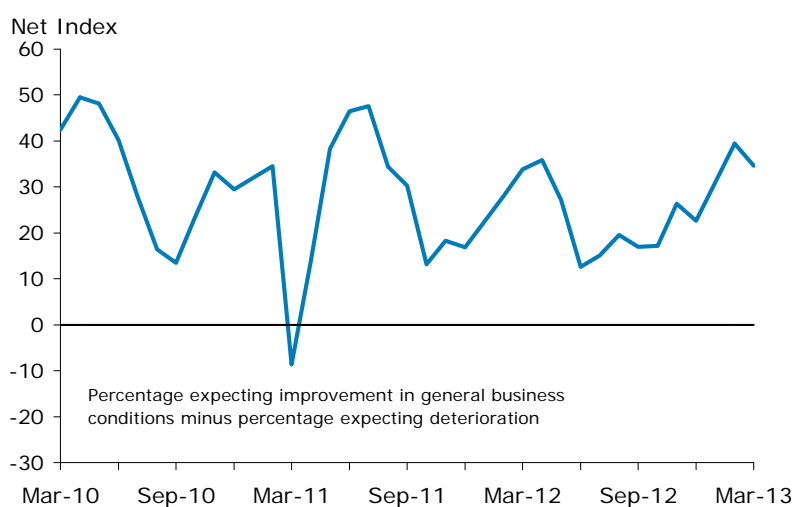
- Business confidence waned in March, though the results are better under the hood. Readings remain elevated across the board.
- Our composite growth indicator is pointing to 2.8 percent growth.
- We've seen similar lifts in each of the past 3 years: confidence needs to be backed by some substance to materialise in improved economic outcomes. Nonetheless, it's encouraging to see confidence remain elevated amidst Mother Nature's challenges.

This month's business confidence survey represents its 25 year anniversary. Over this period the net balance of the General Business Confidence question has ranged from a post sharemarket crash low of -69, to a high of +81 in February 1994, when New Zealand was in the midst of the strongest period of economic growth of the past quarter of a century.

Businesses confidence remains elevated. A net 35 percent of businesses expect general business conditions to get better over the year ahead. That's well above the historical average of +8. The service sector, which accounts for nearly two-thirds of GDP, is now the most optimistic, overtaking construction. Agriculture remains the laggards, with confidence slipping into the red.

We're not surprised to see a mild-pullback in confidence. Confidence usually falls in March, as the summer glow wanes and the reality of work reasserts. **After accounting for seasonality, March showed a rise in confidence**, which when set against a backdrop of rising angst towards an extended drought is an encouraging sign.

Business Confidence Index



Source: ANZ

A net 32 percent of firms are optimistic about their own business's prospects. It's down 6 points on the month prior, though this is wholly reflective of the normal seasonal pattern. **When benchmarked against the long-term average of +26, we're sitting on the "right" side of the ledger.**

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It's a similar modest waning picture across the rest of the survey.

- **Profitability expectations softened marginally from +14 to +13.**
- **Employment intentions eased from +11 to +8.** The employment scene remains dominated by the construction industry with a net 45 percent expected to lift staffing levels.
- **Investment intentions eased from +16 to +15.**
- **Residential investment intentions (+46) and commercial construction intentions (+20) remain elevated.**
- **Export intentions continue to languish though this month saw them bounce of lows, rising from +14 to +15.** Confidence across the export community continues to be suppressed by a high NZ dollar. That's not going away any time soon, though we note the easing in the NZD/AUD to sub 80 cents: this is a critical cross rate for the manufacturing and tourism sectors.
- **Pricing measures show some signs of picking up** (inflation expectations were unchanged though pricing intentions rose from +18 to +22). Neither portend of the inflationary genie coming out of the bottle though the construction centrality to pricing behaviour (inflation expectations +2.6 and pricing intentions +36) bears watching.

Taranaki took pole position in the regional stakes, topping firms' own activity expectations, expected profitability, employment and investment intentions. Why is this? Look no further than the expected ramping up in oil and gas exploration which by historical standards looks bigger than *Ben-Hur* over the coming year. White and black gold are a potential critical part of New Zealand's economic prosperity, and Taranaki has been a benchmark for balancing competing challenges for both at the same time.

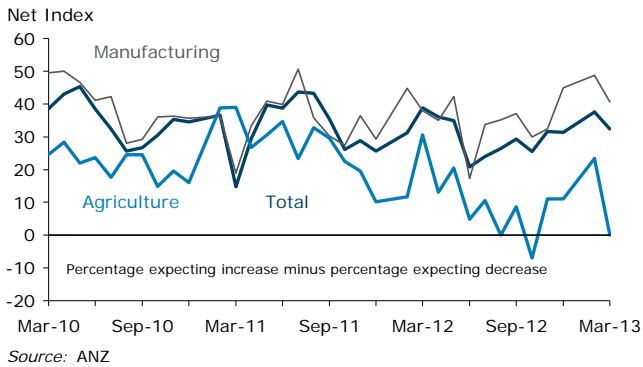
We can only detect a mild drought impact – so far. Confidence across Northland literally tanked. Conversely, a number of the other drought associated regions (Waikato, Hawke's Bay) showed few clear patterns across surveyed measures.

Our **combined composite growth indicator** – combining indicators from both the *Business Outlook* survey and *Consumer Confidence* (a survey we also produce) – **is flagging 2.8 percent growth by the middle of the year.** That's solid stuff amidst extremely dry conditions.

SURVEY RESULTS MARCH 2013							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	34.6	39.4	42.5	30.4	-9.9	45.1	46.7
Activity Outlook	32.4	37.6	28.8	40.6	0.0	41.9	38.1
Exports	15.4	13.9	8.0	34.1	-5.1	28.6	18.6
Investment	14.9	16.2	21.3	11.7	9.6	16.1	16.2
Livestock	2.5	16.2	...	...	2.5	...	...
Capacity Utilisation	15.8	21.7	13.3	18.9	4.8	26.7	20.8
Residential Construction	45.5	50.0	...	...	...	45.5	...
Commercial Construction	20.0	22.8	...	...	...	20.0	...
Employment	8.4	10.9	6.0	4.4	-15.4	45.2	10.7
Unemployment Rate	0.9	-3.4	0.0	1.4	41.2	-6.5	-11.5
Profits	12.8	14.0	10.6	25.0	-33.4	29.1	20.0
Interest Rates	24.0	29.2	24.3	15.9	19.6	26.7	22.6
Pricing Intentions	22.3	18.2	22.8	22.1	13.5	35.5	22.1
Ease of Credit	3.9	8.5	0.0	8.0	4.4	-3.3	9.6
Inflation Expectations	2.32	2.31	2.30	2.18	2.12	2.61	2.32

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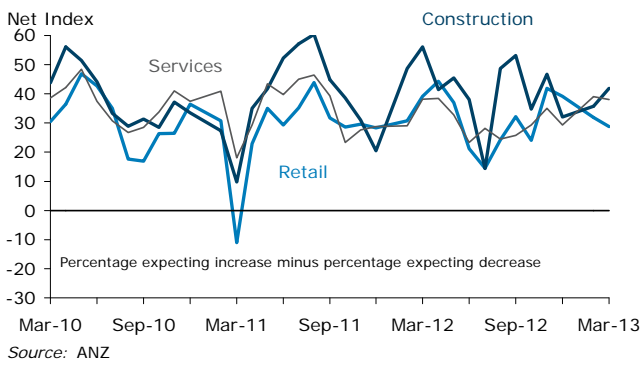
Activity Outlook Index



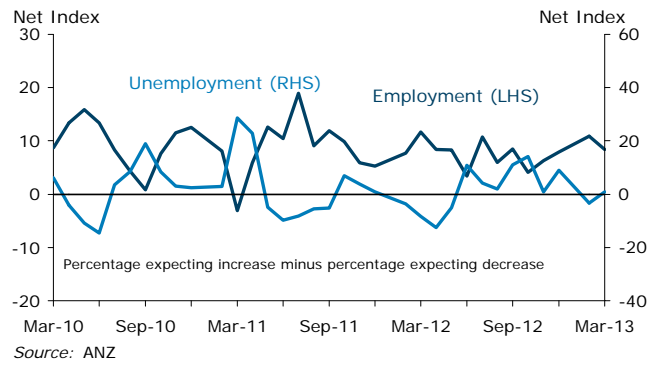
Construction Intentions



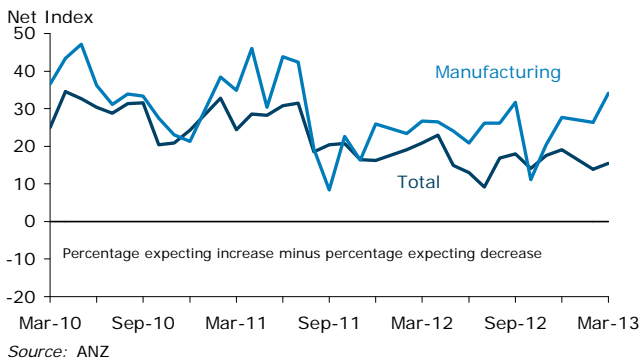
Activity Outlook Index



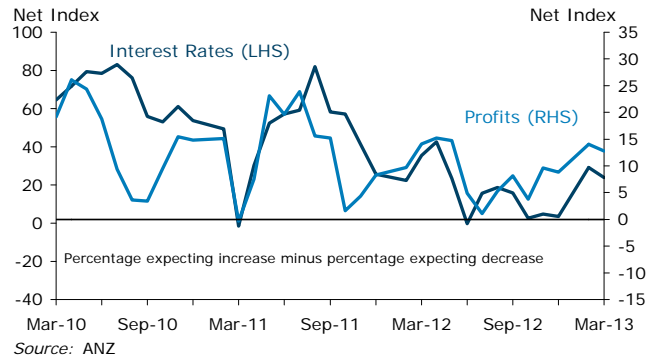
Labour Market Outlook



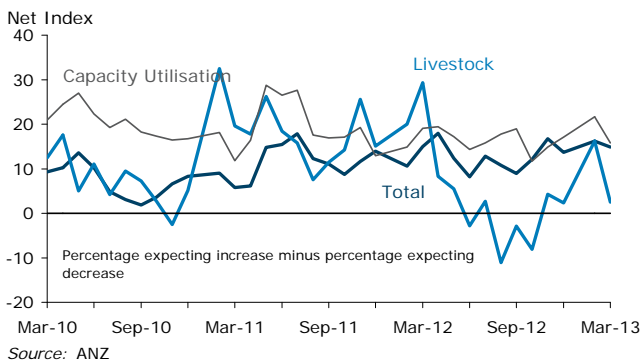
Export Sales Volume



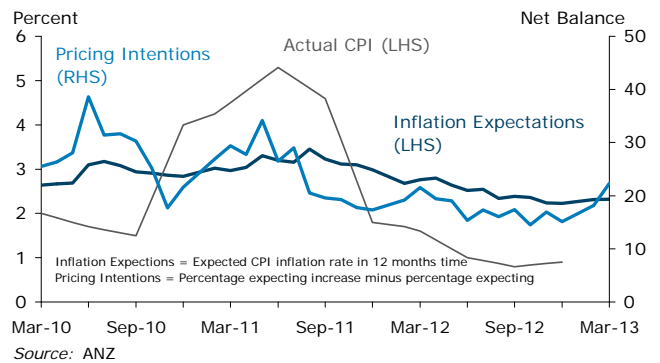
Financial Outlook



Investment Intentions



Inflation Expectations



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