

## Media Release

### On golden pond

The OCR is moving up, yet economic optimists continue to dwarf pessimists. On the eve of the duck shooting season, we sit in our maimai and ponder how many more salvos will be needed before a hit is taken. A net 65 percent of firms are optimistic about general prospects. That's down a tad on the month prior for a second successive month, but we're still talking elevated levels of confidence.

Survey indicators remain well north of historical averages and in most instances are in the upper quartile.

- Firms' activity expectations regarding their own business eased from +58 to +53, but that's still almost double the long-run average.
- Expected profitability has now fallen for two months, but at +36 still augurs well for investment and employment; firms need to be making money for investment and employment decisions to become real.
- A net 30 percent of businesses expect to be hiring more staff.
- Investment intentions dipped from +31 to +30. That's a blip.
- Despite the elevated NZD, export intentions bucked the general trend, lifting from +32 to +34.
- A net 62 percent of firms expect an uplift in residential construction activity and a net 50 percent for commercial construction, both rising versus the month prior.

We can't see evidence of a material turn across the economy despite interest rates moving up (with prospects of more to come) and the New Zealand dollar remaining elevated. Rather, the economy appears firmly stuck in the groove of a firm economic expansion despite financial conditions tightening of late.

Our composite growth measure is still signalling the potential for 6 percent growth. The economy doesn't have anywhere near the resource capacity for that rate to be achieved. However, we'll side with the vibe; the economy is trundling along nicely.

With the economy firmly into an expansion and interest rates on the ascent (a net 86 percent expect them to move up further), the challenge remains to settle into the glide-path of a durable and sustainable upswing.

At this juncture there are three potential reasons things could misfire.

- Rising inflation necessitates an adverse monetary policy response.
- An offshore event materialises. Forget antics in Ukraine, the real risk for New Zealand that's manifesting across emerging market economies is what is brewing in China.
- The complacency gene resurfaces.

These risks look manageable. Inflation is rising, but gradually. The NZD will fall on an offshore event, and interest rates will not rise in that instance; we have shock absorbers in the wings. The complacency gene remains at bay. You never say never, but New Zealand remains on track to be one of the strongest performers in the OECD.

The next issue of *Business Outlook* will be released on 28 May 2014, at 1pm.

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## ANZ BUSINESS OUTLOOK ON GOLDEN POND

April 2014

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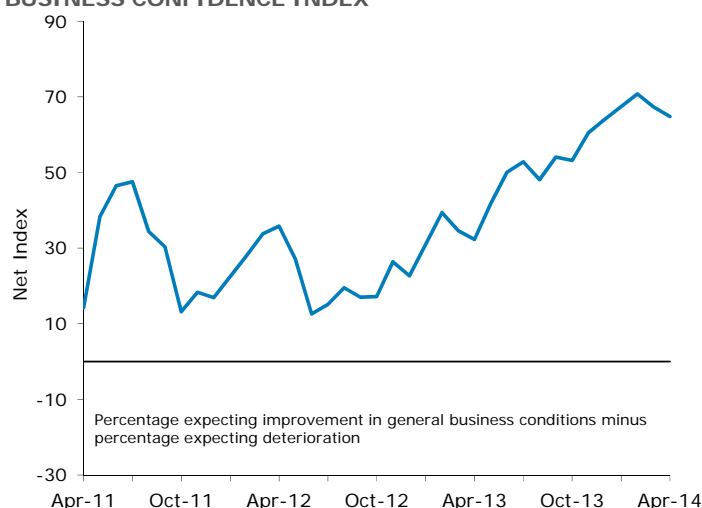
The next issue of the ANZ Business Outlook is scheduled for release on 28 May 2014 at 1pm.

### SUMMARY

- The economy remains “in the groove” with elevated levels of confidence. Firms’ own activity expectations, employment and investment intentions, and profit expectations are well north of historical averages.
- Our composite indicator, incorporating both business and consumer confidence, is still signalling the potential for annual economic growth of around 6 percent by mid-2014.
- We’re not buying into that sort of growth trajectory but there’s no doubting the economy is set to expand at a rapid clip.

**The OCR is moving up, yet economic optimists continue to dwarf pessimists. On the eve of the duck shooting season, we sit in our maimai and ponder how many more salvos will be needed before a hit is taken.** A net 65 percent of firms are optimistic about general prospects. That’s down a tad on the month prior (for a second successive month), but we’re still talking elevated levels of confidence (the long-term average has been +10). Our seasonally adjusted estimate barely budged. Confidence remains high across all sub-sectors.

### BUSINESS CONFIDENCE INDEX



Source: ANZ

### Survey indicators remain well north of historical averages and in most instances are in the upper quartile.

- Firms’ activity expectations regarding their own business eased from +58 to +53, but that’s still almost double the long-run average.
- Expected profitability has now fallen for two months, but at +36 still augurs well for investment and employment; firms need to be making money for investment and employment decisions to become real.
- A net 30 percent of businesses expect to be hiring more staff. This compares with a historical average of +7.
- Investment intentions dipped from +31 to +30. That’s a blip.
- Despite the elevated NZD, export intentions bucked the general trend, lifting from +32 to +34, the third successive monthly lift.
- A net 62 percent of firms expect an uplift in residential construction activity and a net 50 percent for commercial construction, both rising versus the month prior.

**We can't see evidence of a material turn across the economy despite interest rates moving up (with prospects of more to come) and the New Zealand dollar remaining elevated.** Rather, the economy appears firmly stuck in the groove of a firm economic expansion despite financial conditions tightening of late. That's testament to the broader array of forces supporting the upswing: a huge construction sector pipeline, strong commodity prices (despite recent easing in dairy prices), a massive net migration inflow (more bums on seats equals more spending), and firms now feeling sufficiently confident to put cash to work in the form of investment and hiring.

**Our composite growth measure is still signalling the potential for 6 percent growth.** The economy doesn't have anywhere near the resource capacity for that rate to be achieved. However, **we'll side with the positive vibe – the economy is trundling along nicely.**

**With the economy firmly into an expansion** and interest rates on the ascent (a net 86 percent expect them to move up further), **the challenge remains to settle into the glide-path of a durable and sustainable upswing.**

**At this juncture there are three potential reasons things could misfire.**

- **Rising inflation necessitates an adverse monetary policy response.** A net 30 percent of firms expect to lift prices over the coming year, unchanged on the month prior. Pricing intentions are off their lows but far from galloping away. The same can be said for inflation expectations, which were unchanged at 2.6 percent.
- **An offshore event materialises.** Forget antics in Ukraine, the real risk for New Zealand that's manifesting across emerging market economies is what is brewing in China. An economic objective (balanced growth) is going head-to-head with a social one (more people in jobs), at a time the drug of US Federal Reserve Quantitative Easing – which materially benefitted emerging market economies and resulted in huge leveraging – is being gradually withdrawn.
- **The complacency gene resurfaces.** Populism starts to trump leadership, pre-2008 style habits reappear, and the hand gets taken off the productivity lever. Calamity invariably follows complacency.

**These risks look manageable.** Inflation is rising, but gradually. The NZD will fall on an offshore event, and interest rates will not rise in that instance; we have shock absorbers in the wings. The complacency gene remains at bay. **You never say never, but New Zealand remains on track to be one of the strongest performers in the OECD.**

SURVEY RESULTS APRIL 2014							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	64.8	67.3	71.1	61.3	42.9	65.4	68.5
Activity Outlook	52.5	58.2	59.2	50.6	42.8	59.3	51.2
Exports	34.0	32.3	40.0	38.5	35.5	-40.0	31.7
Investment	29.5	30.7	32.4	18.6	24.4	18.5	34.6
Livestock	12.1	7.2	...	...	12.1	...	...
Capacity Utilisation	32.8	33.1	25.6	36.9	20.6	40.0	36.3
Residential Construction	61.9	52.9	...	...	...	61.9	...
Commercial Construction	50.0	40.0	...	...	...	50.0	...
Employment	29.8	26.6	33.4	17.5	7.2	40.7	36.1
Unemployment Rate	-48.0	-49.0	-51.3	-30.0	-35.7	-57.7	-55.1
Profits	35.7	40.1	39.5	35.0	16.7	59.3	35.3
Interest Rates	86.3	85.7	84.0	81.5	83.0	85.2	89.3
Pricing Intentions	30.2	30.2	26.3	31.3	14.7	55.6	30.5
Ease of Credit	16.6	16.3	16.9	7.0	10.5	23.1	21.3
Inflation Expectations	2.59	2.61	2.62	2.54	2.49	2.87	2.58

# ANZ BUSINESS OUTLOOK

FIGURE 1. ACTIVITY OUTLOOK INDEX

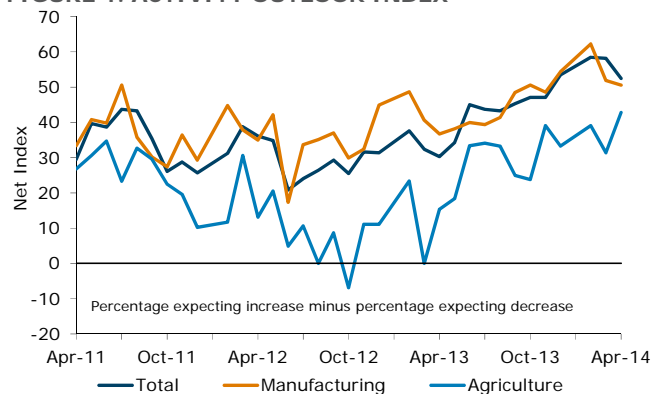


FIGURE 2. CONSTRUCTION INTENTIONS

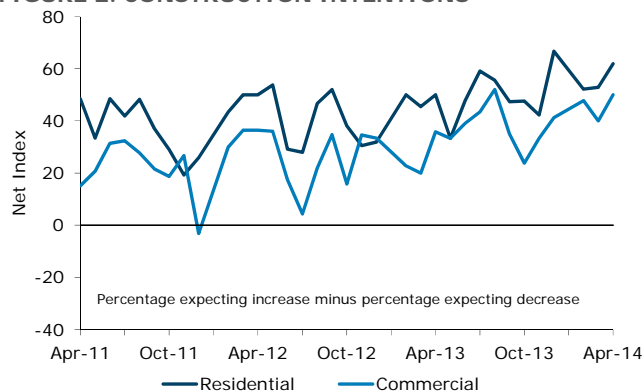


FIGURE 3. ACTIVITY OUTLOOK INDEX

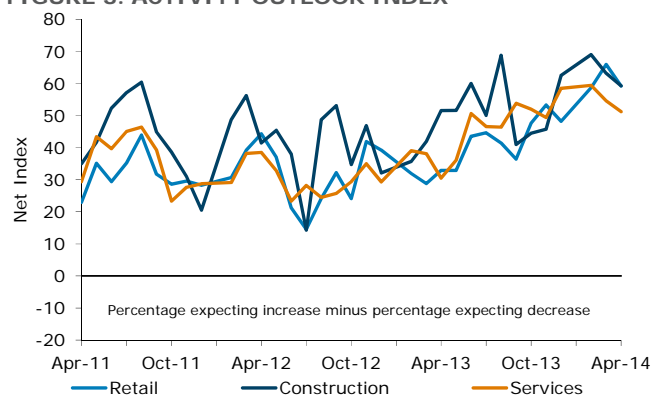


FIGURE 4. LABOUR MARKET OUTLOOK

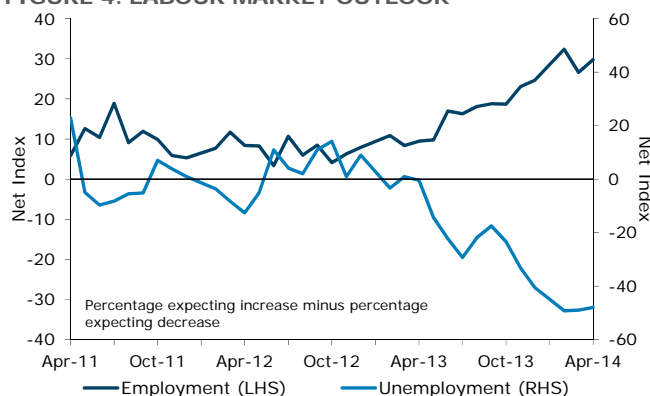


FIGURE 5. EXPORT SALES VOLUMES

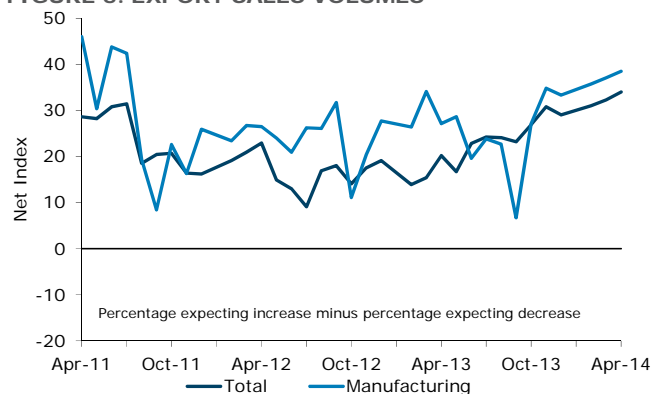


FIGURE 6. FINANCIAL OUTLOOK

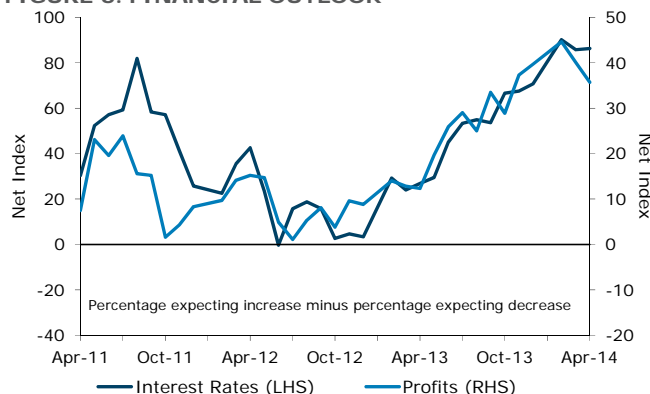


FIGURE 7. INVESTMENT INTENTIONS

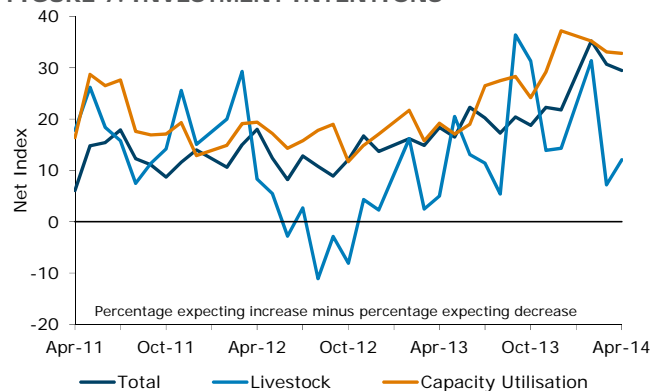
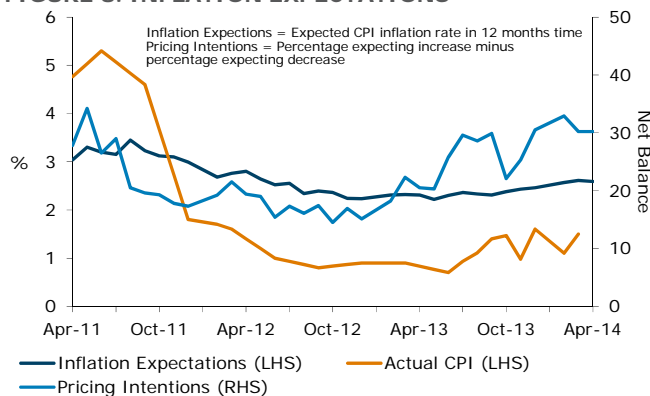


FIGURE 8. INFLATION EXPECTATIONS



Source: ANZ, Statistics NZ

# Survey Summary

<b>APRIL 2014</b>	Total All Sectors	Retail	Manufacturing	Agriculture	Construction	Services
No. of Respondents	440	76	81	42	27	207
<b>General Business Conditions</b>						
Improve	67.3	73.7	63.8	50.0	65.4	70.4
Remain the Same	30.2	23.7	33.8	42.9	34.6	27.7
Deteriorate	2.5	2.6	2.5	7.1	0.0	1.9
-----	-----	-----	-----	-----	-----	-----
Net Index	<b>64.8</b>	<b>71.1</b>	<b>61.3</b>	<b>42.9</b>	<b>65.4</b>	<b>68.5</b>
=====	=====	=====	=====	=====	=====	=====
Expected Inflation (%)	<b>2.59</b>	<b>2.62</b>	<b>2.54</b>	<b>2.49</b>	<b>2.87</b>	<b>2.58</b>
<b>Unemployment Rate</b>						
Increase	5.7	5.3	8.8	4.8	3.8	4.8
Remain the Same	40.6	38.2	52.5	54.8	34.6	35.3
Decrease	53.7	56.6	38.8	40.5	61.5	59.9
-----	-----	-----	-----	-----	-----	-----
Net Index	<b>-48.0</b>	<b>-51.3</b>	<b>-30.0</b>	<b>-35.7</b>	<b>-57.7</b>	<b>-55.1</b>
=====	=====	=====	=====	=====	=====	=====
<b>Interest Rates</b>						
Increase	88.8	86.7	84.0	85.4	88.9	91.7
Remain the Same	8.7	10.7	13.6	12.2	7.4	5.8
Decrease	2.5	2.7	2.5	2.4	3.7	2.4
-----	-----	-----	-----	-----	-----	-----
Net Index	<b>86.3</b>	<b>84.0</b>	<b>81.5</b>	<b>83.0</b>	<b>85.2</b>	<b>89.3</b>
=====	=====	=====	=====	=====	=====	=====
<b>Real Business Activity</b>						
Increase	57.5	61.8	56.8	45.2	59.3	58.0
Remain the Same	37.5	35.5	37.0	52.4	40.7	35.3
Decrease	5.0	2.6	6.2	2.4	0.0	6.8
-----	-----	-----	-----	-----	-----	-----
Net Index	<b>52.5</b>	<b>59.2</b>	<b>50.6</b>	<b>42.8</b>	<b>59.3</b>	<b>51.2</b>
=====	=====	=====	=====	=====	=====	=====
<b>Real Profits</b>						
Increase	46.9	48.7	48.8	31.0	59.3	46.9
Remain the Same	41.9	42.1	37.5	54.8	40.7	41.5
Decrease	11.2	9.2	13.8	14.3	0.0	11.6
-----	-----	-----	-----	-----	-----	-----
Net Index	<b>35.7</b>	<b>39.5</b>	<b>35.0</b>	<b>16.7</b>	<b>59.3</b>	<b>35.3</b>
=====	=====	=====	=====	=====	=====	=====
<b>Employment</b>						
Increase	34.2	34.7	27.5	14.3	40.7	39.5
Remain the Same	61.5	64.0	62.5	78.6	59.3	57.1
Decrease	4.4	1.3	10.0	7.1	0.0	3.4
-----	-----	-----	-----	-----	-----	-----
Net Index	<b>29.8</b>	<b>33.4</b>	<b>17.5</b>	<b>7.2</b>	<b>40.7</b>	<b>36.1</b>
=====	=====	=====	=====	=====	=====	=====

Net Indices are calculated as the percentage expecting an improvement minus the percentage expecting a deterioration.

The ANZ Business Outlook survey.

ANZ BANK NEW ZEALAND LIMITED

APRIL 2014	Total All Sectors	Retail	Manufacturing	Agriculture	Construction	Services
<b>Price of Good/Service</b>						
Increase	33.2	31.6	33.8	22.0	59.3	32.0
Remain the Same	63.8	63.2	63.8	70.7	37.0	66.5
Decrease	3.0	5.3	2.5	7.3	3.7	1.5
-----	-----	-----	-----	-----	-----	-----
Net Index	<b>30.2</b>	<b>26.3</b>	<b>31.3</b>	<b>14.7</b>	<b>55.6</b>	<b>30.5</b>
=====	=====	=====	=====	=====	=====	=====
<b>Investment</b>						
Increase	34.3	35.1	23.5	31.7	22.2	39.5
Remain the Same	60.9	62.2	71.6	61.0	74.1	55.6
Decrease	4.8	2.7	4.9	7.3	3.7	4.9
-----	-----	-----	-----	-----	-----	-----
Net Index	<b>29.5</b>	<b>32.4</b>	<b>18.6</b>	<b>24.4</b>	<b>18.5</b>	<b>34.6</b>
=====	=====	=====	=====	=====	=====	=====
<b>Real Exports</b>						
Increase	39.7	40.0	48.1	35.5	0.0	36.7
Remain the Same	54.6	60.0	42.3	64.5	60.0	58.3
Decrease	5.7	0.0	9.6	0.0	40.0	5.0
-----	-----	-----	-----	-----	-----	-----
Net Index	<b>34.0</b>	<b>40.0</b>	<b>38.5</b>	<b>35.5</b>	<b>-40.0</b>	<b>31.7</b>
=====	=====	=====	=====	=====	=====	=====
<b>Capacity Utilisation</b>						
Increase	36.0	25.6	41.5	20.6	40.0	41.2
Remain the Same	60.9	74.4	53.8	79.4	60.0	53.9
Decrease	3.2	0.0	4.6	0.0	0.0	4.9
-----	-----	-----	-----	-----	-----	-----
Net Index	<b>32.8</b>	<b>25.6</b>	<b>36.9</b>	<b>20.6</b>	<b>40.0</b>	<b>36.3</b>
=====	=====	=====	=====	=====	=====	=====
<b>Livestock Investment</b>						
Increase	12.1	0.0	0.0	12.1	0.0	0.0
Remain the Same	87.9	0.0	0.0	87.9	0.0	0.0
Decrease	0.0	0.0	0.0	0.0	0.0	0.0
-----	-----	-----	-----	-----	-----	-----
Net Index	<b>12.1</b>	<b>#N/A</b>	<b>#N/A</b>	<b>12.1</b>	<b>#N/A</b>	<b>#N/A</b>
=====	=====	=====	=====	=====	=====	=====
<b>Residential Building</b>						
Increase	66.7	0.0	0.0	0.0	66.7	0.0
Remain the Same	28.6	0.0	0.0	0.0	28.6	0.0
Decrease	4.8	0.0	0.0	0.0	4.8	0.0
-----	-----	-----	-----	-----	-----	-----
Net Index	<b>61.9</b>	<b>#N/A</b>	<b>#N/A</b>	<b>#N/A</b>	<b>61.9</b>	<b>#N/A</b>
=====	=====	=====	=====	=====	=====	=====
<b>Non-Residential Construction</b>						
Increase	50.0	0.0	0.0	0.0	50.0	0.0
Remain the Same	50.0	0.0	0.0	0.0	50.0	0.0
Decrease	0.0	0.0	0.0	0.0	0.0	0.0
-----	-----	-----	-----	-----	-----	-----
Net Index	<b>50.0</b>	<b>#N/A</b>	<b>#N/A</b>	<b>#N/A</b>	<b>50.0</b>	<b>#N/A</b>
=====	=====	=====	=====	=====	=====	=====
<b>Ease of Getting Credit</b>						
Easier	28.8	27.7	21.1	18.4	34.6	33.7
Remain the Same	59.0	61.5	64.8	73.7	53.8	53.9
Harder	12.2	10.8	14.1	7.9	11.5	12.4
-----	-----	-----	-----	-----	-----	-----
Net Index	<b>16.6</b>	<b>16.9</b>	<b>7.0</b>	<b>10.5</b>	<b>23.1</b>	<b>21.3</b>
=====	=====	=====	=====	=====	=====	=====

Net Indices are calculated as the percentage expecting an improvement minus the percentage expecting a deterioration.

The ANZ Business Outlook survey.

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