

ANZ New Zealand Business Outlook

31 October 2018



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The next issue of the ANZ *Business Outlook* is scheduled for release on 29 November 2018 at 1pm.

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Feeling flat

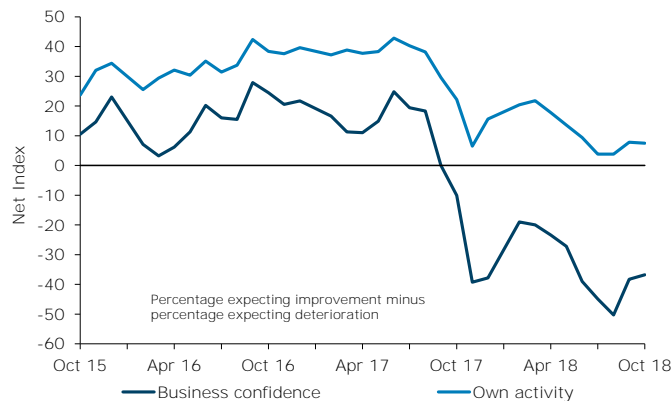
Key points

- Both headline business confidence and firms' views of their own activity were steady in October at low levels, up 1 point and down 1 point respectively.
- Employment intentions lifted 1 point, profit expectations declined 2 points, and investment intentions bounced 6 points but remained negative.
- Both residential and commercial construction intentions dropped sharply.

In the October ANZ Business Outlook Survey headline business confidence lifted 1 point to a net 37% of respondents reporting they expect general business conditions to deteriorate in the year ahead.

Firms' perceptions of their own activity prospects eased 1 point to a net 7% expecting an improvement, a weak level. The retail sector bounced 5 points but remains the least positive (-8%), while manufacturing is now the most optimistic sector (up 9 to +16%), perhaps reflecting the weaker NZD.

ANZ Business Confidence Index and ANZ Own Activity Index



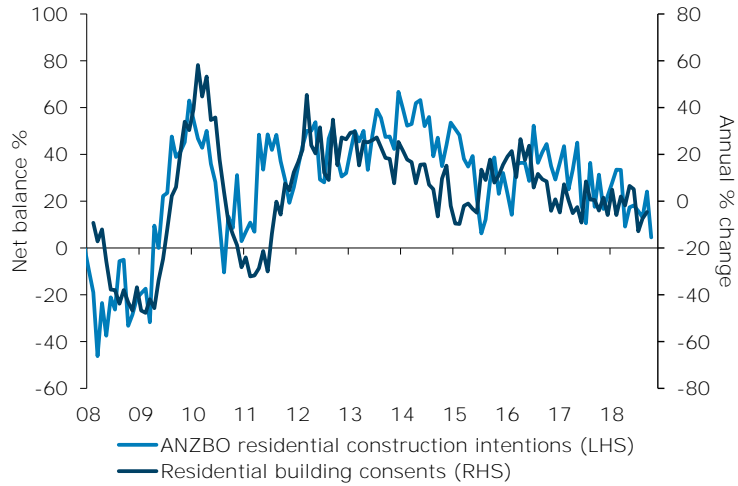
Source: ANZ

Turning to the detail:

- A net 3% of firms are expecting to reduce investment, up 6.
- Employment intentions remain subdued, up 1 point to a net 0% of firms expecting to lift employment.
- Profit expectations fell 2 points to -15%. Profit expectations in the agriculture sector have dropped sharply in the past two months despite the weaker NZD; this is now the weakest sector at -54% (down 23 points). The services sector remains the least pessimistic about profit, at a net -4%.
- A net 31% of businesses expect it to be tougher to get credit, up 2.
- **Firms' pricing intentions** lifted 2 points to +32%, the highest level since early-2014. This likely reflects rising costs such as wages, transport, and imported goods. Inflation expectations lifted 0.1%pts to 2.2%.
- Construction intentions dropped sharply. Residential construction intentions dropped 19 points to +5%, while commercial intentions fell 20 points to -24%.

This month we take a closer look at construction intentions. While it has become less clear that residential construction intentions lead residential consents, the downward trend certainly doesn't suggest consent growth is about to take off.

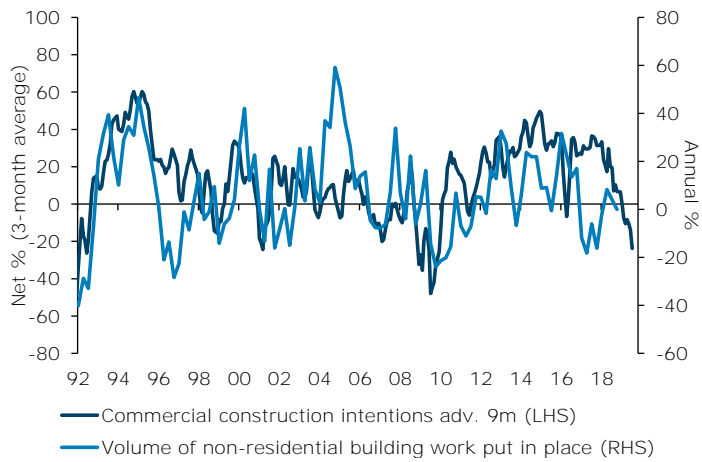
ANZBO residential construction intentions and residential building consents



Source: Statistics NZ, ANZ Research

Commercial construction is lumpy and no indicator is going to match it closely, but the ongoing fall in surveyed construction intentions suggests downside risk.

ANZBO commercial construction intentions and commercial work put in place

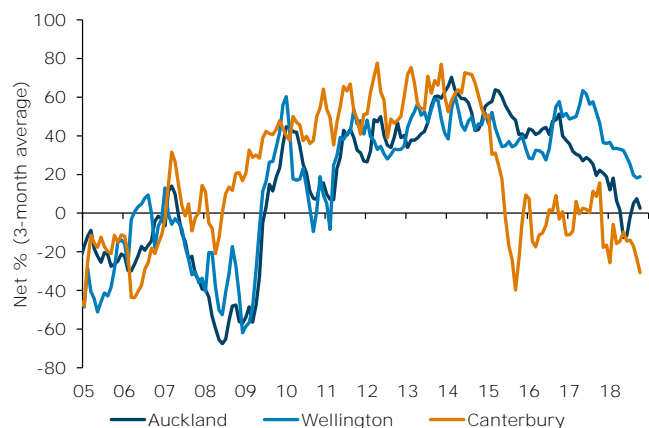


Source: Statistics NZ, ANZ Research

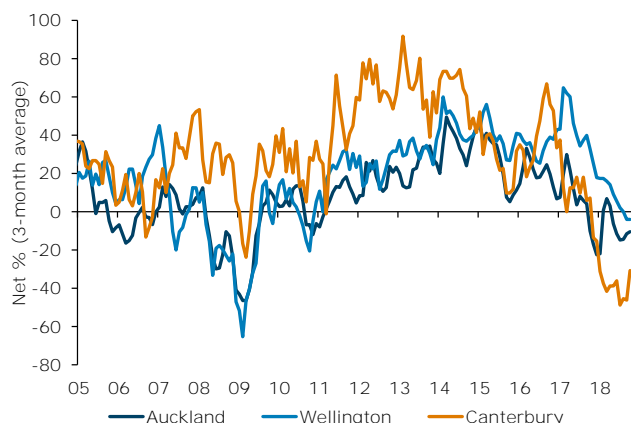
Note: the last data point is the October month

By region, it's a similar story for both commercial and residential construction: Canterbury is the most pessimistic (though commercial has bounced somewhat). Construction intentions in Wellington are the strongest but are trending downward, while Auckland intentions seem to have found a floor. (Note the charts are 3-month averages).

ANZBO Residential construction intentions by region (sa)



ANZBO Commercial construction intentions by region



Source: ANZ Research

Outside of the decline in construction intentions, most indicators were little changed in the October Business Outlook survey. **It's clear that business sentiment is not a tailwind for the economy at present**, but we remain optimistic that the boost being provided by a strong labour market, still-high commodity prices, a fiscal boost and now a significantly lower NZD will keep things ticking along.

The Reserve Bank argued in the August *Monetary Policy Statement* that ticking along **wasn't going to do the job**, in terms of getting CPI inflation sustainably back to target. We therefore continue to believe that while the impacts of higher wage growth, higher oil prices, and the weaker currency certainly mean **there's no hurry**, it remains the case that an eventual OCR cut is more likely than a hike.

Survey Results October 2018

Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-37.1	-38.3	-46.0	-31.9	-62.8	-14.8	-31.9
Activity Outlook	7.4	7.8	-7.8	16.2	-2.3	0.0	12.6
Exports	14.2	18.6	0.0	18.8	26.7	33.3	5.4
Investment	-3.3	-9.2	7.8	-1.4	-23.8	-14.8	0.0
Livestock	-8.1	-20.0	...	...	-8.1	...	...
Capacity Utilisation	13.5	9.7	5.7	21.6	12.5	14.3	12.7
Residential Construction	4.5	24.1	...	...	...	4.5	...
Commercial Construction	-23.8	-4.0	...	...	...	-23.8	...
Employment	-0.3	-1.3	-13.7	4.1	-11.6	-3.7	6.1
Unemployment Rate	24.9	25.1	46.0	26.0	30.2	14.8	18.0
Profits	-15.3	-13.4	-27.5	-9.6	-53.5	-14.8	-4.2
Interest Rates	27.7	17.2	26.0	27.4	38.1	22.2	27.5
Pricing Intentions	32.2	30.2	49.0	43.2	2.3	25.9	31.9
Ease of Credit	-31.4	-33.2	-31.9	-22.1	-43.9	-29.6	-32.0
Inflation Expectations	2.22	2.12	2.35	2.28	2.28	2.12	2.17



Charts

Figure 1. Activity outlook index

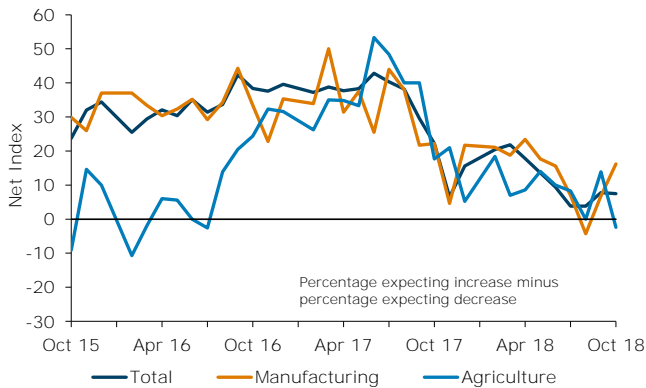


Figure 2. Construction intentions

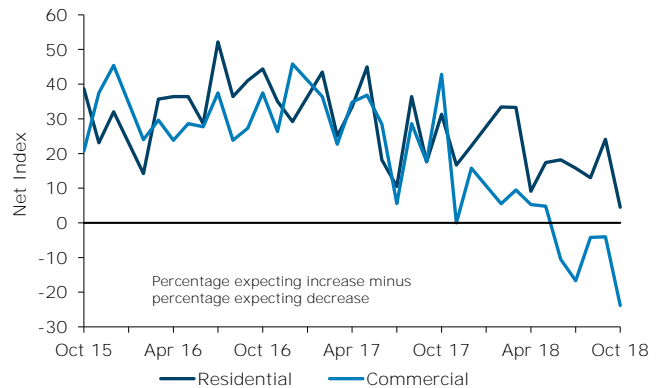


Figure 3. Activity outlook index

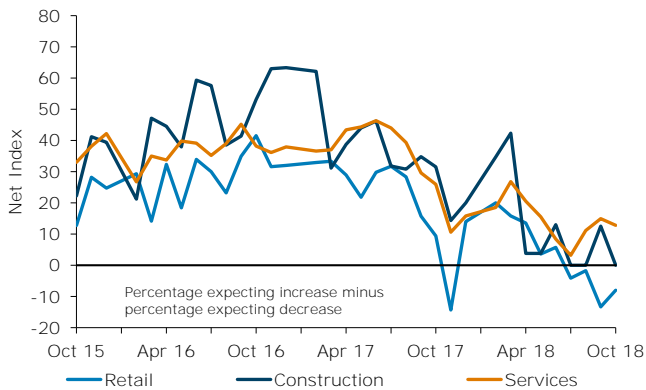


Figure 4. Labour market outlook

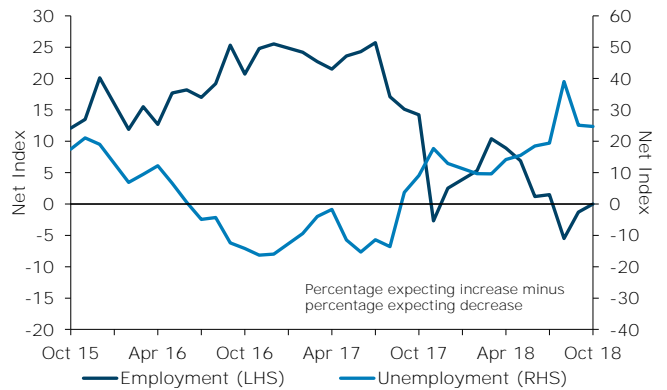


Figure 5. Export sales volumes

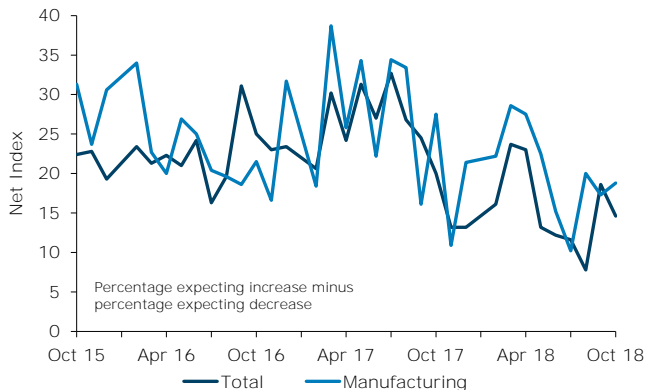


Figure 6. Financial outlook

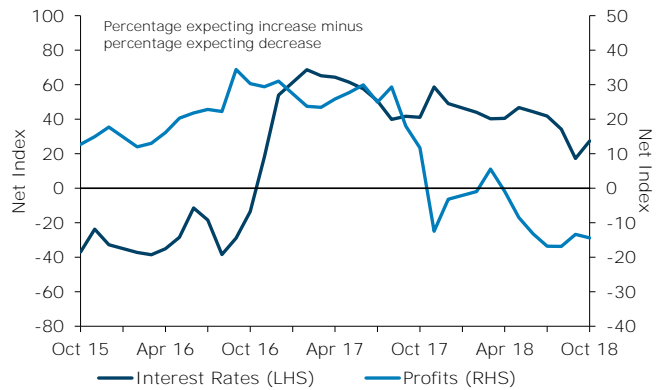


Figure 7. Investment intentions

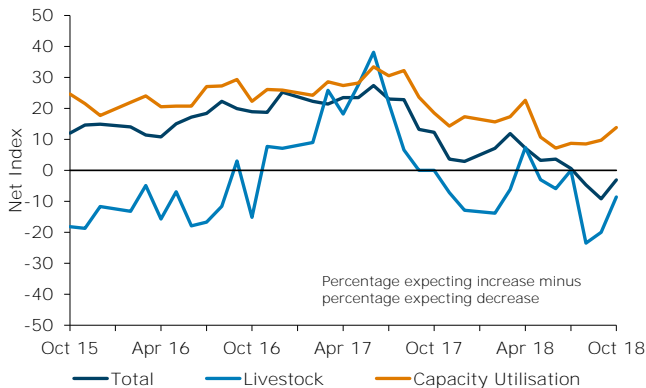
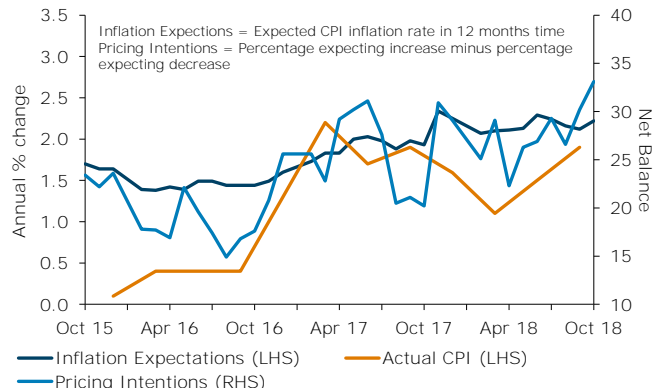


Figure 8. Inflation expectations



Source: ANZ, Statistics NZ

Survey Summary

OCTOBER 2018	Total All Sectors	Retail	Manufacturing	Agriculture	Construction	Services
No. of Respondents	367	51	74	43	27	167
General Business Conditions						
Improve	10.5	6.0	8.3	2.3	14.8	14.7
Remain the Same	41.8	42.0	51.4	32.6	55.6	38.7
Deteriorate	47.6	52.0	40.3	65.1	29.6	46.6
-----	-----	-----	-----	-----	-----	-----
Net Index	-37.1	-46.0	-32.0	-62.8	-14.8	-31.9
=====	=====	=====	=====	=====	=====	=====
Expected Inflation (%)	2.22	2.35	2.28	2.28	2.12	2.17
Unemployment Rate						
Increase	35.0	54.0	31.5	34.9	25.9	31.7
Remain the Same	54.9	38.0	63.0	60.5	63.0	54.5
Decrease	10.1	8.0	5.5	4.7	11.1	13.8
-----	-----	-----	-----	-----	-----	-----
Net Index	24.9	46.0	26.0	30.2	14.8	17.9
=====	=====	=====	=====	=====	=====	=====
Interest Rates						
Increase	32.1	36.0	31.5	40.5	22.2	31.7
Remain the Same	63.6	54.0	64.4	57.1	77.8	64.1
Decrease	4.4	10.0	4.1	2.4	0.0	4.2
-----	-----	-----	-----	-----	-----	-----
Net Index	27.7	26.0	27.4	38.1	22.2	27.5
=====	=====	=====	=====	=====	=====	=====
Real Business Activity						
Increase	29.2	23.5	36.5	27.9	18.5	29.9
Remain the Same	49.0	45.1	43.2	41.9	63.0	52.7
Decrease	21.8	31.4	20.3	30.2	18.5	17.4
-----	-----	-----	-----	-----	-----	-----
Net Index	7.4	-7.9	16.2	-2.3	0.0	12.5
=====	=====	=====	=====	=====	=====	=====
Real Profits						
Increase	22.1	15.7	27.4	7.0	18.5	26.3
Remain the Same	40.4	41.2	35.6	32.6	48.1	43.1
Decrease	37.4	43.1	37.0	60.5	33.3	30.5
-----	-----	-----	-----	-----	-----	-----
Net Index	-15.3	-27.4	-9.6	-53.5	-14.8	-4.2
=====	=====	=====	=====	=====	=====	=====
Employment						
Increase	15.6	7.8	20.3	2.3	11.1	20.0
Remain the Same	68.5	70.6	63.5	83.7	74.1	66.1
Decrease	15.9	21.6	16.2	14.0	14.8	13.9
-----	-----	-----	-----	-----	-----	-----
Net Index	-0.3	-13.8	4.1	-11.7	-3.7	6.1
=====	=====	=====	=====	=====	=====	=====

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

The ANZ Business Outlook survey.

OCTOBER 2018	Total All Sectors	Retail	Manufacturing	Agriculture	Construction	Services
Price of Good/Service						
Increase	39.9	56.9	45.9	30.2	29.6	36.1
Remain the Same	52.5	35.3	51.4	41.9	66.7	59.6
Decrease	7.7	7.8	2.7	27.9	3.7	4.2
-----	-----	-----	-----	-----	-----	-----
Net Index	32.2	49.1	43.2	2.3	25.9	31.9
=====	=====	=====	=====	=====	=====	=====
Investment						
Increase	17.4	17.6	19.2	4.8	14.8	20.1
Remain the Same	61.9	72.5	60.3	66.7	55.6	59.8
Decrease	20.7	9.8	20.5	28.6	29.6	20.1
-----	-----	-----	-----	-----	-----	-----
Net Index	-3.3	7.8	-1.3	-23.8	-14.8	0.0
=====	=====	=====	=====	=====	=====	=====
Real Exports						
Increase	25.4	11.5	31.3	33.3	33.3	19.6
Remain the Same	63.3	76.9	56.3	60.0	66.7	66.1
Decrease	11.2	11.5	12.5	6.7	0.0	14.3
-----	-----	-----	-----	-----	-----	-----
Net Index	14.2	0.0	18.8	26.6	33.3	5.3
=====	=====	=====	=====	=====	=====	=====
Capacity Utilisation						
Increase	25.6	17.1	33.3	18.8	21.4	27.8
Remain the Same	62.3	71.4	54.9	75.0	71.4	57.0
Decrease	12.1	11.4	11.8	6.3	7.1	15.2
-----	-----	-----	-----	-----	-----	-----
Net Index	13.5	5.7	21.5	12.5	14.3	12.6
=====	=====	=====	=====	=====	=====	=====
Livestock Investment						
Increase	10.8	0.0	0.0	10.8	0.0	0.0
Remain the Same	70.3	0.0	0.0	70.3	0.0	0.0
Decrease	18.9	0.0	0.0	18.9	0.0	0.0
-----	-----	-----	-----	-----	-----	-----
Net Index	-8.1	#N/A	#N/A	-8.1	#N/A	#N/A
=====	=====	=====	=====	=====	=====	=====
Residential Building						
Increase	18.2	0.0	0.0	0.0	18.2	0.0
Remain the Same	68.2	0.0	0.0	0.0	68.2	0.0
Decrease	13.6	0.0	0.0	0.0	13.6	0.0
-----	-----	-----	-----	-----	-----	-----
Net Index	4.6	#N/A	#N/A	#N/A	4.6	#N/A
=====	=====	=====	=====	=====	=====	=====
Non-Residential Construction						
Increase	4.8	0.0	0.0	0.0	4.8	0.0
Remain the Same	66.7	0.0	0.0	0.0	66.7	0.0
Decrease	28.6	0.0	0.0	0.0	28.6	0.0
-----	-----	-----	-----	-----	-----	-----
Net Index	-23.8	#N/A	#N/A	#N/A	-23.8	#N/A
=====	=====	=====	=====	=====	=====	=====
Ease of Getting Credit						
Easier	6.2	10.6	7.4	0.0	0.0	7.3
Remain the Same	56.2	46.8	63.2	56.1	70.4	53.3
Harder	37.6	42.6	29.4	43.9	29.6	39.3
-----	-----	-----	-----	-----	-----	-----
Net Index	-31.4	-32.0	-22.0	-43.9	-29.6	-32.0
=====	=====	=====	=====	=====	=====	=====

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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