

ANZ New Zealand Business Outlook

29 August 2019



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The next issue of the ANZ *Business Outlook* is scheduled for release on 30 September 2019 at 1pm.

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Nothing good to say about it

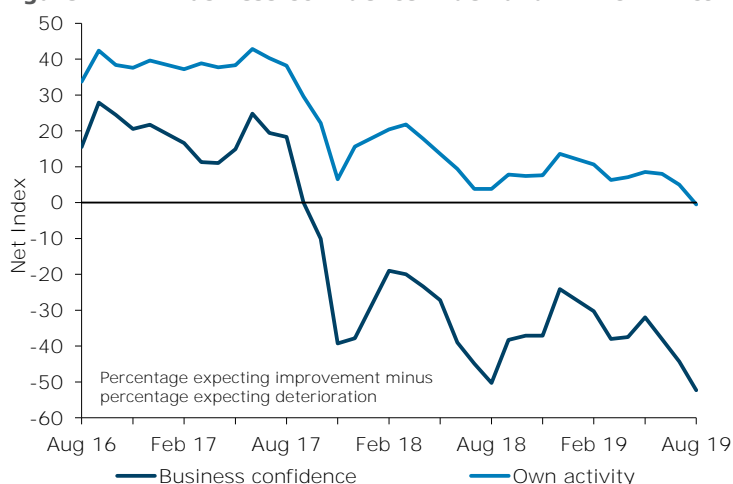
Key points

- **Headline business confidence** fell another 8 points to -52% in the August ANZ Business Outlook. **Firms' views of their own activity** fell 6 points to -1%.
- Employment, investment and export intentions all fell to dismal levels, along with profit expectations.
- Inflation indicators were weaker despite higher reported costs.

In the August ANZ Business Outlook Survey headline business confidence fell 8 points, with a net 52% of respondents reporting that they expect general business conditions to deteriorate in the year ahead, the lowest since April 2008.

Firms' expectations for their own activity over the year ahead fell 6 points to -1, the lowest read since April 2009.

Figure 1. ANZ Business Confidence Index and ANZ Own Activity Index



Source: ANZ Research

Turning to the detail:

- Employment intentions fell 3 points to a net 9% of firms intending to reduce employment, the lowest since mid-2009. Investment intentions fell 4 points to -4. Capacity utilisation lifted 3 points **off July's decade low**.
- Profit expectations fell 4 points to a net 20% of respondents expecting profitability to decline, the lowest since mid-2009.
- A net 41% of firms expect it to be tougher to get credit, little changed.
- Pricing intentions fell 3 points to a net 20% of firms expecting to raise prices, despite reported cost pressures lifting 2 points to a net +49%. Inflation expectations fell from 1.81% to 1.70%, the lowest since late 2016.
- Commercial and residential construction intentions bounced but remain in negative territory.
- Export intentions fell 2 points to a net 1% of firms expecting exports to fall. Mid last year it was firmly double-digit positive.

Most ANZ Business Outlook activity indicators fell again in August to even weaker levels.

This month, let's break it down by sector to identify the pressure points.

	Strongest sector	Weakest sector
Business confidence	Retail (-42)	Agriculture (-68)
Own activity	Agriculture (+14)	Retail (-11)
Investment	Retail (+2)	Agriculture (-23)
Employment	Services (-4)	Construction (-29)
Capacity utilisation	Agriculture (+5)	Manufacturing (+2)
Profitability	Construction (-10)	Agriculture (-33)
Pricing intentions	Retail (+44)	Agriculture (0)
Costs	Retail (+69)	Manufacturing (+35)

What jumps out from this table?

- The agricultural sector is expecting increased production, but terrible margins due to higher costs. They are the most negative about investment.
- Despite being supposedly the busiest, and less stressed about profitability than everyone else (albeit still negative), the construction sector has the weakest employment intentions.
- The services sector is a relative bright spot, if not an absolute one.
- Retail sector pricing intentions are the most important for CPI inflation, and suggest a degree of pipeline pressure exists. This is related to the fact that a net 69% of retailers expect higher costs. This sector is particularly exposed to the minimum wage increase.

There has been some **debate about whether the Reserve Bank's unexpectedly** large 50bp cut in the Official Cash Rate this month would be positive or negative for confidence and hence business investment and employment. Just over a third of **this month's** responses were received after the OCR cut (and the surprisingly strong labour market report). There were small differences in the responses before and after, but **Pearson's** chi-squared tests revealed that none of the differences were statistically significant for any of the data series.

The outlook for the economy appears to be deteriorating further, with firms extremely downbeat despite easier monetary conditions, fairly robust commodity prices, and positive population growth. Whatever the cause, the risk is rising that it becomes self-fulfilling.

The decline in inflation expectations from 1.8% last month to 1.7% will be of particular concern to the Reserve Bank, with the Governor calling out declining inflation expectations as a key input in their decision to cut the OCR 50bp.

ANZBO inflation expectations and RBNZ forecasts of non-tradable inflation



Source: Statistics NZ, RBNZ, ANZ Research

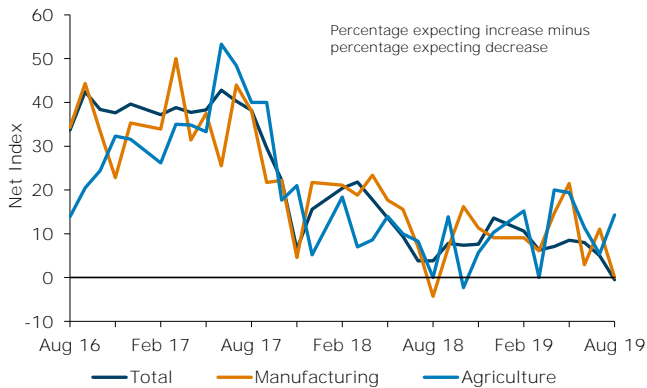
Survey Results August 2019

Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	-52.3	-44.3	-41.5	-53.9	-68.3	-48.4	-50.6
Activity Outlook	-0.5	5.0	-10.9	0.0	14.3	-3.2	0.0
Exports	-0.8	1.4	6.5	1.9	11.8	-11.1	-6.2
Investment	-3.9	-0.3	1.9	-5.2	-23.3	-3.2	-0.6
Costs	49.2	46.7	69.1	35.4	62.8	51.6	46.4
Capacity Utilisation	3.2	0.4	2.1	1.5	5.1	3.8	2.2
Residential Construction	-4.0	-15.8	-4.0	...
Commercial Construction	-4.0	-20.0	-4.0	...
Employment	-8.9	-5.5	-7.3	-13.9	-4.7	-29.0	-4.4
Unemployment Rate	47.6	33.6	51.9	54.4	60.5	32.3	43.1
Profits	-19.5	-16.3	-29.1	-20.3	-32.6	-9.7	-13.8
Interest Rates	-58.8	-44.3	-55.6	-51.9	-50.0	-64.5	-63.9
Pricing Intentions	20.3	22.5	43.6	10.1	0.0	29.0	21.5
Ease of Credit	-40.6	-41.7	-33.3	-39.0	-56.4	-16.1	-43.4
Inflation Expectations	1.70	1.81	1.90	1.73	1.68	1.52	1.67

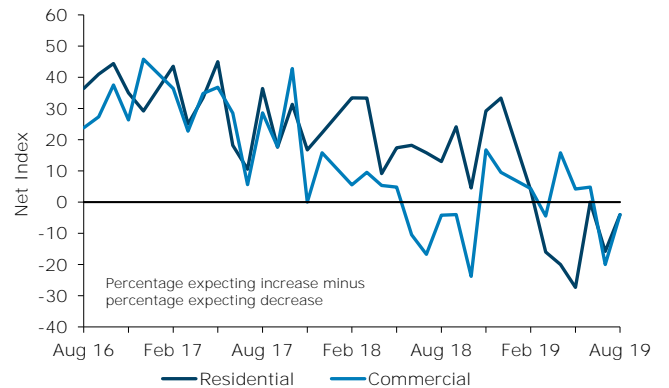


Charts

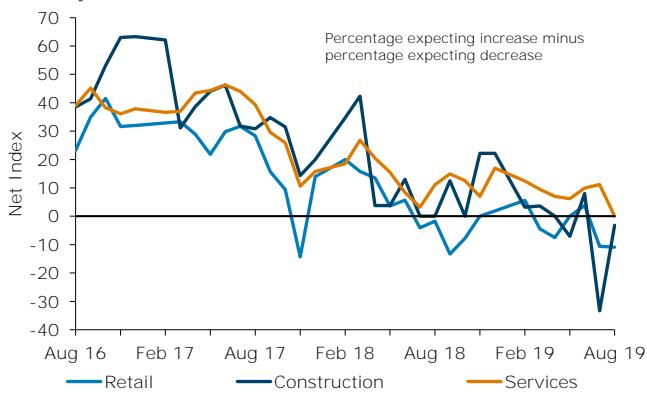
Activity outlook index



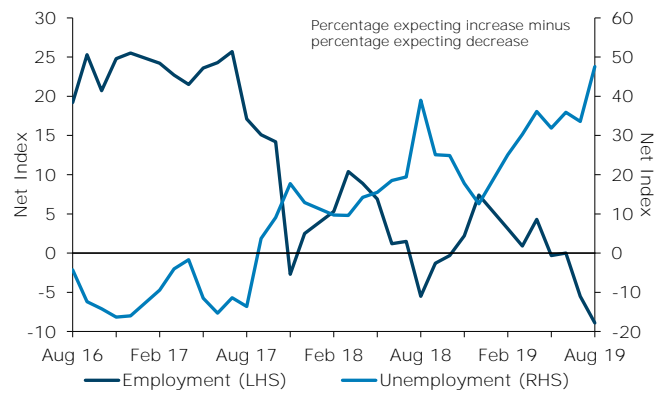
Construction intentions



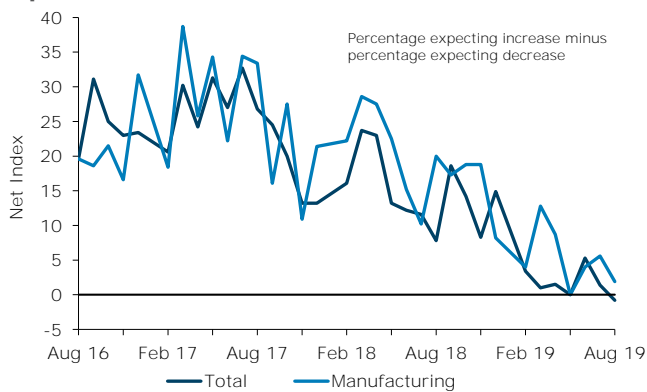
Activity outlook index



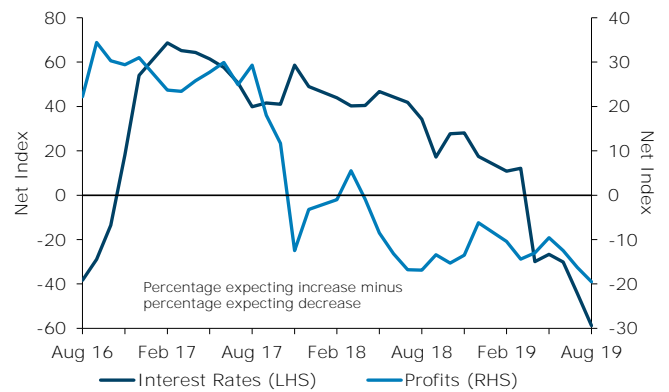
Labour market outlook



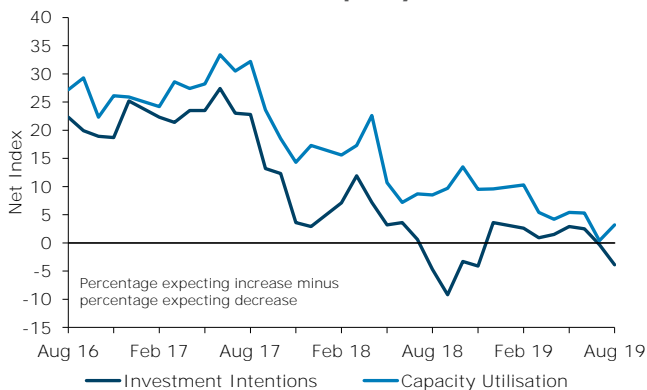
Export sales volumes



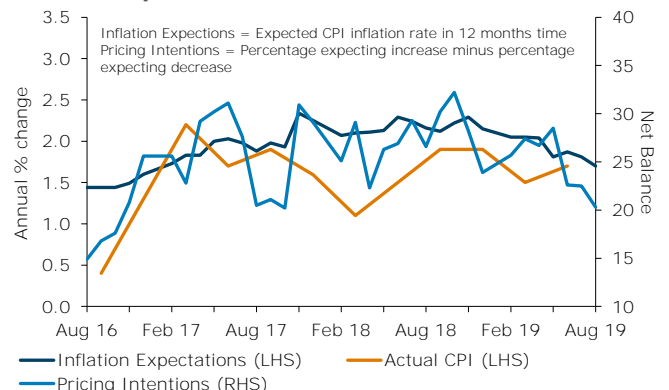
Financial outlook



Investment intentions and capacity utilisation



Inflation expectations



Source: ANZ, Statistics NZ

Survey Summary

AUGUST 2019	Total All Sectors	Retail	Manufacturing	Agriculture	Construction	Services
No. of Respondents	395	55	79	43	31	181
General Business Conditions						
Improve	7.5	15.1	2.6	2.4	6.5	9.0
Remain the Same	32.6	28.3	40.8	26.8	38.7	31.5
Deteriorate	59.8	56.6	56.6	70.7	54.8	59.6

Net Index	-52.3	-41.5	-53.9	-68.3	-50.6	-50.6
=====						
Expected Inflation (%)	1.70	1.90	1.73	1.68	1.52	1.67
Unemployment Rate						
Increase	53.4	57.4	57.0	62.8	41.9	50.3
Remain the Same	40.8	37.0	40.5	34.9	48.4	42.5
Decrease	5.8	5.6	2.5	2.3	9.7	7.2

Net Index	47.6	51.9	54.4	60.5	32.3	43.1
=====						
Interest Rates						
Increase	4.8	9.3	7.6	2.4	0.0	3.3
Remain the Same	31.6	25.9	32.9	45.2	35.5	29.4
Decrease	63.6	64.8	59.5	52.4	64.5	67.2

Net Index	-58.8	-55.6	-51.9	-50.0	-64.5	-63.9
=====						
Real Business Activity						
Increase	26.2	23.6	27.8	31.0	25.8	25.4
Remain the Same	47.1	41.8	44.3	52.4	45.2	49.2
Decrease	26.7	34.5	27.8	16.7	29.0	25.4

Net Index	-0.5	-10.9	0.0	14.3	-3.2	0.0
=====						
Real Profits						
Increase	21.8	18.2	22.8	18.6	19.4	24.3
Remain the Same	36.8	34.5	34.2	30.2	51.6	37.6
Decrease	41.4	47.3	43.0	51.2	29.0	38.1

Net Index	-19.5	-29.1	-20.3	-32.6	-9.7	-13.8
=====						
Employment						
Increase	13.7	12.7	12.7	9.3	9.7	16.1
Remain the Same	63.6	67.3	60.8	76.7	51.6	63.3
Decrease	22.6	20.0	26.6	14.0	38.7	20.6

Net Index	-8.9	-7.3	-13.9	-4.7	-29.0	-4.4
=====						

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

The ANZ Business Outlook survey.

AUGUST 2019	Total All Sectors	Retail	Manufacturing	Agriculture	Construction	Services
Price of Good/Service						
Increase	26.9	49.1	19.0	16.3	29.0	26.0
Remain the Same	66.4	45.5	72.2	67.4	71.0	69.5
Decrease	6.7	5.5	8.9	16.3	0.0	4.5
-----	-----	-----	-----	-----	-----	-----
Net Index	20.3	43.6	10.1	0.0	29.0	21.5
=====	=====	=====	=====	=====	=====	=====
Investment						
Increase	17.9	17.0	18.2	9.3	22.6	19.3
Remain the Same	60.3	67.9	58.4	58.1	51.6	60.8
Decrease	21.8	15.1	23.4	32.6	25.8	19.9
-----	-----	-----	-----	-----	-----	-----
Net Index	-3.9	1.9	-5.2	-23.3	-3.2	-0.6
=====	=====	=====	=====	=====	=====	=====
Real Exports						
Increase	17.3	22.6	25.9	26.5	0.0	10.4
Remain the Same	64.6	61.3	50.0	58.8	88.9	72.9
Decrease	18.1	16.1	24.1	14.7	11.1	16.7
-----	-----	-----	-----	-----	-----	-----
Net Index	-0.8	6.5	1.9	11.8	-11.1	-6.3
=====	=====	=====	=====	=====	=====	=====
Capacity Utilisation						
Increase	18.6	19.1	19.7	20.5	15.4	17.0
Remain the Same	65.9	63.8	62.1	64.1	73.1	68.1
Decrease	15.5	17.0	18.2	15.4	11.5	14.8
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Net Index	3.2	2.1	1.5	5.1	3.8	2.2
=====	=====	=====	=====	=====	=====	=====
Livestock Investment						
Increase	#N/A	0.0	0.0	#N/A	0.0	0.0
Remain the Same	#N/A	0.0	0.0	#N/A	0.0	0.0
Decrease	#N/A	0.0	0.0	#N/A	0.0	0.0
-----	-----	-----	-----	-----	-----	-----
Net Index	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
=====	=====	=====	=====	=====	=====	=====
Residential Building						
Increase	12.0	0.0	0.0	0.0	12.0	0.0
Remain the Same	72.0	0.0	0.0	0.0	72.0	1.0
Decrease	16.0	0.0	0.0	0.0	16.0	2.0
-----	-----	-----	-----	-----	-----	-----
Net Index	-4.0	#N/A	#N/A	#N/A	-4.0	#N/A
=====	=====	=====	=====	=====	=====	=====
Non-Residential Construction						
Increase	28.0	0.0	0.0	0.0	28.0	0.0
Remain the Same	40.0	0.0	0.0	0.0	40.0	1.0
Decrease	32.0	0.0	0.0	0.0	32.0	2.0
-----	-----	-----	-----	-----	-----	-----
Net Index	-4.0	#N/A	#N/A	#N/A	-4.0	#N/A
=====	=====	=====	=====	=====	=====	=====
Ease of Getting Credit						
Easier	51.8	70.9	41.8	65.1	51.6	48.0
Remain the Same	45.7	27.3	51.9	32.6	48.4	50.3
Harder	2.6	1.8	6.3	2.3	0.0	1.7
-----	-----	-----	-----	-----	-----	-----
Net Index	49.2	69.1	35.4	62.8	51.6	46.4
=====	=====	=====	=====	=====	=====	=====

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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