

ANZ New Zealand Business Outlook

31 October 2019



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The next issue of the ANZ *Business Outlook* is scheduled for release on 28 November 2019 at 1pm.

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Trick or treat?

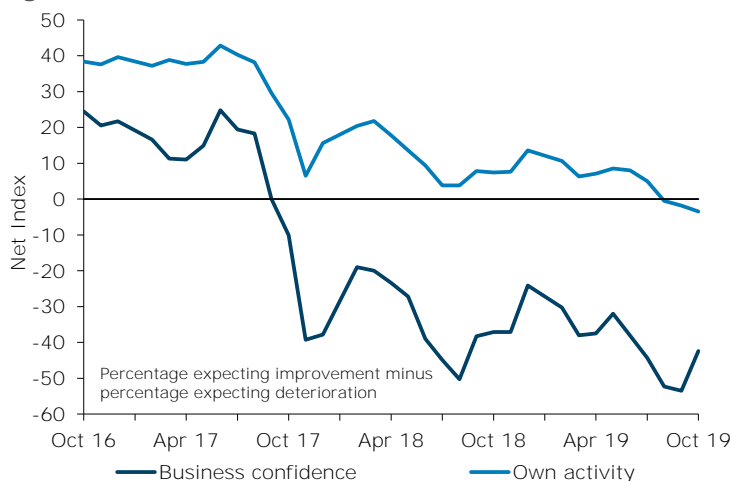
Key points

- Headline business confidence jumped 12 points to -42% in the October ANZ **Business Outlook**. Firms' views of their own activity fell 2 points to -4%.
- Investment intentions and profit expectations rose but employment intentions ticked lower. Cost and pricing indicators were also mixed.

The October ANZ Business Outlook Survey was a mixed bag. Headline business confidence jumped 12 points but a net 42% of respondents still report that they expect general business conditions to deteriorate in the year ahead.

Firms' expectations for their own activity over the year ahead, a better economic indicator, fell 2 points to -4, the fifth fall in a row. It is the lowest read since April 2009 but still well off the recession low of -21.

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



Source: ANZ Research

Turning to the detail:

- Employment intentions fell 1 point to a net 9% of firms intending to reduce employment. Investment intentions rose 3 points but remain negative at -6%. Capacity utilisation fell 2 points to a decade low (0).
- Profit expectations rose 4 points but remains in the red with a net 21% of respondents expecting profitability to decline.
- Pricing intentions rose 6 points to a net 24% of firms expecting to raise prices, but fell 10 points in the retail sector (+30%). Cost pressures rose 1 point to a hefty net 48% of firms expecting higher costs. Inflation expectations were broadly unchanged at 1.62%.
- Commercial construction intentions jumped 13 points to be flat; residential lifted 14 points to -5, continuing to send mixed signals.
- Export intentions fell 2 points to zero. Expected availability of credit rose 4 points to a net 36% of firms expecting credit to be harder to get.

There was something for everyone in the ANZ Business Outlook survey this month, with mixed moves and different interpretations possible, depending largely on whether you choose to focus on the change or the level.

The increase in “business confidence” is welcome, though this question asks firms about what they (or indeed, anyone) know with the least certainty, namely how “business conditions” – a pretty broad concept – will evolve over the year ahead.

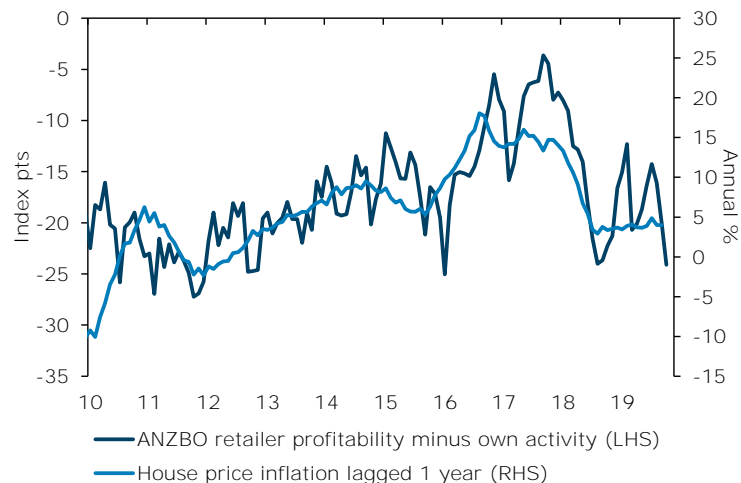
The expected “own activity” measure is something firms know more about and so is a better economic indicator. This ticked down again. However, it appears that the activity indicators are generally finding a floor, in that we saw a mix of rises and falls across the other activity questions (capacity utilisation and employment intentions down, but investment intentions up). **It’s true that the levels for most indicators remain uninspiring, but it’s good to see signs of bottoming out.**

The retail sector clearly remains very downbeat. Of all the sectors, they have the weakest own activity, profits, and employment (despite pretty robust consumer confidence), and the highest expected cost pressure.

Figure 2 below shows that retailers’ **expected profitability** has fallen relative to their expected activity – they are clearly feeling real margin pressure. The sector enjoyed a period of unusually high expected profitability relative to expected activity over 2016-17, but this came to a halt once the housing market did.

The retail sector is particularly exposed to the minimum wage, and that fact plus a slightly more cautious, likely price-conscious consumer is an uncomfortable combination. **We’ll get another read** on consumer confidence tomorrow.

Figure 2. Retail sector expected profitability minus expected own activity (3-month moving average) and house price inflation



Source: Roy Morgan, REINZ, ANZ Research

Encouragingly, things seem to be looking up for the construction sector. It is amongst the strongest (not saying a great deal, admittedly) for business confidence, profits, investment and capacity utilisation. It also has the least cost pressure expected, perhaps surprisingly.

Nonetheless, the sector reports it expects to cut staff (employment intentions of -10, about in line with the economy-wide average). Mixed messages, certainly, but smoothing through the noise by taking a 3-month average, it can be seen that residential construction intentions have arrested their alarming fall and commercial intentions may also be stabilising (figure 3, over).

All up, we’d take the mixed signals out of this month’s survey as a positive sign, as it interrupts a deteriorating trend. It’s a start.

Figure 3. Residential and commercial construction intentions



Source: ANZ Research

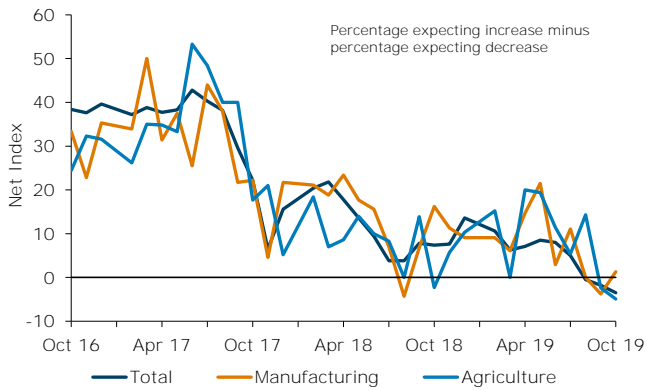
Survey Results October 2019

| Net Balance | Total | Previous | Retail | Mfg | Agric | Constrn | Services |
|--------------------------|-------|----------|--------|-------|-------|---------|----------|
| Business Confidence | -42.4 | -53.5 | -51.8 | -37.8 | -61.0 | -34.9 | -38.7 |
| Activity Outlook | -3.5 | -1.8 | -18.5 | 1.3 | -4.9 | -9.3 | 0.0 |
| Exports | -0.4 | 2.1 | -5.9 | 5.7 | -2.9 | -4.0 | -1.0 |
| Investment | -5.5 | -8.9 | 0.0 | -5.6 | -19.5 | 7.0 | -6.5 |
| Costs | 48.4 | 47.3 | 64.3 | 53.3 | 52.5 | 41.9 | 43.1 |
| Capacity Utilisation | 0.0 | 1.9 | 0.0 | 3.0 | -5.3 | 14.7 | -4.3 |
| Residential Construction | -5.3 | -19.2 | ... | ... | ... | -5.3 | ... |
| Commercial Construction | 0.0 | -12.5 | ... | ... | ... | 0.0 | ... |
| Employment | -9.4 | -7.8 | -27.3 | -5.4 | -17.1 | -9.5 | -4.3 |
| Unemployment Rate | 40.8 | 46.3 | 39.3 | 36.0 | 53.7 | 15.9 | 45.3 |
| Profits | -21.2 | -24.6 | -43.6 | -18.7 | -26.8 | -16.3 | -15.6 |
| Interest Rates | -54.3 | -54.6 | -54.5 | -57.7 | -51.2 | -50.0 | -53.7 |
| Pricing Intentions | 23.6 | 18.0 | 30.4 | 20.0 | 19.5 | 27.9 | 23.0 |
| Ease of Credit | -35.6 | -39.6 | -27.8 | -25.7 | -47.4 | -34.9 | -39.5 |
| Inflation Expectations | 1.62 | 1.63 | 1.63 | 1.70 | 1.60 | 1.64 | 1.58 |

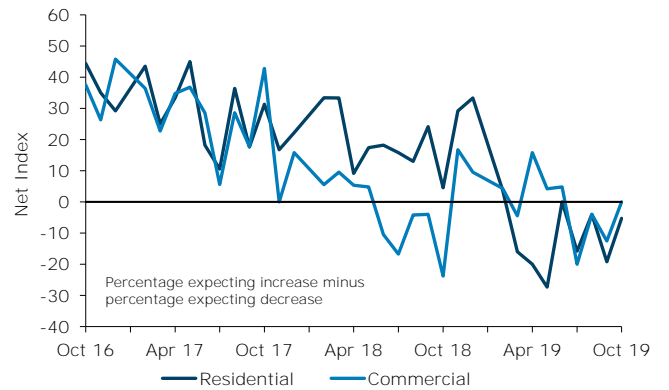


Charts

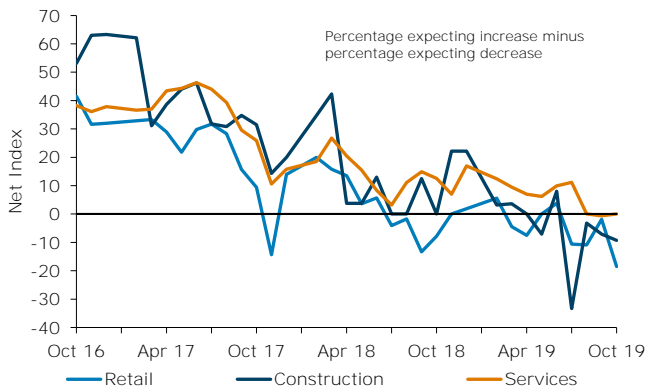
Activity outlook index



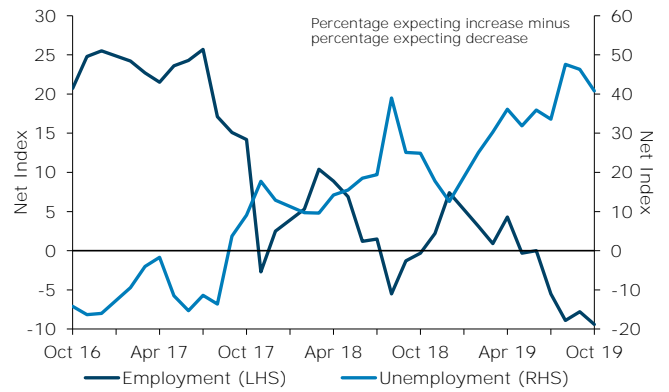
Construction intentions



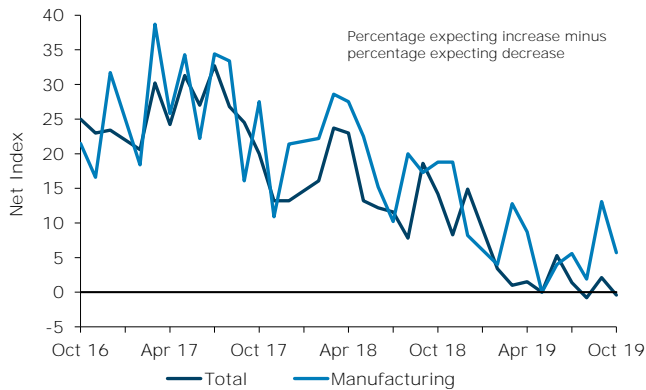
Activity outlook index



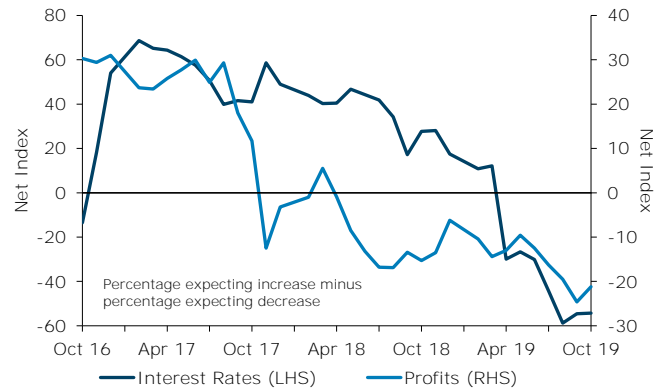
Labour market outlook



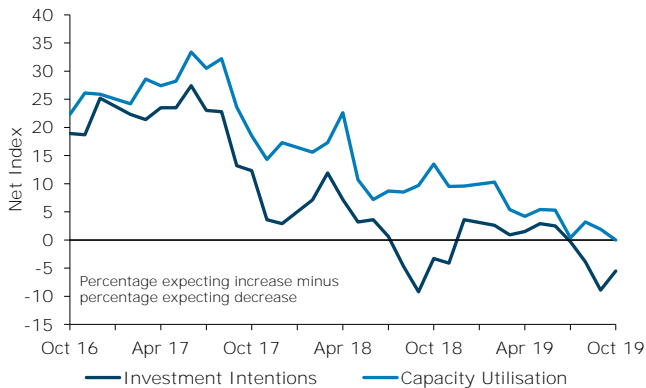
Export sales volumes



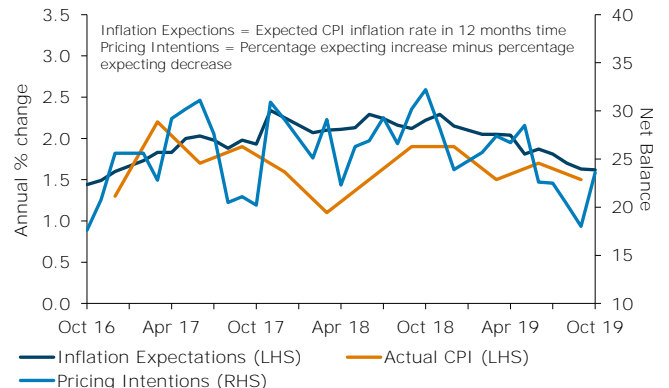
Financial outlook



Investment intentions and capacity utilisation



Inflation expectations



Source: ANZ, Statistics NZ

Survey Summary

| OCTOBER 2019 | Total All Sectors | Retail | Manufacturing | Agriculture | Construction | Services |
|------------------------------------|-------------------|--------------|---------------|--------------|--------------|--------------|
| No. of Respondents | 412 | 56 | 75 | 41 | 44 | 190 |
| General Business Conditions | | | | | | |
| Improve | 10.1 | 10.7 | 9.5 | 4.9 | 9.3 | 11.8 |
| Remain the Same | 37.4 | 26.8 | 43.2 | 29.3 | 46.5 | 37.6 |
| Deteriorate | 52.5 | 62.5 | 47.3 | 65.9 | 44.2 | 50.5 |
| Net Index | -42.4 | -51.8 | -37.8 | -61.0 | -38.7 | -38.7 |
| Expected Inflation (%) | 1.62 | 1.63 | 1.70 | 1.60 | 1.64 | 1.58 |
| Unemployment Rate | | | | | | |
| Increase | 46.8 | 44.6 | 42.7 | 56.1 | 25.0 | 51.6 |
| Remain the Same | 47.1 | 50.0 | 50.7 | 41.5 | 65.9 | 42.1 |
| Decrease | 6.1 | 5.4 | 6.7 | 2.4 | 9.1 | 6.3 |
| Net Index | 40.8 | 39.3 | 36.0 | 53.7 | 15.9 | 45.3 |
| Interest Rates | | | | | | |
| Increase | 3.2 | 1.8 | 1.4 | 2.4 | 2.3 | 4.7 |
| Remain the Same | 39.3 | 41.8 | 39.4 | 43.9 | 45.5 | 36.8 |
| Decrease | 57.5 | 56.4 | 59.2 | 53.7 | 52.3 | 58.4 |
| Net Index | -54.3 | -54.5 | -57.7 | -51.2 | -50.0 | -53.7 |
| Real Business Activity | | | | | | |
| Increase | 24.7 | 20.4 | 30.7 | 22.0 | 20.9 | 24.5 |
| Remain the Same | 47.1 | 40.7 | 40.0 | 51.2 | 48.8 | 51.1 |
| Decrease | 28.2 | 38.9 | 29.3 | 26.8 | 30.2 | 24.5 |
| Net Index | -3.5 | -18.5 | 1.3 | -4.9 | -9.3 | 0.0 |
| Real Profits | | | | | | |
| Increase | 21.5 | 12.7 | 25.3 | 22.0 | 20.9 | 22.6 |
| Remain the Same | 35.8 | 30.9 | 30.7 | 29.3 | 41.9 | 39.2 |
| Decrease | 42.7 | 56.4 | 44.0 | 48.8 | 37.2 | 38.2 |
| Net Index | -21.2 | -43.6 | -18.7 | -26.8 | -16.3 | -15.6 |
| Employment | | | | | | |
| Increase | 15.3 | 5.5 | 20.3 | 4.9 | 16.7 | 18.2 |
| Remain the Same | 59.9 | 61.8 | 54.1 | 73.2 | 57.1 | 59.4 |
| Decrease | 24.8 | 32.7 | 25.7 | 22.0 | 26.2 | 22.5 |
| Net Index | -9.4 | -27.3 | -5.4 | -17.1 | -9.5 | -4.3 |

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

The ANZ Business Outlook survey.

| OCTOBER 2019 | Total All Sectors | Retail | Manufacturing | Agriculture | Construction | Services |
|-------------------------------------|-------------------|-------------|---------------|--------------|--------------|-------------|
| Price of Good/Service | | | | | | |
| Increase | 31.2 | 44.6 | 29.3 | 29.3 | 34.9 | 27.8 |
| Remain the Same | 61.2 | 41.1 | 61.3 | 61.0 | 58.1 | 67.4 |
| Decrease | 7.6 | 14.3 | 9.3 | 9.8 | 7.0 | 4.8 |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Net Index | 23.6 | 30.4 | 20.0 | 19.5 | 27.9 | 23.0 |
| ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| Investment | | | | | | |
| Increase | 18.5 | 21.8 | 19.4 | 14.6 | 32.6 | 15.2 |
| Remain the Same | 57.5 | 56.4 | 55.6 | 51.2 | 41.9 | 63.0 |
| Decrease | 24.0 | 21.8 | 25.0 | 34.1 | 25.6 | 21.7 |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Net Index | -5.5 | 0.0 | -5.6 | -19.5 | 7.0 | -6.5 |
| ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| Real Exports | | | | | | |
| Increase | 16.5 | 17.6 | 26.4 | 14.3 | 8.0 | 13.6 |
| Remain the Same | 66.5 | 58.8 | 52.8 | 68.6 | 80.0 | 71.8 |
| Decrease | 16.9 | 23.5 | 20.8 | 17.1 | 12.0 | 14.6 |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Net Index | -0.4 | -5.9 | 5.7 | -2.9 | -4.0 | -1.0 |
| ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| Capacity Utilisation | | | | | | |
| Increase | 18.2 | 17.0 | 22.4 | 10.5 | 23.5 | 17.4 |
| Remain the Same | 63.5 | 66.0 | 58.2 | 73.7 | 67.6 | 60.9 |
| Decrease | 18.2 | 17.0 | 19.4 | 15.8 | 8.8 | 21.7 |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Net Index | 0.0 | 0.0 | 3.0 | -5.3 | 14.7 | -4.3 |
| ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| Residential Building | | | | | | |
| Increase | 15.8 | 0.0 | 0.0 | 0.0 | 15.8 | 0.0 |
| Remain the Same | 63.2 | 0.0 | 0.0 | 0.0 | 63.2 | 1.0 |
| Decrease | 21.1 | 0.0 | 0.0 | 0.0 | 21.1 | 2.0 |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Net Index | -5.3 | #N/A | #N/A | #N/A | -5.3 | #N/A |
| ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| Non-Residential Construction | | | | | | |
| Increase | 30.6 | 0.0 | 0.0 | 0.0 | 30.6 | 0.0 |
| Remain the Same | 38.9 | 0.0 | 0.0 | 0.0 | 38.9 | 1.0 |
| Decrease | 30.6 | 0.0 | 0.0 | 0.0 | 30.6 | 2.0 |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Net Index | 0.0 | #N/A | #N/A | #N/A | 0.0 | #N/A |
| ===== | ===== | ===== | ===== | ===== | ===== | ===== |
| Ease of Getting Credit | | | | | | |
| Easier | 51.1 | 67.9 | 56.0 | 57.5 | 46.5 | 44.7 |
| Remain the Same | 46.2 | 28.6 | 41.3 | 37.5 | 48.8 | 53.7 |
| Harder | 2.7 | 3.6 | 2.7 | 5.0 | 4.7 | 1.6 |
| ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| Net Index | 48.4 | 64.3 | 53.3 | 52.5 | 41.9 | 43.1 |
| ===== | ===== | ===== | ===== | ===== | ===== | ===== |

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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