

ANZ BUSINESS OUTLOOK FELIZ NAVIDAD

December 2015

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The next issue of the ANZ *Business Outlook* is scheduled for release on 29 February 2016 at 1pm.

SUMMARY

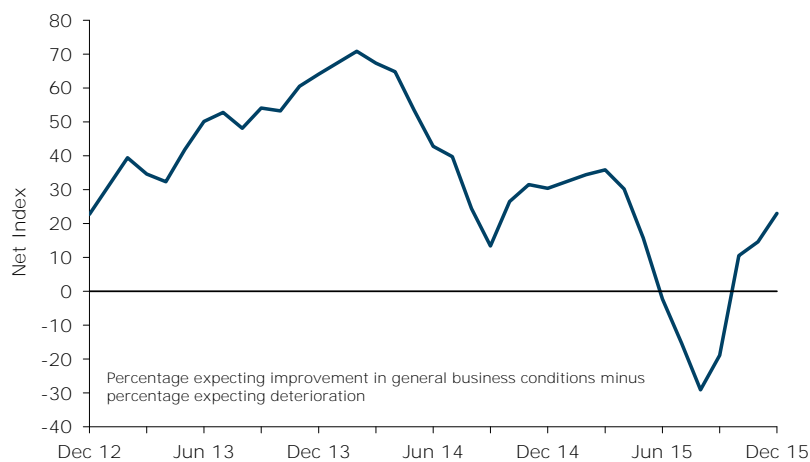
- Businesses confidence has all the trimmings, rising to an 8-month high.
- There are lots of goodies all round with **firms' own activity expectations**, employment and profitability all up.
- Our composite indicator flags a potential rebound in growth to over 3%. **We're more circumspect**, but there is no denying improvement is here.
- Pricing gauges remain subdued.

Businesses are in a joyful mood. A net 23% of businesses are optimistic about the general economy over the year ahead. **That's the highest reading** since April. All the five sub sectors, including agriculture, are positive.

'Tis the season to be jolly all round:

- **Firms' own activity expectations** rose a further 2 points to +34. Views here are above average and that's a big tick for the economy.
- Profit expectations increased from +15 to +18. Good signs for employment and investment gifts to follow.
- Employment intentions rose from +14 to +20. More and more firms are looking for little helpers.
- Investment intentions were unchanged at +15.
- Export intentions nudged lower (+19). **That's the firmer NZD playing** Grinch.
- Residential investment intentions rose from +23 to +32; nice. Commercial construction intentions improved from +38 to +45 – the highest reading since May 2014. Heaps of work all round, and no signs of a post-rebuild peak construction hangover.
- Pricing gauges remain subdued. Inflation expectations remain at 1.6% and pricing intentions moved up by a mere 2 points to +24.
- **Season's greetings:** the picture, after adjusting for seasonality, is the same.

ANZ BUSINESS CONFIDENCE INDEX



Source: ANZ

ANZ BUSINESS OUTLOOK

Our composite growth indicator (which combines sentiment measures from both business and consumers) **is flagging the potential for GDP growth north of 3%.**

We're more circumspect than that, picking growth in the 2.5-3% zone.

That's still mightily impressive considering economic challenges remain, such as a low dairy payout. It's testament to the wider forces supporting the economy.

The economic bears no longer have the upper paw; there is no denying an improvement in the growth stakes. With growth picking up, so will employment. Unemployment will not be rising towards 7%; it's more likely to drift back down below 6% in the coming year.

With the festive season upon us, there is much to ponder.

- **New Zealand remains the two-bit player at the international roulette table.** Volatility across equities, commodities, the NZD and international economies is here to stay. **Where China and the export price toboggan settle remains uncertain. We're cautious.**
- **There is both the long game and the short one.** The long game is simple. New Zealand sits in the right part of the world, sells the right stuff, has an abundance of natural resources, a strong brand, is well liked globally and has huge free trade access. **Arguably the biggest issue is how we execute on those opportunities, as opposed to the macro risks around them.**
- **Never underestimate the power of the macro framework.** Monetary policy works. Fiscal policy has firepower. Infrastructure investment is being brought forward. The NZD will adjust to shifts in economic sentiment and risks. A firmer NZD might not be desired, but **solid-looking economies don't tend to see their currencies weaken.** If growth prospects dim, the NZD will wane; be careful what you wish for.
- **The New Zealand economy is the complex interweaving of 4.5 million people; pats on the back all round.** We're a more nimble economy now, better able to swing with the prevailing breeze. We may still have a fixation with housing and high household debt levels raise a few flags, but we are more productive, have a broader economic base and are more flexible and innovative. The microeconomic stuff matters more than the macro, **though it's harder to measure.**

Next year will no doubt throw up opportunities and challenges. New Zealand businesses look well placed to embrace both.

SURVEY RESULTS DECEMBER 2015							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	23.0	14.6	21.9	8.3	7.5	30.3	32.0
Activity Outlook	34.4	32.0	24.7	37.0	10.0	39.4	42.2
Exports	19.3	22.8	19.3	30.6	-12.5	11.1	27.5
Investment	14.9	14.6	18.3	12.7	-2.5	12.1	19.1
Livestock	-11.7	-18.7	...	...	-11.7	...	...
Capacity Utilisation	17.7	21.5	28.6	20.7	2.8	7.1	17.2
Residential Construction	32.0	23.1	...	...	...	32.0	...
Commercial Construction	45.4	37.5	...	...	...	45.4	...
Employment	20.1	13.5	13.9	12.3	10.0	30.3	26.4
Unemployment Rate	19.0	21.1	19.2	20.6	45.0	24.2	11.0
Profits	17.7	14.9	0.0	19.2	-12.5	36.4	26.6
Interest Rates	-32.8	-23.8	-30.1	-30.2	-45.0	-30.3	-32.5
Pricing Intentions	23.6	22.2	41.1	24.7	-2.5	30.3	20.1
Ease of Credit	13.5	6.8	1.5	4.5	2.6	12.5	23.7
Inflation Expectations	1.64	1.64	1.63	1.74	1.54	1.84	1.61

ANZ BUSINESS OUTLOOK

FIGURE 1. ACTIVITY OUTLOOK INDEX

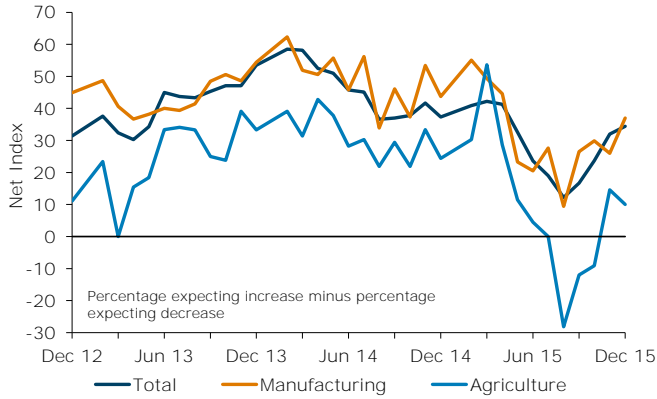


FIGURE 2. CONSTRUCTION INTENTIONS

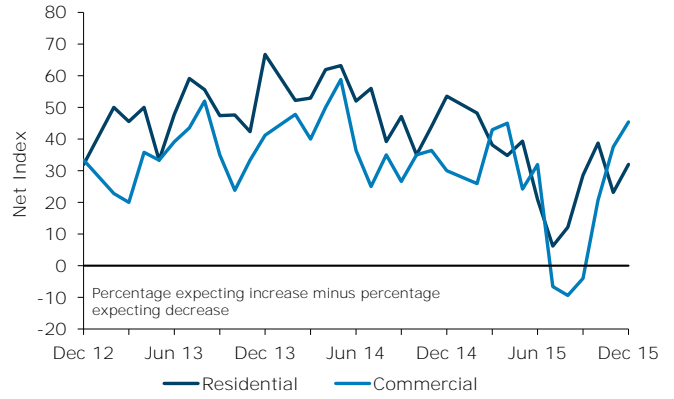


FIGURE 3. ACTIVITY OUTLOOK INDEX

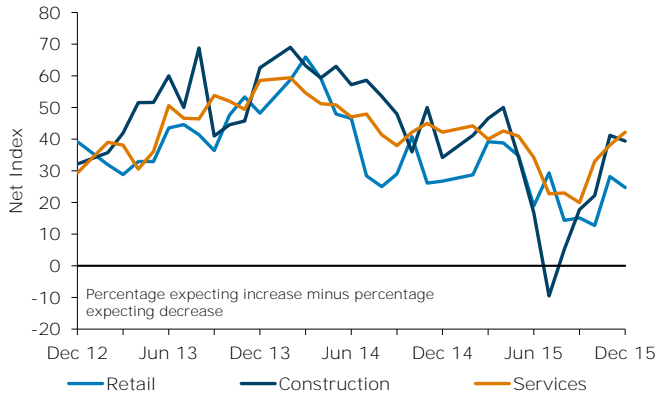


FIGURE 4. LABOUR MARKET OUTLOOK

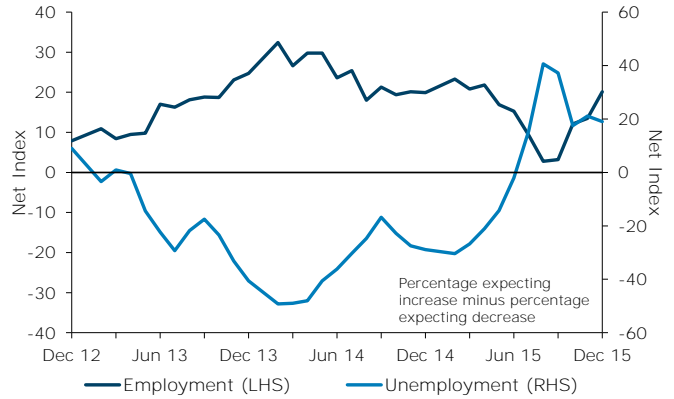


FIGURE 5. EXPORT SALES VOLUMES

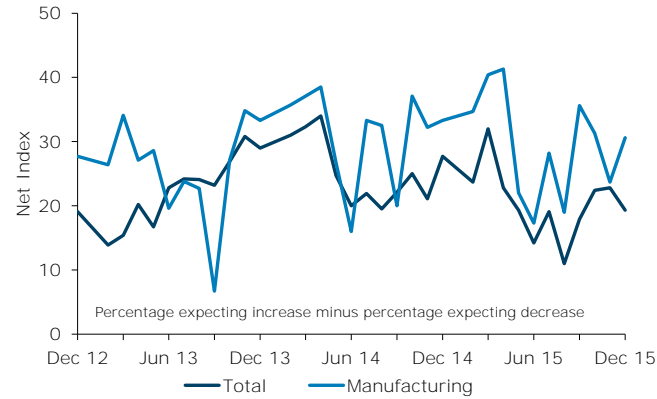


FIGURE 6. FINANCIAL OUTLOOK

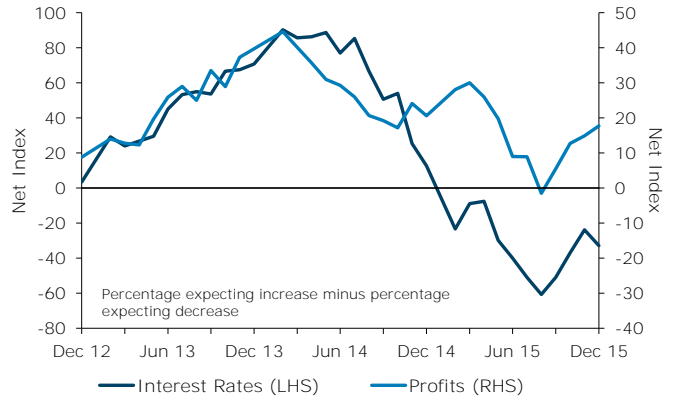


FIGURE 7. INVESTMENT INTENTIONS

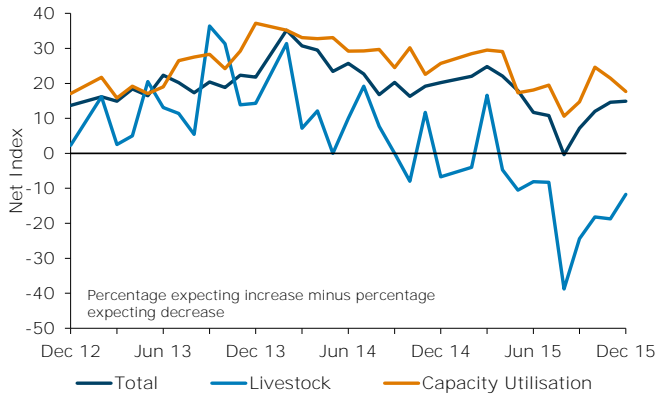
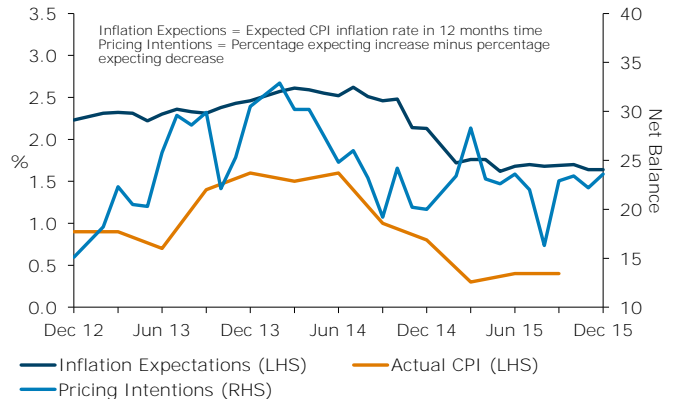


FIGURE 8. INFLATION EXPECTATIONS



Source: ANZ, Statistics NZ

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