



Media Release

Back to reality

Optimists continue to significantly outnumber pessimists but overall business confidence is now well off its highs. A net 43% of firms are optimistic about general prospects; while it's down 11 points this month, and 28 points off its peak, it's still a huge 33 points above the long-run average of +10%. Our economy-wide seasonally adjusted estimate dropped 7 points in the month, so the onset of the colder months is not to blame.

It's not difficult to think of a few reasons why confidence has waned. Higher interest rates are the #1 suspect. Dairy and forestry export prices are sharply lower too. The housing market is levelling out. The NZD continues to defy gravity.

Our combined confidence composite across the ANZBO and our consumer confidence measure is still suggesting booming growth; there are a deep array of positives still supporting the economy. The level of confidence remains very high by historical standards, but it is now starting to look a little more realistic; that's natural when an economy transitions into the glide path associated with an economic expansion. There is no reason to reach for the defibrillator.

Most survey indicators waned in June but still remain north of "average", implying above-trend growth.

Firms' activity expectations regarding their own business eased from +51 to +46; the lowest in 9 months but well above the long-run average.

- Expected profitability has now fallen for four consecutive months, but the falls have been getting smaller. A net 29% of firms expect higher profits, still auguring well for investment and employment.
- A net 24% of businesses expect to be hiring more staff over the year ahead, well down from its peak of 32% in February. But the 10-year average is +5.
- Investment intentions ticked up from +23 to +26. The level remains high.
- Export intentions (+20) are their lowest in a year.
- A net 52% of firms expect an uplift in residential construction activity and a net 36% a rise in commercial construction, both down on the month prior.

Inflation nuances eased – an encouraging sign. A net 25% of firms expect to be raising prices over the year ahead, down 3 points. And in the hot-spot of construction, a net 54% of firms expect price rises – still high, but down from a peak of 62% in March. One-year-ahead economy-wide inflation expectations ticked down a smidgen to 2.5%.

Relative to international trading peers New Zealand's position looks enviable; business confidence signals remain strong, growth is robust, inflation is low, and unemployment is headed down. There are palpitations from rising interest rates and a high currency but that's the by-product of the combination above – we'll take that anytime, over the reasons interest rates remain low in other countries.

The next issue of *Business Outlook* will be released on 31 July 2014, at 1pm.

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ANZ BUSINESS OUTLOOK BACK TO REALITY

June 2014

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SUMMARY

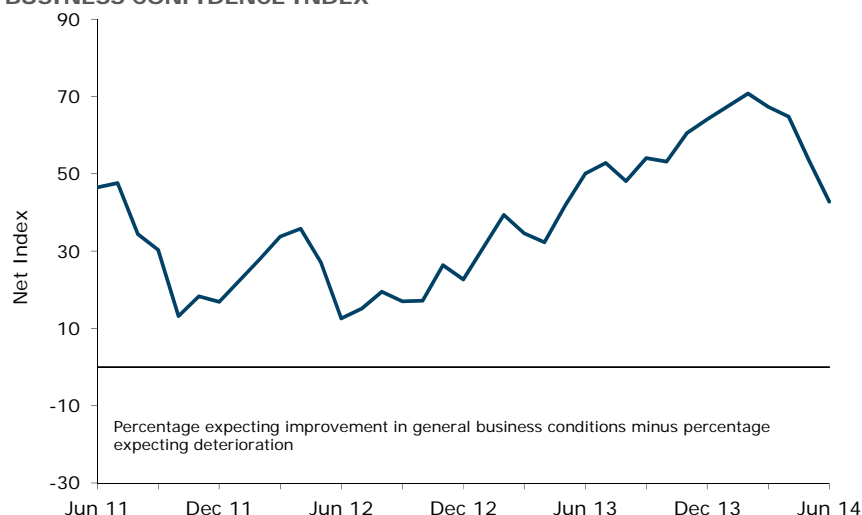
- Optimists continue to well outnumber pessimists but business confidence and other survey measures are sliding.
- The Reserve Bank will be quite content; the economy needs to slow from a gallop to a canter if a boom-bust scenario is to be avoided.
- Growth signals remain strong, and inflation messages are waning: a good mix for keeping the OCR on the low side and the economy on a roll.

Optimists continue to significantly outnumber pessimists but overall business confidence is now well off its highs. A net 43% of firms are optimistic about general prospects; while it's down 11 points this month, and 28 points off its peak, it's still a huge 33 points above the long-run average of +10%. Confidence fell in all sectors except retail, with by far the largest drop seen in agriculture. Our economy-wide seasonally adjusted estimate dropped 7 points in the month, so the onset of the colder months is not to blame.

It's not difficult to think of a few reasons why confidence has waned. Higher interest rates are the #1 suspect. Dairy and forestry export prices are sharply lower too. The housing market is levelling out. The NZD continues to defy gravity.

But it is important to remember that this decline in confidence has been desired – and at least partly engineered – by the Reserve Bank. And not because they are party poopers. Rather, it's because the economy is growing much faster than is sustainable, and needs to settle down a bit if we are not to have a boom-bust scenario unfold (New Zealand has historically tended to be a 3-speed economy; fifth, neutral and reverse!). Our combined confidence composite across the ANZBO and our consumer confidence measure is still suggesting annual growth of around 6 percent! There are still significant positives across the economy, including surging migration, still-high commodity prices, solid employment growth, and of course the impetus coming from both residential and commercial construction. The level of confidence remains very high by historical standards, but it is now starting to look a little more realistic; that's natural when an economy transitions into the glide path associated with an economic expansion. There is no reason to reach for the defibrillator.

BUSINESS CONFIDENCE INDEX



Source: ANZ

Most survey indicators nudged lower in June but still remain north of “average”, implying above-trend growth, and in that environment **it’s a lack of capacity – rather than demand – that is set to become a key issue for firms.**

Firms’ activity expectations regarding their own business eased from +51 to +46; the lowest in 9 months but well above the long-run average.

- Expected profitability has now fallen for four consecutive months, but the falls have been getting smaller. A net 29% of firms expect higher profits, still auguring well for investment and employment.
- A net 24% of businesses expect to be hiring more staff over the year ahead, well down from its peak of 32% in February. But the 10-year average is +5.
- Investment intentions ticked up from +23 to +26. The level remains high.
- Export intentions (+20) are their lowest in a year.
- A net 52% of firms expect an uplift in residential construction activity and a net 36% a rise in commercial construction, both down on the month prior.

We’ll take a glass half full interpretation of elevated but waning confidence. It will help to keep OCR rises contained and the economic expansion alive.

And in a similar vein, the fact that inflation nuances eased is a very encouraging sign. A net 25% of firms expect to be raising prices over the year ahead, down 3 points. And in the hot-spot of construction, a net 54% of firms expect price rises – still high, but down from a peak of 62% in March. One-year-ahead economy-wide inflation expectations ticked down a smidgen to 2.5%.

The fact that inflationary pressures are remaining modest is very helpful for the Reserve Bank. The high currency is undoubtedly playing a role. Lower commodity prices likely explain the dramatic 19 point drop for the agriculture sector pricing intentions to a net +3%. And talking to businesses around the country, it’s evident that they are working smarter as well as harder. It all helps to increase our fitness as a nation, boosting our potential growth rate.

Relative to international trading peers New Zealand’s position looks enviable; business confidence signals remain strong, growth is robust, inflation is low, and unemployment is headed down. There are palpitations from rising interest rates and a high currency but that’s the by-product of the combination above – we’ll take that anytime, over the reasons interest rates remain low in other countries.

SURVEY RESULTS JUNE 2014							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	42.8	53.5	54.3	25.3	2.7	57.1	51.6
Activity Outlook	45.8	51.0	46.5	45.8	28.2	57.2	47.0
Exports	20.0	24.7	30.8	16.0	21.4	0.0	19.7
Investment	25.7	23.4	36.6	20.0	5.3	21.4	29.3
Livestock	10.0	0.0	...	...	10.0	...	...
Capacity Utilisation	29.2	33.1	25.0	32.3	15.1	26.7	33.3
Residential Construction	52.0	63.2	...	...	...	52.0	...
Commercial Construction	36.4	58.8	...	...	...	36.4	...
Employment	23.6	29.8	21.1	15.5	5.2	28.6	29.9
Unemployment Rate	-36.2	-40.6	-36.6	-26.3	-7.7	-17.9	-48.0
Profits	29.3	31.0	28.1	27.8	0.0	53.6	32.8
Interest Rates	77.0	88.7	67.6	76.1	71.8	71.5	82.3
Pricing Intentions	24.8	27.5	22.6	20.9	2.6	53.6	27.6
Ease of Credit	10.4	13.4	1.7	14.1	5.9	17.9	12.4
Inflation Expectations	2.52	2.55	2.57	2.39	2.63	2.83	2.49

ANZ BUSINESS OUTLOOK

FIGURE 1. ACTIVITY OUTLOOK INDEX

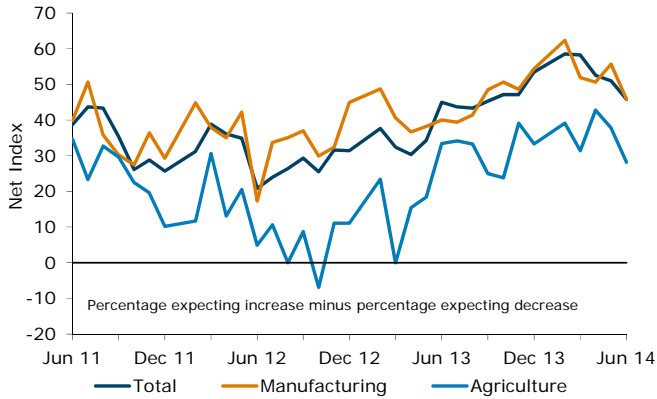


FIGURE 2. CONSTRUCTION INTENTIONS

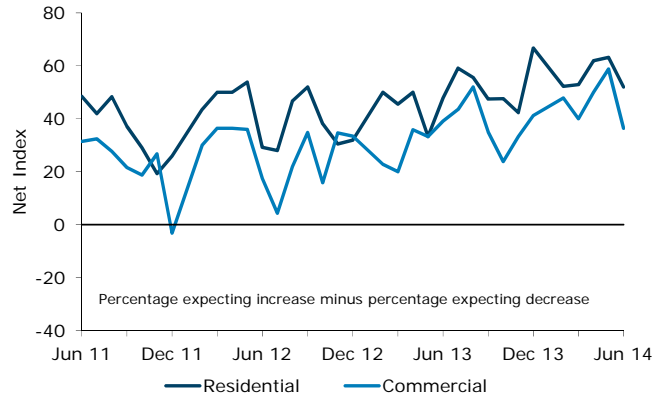


FIGURE 3. ACTIVITY OUTLOOK INDEX

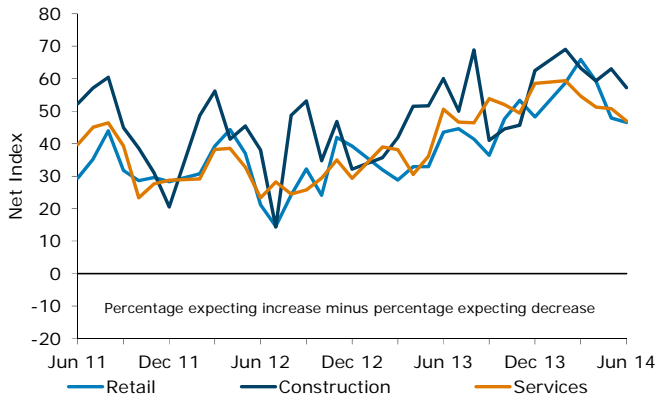


FIGURE 4. LABOUR MARKET OUTLOOK

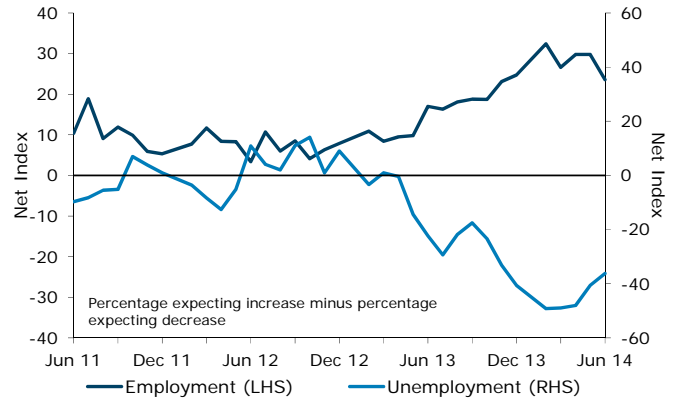


FIGURE 5. EXPORT SALES VOLUMES

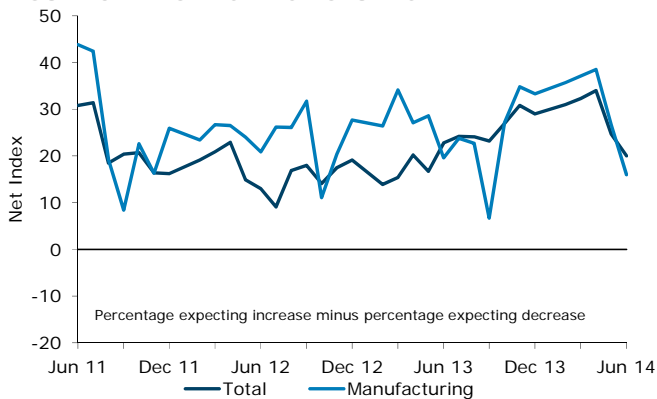


FIGURE 6. FINANCIAL OUTLOOK

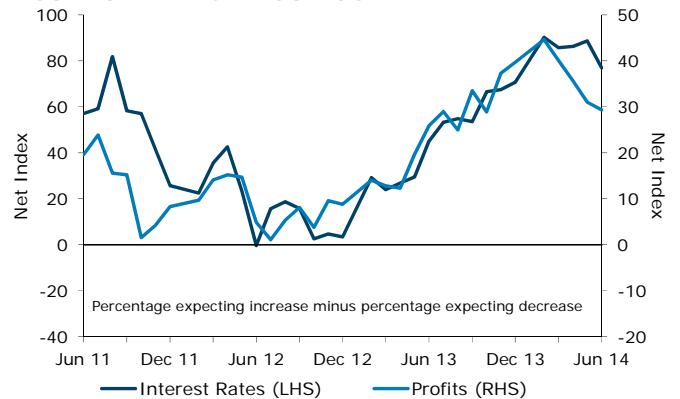


FIGURE 7. INVESTMENT INTENTIONS

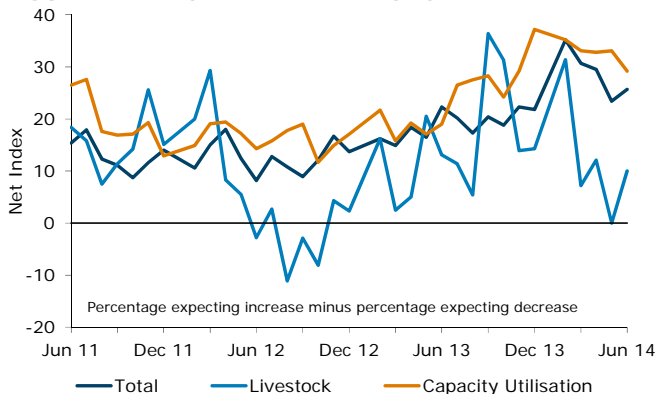
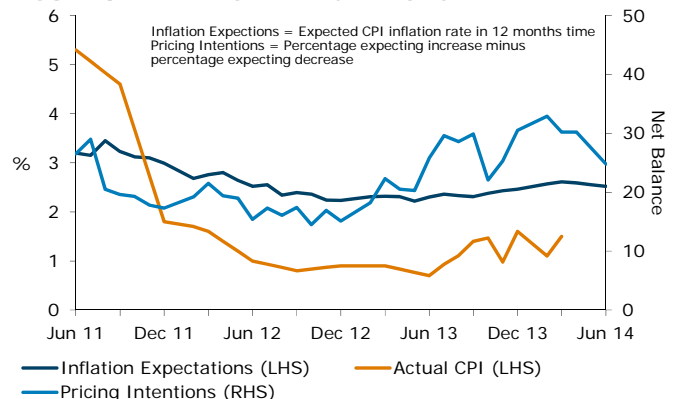


FIGURE 8. INFLATION EXPECTATIONS



Source: ANZ, Statistics NZ



Survey Summary

JUNE 2014	Total All Sectors	Retail	Manufacturing	Agriculture	Construction	Services
No. of Respondents	414	71	72	39	28	198
General Business Conditions						
Improve	51.4	61.4	35.2	21.1	60.7	59.3
Remain the Same	40.0	31.4	54.9	60.5	35.7	33.0
Deteriorate	8.6	7.1	9.9	18.4	3.6	7.7
Net Index	42.8	54.3	25.3	2.7	57.1	51.6
Expected Inflation (%)	2.52	2.57	2.39	2.63	2.83	2.49
Unemployment Rate						
Increase	8.2	11.3	5.6	12.8	7.1	7.6
Remain the Same	47.3	40.8	62.5	66.7	67.9	36.9
Decrease	44.4	47.9	31.9	20.5	25.0	55.6
Net Index	-36.2	-36.6	-26.3	-7.7	-17.9	-48.0
Interest Rates						
Increase	79.2	71.8	77.5	76.9	78.6	82.8
Remain the Same	18.6	23.9	21.1	17.9	14.3	16.7
Decrease	2.2	4.2	1.4	5.1	7.1	0.5
Net Index	77.0	67.6	76.1	71.8	71.5	82.3
Real Business Activity						
Increase	51.4	53.5	51.4	35.9	64.3	51.5
Remain the Same	43.0	39.4	43.1	56.4	28.6	43.9
Decrease	5.6	7.0	5.6	7.7	7.1	4.5
Net Index	45.8	46.5	45.8	28.2	57.2	47.0
Real Profits						
Increase	41.1	39.4	37.5	30.8	60.7	41.9
Remain the Same	47.1	49.3	52.8	38.5	32.1	49.0
Decrease	11.8	11.3	9.7	30.8	7.1	9.1
Net Index	29.3	28.1	27.8	0.0	53.6	32.8
Employment						
Increase	29.4	29.6	25.4	10.3	28.6	34.5
Remain the Same	64.8	62.0	64.8	84.6	71.4	60.9
Decrease	5.8	8.5	9.9	5.1	0.0	4.6
Net Index	23.6	21.1	15.5	5.2	28.6	29.9

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

The ANZ Business Outlook survey.

JUNE 2014	Total All Sectors	Retail	Manufacturing	Agriculture	Construction	Services
Price of Good/Service						
Increase	30.2	25.4	27.8	28.9	53.6	29.7
Remain the Same	64.4	71.8	65.3	44.7	46.4	68.2
Decrease	5.4	2.8	6.9	26.3	0.0	2.1
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Net Index	24.8	22.6	20.9	2.6	53.6	27.6
=====	=====	=====	=====	=====	=====	=====
Investment						
Increase	30.6	38.0	27.1	15.8	21.4	34.4
Remain the Same	64.5	60.6	65.7	73.7	78.6	60.5
Decrease	4.9	1.4	7.1	10.5	0.0	5.1
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Net Index	25.7	36.6	20.0	5.3	21.4	29.3
=====	=====	=====	=====	=====	=====	=====
Real Exports						
Increase	30.6	38.5	30.0	32.1	11.1	28.6
Remain the Same	58.8	53.8	56.0	57.1	77.8	62.5
Decrease	10.6	7.7	14.0	10.7	11.1	8.9
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Net Index	20.0	30.8	16.0	21.4	0.0	19.7
=====	=====	=====	=====	=====	=====	=====
Capacity Utilisation						
Increase	35.2	33.3	37.1	21.2	26.7	40.4
Remain the Same	58.8	58.3	58.1	72.7	73.3	52.5
Decrease	6.0	8.3	4.8	6.1	0.0	7.1
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Net Index	29.2	25.0	32.3	15.1	26.7	33.3
=====	=====	=====	=====	=====	=====	=====
Livestock Investment						
Increase	13.3	0.0	0.0	13.3	0.0	0.0
Remain the Same	83.3	0.0	0.0	83.3	0.0	0.0
Decrease	3.3	0.0	0.0	3.3	0.0	0.0
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Net Index	10.0	#N/A	#N/A	10.0	#N/A	#N/A
=====	=====	=====	=====	=====	=====	=====
Residential Building						
Increase	52.0	0.0	0.0	0.0	52.0	0.0
Remain the Same	48.0	0.0	0.0	0.0	48.0	0.0
Decrease	0.0	0.0	0.0	0.0	0.0	0.0
-----	-----	-----	-----	-----	-----	-----
Net Index	52.0	#N/A	#N/A	#N/A	52.0	#N/A
=====	=====	=====	=====	=====	=====	=====
Non-Residential Construction						
Increase	36.4	0.0	0.0	0.0	36.4	0.0
Remain the Same	63.6	0.0	0.0	0.0	63.6	0.0
Decrease	0.0	0.0	0.0	0.0	0.0	0.0
-----	-----	-----	-----	-----	-----	-----
Net Index	36.4	#N/A	#N/A	#N/A	36.4	#N/A
=====	=====	=====	=====	=====	=====	=====
Ease of Getting Credit						
Easier	22.0	19.7	21.9	11.8	25.0	24.7
Remain the Same	66.4	62.3	70.3	82.4	67.9	63.0
Harder	11.6	18.0	7.8	5.9	7.1	12.3
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Net Index	10.4	1.7	14.1	5.9	17.9	12.4
=====	=====	=====	=====	=====	=====	=====

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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