28 February 2018

A Toast to a Half-Filled Tumbler

- **Business survey gets a one-handed grip**
- **But still clearly below par overall**
- **Inflation indicators more middling than strong**
- **Market reaction muted**
- **Immigration meanwhile refusing to abate**

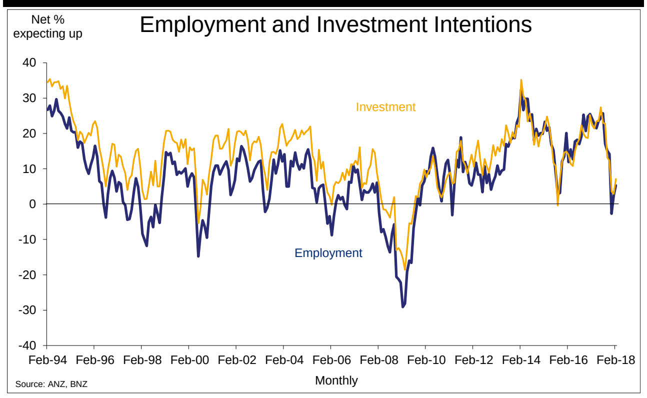
If New Zealand's business glass appeared drained after the news of the new government, it has arguably just been topped up to half full. At one level, today's ANZ business outlook survey was encouraging. Its net confidence reading, in particular, rebounded to -19, from its prior result, of -38, back in December. At another level, however, it obviously remains clearly below par, and thus well south of where it was riding, going into September's election.

Own-activity expectations have, since the election, held up better than general confidence. And they nudged up to +20 in February, from +16 in December. Still, they are a bit below their long-term average, of +28 (and when we seasonally adjust February's result, we get a lesser +18).

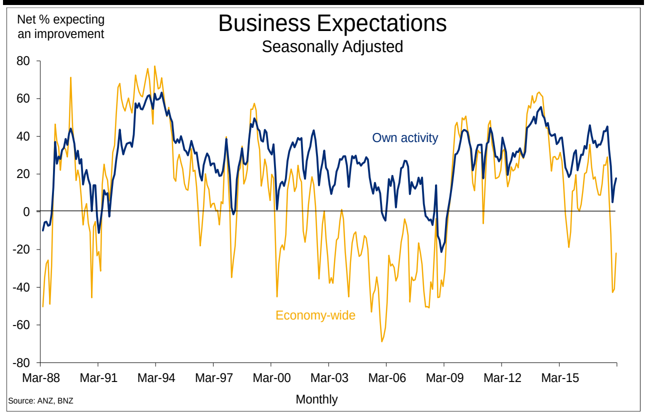
To be clear, this is not inconsistent with the very near-term view we hold on the economy. That it is probably running a bit on the slow side for the meantime. But we will need to see such real-economy indicators strengthen over the coming months in order to be consistent with the GDP growth pick we forecast, starting around mid-year. There is time, but also a firm expectation.

In this respect, we'll also need to keep an eye on such spirit-driven things as employment and investment

Cautionary, Still



Not So Bad



intentions. These were also below trend in February's ANZ survey, even with their respective lifts from December.

Looking further through the detail of today's ANZ survey, it was clear that its rebound was fairly widespread, however. We had wondered if it might have been mostly to do with agriculture coming back from the abyss it was seeing in December. This is especially as the viciously dry weather from late last year has since given way to well sodden fields on account of the abundant New Year rains (not to mention improved dairy auction prices, amid strong export commodity prices in general). To be sure, agriculture was much less negative this month (albeit still lagging).

But there has also been a decent move up amongst other industries, and in other ways of slicing and dicing the figures. From this we surmise that New Zealand's business sector is less grumpy about the new Labour-led government. More time, and information, has no doubt helped on this score.

But that's not to overlook a couple of policy developments that have arguably given some solace to the business sector too. One example is the commitment to free trade, and global connectedness, that the new government's perseverance with the TPP – sorry, CPTPP – intimates. And that it will need National's support in order for New Zealand to sign up to it.

The other is the compromise already made about the Labour party's promise to ditch the 90-day probation period around hiring, with the NZ First party demanding that it remains in place for small to medium firms – where the mutual benefits are arguably the greatest. This is pro-business, albeit not wholeheartedly so.

In this the business sector is probably best to think about how New Zealand's parliament will pass policy, rather than simply the Labour party. Nonetheless, there are no doubt many other policies that the business sector is understandably still worried about.

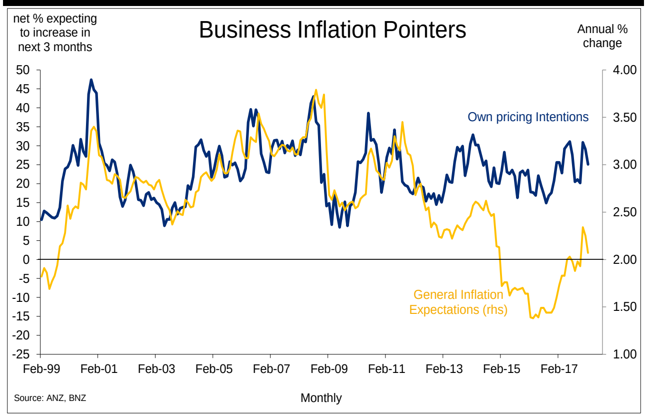
If the confidence measures in today's ANZ survey were much mended, and its activity indicators not so bad, its inflation gauges slipped. Inflation expectations moderated to 2.07%, from the 2.25% they (surprisingly) jumped to in December. Own pricing intentions also lost a bit of gas in February, with +25.1, compared to December's strong reading of +29.1.

Even so, they are the sort of complementary information on inflation that could prove important, in the context of the very near-term dip we expect in annual CPI inflation, to just +0.9% in Q1 2018, and will be slow to pick up after that. We believe the RBNZ will do its best to look through, and past, this trough as the transitory phase it is, although there is a risk the market might not.

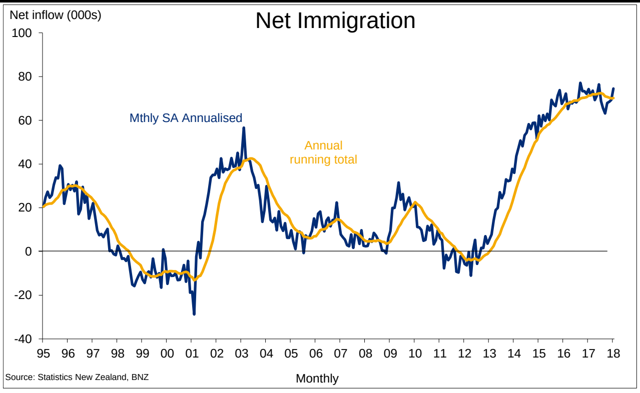
As for market reaction to this afternoon's business survey, there wasn't anything discernable. While NZD initially dipped – presumably with a focus on the slower inflation gauges – it was soon back to where it was, as it arguably digested the decent move up in the survey more generally.

But as a reminder that governments, and central banks, are hardly the be all and end all of what drives the economy, we note that net inward migration to New Zealand continues to run very high. Assumptions that it will somehow "naturally" abate continue to be confounded by the data.

Not So Strong



Abatement, What Abatement?



In fact, the net inflow strengthened for the fourth month in a row in January, to a seasonally adjusted +6,210. The all-time high was +6,430 back in September 2016, so we're within spitting distance of that again. If numbers like these continue, people might well start questioning the new government's resolve to crack down on migration. For the meantime it remains a massive macro matter.

While migrant departures are still rising, slightly, arrivals are doing so again now too. The latter is despite broadly softer arrivals on student and residency visas, with migrants coming in on work visas continuing to march forever higher. All the while, the unemployment rate continues to edge down, suggesting it's all very absorbable.

Meanwhile, short-term visitor arrivals remained strong in January, albeit were about flat on a year ago, after a strong run over recent months.

ANZ Bank Business Outlook

Net balance - next 12 months (All sectors)	Feb	Dec	Change	Average
General business outlook	**-19.0**	**-37.8**	18.8	11.1
Own business	**20.4**	**15.6**	4.8	27.8
Profits	**-1.0**	**-3.2**	2.2	10.4
Employment	**5.3**	**2.5**	2.8	8.7
Investment	**7.1**	**2.9**	4.2	14.2
Pricing intentions	**25.1**	**29.1**	-4.0	21.1
Inflation expectations	**2.07**	**2.25**	-0.18	2.61
Exports	**16.1**	**13.2**	2.9	30.4
(Own activity outlook)				
Retail	**20.0**	**14.0**	6.0	25.4
Manufacturing	**21.1**	**21.7**	-0.6	29.6
Agriculture	**18.4**	**5.2**	13.2	23.2
Construction	**34.7**	**20.0**	14.7	19.6
Services	**18.5**	**15.8**	2.7	30.9

craig_ebert@bnz.co.nz

Contact Details

BNZ Research

Stephen Toplis
Head of Research
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Senior Economist
+64 4 474 6923

Jason Wong
Senior Markets Strategist
+64 4 924 7652

Nick Smyth
Interest Rates Strategist
+64 4 924 7653

Main Offices

Wellington
Level 4, Spark Central
42-52 Willis Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland
80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch
111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

National Australia Bank

Peter Jolly
Global Head of Research
+61 2 9237 1406

Alan Oster
Group Chief Economist
+61 3 8634 2927

Ray Attrill
Head of FX Strategy
+61 2 9237 1848

Skye Masters
Head of Fixed Income Research
+61 2 9295 1196

Wellington

Foreign Exchange	+800 642 222
Fixed Income/Derivatives	+800 283 269

Sydney

Foreign Exchange	+61 2 9295 1100
Fixed Income/Derivatives	+61 2 9295 1166

London

Foreign Exchange	+44 20 7796 3091
Fixed Income/Derivatives	+44 20 7796 4761

New York

Foreign Exchange	+1 212 916 9631
Fixed Income/Derivatives	+1 212 916 9677

Hong Kong

Foreign Exchange	+85 2 2526 5891
Fixed Income/Derivatives	+85 2 2526 5891