

## When Further Below Par Is Not Good

- **Business expectations keep losing their footing**
- **As services now not so solid**
- **Fiscal stimulus soon to the rescue?**
- **Business inflation pointers upward re the CPI**

Moving further below par is great if you're a golfer. But not if you're a business survey of expectations, like the one updated by the ANZ bank this afternoon. Its net confidence measure slipped back to -27 in May, from -23 in April. Granted, it's still north of November's post-election grump of -39. But it also marks the third month in a row that confidence has fallen back, after reaching a "high" point of -20 back in February.

Of course, these struggles in confidence don't mean the economy is going to underperform. But the ANZ survey's own-activity expectations do. They have a far better correlation to GDP growth. And in May they slipped to +14, from +19. This was further south of the norm, of +28.

For the record, seasonality is not significant for the survey readings at this time of year.

If we entertain the cheeky rule of thumb, of inserting a decimal place in the activity reading in order to approximate annual GDP growth, then we're looking at 1.4%. Confidence intervals appreciated, this is miles below the 3.4% we forecast for calendar 2018.

This makes us wonder if the business sector is not seeing the fiscal stimulus that's coming to households, starting substantively on 1 July, as a big deal. Either that or it

ANZ Bank Business Outlook				
Net balance - next 12 months				
(All sectors)	May	Apr	Change	Average
General business outlook	-27.2	-23.4	-3.8	10.3
Own business	13.6	17.8	-4.2	27.7
Profits	-8.5	-0.9	-7.6	10.2
Employment	6.9	8.9	-2.0	8.7
Investment	3.2	7.2	-4.0	14.1
Pricing intentions	26.3	22.3	4.0	21.1
Inflation expectations	2.13	2.11	0.02	2.6
Exports	13.2	23.0	-9.8	30.2
(Own activity outlook)				
Retail	3.6	13.5	-9.9	25.1
Manufacturing	17.7	23.4	-5.7	29.4
Agriculture	14.0	8.6	5.4	23.1
Construction	3.8	3.8	0.0	19.8
Services	15.5	20.5	-5.0	30.7

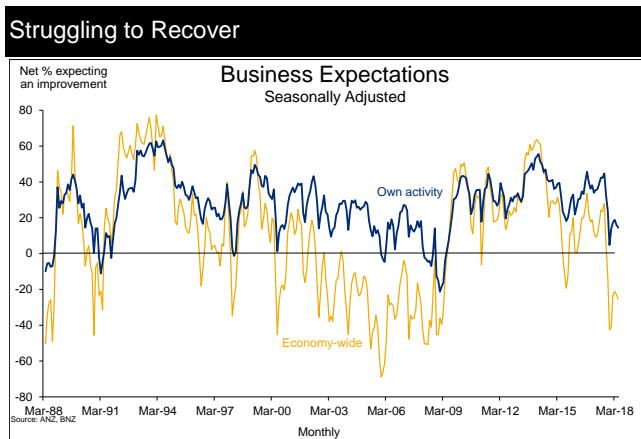
judges the stimulus will simply plug holes rather than cause any froth.

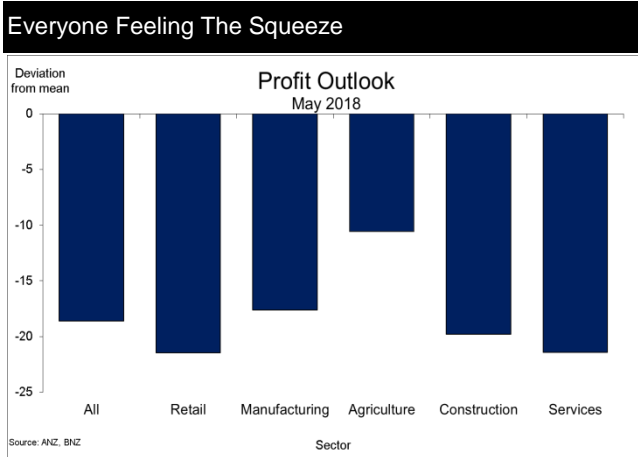
For the record, we do think the government hand-outs – mainly to low and middle income families – will add juice to aggregate expenditure growth, at least over the second half of 2018. So there might seem time for business confidence and expectations to improve over the coming months. But they will definitely need to, given their starting point. Otherwise, our current GDP growth expectations will be more pointedly called into question.

Any idea that the latest ANZ business survey needs to be taken with a grain of salt, because of a rural sector freaked out by the cattle disease *Mycoplasma bovis*, is misguided, to say the least. Yes, agriculture was still a big drag in May's report. But in many respects it became less negative, while other sectors tended to weaken off in their range of activity indicators.

And the sector that caught our eye most in this regard was services. Of course, it tends to be thought of as Ms Reliable, always there, albeit in new and exciting ways, to hold growth aloft. And this tends to be borne out by the GDP outcomes. So the signs from today's ANZ business survey, that the services sector might be losing its initiative, seem important.

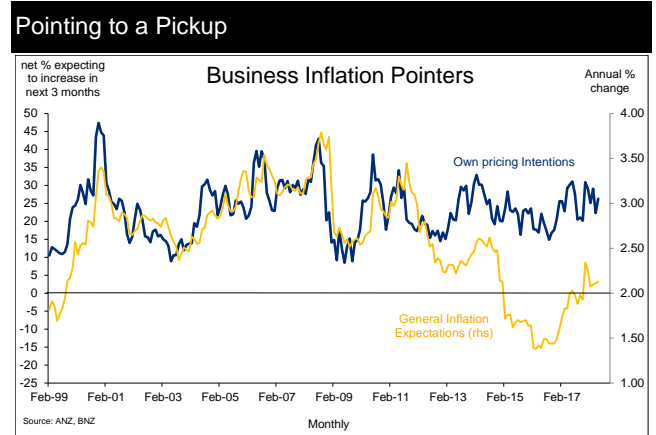
Indeed, it brings us to the other thread that caught our attention in May's business survey – the profits variable. It has slipped into negative territory (while investment intentions have simply slowed to a low level and employment intentions to only just below average).





This gels with our impression that, while economic activity might be ticking over for the meantime, cost pressure is intensifying. Some of this may relate to fuel prices. But we are conscious of a lot of other costs besides, some relating to changing government policy. In the case of services, the role of wage pressure (partly related to the rising minimum wage?) comes to mind.

This might, in turn, help explain why it is that, even with the slower tone in activity, and more-negative confidence, pricing intentions rose to +26, from +22. This is



consistent with the pick-up we expect in annual CPI inflation (to 2.7% by early 2019, indeed). As was the general inflation expectations variable, which was relatively steady, at 2.1%.

All in all, there was a sense of disappointment in this afternoon’s ANZ business survey. We were agnostic on the potential result, but did implicitly hope to see a resumption of recovery, if only to better align with our own expectations of GDP this year. Yet the survey’s inflation gauges were very much consistent with our story of rising CPI inflation.

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