

ANZ Survey: Same Old, Same Old

- **Business hopes remain sub-par**
- **But sentiment understates reality**
- **And signs of stability evident**
- **Jump in construction expectations heartening**
- **Inflationary pressures remain**

There was nothing in today's ANZ Business Outlook to change our view of the world. And, importantly, we doubt there was anything in it to change the central bank's perceptions either.

The key own-activity indicator barely budged from where it stood a month ago. At face value this might be seen as disconcerting as the indicator remains consistent with GDP growth slumping to sub 2.0%. But we have long argued that the reported drop in confidence seemed to be a function of heightened margin cost pressure and

increased uncertainty rather than because businesses believed output was at threat. We continue to hold this view and today's survey did nothing to disavow us of this assumption supported by the fact that profit expectations, across the board, remain at very low levels.

While it's disconcerting that own-activity sentiment is so low it is heartening that it is not falling. Indeed, for all intents and purposes expectations have now been stable for six months. And we wouldn't be surprised if they nudge higher when the survey is next conducted because:

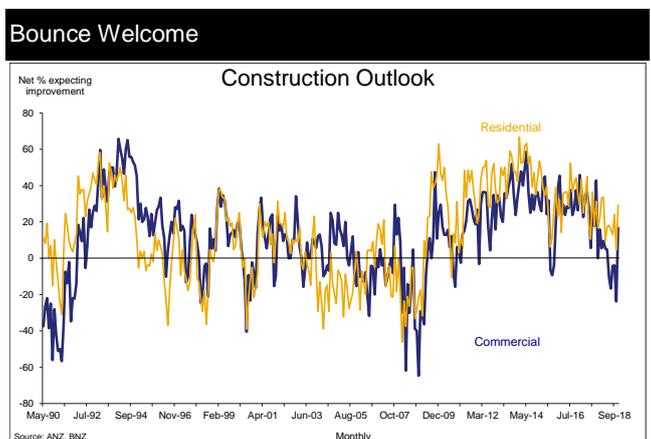
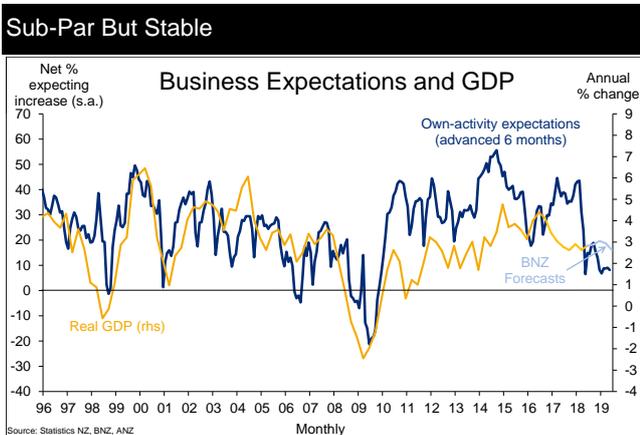
- the regulatory changes around the labour market seem to be less frightening to businesses than feared;

ANZ Bank Business Outlook				
Net balance - next 12 months				
(All sectors)	October	October	Change	Average
General business outlook	-37.1	-37.1	0.0	9.2
Own business	7.6	7.4	0.2	27.3
Profits	-13.5	-15.3	1.8	9.6
Employment	2.2	-0.3	2.5	8.5
Investment	-4.1	-3.3	-0.8	13.7
Pricing intentions	28.2	32.2	-4.0	21.3
Inflation expectations	2.29	2.22	0.07	2.59
Exports	8.3	14.2	-5.9	29.7
(Own activity outlook)				
Retail	0.0	-7.8	7.8	24.5
Manufacturing	11.3	16.2	-4.9	28.9
Agriculture	5.7	-2.3	8.0	22.7
Construction	22.2	0.0	22.2	19.5
Services	7.0	12.6	-5.6	30.3

- concerns about drought have been well and truly washed away;
- the housing market seems to be stabilising;
- there are some signs of momentum developing in construction; and
- petrol prices have slumped.

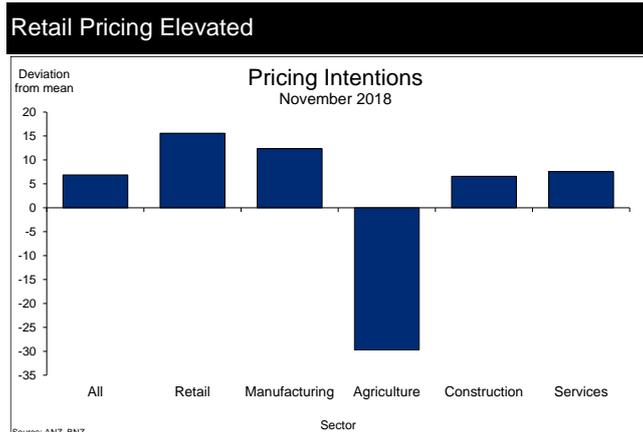
The regional variation in own-activity expectations was interesting. Sentiment in Auckland and Wellington was actually fairly buoyant but Canterbury was outright miserable. We think the latter has a lot to do with growth coming under significant downward pressure as post-earthquake building activity declines. The presence of mycoplasma bovis in the region wouldn't have helped either.

We were particularly heartened to see the significant bounce back in construction expectations, both residential



and commercial, that was reported in the survey. These series had been dropping sharply for several months and were starting to seriously question our optimism for the sector. Had they kept falling we might have felt obliged to take a knife to our investment forecasts and, in turn, our GDP projections. Today's jump has allayed our fears, at least for now.

Our other key concern is that inflation will surprise on the upside as business margin pressure converts to selling price increases. Our fears were neither ameliorated nor heightened by the November survey. There's still plenty of upward pressure on prices but no smoking gun for a rate increase. On balance price indicators were relatively unchanged. Pricing intentions were down a bit, inflation expectations up a bit. Both were still consistent with CPI inflation pushing above 2.0% but no more so than previously. That said, we continue to be wary that the inflation expectations and pricing intentions of the retail sector remain elevated. This is important given the weighting of the retail sector in the CPI. Inflation expectations in the retail sector rose to 2.50%, the highest reading since October 2014. And a net 42.4% of respondents believe that selling prices will increase. The two month average of 45.7% is the highest since August 2008.



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