

(Most) Businesses Shake Some of Their Gloom

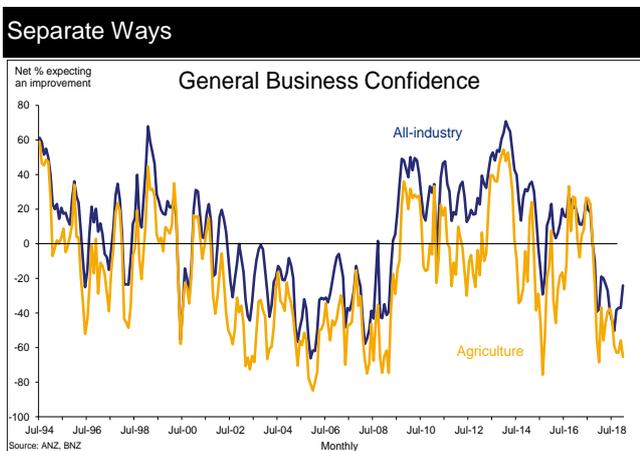
- **Business confidence and expectations lift**
- **In spite of a more-negative agriculture sector**
- **Inflation gauges moderate**
- **But not in areas key for CPI inflation**

It was not even three weeks ago that November's ANZ business survey was published. So we would have understood if today's update for December didn't change all that much. But it did. And it did so not only in a headline sense – in the direction of improvement – but also in its finer details. The sense of hope in today's survey would have been all the more obvious, had agriculture not gone off on a more negative tangent. And while the survey's inflation gauges moderated, as an aggregate, the bits more relevant to CPI inflation stayed strong.

Starting with the headline results, net confidence wriggled up to -24.1 in December, from -37.1 in November. And this was in spite of agriculture's reading sagging even further, to -65.4 (from -55.9).

Agriculture wasn't a drag on the aggregate own-activity expectations variable, which lifted to +13.6, from +7.6 last month (still signalling GDP growth under-performing our near-term forecasts, but less obviously now).

However, agriculture did tend to lag in most of the other activity categories. Most notably in this regard, agriculture's profit outlook sank to -48.3, from -30.6 in November. The recent lowering in milk price forecasts for this season would not have helped. Nor the recent upward move in the currency (after a period of moderation).



ANZ Bank Business Outlook				
Net balance - next 12 months				
(All sectors)	December	November	Change	Average
General business outlook	-24.1	-37.1	13.0	9.2
Own business	13.6	7.6	6.0	27.3
Profits	-6.2	-13.5	7.3	9.6
Employment	7.4	2.2	5.2	8.5
Investment	3.6	-4.1	7.7	13.7
Pricing intentions	23.9	28.2	-4.3	21.3
Inflation expectations	2.15	2.29	-0.14	2.59
Exports	14.9	8.3	6.6	29.7
(Own activity outlook)				
Retail	1.9	0.0	1.9	24.5
Manufacturing	9.1	11.3	-2.2	28.9
Agriculture	10.3	5.7	4.6	22.7
Construction	22.2	22.2	0.0	19.5
Services	17.0	7.0	10.0	30.3

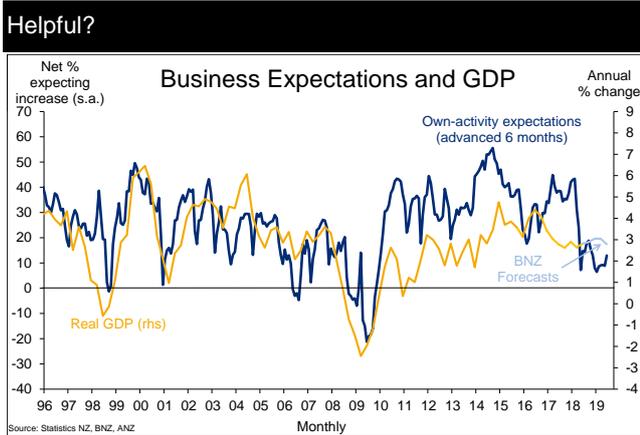
However, we also wonder if there is a more general sense of coming off peaks that is influencing agriculture sector respondents to this ANZ survey. While growing conditions over the last month or so have remained favourable, by and large, some commodity export prices are not as strong as they were.

Then again, dairy prices wriggled higher at the last Global Dairy Trade auction. And we expect another moderate gain in the auction to be held overnight.

Abstracting from the rural aspect, the remainder of the ANZ survey expressed a more assured improvement in net confidence (less pessimism), and a more positive tone with respect to employment and investment.

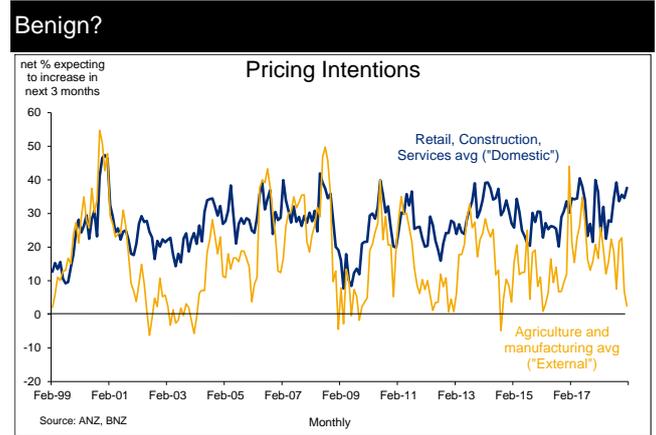
This was underlined by a further increase in residential construction's outlook variable. This bounded to +33.3, having already bounced strongly to +29.2 in November, after its now curious-looking drop to just +4.5% back in October (which had a few people worried). Commercial construction also remained well clear of its big soft spot in October (-23.8), with +9.5 in December.

As much as today's ANZ survey might have started running to the rescue of our middling macro-economic forecasts, it also registered a cooling in its inflation gauges. General inflation expectations, for example, slipped to 2.15%, from a proximate high point of 2.29% in November, while pricing intentions eased to +23.9, from +28.2.



However, like for the real-economy variables, it pays to delve into the detail of this. This revealed that the drop in inflation expectations was very much concentrated in the retail sector; but also that the retail sector lifted its own-pricing intentions to +46.2, from an already-high +42.4 in November.

This, along with stronger pricing intentions within construction (+44.4) and a +22.3 reading from services firms, suggested still-strong upside pressure on prices more relevant to the CPI. In contrast, pricing intentions in manufacturing eased further, to +19.7, and, more significantly in agriculture were still running negatively, at -14.8.



Even taken at headline value, the inflation expectations and pricing variables in today's ANZ business survey were consistent with annual CPI inflation running above 2%, just less obviously so.

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