Is The Business Struggle Finding a Floor?

- ANZ business survey still broadly discouraging
- As retailers spoil flickers of repair in other areas
- Firmer pricing intentions steady at 1.62%
- No swinger here for views on the RBNZ
- RBNZ shouldn’t cut in Nov. but probably will

If it wasn’t for retailers, today’s ANZ business survey would have arguably shown a degree of repair, rather than the overall torpor it tended to reiterate.

Yes, there was a rebound in confidence. But only of sorts, with a net reading of -42.4 for October, from the 11-year low it slumped to in September, namely -53.5. So big ups, as they say, but to a still-very-weak level.

Own-activity expectations slipped to -3.5, from -1.8. While this was a marginal change (and more like unchanged when seasonally adjusted) it still sends a clear message that annual GDP growth will continue to slow, from its recent 2% or so.

But the revelation in today’s survey was really how retailers were beginning to stand out in their negativity, while other sectors, by and large, were showing signs of finding a footing, even recovering a bit.

Amongst retail respondents; activity expectations slumped to -18.5 (from -1.9 in September), profit expectations took a dive to -43.6 (from -30.9), as cost indicators strengthened to 64.3 and pricing intentions came back to 30.4, while employment intentions crashed to -27.3 (from -1.8 in September).

This obviously makes it important to monitor and understand any information to do with the retail sector and, by implication, the household sector.

While there were flickers of rebound in other industries (albeit with agriculture still curiously downbeat despite strong export prices), there was a clear fight back in the construction sector’s outlook.

The residential outlook in this afternoon’s ANZ survey recovered to -5.3, from -19.2, while for commercial found a footing at flat, after skidding to -12.5 last month. To be sure, they still warn of a slowdown in the sector over the medium horizon. However, we also can’t ignore the messages from this morning’s building consents, that building activity could well pick up speed for the meantime (resources able and willing, that is).
Regarding inflation, there was also mixed news in today’s ANZ survey. Inflation expectations, regarding the overall economy, stabilised at 1.62%, from 1.63%. But in doing so they obviously remained below the 2.00% that the RBNZ would prefer to see (in an ideal world).

Pricing intentions, however, bounced back up to +23.6, having eased to +18.0 in September. This is broadly consistent with annual CPI inflation running at or slightly above 2% per annum (consistent with the pick-up we expect into early 2020). And this inflation message gets stronger when considering retailing pricing intentions, while lower, were still relatively strong at +30.4, while construction’s were still strong at +27.9, and services’ firmed to +23.0.

All things considered, however, today’s survey shouldn’t change anyone’s view on the economy and/or monetary policy. While there were hints of stabilisation, it was mostly in the sense of getting no worse, rather than looking encouraging in any respect. And while most industries had elements of repair (and notably so in construction) it was dampened by the retailing sector, which is also not a good look around the consumer sector.

Of course, there are some diverging views emerging now, about whether the Reserve Bank (committee) will cut its Official Cash Rate a further 25 basis points next month, to 0.75%. Markets were feeling locked and loaded on this a couple of weeks ago, but are now about fifty-fifty on it.

To be sure, the local data have not given much (any?) evidence that the economy is slowing in a material way. And we continue to argue that the Reserve Bank probably shouldn’t be cutting its cash rate as much as it is.

However, as for what we think the Reserve Bank will do, we have the following to keep in mind. If the Bank is to be consistent with the decision framework it has outlined, it will surely feel compelled to ease policy further, at some stage, to the extent GDP growth undershoots its current expectations, as we think it surely will. Today’s business survey, for all its flicker of finding a floor, still casts a pall in this respect.

And so we stick with our view the Bank will probably cut again next month. If it doesn’t, we’ll be tempted to just shift our two-more cuts into February and May of next year then wait to see if, against the odds, an economic rebound provides a stay of execution. This presumes the Bank doesn’t reinvent its framework of reasoning in the meantime, of course – next month’s Monetary Policy Statement included.

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