Business Clouds Lighten

- Businesses much less pessimistic in Nov.
- Activity expectations reclaim some positivity
- As retail and agriculture bounce back the most
- Inflation gauges broadly middling
- Reinforcing our view of an on-hold RBNZ

**ANZ Bank Business Outlook**

<table>
<thead>
<tr>
<th>Net balance - next 12 months</th>
<th>Nov</th>
<th>Oct</th>
<th>Change</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>General business outlook</td>
<td>-26.4</td>
<td>-42.4</td>
<td>16.0</td>
<td>7.8</td>
</tr>
<tr>
<td>Own business</td>
<td>12.9</td>
<td>-3.5</td>
<td>10.4</td>
<td>26.6</td>
</tr>
<tr>
<td>Profits</td>
<td>-5.0</td>
<td>-21.2</td>
<td>16.2</td>
<td>8.7</td>
</tr>
<tr>
<td>Employment</td>
<td>3.2</td>
<td>-9.4</td>
<td>12.6</td>
<td>8.1</td>
</tr>
<tr>
<td>Investment</td>
<td>5.6</td>
<td>-5.5</td>
<td>11.1</td>
<td>13.2</td>
</tr>
<tr>
<td>Pricing intentions</td>
<td>23.8</td>
<td>23.6</td>
<td>0.2</td>
<td>21.4</td>
</tr>
<tr>
<td>Inflation expectations</td>
<td>1.72</td>
<td>1.62</td>
<td>0.10</td>
<td>2.57</td>
</tr>
<tr>
<td>Exports</td>
<td>1.2</td>
<td>-0.4</td>
<td>1.6</td>
<td>29.0</td>
</tr>
</tbody>
</table>

We are sure we weren’t alone in sniffing an improvement in this afternoon’s ANZ Business Outlook survey. But we certainly didn’t expect as big a bounce as it posted. Net confidence grappled all the way back to -26.4 in November, from -42.4 in October.

More importantly, own-activity expectations shot up to +12.9, from the -3.5 level they sank to last month (which, recall, was the lowest in 10 years). While they are still clearly below their long-term norm (of +26.5) it’s a big move in the right direction. As such, activity expectations are much less confronting to our view that GDP growth will trundle along at around 2% per annum, close to trend.

To be sure, it was a patchy recovery in November’s business survey. For whatever reason, retailers logged a monumental lift in confidence, which was instrumental in driving the overall business confidence up so much this month. Retail was also important in pushing activity and profit expectations up, as this sector went from being the abject laggard in October to more mid-pack in November.

Having said this, agriculture also posted a notable bounce in November. While commodity exports prices are supportive of this, this has been true for many months now. So we also wonder if this is the agriculture industry expressing relief in government’s recent decision to allow it to self-manage its greenhouse gas emissions, rather than necessarily having to enter the Emissions Trading Scheme as previously envisaged.

On the inflation side, business pricing intentions were virtually unchanged in November, at +23.8. This remains consistent with CPI inflation getting to or above 2% before too much longer...just as we forecast. And the industry detail pointed to something stronger still even higher, with the more CPI-relevant areas of retailing (+38.3), construction (+26.8) and services (+21.3) collectively outpacing manufacturing (+22.2) and agriculture (+11.4).

The survey’s inflation expectations variable nudged up to 1.72%, from 1.62%. While this is still below the 2.00% ideal, in terms of RBNZ inflation aims, it’s obviously less of a niggle than it was. At its November Monetary Policy Statement the Bank did not sound especially concerned about nearer-term inflation expectations gauges anyway. Rather, it emphasised medium-term issues as becoming more relevant to policy considerations now, especially as they related to the global economy. The Bank expected the near-term domestic data to be a bit soggy.

All in all, it was a very nice relief rally in today’s business survey. While the RBNZ might well see this as evidence of monetary policy working, many others might argue that the Bank’s recent pause in its policy plunge — since its August shock ease of 50bps – has calmed nerves out there in the business sector.

Either way, today’s ANZ survey reinforces our view that the NZ central bank is on hold for the foreseeable future, albeit while monitoring risks it might have to ease further at some stage down the track.

**Quite The Bounce**

![Graph showing business outlook and own activity](craig_ebert@bnz.co.nz)
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