Pessimism Wilting

• ANZ business survey consistent with economy growing at potential
• Employment expectations suggests full employment will be maintained
• Manufacturing industry a surprise bolter
• Consumer confidence edges higher too
• RBNZ can sit firmly on its hands

It would be a stretch to suggest that businesses in New Zealand are optimistic about their lot but it is fair to say they are getting less pessimistic by the day. This being the case, the need for extra “help” from either the fiscal or monetary authorities can be considered to be in decline.

Given the significant jump in last month’s ANZ Business Survey confidence reading, it would have been reasonable to assume some sort of reversal in December. But there was nary a sight of this. The key own activity indicator jumped from 12.9 to 17.2. Seasonally adjusted the reading was unchanged but unchanged at a level that remained consistent with an economy growing at around a 2.5% pace. This is a far cry from the results reported in each of the three months to October which all intimated the expansion could slump to a sub 1.0% level.

A notable feature of this survey was the big uptick in optimism from the manufacturing sector which seems to have been driven by a significant increase in export expectations. This, in itself, may be some indication that early signs of a stabilisation in the global outlook may be accurate.
Employment expectations solid

With potential growth in the economy also sitting at around the 2.5% mark, the survey, generally, suggests inflation should head towards the RBNZ’s target midpoint. Inflation expectations at 1.76% remain well below that target but they do appear to be trending upward. Similarly, pricing intentions appear to be moving higher despite a rather peculiar slump in construction pricing intentions. So great is the fall in this measure that construction pricing intentions are now at their lowest level since July 2012. But July 2012 was a one off and you have to go all the way back to September 2005 to find readings consistently below the current level.

Construction inflation falling?

And it’s not only business confidence that is holding up. This morning’s Westpac McDermott Miller consumer confidence reading rose on both an actual and seasonally adjusted basis. Again the level is a tad below average but the near term trend is sufficient to allay fears of imminent economic collapse.

On balance then, we see today’s survey data as more reason to be comfortable with our forecasts that the economy is muddling along relatively nicely for the time being. And from a markets’ perspective, they provide further weight to our view that there is absolutely no urgency for the RBNZ to contemplate lowering its cash rate.

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