

19 December 2017



## The Problem With Confidence

- ANZ business survey recovers a tad in December
- Even with a still-weakening view from agriculture
- Inflation gauges hold to their November spikes
- Meanwhile consumer confidence losing its buffer

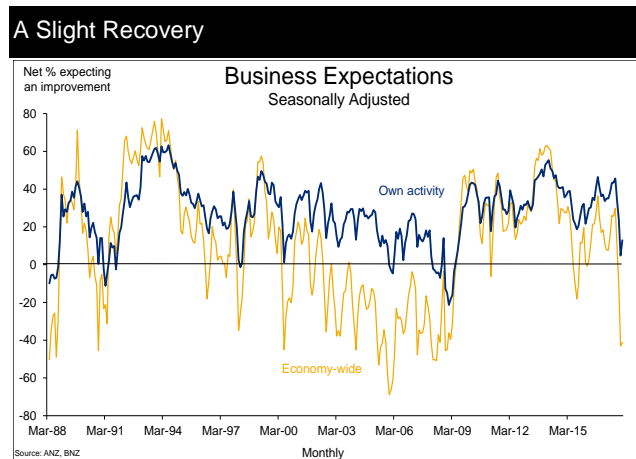
After it fell off a cliff in November, the ANZ business survey rebounded a bit in December, for the most part. However, it's worth pointing out that the recovery in its headline figures was frustrated by a still-weakening view amongst agriculture respondents.

To be sure, overall, December's survey remained decidedly weak. We still believe this reflects an over-reaction on the part of the NZ business sector to the new government. The robustness of the PMI and PSI readings for November support this idea. Still, the ANZ business survey has some ways to recover – including in its more-important activity indicators – before we can feel confident in this judgement. Meantime, we'll continue to play the growth forecasts conservatively for over the near term.

As for its headline results, this afternoon's ANZ business confidence came in at -37.8, from the -39.3 it collapsed to in November (all compared to -10.1 in October and zero in September). This was in spite of rural respondents registering net confidence (in the general economic outlook) of -68.5, from the -55.3 it had sagged to in November.

Agriculture also exerted a bigger drag, compared to last month, with respect to the survey's activity gauges. For example, its own-activity outlook withered to +5.2 in December, from +21.0, whereas for every other industry it recovered a decent amount, to a range of +14.0 (retailing) to +21.7 (manufacturing).

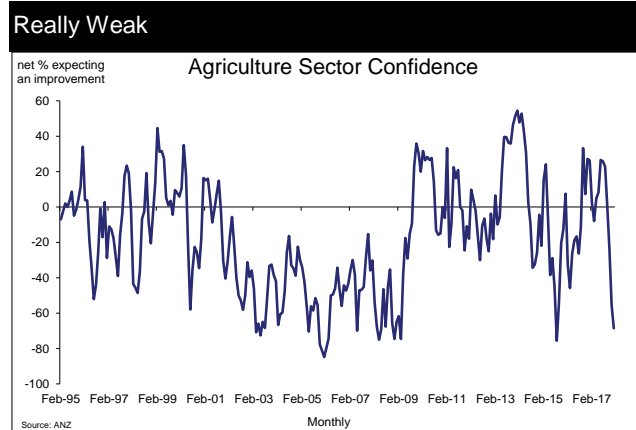
ANZ Bank Business Outlook				
Net balance - next 12 months				
(All sectors)	Dec	Nov	Change	Average
General business outlook	<b>-37.8</b>	<b>-39.3</b>	1.5	11.1
Own business	<b>15.6</b>	<b>6.5</b>	9.1	27.8
Profits	<b>-3.2</b>	<b>-12.5</b>	9.3	10.4
Employment	<b>2.5</b>	<b>-2.7</b>	5.2	8.7
Investment	<b>2.9</b>	<b>3.6</b>	-0.7	14.2
Pricing intentions	<b>29.1</b>	<b>30.9</b>	-1.8	21.1
Inflation expectations	<b>2.25</b>	<b>2.34</b>	-0.09	2.61
Exports	<b>13.2</b>	<b>13.2</b>	0.0	30.4
(Own activity outlook)				
Retail	<b>14.0</b>	<b>-14.3</b>	28.3	25.4
Manufacturing	<b>21.7</b>	<b>4.6</b>	17.1	29.6
Agriculture	<b>5.2</b>	<b>21.0</b>	-15.8	23.2
Construction	<b>20.0</b>	<b>14.3</b>	5.7	19.6
Services	<b>15.8</b>	<b>10.6</b>	5.2	30.9



It was a similar story with respect to investment, employment, and profits – where agriculture became more of a drag while others were largely successful in shaking part of their torpor.

The rural non-rural split is also something to bear in mind for the next NZIER Quarterly Survey of Business Opinion (QSBO), due 16 January. As it doesn't survey farmers – not directly anyway – it could look not quite as weak as today's ANZ business survey. The passage of time, since the affirmation of the new government, might also soften the dents that the next QSBO records.

While today's ANZ business survey hints at less consternation, compared to November, it is not to deny that agriculture is running into some genuine headwinds. The negativity in agriculture is understandable on the basis of the weather alone – as wet weather during the winter morphed into an extreme dry throughout



November and into December. Meanwhile, Fonterra has affirmed a lower milk price forecast. The negativity about the way forth might also be compounded by the strong starting point for much of the farming sector, which was going to be hard to build on with any vigour.

Overall, own-activity expectations improved to +15.6, from +6.5 (with its long-term average being +27.7). When we seasonally adjust this series we judge a level of +12.9, from +4.8. This signals slow, rather than very low, GDP growth. But to keep a glass half full approach, we would prefer to see the employment and investment gauges in the ANZ survey become decidedly more positive than they were in December.

While activity expectations remain relatively slow the ANZ survey's inflation gauges in December largely held to the spikes they registered in November. Specifically, general inflation expectations were 2.25%, compared to 2.34% in November and 1.93% in October. Own pricing intentions stuck at +29.1, from +30.9 in November and +20.2 back in October. Excluding agriculture, the average for November was +37.0. These results bolster the odds of seeing annual CPI inflation running as close to 2.0% as we forecast, but with some upside risk.

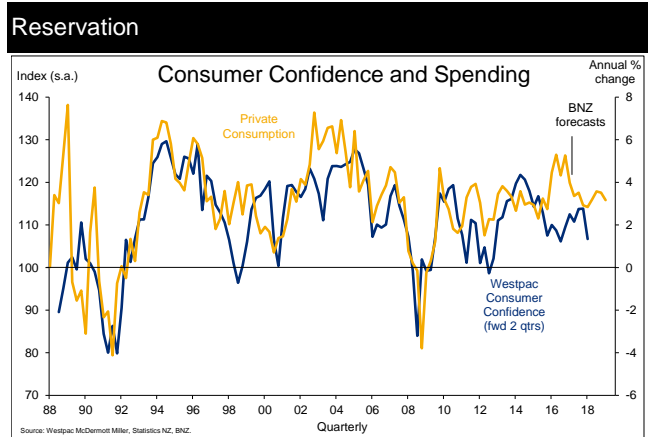
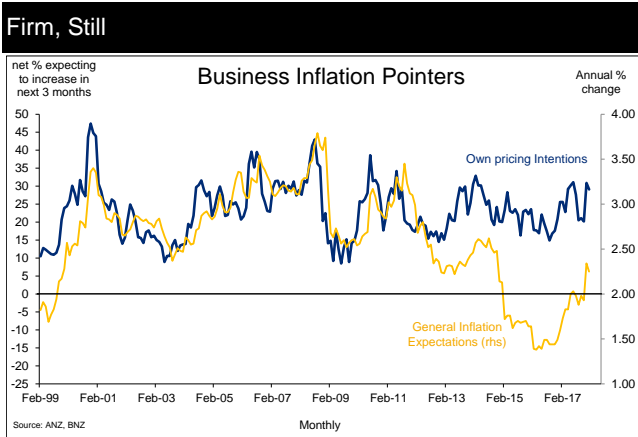
Meanwhile, consumer confidence continues to lose its buffer. As published this morning, the Westpac McDermott Miller (WMM) index of consumer confidence

slipped to 107.4 in December, from 112.4 back in September. This was disappointing, particularly as it usually gets a lift on seasonal grounds in Q4 (all else equal). When we seasonally adjust the index we get 106.7, from 113.8. This is a bit below average, from being a tad above average three months ago.

Westpac suggested the new government is behind the dip in consumer confidence, with reference to the bigger drop witnessed in higher-income households whereas confidence amongst lower-income households increased a tad. The new government, of course, will be cancelling National's "tax cuts" (more correctly, these were to be increases in tax rate thresholds, to help reverse "fiscal creep") while funnelling more money directly into lower income households, particularly those bearing children.

But then Westpac went on to note that, by way of age group, confidence subsided the most amongst 18-30 year-olds. This was thought by some to be the "youth-quake" cohort that helped get Labour into government, especially with its policy of free post-secondary study for first-timers in their first year. So that this age-group isn't carrying the torch of confidence, is interesting.

Whatever the true driver of the fall in consumer confidence, post the election, it certainly injects a note of caution into near-term growth forecasts. So too does today's ANZ business survey, even with its slight claw-back in December.



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