

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

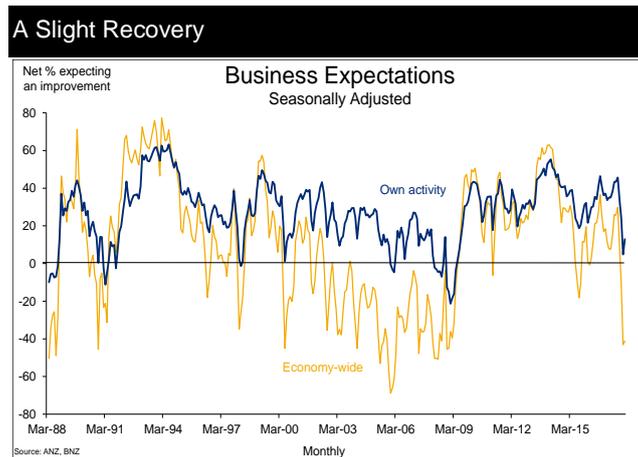
After it fell off a cliff in November, the ANZ business survey rebounded a bit in December, for the most part. However, it's worth pointing out that the recovery in its headline figures was frustrated by a still-weakening view amongst agriculture respondents.

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).

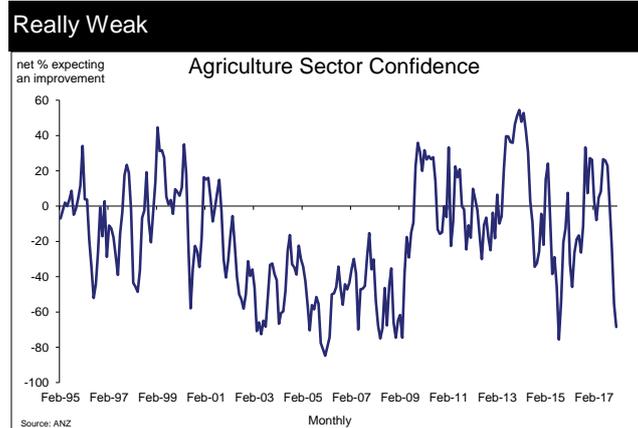
ANZ Bank Business Outlook				
Net balance - next 12 months				
(All sectors)	Dec	Nov	Change	Average
General business outlook	-37.8	-39.3	1.5	11.1
Own business	15.6	6.5	9.1	27.8
Profits	-3.2	-12.5	9.3	10.4
Employment	2.5	-2.7	5.2	8.7
Investment	2.9	3.6	-0.7	14.2
Pricing intentions	29.1	30.9	-1.8	21.1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

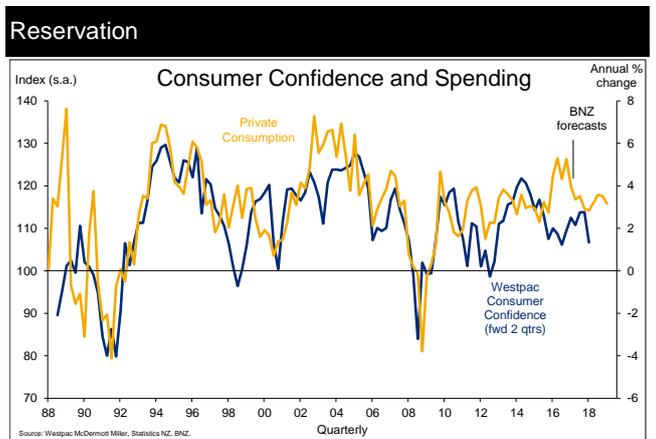
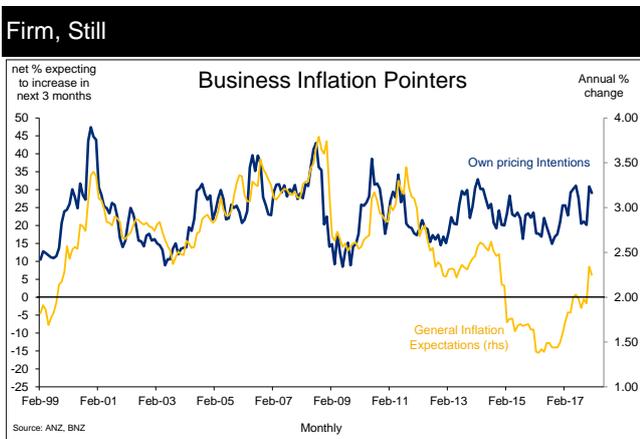
Meanwhile, consumer confidence continues to lose its buffer. As published this morning, the Westpac McDermott Miller (WMM) index of consumer confidence

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.



Craig_Ebert@bnz.co.nz

Contact Details

BNZ Research

Stephen Toplis

Head of Research
+64 4 474 6905

Craig Ebert

Senior Economist
+64 4 474 6799

Doug Steel

Senior Economist
+64 4 474 6923

Jason Wong

Senior Markets Strategist
+64 4 924 7652

Nick Smyth

Interest Rates Strategist
+64 4 924 7653

Main Offices

Wellington

Level 4, Spark Central
42-52 Willis Street
Private Bag 39806
Wellington Mail Centre
Lower Hutt 5045
New Zealand
Toll Free: 0800 283 269

Auckland

80 Queen Street
Private Bag 92208
Auckland 1142
New Zealand
Toll Free: 0800 283 269

Christchurch

111 Cashel Street
Christchurch 8011
New Zealand
Toll Free: 0800 854 854

National Australia Bank

Peter Jolly

Global Head of Research
+61 2 9237 1406

Alan Oster

Group Chief Economist
+61 3 8634 2927

Ray Attrill

Head of FX Strategy
+61 2 9237 1848

Skye Masters

Head of Fixed Income Research
+61 2 9295 1196

Wellington

Foreign Exchange +800 642 222
Fixed Income/Derivatives +800 283 269

Sydney

Foreign Exchange +61 2 9295 1100
Fixed Income/Derivatives +61 2 9295 1166

London

Foreign Exchange +44 20 7796 3091
Fixed Income/Derivatives +44 20 7796 4761

New York

Foreign Exchange +1 212 916 9631
Fixed Income/Derivatives +1 212 916 9677

Hong Kong

Foreign Exchange +85 2 2526 5891
Fixed Income/Derivatives +85 2 2526 5891

ANALYST DISCLAIMER: The person or persons named as the author(s) of this report hereby certify that the views expressed in the research report accurately reflect their personal views about the subject securities and issuers and other subject matters discussed. No part of their compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the research report. Research analysts responsible for this report receive compensation based upon, among other factors, the overall profitability of the Markets Division of National Australia Bank Limited, a member of the National Australia Bank Group ("NAB"). The views of the author(s) do not necessarily reflect the views of NAB and are subject to change without notice. NAB may receive fees for banking services provided to an issuer of securities mentioned in this report. NAB, its affiliates and their respective officers, and employees, including persons involved in the preparation or issuance of this report (subject to the policies of NAB), may also from time to time maintain a long or short position in, or purchase or sell a position in, hold or act as advisors, brokers or commercial bankers in relation to the securities (or related securities and financial instruments), of companies mentioned in this report. NAB or its affiliates may engage in these transactions in a manner that is inconsistent with or contrary to any recommendations made in this report.

NEW ZEALAND DISCLAIMER: This publication has been provided for general information only. Although every effort has been made to ensure this publication is accurate the contents should not be relied upon or used as a basis for entering into any products described in this publication. Bank of New Zealand strongly recommends readers seek independent legal/financial advice prior to acting in relation to any of the matters discussed in this publication. Neither Bank of New Zealand nor any person involved in this publication accepts any liability for any loss or damage whatsoever may directly or indirectly result from any advice, opinion, information, representation or omission, whether negligent or otherwise, contained in this publication.

US DISCLAIMER: If this document is distributed in the United States, such distribution is by nabSecurities, LLC. This document is not intended as an offer or solicitation for the purchase or sale of any securities, financial instrument or product or to provide financial services. It is not the intention of nabSecurities to create legal relations on the basis of information provided herein.

National Australia Bank Limited is not a registered bank in New Zealand.