26 September 2017

Is It Nothing But Election Nerves?

- **Business survey finally showing election nerves?**
- **As its GDP growth signal slows to 3% from 4%**
- **Inflation pointers congealing near 2%**
- **August trade miss no big deal for us**
- **Q3 GDP and current account still looking up**

It looks like someone finally told the ANZ business survey that a tight election was afoot. Its net confidence tanked to zero in September, from +18 in August. But while this is a big fall, bear in mind the level is still majorly suppressed by seasonality this time of year. When we correct for this we get a net confidence reading of +14, which, while lower than August's +29, is higher than it was back in April +7. The long-term average is +11. So September's result is no disaster, or even a stalling, more a bit of temperance from a seemingly bullet-proof attitude over prior months.

Activity expectations also fell in September – to +30, from +38 – but still had substance under the hood too. In seasonally adjusted terms we judged this variable to be +36, from +45. This is still an OK number, consistent with annual GDP growth at or above 3% (so stronger than we are forecasting).

It was also encouraging that employment intentions held up, at +15. However, this, like a lot of the other activity sub-indices, is certainly off its peak flow of a few months ago (when everything was pointing to annual GDP growth of more like 4%).

Whether or not the building industry is following this tendency, the latest ANZ survey had mixed messages. When looked at separately, expectations around residential construction and commercial construction each lost a lot of gas. They were down to +18 apiece, having been +36 and +29 respectively in August. Yet the construction industry, as a whole, maintained a very expansive view on its forward activity – at +35, from +31 in August. Its historical norm is +20.

ANZ Bank Business Outlook

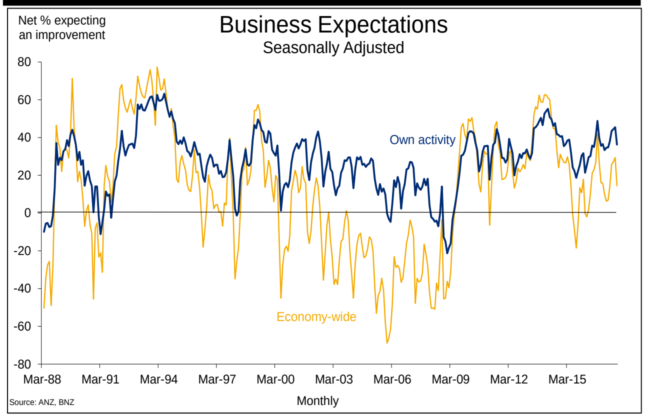
Net balance - next 12 months (All sectors)	Sep	Aug	Change	Average
General business outlook	**0.0**	**18.3**	-18.3	11.1
Own business	**29.6**	**38.2**	-8.6	27.8
Profits	**18.0**	**29.3**	-11.3	10.4
Employment	**15.1**	**17.1**	-2.0	8.7
Investment	**13.2**	**22.8**	-9.6	14.2
Pricing intentions	**21.1**	**20.5**	0.6	21.1
Inflation expectations	**1.98**	**1.88**	0.10	2.61
Exports	**24.5**	**26.8**	-2.3	30.4
(Own activity outlook)				
Retail	**15.7**	**28.3**	-12.6	25.4
Manufacturing	**21.7**	**38.0**	-16.3	29.6
Agriculture	**40.0**	**40.0**	0.0	23.2
Construction	**34.8**	**30.8**	4.0	19.6
Services	**29.6**	**39.3**	-9.7	30.9

On inflation, aggregate pricing intentions were broadly unchanged in this latest survey – at +21.1, from +20.5 in August. This was even with agriculture slipping very much to the rear, with +7, from +18. This is consistent with some commodity prices coming off their recent peaks, especially for beef exporters.

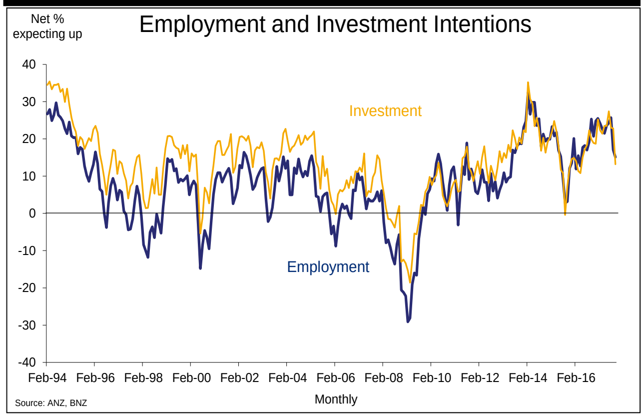
General inflation expectations, meanwhile, edged up to 2.0%, from 1.9%. This simply returned it to where it was back in July. At the same time it further cemented the series in the vicinity of where the Reserve Bank would prefer it, as opposed to the 1.4% level it dipped to during 2016.

But to think that this will put pressure on the Bank to unwind the precautionary easing it put in place, mainly in fear of slumped inflation expectations, would be to presume too much. Acting Governor, Grant Spencer, will

Off, A Little



Just a Hint of Caution



surely leave the Official Cash Rate untouched at 1.75% at Thursday's review, while also reiterating rhetoric along the lines of "monetary policy will remain accommodative for a considerable period."

For the most part, we are taking today's ANZ business survey as it finally acknowledging some of the risks around the election. And so it will be October's survey, perhaps even November's, before we will get a meaningful read on it. That there were some election nerves finally creeping into September's survey was consistent with the fact the confidence clearly fell across all of the industries.

The next big read on New Zealand's business sector will, by the way, be the NZIER's Quarterly Survey of Business Opinion. Just bear in mind that while it is published 3 October respondents will have filled out the forms in the weeks before the election.

What about this morning's merchandise trade figures for the month of August? While they were more than a little disappointing for the market they were not so much for us. They registered a deficit of $1,235m, compared to market expectations of $825m. This was principally the result of exports growing just 9% on a year ago, whereas the market was looking for nigh on 20% y/y.

We expected August's goods exports to be up 13% y/y, so the under- shoot, of about $100m in dollar terms, was more margin of error stuff for us. We believe there will be a bounce-back, of sorts, in September (there was certainly nothing in the recent ANZ business survey to put us off the scent, with its exports index remaining relatively robust, at +25, from +27 in August).

August's imports, meanwhile, came in very close to what we thought, with annual growth in value of 6.5%. While this was flattered a bit by oil, there were also no major transport items (read: sizable planes) to speak of for August.

So, while today's August trade data might have caught the market in the ribs, they were nothing to have us flinching in terms of our near-term views around GDP or the current account. Our expectation on Q3 GDP is that it expands about 0.7% (even with a pause for breath in merchandise export volumes, after the massive catch-up they posted in Q2). For the current account deficit, we still fancy the chances of it slimming even further in the year to September 2017 – to about 2.6 as a percentage of GDP, compared the 2.8% result for the year to June 2017.

The more interesting question, of course, is how the economy is going to do over the next year or two. That will partially depend on the form of the next government. One important issue for our forecasts, in this regard, is whether or not the personal tax relief, legislated to occur 1 April next year, will, in fact, occur, and what stimulus might take its place instead, and when? In the meantime, however, we take encouragement from the fact that recent business surveys, even facing government policy uncertainty, are signalling GDP growth at least as much as we currently anticipate.

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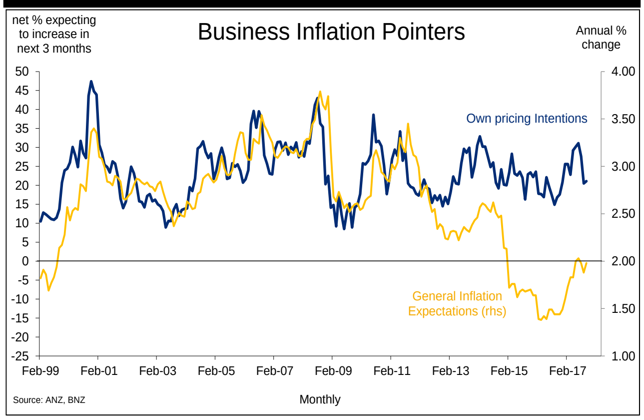
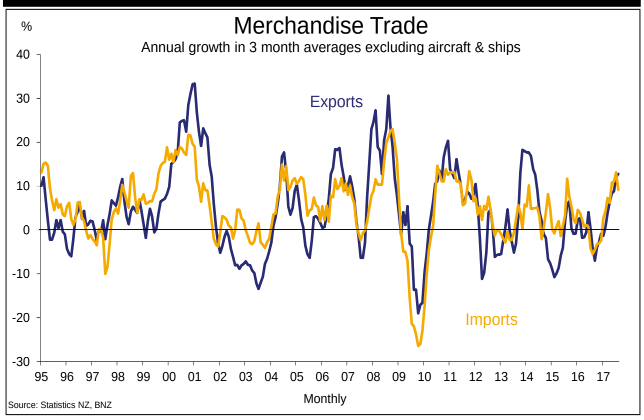
Not a Problem



Good On Both Counts



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