30 November 2017

# More Than Political Protest by NZ Firms?

- **ANZ business survey slumps majorly**
- **As it tends to do with Labour-led governments**
- **But reasons for genuine caution too**
- **Jump in survey's inflation gauges also an issue**
- **As NZD continues to abate**

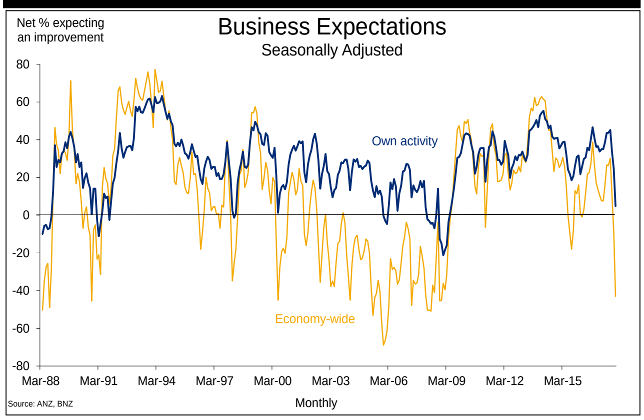
Well, well, well. What a big hole this afternoon's ANZ business survey fell into. Of course, the real question is the extent to which it simply reflects political protest about the new Labour-led government. Today's issue was the first to be canvassed entirely after the new government was announced (19 October). And the survey has a history of reacting very negatively to centre-left regimes, only for the economy to hold up, even look good.

On political considerations alone, we expected net confidence in today's ANZ business survey to fall, but not quite as much as it did. It dropped to -39.3, from -10 in October. Activity expectations were also weaker than we figured on, coming in at +6.5, from +22.2. The falls are more noticeable when we seasonally adjust the series, and the levels lower than the headline outcomes portray.

The role of some over-arching factor, such as politics, was consistent with the fact that the weakening, and outright weakness, was well spread across the ANZ survey, whichever way you sliced and diced it. Nothing else stood out as a heavily negative explanatory factor.

Politics noted, the extent of the drop in the ANZ survey, so soon, means we also need to wonder what might be bugging the business sector from a practical point of view too – whether by way of identifiable policy or anything else.

In the Red




| ANZ Bank Business Outlook | | | | |
|---|---|---|---|---|
| Net balance - next 12 months | | | | |
| (All sectors) | Nov | Oct | Change | Average |
| General business outlook | **-39.3** | **-10.1** | -29.2 | 11.1 |
| Own business | **6.5** | **22.2** | -15.7 | 27.8 |
| Profits | **-12.5** | **11.7** | -24.2 | 10.4 |
| Employment | **-2.7** | **14.2** | -16.9 | 8.7 |
| Investment | **3.6** | **12.3** | -8.7 | 14.2 |
| Pricing intentions | **30.9** | **20.2** | 10.7 | 21.1 |
| Inflation expectations | **2.34** | **1.93** | 0.41 | 2.61 |
| Exports | **13.2** | **20.0** | -6.8 | 30.4 |
| (Own activity outlook) | | | | |
| Retail | **-14.3** | **9.4** | -23.7 | 25.4 |
| Manufacturing | **4.6** | **22.2** | -17.6 | 29.6 |
| Agriculture | **21.0** | **17.7** | 3.3 | 23.2 |
| Construction | **14.3** | **31.5** | -17.2 | 19.6 |
| Services | **10.6** | **25.9** | -15.3 | 30.9 |

In this vein, it seems fair to say that some of the new government's policies will be a direct impost on private firms, especially those of small to medium size, and away from the major metropolis areas. The policy around the minimum wage is a good example of this. And we have certainly heard a great deal of concern about the ripple effects of this on business, amongst many others policy measures.

Another issue we wondered about was the suddenly dry weather. Yet agriculture respondents in today's ANZ survey had the strongest view on own-activity compared to all the others. If this is simply a timing issue, beware next month's survey in this regard. But there might well have been a creeping concern about a potentially lower Fonterra milk price forecast amongst rural respondents, given their profits expectations turned slightly negative this month.

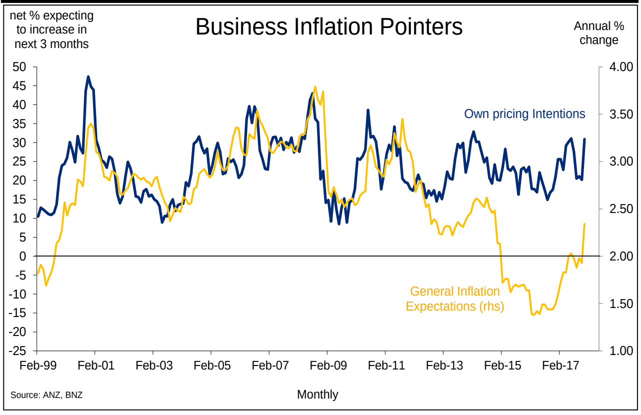
To be clear, we are not about to slash our economic growth forecasts – or anything else for that matter – on the basis of today's ANZ business survey. However, its latest readings definitely make us glad we have kept our GDP forecasts on the conservative side for the near term. As such, there seems further reason to question the strength of the Reserve Banks' latest GDP forecasts, as well as Treasury's (with an eye on its upcoming Economic and Fiscal Update).

But today's news is no reason to back off our story of inflation picking up - something that the inflation gauges in today's ANZ survey gave more life to, in fact. For example, own pricing intentions sprang to +30.9, from +20.2. And excluding the volatile agriculture component they averaged +37.7 in November, from +20.3 last month. Within this, retailers jumped to +34.6, from +15.1, while construction maintained the lead with a hefty +53.5, compared to +36.9 in October. This is something to watch for in the CPI.

General inflation expectations also strengthened noticeably in today's ANZ survey – to 2.34%, from 1.93% last month. This was a common theme across the various sectors rather than isolated to one or two. This, along with the behaviour in near-term pricing intentions, would seem consistent with the business cost pressures implied by new government policies, as well as the recent fall in currency (overlaid on an economy that is running at or near full capacity).

Speaking of which, NZD has fallen 30-odd pips on this afternoon's news – a measured fall, suggesting markets see the slump in this latest ANZ survey as the over-reaction to a Labour-led government that it probably (mostly) is. NZ wholesale interest rates hardly bothered

### Above Trend




reacting, at all. This might have had an eye on the inflationary messages of the ANZ to boot, which the currency leading the way on.

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