

31 March 2017

## Why the Reservation?

- Business optimism keeps abating
- But real-economy expectations stay solid
- And inflation pointers robust-to-rising
- Consistent with our macro views
- But inconsistent with a lagging RBNZ

Despite pointing to solid economic expansion, and firming inflation, respondents to this afternoon’s ANZ business survey lost a bit more confidence. Confidence fell to +11 on a net basis, from +17 in February and +22 back in December. Seasonally adjusted, we judge a level of +5 now, which is below the long-term average of around +11.

Yet respondents’ expectations for the main real-economy indicators remained quite strong. For the most part they projected an above-normal rate of expansion ahead. This made us even more confident that the slowdown we saw in Q4 GDP was transitory.

That said, there were some results and movements in the survey’s detail that deserve a mention. For example, while agriculture’s net confidence remained the worst of the bunch – dipping to -8, from +3 (and +26 in December) – it was retailers who registered the biggest drop in the month, of 17 points, to just +9. Yet retailers maintained a strong outlook for their own activity, at +33.

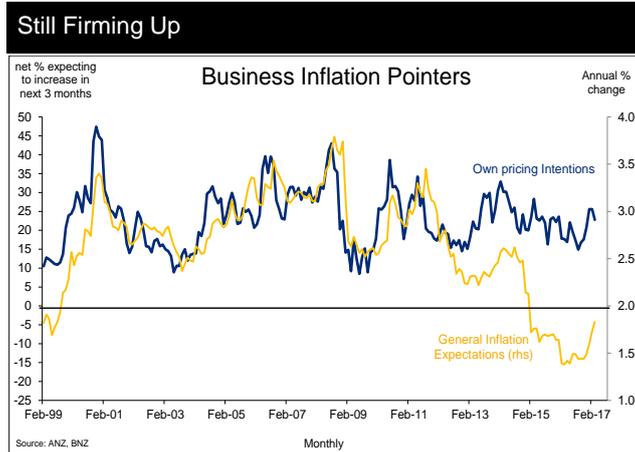
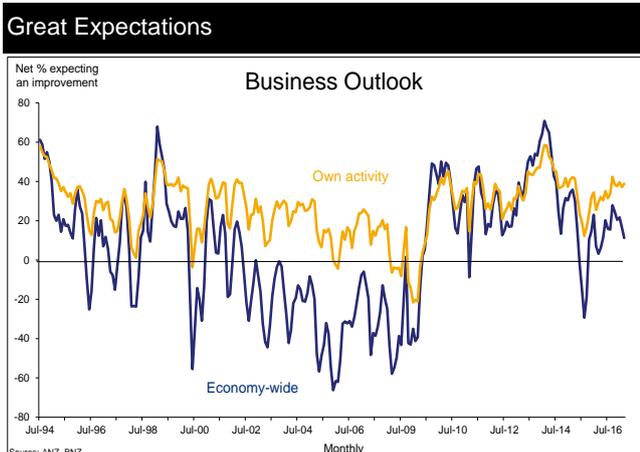
Construction’s activity expectations “slumped”, but from exceptionally strong readings over prior months. At +31 they’re still reasonably positive – consistent with ongoing growth in construction activity – whether in terms of residential or commercial work.

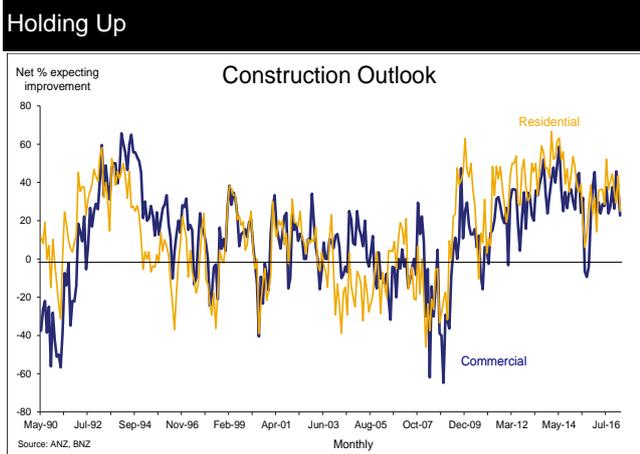
To be sure, recent building consents have not looked so good. However, the fear that they were rolling over has been allayed, to a large extent, by the 14% jump reported for February’s residential building consents this morning.

ANZ Bank Business Outlook				
Net balance - next 12 months				
(All sectors)	March	February	Change	Average
General business outlook	11.3	16.6	-5.3	10.9
Own business	38.8	37.2	1.6	27.4
Profits	23.4	23.7	-0.3	9.8
Employment	22.7	24.2	-1.5	8.2
Investment	21.4	22.3	-0.9	13.9
Pricing intentions	22.8	25.6	-2.8	20.9
Inflation expectations	1.83	1.73	0.10	2.64
Exports	30.2	20.6	9.6	30.5
(Own activity outlook)				
Retail	33.3	32.9	0.4	25.3
Manufacturing	50.0	33.9	16.1	29.4
Agriculture	35.0	26.2	8.8	22.8
Construction	31.1	62.1	-31.0	18.8
Services	37.0	36.6	0.4	30.6

Combining January and February, consents were 2.4% higher than a year earlier, despite a significant drag from Canterbury (that is likely to start abating through 2017). The value of non-residential building consents in February was 10.2% up on a year earlier, while smoothing through the past three months shows a gain of 8.6% on the corresponding period a year earlier. So the picture we’re getting is simply of less growth than we saw in 2016, rather than falling levels.

The other industry result that caught our eye in this afternoon’s business survey was that from manufacturing. Its own-activity expectation strengthened further, to a sizable +50, having been down at +23 toward the end of last year. This gives us confidence that the sector will post the rebound we expect of it in the early stages of 2017, after the drag it dealt to GDP growth in the December quarter of 2016. Our view is predicated on food processing bouncing back, after the weather-dampeners over last spring. Are manufacturing firms starting to see the same, perhaps?





Might inflation expectations even nudge above 2% over coming months? This notion is further supported by the fact that pricing intentions from today’s ANZ survey were +23, from +26. This remained consistent with annual CPI inflation regaining a “two handle” before too much longer.

With this, and a well-expanding economy, we again have to ask why the Reserve Bank is sounding so reserved with its Official Cash Rate at a record low. We suspect that next Tuesday’s Quarterly Survey of Business Opinion – in expanding upon the messages of today’s ANZ survey – will ask similar questions.

[craig\\_ebert@bnz.co.nz](mailto:craig_ebert@bnz.co.nz)

But the real story from today’s business survey, if you’ll pardon the pun, is about inflation. In particular, its inflation expectations variable continued to float back up, with 1.83%. This compares to 1.73% in February and 1.44% back in October. And this is before we get the Q1 CPI outcome, which we believe will show annual inflation already up to 2.1%, from 1.3%. This will put further upward pressure on inflation expectations, over a range of measures.

## 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

**Kymerly Martin**

Senior Market Strategist  
+(64 4) 924 7654

**Jason Wong**

Currency Strategist  
+(64 4) 924 7652

### Main Offices

**Wellington**

60 Waterloo Quay  
Private Bag 39806  
Wellington Mail Centre  
Lower Hutt 5045  
New Zealand  
Phone: +(64 4) 473 3791  
FI: 0800 283 269

**Auckland**

80 Queen Street  
Private Bag 92208  
Auckland 1142  
New Zealand  
Phone: +(64 9) 976 5762  
Toll Free: 0800 081 167

**Christchurch**

111 Cashel Street  
Christchurch 8011  
New Zealand  
Phone: +(64 3) 353 2219  
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**

Global Co-Head of FX Strategy  
+(61 2) 9237 1848

**Skye Masters**

Head of Interest Rate Strategy  
+(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.**