31 October 2017

Businesses Suffer Election Compunction

- **ANZ business survey softens noticeably**
- **Even before the change of government known**
- **But no sway on our views, especially re inflation**
- **Consents underscore building sector resurgence**
- **Lending more "support" to inflation outlook**

ANZ Bank Business Outlook				
Net balance - next 12 months				
(All sectors)	Oct	Sep	Change	Average
General business outlook	**-10.1**	**0.0**	-10.1	11.1
Own business	**22.2**	**29.6**	-7.4	27.8
Profits	**11.7**	**18.0**	-6.3	10.4
Employment	**14.2**	**15.1**	-0.9	8.7
Investment	**12.3**	**13.2**	-0.9	14.2
Pricing intentions	**20.2**	**21.1**	-0.9	21.1
Inflation expectations	**1.93**	**1.98**	-0.05	2.61
Exports	**20.0**	**24.5**	-4.5	30.4
(Own activity outlook)				
Retail	**9.4**	**15.7**	-6.3	25.4
Manufacturing	**22.2**	**21.7**	0.5	29.6
Agriculture	**17.7**	**40.0**	-22.3	23.2
Construction	**31.5**	**34.8**	-3.3	19.6
Services	**25.9**	**29.6**	-3.7	30.9

It was no great surprise to see this afternoon's ANZ business survey continue to soften, given the election backdrop. However, after accounting for seasonality, it was a bigger drop than we might have imagined. And this was before the new government was announced – meaning the first meaty judgement on this will come in November's survey. For now, we'll just take the wobble in confidence on board, while reassessing our macro-economic views in light of the new policies primarily.

In terms of its headline results, ANZ business confidence was down to -10, from the zero it flattened off to in September. Activity expectations eased to +22, from +30.

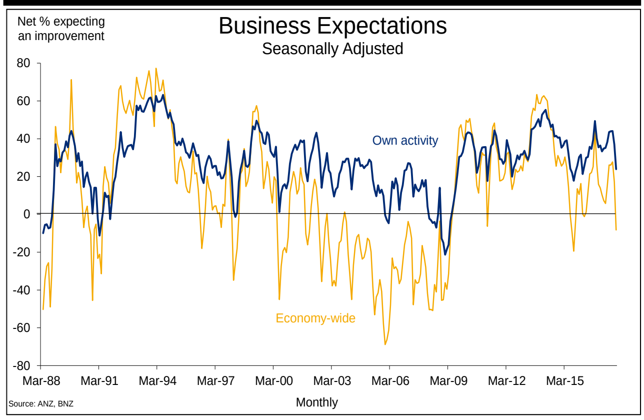
While these October levels are a pretty clean read on where things are at, bear in mind September's results were depressed, as usual, by seasonality. This means the deceleration between September and October is a lot more noticeable when looked at in seasonally adjusted terms. When we do this we get -8, from +17, in terms of net confidence and +24, from +37, in respect to activity expectations. And this follows a significant slowdown in September, compared to August (when things were unbelievably strong).

Sure, the election has no doubt impacted these results. But also note that this latest ANZ survey, while taken after the equivocal election night result, was conducted largely before Winston Peters declared that NZ First was going with Labour rather than the incumbent National. We can't vouch for the respondent base to this survey. However, our own dealings with the business sector in the lead up to the election left us with the distinct impression they expected National to stay in power.

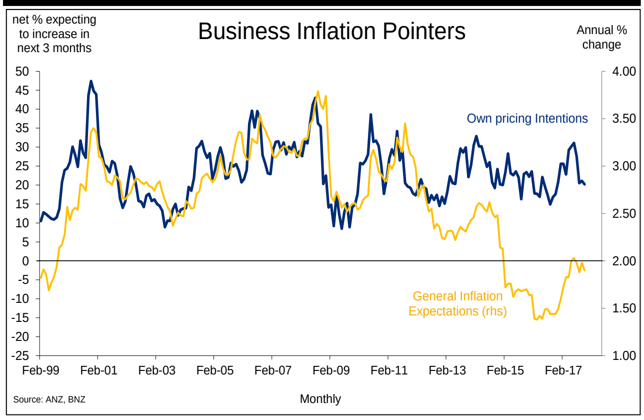
So we have to wonder how much softer the ANZ survey might become in its November edition, now that a Labour-led government is the new reality. We say this having seen this very business survey not react kindly to Labour-led governments in the past, albeit probably over-reacting in relation to how the economy actually panned out in general.

As for the survey's inflation expectations variable, this eased back to 1.9%, from the 2.0% it nudged up to in September. Pricing intentions edged down to +20.2, from

Very Much Off Peak



Steady



+21.1. This is margin of error stuff, really, but obviously no push higher into any sort of strong zone. This is even with the currency already well on the way down (albeit down further since the new government was announced).

While we haven't seen all of the detail of the latest ANZ business survey, what stands out is a robust outlook for construction. Expectations for residential construction booted up to +31 in October, from +18, while for commercial construction rocketed to +43, from +18.

As it happened, this was also the message from this morning's building consents. Sure, September's new dwelling consents fell a seasonally adjusted 2.3%. However, this proved a small correction, after gains in July and August of 3.2% and 5.9% respectively (Note that August's increase was revised down from its initially reported 10.2%, as Statistics NZ has employed a better seasonal adjustment technique to account for the timing of Easter…something to watch for in other monthly data. There was no revision in the actual consents series).

Compared to a year ago, new dwelling consent numbers were up 6%. The trend measures have rebounded very well, after weakness over the latter part of last year, especially when looking at the broader measures that include apartments and other non-house dwellings.

This is all the more encouraging in consideration of the election cycle, which might have otherwise excused any cagey looking results in consents. There are even signs that dwelling consents in Canterbury are beginning to stabilise now, having been on an abating path since peaking way back in 2014.

The trend in the value of non-residential building consents is, meanwhile, swinging up even more aggressively than it is for dwellings. This was indicated by the 10% annual growth when looking at September quarter values, and was hammered home by the 22% y/y expansion in non-residential consented floor-space, as a proxy for volume. The latter has been a massive turnaround in the space of twelve months.

Of course, given the lags in the consenting process, we'll be on the lookout for any election/political impacts on these data in the coming months. As mentioned, this afternoon's business survey actually got a lot stronger in this regard. But housing market activity and price trends will also be important to monitor in this context. If the house price party is, indeed, all over bar the shouting – perhaps cemented by the new government's policies – then we can imagine some builders/developers might have second thoughts about committing to building (as many?) homes, with uncertainty about how the market will be by the time they come to sell.

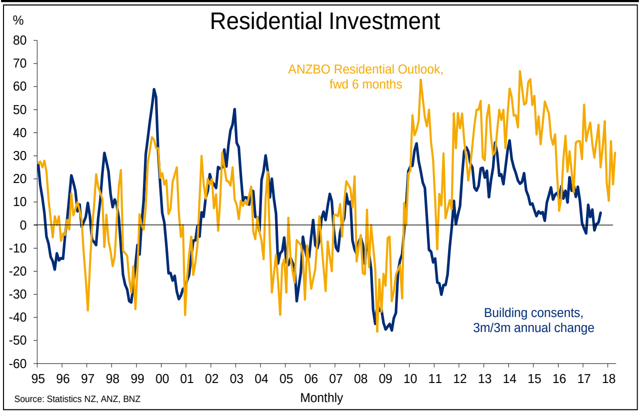
However, what we know for sure, for now, is that building consents have rebounded very strongly through the course of this year. This, in turn, supports our expectation that construction activity will return to being a boost for GDP growth, after being a drag in the accounts over H1 2017. This should sustain capacity pressure in the construction sector, which the RBNZ, in a way, "needs" to help achieve its 2% CPI inflation arithmetic.

The Bank admitted as much in the scenario it ran in its August MPS. This involved cutting the OCR further should capacity pressure related to consumption and residential investment activity not live up to expectations, thus generating less inflation (bearing in mind inflation in the home-building sector has averaged 5.1% per annum over the last 5 years, according to the CPI way of looking at this).

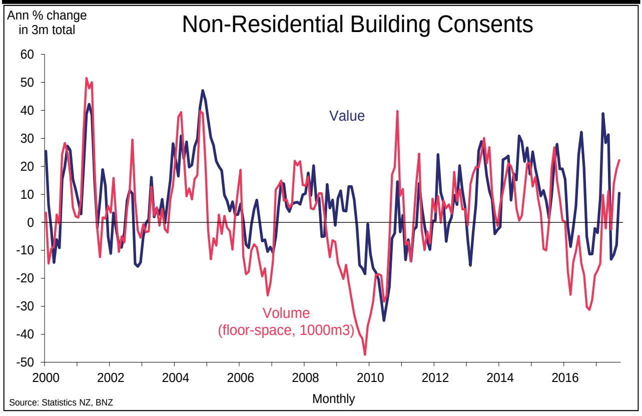
But this defined risk looks to be giving way to much broader upside risks around inflation, in our view. This is supported by not just the construction outlook but also the various policies being firmed up by the new government. And the inflationary consequences are not especially reliant on there being stronger GDP forecasts in store, simply that recent rates of growth are largely maintained.

craig_ebert@bnz.co.nz

Looking More Solid



Commercially Viable



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

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