

# ANZ BUSINESS OUTLOOK

## YES WE CAN!

August 2013

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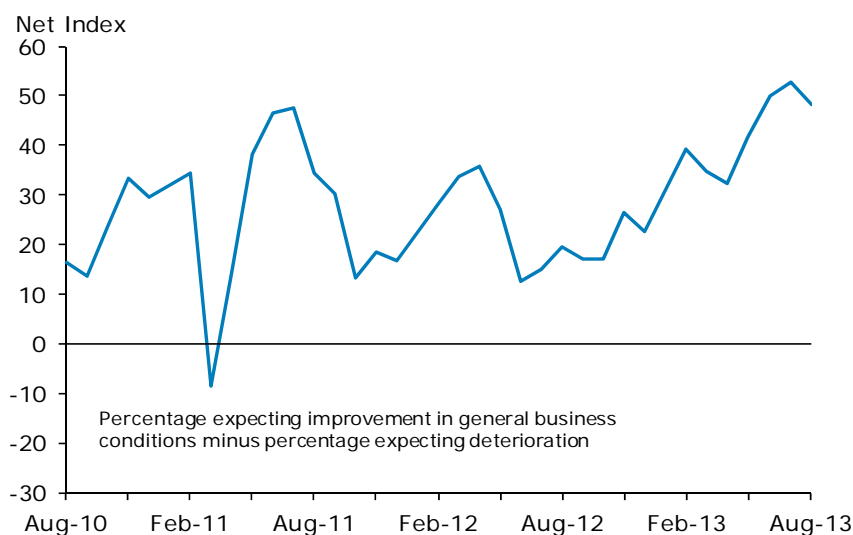
### SUMMARY

- Business confidence and the various components remain very elevated.
- Sentiment in every sector is well north of historical averages: that's a sign of a broad-based economic expansion.
- Pricing gauges stabilised after last month's lift: that's necessary if the RBNZ is to remain patient.
- Our composite indicator, incorporating consumer confidence as well, is pointing to just over 4 percent growth by the end of the year. We're not convinced the economy can grow that fast – certainly not sustainably – but it is still a symbol of an economy that's in a sweet spot.

**Business confidence eased 4 points, with a net 48 percent of respondents expecting better times ahead.** The depths of winter typically get people down, and our seasonally adjusted estimate showed no change. The message is clear: **there is a huge degree of optimism percolating across the economy.**

**Confidence is widespread.** Bob the Builder believes "Yes, we can!" – a net 72 percent of construction respondents expect better times ahead. While they are leading the charge, sentiment across all the major sub-sectors is well north of historical averages. That's a sign of an economic expansion (we're beyond recovery) that is becoming more widespread and broad-based.

### Business Confidence Index



Source: ANZ

**Firms' assessments of their own business situations remain perky.** A net 43 percent expect better times ahead. This is a key gauge: the general business environment is one thing; it's what is happening in firms' own arena that determines employment and investment plans. Once again the construction sector remains the standout (with sentiment the highest since March 1994!) and the other sub-sectors are well north of long-term trends.

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**We're seeing consistent strength across the survey.**

- **Profit expectations remain high.** They're down 4 points versus the month prior but at +25 are elevated.
- **Employment intentions are firming:** a net 18 percent expect an uplift (versus 16 in July).
- **Investment intentions** softened slightly but at +17 **remain elevated.**
- **Commercial construction investment intentions** surged to the **highest level since 1994.** The construction boom has more than residential legs.
- **Export intentions were unchanged,** with a net 24 percent expecting higher volumes over the year ahead.

**Pricing gauges stabilised after last month's lift.** That's a necessity if the RBNZ is going to remain patient. However, we are starting to see signals of capacity pressure, with capacity utilisation continuing to tick up, and a net 63 percent expecting capacity utilisation to rise in the construction sector. Note that this measure is a direction of change as opposed to a level of utilisation. However, the trend looks clear: with a construction pipeline come resource pressures.

**The Reserve Bank** has made it clear that they fully expect construction sector inflation, and indeed point out that it is necessary to steer resources to where they are required. In that light, they will not be alarmed by the rise in construction sector pricing intentions to their highest level in two years. However, they have made it equally clear that they **will not tolerate a spill-over from rising construction costs into broader inflation pressures in the economy.** **There is not much evidence of that yet, but it is early days.**

When we bundle the ANZ Business Outlook metrics together and combine them with the latest reading from the ANZ-Roy Morgan Consumer Confidence measure, **our composite growth indicator is signalling potential economic growth of just over 4 percent by early 2014.** We're not at all convinced the economy can grow that fast – at least not sustainably. We suspect it'll be more like a canter than a gallop in practice. Irrespective, we're still off to the races compared to our trans-Tasman neighbour and most of the developed world.

SURVEY RESULTS AUGUST 2013							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	48.1	52.8	41.1	31.4	36.3	71.9	56.3
Activity Outlook	43.3	43.7	41.4	41.4	33.3	68.8	46.4
Exports	24.1	24.2	41.7	22.7	23.5	28.6	34.3
Investment	17.3	20.2	19.0	10.0	15.6	15.6	21.0
Livestock	5.4	11.4	...	...	5.4	...	...
Capacity Utilisation	27.5	26.5	18.2	21.1	17.1	62.5	37.7
Residential Construction	55.6	59.1	...	...	...	55.6	...
Commercial Construction	52.0	43.5	...	...	...	52.0	...
Employment	18.1	16.3	13.8	17.4	0.0	45.1	22.0
Unemployment Rate	-21.8	-29.3	-3.5	-12.7	-11.1	-37.5	-37.2
Profits	25.0	29.0	17.2	17.1	29.5	43.8	28.1
Interest Rates	54.9	53.3	55.2	46.5	51.1	53.2	61.2
Pricing Intentions	28.6	29.6	31.0	27.2	24.4	43.8	26.1
Ease of Credit	-3.1	-2.7	-2.0	-8.2	9.5	-3.6	1.7
Inflation Expectations	2.33	2.36	2.27	2.34	2.25	2.64	2.33

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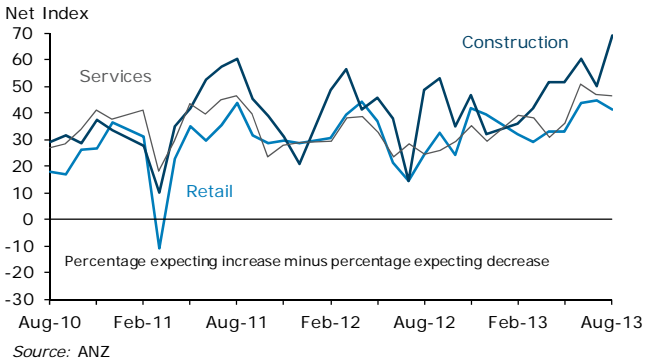
**Activity Outlook Index**



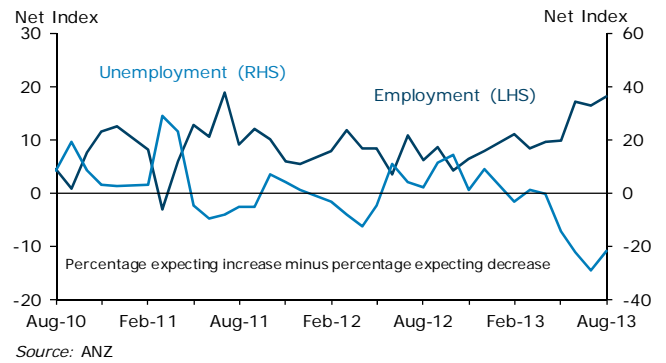
**Construction Intentions**



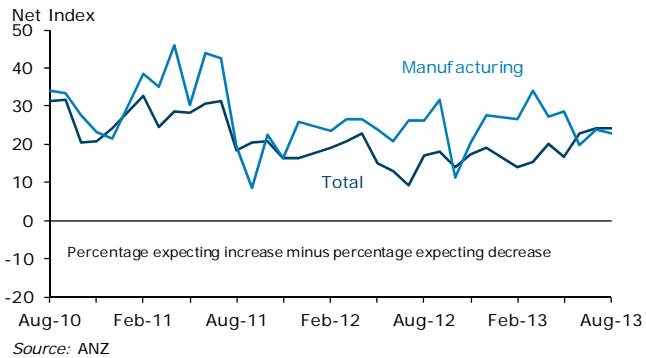
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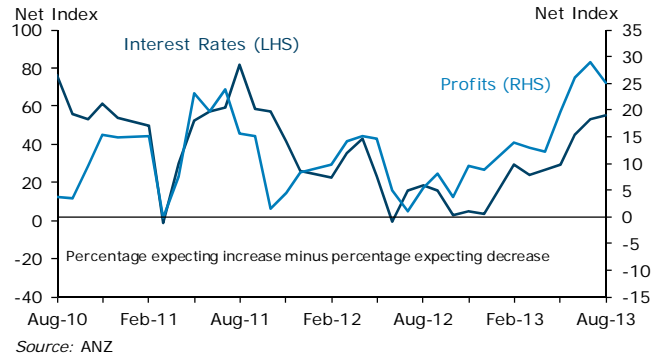
**Labour Market Outlook**



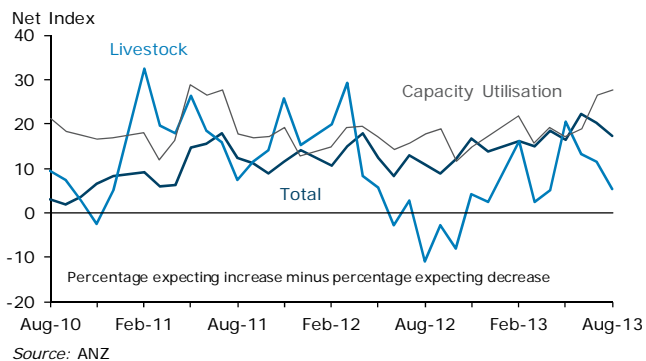
**Export Sales Volume**



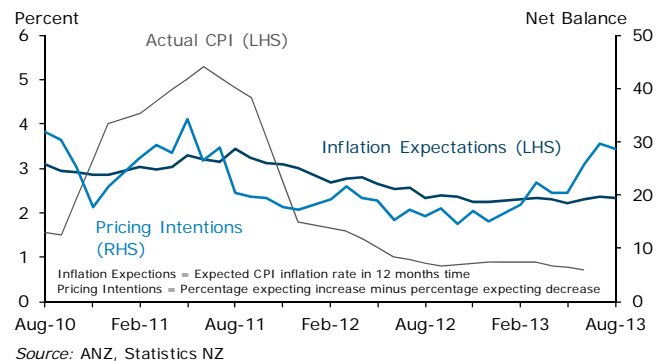
**Financial Outlook**



**Investment Intentions**



**Inflation Expectations**



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