

ANZ BUSINESS OUTLOOK

HI-DE-HI

September 2013

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SUMMARY

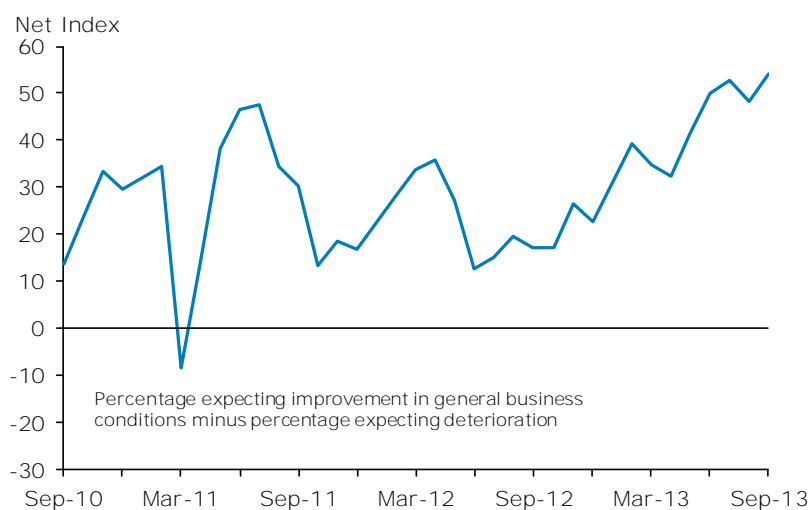
- Business confidence has risen to the highest level seen since March 1999.
- **It's a strong picture across the board**, both by sector and region.
- Our composite indicator, incorporating consumer confidence as well, is pointing to the potential for 3.8 percent growth by early 2014. We **don't** think the economy can sustainably handle that speed capacity-wise, **but it's** nonetheless a signal of strength.

Business sentiment is soaring. A net 54 percent of respondents expect better times ahead. **That's the highest reading since March 1999!** All the five major sub-sectors are incredibly chipper about their prospects.

The economic aeroplane is firing on all engines.

- Firms are extremely upbeat about their own prospects; a net 45 percent expect better times ahead.
- Profit expectations hit a 14-year high. **That's significant.** Making money is a precursor to investing and spending money.
- Employment and general investment intentions remain rock solid at +19 and +20 respectively.
- Residential and commercial construction intentions (+47 and +35) eased this month but remain high.
- Investment in livestock rose to the highest reading since August 1993!

Business Confidence Index



Source: ANZ

That's a collective picture of a full-blown economic expansion. We're long past "recovery". In this early stage of the expansion pricing gauges still look contained; one year ahead inflation expectations are still anchored at 2.3 percent. However, **the inflationary risks are starting to look one sided.** We're seeing more of a drift upwards in pricing intentions (a net 30 percent now expect to be raising prices). Pricing intentions in the construction sector have risen to the highest reading since December 1992.

ANZ BUSINESS OUTLOOK

Improving business sentiment has been shared across all regions, when compared to the same period a year ago. The urban areas are leading the charge. **In Auckland, our quarterly composite measure of business sentiment has lifted to its highest level in 18 years.** But **Canterbury is higher still**, with Wellington in third place. This regional depth gives us faith that New Zealand's expansion is not a one-trick pony.

When we bundle the *ANZ Business Outlook* metrics together and combine them with the latest reading from the *ANZ-Roy Morgan Consumer Confidence* survey, **our composite growth indicator is signalling potential economic growth of not far off 4 percent by early 2014.** We look at consumer and business confidence collectively because they represent both sides of the production-spending equation. Both need to be in alignment for the goods of one to end up being purchased by the other. We have that now, whereas we didn't see much of that between 2009 and 2012.

Economics is known as the dismal science, so let's ask the question what could go wrong? We still have a nervous eye on the global scene for one. Domestically, the (construction-centric) growth pipeline is massive: construction sector activity is projected to rise from 8 percent in 2012 to 11.5 percent of GDP by 2017. Something has to give to make that maths add up – it's simply too big a job for the country to be able to carry on with business as usual elsewhere. **New Zealand may simply not have the capacity on the supply-side to keep up, which would see the inflation genie emerge from the bottle.**

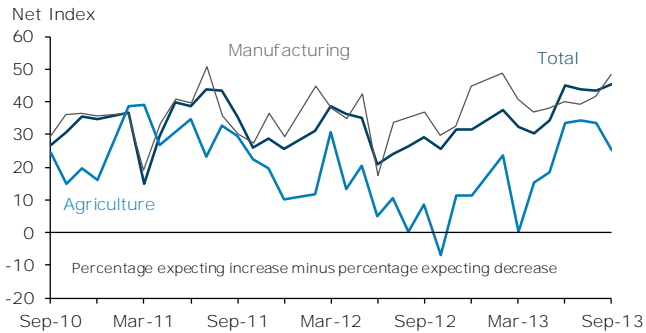
This is an issue that is going to get increasing attention over the coming year. The efficiency and dynamism of the construction sector; how effectively **Auckland's housing woes** are addressed from the supply side; whether we see the necessary **restraint in the consumer arena (we can't have a construction and consumption boom at the same time)** – these factors are all going to play a pivotal role in defining the length of the economic expansion. Microeconomic reform needs to continue to lift the anaerobic threshold of the economy. Get these dynamics right – or at least pointing in the right direction – **and the central bank won't be following that adage of removing the punchbowl as soon as the party starts to rock.** They may have to dilute it but hopefully they'll still be leaving us with a bit of fizz.

SURVEY RESULTS SEPTEMBER 2013

Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	54.1	48.1	50.9	44.0	35.9	68.2	63.0
Activity Outlook	45.3	43.3	36.4	48.5	25.0	41.0	53.8
Exports	23.2	24.1	33.3	6.7	34.5	0.0	33.3
Investment	20.4	17.3	17.0	16.9	23.6	31.9	23.6
Livestock	36.4	5.4	...	...	36.4	...	...
Capacity Utilisation	28.3	27.5	20.9	32.7	26.7	30.8	30.5
Residential Construction	47.4	55.6	...	...	...	47.4	...
Commercial Construction	35.0	52.0	...	...	...	35.0	...
Employment	18.8	18.1	12.7	16.7	2.5	31.9	24.5
Unemployment Rate	-17.5	-21.8	-18.2	-6.2	-2.6	-18.2	-31.4
Profits	33.5	25.0	21.9	34.9	30.0	50.0	36.1
Interest Rates	53.6	54.9	49.1	46.8	51.2	63.6	56.2
Pricing Intentions	29.9	28.6	38.8	34.3	20.5	54.5	23.7
Ease of Credit	-4.6	-3.1	-13.6	-1.8	3.0	0.0	1.6
Inflation Expectations	2.31	2.33	2.31	2.32	2.20	2.45	2.29

ANZ BUSINESS OUTLOOK

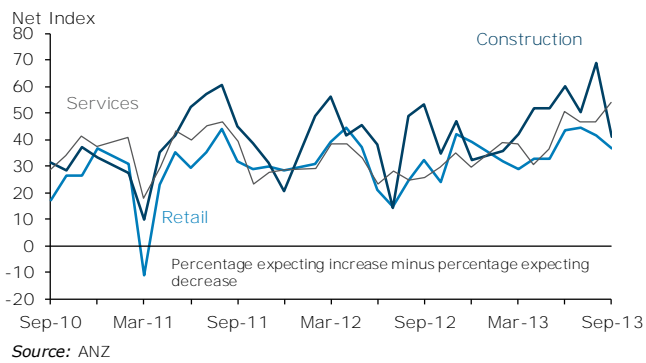
Activity Outlook Index



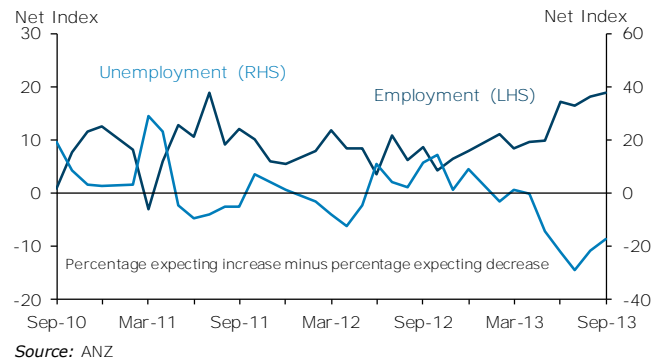
Construction Intentions



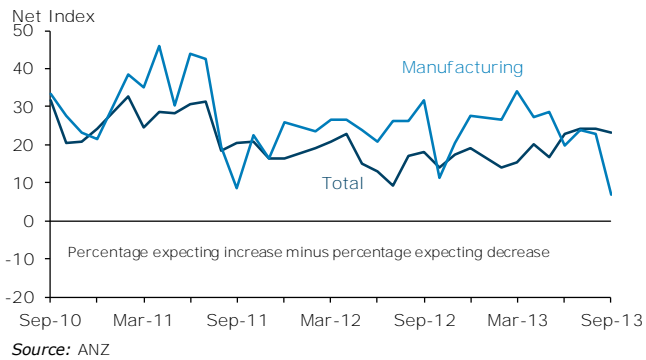
Activity Outlook Index



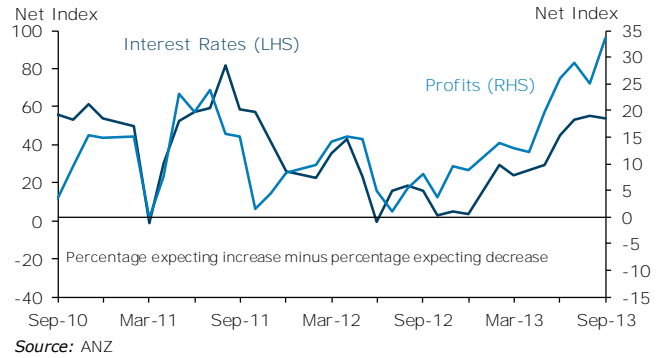
Labour Market Outlook



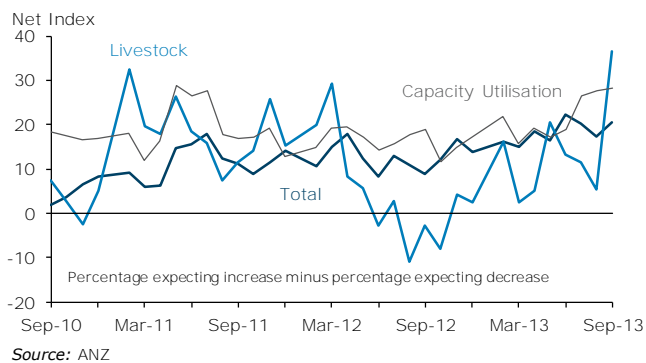
Export Sales Volume



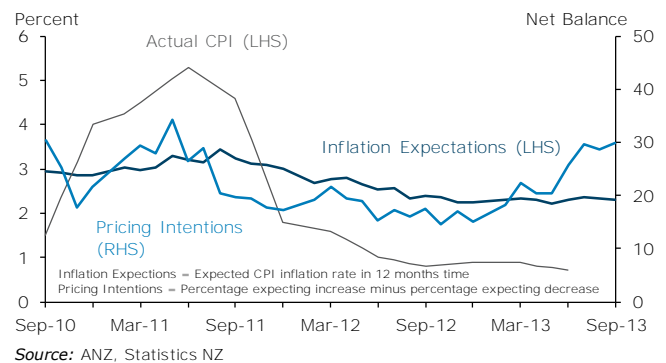
Financial Outlook



Investment Intentions



Inflation Expectations



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