

ANZ BUSINESS OUTLOOK A SPRING IN OUR STEP

October 2013

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SUMMARY

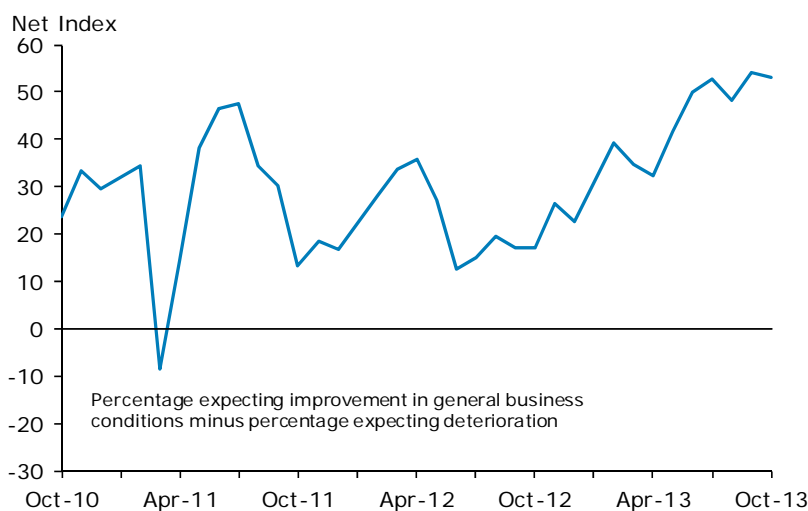
- Business sentiment remains in a sweet spot, with our seasonally adjusted estimate showing a lift to the highest reading since 1994.
- It's a strong picture across the board, both by sector and region. Encouragingly, pricing gauges remain tame.
- Our composite indicator, incorporating consumer confidence as well, is pointing to the potential for annual growth of over 4 percent over much of 2014. The economy can't sustain that kind of growth for too long but we like the spirit of it: the economy has a nice hum.

In spring things blossom: flowers, trees, romance and business confidence. A net 53 percent of respondents expect better times ahead. That comes on the heels of a high reading in September, and confidence is elevated across all the five major sub-sectors. When we strip out the mild seasonal element, confidence has soared to the highest level since July 1994.

The strong level of business confidence continues to be reflected in respondents' own activity outlook. A net 47 percent expect better times ahead. Our seasonally adjusted estimate of this series is the highest since October 1994.

The various sub-series augur well for the economic expansion. A net 29 percent of businesses are projecting higher profitability – down on the month prior but still high. If firms are making money they are far more likely to spend and reinvest it. Employment and investment intentions remain rock solid at +19. Export intentions are creeping back up, rising from +23 to +27 – pretty impressive considering the lift in the NZD over the month. Residential investment intentions (a net +48) remain high. Conversely, commercial construction intentions waned (+24 versus +35 in September).

Business Confidence Index



Source: ANZ

Pricing gauges were mixed, but demure on balance. Inflation expectations rose from 2.3 to 2.4 percent. Conversely, pricing intentions

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waned: a net 22 percent expect to be lifting prices over the coming year, down from a net 30 percent last month. There are few signs in these outcomes that the inflationary genie is escaping from the bottle.

The regional and sectoral picture is convergent. There are obvious leaders and laggards but with each passing month we're seeing growing confluence. That's a healthy sign and indicative of a broadening expansion. It often takes time, but a rising tide invariably lifts all boats.

The October results are enormously encouraging, given there are still some real headwinds. The NZD rose. Restrictions on high loan-to-value housing lending are in place. It's still early days re-assessing the impact, but anecdotally they're biting – hard. More and more respondents – currently a net 67 percent – expect interest rates to move up. Even political posturing over New Zealand's economic fundamentals and direction is failing to have any noticeable impact.

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 the potential for economic growth in excess of 4 percent by early 2014.** We look at consumer and business confidence together because they represent the two sides of the production-spending equation. We are finally seeing the two in alignment, something that wasn't the case between 2009 and 2012.

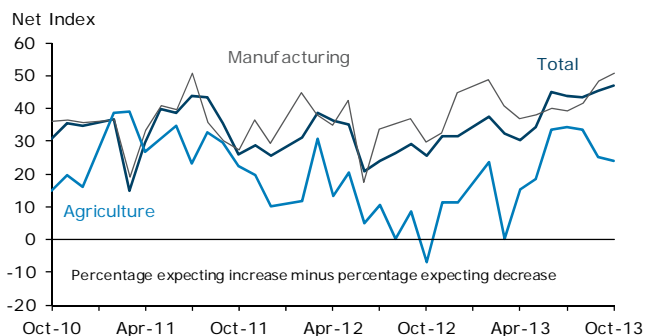
The New Zealand economy is in a sweet spot. While we remain at the mercy of global forces to a degree, localised specifics (housing shortages, a city rebuild, booming dairy prices, a turnaround in job prospects encouraging less emigration) are delivering considerable pep. Once you're in the groove, success can breed more success. Kicking tyres becomes doing deals. Positive upward spirals quickly take hold.

But the supply side needs to step up to the mark for the growth to be sustainable. It's a tall order, but we're optimistic. At the ground level there is an emerging positive productivity story across NZ.Inc. Four years of "grumpy growth" have been a wake-up call. Practices and structures have changed, and firms are leaner and meaner than they were in 2008. The end of complacency is the beginning of productivity growth, and NZ.Inc is now well placed to seize the opportunities on offer.

SURVEY RESULTS OCTOBER 2013							
Net Balance	Total	Previous	Retail	Mfg	Agric	Constrn	Services
Business Confidence	53.2	54.1	48.4	45.4	46.3	40.7	64.5
Activity Outlook	47.1	45.3	47.6	50.6	23.8	44.5	52.0
Exports	26.9	23.2	31.8	27.1	24.3	14.3	30.0
Investment	18.8	20.4	11.0	13.7	19.1	23.1	25.7
Livestock	31.3	36.4	...	...	31.3	...	...
Capacity Utilisation	24.2	28.3	16.7	34.6	15.1	14.3	27.7
Residential Construction	47.6	47.4	...	...	...	47.6	...
Commercial Construction	23.8	35.0	...	...	...	23.8	...
Employment	18.7	18.8	20.3	13.3	14.3	33.3	19.6
Unemployment Rate	-23.4	-17.5	-6.2	-13.3	-26.2	-11.1	-37.1
Profits	28.9	33.5	24.2	32.0	17.1	25.9	33.8
Interest Rates	66.6	53.6	65.6	50.7	76.2	70.4	68.6
Pricing Intentions	22.1	29.9	26.6	17.5	16.7	37.0	22.8
Ease of Credit	-10.9	-4.6	-25.0	-3.2	-5.4	-3.7	-5.4
Inflation Expectations	2.38	2.31	2.36	2.32	2.35	2.57	2.35

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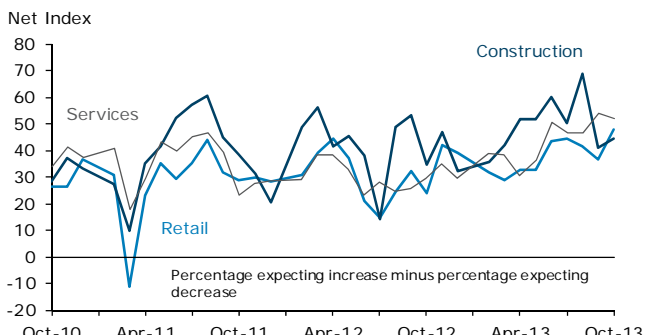
Activity Outlook Index



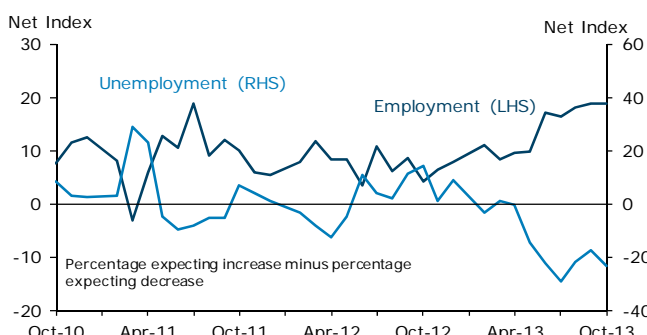
Construction Intentions



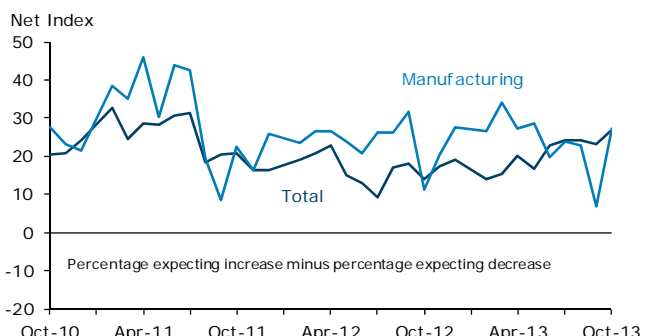
Activity Outlook Index



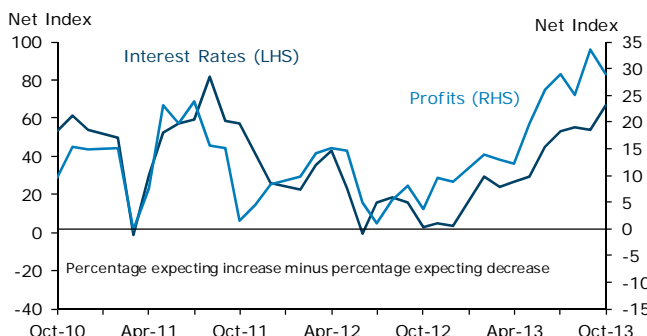
Labour Market Outlook



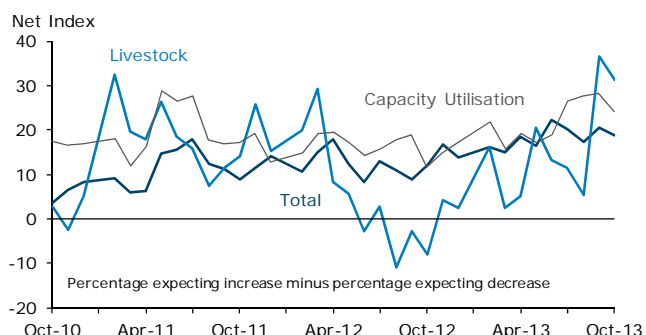
Export Sales Volume



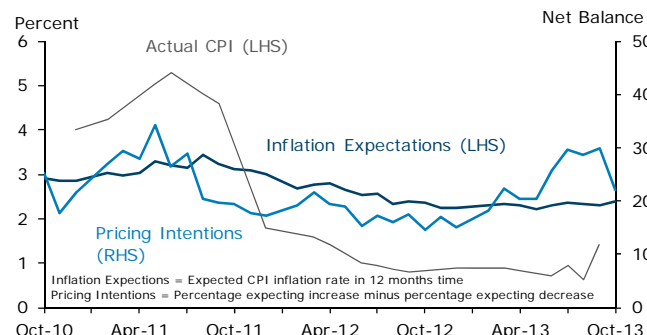
Financial Outlook



Investment Intentions



Inflation Expectations



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