



Flat-lining

The economic patient continues to show spasmodic signs of life. Survey indicators are mixed, ranging from lukewarm to offering hope better times are around the corner. It's far from stellar, but in the context of global peers, it is nonetheless encouraging.

A net 20 percent of respondents expect business conditions to improve over the year ahead, up from a net 15 percent last month. A movement of 5 percentage points is so-so in terms of the signal, but nonetheless we'll take it as a step in the right direction.

Firms' own activity expectations – a better indicator of economic momentum than headline confidence itself – continue to edge higher. Business sentiment can suffer from numerous biases, and it's ultimately what businesses think about prospects for their own business that determines wider economic fortunes. A net 26 percent of respondents expect more activity out of their business over the coming year. That's precisely the average reading over the survey's history.

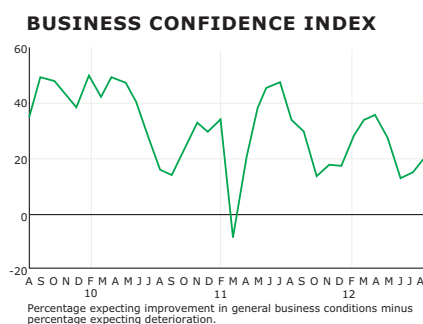
A note of warning. The improvement is entirely seasonal: we normally feel better as spring approaches. Stripping out the mild seasonal factor we appear to be flat-lining.

Other survey indicators remain a mixed bag.

- Profit expectations lifted from +1 to +5. That level of expected profitability uplift is still marginal. Marginal lifts in profitability imply marginal appetites to hire and invest.
- Employment intentions eased. A net 6 percent expect to be hiring more people over the year ahead, down from a net 11 percent last month.
- Investment intentions pulled back as well, easing from +13 to +11.
- Export intentions ticked up. A net 17 percent expect to lift volumes over the year ahead, up from a net 9 percent last month. This looks reasonable on the face of it, but

takes the level of optimism from dreadful to poor. Export confidence has averaged +30: we're a fair way from that.

- Residential investment intentions bounced back. A net 47 percent expect an uplift, up 19 points on the month prior. Auckland is near the forefront. Commercial investment intentions rose from +4 to +22. This offers some hope the construction sector can help fill a growth void across the economy in late 2012 and early 2013.



- Pricing intentions remain tame. A net 16 percent of businesses expect to lift prices over the year ahead, down marginally on last month. Inflation expectations continue to ease – down to 2.3 percent, the lowest since November 1999! This affords the RBNZ the luxury of time insofar as tweaking the Official Cash Rate is concerned.

We're once again left with an economy where the clearest trend is the lack of one. Our composite growth indicator — combining indicators from both the National Bank Business Outlook survey and Consumer Confidence (a survey we also produce) — is flagging 2.4 percent growth by the end of the year. That's respectable but far from stellar, testament to the wide array of structural and cyclical forces hitting the economy.

Amidst a myriad of economic signals, we prefer to step away from quantitative prognosis and emphasise the qualitative story.

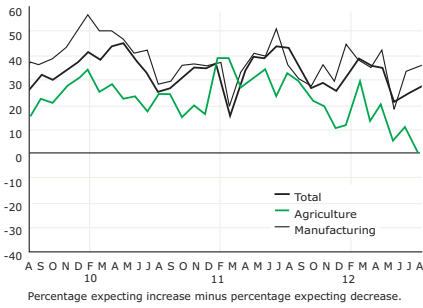
This narrative is centred around 4 V's:

- **Volatility** is the new normal and it's little wonder business sentiment is proving to be fickle from month to month.
- **Veracity** (honesty) is required about the economy's challenges. Multiple decades of living beyond our means demands penance.
- **Vision** is required to unlock economic opportunities. Abstracting from the required penance, the current climate is one of the best we've seen for New Zealand in decades. There is a remedy for an economy with a weak balance sheet: it is called growth.
- We're facing a period of subdued **velocity**, which means flattish trend growth.

It's a cantankerous combination but better than a host of global peers.

SURVEY RESULTS	TOTAL	PREVIOUS
AUGUST 2012		MONTH
Business Confidence	19.5	15.1
Activity Outlook	26.4	24.0
Exports	16.9	9.1
Investment	10.8	12.8
Livestock	-11.1	2.7
Capacity Utilisation	17.8	15.8
Residential Construction	46.7	28.0
Commercial Construction	21.9	4.3
Employment	6.0	10.7
Unemployment Rate	2.0	4.1
Profits	5.3	1.1
Interest Rates	18.7	15.7
Pricing Intentions	16.1	17.3
Ease of Credit	12.8	9.0
Inflation Expectations	2.34	2.55

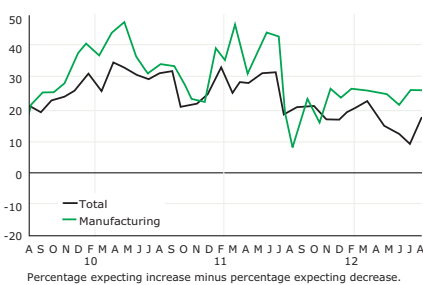
ACTIVITY OUTLOOK INDEX



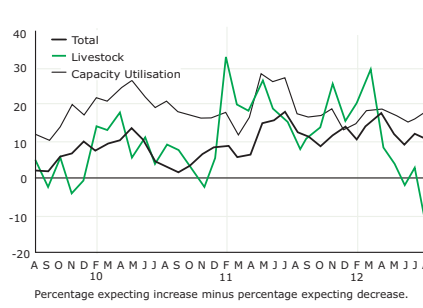
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EXPORT SALES VOLUME



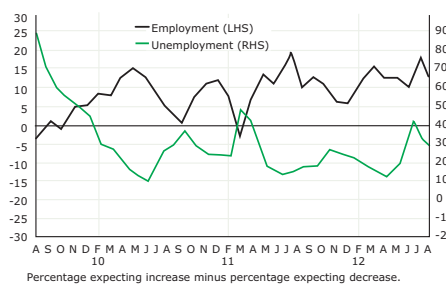
INVESTMENT INTENTIONS



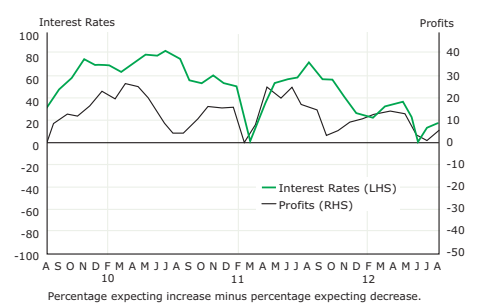
CONSTRUCTION INTENTIONS



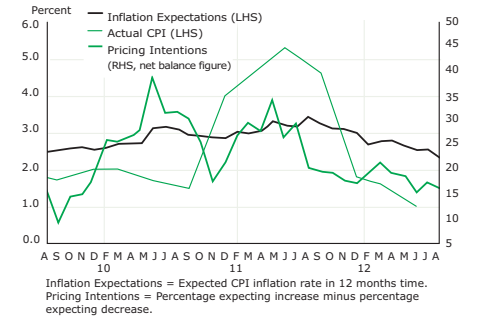
LABOUR MARKET OUTLOOK



FINANCIAL OUTLOOK



INFLATION EXPECTATIONS



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