



A steady finish

Business confidence dropped marginally in December. A net 17 percent of businesses expect better times for the economy over the year ahead, down 1 point on the month prior. Seasonally adjusted, business confidence was unchanged in the month, but whether it's no change or a tiny fall: in the context of the typical movements in this series we can safely say that business confidence is unchanged.

That's not a bad result, given the dire economic headlines that continue to hit the front of the international section of our daily newspapers. New Zealanders seem to just be "getting on with it", albeit with occasional nervous glances over their shoulders at the slow motion train wreck that is Europe.

Many of the components of the index were also fairly stable:

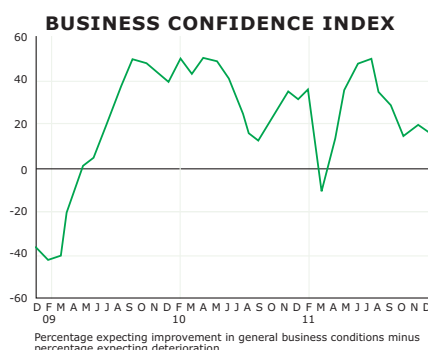
- A net 26 percent of businesses still expect an uplift in activity for their own business over the year ahead, down 3 points on November. This series is now 18 points lower than its July peak. The agricultural sector is surprisingly pessimistic, given the outstanding spring growing conditions experienced around the country. Perhaps it's because they've traditionally been in the front line when it comes to global slowdowns.
- Employment intentions fell from +6 to +5, 14 points off its high.
- Export intentions were unchanged at +16. It will be interesting to see how the face-off between the lower NZD versus lower global growth plays out in this series.
- Profit expectations lifted from +4 to +8. This is the second successive monthly lift, though the series remains well of its July high (+24).
- Investment intentions rose from +12 to +14, a four month high. Investment intentions have been one of the most robust series over the second half of this year, which is encouraging.
- Pricing intentions eased from a net 18 percent expecting to raise prices

to a net 17 percent. Back in May, the net proportion of firms intending to raise their prices was twice as high.

- Inflation expectations continue to drift lower, moderating from 3.1 to 3.0 percent, a decent pullback from a peak of 3.5 percent four months ago.

But there were some larger movements:

- Residential investment intentions lifted (+19 to +26) but non-residential construction intentions fell sharply into the red, slipping from +27 to -3. This sector will remain in the doldrums until the Christchurch rebuild kicks off.



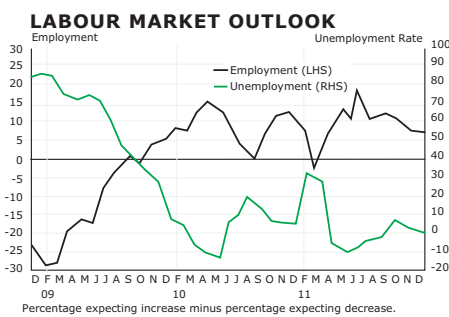
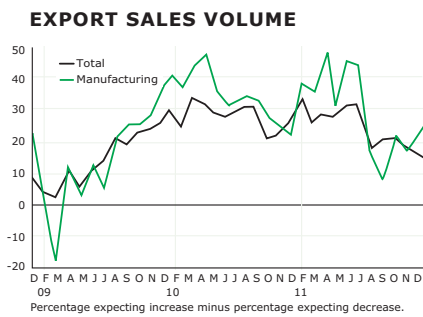
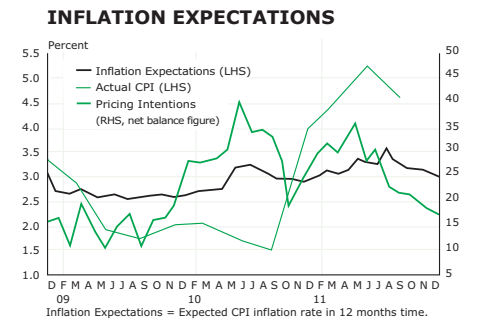
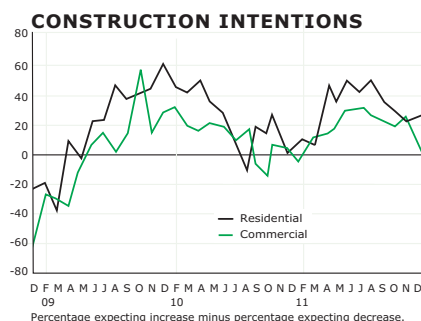
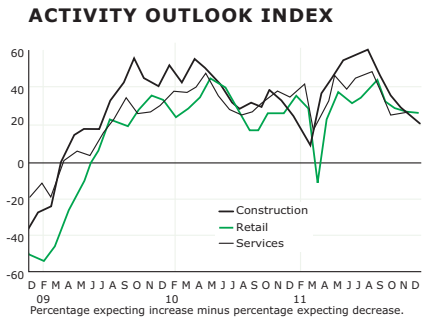
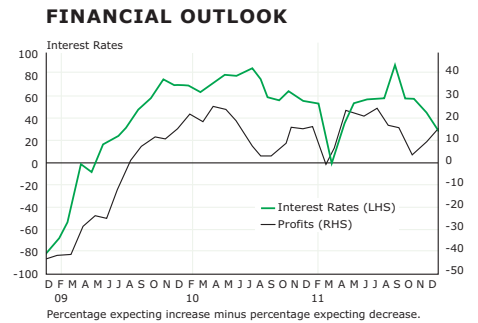
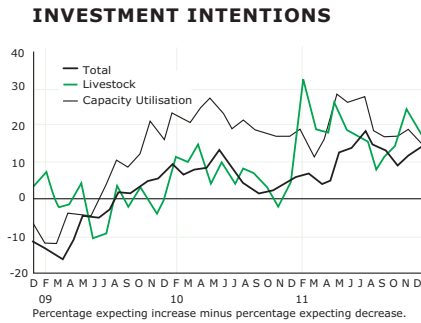
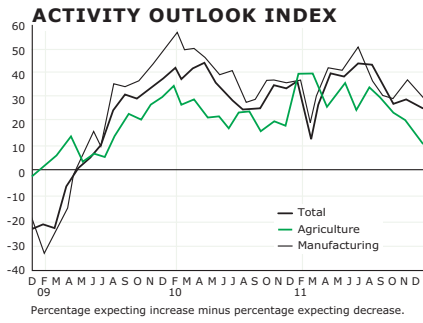
On the whole, December's results extend November's "hodge-podge" of pluses and minuses. On one level we can see respectability: the absolute levels remain solid relative to historical averages. The uplift in profit expectations is welcome, for it augers well for investment and employment. The ongoing declines in pricing intentions and inflation expectations will help lock in easy monetary policy for the foreseeable future. Our composite growth indicator still points to 3 percent growth being a possibility. We say "possibility" because the gap between reality and expectation has been wide for the past few years, and we're not convinced it's about to close.

Despite the stability this month it's fair to say that in the broader picture things are slipping a little, and this is entirely understandable. Although New Zealand has many factors in its favour going into the global storm ahead (fiscal

respectability and credibility, a free-floating exchange rate, the fact that we largely sell necessities), we will not be immune. We are a small, heavily indebted, trading nation. The global scene will be coupled to European developments, and there will be fallout for New Zealand, via commodity prices, funding costs, and a new urgency to fiscal austerity. And China remains somewhat of a 500 pound gorilla: they are now our second largest trading partner, and with that opportunity unfortunately comes vulnerability to turns in their business cycle. There are some signs that momentum is waning rapidly. Thankfully, unlike a host of other nations, China has both fiscal and monetary stimulus available should things turn ugly.

But it is encouraging to see kiwi businesses are standing their ground. It's not all bad for New Zealand. Fonterra just revised up their estimate for the season's milk payout (after responses for the December confidence survey had closed). The NZD is dropping, providing relief to many. Interest rates are extremely low and going nowhere. The system is working. That's more than some countries can say at present.

SURVEY RESULTS	TOTAL	PREVIOUS MONTH
December 2011		
Business Confidence	16.9	18.3
Activity Outlook	25.7	28.8
Exports	16.2	16.4
Investment	14.0	11.6
Livestock	15.1	25.6
Capacity Utilisation	12.9	19.3
Residential Construction	25.9	19.3
Commercial Construction	-3.2	26.7
Employment	5.3	5.9
Unemployment Rate	0.9	3.8
Profits	8.3	4.3
Interest Rates	25.7	41.3
Pricing Intentions	17.3	17.8
Ease of Credit	-2.8	-3.4
Inflation Expectations	2.99	3.10



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