

A purple patch

NZIER business confidence rebounds in Q4

- The December *Quarterly Survey of Business Opinion* once again confirmed the message from recent monthly data: firms' reported and expected activity has picked up strongly.
- Firms are preferring to meet capacity pressures by investing in plant and machinery rather than hiring more workers, particularly as the high dollar keeps the price of imported equipment low.
- The surveyed showed little in the way of generalised inflation pressures and will keep the Reserve Bank comfortably on hold for now.

Summary

We expected some rebound in business sentiment after a tough September quarter, and today's survey delivered. Indeed, on the face of it this was a very positive result. Real progress on the restoration of our second-largest city, strong growth in activity across many regions and industries, and little in the way of generalised inflation pressures – what's not to like?

Well for one thing, it's very much a near-term snapshot of the economy; the current optimism among firms is no guarantee that the growth momentum won't be derailed at some point in the future, or that inflation pressures won't rise. Secondly, it still tells a story of lopsided growth. The persistently high exchange rate stands out as a factor, favouring domestically-oriented firms over exporters, and investment in capital over labour.

Details

General business sentiment rebounded in the December *Quarterly Survey of Business Opinion*, with a net 19% of firms expecting an improvement over the next six months. This outturn is consistent with the recent tone of the domestic activity data, which suggested a brief but fairly wide-spread downturn in the September quarter before picking up again in the December quarter. In addition, much of the 'fear factor' in international markets has dimmed in recent months, notwithstanding the fun and games around the US fiscal cliff that were in full force at the time the survey was held (responses were accepted up until 3 January).

More significantly for short-term forecasting purposes, the own-activity measures also saw substantial gains for the quarter. Reported activity for the last three months rose from a net -4% to a net +8%, the highest since June 2007. Expected activity for the next three months rose from +9% to +22%, equal to the

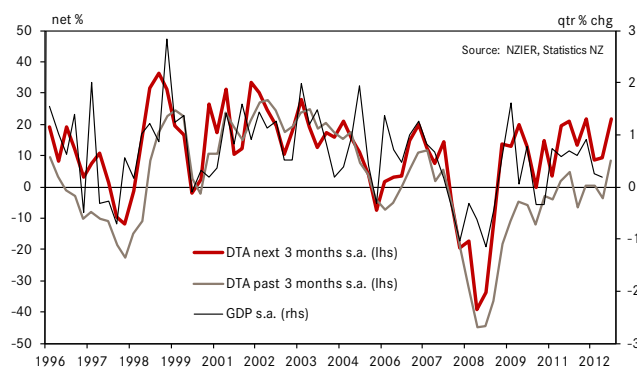
Key results – forward looking

	Q3 survey	Q4 survey
Business confidence sa, next 6 mths	-1	19
Trading activity, sa, next 3 mths	9	22
Pricing intentions, next 3 mths	14	9
Cost expectations, next 3 mths	26	16
Profitability, next 3 mths	3	2
Employment intentions, next 3 mths	4	3
Building investment intentions, next 12 mths	-3	-3
Plant investment intentions, next 12 mths	-1	5

Key results – backward looking

	Q3 survey	Q4 survey
Trading activity, sa, past 3 mths	-4	8
Pricing, past 3 mths	10	6
Costs, past 3 mths	26	19
Profitability, past 3 mths	-21	-3
Employment, past 3 mths	-9	-3
Ease of finding skilled labour, past 3 mths	-21	-20
Ease of finding unskilled labour, past 3 mths	4	8
Capacity utilisation	90.02%	90.53%

Domestic trading activity



reading in the March 2012 quarter and in turn the highest since Q3 2003.

Reported activity improved across each of the broad sectors, with the greatest improvement coming from manufacturers and builders: up from -13% to +17%, the highest since late 2004.

Confidence around the Christchurch rebuild is clearly a factor - NZIER reported a particularly large bounce in reported activity in the Canterbury region (after an oddly weak Q3). However, there was a strong bounce for the rest of the country as well.

Other details were more mixed, with little change in expected profits, employment or investment in buildings, although intended investment in plant and machinery rose. The persistently high exchange rate increases the relative appeal of investing in machinery and equipment, which tends to have a large imported component.

Inflation indicators were generally soft. Fewer firms expected costs to increase, while only a net 9% of firms intended to raise their prices in the next quarter - both measures were the lowest since mid-2009. Ease of finding labour increased slightly, although it remains tight for skilled labour and particularly for the construction industry. Capacity utilisation rose but remains slightly below its ten-year average.

Market implications

The survey is broadly in line with our pick for 0.7% GDP growth in the December quarter, possibly with some upside risk. Curiously the historical revisions to GDP that were published at the end of last year mean that the 'next three months' own activity measure from the QSBO is now the superior indicator for quarterly GDP, whereas previously the 'last three months' measure was the better gauge.

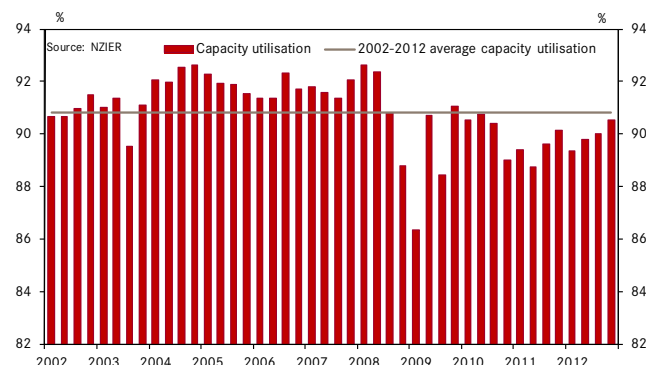
The survey points to the RBNZ remaining firmly on hold, in what was almost a goldilocks survey in terms of improving growth and low inflation. The economy-wide inflation indicators were benign, although there were some pressures in the construction industry as expected. At the same time, growth looks to be picking up from its low point in Q3.

Markets responded positively to the release, with the NZ dollar rising around 35pts to 0.8440.

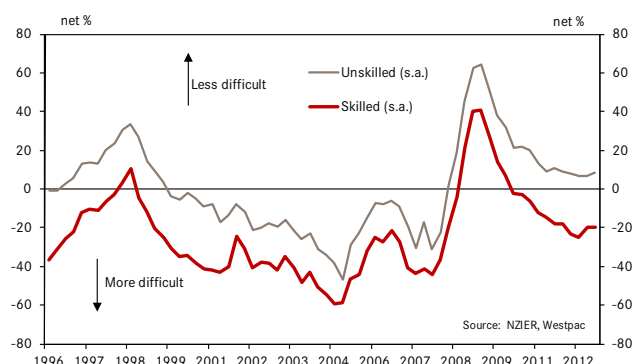
Michael Gordon
Senior Economist

Nathan Penny
Economist

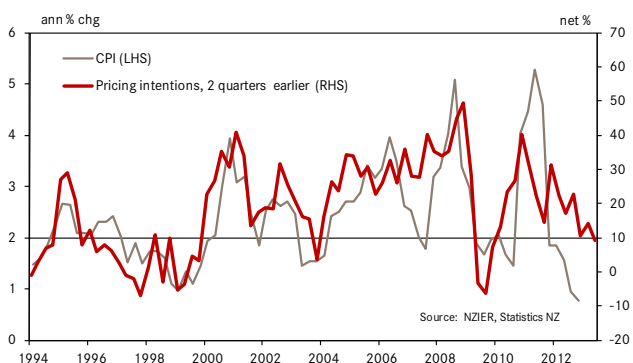
Capacity utilisation



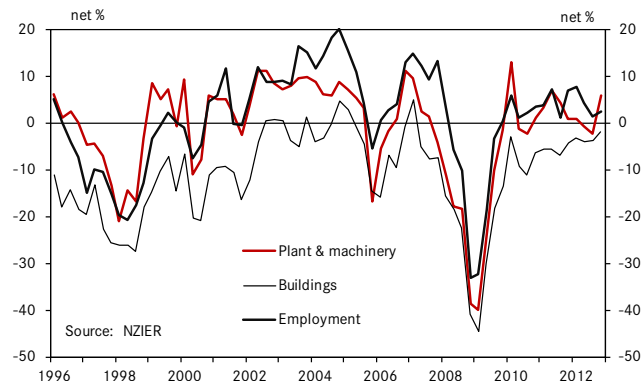
Firms' difficulty in finding labour



Pricing Intentions vs CPI



Investment and employment intentions s.a.



Westpac Economics Team Contact Details

Dominick Stephens , Chief Economist	Ph: (64-9) 336 5671	dominick_stephens@westpac.co.nz
Michael Gordon , Senior Economist	Ph: (64-9) 336 5670	michael_gordon@westpac.co.nz
Felix Delbrück , Senior Economist	Ph: (64-9) 336 5668	felix_delbruck@westpac.co.nz
Nathan Penny , Economist	Ph: (64-9) 336 5669	nathan_penny@westpac.co.nz

Disclaimer

This information has been prepared by Westpac Institutional Bank, a division of Westpac Banking Corporation, ABN 33 007 457 141 incorporated in Australia ("Westpac") and is current as at [29 January 2013]. It is subject to change without notice but Westpac is not obliged to update or correct it. Recipients should not forward or reproduce (in whole or part) this information unless Westpac consents however Westpac accepts no liability for the actions of third parties in this respect. This information does not constitute investment advice or an offer to subscribe for any financial instrument or to enter into a legally binding contract. It has been prepared without taking account of your personal objectives, financial situation or needs. You should seek your own independent legal and/or financial advice before proceeding with any investment decision. Any forecasts given are predictive only and past performance is not a reliable indicator of future performance and may be affected by known or unknown risks and uncertainties. Except to the extent that such liability under any law cannot be excluded, Westpac makes no representation or warranty, express or implied, and does not assume any responsibility or liability for this information or any errors or omissions to it.

The distribution and use of this information may be restricted by law in certain jurisdictions. Persons who receive this information should inform themselves about them and observe any such restrictions:

If you are reading this in New Zealand: Westpac's current disclosure statement for the New Zealand division of Westpac Banking Corporation ABN 33 007 457 141 or Westpac New Zealand Limited can be obtained from any branch of Westpac New Zealand Limited or free of charge, at the internet address www.westpac.co.nz. Westpac Institutional Bank products and services are provided by either Westpac Banking Corporation ABN 33 007 457 141 incorporated in Australia (New Zealand division) or Westpac New Zealand Limited. For further information please refer to the Product Disclosure Statement (available from your Relationship Manager) for any product for which a Product Disclosure Statement is required, or applicable customer agreement. Download the Westpac NZ QFE Group Financial Advisers Act 2008 Disclosure Statement.

If you are reading this in the United Kingdom: Westpac Banking Corporation is registered in England as a branch (branch number BR000 106) and is authorised and regulated by The Financial Services Authority. Westpac Europe Limited is a company registered in England (number 05660023) and is authorised and regulated by The Financial Services Authority. This communication is directed at a) persons who have professional experience in matters relating to investments falling within Article 19(1) of the Financial Services Act 2000 (Financial Promotion) Order 2005 or (b) high net worth entities, and other persons to whom it may otherwise be lawfully communicated, falling within Article 49(1) of the Order (all such persons together being referred to as "relevant persons"). The investments to which this document relates are only available to and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such investments will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely upon this document or any of its contents. In the same way, the information contained in this document is intended for "eligible counterparties" and "professional clients" as defined by the rules of the Financial Services Authority and is not intended for "retail clients". With this in mind, Westpac expressly prohibits you from passing on this document to any third party. In particular this communication and any copy of it may not be taken, transmitted or distributed, directly or indirectly into any restricted jurisdiction. If you are reading this in Australia: This document is provided to you solely for your own use and in your capacity as a wholesale client of Westpac. Australian customers can obtain Westpac's financial services guide by calling 132 032, visiting www.westpac.com.au or visiting any Westpac Branch.

If you are reading this in Singapore: This document is provided to you solely for your own use and in your capacity as a wholesale client of Westpac. Westpac Singapore Branch holds a wholesale banking licence and is subject to supervision by the Monetary Authority of Singapore. Westpac Hong Kong Branch holds a banking license and is subject to supervision by the Hong Kong Monetary Authority. Westpac Shanghai and Beijing Branches hold banking licenses and are subject to supervision by the China Regulatory Banking Commission.

If you are reading this in the United States: Westpac operates in the United States of America as a federally licensed branch, regulated by the Office of the Comptroller of the Currency. Westpac is also registered with the US Commodity Futures Trading Commission ("CFTC") as a Swap Dealer, but is neither registered as, or affiliated with, a Futures Commission Merchant registered with the US CFTC. Westpac Capital Markets, LLC ("WCM"), a wholly-owned subsidiary of Westpac, is a broker-dealer registered under the U.S. Securities Exchange Act of 1934 ('the Exchange Act') and member of the Financial Industry Regulatory Authority ("FINRA"). If this report is distributed in the United States, such distribution is done under Rule 15a-6 of the Exchange Act by WCM, which accepts responsibility for its content. All disclaimers set out with respect to Westpac apply equally to WCM.