

News Release

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Small firm growth prospects show signs of improvement

- Small firm business confidence remains low but growth prospects are showing tentative signs of improvement
- Our composite growth measure improved in all measured regions except Auckland
- Regulatory requirements and a lack of skilled staff continue to challenge small businesses

Small firms' business confidence remained low by historical standards during the June 2019 quarter but growth prospects are showing tentative signs of improvement in the regions, according to the latest ANZ Business Micro Scope.

Encouragement for local economies and New Zealand more broadly is stemming from improving investment intentions, said ANZ Acting Managing Director Retail and Business Banking Benjamin Kelleher.

"Investment intentions have continued to improve for the third consecutive quarter despite historically low hiring intentions and profit expectations. Growth measures in Canterbury, other South Island centres and Wellington are all up," Mr Kelleher said.

The composite growth measure for small firms – which takes into account firms' views on growth indicators including activity, hiring, profit and lagged investment intentions, and is a proxy for GDP growth – improved in all regions except Auckland.

Auckland's composite growth measure dropped 6% pts, falling from the top region in Q1 to the bottom, while Canterbury increased 10% pts, other South Island centres were up 6% pts and Wellington improved on the back of recovering investment intentions.

"While these results are promising, pessimism continues to dominate small business confidence this quarter. A net 36% of small businesses are pessimistic about general business conditions, which resembles the level of small firm sentiment in the years leading up to the Global Financial Crisis," Mr Kelleher said.

Small firms' expectations of their own activity stabilised following two consecutive quarters of optimism, falling back slightly by 2% pts to +6.0%. While activity expectations remained low, agriculture small firm expectations bucked the trend, rising 16% pts to +18.0%.

"This shows there's still work to be done despite concerns around regulation, falling dairy prices and difficulty finding skilled staff."

Small business profit expectations remain negative but are recovering. Manufacturing firms are the most optimistic, having improved from -19.0% in September 2018 to -0.3% this quarter.

Highlights from the June 2019 ANZ Business Micro Scope survey of small firms:

[Net percentages reflect the balance of sentiment, i.e. percent positive minus percent negative responses]

- Small firms' business confidence dropped slightly, with a net 36% of small businesses pessimistic about general business conditions, down from 33% in March.
- The composite growth measure improved in all regions except Auckland, with Canterbury rising 10% pts, other South Island centres up 6% pts and Wellington improving on the back of recovering investment intentions.
- Small firms' own activity expectations remain stable.
- Manufacturing firms were the most optimistic around profit expectations, lifting from -19.0% in September 2018 to -0.3% this quarter.
- Minimum wage rises appear to have impacted firms, with pay rates ranking the 6th biggest problem facing small firms, and the 4th biggest problem for large firms.

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ANZ BUSINESS MICRO SCOPE: TECHNICAL NOTES

The *ANZ Business Micro Scope* is a quarterly indicator which focuses on the prospects of small businesses across New Zealand. The survey was launched in March 2012 to address a lack of ongoing research specific to the small business sector. The *Micro Scope* covers a range of key business intentions and views on prospects for both respondents' own businesses and the wider economy. The figures in this release cover the quarter to 30 June 2019.

The survey took responses from around 200 firms, comprising *micro* (up to five staff) and *intermediate* businesses (six to 20 staff).

The sample is taken from the *ANZ Business Outlook* survey, which covers *micro* up to *large* businesses. Comparisons prior to March 2012 are calculated by extracting corresponding data on small businesses from that survey, which goes back to December 1999.