

ANZ NZ Business Micro Scope

Data for September quarter 2019



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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 three months to September 2019.

The survey includes responses from approximately 200 small firms, comprising two tiers: the "micro-sized" segment (up to 5 staff) and the "intermediate" segment (6 to 20 employees). 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.

Like a stone

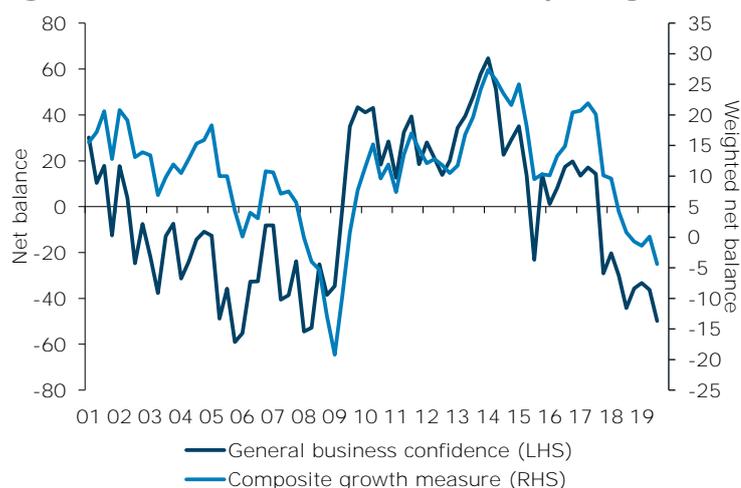
Summary

- Small firm confidence dropped like a stone in September to its lowest level since 2008.
- Growth indicators also fell, only investment managed to stay above the lows of 2009.
- Regulatory requirements and a lack of skilled staff continue to top the list of biggest problems faced by small businesses.

Small firm business confidence pushed even further into negative territory in the September quarter, with a net 50% of small businesses pessimistic about general business conditions in the year ahead (down from 36% in June). Confidence is now approaching the historical lows recorded during the Global Financial Crisis (GFC) and in 2005. Small firm confidence can turn quickly, as we saw coming out of the GFC and after dairy prices tanked in 2015. However, with economic momentum easing, other forward-looking indicators soft, and the global economic backdrop fragile, there appear to be few catalysts out there that could drive a recovery in the near term.

Our composite growth measure for small firms – a proxy for GDP growth – fell to -4.4, the lowest since 2009. The composite measure is based on growth indicators such as firms' own activity outlook, hiring and investment intentions, and profit expectations. All four growth indicators fell sharply in September, with declining employment intentions weighing heavily. Only investment was able to avoid setting a new post-GFC low.

Figure 1. Small business confidence and composite growth measure



Source: ANZ Research

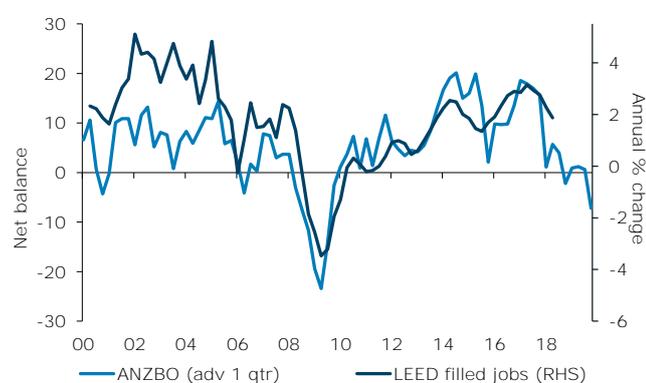
Figure 2. Own activity



Small firms' expectations of their own activity fell below 0 for the first time since June 2009.

Firms' view of their own activity fell 6%pts to a net negative 0.3%. A net 20% of retail firms expect lower activity in the year ahead – that's the most pessimistic reading out of the last six consecutive negative outturns for this sector. Construction also joined the gloomy outlook at -13%, but expectations firmed over the latter part of Q3. Services and agriculture (both +5%) and manufacturing firms (+1%) managed to stay positive on the outlook but pressure is mounting, primarily from easing economic momentum and global uncertainty.

Figure 3. Hiring intentions¹



A large fall in hiring intentions puts one of the recent pillars of economic growth firmly in focus.

Hiring intentions fell 8%pts to -7% in September. This represents a material risk for the wider economy as employment growth and the tight labour market has been a major driver of consumer sentiment and consumption this cycle. Other business surveys² report similar findings across manufacturing and services sectors. Notably, large firm hiring intentions, which are typically more positive than their small business counterparts, are also reporting that they expect to shed headcount in the coming year.

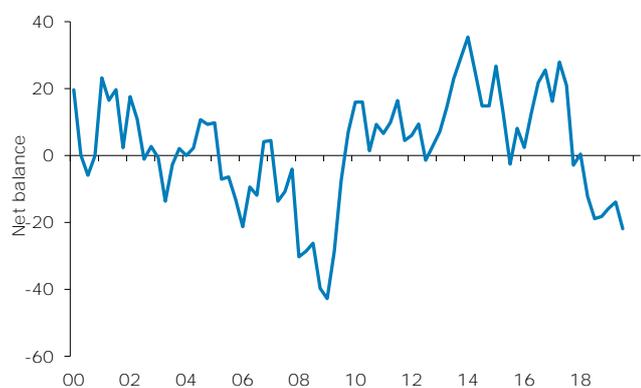
Figure 4. Investment



Investment intentions fell to the fourth lowest recording since 2000.

Intentions to invest in plant, buildings and equipment fell to a net negative 7% of firms. Similar ructions are being felt in large firms (-1%). All sectors are in negative territory with agriculture appearing to close the book on further investment for now. This sector is in the midst of overhauls in key areas like water and other environmental policies. Overall, soft investment is a little worrisome for the medium-term growth view, as it implies a lower capital stock than otherwise.

Figure 5. Profitability



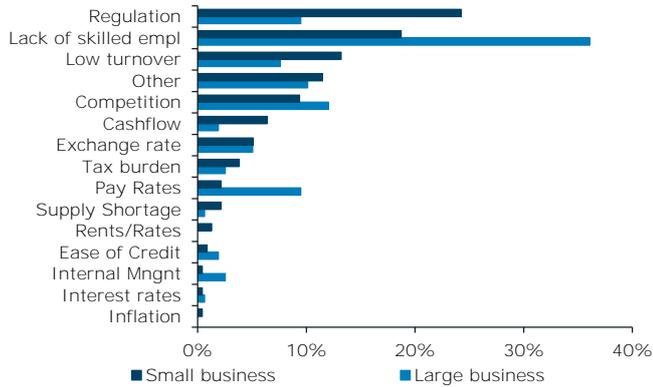
Small business profit expectations are woeful; none of the five sectors have had positive profit expectations since March 2018.

All sectors are net negative regarding their profit expectations, indicating widespread concerns about activity and squeezed margin pressures. Firms' ability to raise prices are also falling, indicating inability to pass on costs alongside mounting competition for consumers. Agriculture and retail firms are the most gloomy.

¹ Linked Employer-Employee Dataset (LEED). Latest data is for June 2018 at time of writing.

² Quarterly Survey of Business Opinion, BNZ-Business New Zealand PMI/PSI

Figure 6. Biggest problem faced

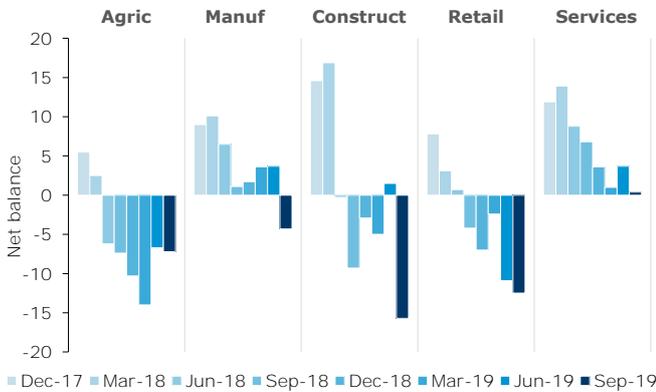


Regulation remains the biggest problem facing small firms, as it has been since the December 2017 quarter. All sectors except manufacturing report it as their biggest problem. Large firms overwhelmingly see lack of skilled employment as their biggest problem (36% of all large firms).

Difficulty finding skilled employees remains second on the list of problems. The labour market remains tight for the moment, although dark clouds are hovering if some of the leading indicators on employment are to be believed.

Low turnover and other problems round out the top four.

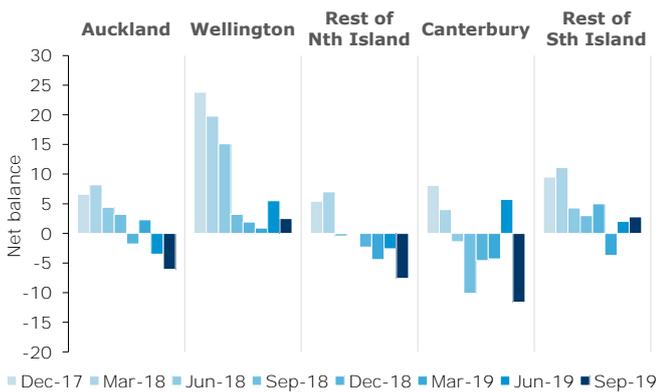
Figure 7. Sectoral composite business sentiment measure: small firms



Our small business composite growth measure fell across all sectors; only services managed to maintain a positive growth outlook, just.

Construction firms had the biggest fall as mounting pressure on hiring over the year ahead weighed heavily. The sector still has a housing deficit and low interest rates have kept house prices from falling further, particularly in Auckland. But profit margins are squeezed, putting pressure on hiring and investment. Retail slid a further 2pts. Tough competition and a continuation of squeezed margins weigh heavily on the sector. Manufacturing is under pressure globally; local firms are reporting lower turnover expectations with competition a bigger problem than previously.

Figure 8. Regional composite business sentiment measure: small firms



The composite growth measure shows widespread growth concerns. Canterbury unwound last quarters gain, and a set post-GFC low of -12. Employment and investment woes were the major concerns. The rest of the South Island was much more upbeat as activity, employment and investment all contributed positively; but profit concerns are still hampering the outlook. Wellington maintains a positive stance although employment was negative for the region. Outside of the capital, employment and activity are dampening the medium term growth outlook.

Source: ANZ, Statistics NZ

Composite Measure	Small				Large			
	Dec 18	Mar 19	Jun 19	Sep 19	Dec 18	Mar 19	Jun 19	Sep 19
Composite Measure	-0.7	-1.4	0.1	-4.4	8.0	2.1	5.0	-0.3
Business Confidence	-35.6	-33.3	-36.3	-49.9	-28.4	-36.3	-35.4	-50.3
Activity Outlook	6.2	7.5	5.9	-0.3	14.3	9.9	10.9	2.7
Exports	11.1	-0.4	1.6	-2.0	14.2	6.2	2.9	5.0
Investment	-3.7	-3.4	-1.1	-6.7	2.3	9.0	7.5	-1.0
Capacity Utilisation	4.9	3.5	3.8	1.5	19.0	13.7	6.7	2.2
Residential Construction	11.1	1.9	-0.2	-4.2	6.5	9.1	-10.2	-10.3
Commercial Construction	7.6	-4.8	-0.4	-7.4	3.2	9.5	-0.7	-9.2
Employment	0.9	1.2	0.6	-7.2	6.2	3.2	2.4	-7.8
Unemployment Rate	18.8	29.2	36.3	44.3	17.8	25.6	32.0	39.7
Profits	-18.2	-15.8	-13.9	-21.9	-1.9	-7.7	-8.6	-17.5
Interest Rates	26.2	15.4	-28.3	-51.0	21.5	6.1	-29.7	-55.0
Pricing Intentions	22.8	24.2	23.3	18.4	36.2	30.0	30.1	23.0
Ease of Credit	-30.6	-35.9	-37.4	-41.3	-22.0	-43.8	-37.0	-39.7
Inflation Expectations	2.3	2.1	1.9	1.7	2.1	2.0	1.9	1.7
Agriculture	-10.3	-14.0	-6.7	-7.2	18.2	18.3	-4.4	6.4
Manufacturing	1.7	3.6	3.7	-4.3	3.8	-1.8	7.1	2.1
Construction	-2.9	-5.0	1.5	-15.7	10.1	1.5	-5.7	-15.6
Retail	-7.0	-2.4	-10.9	-12.5	7.8	2.7	10.6	6.9
Services	3.6	1.0	3.7	0.4	10.0	2.7	4.7	-0.8
Auckland	-1.8	2.3	-3.5	-6.0	20.9	4.4	11.6	4.4
Wellington	1.9	0.9	5.5	2.5	2.4	7.2	5.2	1.4
Rest of North Island	-2.3	-4.4	-2.6	-7.6	5.8	3.4	-1.4	2.2
Canterbury	-4.6	-4.3	5.7	-11.6	-2.0	-11.1	-1.8	-16.0
Rest of South Island	5.0	-3.7	2.0	2.8	7.6	1.0	9.9	-7.6

Source: ANZ *Business Outlook* survey. The definition of business size is based on the number of employees in the following way: Small 0-20 and Large 21+. The data is net balance (% up/improve minus % down/worsen), except for inflation expectations.



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