

ANZ BUSINESS MICRO SCOPE DECEMBER DELIVERY

Data for December quarter 2015

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 on-going 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 December 2015.

The survey takes in responses from 241 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.

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SUMMARY

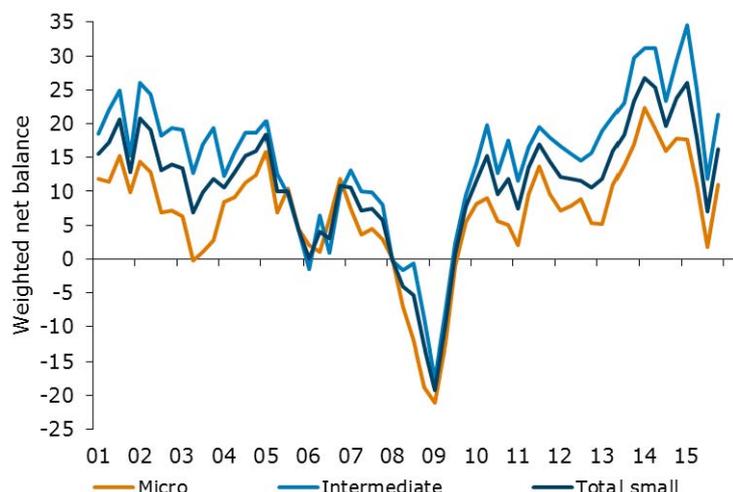
- Small business confidence lifted sharply in the December quarter.
- Firms' own activity expectations rose, as did employment and investment intentions. Profit expectations are positive. All augur well for small businesses and the economy more broadly.
- Sentiment in all five sectors improved. Services are leading the way.
- Optimism abounds across all five geographies, with the highest recorded from small firms in the South Island outside of Canterbury. Wellington is the best of the main centres, with modest gains in Auckland and Canterbury.

Small businesses account for 90% of firms in New Zealand, and employ nearly a third of all New Zealand workers. Despite the significance of small businesses to the economy, there is only a limited amount of official data reported on economic prospects in the small business sphere. To fill this void we present survey information for small business, using employment as a proxy for business size. From this we have compiled a composite gauge of economic prospects in the small business sector, using weighted variables for expectations of activity, employment, investment, and profitability.

Headline business sentiment across the small business community rose to +14, turning around from the -23 seen in the September quarter. Confidence is positive in all five sub-sectors, bar agriculture, and is most buoyant in the services sector. Within the *small* business segment, *intermediate* businesses (those that employ 6-20 employees) are the most upbeat, with sentiment across *micro* firms (0-5), still upbeat, but marginally less so.

Our composite measure for small firms – a key proxy for growth, lifted 9 points to +16, rebounding from a six year low in September (see Figure 1). Underpinning the lift were notable improvements in firms' own activity, employment, investment and profit expectations. These are the "nuts and bolts" of an expanding economy and augur well for the performance of small businesses and the broader economy.

FIGURE 1. SMALL BUSINESS CONFIDENCE, COMPOSITE MEASURE



Source: ANZ

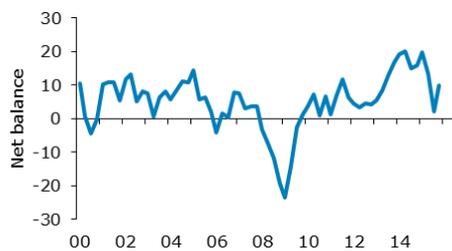
ANZ BUSINESS MICRO SCOPE

FIGURE 2. OWN ACTIVITY



Source: ANZ

FIGURE 3. HIRING INTENTIONS



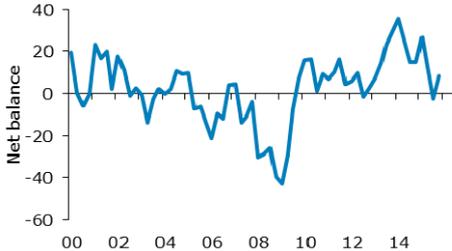
Source: ANZ

FIGURE 4. INVESTMENT



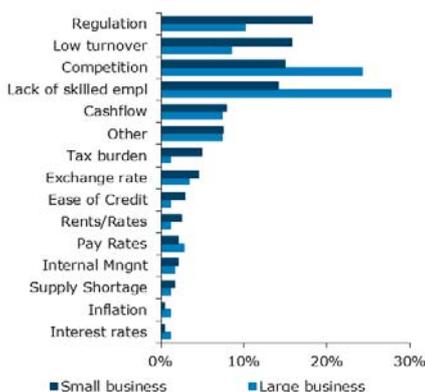
Source: ANZ

FIGURE 5. PROFITABILITY



Source: ANZ

FIGURE 6. BIGGEST PROBLEM FACED, BY FIRM SIZE



Source: ANZ

Small firms are very optimistic about the performance of their own business. As a harbinger of growth prospects, this indicator is more important than business confidence itself. It is what firms view about their own business that matters, and collectively “adds up” to match the economy. A net 24% of businesses expect improved times over the year ahead. Expectations across the small business sector are back above historical norms (+22). Both the *micro* and *intermediate* sized business segments ‘own activity’ expectations improved 13 points to +18 and +31 respectively.

Hiring intentions within the small business community rose 8 points over the quarter (+10). Hiring intentions across *micro* sized businesses were up 8 points and back in positive territory to +2, while the *intermediate* sub-group also rose 8 points to +17. Appetites to hire across small businesses are the strongest within the service sector (+18), followed by manufacturing (+7). Agriculture employment expectations were flat.

Investment intentions across the small business sector rose 7 points to +8 in December. While this is a step back up the ladder, investment intentions are still below the historical average of +10 and sub-par. Nonetheless, improvement is still improvement. Investment intentions by *micro* sized firms rose 5 points to +2, and expectations for *intermediate* sized firms were up 10 points to +14.

Profitability expectations across the small business sector rose to +8 after falling into the red in September. Expectations across *micro* sized firms were up 12 points to a net balance of +3. The *micro* business community has averaged -1% over the time series, highlighting that running a very small business can be challenging. A net 13% of *intermediate* sized firms expect profitability to improve in the coming 12 months.

A net 20% of all small businesses expect prices to increase in the year ahead. For the fourth consecutive quarter, small businesses expect interest rates to fall over the coming year.

Small firms see ‘regulation’, ‘low turnover’, ‘competition’ and ‘lack of skilled employment’ as the biggest problems facing their business.

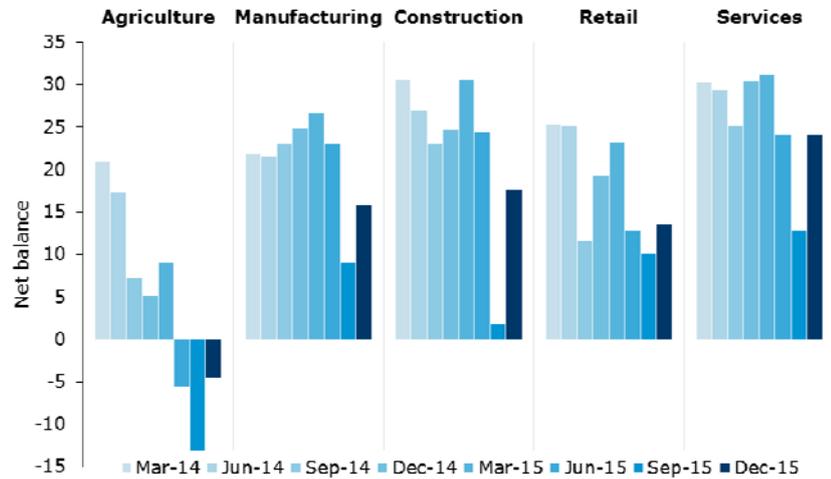
These four are a common theme among small businesses and ranged between 14% and 18% in the December quarter. ‘Cashflow’ and ‘other problems’ make up the next tier of burdens perceived by small businesses. Businesses with more than 20 employees see similar problems, albeit with a different lens. ‘Lack of skilled employment’ and ‘competition’ make up 52% of the biggest problems they face; finding employees with the skills to fill their demand for labour tops the list, at 28%.

Note: the percentages for the biggest problems faced by businesses were incorrectly reported in our September quarter release. These have been corrected. We apologise for the error. Updated figures for the September quarter can be provided on request.



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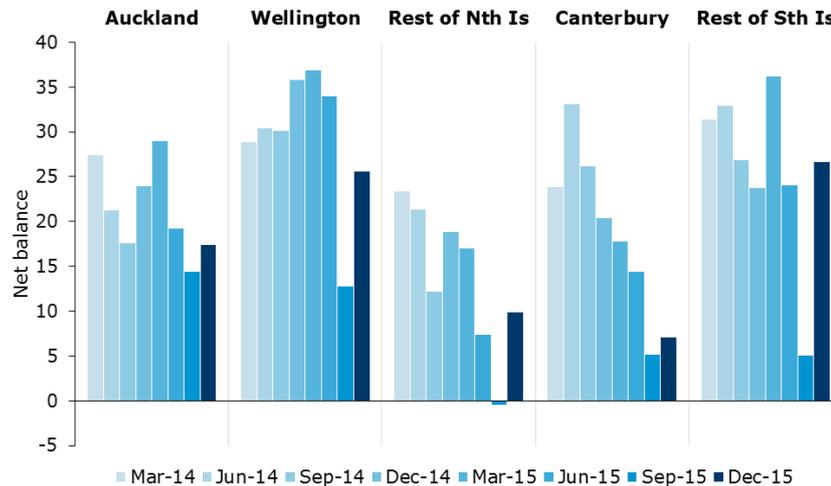
FIGURE 7. SECTORAL COMPOSITE BUSINESS SENTIMENT MEASURE: SMALL FIRMS



Source: ANZ

Our small business composite growth measures improved for all five sectors in December. The services sector led the way, up 11 points to +24. The construction sector had the biggest turnaround of 16 points, now sitting on +18. Manufacturing (+16) and retail (+14) were up modestly, while agriculture is still in the red (at -5 overall), despite improving 10 points from the -15 recorded in the September quarter.

FIGURE 8. REGIONAL COMPOSITE BUSINESS SENTIMENT MEASURE: SMALL FIRMS



Source: ANZ

Small businesses across all five geographies showed improvement in our composite measures in December. Showing the biggest turnaround (22 points) and the highest level of sentiment are South Island businesses outside of Canterbury (+27). Following closely behind is Wellington, with +26, while in the other main centres, Auckland was up a modest 3 points (+17) and Canterbury was up slightly to +7. In North Island small businesses outside of Auckland and Wellington, positive sentiment was restored after September's slump to -1, up 11 points to +10.

ANZ BUSINESS MICRO SCOPE

	SMALL				LARGE			
	Mar 15	Jun 15	Sep 15	Dec 15	Mar 15	Jun 15	Sep 15	Dec 15
COMPOSITE SENTIMENT	26.1	18.0	7.0	16.2	32.5	26.8	16.0	31.0
Business Confidence	35.1	13.4	-23.2	14.1	35.1	17.8	-14.6	21.4
Activity Outlook	42.2	29.2	11.9	24.1	42.4	35.2	20.5	40.9
Exports	27.9	14.0	5.3	11.7	27.6	26.6	30.2	35.5
Investment	19.3	12.0	0.6	7.7	29.4	25.3	15.4	24.4
Capacity Utilisation	27.2	18.3	6.5	13.1	34.2	23.6	25.5	32.5
Residential Construction	49.7	36.9	23.2	28.3	51.7	31.2	27.5	39.1
Commercial Construction	43.0	26.1	7.6	23.4	36.7	31.0	20.8	24.2
Employment	19.9	13.5	2.1	9.8	25.6	24.1	10.6	26.0
Unemployment Rate	-31.0	-11.1	32.9	20.8	-28.1	-15.3	24.4	13.8
Profits	26.7	12.9	-2.6	8.1	37.5	25.3	14.7	29.3
Interest Rates	-17.1	-23.7	-49.5	-29.6	-16.6	-25.6	-62.5	-33.8
Pricing Intentions	24.1	22.4	17.3	19.7	31.0	25.0	25.5	28.9
Ease of Credit	28.6	15.0	4.3	7.7	23.7	17.0	5.2	9.5
Inflation Expectations	0.9	1.7	1.7	1.7	0.8	1.7	1.6	1.6
AGRICULTURE	9.2	-5.7	-14.6	-4.5	19.8	15.3	3.5	27.8
MANUFACTURING	26.7	23.2	9.1	15.8	35.6	21.0	7.7	18.9
CONSTRUCTION	30.6	24.5	1.9	17.6	25.1	10.4	5.8	28.1
RETAIL	23.3	12.9	10.1	13.6	30.5	33.4	17.3	29.2
SERVICES	31.2	24.1	12.9	24.2	34.1	30.4	20.7	36.5
AUCKLAND	29.0	19.3	14.4	17.4	39.9	39.0	23.3	46.8
WELLINGTON	36.9	34.0	12.8	25.6	24.9	16.8	13.7	24.1
REST OF NORTH ISLAND	17.0	7.4	-0.5	9.9	34.8	23.8	19.3	27.3
CANTERBURY	17.8	14.4	5.2	7.1	32.8	29.3	5.8	26.0
REST OF SOUTH ISLAND	36.2	24.1	5.1	26.7	27.2	19.0	4.0	24.7

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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