

Data for December quarter 2017

CONTACTS

Andrew Webster
General Manager
Retail and Business Banking
 Telephone: +64 9 252 4214
 E-mail: Andrew.Webster@anz.com

Sharon Zollner
Chief Economist
 Telephone: +64 9 357 4094
 E-mail: Sharon.Zollner@anz.com

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 December 2017.

The survey includes responses from over 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.

FACE PLANT

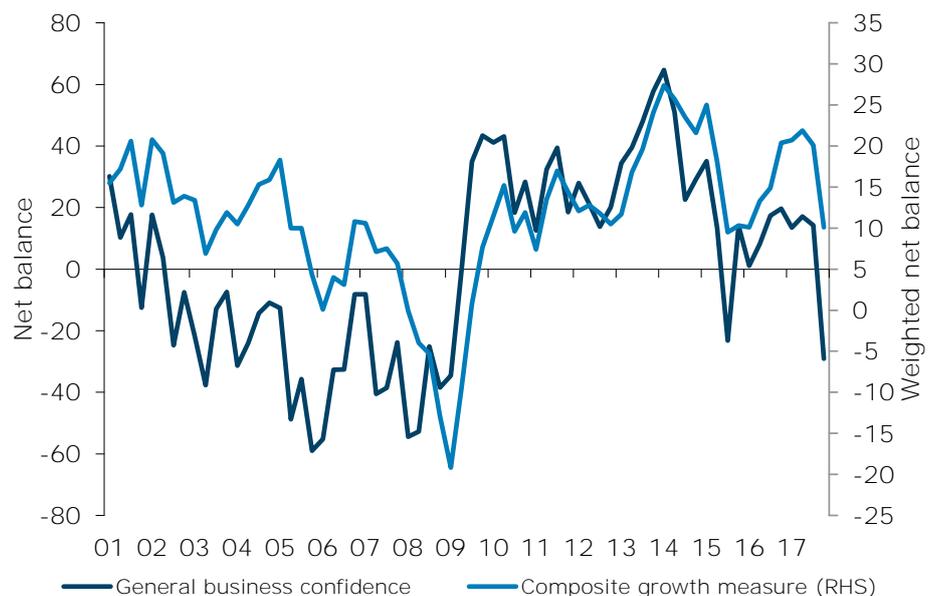
SUMMARY

- Business confidence amongst small firms nose-dived to its lowest level since 2009.
- Growth indicators fell too, but not nearly as much as overall confidence.
- Regulatory requirements and a lack of skilled staff are by far the two top concerns for small businesses.

Business confidence amongst small firms plunged to its lowest level since 2009 in the December quarter. A net 29% of small businesses are more pessimistic about general business conditions for the year ahead (versus a net 14% that were previously optimistic about the outlook). The 43%pt turnaround was the largest fall since 2000 and was reflected in both *micro* firms (0-5 employees) and *intermediate* sized businesses (those that employ 6-20 employees), which fell 40%pts and 47%pts respectively. The dive in sentiment came at a time when there was plenty for small businesses to ponder: a new Government and uncertainty around details of key policies, a softer housing market, tightening credit, a fall in dairy prices, capacity constraints and a topping out in previous economic drivers such as strong migration.

Our composite growth measure for small firms – a key proxy for GDP growth – fell to +10 (from +20). Despite the fall, it remains in growth territory. The composite measure is based on growth indicators such as firms' own activity outlook, hiring and investment intentions, and profit expectations. These indicators tie in well with actual GDP growth. So while sentiment may well have soured, small firms are still intending to roll up their sleeves and get on with it.

Figure 1. Small business business confidence and composite growth measure



Source: ANZ

ANZ BUSINESS MICRO SCOPE

Figure 2. Own activity



Source: ANZ

Figure 3. Hiring intentions



Source: ANZ

Figure 4. Investment



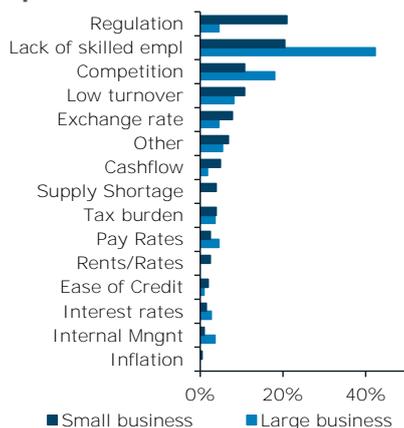
Source: ANZ

Figure 5. Profitability



Source: ANZ

Figure 6. Biggest problem faced, September – December 2017



Source: ANZ

Small firm expectations of their own activity fell to a net 12%, which is the lowest since 2009. The 19%pt fall (down from +31%) is the largest decline since the global financial crisis. The last time activity expectations were this low was during the two year downturn in dairy returns. But this was mainly concentrated in agricultural firms. This time, weaker expectations regarding business activity are much broader. The least optimistic sector is retail (1.8%), which is grappling with a cooler housing market and intense online/offshore competition. Most optimistic is the construction sector (+19%) with its solid pipeline of work.

Hiring intentions are on the verge of turning negative; a net 1% expect to hire over 2018. Employing staff is an area of high uncertainty with the new Government signalling a number of new policies to boost workers' fortunes (in every sense of the word). The list includes increasing the minimum wage, modifying workplace relations laws and tightening immigration policy. Only the construction and services sectors came through with positive, albeit low, hiring intentions (6% and 5% respectively).

Investment intentions across small firms fell to a net 2%. Intermediate-sized businesses reported the biggest decline in their enthusiasm to invest, down 20%pts to 5%. On a sector basis, manufacturing fell 18%pts to be the only sector in the red (-3%). Agriculture, retail and services fell 12%pts apiece. Investment intentions were highest (albeit still low) in the construction sector.

Small business profit expectations fell to -3%, the largest fall of all the growth indicators (down 24% pts). Profit expectations are lowest for agricultural firms (-6%) coming off a near four-year high in September that was also the highest of all sectors. The turnaround reflects challenging production conditions weighing on livestock production, the lowering of the farm-gate milk price, and emerging cost pressures during the quarter. Small construction firms had the highest profit expectations at 9%, but this is well down from 51% in June. The fall has been driven by intensifying input cost pressures.

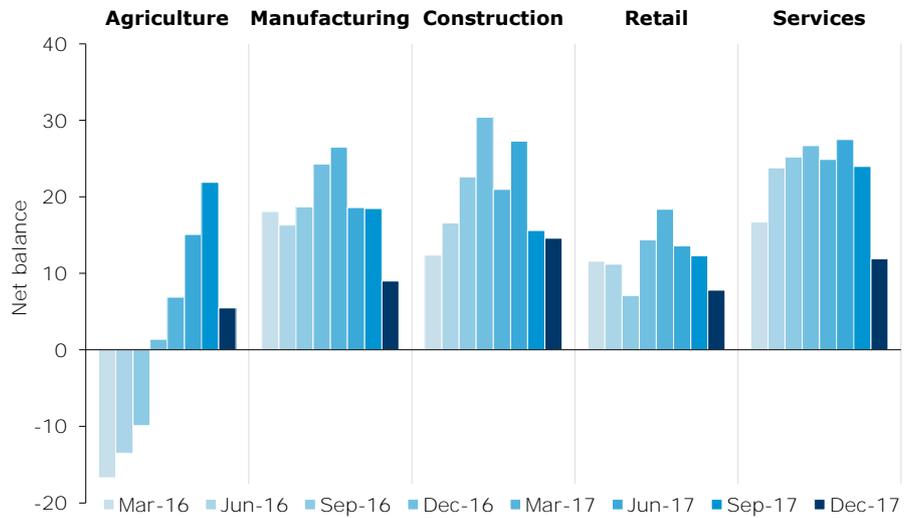
Regulation regained the top spot as the biggest problem small firms face. Regulatory requirements are the highest concern for the agricultural and services sectors (second for construction). For the former, changes to employment laws, foreign investment and more environmental regulation were the key areas of focus during the election.

Lack of skilled employees remains another major concern (20%). This ranks as the biggest problem for construction, manufacturing and retail firms (second for agriculture and services). Employers in a large number of sectors are reporting severe skilled labour shortages. Front of mind are further possible changes to immigration policies and employment laws, which together would further constrain their ability to find suitable quality labour.

Concerns faded regarding competition, turnover and the tax burden, but rose regarding the exchange rate and supply shortages.

ANZ BUSINESS MICRO SCOPE

Figure 7. Sectoral composite business sentiment measure: small firms

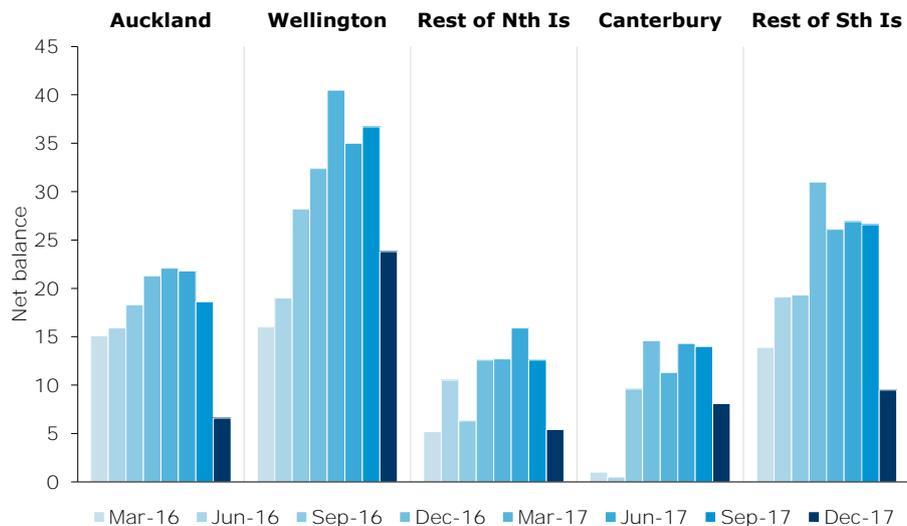


Source: ANZ

Our small business composite growth measure fell across all five sectors.

The agricultural sector finished the year with the lowest composite measure of +6, having also fallen further than any other sector (down 16pts). Making things difficult for the sector were challenging production conditions for livestock, lower dairy prices weighing on farm-gate returns, emerging cost pressure, and concern around government policies related to labour, foreign investment, water quality and climate change. Manufacturing and service sector small firms are circumspect about own activity, hiring and profits, causing the composite measure to fall to +9 and +12 respectively. The only sector to come through relatively unscathed was construction (down 1pt to +15). While there are plenty of headwinds for construction firms (costs, credit and severe labour constraints), growth prospects are evident with housing policies favouring a strong new build pipeline.

Figure 8. Regional composite business sentiment measure: small firms



Source: ANZ

The composite growth measure fell across all regions in similar fashion.

Wellington is still out in front, while the other regions sit within a tight 5-10pt range.

ANZ BUSINESS MICRO SCOPE

	SMALL				LARGE			
	Mar 17	Jun 17	Sep 17	Dec 17	Mar 17	Jun 17	Sep 17	Dec 17
COMPOSITE SENTIMENT	20.7	21.9	20.1	10.1	33.1	34.8	34.8	20.3
Business Confidence	13.5	17.1	14.3	-29.1	14.9	17.0	10.6	-29.5
Activity Outlook	31.5	35.4	30.8	11.6	45.4	45.0	45.4	20.2
Exports	23.5	23.9	22.7	13.5	33.0	33.0	32.7	17.6
Investment	16.6	18.1	15.5	2.4	30.9	34.2	28.8	13.1
Capacity Utilisation	19.9	24.3	22.2	9.5	34.3	35.5	34.8	27.3
Residential Construction	25.5	28.3	25.2	10.8	42.7	34.4	28.9	27.6
Commercial Construction	36.1	21.9	27.3	0.2	30.0	22.9	29.5	14.8
Employment	17.9	17.0	15.6	1.1	32.1	33.5	29.5	11.4
Unemployment Rate	-6.5	-8.9	-5.2	14.2	-9.0	-9.8	-7.9	11.9
Profits	16.2	27.9	20.9	-2.9	33.5	31.0	32.1	1.4
Interest Rates	66.1	59.4	44.6	49.0	64.5	62.7	39.4	49.6
Pricing Intentions	24.9	28.3	19.3	24.3	26.7	35.7	33.6	31.2
Ease of Credit	-24.3	-24.9	-23.1	-33.2	-27.8	-30.6	-23.4	-30.6
Inflation Expectations	1.8	1.9	2.0	2.2	1.8	2.0	1.9	2.1
AGRICULTURE	6.9	15.1	21.9	5.5	25.8	33.1	24.1	13.7
MANUFACTURING	26.5	18.6	18.5	9.0	17.3	15.2	16.2	18.2
CONSTRUCTION	21.0	27.3	15.6	14.6	33.6	38.1	38.7	23.1
RETAIL	18.4	13.6	12.3	7.8	34.6	30.3	34.8	11.7
SERVICES	24.9	27.5	24.0	11.9	39.2	42.3	42.0	23.8
AUCKLAND	22.1	21.8	18.6	6.6	44.6	42.2	37.5	23.9
WELLINGTON	40.5	35.0	36.7	23.8	29.1	32.0	30.2	20.5
REST OF NORTH ISLAND	12.7	15.9	12.6	5.4	21.5	26.5	33.7	16.0
CANTERBURY	11.3	14.3	14.0	8.1	36.5	39.6	37.1	19.6
REST OF SOUTH ISLAND	26.1	26.9	26.6	9.5	37.4	37.8	36.5	22.7

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.

IMPORTANT NOTICE

This document is intended for ANZ's institutional, professional or wholesale clients, and not for individuals or retail persons. It should not be forwarded, copied or distributed. The information in this document is general in nature, and does not constitute personal financial product advice or take into account your objectives, financial situation or needs.

This document may be restricted by law in certain jurisdictions. Persons who receive this document must inform themselves about and observe all relevant restrictions.

Disclaimer for all jurisdictions: This document is prepared and distributed in your country/region by either: Australia and New Zealand Banking Group Limited (ABN11 005 357 522) (**ANZ**); or its relevant subsidiary or branch (each, an **Affiliate**), as appropriate or as set out below.

This document is distributed on the basis that it is only for the information of the specified recipient or permitted user of the relevant website (**recipients**).

This document is solely for informational purposes and nothing contained within is intended to be a recommendation, invitation, solicitation or offer by ANZ to sell, or buy, receive or provide any product or service, or to participate in a particular trading strategy.

Distribution of this document to you is only as may be permissible by the laws of your jurisdiction, and is not directed to or intended for distribution or use by recipients resident or located in jurisdictions where its use or distribution would be contrary to those laws or regulations, or in jurisdictions where ANZ would be subject to additional licensing or registration requirements. Further, the products and services mentioned in this document may not be available in all countries.

ANZ in no way provides any financial, legal, taxation or investment advice to you in connection with any product or service discussed in this document. Before making any investment decision, recipients should seek independent financial, legal, tax and other relevant advice having regard to their particular circumstances.

Whilst care has been taken in the preparation of this document, ANZ does not make any representation as to the accuracy of the views expressed in this document. Further, ANZ does not accept any responsibility to inform you of any matter that subsequently comes to its notice, which may affect the accuracy of the information in this document.

Preparation of this document and the opinions expressed in it may involve material elements of subjective judgement and analysis. Unless specifically stated otherwise: they are current on the date of this document and are subject to change without notice; and, all price information is indicative only. Any opinions expressed in this document are subject to change at any time without notice.

ANZ does not guarantee the performance of any product mentioned in this document. All investments entail a risk and may result in both profits and losses. Past performance is not necessarily an indicator of future performance. The products and services described in this document may not be suitable for all investors, and transacting in these products or services may be considered risky.

ANZ expressly disclaims any responsibility and shall not be liable for any loss, damage, claim, liability, proceedings, cost or expense (**Liability**) arising directly or indirectly and whether in tort (including negligence), contract, equity or otherwise out of or in connection with this document to the extent permissible under relevant law. Please note, the contents of this document have not been reviewed by any regulatory body or authority in any jurisdiction.

ANZ and its Affiliates may have an interest in the subject matter of this document. They may receive fees from customers for dealing in the products or services described in this document, and their staff and introducers of business may share in such fees or remuneration that may be influenced by total sales, at all times received and/or apportioned in accordance with local regulatory requirements. Further, they or their customers may have or have had interests or long or short positions in the products or services described in this document, and may at any time make purchases and/or sales in them as principal or agent, as well as act (or have acted) as a market maker in such products. This document is published in accordance with ANZ's policies on conflicts of interest and ANZ maintains appropriate information barriers to control the flow of information between businesses within it and its Affiliates.

Your ANZ point of contact can assist with any questions about this document including for further information on these disclosures of interest.

Country/region specific information: Unless stated otherwise, this document is distributed by Australia and New Zealand Banking Group Limited (**ANZ**).

Australia. ANZ holds an Australian Financial Services licence no. 234527. For a copy of ANZ's Financial Services Guide please [click here](#) or request from your ANZ point of contact. If trading strategies or recommendations are included in this document, they are solely for the information of 'wholesale clients' (as defined in section 761G of the Corporations Act 2001 Cth).

Brazil, Brunei, India, Japan, Kuwait, Malaysia, Switzerland, Taiwan. This document is distributed in each of these jurisdictions by ANZ on a cross-border basis.

Cambodia. This document is distributed in Cambodia by ANZ Royal Bank (Cambodia) Limited (**ANZ Royal Bank**). The recipient acknowledges that although ANZ Royal Bank is a subsidiary of ANZ, it is a separate entity to ANZ and the obligations of ANZ Royal Bank do not constitute deposits or other liabilities of ANZ and ANZ is not required to meet the obligations of ANZ Royal Bank.

European Economic Area (EEA): United Kingdom. ANZ is authorised in the United Kingdom by the Prudential Regulation Authority (**PRA**) and is subject to regulation by the Financial Conduct Authority (**FCA**) and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request. This document is distributed in the United Kingdom by Australia and New Zealand Banking Group Limited **ANZ solely for the information of persons who would come within the FCA definition of "eligible counterparty" or "professional client". It is not intended for and must not be distributed to any person who would come within the FCA definition of "retail client". Nothing here excludes or restricts any duty or liability to a customer which ANZ may have under the UK Financial Services and Markets Act 2000 or under the regulatory system as defined in the Rules of the Prudential Regulation Authority (**PRA**) and the FCA. ANZ is authorised in the United Kingdom by the PRA and is subject to regulation by the FCA and limited regulation by the PRA. Details about the extent of our regulation by the PRA are available from us on request.**

Fiji. For Fiji regulatory purposes, this document and any views and recommendations are not to be deemed as investment advice. Fiji investors must seek licensed professional advice should they wish to make any investment in relation to this document.

Hong Kong. This publication is issued or distributed in Hong Kong by the Hong Kong branch of ANZ, which is registered at the Hong Kong Monetary Authority to conduct Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities. The contents of this publication have not been reviewed by any regulatory authority in Hong Kong.

India. If this document is received in India, only you (the specified recipient) may print it provided that before doing so, you specify on it your name and place of printing.

Myanmar. This publication is intended to be general and part of ANZ's customer service and marketing activities when implementing its functions as a licensed bank. This publication is not Securities Investment Advice (as that term is defined in the Myanmar Securities Transaction Law 2013).

New Zealand. This document is intended to be of a general nature, does not take into account your financial situation or goals, and is not a personalised adviser service under the Financial Advisers Act 2008 (**FAA**).



IMPORTANT NOTICE

Oman. ANZ neither has a registered business presence nor a representative office in Oman and does not undertake banking business or provide financial services in Oman. Consequently ANZ is not regulated by either the Central Bank of Oman or Oman's Capital Market Authority. The information contained in this document is for discussion purposes only and neither constitutes an offer of securities in Oman as contemplated by the Commercial Companies Law of Oman (Royal Decree 4/74) or the Capital Market Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market Law (issued vide CMA Decision 1/2009). ANZ does not solicit business in Oman and the only circumstances in which ANZ sends information or material describing financial products or financial services to recipients in Oman, is where such information or material has been requested from ANZ and the recipient understands, acknowledges and agrees that this document has not been approved by the CBO, the CMA or any other regulatory body or authority in Oman. ANZ does not market, offer, sell or distribute any financial or investment products or services in Oman and no subscription to any securities, products or financial services may or will be consummated within Oman. Nothing contained in this document is intended to constitute Omani investment, legal, tax, accounting or other professional advice.

People's Republic of China (PRC). This document may be distributed by either ANZ or Australia and New Zealand Bank (China) Company Limited (**ANZ China**). Recipients must comply with all applicable laws and regulations of PRC, including any prohibitions on speculative transactions and CNY/CNH arbitrage trading. If this document is distributed by ANZ or an Affiliate (other than ANZ China), the following statement and the text below is applicable: No action has been taken by ANZ or any affiliate which would permit a public offering of any products or services of such an entity or distribution or re-distribution of this document in the PRC. Accordingly, the products and services of such entities are not being offered or sold within the PRC by means of this document or any other document. This document may not be distributed, re-distributed or published in the PRC, except under circumstances that will result in compliance with any applicable laws and regulations. If and when the material accompanying this document relates to the products and/or services of ANZ China, the following statement and the text below is applicable: This document is distributed by ANZ China in the Mainland of the PRC.

Qatar. This document has not been, and will not be:

- lodged or registered with, or reviewed or approved by, the Qatar Central Bank (**QCB**), the Qatar Financial Centre (**QFC**) Authority, QFC Regulatory Authority or any other authority in the State of Qatar (**Qatar**); or
- authorised or licensed for distribution in Qatar,

and the information contained in this document does not, and is not intended to, constitute a public offer or other invitation in respect of securities in Qatar or the QFC. The financial products or services described in this document have not been, and will not be:

- registered with the QCB, QFC Authority, QFC Regulatory Authority or any other governmental authority in Qatar; or
- authorised or licensed for offering, marketing, issue or sale, directly or indirectly, in Qatar.

Accordingly, the financial products or services described in this document are not being, and will not be, offered, issued or sold in Qatar, and this document is not being, and will not be, distributed in Qatar. The offering, marketing, issue and sale of the financial products or services described in this document and distribution of this document is being made in, and is subject to the laws, regulations and rules of, jurisdictions outside of Qatar and the QFC. Recipients of this document must abide by this restriction and not distribute this document in breach of this restriction. This document is being sent/issued to a limited number of institutional and/or sophisticated investors (i) upon their request and confirmation that they understand the statements above; and (ii) on the condition that it will not be provided to any person other than the original recipient, and is not for general circulation and may not be reproduced or used for any other purpose.

Singapore. This document is distributed in Singapore by the Singapore branch of ANZ solely for the information of "accredited investors", "expert investors" or (as the case may be) "institutional investors" (each term as defined in the Securities and Futures Act Cap. 289 of Singapore). ANZ is licensed in Singapore under the Banking Act Cap. 19 of Singapore and is exempted from holding a financial adviser's licence under Section 23(1)(a) of the Financial Advisers Act Cap. 100 of Singapore.

United Arab Emirates (UAE). This document is distributed in the UAE or the Dubai International Financial Centre (**DIFC**) (as applicable) by ANZ. This document does not, and is not intended to constitute: (a) an offer of securities anywhere in the UAE; (b) the carrying on or engagement in banking, financial and/or investment consultation business in the UAE under the rules and regulations made by the Central Bank of the UAE, the Emirates Securities and Commodities Authority or the UAE Ministry of Economy; (c) an offer of securities within the meaning of the Dubai International Financial Centre Markets Law (DIFCML) No. 12 of 2004; and (d) a financial promotion, as defined under the DIFCML No. 1 of 200. ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (**DFSA**). ANZ DIFC Branch is regulated by the Dubai Financial Services Authority (**DFSA**). The financial products or services described in this document are only available to persons who qualify as "Professional Clients" or "Market Counterparty" in accordance with the provisions of the DFSA rules. In addition, ANZ has a representative office (**ANZ Representative Office**) in Abu Dhabi regulated by the Central Bank of the UAE. The ANZ Representative Office is not permitted by the Central Bank of the UAE to provide any banking services to clients in the UAE.

United States. Except where this is a FX- related document, this document is distributed in the United States by ANZ Securities, Inc. (**ANZ SI**) which is a member of the Financial Regulatory Authority (**FINRA**) (www.finra.org) and registered with the SEC. ANZSI's address is 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163). ANZSI accepts responsibility for its content. Information on any securities referred to in this document may be obtained from ANZSI upon request. This document or material is intended for institutional use only – not retail. If you are an institutional customer wishing to effect transactions in any securities referred to in this document you must contact ANZSI, not its affiliates. ANZSI is authorised as a broker-dealer only for institutional customers, not for US Persons (as "US person" is defined in Regulation S under the US Securities Act of 1933, as amended) who are individuals. If you have registered to use this website or have otherwise received this document and are a US Person who is an individual: to avoid loss, you should cease to use this website by unsubscribing or should notify the sender and you should not act on the contents of this document in any way. Non-U.S. analysts: Non-U.S. analysts may not be associated persons of ANZSI and therefore may not be subject to FINRA Rule 2242 restrictions on communications with the subject company, public appearances and trading securities held by the analysts. Where this is an FX-related document, it is distributed in the United States by ANZ's New York Branch, which is also located at 277 Park Avenue, 31st Floor, New York, NY 10172, USA (Tel: +1 212 801 9160 Fax: +1 212 801 9163).

Vietnam. This document is distributed in Vietnam by ANZ or ANZ Bank (Vietnam) Limited, a subsidiary of ANZ.

This document has been prepared by ANZ Bank New Zealand Limited, Level 26, 23-29 Albert Street, Auckland 1010, New Zealand, Ph 64 9 357 4094, e-mail nzeconomics@anz.com, <http://www.anz.co.nz>