

# ANZ NZ Business Micro Scope

Data for March 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 March 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.

## Low rider

### Summary

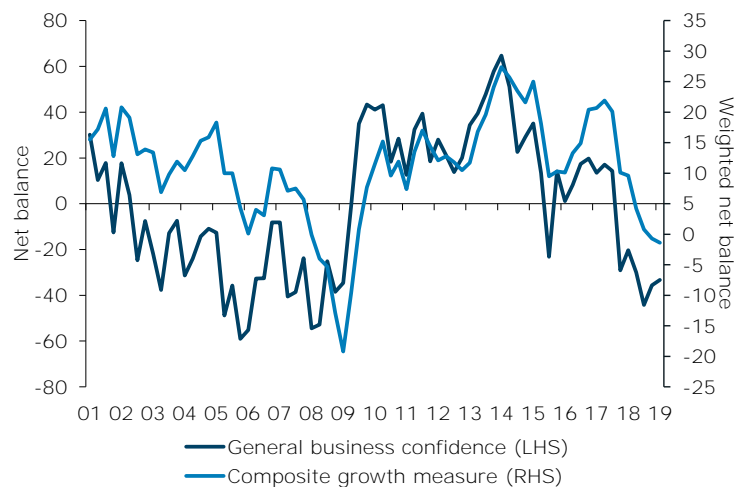
- Small firm business confidence lifted a touch in the March quarter, but remains low by historical standards.
- Growth indicators ticked up slightly, although there is still not a lot to smile about.
- Regulatory requirements and a lack of skilled staff continue to top the list of biggest problems faced by small businesses.

**Small firm business confidence lifted slightly in the March quarter**, with a net 33% of small businesses pessimistic about general business conditions in the year ahead. This is still very low by historical standards, but an improvement on the recent low of -44% in the September 2018 quarter. Confidence was unmoved for *micro* (0-5 employees) firms (-39%) and lifted slightly for *intermediate* (6-20 employees) sized firms (up 5%pts to a net -27%). All up, business confidence among small firms remains firmly in pessimistic territory.

**Our composite growth measure for small firms – a proxy for GDP growth – drifted further into negative territory.** The composite measure is based on growth indicators such as firms' own activity outlook, hiring and investment intentions, and profit expectations. Activity and hiring intentions both made positive contributions, but profit expectations and investment intentions continue to weigh (the latter is lagged to better align with GDP).

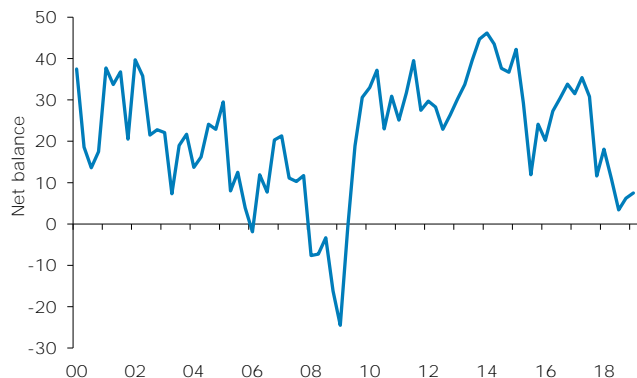
All four growth measures ticked up in March, but by less than 3%pts, meaning they remain below mid-2018 levels. While the small lift is a positive development, these measures are more consistent with growth among small businesses flat-lining into 2019 rather than accelerating.

**Figure 1. Small business confidence and composite growth measure**

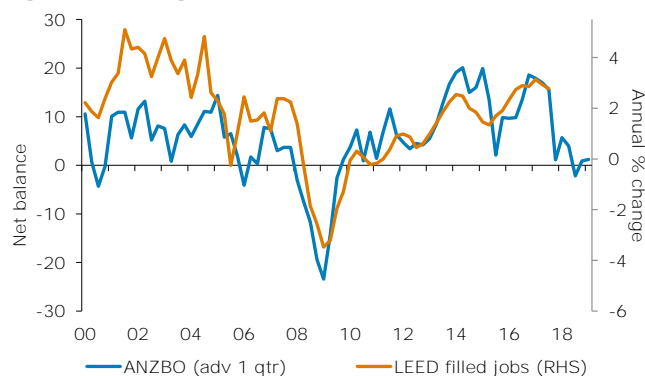


Source: ANZ Research

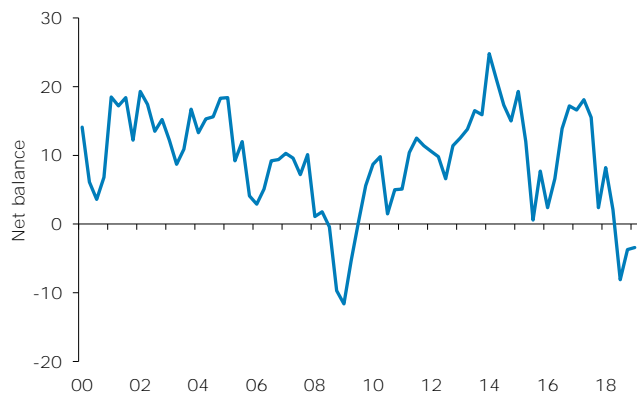
**Figure 2. Own activity**



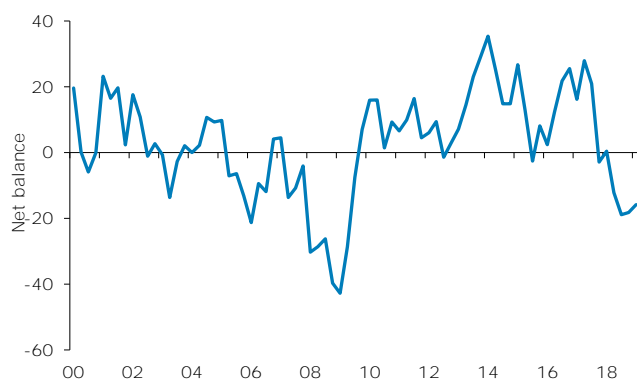
**Figure 3. Hiring intentions**



**Figure 4. Investment**



**Figure 5. Profitability**



**Small firms’ expectations of their own activity ticked up for the second consecutive quarter.**

Firms’ view of their own activity rose a little over 1%pt to +7.5%, boosted by a 5%pt lift from intermediate sized firms; micro firms fell slightly. Services remained solid (+10%, no change) while manufacturing jumped to be the most optimistic sector (+13%). So far, it appears small NZ manufacturing firms have largely side-stepped the turmoil encountered by their overseas counterparts. Agriculture and construction firms both ticked up slightly. Retail improved slightly, but posted its fourth consecutive negative outturn.

**Hiring intentions squeezed out a small gain, but the general signal for employment growth from small firms remains very soft.**

Hiring intentions have fallen from around a net 15%-20% expecting to take on new staff in 2017 to 1% in March. Official data has ticked down<sup>1</sup> from a growth high in 2017 and has tended to follow hiring intentions in recent years. Worrying signs are apparent in services, which has the largest weight in the survey and fell 6.5%pts +1.6%. Retail rose a whopping 16%pts to +6.1%, but with profits struggling, this may prove temporary.

**Investment intentions remain in the doldrums, with little direction.**

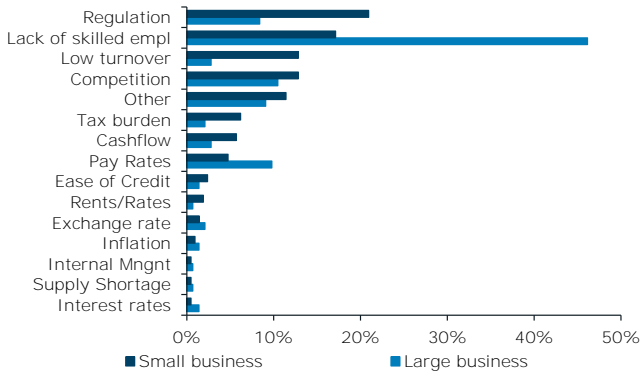
Overall, intentions are still bobbing around lows not seen since 2009. Services firms fell into negative territory (-1%) while intentions among manufacturing firms lifted 15%pts to +4.1%, to be the only sector in the black. Intentions among retailers remain in negative territory (-4.1%), with little evidence to suggest the sector is responding to minimum wage rises by investing in labour-saving technology. Overall, soft investment is a little worrisome from a medium-term growth perspective, as it implies a lower capital stock than otherwise.

**Small business profit expectations remain negative, which is where they have been for five of the last six quarters.**

Agricultural and retail firms are particularly downbeat, with profit expectations at -37% and -25% respectively. Despite the recent rise in dairy prices and a buoyant horticultural sector, agricultural firms’ margins are under pressure from regulatory requirements, which is also their biggest concern. Retail firms are feeling the pinch from intense competition and rising minimum wages, even though consumer spending remains robust.

<sup>1</sup> Linked Employer-Employee Dataset (LEED). Latest data is for December 2017 at time of writing.

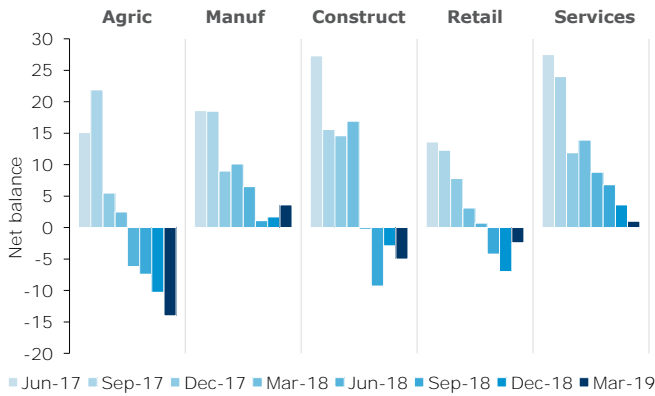
**Figure 6. Biggest problem faced**



**Regulation remains the biggest problem facing small firms.** This is in stark contrast to large firms, which overwhelmingly see lack of skilled employment as their biggest problem. At face value, this may suggest small firms have fewer resources available to adapt to regulatory change than larger ones.

**Difficulty finding skilled employees remains second on the list of problems,** as the tight labour market appears to be weighing.

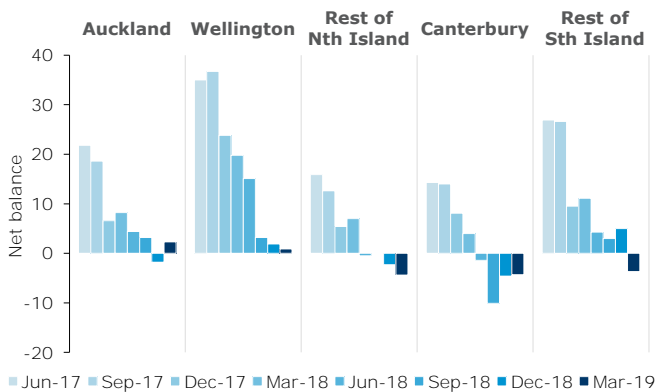
**Figure 7. Sectoral composite business sentiment measure: small firms**



**Our small business composite growth measure shows manufacturing continued to pick up, while services are on the edge of the red zone.**

Manufacturing firms are more upbeat on activity and employment, while services firms' weak hiring intentions dragged the composite down. Even though dairy prices remain high, regulation changes are a major concern and agricultural firms are tightening the purse strings in response. Construction and retail firms also appear to be struggling to grow. Investment intentions are weak for these sectors and profit margins are a particular sore point.

**Figure 8. Regional composite business sentiment measure: small firms**



**The composite growth measure makes for fairly sombre reading across regions.** Auckland bounced 4%pts to sit atop the regions with a meagre +2.3, driven largely by a turnaround in the activity outlook and employment intentions. In the capital, firms' own activity outlook is strong but growth prospects are being hampered by weak investment intentions. It's a similar story for the smaller regions up and down the country but fading hiring intentions also feature. In Canterbury, the recovery in firms' own activity (from negative outturns in H2 2018 to +9%) is encouraging. However, investment intentions are soft.

Source: ANZ, Statistics NZ

	Small				Large			
	Jun 18	Sep 18	Dec 18	Mar 19	Jun 18	Sep 18	Dec 18	Dec 18
<b>Composite Sentiment</b>	4.2	0.8	-0.7	<b>-1.4</b>	10.7	5.1	8.0	<b>2.1</b>
Business Confidence	-30.0	-44.2	-35.6	<b>-33.3</b>	-29.7	-44.9	-28.4	<b>-36.3</b>
Activity Outlook	10.9	3.4	6.2	<b>7.5</b>	18.1	7.7	14.3	<b>9.9</b>
Exports	12.2	9.3	11.1	<b>-0.4</b>	21.5	17.6	14.2	<b>6.2</b>
Investment	2.1	-8.1	-3.7	<b>-3.4</b>	8.7	1.1	2.3	<b>9.0</b>
Capacity Utilisation	7.7	3.3	4.9	<b>3.5</b>	21.2	16.5	19.0	<b>13.7</b>
Residential Construction	9.6	8.5	11.1	<b>1.9</b>	12.6	4.6	6.5	<b>9.1</b>
Commercial Construction	5.6	-9.3	7.6	<b>-4.8</b>	3.4	-7.7	3.2	<b>9.5</b>
Employment	4.0	-2.2	0.9	<b>1.2</b>	8.4	-1.0	6.2	<b>3.2</b>
Unemployment Rate	17.2	30.2	18.8	<b>29.2</b>	14.4	24.3	17.8	<b>25.6</b>
Profits	-12.2	-18.9	-18.2	<b>-15.8</b>	-0.1	-11.0	-1.9	<b>-7.7</b>
Interest Rates	48.0	37.1	26.2	<b>15.4</b>	37.1	22.0	21.5	<b>6.1</b>
Pricing Intentions	23.6	25.4	22.8	<b>24.2</b>	27.7	33.8	36.2	<b>30.0</b>
Ease of Credit	-30.0	-38.5	-30.6	<b>-35.9</b>	-26.5	-30.0	-22.0	<b>-43.8</b>
Inflation Expectations	2.2	2.2	2.3	<b>2.1</b>	2.1	2.1	2.1	<b>2.0</b>
Agriculture	-6.2	-7.4	-10.3	<b>-14.0</b>	18.8	5.2	18.2	<b>18.3</b>
Manufacturing	6.5	1.1	1.7	<b>3.6</b>	9.7	1.2	3.8	<b>-1.8</b>
Construction	-0.3	-9.3	-2.9	<b>-5.0</b>	5.2	3.3	10.1	<b>1.5</b>
Retail	0.7	-4.2	-7.0	<b>-2.4</b>	16.4	7.2	7.8	<b>2.7</b>
Services	8.8	6.8	3.6	<b>1.0</b>	10.7	8.0	10.0	<b>2.7</b>
Auckland	4.4	3.2	-1.8	<b>2.3</b>	18.1	13.7	20.9	<b>4.4</b>
Wellington	15.1	3.2	1.9	<b>0.9</b>	13.1	8.9	2.4	<b>7.2</b>
Rest of North Island	-0.5	0.0	-2.3	<b>-4.4</b>	4.9	-0.9	5.8	<b>3.4</b>
Canterbury	-1.4	-10.1	-4.6	<b>-4.3</b>	3.8	-6.3	-2.0	<b>-11.1</b>
Rest of South Island	4.3	3.0	5.0	<b>-3.7</b>	11.0	9.0	7.6	<b>1.0</b>

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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