

ANZ BUSINESS MICRO SCOPE STILL FEELING GOOD

Data for December quarter 2014

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 2014.

The survey takes in responses from 284 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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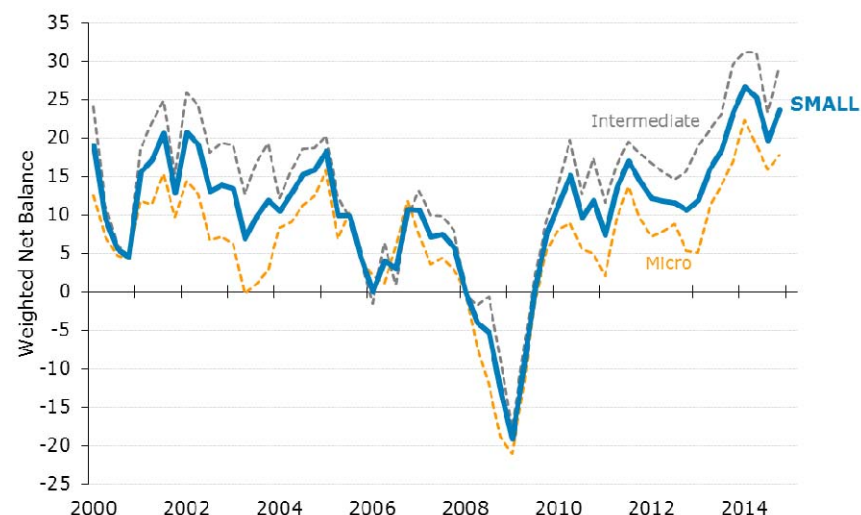
SUMMARY

- Small business confidence recovered after two successive quarterly falls.
- Intermediate sized firms (those employing 6-20 people) were more positive about the year ahead than micro-sized firms (up to 5 employees).
- Finding skilled staff was the biggest problem identified by small businesses.
- The services sector and Wellington continue to report the highest levels of sentiment.

Small businesses account for 90 percent of firms in New Zealand, and employ nearly a third of all New Zealanders. 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.

After easing over the preceding two quarters, **business sentiment across the small business community rebounded in December.** Our composite measure of business confidence in the small business sector lifted to the third highest level to be registered in the past 15-years.

FIGURE 1. SMALL BUSINESS CONFIDENCE, COMPOSITE MEASURE

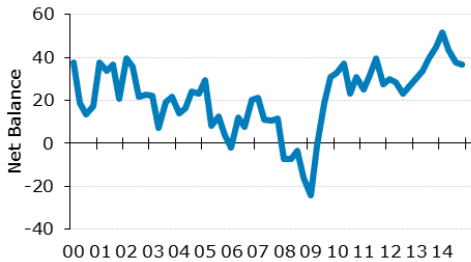


Source: ANZ

Our composite measure of business sentiment, which is a broader measure of prospects than just headline business confidence alone, increased 4 points in December. Both micro and intermediate sized firms recorded an increase in composite confidence. With the recession now four years ago, the economy is well beyond a 'recovery' phase. Real GDP has risen 11.1% since then and the unemployment rate has improved from over 7% to 5.4%. Each passing day of sustained growth brings more confidence to reinvest and employ.

ANZ BUSINESS MICRO SCOPE

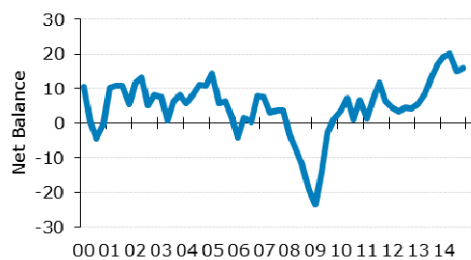
FIGURE 2. OWN ACTIVITY



Source: ANZ

When firms' were asked to assess their own business activity over the next 12 months, the net balance (i.e., the proportion expecting an increase less the proportion saying decrease) dropped 1 point, **easing to its lowest level in 18 months**. Nonetheless, expectations across the small business sector remains relatively upbeat compared to historical norms. Within the small business segment, 'own activity' eased 6 points for the *micro* sub-group but **lifted four points for the intermediate sized sub group**. Small businesses' general assessment of the wider economy was stronger, with both *micro* and *intermediate* sized sub-groups reporting a lift in general business confidence.

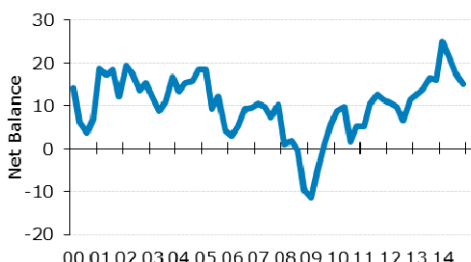
FIGURE 3. HIRING INTENTIONS



Source: ANZ

Hiring intentions within the small business community, recovered one point over the quarter. Hiring intentions across *micro* sized businesses was unchanged, but intentions for the *intermediate* sub-group improved 2 points. Hiring intentions for the small business sector has been above the long-term average for two successive years. The net number of small business expecting an improvement in the nationwide unemployment rate in a year's time rose from a net +20 in September to a net +25 in December.

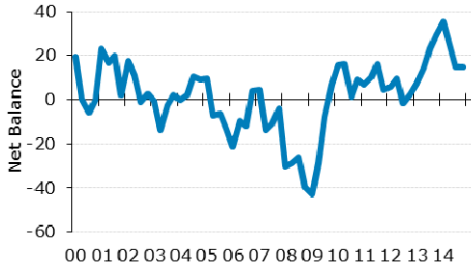
FIGURE 4. INVESTMENT



Source: ANZ

Investment intentions across the small business sector eased 2 points in December; **the third consecutive quarterly drop to be measured in the series**, easing to an 18-month low. Investment by *micro* sized firms rose 1 point to +13, while expectations for *intermediate* sized firms dropped 5 points to +17 – the lowest net balance measured in the sub-group in nearly two years. The projected rate of using existing plant and machinery (more commonly called *capacity utilisation*) edged down a twelve-year high measured in September.

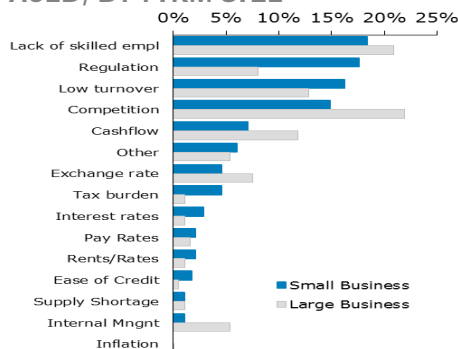
FIGURE 5. PROFITABILITY



Source: ANZ

Expected profitability across the small business sector was unchanged in December. Expectations across *intermediate* sized firms lifted 3 points to a net balance of +20 percent. The net balance of *micro* sized firms expecting increased profitability dropped 3 points to a net +10 in December. A net 27 percent of all small businesses expect interest rates to rise over the next 12 months, down markedly from a net 66 percent expecting an interest rate hike three months earlier. The proportion of small businesses expecting that credit would be easier to obtain lifted to a five-year high.

FIGURE 6. BIGGEST PROBLEM FACED, BY FIRM SIZE

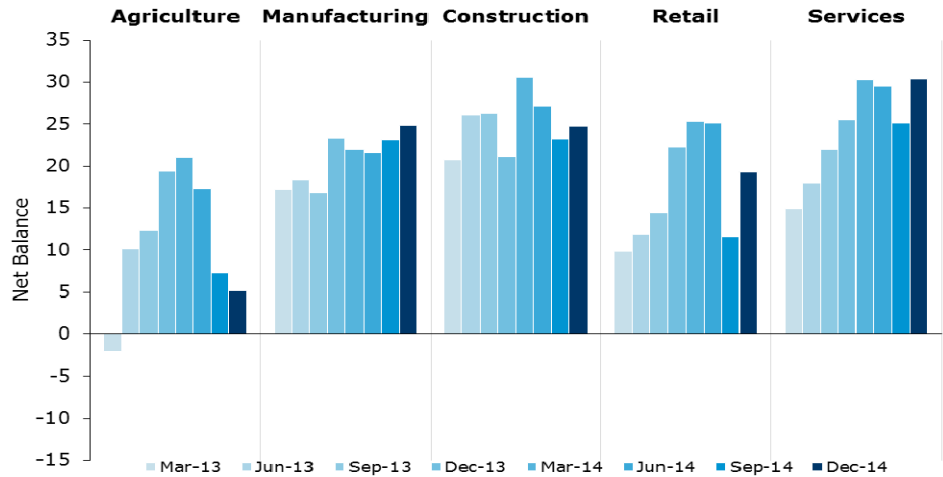


Source: ANZ

A 'lack of skilled staff' was identified as the biggest problem facing small business in New Zealand. Eighteen percent of all small businesses identified this as the biggest problem that they face, up 3 percentage points from September. 'Regulation' was the second biggest problem small businesses face, toppled from being the biggest problem last quarter. 'Low turnover' was the third most identified problem that small businesses face. All three of the above categories have regularly been placed in the top three problems firms face since June. The 'exchange rate' was identified as an issue by only 5% of respondents, down from 12% two years ago when it was a significant problem facing small business.

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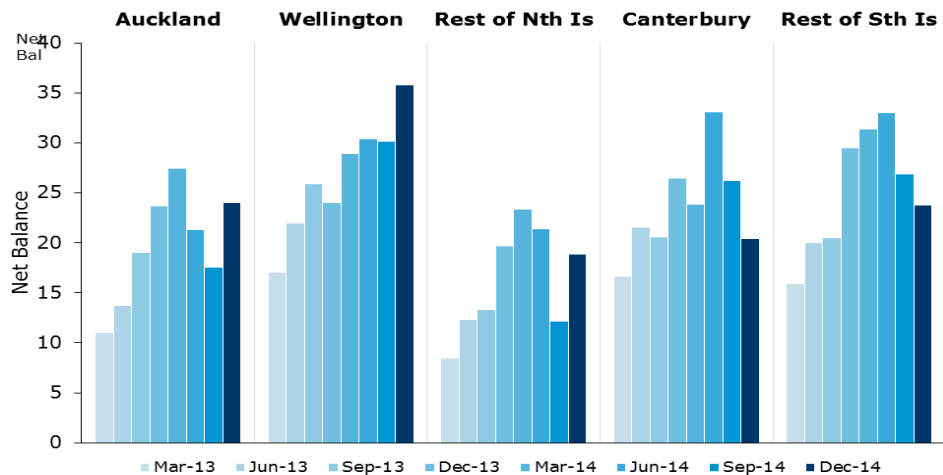
FIGURE 7. SECTORAL COMPOSITE BUSINESS SENTIMENT MEASURE: SMALL FIRMS



Source: ANZ

Small business sentiment increased across four of the five sectors in December. Agriculture was the only sector to record a drop in sentiment, easing 2 points to +5. At the other end of the spectrum, the services sector recorded the largest increase in sentiment, lifting 8 points to +30 – the highest level to be noted by that sector since the start of the series in December 2007. The manufacturing and construction sectors recorded the joint second highest levels of sentiment, with the former sector lifting to a new high.

FIGURE 8. REGIONAL COMPOSITE BUSINESS SENTIMENT MEASURE: SMALL FIRMS



Source: ANZ

Regional business sentiment across the small business segment increased in the North Island but slipped in the South Island. Wellington retained the highest level of sentiment across the regions, posting the highest level of sentiment of any region since the start of our series in December 2007. The next best ranking was measured in Auckland which rose to the second place for the first time since March 2012. Meanwhile, sentiment in Canterbury dropped to a seven quarter low, with the Rest of the South Island drifting down to a five quarter low.

ANZ BUSINESS MICRO SCOPE

	SMALL				LARGE			
	Mar 14	Jun 14	Sep 14	Dec 14	Mar 14	Jun 14	Sep 14	Dec 14
COMPOSITE SENTIMENT	26.7	25.3	19.7	23.7	45.1	39.0	34.1	34.5
Business Confidence	64.7	51.1	22.6	29.2	72.4	56.1	33.3	31.5
Activity Outlook	51.7	43.5	37.6	36.7	71.2	56.9	43.8	45.4
Exports	26.9	16.2	17.2	22.8	42.3	37.9	29.5	29.3
Investment	24.8	21.0	17.3	15.0	37.6	33.1	26.3	25.1
Capacity Utilisation	23.4	23.6	26.8	21.1	45.2	41.9	32.7	34.9
Residential Construction	48.7	50.5	40.4	44.8	64.4	56.8	59.4	51.6
Commercial Construction	40.0	42.3	33.9	34.8	50.0	45.2	35.8	43.7
Employment	19.1	20.1	15.0	16.0	45.2	36.9	35.1	27.3
Unemployment Rate	-45.0	-39.3	-19.8	-24.8	-48.3	-44.0	-33.3	-30.2
Profits	35.4	25.2	14.8	14.8	54.2	42.8	37.9	33.4
Interest Rates	85.1	82.1	66.3	27.0	90.3	86.9	71.3	35.8
Pricing Intentions	27.6	25.0	18.8	17.4	39.4	30.5	27.9	27.7
Ease of Credit	11.1	11.9	8.7	15.2	18.2	15.6	10.1	10.2
Inflation Expectations	2.6	2.6	2.6	2.3	2.5	2.4	2.4	2.2
AGRICULTURE	21.0	17.3	7.3	5.2	7.1	20.0	8.3	18.1
MANUFACTURING	22.0	21.6	23.1	24.8	41.5	31.9	30.9	28.3
CONSTRUCTION	30.6	27.1	23.2	24.7	51.9	52.1	41.0	42.5
RETAIL	25.3	25.1	11.6	19.3	54.3	42.5	37.4	39.2
SERVICES	30.3	29.5	25.1	30.4	45.3	40.2	34.7	35.1
AUCKLAND	27.5	21.3	17.6	24.0	51.8	40.6	41.5	42.0
WELLINGTON	28.9	30.4	30.2	35.8	36.2	38.0	29.9	28.7
REST OF NORTH ISLAND	23.4	21.4	12.2	18.9	49.2	44.7	36.3	37.6
CANTERBURY	23.9	33.1	26.2	20.4	46.5	38.1	35.5	29.9
REST OF SOUTH ISLAND	31.4	33.0	26.9	23.8	38.2	28.8	20.1	22.0

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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