

ANZ BUSINESS MICRO SCOPE REBUILD CONFIDENCE SPREADING

Data for March quarter 2013

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 2013.

The survey takes in responses from 250 firms, comprising micro (up to 5 staff) and small businesses (6 to 20 staff). 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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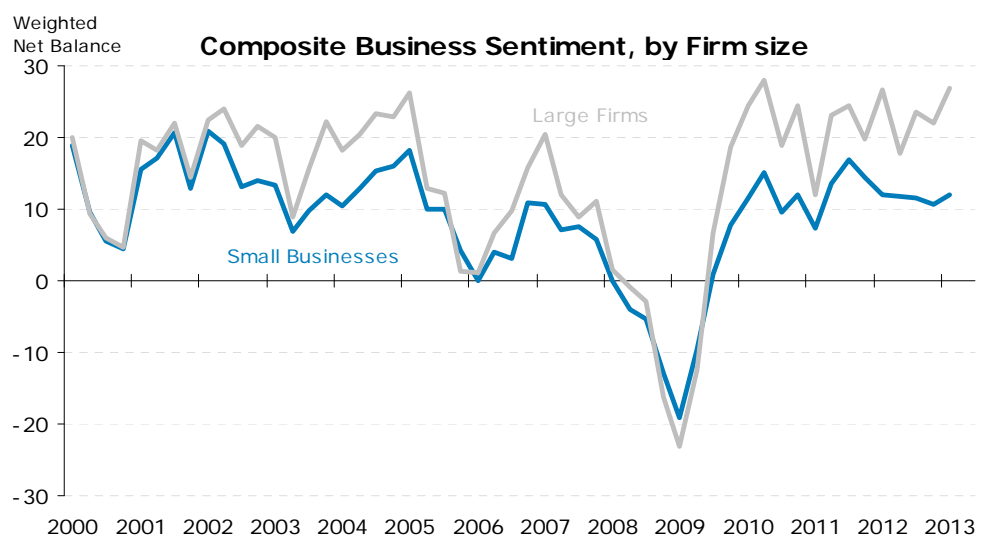
SUMMARY

- Our composite measure of business sentiment across small businesses ticked up in March, but remains within a tight range over the past year.
- Within the SME segment, perceived prospects for *micro* sized firms (5 employees or less) were unchanged, while expectations for *small* sized firms (6-20 employees) lifted.
- Low turnover has been identified as the biggest problem facing small businesses.
- Within the SME segment the rebuild in Canterbury will deliver increased opportunities to small businesses across the greater South Island.

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 business 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.

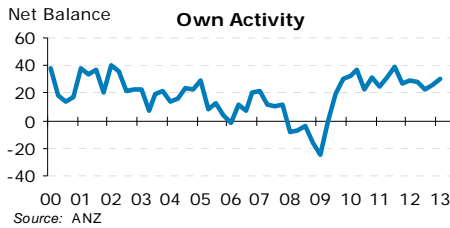
The composite measure of sentiment across small businesses lifted slightly in the March quarter, increasing from a net +11 in December to +12 in March. The overall level of sentiment across small businesses has remained within a tight range of +11 to +12 for the past twelve months, and has consistently bettered the long-term average of +9 for two years.

Sentiment across the *micro* sized sub-group (5 employees or less) was unchanged, at a net +5 percent in March expecting better times ahead. **Small sized businesses (6-20 employees) were more upbeat**, rising from a net +16 in December to a net +19 in March.

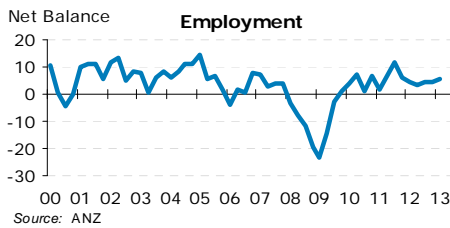


Source: ANZ

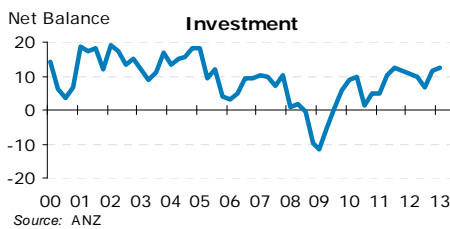
ANZ BUSINESS MICRO SCOPE



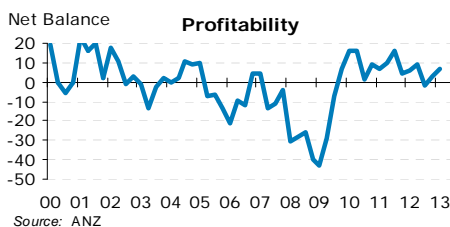
Own activity expectations for small businesses increased 4 points to an 18-month high of +30. This continues to be a very optimistic outlook, with the historical average of this indicator being +19. A 4 point lift was measured across both the *micro* and *small* sized firm categories, lifting to a three and four quarter highs of +23 and +38, respectively – well above the respective long-term averages of +15 and +23.



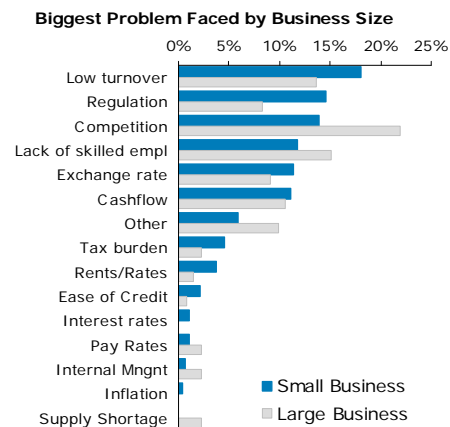
Hiring intentions remain on the right side of the ledger, inching up 1 point to a net balance of +6. The net balance is also marginally ahead of the longer-term average of +4 for the series. **Firms with 6 to 20 employees reported a 5 point rise in hiring intentions to an 18-month high,** while *micro* sized firms (5 employees or less) recorded a 2 point retracement in hiring intentions.



Planned investment by small businesses lifted from +11 in December to +13 in March. This equals the previous high in the series 18 months earlier. It is eight years since investment expectations were higher than they currently are (March 2005). Within the SME sector *micro* sized businesses eased very marginally (+9 to +8) but **small sized firms (6-20 employees) posted a fifth successive increase, lifting from +14 to an eight-year high of +17.**



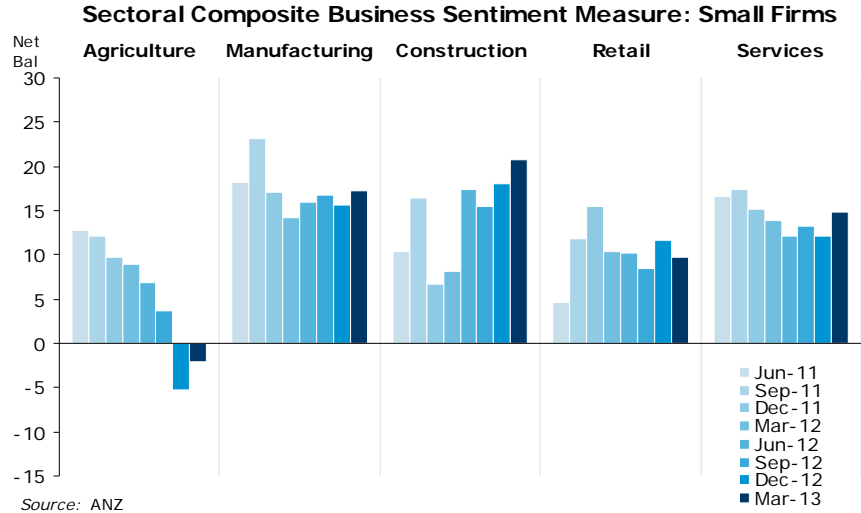
Expected profitability among the SME segment recovered further in March, rising from a net +3 in December to +7 in March. Improved profitability expectations were noted across both the *micro* and *small* segments. **A net 16 percent of small businesses expected a lift in profitability, up from +13 in December.** Expected profitability across the *micro* sized firms remains more downbeat, but improved from a net -8 in December to a net -2 in March.



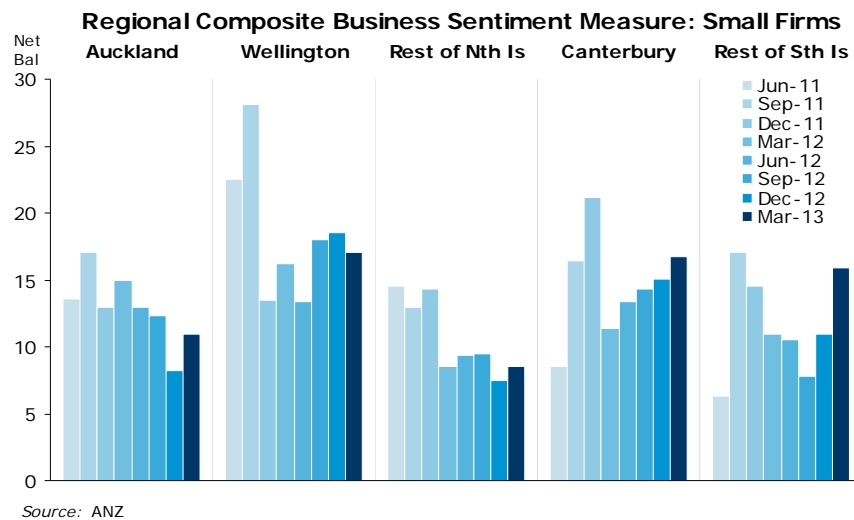
Small businesses in New Zealand continue to be plagued by low turnover. This was the biggest problem that was reported by small businesses in the latest *ANZ Business Outlook* survey. Eighteen percent of respondents reported reduced turnover as the biggest problem they faced in the March quarter, down from 22.5 percent in the December quarter. **'Regulation' was the second biggest problem facing small businesses, leapfrogging 'competition'.** A 'lack of skilled employees' was the fourth biggest problem facing small business. With 11.8 percent of respondents reporting this as their biggest problem in March, it has doubled from the 6 percent that reported it as their biggest problem last quarter.



ANZ BUSINESS MICRO SCOPE



Our composite measure of sentiment across the small business community improved in four of the five sectors. The construction sector reported the highest level of sentiment across the sectors, lifting 3 points to a net +21. **Business activity expectations of respondents involved in the residential construction sector were at a 13-year high in March.** Manufacturers were the second most optimistic, lifting to an 18-month high. Encouragingly, sentiment improved in the agriculture sector despite worsening drought conditions spreading throughout much of the country.



Perceived economic prospects for small business lifted in four of the five regions. **Small businesses in Canterbury and Wellington were the most optimistic,** despite an easing in the latter region, with the rest of the South Island a very close third. Sentiment in Canterbury has risen consecutively for the past four quarters and we expect this trend to continue as the rebuild gains momentum. Some of this increased activity has rubbed off onto the remainder of the South Island, with the economic prospects of firms in this region at its second strongest level since 2007.

ANZ BUSINESS MICRO SCOPE

	SMALL				LARGE			
	Jun 12	Sep 12	Dec 12	Mar 13	Jun 12	Sep 12	Dec 12	Mar 13
COMPOSITE SENTIMENT	11.8	11.6	10.6	11.9	17.7	23.5	22.1	27.0
Business Confidence	21.2	13.8	20.1	34.4	34.9	26.0	31.1	45.1
Activity Outlook	28.3	22.9	26.4	30.2	36.1	37.9	38.8	45.9
Exports	13.1	8.1	10.8	9.3	22.0	32.3	26.1	30.4
Investment	9.8	6.6	11.4	12.5	19.4	23.9	20.5	24.2
Capacity Utilisation	16.1	13.4	8.5	14.3	21.6	30.1	22.4	29.6
Residential Construction	39.0	32.9	35.4	42.6	57.9	46.6	43.6	50.8
Commercial Construction	23.3	14.3	21.4	16.9	27.6	15.2	27.6	36.7
Employment	3.4	4.5	4.2	5.5	13.7	18.1	10.3	19.2
Unemployment Rate	0.2	9.2	12.5	1.4	-10.5	-2.8	-1.6	-12.3
Profits	9.4	-1.4	2.8	7.1	19.2	20.2	22.2	29.9
Interest Rates	21.9	18.0	4.9	29.0	26.5	15.1	6.4	19.0
Pricing Intentions	16.9	15.7	14.5	19.9	20.1	21.4	19.3	20.8
Ease of Credit	6.6	7.5	11.5	8.3	10.9	11.9	12.0	9.8
Inflation Expectations	2.7	2.5	2.3	2.3	2.6	2.4	2.2	2.2
AGRICULTURE	6.9	3.7	-5.2	-2.0	-11.2	-6.1	-10.1	-19.0
MANUFACTURING	16.0	16.8	15.6	17.2	5.6	11.4	4.8	10.2
CONSTRUCTION	17.4	15.4	18.0	20.7	28.6	35.8	33.0	43.4
RETAIL	10.2	8.4	11.7	9.8	16.5	27.9	33.1	33.2
SERVICES	12.1	13.3	12.2	14.9	24.3	28.0	28.2	34.7
AUCKLAND	12.9	12.3	8.2	11.0	19.9	21.3	26.3	30.8
WELLINGTON	13.4	18.0	18.5	17.1	10.7	18.9	17.1	23.5
REST OF NORTH ISLAND	9.4	9.5	7.5	8.5	19.8	26.7	27.5	31.7
CANTERBURY	13.4	14.3	15.1	16.7	16.5	34.3	28.4	31.5
REST OF SOUTH ISLAND	10.5	7.8	11.0	15.9	22.3	15.2	9.3	8.9

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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