

ANZ BUSINESS MICRO SCOPE BUILDING AMBITIONS

Data for December quarter 2012

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 2012.

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 from earlier quarters are calculated by extracting corresponding data on small businesses from that survey, which goes back to December 1999.

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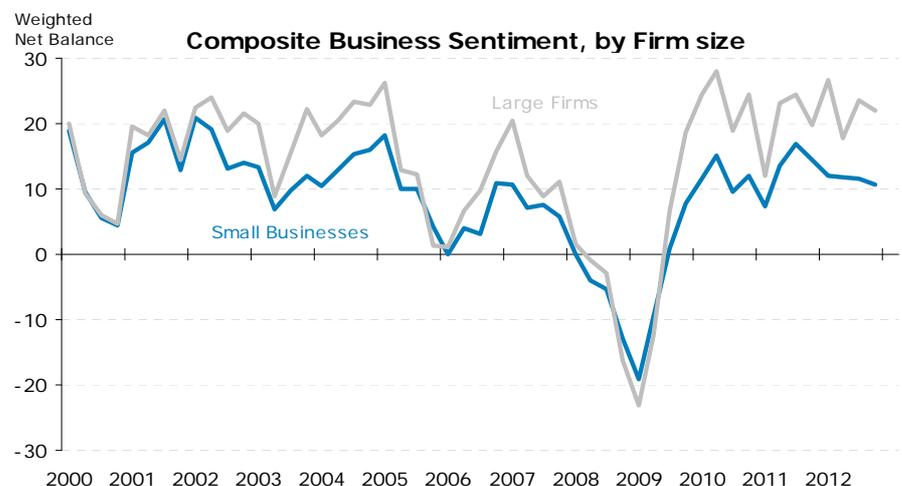
SUMMARY

- Our composite measure of business sentiment eased marginally over the final quarter of 2012, with both small and large sized business confidence weakening.
- However, three of the four components used to calculate our composite of small businesses sentiment still increased in December. This included activity expectations, investment and profitability.
- Investment intentions are improving for small business, particularly for construction firms which hit a new high.
- Low turnover is the biggest problem that small business faces.

Small business accounts for 90 percent of firms in New Zealand, and employ nearly a third of all New Zealanders. Despite the significance that small business adds 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.

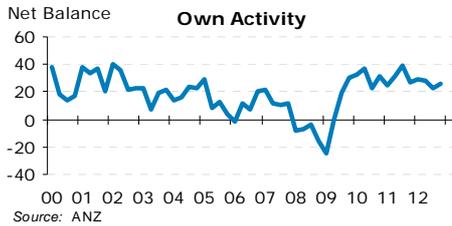
The small business composite gauge of business sentiment slipped 1 point, from +12 in September to +11 in December. Large business sentiment also moved in tandem, slipping 1 point, to a net balance of +22 percent. Small business sentiment continues to track below larger peers, though it remains above the long-term average of +9 percent.

Micro sized firms (5 employees or less) recorded **a weakening in overall business sentiment**, dropping 4 points to a net balance of +5 percent in December, easing to its lowest level since March 2011. On the other hand, *small* businesses (6-20 employees) registered **a 1 point rise in its composite sentiment measure**, improving to a nine-month high of +16 percent.



Source: ANZ

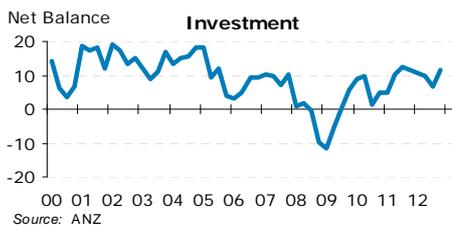
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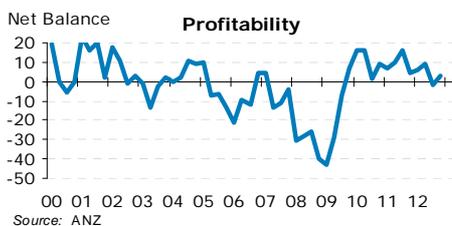
Small businesses reported a 3 point increase in own activity, lifting to +26 in December. This improvement was off a three-year low reported in the September quarter. Within the small business segment, *micro* sized firms reported a lower expectation of business activity within their industry (down 1 point to a net balance of +19), while *small* sized firms recorded a lift in the expectations of their own activity (up 8 points to a net +34 percent).



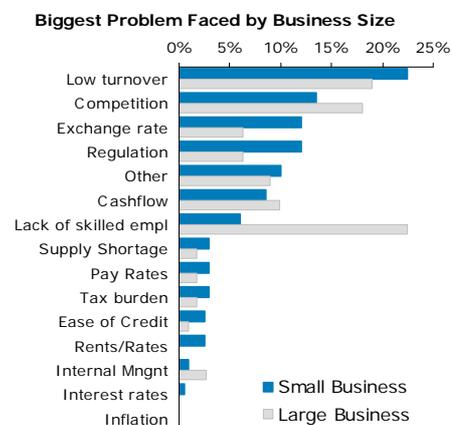
Staff hiring intentions slipped one point, from a net +5 percent of small businesses in September to +4 in December. *Micro* sized firms reported identical proportions of businesses intending on hiring more or fewer staff in the next twelve month, resulting in a net balance of zero. A net +8 percent of *small* sized businesses expected to be hiring more staff in the year ahead, unchanged from the September quarter.



There was a strong lift in investment intentions across the micro and small business segments. *Micro* sized firms reported an 8 point increase, to a net balance of +9 percent. Investment intentions among *small* sized businesses increased one point to a seven-year high of +14 percent. Overall investment intentions in the small business segment increased 5 points to a net balance of +11 percent, fractionally below the recent high of +13 percent measured in September last year.



After a short dip in September, expected profitability across the small business sphere **returned to a positive value in December**. A net +3 percent of firm expect profitability to rise in the next twelve months. *Micro* sized firms are still expecting a decline in profitability, up 2 points to a net balance of -8 percent. *Small* sized firms reported a 6 point increase in profitability to a net +13 percent.

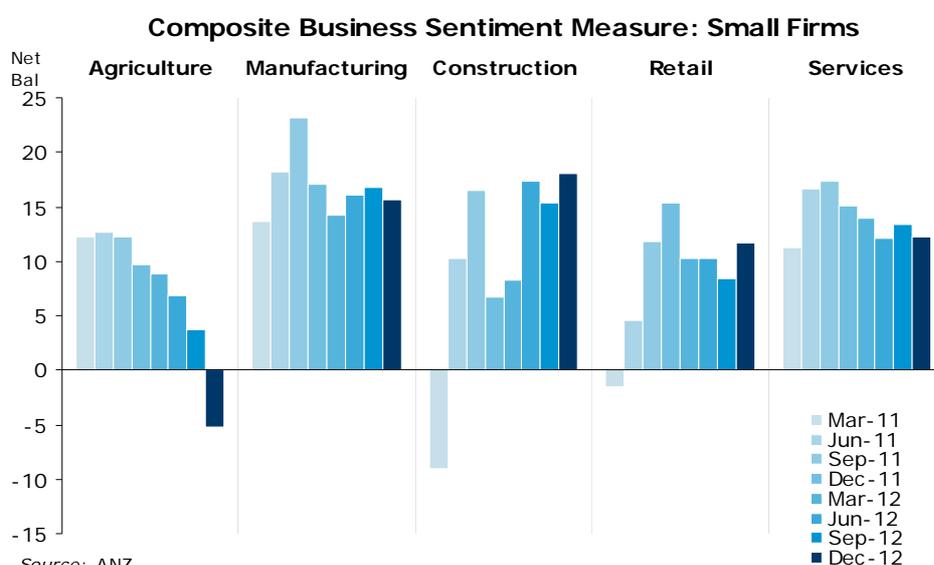


Low turnover remains the biggest obstacle facing micro and small businesses, although the figure eased slightly, from 25 to 23 percent. Competition was identified as the second most frequent problem facing small businesses, up from 10 percent in September to 14 percent in December. The next largest problem that firms face is the exchange rate, which grew from 10 to 12 percent. Other problems to increase in representation were: supply shortages, pay rates, cash flow and ease of credit. The largest reduction across the range of problems that firms face was **the lack of skilled employment**, which dropped from 11 to 6 percent. Nonetheless, as the adjacent chart shows, this is a thorn in the side of large businesses at present. Other significant reductions were low turnover (as mentioned earlier), tax burden and inflation, which is not considered a problem by any of the respondents.



ANZ BUSINESS MICRO SCOPE

A sectoral analysis of the small business composite business sentiment measure reveals that the agricultural sector fell into negative territory for the first time since June 2009. The level of sentiment in manufacturing and services also weakened in December, while construction and retail businesses reported improving sentiment. Our sectoral analysis only begins in 2007. Since this time, **agricultural sentiment is at its lowest, while construction sentiment is at its highest**. Construction firms recorded record high levels of investment and hiring intentions.



	SMALL (0-20 employees)				LARGE (21+ employees)			
	Mar 12	Jun 12	Sep 12	Dec 12	Mar 12	Jun 12	Sep 12	Dec 12
COMPOSITE SENTIMENT	12.1	11.8	11.6	10.6	26.7	17.7	23.5	22.1
Business Confidence	28.0	21.2	13.8	20.1	40.1	34.9	26.0	31.1
Activity Outlook	29.7	28.3	22.9	26.4	48.8	36.1	37.9	38.8
Exports	23.3	13.1	8.1	10.8	15.8	22.0	32.3	26.1
Investment	10.6	9.8	6.6	11.4	17.4	19.4	23.9	20.5
Capacity Utilisation	15.0	16.1	13.4	8.5	25.6	21.6	30.1	22.4
Residential Construction	31.5	39.0	32.9	35.4	62.0	57.9	46.6	43.6
Commercial Construction	19.0	23.3	14.3	21.4	30.7	27.6	15.2	27.6
Staff Hiring	4.7	3.4	4.5	4.2	20.3	13.7	18.1	10.3
Unemployment Rate	-3.0	0.2	9.2	12.5	-15.3	-10.5	-2.8	-1.6
Profits	6.0	9.4	-1.4	2.8	25.2	19.2	20.2	22.2
Interest Rates	28.1	21.9	18.0	4.9	32.0	26.5	15.1	6.4
Pricing Intentions	20.2	16.9	15.7	14.5	24.3	20.1	21.4	19.3
Ease of Credit	4.2	6.6	7.5	11.5	6.6	10.9	11.9	12.0
Inflation Expectations (%)	2.8	2.7	2.5	2.3	2.7	2.6	2.4	2.2

Source: ANZ *Business Outlook* survey. The data is a net balance (% up/improve minus % down/worsen) except for inflation expectations.

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