

ANZ BUSINESS MICRO SCOPE PREPARING FOR TAKE OFF

Data for June 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 June 2013.

The survey takes in responses from 209 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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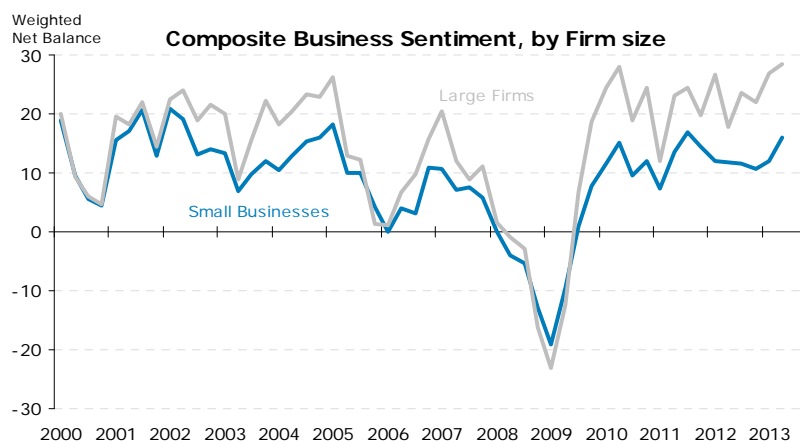
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SUMMARY

- Small businesses in Wellington remain the most positive but the region looks set to pass the baton onto Canterbury, with the rebuild delivering increased opportunities to small businesses across the wider South Island.
- Our composite measure of business sentiment across small businesses improved markedly in June, though it remains beneath the even more upbeat sentiment measured across larger businesses.
- Within the small business segment, perceived prospects for the micro-sized businesses (5 employees or less) rose to its highest since mid-2011, while expectations for the intermediate segment (6-20 employees) lifted to an eleven-year high.
- Small business profitability, investment and labour market conditions are all expected to improve over the next twelve months.
- Low turnover has been identified as the biggest problem facing small businesses, with a lack of skilled employees becoming an increasing issue.

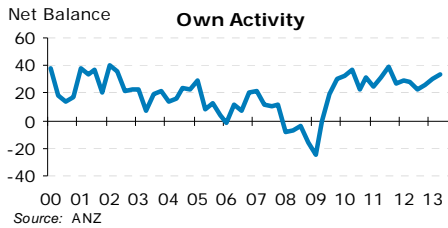
Small businesses account for 90 percent of firms in New Zealand, and employ nearly a third of all New Zealanders. Despite the significance of small business to the economy, there is only a limited amount of official data reported on economic prospects in the small business sphere. To fill this void we 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.

Our composite measure of sentiment across small businesses lifted to its second highest reading since 2005. Sentiment across the micro-sized firms (5 employees or less) rebounded from a net balance of +5 in March, lifting to a seven quarter high of +11 in June. A smaller improvement was noted for those firms with 6-20 employees, rising from +19 in March to +21 in June. While only a modest rise compared to the lift in micro sized businesses, the **latest reading for the intermediate segment has touched an eleven-year high. However, sentiment in the small business sphere continues to trail (by a notable margin) larger sized firms.**

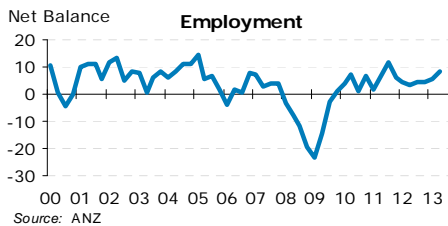


Source: ANZ

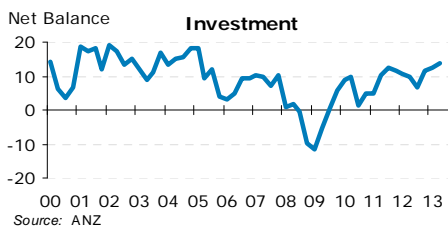
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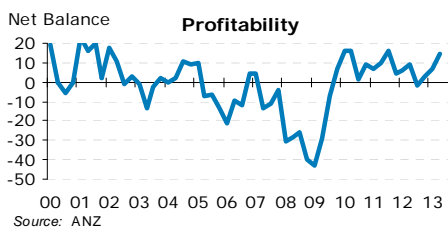
Own activity expectations for small businesses have lifted for three successive quarters, reaching its highest level since September 2011. This series monitors firms' expectations for their own particular business. Both the micro and intermediate sub-groups have increased to a seven-quarter high. Expectations for the wider economy also improved, with general business confidence across the small business segment rising to a three-year high.



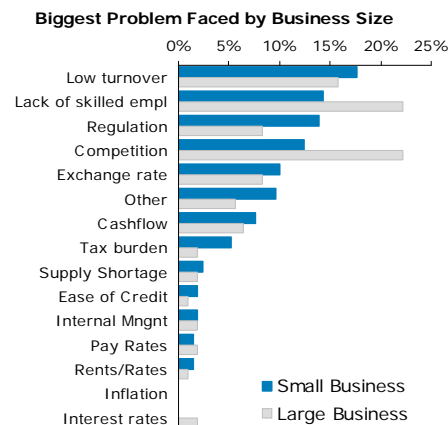
Hiring intentions increased to its highest level since September 2011. Both sub-groups within the small business segment expect to increase staff hiring over the next twelve months. A further indication that the labour market is set to improve is that small businesses reported a drop in expectations for the unemployment rate, plumbing a new low since the start of our series in December 1999.



Investment intentions recorded a modest increase, but while modest was enough to nudge the series ahead to a seven-year high. Investment intentions in the micro-sized segment were unchanged with a net balance of +8, while **the intermediate sub group recorded a 3 point increase to +20 – its highest level since March 2005**. The rate of capacity utilisation reported by small businesses edged up, and is now on a par with the longer-term average for the series.



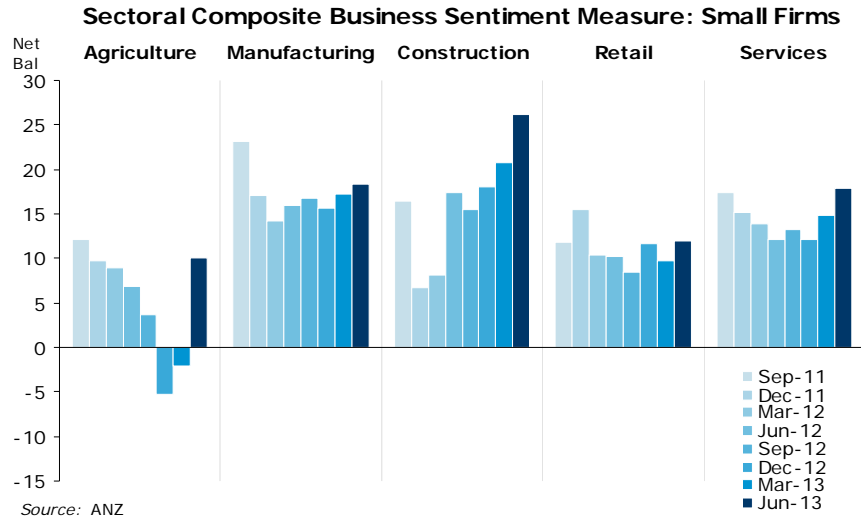
Expected profitability doubled, lifting from +7 in March to +15 in June. Micro-sized small businesses (with 5 employees or less) recorded a 10 point increase to +8. The lift among the intermediate sub group was more modest, rising 6 points to +21, but **the most recent level translates as a 12-year high for the series**. Despite inflation expectations remaining at a record low of 2.3 percent, pricing intentions have increased slightly, with intentions across micro-sized businesses lifting above that segment's historical average.



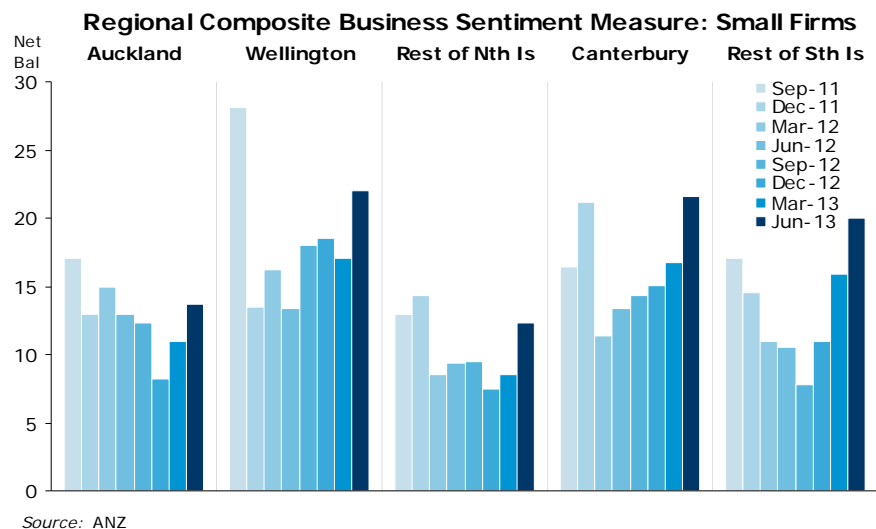
'Low turnover' is the biggest problem facing small businesses in New Zealand, with 17 percent of small business identifying this as their biggest problem. This figure has been steadily declining from a peak of 25 percent measured in September last year. A 'lack of skilled employees' was the second largest problem facing small businesses, rising from fourth ranking last quarter. The 'other' category recorded the largest increase between March and June, rising from 6 to 10 percent of problems facing business. Within this catch-all category our respondents identified: competition from cheaper imported goods, lack of demand, provincial economies suffering at the cost of Auckland and spiralling reinsurance costs.



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Sentiment across all five sectors increased in unison. **The construction sector continues to be the most optimistic** over the next 12 months, with the net balance reaching its highest level since 2007. The outlook for residential construction remains elevated, especially for the small business segment, which inched up to a new record high. Expectations for commercial construction across the small business segment reached a four-year high. The service sector joined construction in recording a record high level of sentiment in June. The largest increase was recorded by the agriculture sector, which rebounded from a drought-induced drop in December and March to a solid position in June.



Small businesses in Wellington remains the most optimistic, but the margin ahead of Canterbury is very slim, and indeed tied when rounded up. Sentiment in Canterbury is the highest it has been since the 2010 earthquake. The rest of the South Island is a quiet achiever, with confidence lifting to its highest level since the start of the series in 2007. As the rebuild gathers momentum **we would expect to see Canterbury take the top ranked regional sentiment**, followed by the wider the South Island.

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	SMALL				LARGE			
	Sep 12	Dec 12	Mar 13	Jun 13	Sep 12	Dec 12	Mar 13	Jun 13
COMPOSITE SENTIMENT	11.6	10.6	11.9	16.0	23.5	22.1	27.0	28.4
Business Confidence	13.8	20.1	34.4	39.5	26.0	31.1	45.1	49.2
Activity Outlook	22.9	26.4	30.2	33.7	37.9	38.8	45.9	47.6
Exports	8.1	10.8	9.3	16.7	32.3	26.1	30.4	31.5
Investment	6.6	11.4	12.5	13.8	23.9	20.5	24.2	29.8
Capacity Utilisation	13.4	8.5	14.3	14.5	30.1	22.4	29.6	26.2
Residential Construction	32.9	35.4	42.6	41.7	46.6	43.6	50.8	51.9
Commercial Construction	14.3	21.4	16.9	25.8	15.2	27.6	36.7	34.5
Employment	4.5	4.2	5.5	8.4	18.1	10.3	19.2	22.0
Unemployment Rate	9.2	12.5	1.4	-10.3	-2.8	-1.6	-12.3	-21.9
Profits	-1.4	2.8	7.1	14.5	20.2	22.2	29.9	32.6
Interest Rates	18.0	4.9	29.0	34.4	15.1	6.4	19.0	31.8
Pricing Intentions	15.7	14.5	19.9	22.9	21.4	19.3	20.8	22.4
Ease of Credit	7.5	11.5	8.3	2.4	11.9	12.0	9.8	8.7
Inflation Expectations	2.5	2.3	2.3	2.3	2.4	2.2	2.2	2.2
AGRICULTURE	3.7	-5.2	-2.0	10.1	-6.1	-10.1	-19.0	-3.9
MANUFACTURING	16.8	15.6	17.2	18.3	11.4	4.8	10.2	13.6
CONSTRUCTION	15.4	18.0	20.7	26.1	35.8	33.0	43.4	36.7
RETAIL	8.4	11.7	9.8	11.9	27.9	33.1	33.2	36.2
SERVICES	13.3	12.2	14.9	17.9	28.0	28.2	34.7	34.2
AUCKLAND	12.3	8.2	11.0	13.7	21.3	26.3	30.8	34.9
WELLINGTON	18.0	18.5	17.1	22.0	18.9	17.1	23.5	14.7
REST OF NORTH ISLAND	9.5	7.5	8.5	12.3	26.7	27.5	31.7	28.0
CANTERBURY	14.3	15.1	16.7	21.6	34.3	28.4	31.5	31.2
REST OF SOUTH ISLAND	7.8	11.0	15.9	20.0	15.2	9.3	8.9	23.0

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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