

ANZ BUSINESS MICRO SCOPE ARCTIC WINDS

Data for June quarter 2015

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 on-going 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 2015.

The survey takes in responses from 264 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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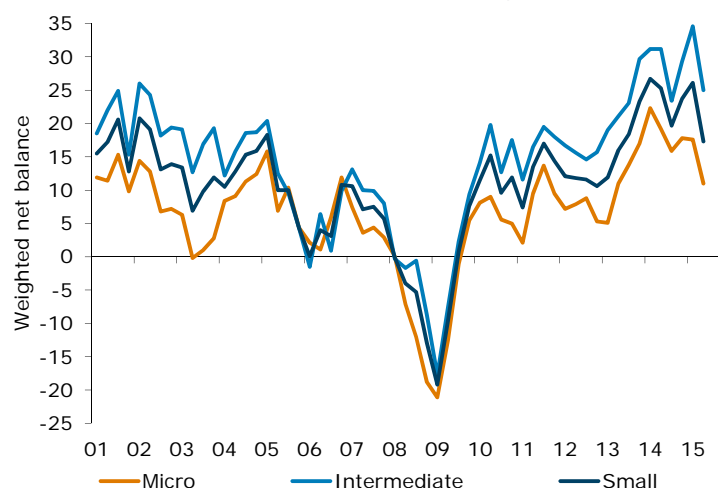
SUMMARY

- Small business confidence fell to a two year low in the June quarter. Confidence is still positive and elevated, but also well down from highs.
- Firms own activity expectations, employment and investment intentions all receded for small businesses though the levels remain respectable. That's consistent with an economy that is still growing modestly, albeit a bit slower.
- Wellington had the highest reading of the regions for the fourth consecutive quarter (looking at our composite measure), whilst the agricultural sector composite dipped into negative territory.
- Regulation and low turnover have replaced lack of skilled employees as the largest problem facing small businesses. That's consistent with an economy that's now slowing and putting less pressure on capacity.

Small businesses account for 90% 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.

Business sentiment across the small business community fell for the first time since September 2014. Confidence is still high but at its lowest level in two years.

FIGURE 1. SMALL BUSINESS CONFIDENCE, COMPOSITE MEASURE

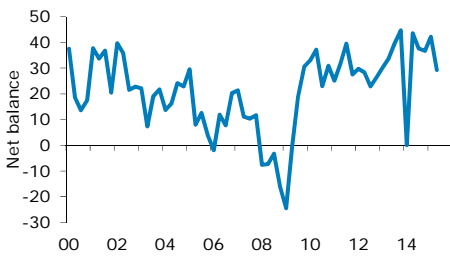


Source: ANZ

Our composite measure of business sentiment, which is a broader measure of prospects than just headline business confidence as it includes employment, activity and investment expectations, fell 8 points in June (+18). Small sized firms recorded a decrease in our composite measure (which includes activity and profit expectations, employment and investment intentions). The readings are still very respectable. However, they clearly foretell of a more cautious business sector.

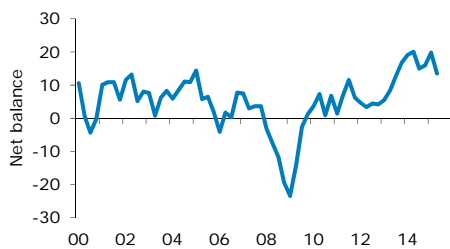
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FIGURE 2. OWN ACTIVITY



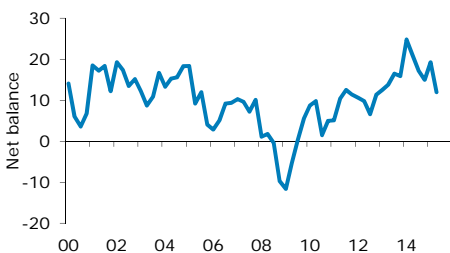
Source: ANZ

FIGURE 3. HIRING INTENTIONS



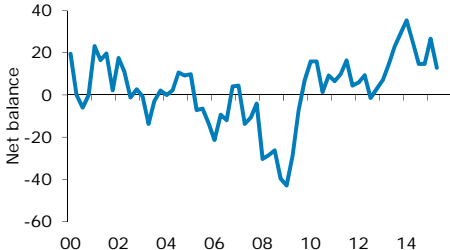
Source: ANZ

FIGURE 4. INVESTMENT



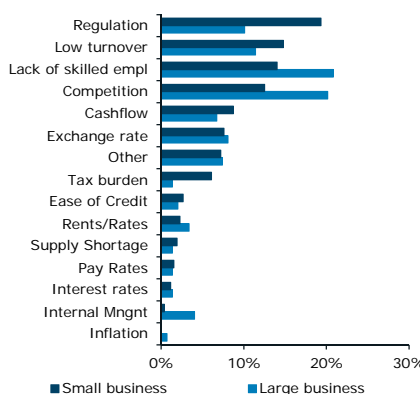
Source: ANZ

FIGURE 5. PROFITABILITY



Source: ANZ

FIGURE 6. BIGGEST PROBLEM FACED, BY FIRM SIZE



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) for small businesses fell 13 points to +29, **its lowest level since December 2012 but still well above historical norms (eye chat aside)**. Within the small business segment, 'own activity' fell 16 points (+38) among *intermediate* sized firms; own activity indicators for *micro* firms slipped 10 points to +20.

Hiring intentions within the small business community fell 6 points over the quarter (+14). Hiring intentions across *micro* sized businesses fell 6 points (+5). Intentions for the *intermediate* sub-group declined 6 points, but at +22 remain well above the long-term average (+8).

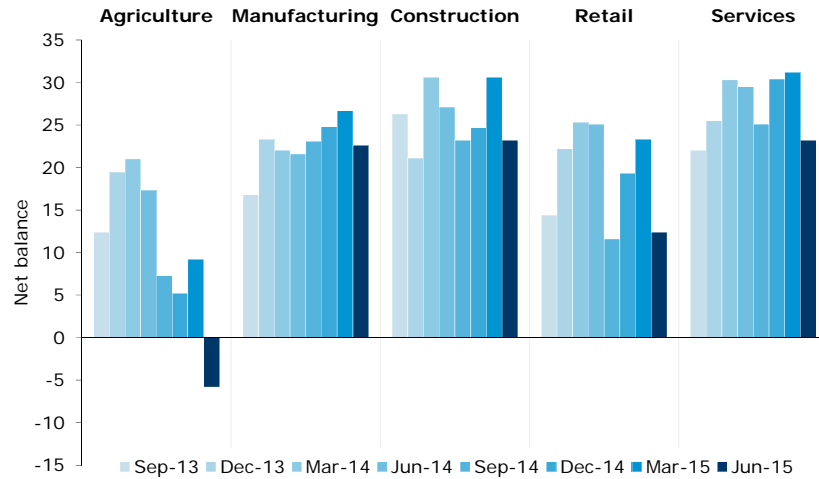
Investment intentions across the small business sector also slipped in June, down 7 points to +12. **Investment intentions are nearing their long run historical average of 10**. Investment by *micro* sized firms fell 11 points to +7, and expectations for *intermediate* sized firms eased 3 points to +17. *Capacity utilisation* among small sized firms fell to a 3 year low (+18), with falls for both *micro* and *intermediate* sized firms.

Expected profitability across the small business sector halved in June (down 14 points to +13). The net balance for *intermediate* sized firms fell 16 points to +20. The net balance of *micro* sized firms expecting increased profitability fell 11 points to +6 in June. A net 24% of all small businesses expect interest rates to fall over the next 12 months, down from a net 17% expecting interest rate declines three months earlier. The proportion of small businesses expecting that credit would be easier to obtain fell 14 points to +15.

Regulation is now identified as the biggest problem identified by small businesses in New Zealand. Nineteen percent of small businesses identified this as the biggest issue that they face – the highest proportion since September 2014. 'Low turnover' was the next highest problem identified by small businesses, while a 'lack of skilled employees' was the third highest problem (and has dropped from being the biggest issue last quarter). 'Competition' was the fourth most identified problem that small businesses face, down from the second biggest problem identified by small businesses in March. These four issues have consistently been the top placed problems identified by small businesses since December 2012 - though with some jockeying over time.

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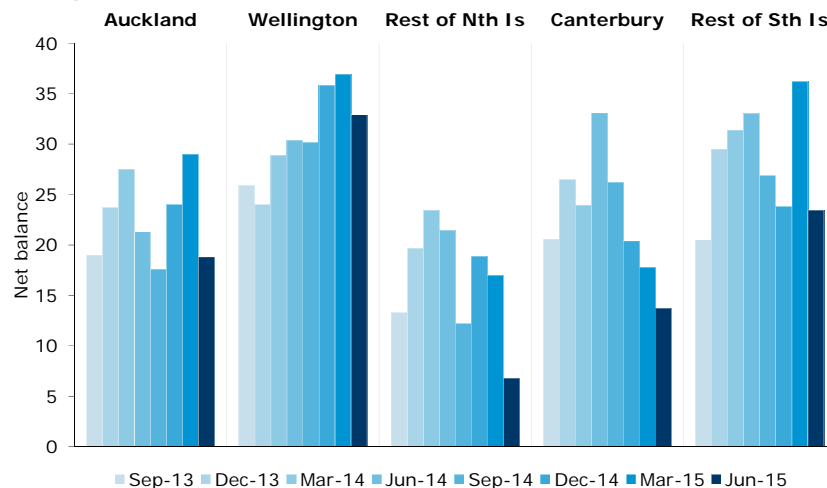
FIGURE 7. SECTORAL COMPOSITE BUSINESS SENTIMENT MEASURE: SMALL FIRMS



Source: ANZ

Small business sentiment fell across all five sectors in June. Our sector composite for small businesses (which is a proxy for real economic momentum) in the agriculture sector fell to -6, the lowest since March 2013. There was also a sharp fall in the retail sector composite (+13), with moderate declines for services (+24), construction (+25) and manufacturing firms (+23). So we have some sectors still with decent momentum, one flat-lining and one moving backwards.

FIGURE 8. REGIONAL COMPOSITE BUSINESS SENTIMENT MEASURE: SMALL FIRMS



Source: ANZ

Our business composite sentiment measure also showed falls for all of the broad regions in June. The composites remain above their long-term averages in all regions except the Rest of the North Island (+7), with the Wellington region having the highest regional composite overall (+34). The Composite for Canterbury (+14) is 19 points lower than a year ago and we can see a clear downward trend over the year. Auckland showed a 10 point fall (+19), compared to March.

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	SMALL				LARGE			
	Sep 14	Dec 14	Mar 15	Jun 15	Sep 14	Dec 14	Mar 15	Jun 15
COMPOSITE SENTIMENT	19.7	23.7	26.1	18.0	34.1	34.5	32.5	26.8
Business Confidence	22.6	29.2	35.1	13.4	33.3	31.5	35.1	17.8
Activity Outlook	37.6	36.7	42.2	29.2	43.8	45.4	42.4	35.2
Exports	17.2	22.8	27.9	14.0	29.5	29.3	27.6	26.6
Investment	17.3	15.0	19.3	12.0	26.3	25.1	29.4	25.3
Capacity Utilisation	26.8	21.1	27.2	18.3	32.7	34.9	34.2	23.6
Residential Construction	40.4	44.8	49.7	36.9	59.4	51.6	51.7	31.2
Commercial Construction	33.9	34.8	43.0	26.1	35.8	43.7	36.7	31.0
Employment	15.0	16.0	19.9	13.5	35.1	27.3	25.6	24.1
Unemployment Rate	-19.8	-24.8	-31.0	-11.1	-33.3	-30.2	-28.1	-15.3
Profits	14.8	14.8	26.7	12.9	37.9	33.4	37.5	25.3
Interest Rates	66.3	27.0	-17.1	-23.7	71.3	35.8	-16.6	-25.6
Pricing Intentions	18.8	17.4	24.1	22.4	27.9	27.7	31.0	25.0
Ease of Credit	8.7	15.2	28.6	15.0	10.1	10.2	23.7	17.0
Inflation Expectations	2.6	2.3	0.9	1.7	2.4	2.2	0.8	1.7
AGRICULTURE	7.3	5.2	9.2	-5.7	8.3	18.1	19.8	15.3
MANUFACTURING	23.1	24.8	26.7	23.2	30.9	28.3	35.6	21.0
CONSTRUCTION	23.2	24.7	30.6	24.5	41.0	42.5	25.1	10.4
RETAIL	11.6	19.3	23.3	12.9	37.4	39.2	30.5	33.4
SERVICES	25.1	30.4	31.2	24.1	34.7	35.1	34.1	30.4
AUCKLAND	17.6	24.0	29.0	19.3	41.5	42.0	39.9	39.0
WELLINGTON	30.2	35.8	36.9	34.0	29.9	28.7	24.9	16.8
REST OF NORTH ISLAND	12.2	18.9	17.0	7.4	36.3	37.6	34.8	23.8
CANTERBURY	26.2	20.4	17.8	14.4	35.5	29.9	32.8	29.3
REST OF SOUTH ISLAND	26.9	23.8	36.2	24.1	20.1	22.0	27.2	19.0

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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