

ANZ BUSINESS MICRO SCOPE GETTING ON WITH BUSINESS

Data for September 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 September 2014.

The survey takes in responses from 235 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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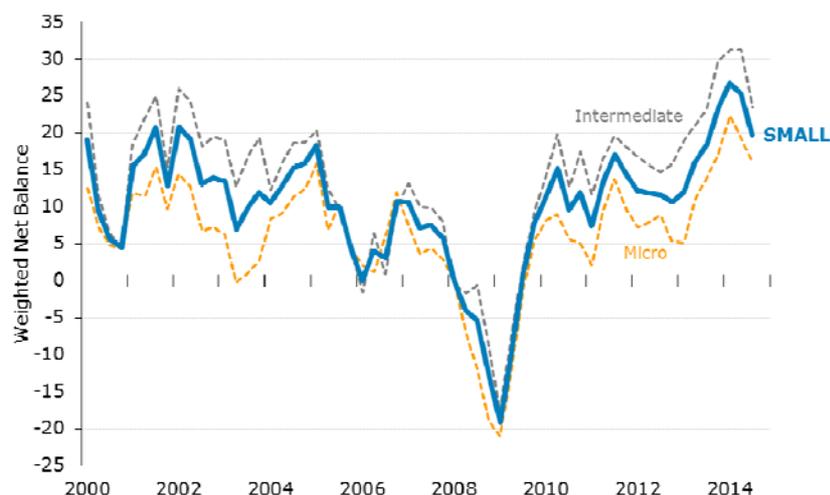
SUMMARY

- Small business confidence retraced for the second successive quarter, but the segment remains upbeat.
- Intermediate sized firms (those employing 6-20 people) were more positive about the year ahead than micro-sized firms (up to 5 employees).
- Sentiment remains positive despite the setback of increased interest rates, weaker commodity prices and a New Zealand dollar that remains over-valued.
- Sentiment lifted in the manufacturing sector and remained at an elevated level in Wellington.

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.

Business confidence eased for the second successive quarter across all segments, returning to levels that prevailed a year ago.

FIGURE 1. SMALL BUSINESS CONFIDENCE, COMPOSITE MEASURE

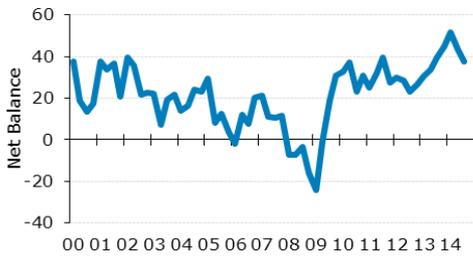


Source: ANZ

Our composite measure of small business sentiment – a broader measure of prospects than just headline business confidence alone - registered a second successive decline in September. Nevertheless even following this drop, **the series remains elevated.** This is an encouraging feature, particularly given recent headwinds from rising interest rates and falling commodity prices. It reflects a robust degree of momentum in the economy, with NZ businesses anticipating a more durable and elongated expansion. Over the year ahead small businesses expecting to increase labour hiring and investment, despite the high level of the exchange rate and rising interest rates.

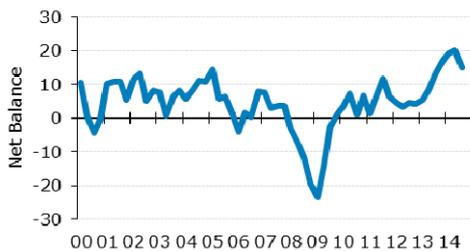
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FIGURE 2. OWN ACTIVITY



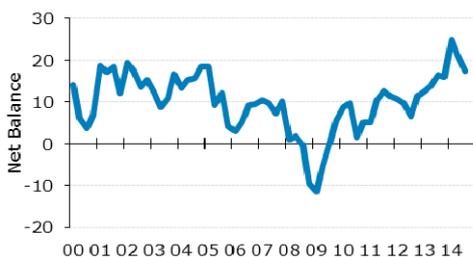
Source: ANZ

FIGURE 3. HIRING INTENTIONS



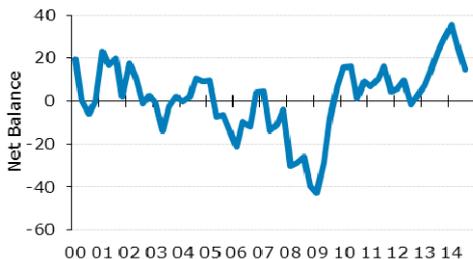
Source: ANZ

FIGURE 4. INVESTMENT



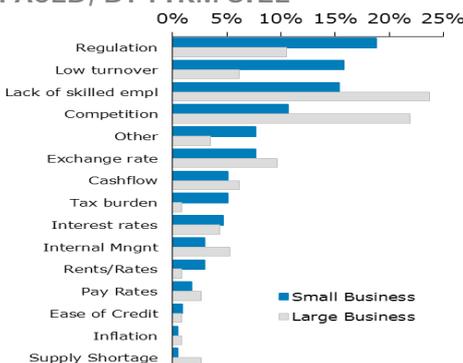
Source: ANZ

FIGURE 5. PROFITABILITY



Source: ANZ

FIGURE 6. BIGGEST PROBLEM FACED, BY FIRM SIZE



Source: ANZ

Firms' assessment for their own business activity over the next 12 months dropped 6 points, **easing to its lowest level for five quarters**. Nonetheless, own activity across the small business sector remains relatively upbeat compared to historical norms. Within the small business segment, own activity eased 12 points for the *intermediate* sub-group but **lifted one point for the *micro* sized sub group**. Small businesses' general assessment of the wider economy was considerably weaker, sinking to a seven quarter low – a similar relative decline as measured across large business.

Hiring intentions within the small business community, retraced five points from last quarter's record high. Hiring intentions across *micro* sized businesses dropped only one point, but intentions for the intermediate sub-group slipped 9 points. Both sub-groups eased to the lowest levels in 12 months. The net number of small business expecting an improvement in the nationwide unemployment rate in a year's time halved from a net +39 in June to a net +20 in September.

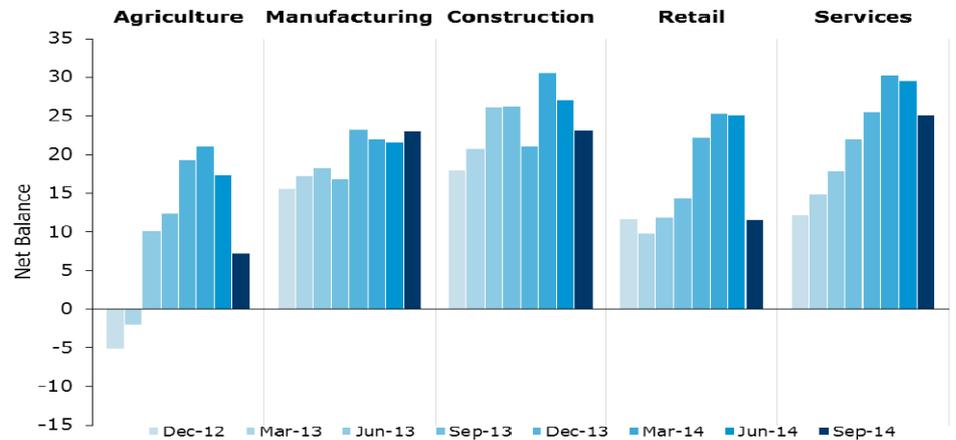
Investment intentions across the small business community eased 4 points in September, but remains **the third strongest net balance to be measured since the start of the series in 1999**. Investment by *micro* sized firms eased 3 points to +12, while expectations for *intermediate* sized firms dropped 5 points to +22. Both sub-groups are currently about twice their historical norms. The projected rate of using existing plant and machinery (called, capacity utilisation) **increased to a twelve-year high, for the small business community**, with both micro and intermediate sized sub-groups reporting a lift in capacity utilisation.

Expected profitability across the small business sector eased 10 points in September. A net +15 percent of small businesses anticipate increased profitability over the year ahead, down from a net+35 six months earlier. Expectations across *intermediate* sized firms declined 15 points to a net balance of+17 percent. The net balance of *micro* sized firms expecting increased profitability dropped 6 points to a net +13 in September. A net 66 percent of all small businesses expect interest rates to rise over the next 12 months, down from a net 82 percent expecting an interest rate hike six months ago.

'Regulation' was identified as the biggest problem facing small business in New Zealand. Nineteen percent of all small businesses identified this as the biggest problem that they face, up 2 percentage points from June to hit its highest level since we started asking this question in March 2012. 'Low turnover' was the second biggest problem small businesses face, with 'lack of skilled staff' a close third. The 'other' category lifted to its highest level in two years, with several respondents noted their biggest problem included lower prices, the exchange rate and difficult growing conditions faced by the agricultural sector.

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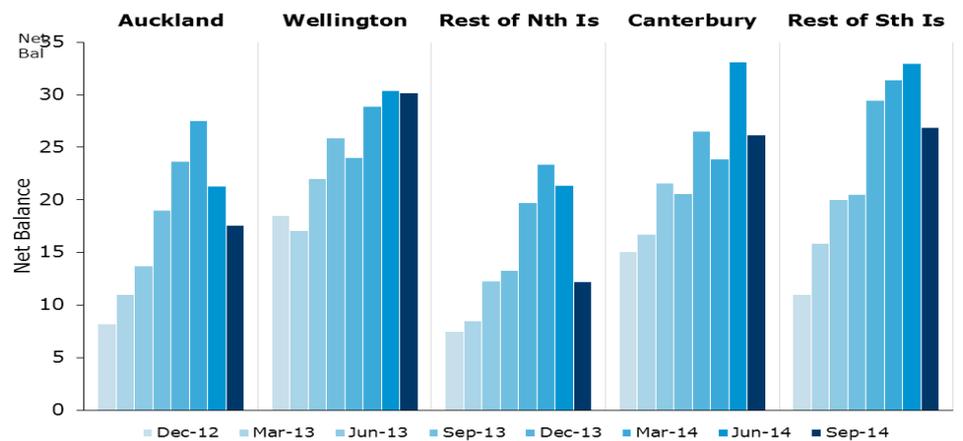
FIGURE 7. SECTORAL COMPOSITE BUSINESS SENTIMENT MEASURE: SMALL FIRMS



Source: ANZ

Small business sentiment decreased in four of the five sectors in September. Manufacturing was the only sector to record a lift in sentiment, rising 2 points to +23. Retailing posted the largest decline in sentiment, falling 14 points to +12. Agriculture recorded the second largest drop in sentiment, easing 10 points to +7. Both the retailing and agriculture sectors' sentiment measures have now dropped to 18-month lows. The services sector recorded a 4 point drop in sentiment but remains at the top of the sectoral rankings.

FIGURE 8. REGIONAL COMPOSITE BUSINESS SENTIMENT MEASURE: SMALL FIRMS



Source: ANZ

Regional business sentiment across the small business segment slipped in four of the five regions. The North Island excluding its two largest cities, recorded the largest fall in sentiment, slipping to an 18-month low, taking it to the bottom of the regional rankings. Canterbury and the Remainder of the South Island recorded the next largest declines, easing 7 and 6 points, respectively. Auckland recorded a narrow drop in sentiment, while the level of business optimism in Wellington was virtually unchanged from three months earlier.

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	SMALL				LARGE			
	Dec 13	Mar 14	Jun 14	Sep 14	Dec 13	Mar 14	Jun 14	Sep 14
COMPOSITE SENTIMENT	23.3	26.7	25.3	19.7	40.3	45.1	39.0	34.1
Business Confidence	57.8	64.7	51.1	22.6	64.1	72.4	56.1	33.3
Activity Outlook	44.7	51.7	43.5	37.6	61.1	71.2	56.9	43.8
Exports	25.2	26.9	16.2	17.2	37.9	42.3	37.9	29.5
Investment	15.9	24.8	21.0	17.3	32.2	37.6	33.1	26.3
Capacity Utilisation	24.7	23.4	23.6	26.8	42.7	45.2	41.9	32.7
Residential Construction	45.3	48.7	50.5	40.4	52.1	64.4	56.8	59.4
Commercial Construction	35.9	40.0	42.3	33.9	29.7	50.0	45.2	35.8
Employment	16.7	19.1	20.1	15.0	34.6	45.2	36.9	35.1
Unemployment Rate	-30.1	-45.0	-39.3	-19.8	-37.8	-48.3	-44.0	-33.3
Profits	29.2	35.4	25.2	14.8	49.9	54.2	42.8	37.9
Interest Rates	69.9	85.1	82.1	66.3	62.4	90.3	86.9	71.3
Pricing Intentions	24.4	27.6	25.0	18.8	28.6	39.4	30.5	27.9
Ease of Credit	-6.7	11.1	11.9	8.7	2.2	18.2	15.6	10.1
Inflation Expectations	2.4	2.6	2.6	2.6	2.4	2.5	2.4	2.4
AGRICULTURE	19.4	21.0	17.3	7.3	-1.0	7.1	20.0	8.3
MANUFACTURING	23.3	22.0	21.6	23.1	27.8	41.5	31.9	30.9
CONSTRUCTION	21.1	30.6	27.1	23.2	51.7	51.9	52.1	41.0
RETAIL	22.2	25.3	25.1	11.6	48.5	54.3	42.5	37.4
SERVICES	25.5	30.3	29.5	25.1	43.1	45.3	40.2	34.7
AUCKLAND	23.7	27.5	21.3	17.6	38.2	51.8	40.6	41.5
WELLINGTON	24.0	28.9	30.4	30.2	34.2	36.2	38.0	29.9
REST OF NORTH ISLAND	19.7	23.4	21.4	12.2	44.5	49.2	44.7	36.3
CANTERBURY	26.5	23.9	33.1	26.2	44.3	46.5	38.1	35.5
REST OF SOUTH ISLAND	29.5	31.4	33.0	26.9	38.7	38.2	28.8	20.1

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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