

ANZ NZ Business Micro Scope

Data for September quarter 2018



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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 2018.

The survey includes responses from over 200 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.

How low can it go?

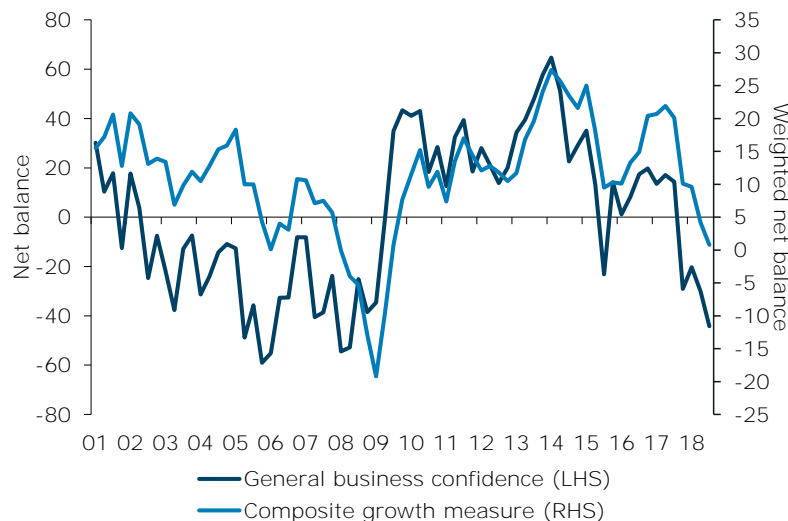
Summary

- Small firm business confidence dropped in the September quarter to its lowest level since 2008.
- Growth indicators fell across the board. Firms' activity outlook remains in positive territory, but hiring and investment intentions turned negative and profit expectations slipped further into the red.
- Regulatory requirements and a lack of skilled staff are by far the top two concerns for small businesses.

Small firm business confidence fell further in the September quarter. A net 44% of small businesses are pessimistic about general business conditions – the most pessimistic reading since June 2008. Confidence fell among both *micro* (0-5 employees) and *intermediate* (6-20 employees) sized firms, down 13%pts and 15%pts respectively. However, on a monthly basis small-firm business confidence lifted in September (up 12%pts to -38%) suggesting the low may now be behind us. That said, pessimism appears set to remain the overarching theme for business conditions over the year ahead as ongoing concern about regulatory changes and the lack of skilled labour continue to weigh heavily.

Our composite growth measure for small firms – a proxy for GDP growth – slipped to another nine-year low, teetering on the edge of expansion at +0.8. The composite measure is based on growth indicators such as firms' own activity outlook, hiring and investment intentions, and profit expectations. Falling profit expectations (to -19%) are weighing on the composite measure, while firms views of their activity prospects for the year ahead are providing an offset (+3%), holding the composite measure above water. This suggests small firms continue to see reasonable demand for their goods and services but perhaps some difficulty in passing on rising costs to consumers. Employment intentions suffered, falling into negative territory for the first time since 2009.

Figure 1. Small business confidence and composite growth measure



Source: ANZ Research

Figure 2. Own activity

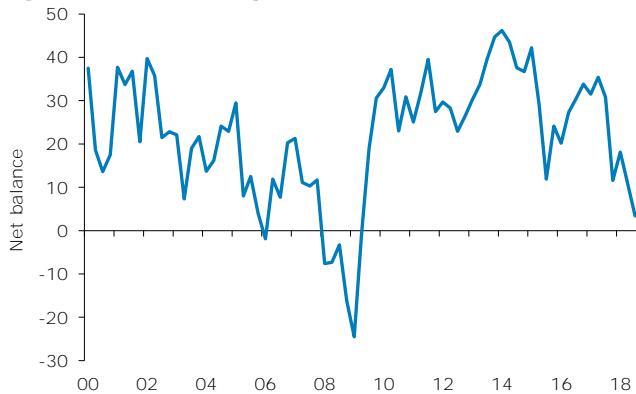


Figure 3. Hiring intentions

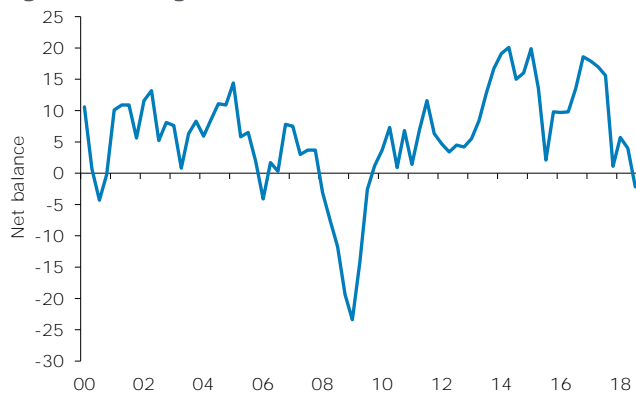


Figure 4. Investment

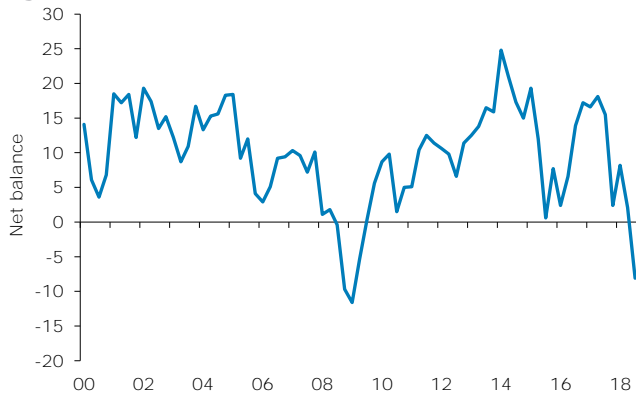
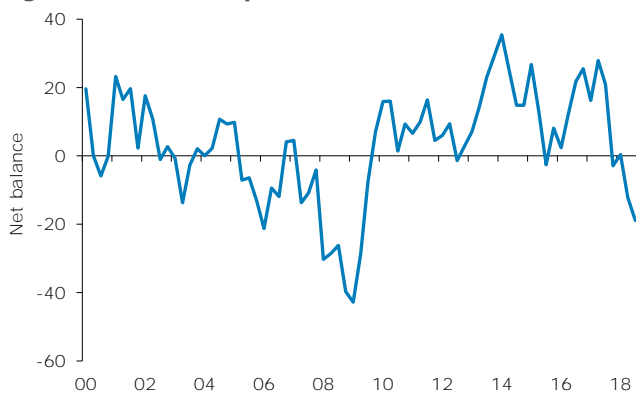


Figure 5. Profitability



Small firms' expectations of their own activity fell to a net 3% - the lowest reading since 2009.

While agriculture (highest of all sectors at a net 10%), services (8%) and manufacturing (4%) are still in expansionary territory, the downward trend has continued for all sectors. Activity expectations among small retail firms are most dire at a net -13%. A cooling housing market and intense online/offshore competition could be key contributors. Construction expectations are also in the red at a net -4%, but activity expectations rallied later in the quarter; demand continues to be supported by the highly publicised construction pipeline and housing shortage.

Hiring intentions fell 6%pts from June to -2% in September.

Agriculture intentions lifted 2%pts to -12%, remaining within its 12-month range. Pending regulatory changes and minimum wage rises may be impacting on intentions for the coming year. Sharp downturns were seen across all other sectors with the construction sector the lowest of all at a net -13%. Services firms were the only sector with intentions to expand their workforce, but these still slipped in the quarter, down 6%pts to a net 4%.

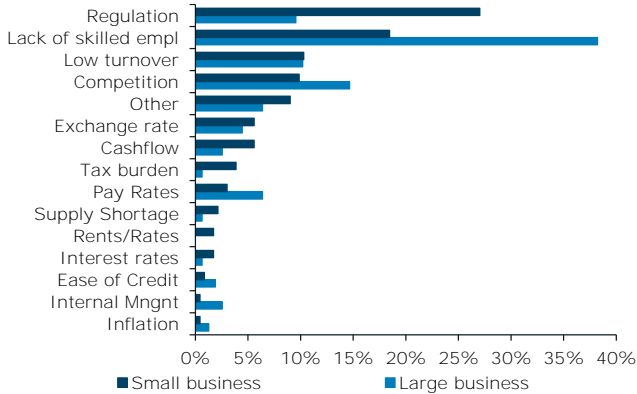
Investment intentions fell 10%pts to a net -8%.

This measure has the closest correlation to GDP in the ANZ business outlook survey and this most recent outturn is a worrying sign for growth generated from the small business community. The sector details are perhaps more alarming in that all sectors are in negative territory, ranging from -1.7% (manufacturing) to -16% (agriculture). Investment intentions in the services sector fell 17%pts in the September quarter (now -8%).

Small business profit expectations fell a further 7%pts to -19.

Profit woes continued for services (-13%), manufacturing (-19%) and in particular, retail firms (-35%) with the latter down 48%pts from this time last year. Intensifying competition and regulatory concerns, as well as difficulty passing on costs, are likely culprits. Agricultural firms' profit expectations ticked up slightly (-24%) but the recent weakening in global dairy prices is surely on their radar.

Figure 6. Biggest problem faced

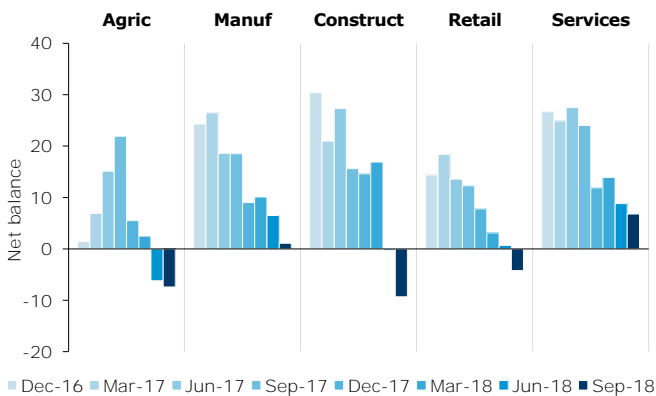


Regulation remains the biggest problem facing small firms and this has become more widespread.

Over a quarter of small firms see regulatory requirements as their greatest concern (27%, up from 23% in June), ranking as the highest concern for agriculture, construction, retail and services firms. It ranks second for manufacturing firms. For agriculture, changes to employment laws, foreign investment and more environmental regulation are key areas of concern.

Difficulty finding skilled employees remains second on the list of problems overall, but ranks highest among manufacturing firms. Overall, employers in a large number of sectors are reporting severe skilled labour shortages. Concerns around low turnover and competition round out the top four problems.

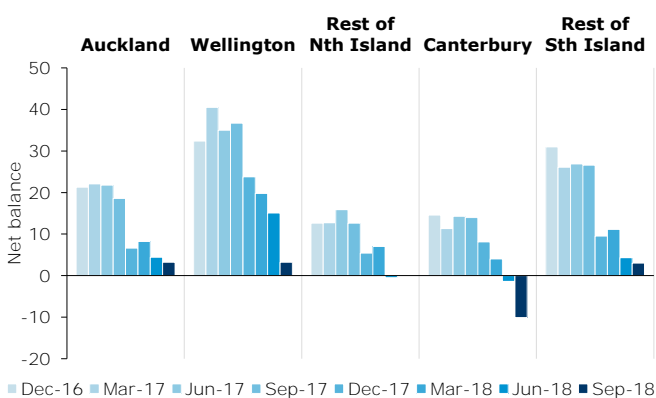
Figure 7. Sectoral composite business sentiment measure: small firms



Our small business composite growth measure fell across all sectors, with retail joining agriculture and construction in negative territory.

Weak employment and investment intentions provide the main drag for the agricultural, construction and manufacturing sectors, while activity and profit concerns are weighing on growth prospects for retail businesses. While profit concerns are dragging, growth prospects are highest for the services sector at +7, still well below the historical average but a clear standout.

Figure 8. Regional composite business sentiment measure: small firms



The composite growth measure declined across four of the five regions.

Profit concerns were a common feature weighing on perceived growth prospects across the country. In Canterbury, however, all four growth indicators are negative and contributing to what is ostensibly a rather bleak outlook for growth in the region. Wellington remains in positive territory, but shed the most points in the quarter, down 12pts to +3.

Source: ANZ

	Small				Large			
	Dec 17	Mar 18	Jun 18	Sep 18	Dec 17	Mar 18	Jun 18	Sep 18
Composite Sentiment	10.1	9.6	4.2	0.8	20.3	18.7	10.7	5.1
Business Confidence	-29.1	-20.3	-30.0	-44.2	-29.5	-18.1	-29.7	-44.9
Activity Outlook	11.6	18.1	10.9	3.4	20.2	26.4	18.1	7.7
Exports	13.5	15.6	12.2	9.3	17.6	25.9	21.5	17.6
Investment	2.4	8.2	2.1	-8.1	13.1	11.8	8.7	1.1
Capacity Utilisation	9.5	12.5	7.7	3.3	27.3	22.9	21.2	16.5
Residential Construction	10.8	19.8	9.6	8.5	27.6	27.2	12.6	4.6
Commercial Construction	0.2	14.5	5.6	-9.3	14.8	17.5	3.4	-7.7
Employment	1.1	5.7	4.0	-2.2	11.4	11.6	8.4	-1.0
Unemployment Rate	14.2	12.3	17.2	30.2	11.9	5.3	14.4	24.3
Profits	-2.9	0.4	-12.2	-18.9	1.4	5.7	-0.1	-11.0
Interest Rates	49.0	43.9	48.0	37.1	49.6	38.9	37.1	22.0
Pricing Intentions	24.3	26.6	23.6	25.4	31.2	28.0	27.7	33.8
Ease of Credit	-33.2	-26.8	-30.0	-38.5	-30.6	-25.3	-26.5	-30.0
Inflation Expectations	2.2	2.1	2.2	2.2	2.1	2.1	2.1	2.1
Agriculture	5.5	2.5	-6.2	-7.4	13.7	10.6	18.8	5.2
Manufacturing	9.0	10.1	6.5	1.1	18.2	8.2	9.7	1.2
Construction	14.6	16.9	-0.3	-9.3	23.1	12.1	5.2	3.3
Retail	7.8	3.1	0.7	-4.2	11.7	26.7	16.4	7.2
Services	11.9	13.9	8.8	6.8	23.8	24.3	10.7	8.0
Auckland	6.6	8.2	4.4	3.2	23.9	29.1	18.1	13.7
Wellington	23.8	19.8	15.1	3.2	20.5	15.9	13.1	8.9
Rest of North Island	5.4	7.0	-0.5	0.0	16.0	16.7	4.9	-0.9
Canterbury	8.1	4.0	-1.4	-10.1	19.6	4.9	3.8	-6.3
Rest of South Island	9.5	11.1	4.3	3.0	22.7	15.7	11.0	9.0

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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