

Data for September quarter 2017

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 September 2017.

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.

CONTACTS

Antonia Watson
 Managing Director
 Retail and Business Banking

Cameron Bagrie
 Chief Economist
 Telephone: +64 4 802 2212
 E-mail: Cameron.Bagrie@anz.com

WINDS OF CHANGE

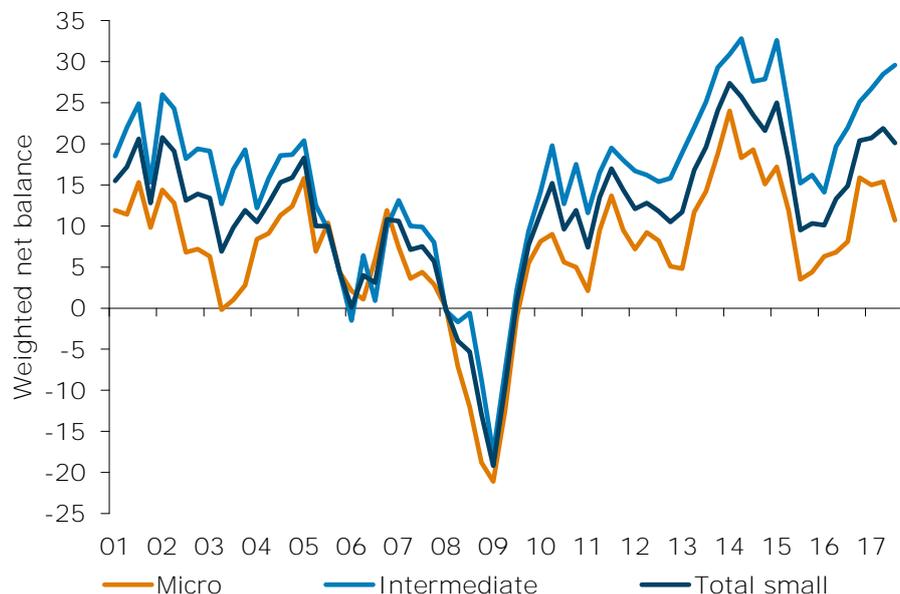
SUMMARY

- Business confidence amongst small firms eased in September though remains high.
- Activity, employment, investment and profit expectations – key proxies for GDP growth – are all positive.
- Our composite growth measure is flagging solid growth for small businesses though the implied pace eased a touch.
- Our composite growth measure surged for agricultural firms while headwinds are growing for the construction sector.
- Skilled labour shortages are still the biggest problem for small firms. Regulatory requirements are weighing.

Business confidence for small firms eased a touch, though it's high historically. A net 14% of small businesses (down from 17%) are more confident about general business conditions for the year ahead. Sentiment across *micro* firms (0-5 employees) and *intermediate* sized businesses (those that employ 6-20 employees) slipped 4pts and 2pts respectively. The blip in sentiment possibly reflects an uncertain political environment, turn in the housing market and some late business cycle wobbles.

Our composite growth measure for small firms – a key proxy for GDP growth – eased to +20 but that's still a robust signal and elevated in level terms. The composite measure is based on growth indicators such as firms' own activity outlook, hiring, investment and profit expectations, indicators that tie in well with actual growth. Growth prospects for intermediate-sized businesses pushed on towards record highs (+30) while micro sized firms are facing more apparent headwinds, with the growth measure down 4pts to +11. The growth outlook still looks positive for small firms.

Figure 1. Small business confidence, composite measure



Source: ANZ

ANZ BUSINESS MICRO SCOPE

Figure 2. Own activity



Source: ANZ

Figure 3. Hiring intentions



Source: ANZ

Figure 4. Investment



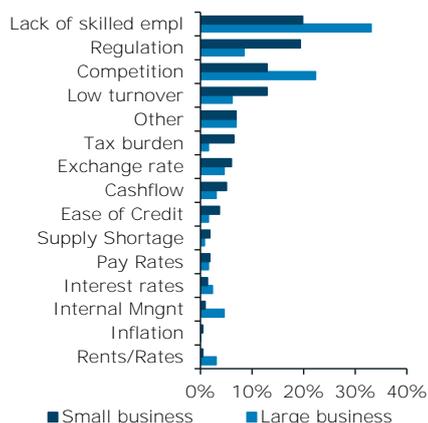
Source: ANZ

Figure 5. Profitability



Source: ANZ

Figure 6. Biggest problem faced, by firm size



Source: ANZ

Activity expectations among small firms dipped slightly but sit at a very healthy net 31%. Activity expectations remain elevated having sat around the 30% - 35% range for the past five quarters. Agricultural small firms topped the list for the first time in over six years, at a net 42% (up 8pts). Manufacturing firms followed closely, at a net 37%, while the construction sector had a sizable setback, falling to a net 24% from 46% in June. Services activity expectations also eased while retail sits at the bottom of the pack, at 15%.

Hiring intentions also eased slightly but a net 16% still expect to expand their workforce over the year ahead. Our ANZ Job Ads data shows demand for labour is high but growth is flattening out as construction and migration metrics across the economy top out. Small firms appear to be following that script as construction and retail hiring intentions both fell in the quarter. Agricultural firms reached a net 12%, its highest since March 2014 and a fair way from the -16% two years ago. Hiring intentions improved in Wellington and the South Island while Auckland and regional North Island eased.

Investment intentions across the small firm community slipped to a net 16% but remain high. The fall was mainly among micro-sized firms (down 5pts), while intentions among intermediate-sized firms held near record highs (net 25%). On a sector basis, manufacturing was the only sector to improve (up 7pts to 15%); the only notable downward shift came from that of construction sector firms as the sector balances pent-up demand with credit and labour constraints.

As with other growth indicators, small business profit expectations fell to a net +21% (from +28%) but are well above historical averages. Profit expectations for agricultural firms reached its highest point in nearly four years (+28%) as commodity prices firm up. Manufacturing also ticked up 2 pts to +27%. Profitability is front and centre for construction sector small firms as margins wilt under mounting costs.

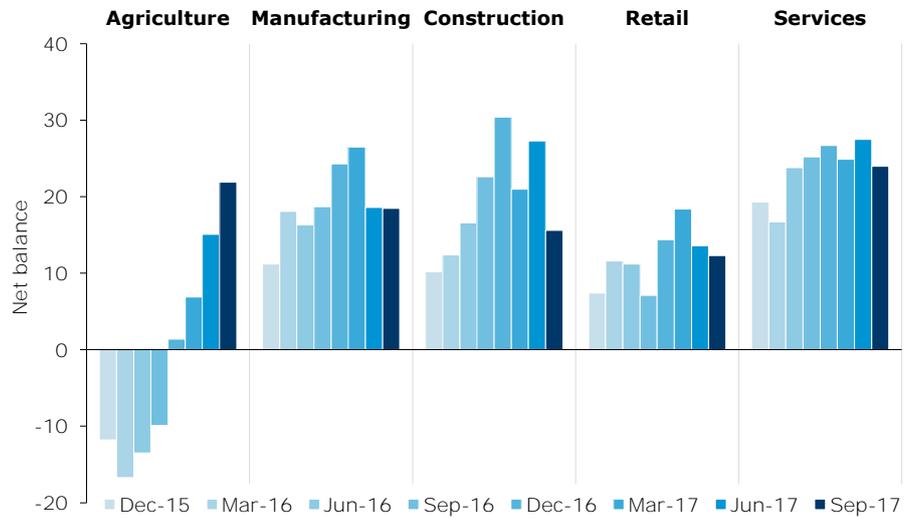
A net 20% of small businesses reported a lack of skilled employees as their biggest problem. It has been the major concern for the last 18 months and is typical at this stage of the business cycle as the labour market tightens and firms compete with each other for skilled labour. Some sectors are feeling the heat more than others with concern around skilled labour more apparent in the construction sector. Any changes to the supply of workers (local or foreign) will put more strain on businesses' ability to keep up with activity demands, as will the continued tightening of the labour market.

Regulation is again the second biggest problem, at a net 19%. Regulatory demands are weighing particularly heavily on the agricultural sector as the industry grapples with health and safety and environmental requirements.

Competition and turnover are the other major concerns, at a net 13% each.

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Figure 7. Sectoral composite business sentiment measure: small firms

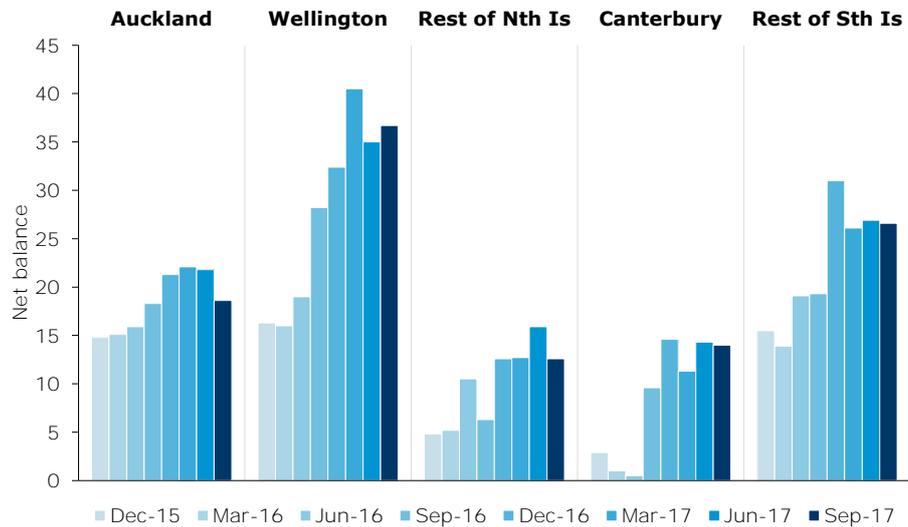


Source: ANZ

Our small business composite growth measure varied across sectors.

Firming prices across agricultural products is likely fuelling the recovery in agriculture growth indicators having lifted from -17 in early 2016 to +22 in September. Manufacturing remained steady while retail and services eased 2pts and 4pts respectively. The construction sector fell from +27 to +16 as activity, employment, investment and profit expectations all fell during the quarter. The construction sector has been one of the main economic drivers but is now facing significant cost increases, credit and labour constraints.

Figure 8. Regional composite business sentiment measure: small firms



Source: ANZ

The composite growth measure remained steady across most regions as the Capital continues to lead the way.

Growth indicators in Wellington remain high and a lift in hiring expectations pushed the composite higher. The Auckland measure fell as intentions across the board are being influenced by cooling house prices and job ads.

ANZ BUSINESS MICRO SCOPE

	SMALL				LARGE			
	Dec 16	Mar 17	Jun 17	Sep 17	Dec 16	Mar 17	Jun 17	Sep 17
COMPOSITE SENTIMENT	20.4	20.7	21.9	20.1	32.9	33.1	34.8	34.8
Business Confidence	19.7	13.5	17.1	14.3	22.0	14.9	17.0	10.6
Activity Outlook	33.8	31.5	35.4	30.8	41.5	45.4	45.0	45.4
Exports	18.7	23.5	23.9	22.7	32.7	33.0	33.0	32.7
Investment	17.2	16.6	18.1	15.5	26.8	30.9	34.2	28.8
Capacity Utilisation	14.6	19.9	24.3	22.2	32.4	34.3	35.5	34.8
Residential Construction	25.6	25.5	28.3	25.2	32.5	42.7	34.4	28.9
Commercial Construction	29.5	36.1	21.9	27.3	23.9	30.0	22.9	29.5
Employment	18.6	17.9	17.0	15.6	28.6	32.1	33.5	29.5
Unemployment Rate	-14.7	-6.5	-8.9	-5.2	-14.7	-9.0	-9.8	-7.9
Profits	25.5	16.2	27.9	20.9	35.5	33.5	31.0	32.1
Interest Rates	19.5	66.1	59.4	44.6	15.8	64.5	62.7	39.4
Pricing Intentions	18.7	24.9	28.3	19.3	28.6	26.7	35.7	33.6
Ease of Credit	-21.9	-24.3	-24.9	-23.1	-23.8	-27.8	-30.6	-23.4
Inflation Expectations	1.5	1.8	1.9	2.0	1.4	1.8	2.0	1.9
AGRICULTURE	1.4	6.9	15.1	21.9	35.7	25.8	33.1	24.1
MANUFACTURING	24.3	26.5	18.6	18.5	20.7	17.3	15.2	16.2
CONSTRUCTION	30.4	21.0	27.3	15.6	44.1	33.6	38.1	38.7
RETAIL	14.4	18.4	13.6	12.3	33.9	34.6	30.3	34.8
SERVICES	26.7	24.9	27.5	24.0	35.4	39.2	42.3	42.0
AUCKLAND	21.3	22.1	21.8	18.6	43.4	44.6	42.2	37.5
WELLINGTON	32.4	40.5	35.0	36.7	25.0	29.1	32.0	30.2
REST OF NORTH ISLAND	12.6	12.7	15.9	12.6	26.8	21.5	26.5	33.7
CANTERBURY	14.6	11.3	14.3	14.0	40.9	36.5	39.6	37.1
REST OF SOUTH ISLAND	31.0	26.1	26.9	26.6	30.2	37.4	37.8	36.5

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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