

Data for June 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.

THAT SINKING FEELING

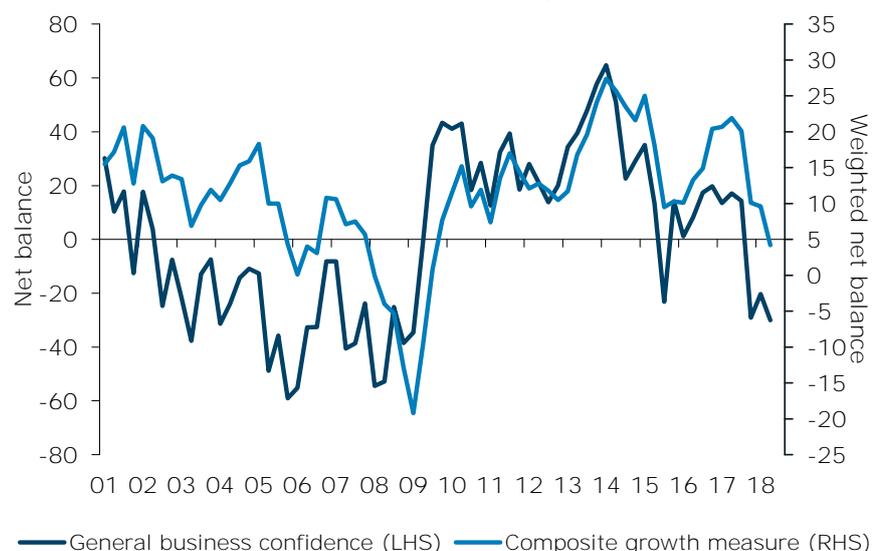
SUMMARY

- Small firm business confidence slipped to a nine-year low in June after taking a dive in December last year.
- Growth indicators drifted lower, but most managed to remain in positive territory. Profit expectations are in the red.
- Regulatory requirements and a lack of skilled staff are by far the two top concerns for small businesses.

Small firm business confidence slipped lower in June, slightly below levels reached after December's sharp decline. A net 30% of small businesses are pessimistic about general business conditions – the most pessimistic reading since March 2009. Confidence slipped among both *micro* (0-5 employees) and *intermediate* (6-20 employees) firms – the former slipping 6%pts, the latter losing 13%pts, and both more than fully unwinding their March gains to reach a post-March 2009 low. Overall, ongoing pessimism among businesses suggests firms remain concerned about some of the potential impacts of new government **policy changes**. But that's not their only concern. Lack of skilled labour and competition are also at the fore.

Our composite growth measure for small firms – a key proxy for GDP growth – declined to a nine-year low, but remains in expansionary territory. The composite measure is based on growth indicators such as firms' own activity outlook, hiring and investment intentions, and profit expectations. These indicators tie in well with actual GDP growth. While sentiment remains pessimistic in net terms, it appears small firms are still experiencing sustained demand for their goods and services, but perhaps at a decelerated pace than the same time a year ago.

Figure 1. Small business confidence and composite growth measure



Source: ANZ

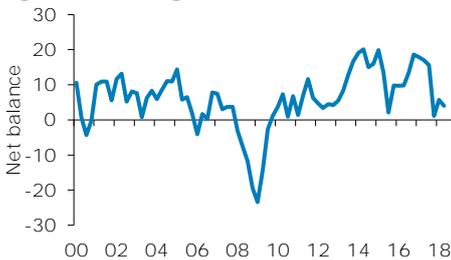
ANZ BUSINESS MICRO SCOPE

Figure 2. Own activity



Small firms' expectations of their own activity fell to a net 11% - the lowest reading since 2009. While still in expansionary territory, the downward trend is concerning. By sector, own activity expectations among small construction firms nose-dived, losing 35%pts from March, but remaining in expansionary territory at +5.6%. **Small retail firms' own activity** expectations shed 7%pts, landing in contractionary territory at -1.9% – the first negative reading since June 2009. A cooling housing market and intense online/offshore competition could be key contributors. Activity expectations also eased among small firms in the agricultural, manufacturing and services sectors.

Figure 3. Hiring intentions



Hiring intentions fell back 2%pts from March (+4% in June). Intentions within the construction sector made the largest move south, now in contractionary territory (-6.1). Closely related to this is firms' reported difficulty finding skilled labour. Interestingly, hiring intentions for small retail firms lifted slightly (up 2.6%pts to +2.6%) despite activity expectations turning south. Agriculture remains furthest in negative territory for hiring intentions, dropping a further 4%pts to -14.0%. Policy settings such as environmental regulation are a key source of uncertainty for agriculture and this is weighing on hiring intentions.

Figure 4. Investment



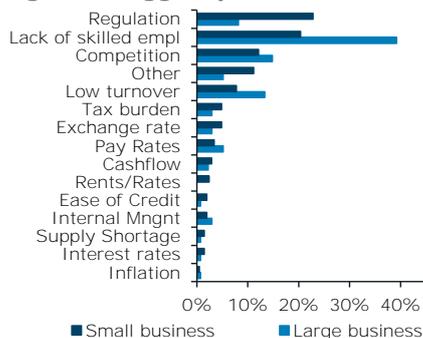
Investment intentions slipped 6%pts to +2%. This was led by a 10%pt drop (to +8.1%) among intermediate-sized businesses. A 3%pt decline among micro firms pushed their investment intentions further into negative territory (-4.3%), suggesting uncertainty around the outlook is more severe for smaller businesses. By sector, intentions among small construction firms contracted most, down 23%pts to -18%, and overtook agriculture (at -13.3%) as the sector least willing to invest. **Small retail firms' investment intentions fell** 15%pts to 1.6% after making what turned out to be a short-lived recovery in March.

Figure 5. Profitability



Small business profit expectations fell deeper into negative territory after March's rebounded – now at -12%. A considerably large drop within the construction sector drove the decline (54%pts to -14%), which is likely to reflect rising construction costs, capacity constraints (including difficulty finding labour), and other challenges associated with meeting demands of high activity. That said, at -27% profit expectations are lowest for agricultural firms, which is likely to reflect a mix of higher regulatory compliance costs, some earlier weather-related headwinds and the ongoing impact of slowing capital gains. **Small retail firms' profit expectations are a close second at -** 22.4%, down 19.7%pts from March, likely weighed down by higher minimum wages.

Figure 6. Biggest problem faced



Regulation remains the biggest problem facing small firms. Regulatory requirements are the greatest concern for agricultural firms (and second for construction services and retail). For agriculture, changes to employment laws, foreign investment and more environmental regulation are also key areas of concern.

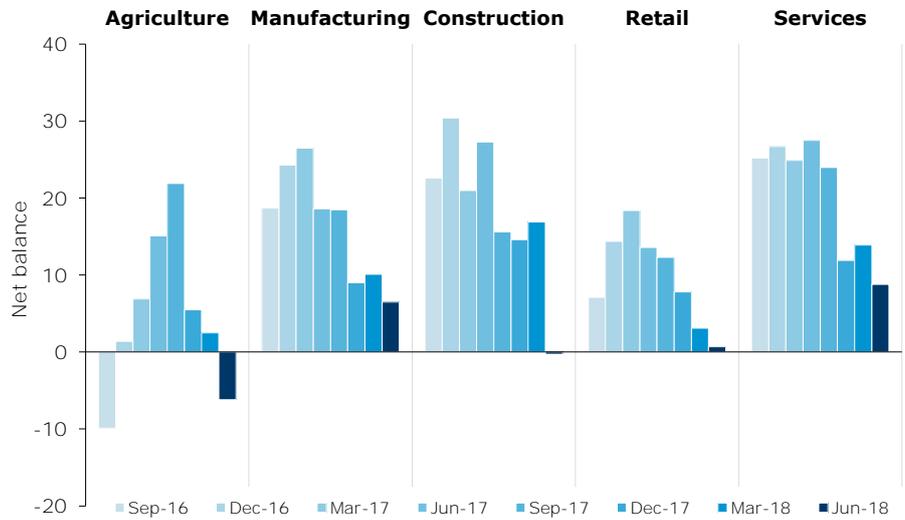
Difficulty finding skilled employees remains another major concern, ranking highest among construction, manufacturing, services and retail (second for agriculture). Overall, employers in a large number of sectors are reporting severe skilled labour shortages.

Concerns around competition rank third overall and is highest among retailers. Other problems remained relatively unchanged.

Source: ANZ

ANZ BUSINESS MICRO SCOPE

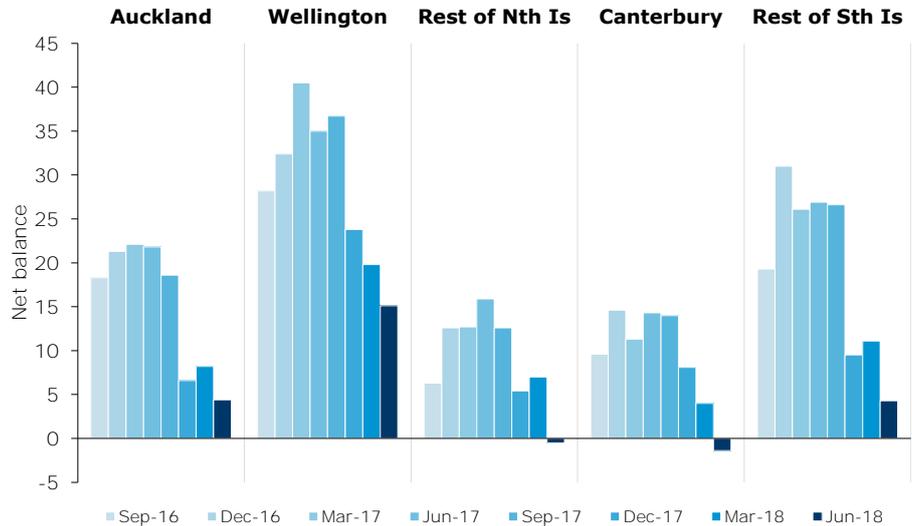
Figure 7. Sectoral composite business sentiment measure: small firms



Source: ANZ

Our small business composite growth measure slipped across all sectors, with agriculture and construction thrust into negative territory. At -6.2, the agricultural composite measure is by far the most negative, reflecting ongoing fallout from challenging production conditions for livestock over the summer, emerging cost pressures and concerns around government policies. The biggest mover was construction, falling 17pts to -0.3, reflecting difficulty in the sector to meet demand in the face of headwinds, including costs, credit and severe labour constraints.

Figure 8. Regional composite business sentiment measure: small firms



Source: ANZ

The composite growth measure declined across all regions, with Wellington remaining in the lead while Canterbury and the rest of the North Island dipped their toes in negative territory.

ANZ BUSINESS MICRO SCOPE

	SMALL				LARGE			
	Sep 17	Dec 17	Mar 18	Jun 18	Sep 17	Dec 17	Mar 18	Jun 18
COMPOSITE SENTIMENT	20.1	10.1	9.6	4.2	34.8	20.3	18.7	10.7
Business Confidence	14.3	-29.1	-20.3	-30.0	10.6	-29.5	-18.1	-29.7
Activity Outlook	30.8	11.6	18.1	10.9	45.4	20.2	26.4	18.1
Exports	22.7	13.5	15.6	12.2	32.7	17.6	25.9	21.5
Investment	15.5	2.4	8.2	2.1	28.8	13.1	11.8	8.7
Capacity Utilisation	22.2	9.5	12.5	7.7	34.8	27.3	22.9	21.2
Residential Construction	25.2	10.8	19.8	9.6	28.9	27.6	27.2	12.6
Commercial Construction	27.3	0.2	14.5	5.6	29.5	14.8	17.5	3.4
Employment	15.6	1.1	5.7	4.0	29.5	11.4	11.6	8.4
Unemployment Rate	-5.2	14.2	12.3	17.2	-7.9	11.9	5.3	14.4
Profits	20.9	-2.9	0.4	-12.2	32.1	1.4	5.7	-0.1
Interest Rates	44.6	49.0	43.9	48.0	39.4	49.6	38.9	37.1
Pricing Intentions	19.3	24.3	26.6	23.6	33.6	31.2	28.0	27.7
Ease of Credit	-23.1	-33.2	-26.8	-30.0	-23.4	-30.6	-25.3	-26.5
Inflation Expectations	2.0	2.2	2.1	2.2	1.9	2.1	2.1	2.1
AGRICULTURE	21.9	5.5	2.5	-6.2	24.1	13.7	10.6	18.8
MANUFACTURING	18.5	9.0	10.1	6.5	16.2	18.2	8.2	9.7
CONSTRUCTION	15.6	14.6	16.9	-0.3	38.7	23.1	12.1	5.2
RETAIL	12.3	7.8	3.1	0.7	34.8	11.7	26.7	16.4
SERVICES	24.0	11.9	13.9	8.8	42.0	23.8	24.3	10.7
AUCKLAND	18.6	6.6	8.2	4.4	37.5	23.9	29.1	18.1
WELLINGTON	36.7	23.8	19.8	15.1	30.2	20.5	15.9	13.1
REST OF NORTH ISLAND	12.6	5.4	7.0	-0.5	33.7	16.0	16.7	4.9
CANTERBURY	14.0	8.1	4.0	-1.4	37.1	19.6	4.9	3.8
REST OF SOUTH ISLAND	26.6	9.5	11.1	4.3	36.5	22.7	15.7	11.0

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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