

Data for March 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 March 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.

OFF THE FLOOR

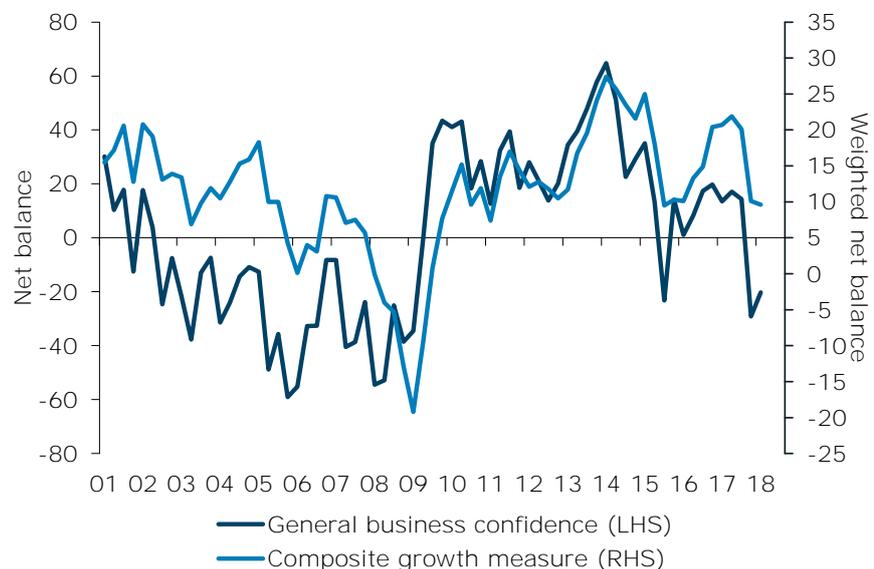
SUMMARY

- Business confidence amongst small firms picked up slightly in the March quarter, but remains negative after nose-diving in December.
- Growth indicators remain in positive territory, but the previous slide in investment intentions dragged the composite growth measure down slightly.
- Regulatory requirements and a lack of skilled staff are by far the two top concerns for small businesses.

Business confidence amongst small firms picked up slightly after recording its lowest level since 2009 at the end of 2017. A net 20% of small businesses are pessimistic about general business conditions for the year ahead, a slight improvement from a net 29% last quarter. The small improvement in business conditions was evident across both *micro* firms (0-5 employees) and *intermediate* sized businesses (those that employ 6-20 employees), rising 6%pts and 12%pts respectively. Overall, ongoing pessimism among businesses suggests firms may still be concerned about some of the potential impacts of new government policy changes. That said, there are other factors that firms are coming to grips with, including a softer housing market, tightening credit, capacity constraints and a topping out of previous economic drivers such as strong migration.

Our composite growth measure for small firms – a key proxy for GDP growth – was broadly stable and 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. So while sentiment remains pessimistic in net terms, it appears that small firms are still getting on with it. Despite a small rise across growth indicators in March, the composite growth measure fell slightly (from +10.1 to +9.6). This is owing to the sharp decline in investment intentions in the previous quarter, which generally flows through to GDP growth with a lag.

Figure 1. Small business confidence and composite growth measure



Source: ANZ

ANZ BUSINESS MICRO SCOPE

Figure 2. Own activity



Source: ANZ

Small firm expectations of their own activity lifted to a net 18%, after posting its lowest reading since 2009 last quarter. This is a yet another positive sign that while sentiment has remained sour, small business continue to focus on getting the job done. By sector, expectations for firms' own activity picked up across the board. Retail firms' expectations remain the least optimistic (+5%), perhaps reflecting a cooling housing market and intense online/offshore competition. Expectations for activity in the construction sector continue to lead the pack (+41%), reflecting the solid pipeline of work ahead.

Figure 3. Hiring intentions



Source: ANZ

Hiring intentions rose to a net 6% after flirting with the zero line last quarter. The manufacturing sector showed the largest rebound (up 10%pts to 10%), followed by services (up 8%pts to 13%). The agricultural sector fell slightly and remains in negative territory (-10%). Policy settings such as environmental regulation are a key source of uncertainty for agriculture and it is perhaps showing. Hiring intentions in construction fell 6%pts to 0.0%, which is probably more reflective of difficulty finding skilled labour and tight labour market conditions than a slowdown in the sector. More broadly, small firms will need to navigate the impact of higher minimum wages going forward.

Figure 4. Investment



Source: ANZ

Investment intentions rebounded slightly to a net 8%. Intermediate-sized businesses reported the biggest rebound in their enthusiasm to invest, up 14%pts to 18%. This follows a 21%pt drop last quarter. Investment intentions among micro-sized businesses contracted 2%pts into slightly negative territory, suggesting uncertainty around the outlook is more severe for smaller businesses. By sector, agricultural investment intentions were at their weakest (-7%) since the dairy downturn in 2015. Both the manufacturing and retail sectors posted a respectable recovery, pointing to robust demand.

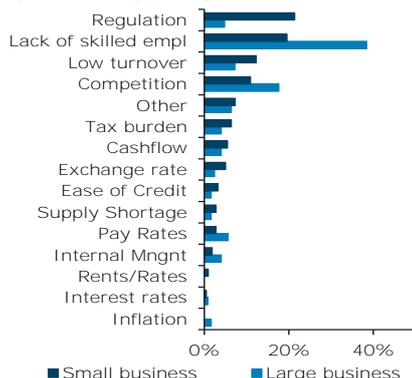
Figure 5. Profitability



Source: ANZ

Small business profit expectations rebounded from negative territory to 0%, but are still 21%pts below the September quarter. Profit expectations are lowest for agricultural firms, diving 20%pts to -26% in March. This is quite a turnaround given profit expectations in the agricultural sector were near a four-year high in September. The turnaround represents a mixture of challenging production conditions from late 2017 weighing on livestock production, the possibly of higher regulatory compliance costs and the slow burn impact of a softer capital gains outlook. At the other end of the spectrum, small construction firms posted a 31%pt increase to 40%.

Figure 6. Biggest problem faced



Source: ANZ

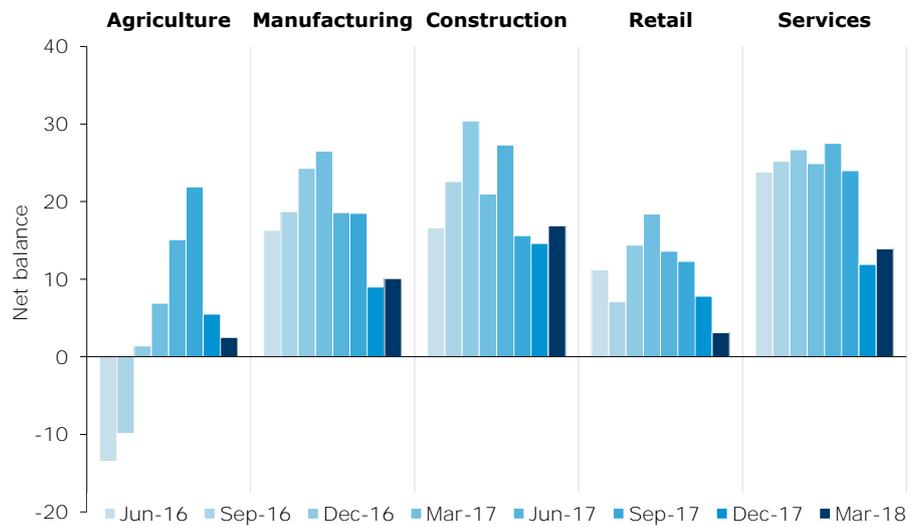
Regulation remains the biggest problem facing small firms. Regulatory requirements are the greatest concern for the agricultural and retail sectors (second for construction and services). For agriculture, changes to employment laws, foreign investment and more environmental regulation are key areas of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

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

Concerns were unchanged regarding competition, softened slightly on the exchange rate, and rose marginally about turnover, cash flow and tax burden.

ANZ BUSINESS MICRO SCOPE

Figure 7. Sectoral composite business sentiment measure: small firms

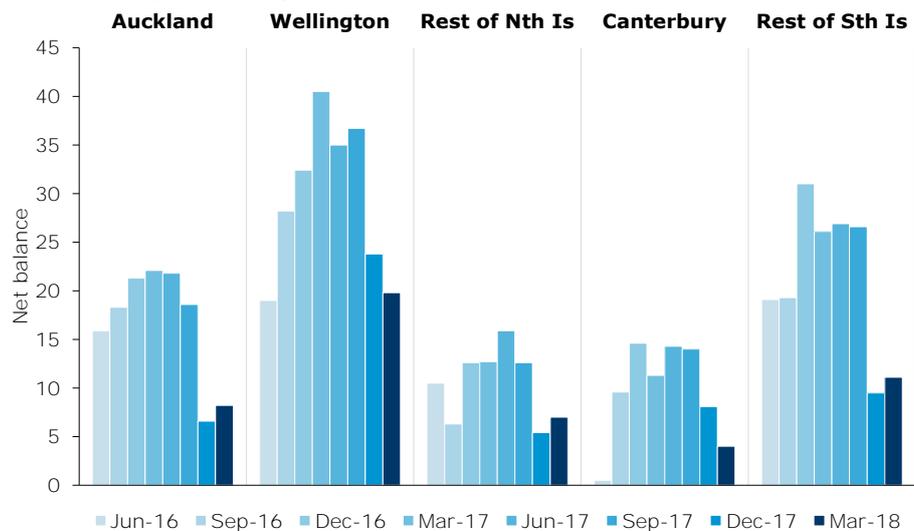


Source: ANZ

Our small business composite growth measure was mixed across sectors, with falls in agriculture and retail and a small recovery elsewhere.

Sitting at just 3%, the agricultural composite measure reflects challenging production conditions for livestock over the summer that continued into 2018. Emerging cost pressures and concerns around government policies have also persisted into 2018. Construction, services and manufacturing rebounded as firms’ expectations about their own activity recovered, but other composite weightings were more mixed, particularly in construction where a solid rebound in profit expectations more than offset softer hiring and investment intentions. While there are plenty of headwinds for construction firms (costs, credit and severe labour constraints), prospects are favourable with housing policies favouring a strong new build pipeline.

Figure 8. Regional composite business sentiment measure: small firms



Source: ANZ

By region, the composite growth measure declined further in Wellington and Canterbury, but lifted elsewhere. However, Wellington continues to lead at 20%, followed by regional South Island.



ANZ BUSINESS MICRO SCOPE

	SMALL				LARGE			
	Jun 17	Sep 17	Dec 17	Mar 18	Jun 17	Sep 17	Dec 17	Mar 18
COMPOSITE SENTIMENT	21.9	20.1	10.1	9.6	34.8	34.8	20.3	18.7
Business Confidence	17.1	14.3	-29.1	-20.3	17.0	10.6	-29.5	-18.1
Activity Outlook	35.4	30.8	11.6	18.1	45.0	45.4	20.2	26.4
Exports	23.9	22.7	13.5	15.6	33.0	32.7	17.6	25.9
Investment	18.1	15.5	2.4	8.2	34.2	28.8	13.1	11.8
Capacity Utilisation	24.3	22.2	9.5	12.5	35.5	34.8	27.3	22.9
Residential Construction	28.3	25.2	10.8	19.8	34.4	28.9	27.6	27.2
Commercial Construction	21.9	27.3	0.2	14.5	22.9	29.5	14.8	17.5
Employment	17.0	15.6	1.1	5.7	33.5	29.5	11.4	11.6
Unemployment Rate	-8.9	-5.2	14.2	12.3	-9.8	-7.9	11.9	5.3
Profits	27.9	20.9	-2.9	0.4	31.0	32.1	1.4	5.7
Interest Rates	59.4	44.6	49.0	43.9	62.7	39.4	49.6	38.9
Pricing Intentions	28.3	19.3	24.3	26.6	35.7	33.6	31.2	28.0
Ease of Credit	-24.9	-23.1	-33.2	-26.8	-30.6	-23.4	-30.6	-25.3
Inflation Expectations	1.9	2.0	2.2	2.1	2.0	1.9	2.1	2.1
AGRICULTURE	15.1	21.9	5.5	2.5	33.1	24.1	13.7	10.6
MANUFACTURING	18.6	18.5	9.0	10.1	15.2	16.2	18.2	8.2
CONSTRUCTION	27.3	15.6	14.6	16.9	38.1	38.7	23.1	12.1
RETAIL	13.6	12.3	7.8	3.1	30.3	34.8	11.7	26.7
SERVICES	27.5	24.0	11.9	13.9	42.3	42.0	23.8	24.3
AUCKLAND	21.8	18.6	6.6	8.2	42.2	37.5	23.9	29.1
WELLINGTON	35.0	36.7	23.8	19.8	32.0	30.2	20.5	15.9
REST OF NORTH ISLAND	15.9	12.6	5.4	7.0	26.5	33.7	16.0	16.7
CANTERBURY	14.3	14.0	8.1	4.0	39.6	37.1	19.6	4.9
REST OF SOUTH ISLAND	26.9	26.6	9.5	11.1	37.8	36.5	22.7	15.7

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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