

# ANZ BUSINESS MICRO SCOPE

Data for March 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 March 2017.

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.

## CONTACTS

**Antonia Watson**  
**Managing Director**  
**Retail and Business Banking**  
 Telephone: +64 9 252 2291

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

## POTENTIAL MEETS CONSTRAINT

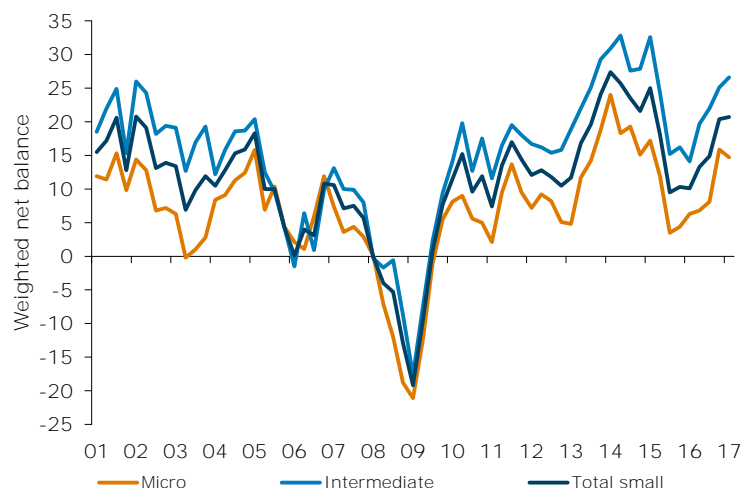
### SUMMARY

- Business confidence for small firms across the New Zealand economy started 2017 on the back foot.
- However, our small business composite measure ticked up from already healthy levels, and that's a more relevant growth indicator.
- Skilled labour shortages continue to apply the brakes on growth.
- Growth prospects improved for three of the five sectors. The composite measure was highest in manufacturing. Retail and agriculture also recorded lifts, while services eased. Construction fell markedly after a strong 2016.
- The growth composite surged in Wellington. Auckland and the rest of the North Island saw modest lifts, while South Island small firms are more circumspect on key growth indicators.

**Business confidence for small firms started the year on the back foot.** A net 14% of small businesses are more confident about general business conditions for the year ahead. Both *micro* firms (0-5 employees) and *intermediate* sized businesses (those that employ 6-20 employees) fell to 8% and 19% respectively.

**Our composite activity measure for small firms – a key proxy for growth – edged up to its highest mark in two years (+21).** The measure is based on activity indicators such as firms' own activity outlook, hiring, investment and profit expectations. Growth prospects for micro businesses were firm (down 1pt to +15) and intermediate businesses improved 2 points to +27. The composite measure improved for three of the five sectors and is highest for manufacturing and services small firms. Construction achieved respectable growth in 2016; growth prospects fell in March as the sector faced both rising costs, and credit and capacity constraints. The growth outlook for North Island firms improved as Wellington surged on employment and investment expectations. Conversely, the measure for South Island small businesses fell. Small businesses across the country are being held back by skilled labour shortages, which has been their biggest concern for a full year now.

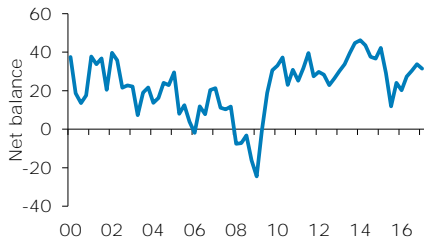
**FIGURE 1. SMALL BUSINESS CONFIDENCE, COMPOSITE MEASURE**



Source: ANZ

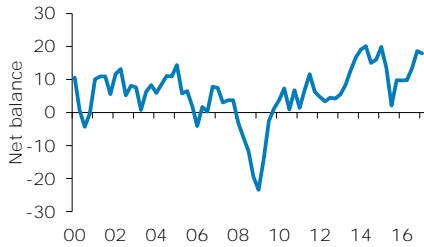
# ANZ BUSINESS MICRO SCOPE

**FIGURE 2. OWN ACTIVITY**



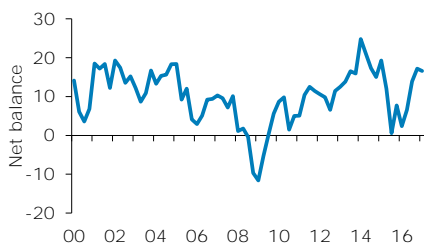
Source: ANZ

**FIGURE 3. HIRING INTENTIONS**



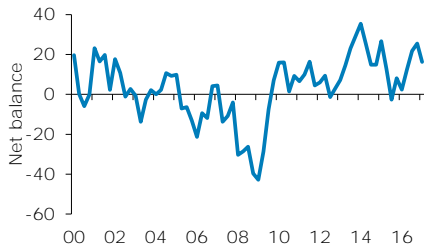
Source: ANZ

**FIGURE 4. INVESTMENT**



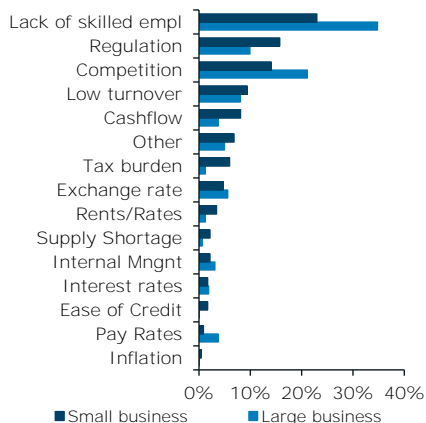
Source: ANZ

**FIGURE 5. PROFITABILITY**



Source: ANZ

**FIGURE 6. BIGGEST PROBLEM FACED, BY FIRM SIZE**



Source: ANZ

**A net 32% of small firms expect a lift in their business activity over the year ahead.** Activity expectations among agriculture-sector small firms reached their highest level in two years (23%) on the back of a buoyant horticultural sector and stabilising dairy prices. Construction activity expectations remained high (despite falling in the quarter). Manufacturing activity expectations rose 15pts to a net 43%, also a two-year high.

**Small business' hiring intentions eased slightly but remain elevated at a net 18%.** Retail and service sector small firms' employment intentions lifted further in the quarter. For other sectors, while they are still in hiring mode, intentions eased. Construction firms recorded the largest fall (down 12pts). Wellington firms surged while the Canterbury small business employment outlook is in the balance (down 14pts).

Hiring intentions eased for micro firms (down 3pts to 12%) while intermediate sized businesses improved marginally to 24%.

**Investment intentions remained healthy at a net 17%.** The only sector with a noticeable fall in investment intentions was agriculture (down 4pts to 6%). Intentions remain highest in the services sector (21%).

**Investment intentions in Wellington improved to 35%, a standout among the regions.** Regional North Island is next at 18% (up 6pts). Regional South Island small firms fell 18 pts to 7%.

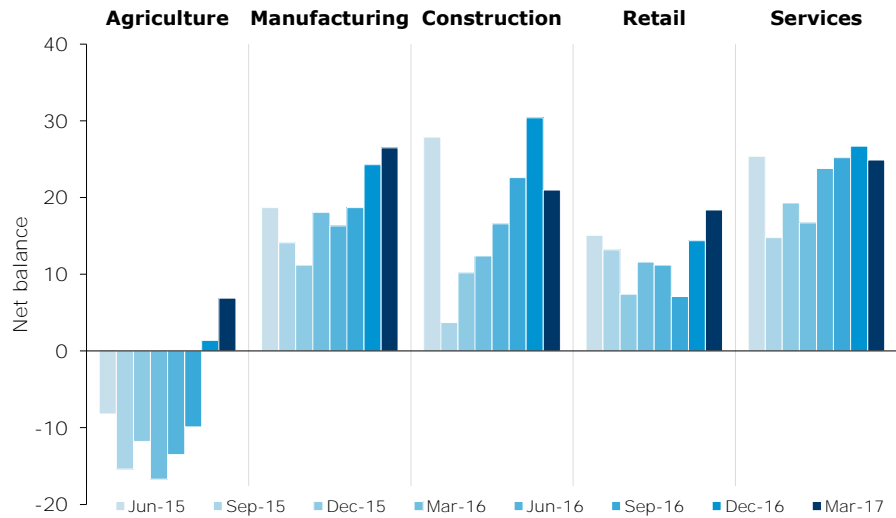
**Profitability expectations fell to a net 16% in the March quarter (down 10pts).** That is still historically elevated (3% is the average) and 16% still rates highly compared to the last few years. Looking at where the pain points are, the downward shift came from construction (down 22pts) where credit restrictions, rising costs, labour shortages and capacity constraints make for an uncertain outlook for profitability despite a solid pipeline of work. Agriculture also fell 18pts.

**Small business growth continues to be stymied by a lack of skilled labour; 23% of small businesses say skill shortages are their biggest problem.** It has been the major concern for four consecutive quarters. Jobs are being offered up (our job ads series is up 2.3% for the quarter and 18% y/y). A rapidly expanding labour pool is helping to meet this demand courtesy of booming migration, and while the unemployment rate (5.2%) is not at extreme lows, the continued references to skill shortages flags a mismatch between the skills (or lack thereof) of the unemployed and those desired by employers.

**Regulation, competition and low turnover round out the top four issues faced by small businesses.** Low turnover has given up 9pts over the last year; small business attention has instead turned to skilled labour shortages (up 8pts), competition, ease of credit and supply shortages (all up 2 pts).

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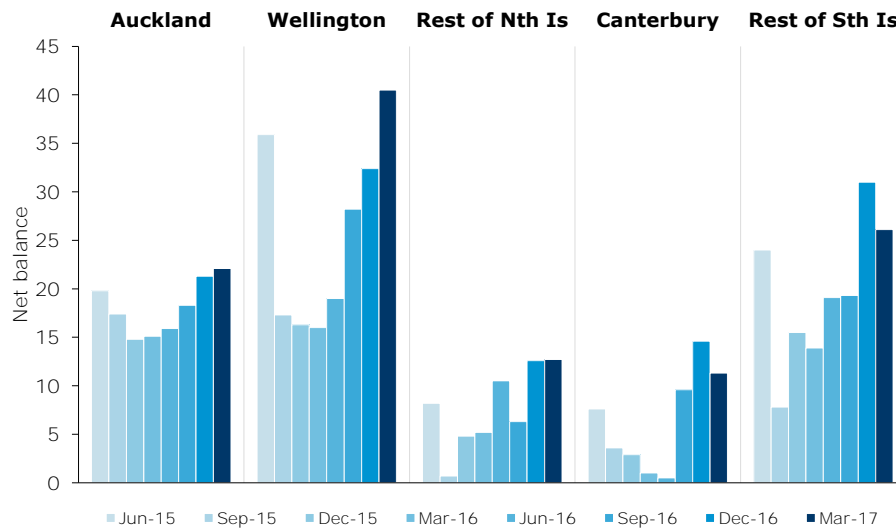
**FIGURE 7. SECTORAL COMPOSITE BUSINESS SENTIMENT MEASURE: SMALL FIRMS**



Source: ANZ

**Our small business composite growth measure improved for three of the five sectors.** Notably, the construction sector fell 9 points in the quarter and now sits third in the ranks behind manufacturing (up a touch to +27) and services (down 2 pts to +25). Agriculture lifted 6 pts as activity and investment intentions have improved with stabilising milk prices. The retail composite measure rose to +18.

**FIGURE 8. REGIONAL COMPOSITE BUSINESS SENTIMENT MEASURE: SMALL FIRMS**



Source: ANZ

**The composite growth measure for small businesses in the Wellington region rose to its highest level ever. Auckland and regional North Island also nudged up, while South Island centres fell behind.** Wellington profit and activity expectations eased but remain at high levels, while employment and investment intentions surged. Activity, employment and profit expectations all fell in the South Island.

## ANZ BUSINESS MICRO SCOPE

	SMALL				LARGE			
	Jun 16	Sep 16	Dec 16	Mar 17	Jun 16	Sep 16	Dec 16	Mar 17
<b>COMPOSITE SENTIMENT</b>	13.3	14.9	20.4	<b>20.7</b>	30.8	31.8	32.9	<b>33.1</b>
Business Confidence	8.2	17.4	19.7	<b>13.5</b>	20.1	23.1	22.0	<b>14.9</b>
Activity Outlook	27.3	30.4	33.8	<b>31.5</b>	39.5	42.2	41.5	<b>45.4</b>
Exports	15.1	14.6	18.7	<b>23.5</b>	31.0	33.3	32.7	<b>33.0</b>
Investment	6.6	13.9	17.2	<b>16.6</b>	26.9	30.5	26.8	<b>30.9</b>
Capacity Utilisation	12.8	18.9	14.6	<b>19.9</b>	29.3	38.4	32.4	<b>34.3</b>
Residential Construction	35.3	37.6	25.6	<b>25.5</b>	28.5	42.3	32.5	<b>42.7</b>
Commercial Construction	23.0	27.4	29.5	<b>36.1</b>	22.5	39.0	23.9	<b>30.0</b>
Employment	9.8	13.5	18.6	<b>17.9</b>	28.8	31.5	28.6	<b>32.1</b>
Unemployment Rate	10.1	-4.7	-14.7	<b>-6.5</b>	-3.0	-11.9	-14.7	<b>-9.0</b>
Profits	12.4	21.8	25.5	<b>16.2</b>	30.5	31.5	35.5	<b>33.5</b>
Interest Rates	-20.5	-24.9	19.5	<b>66.1</b>	-30.9	-35.3	15.8	<b>64.5</b>
Pricing Intentions	18.0	15.1	18.7	<b>24.9</b>	22.5	19.9	28.6	<b>26.7</b>
Ease of Credit	-4.3	-13.1	-21.9	<b>-24.3</b>	-1.1	-6.8	-23.8	<b>-27.8</b>
Inflation Expectations	1.5	1.5	1.5	<b>1.8</b>	1.4	1.4	1.4	<b>1.8</b>
AGRICULTURE	-13.5	-9.9	1.4	<b>6.9</b>	28.7	9.0	35.7	<b>25.8</b>
MANUFACTURING	16.3	18.7	24.3	<b>26.5</b>	21.8	19.1	20.7	<b>17.3</b>
CONSTRUCTION	16.6	22.6	30.4	<b>21.0</b>	39.6	30.6	44.1	<b>33.6</b>
RETAIL	11.2	7.1	14.4	<b>18.4</b>	27.8	41.0	33.9	<b>34.6</b>
SERVICES	23.8	25.2	26.7	<b>24.9</b>	33.2	36.3	35.4	<b>39.2</b>
AUCKLAND	15.9	18.3	21.3	<b>22.1</b>	42.8	44.9	43.4	<b>44.6</b>
WELLINGTON	19.0	28.2	32.4	<b>40.5</b>	27.4	31.5	25.0	<b>29.1</b>
REST OF NORTH ISLAND	10.5	6.3	12.6	<b>12.7</b>	24.7	20.0	26.8	<b>21.5</b>
CANTERBURY	0.5	9.6	14.6	<b>11.3</b>	33.8	32.3	40.9	<b>36.5</b>
REST OF SOUTH ISLAND	19.1	19.3	31.0	<b>26.1</b>	23.0	29.9	30.2	<b>37.4</b>

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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