

# ANZ NZ Business Micro Scope

Data for December quarter 2018



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## CONTACT:

**Antonia Watson**  
Managing Director  
Retail & Business Banking  
Telephone: +64 9 252 2291  
[Antonia.Watson@anz.com](mailto:Antonia.Watson@anz.com)

**Miles Workman**  
Economist  
Telephone: +64 4 382 1951  
[Miles.Workman@anz.com](mailto:Miles.Workman@anz.com)

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 December 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.

## Finding a floor

### Summary

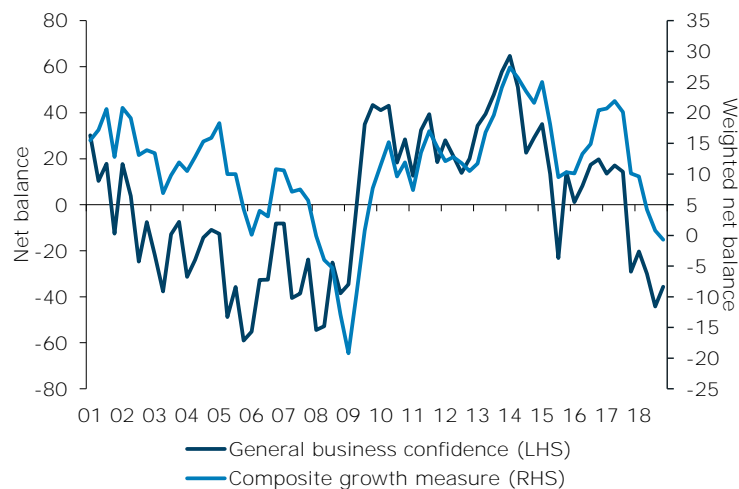
- Small firm business confidence lifted slightly in the December quarter, but remains low by historical standards.
- Growth indicators also ticked up, suggesting a small but broad-based change of outlook among small firms.
- Regulatory requirements and a lack of skilled staff continue to top the list of biggest problems faced by small businesses.

**Small firm business confidence lifted slightly in the December quarter**, with a net 36% of small businesses pessimistic about general business conditions. This marked an improvement on 44% in the September quarter, which was the weakest reading since 2008. Confidence lifted among both *micro* (0-5 employees) and *intermediate* (6-20 employees) sized firms, up 8%pts and 10%pts respectively. Despite the quarterly uptick, pessimism remains a prevailing theme among small businesses, especially considering the five-year average is +7.

**Our composite growth measure for small firms – a proxy for GDP growth – fell into the red for the first time since 2009.** The composite measure is based on growth indicators such as firms' own activity outlook, hiring and investment intentions, and profit expectations. Weighing heavily is investment in buildings, plant and equipment (-4%) and profit expectations (-18%).

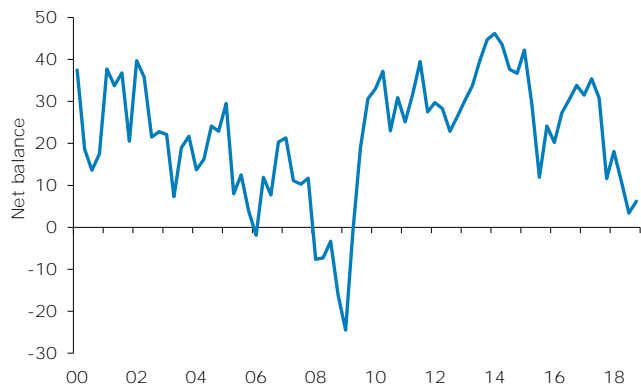
However, despite the fall in the composite measure, growth indicators are showing tentative signs of having found a floor, albeit a very low one, with all four activity indicators improving in December: own activity and hiring intentions both lifted 3% points, investment rose 4% points, and profits were up 1% point.

**Figure 1. Small business confidence and composite growth measure**



Source: ANZ Research

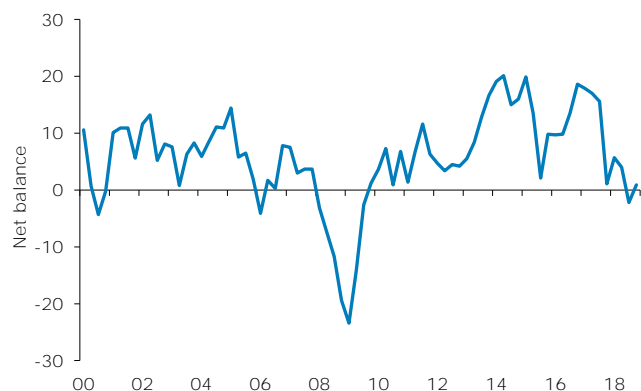
**Figure 2. Own activity**



**Small firms' expectations of their own activity rose 3%pts to a net 6%.**

By sector, services are the most optimistic (at +10%) while construction takes the 'most improved player' prize, staging an impressive 11%pt lift to +6%. Dairy prices fell over most of the year, which appears to have weighed on the agricultural sector, down 9%pts to +1. But if the recent recovery in milk prices persists this may prove temporary.

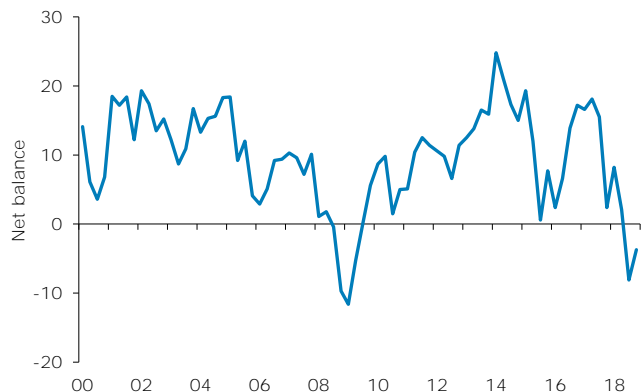
**Figure 3. Hiring intentions**



**Hiring intentions lifted 3%pts from September to +1% in December.**

Services and construction are keeping hiring intentions afloat at 8% and 6% respectively, with the latter staging an impressive 19% point comeback from September. On the other hand, agriculture (-15%) and retail (-10%) continue to provide a significant drag. Environmental regulation changes and minimum wage rises are likely to be impacting here, while more broadly, difficulty finding skilled labour is likely to be weighing.

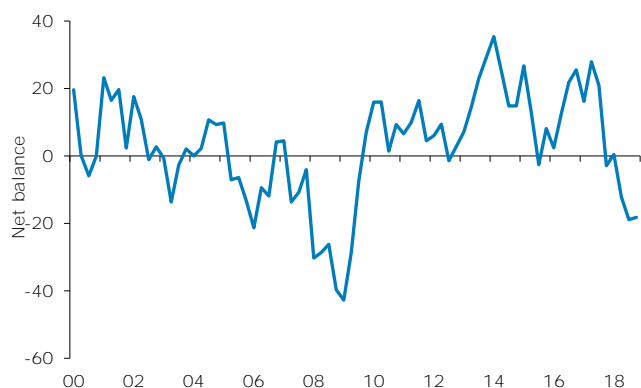
**Figure 4. Investment**



**Investment intentions lifted 4%pts to a net -4% but remain very low by historical standards.**

Overall, intentions are bobbling around lows not seen since 2009, with services the only sector in the black (+4%). Overall, investment intentions have the closest correlation with GDP and **December's print** is sending a worrying signal for growth generated from the small business community. Agriculture remains most downbeat at -24%. Manufacturing fell 9%pts to -11%.

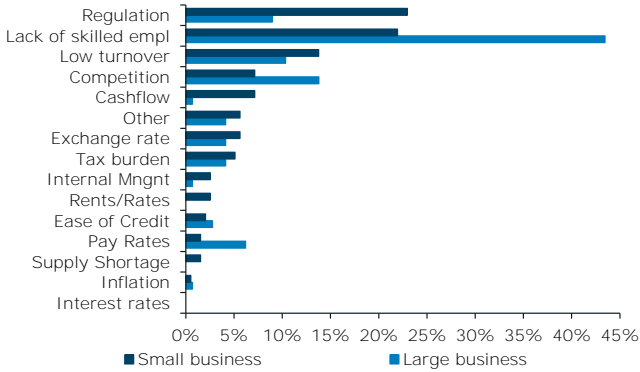
**Figure 5. Profitability**



**Small business profit expectations remain in the doldrums, up just 0.1%pt to -18%.**

The slump in dairy prices and regulatory concerns appear to have hit agricultural profit expectations, with the sector posting a 25%pt decline to a net 49% of agriculture firms expecting profits to deteriorate in the year ahead. That's the lowest sector by far and well below the historical average of -6%. Some reprieve may be on the horizon with milk prices picking up December. All other sectors improved but remain well below average. Construction firms are the most upbeat, but are themselves facing rising costs (for both labour and materials).

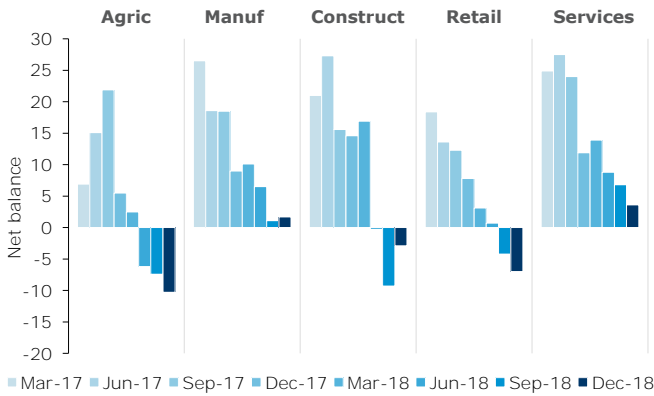
**Figure 6. Biggest problem faced**



**Regulation remains the biggest problem facing small firms** and has been in the top spot for more than a year now, reflecting regulatory changes (and uncertainties) that accompanied the change of government.

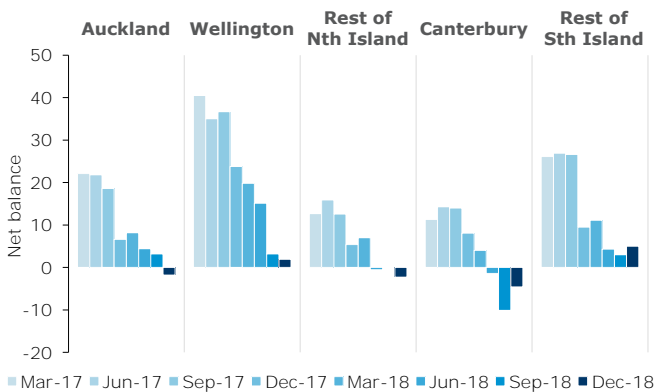
**Difficulty finding skilled employees remains second on the list of problems.** Interestingly, this appears to be closing in on regulation as the biggest problem, possibly reflecting the already tight labour market alongside gradually easing net migration inflows.

**Figure 7. Sectoral composite business sentiment measure: small firms**



**Our small business composite growth measure improved for manufacturing and construction firms but remains dire for agriculture and retail businesses.** Agricultural firms are feeling the pinch from softening dairy prices. Activity is holding up in the sector, but employment, investment and profit expectations have fallen dramatically. Activity indicators within the retail sector remain soft across the board. Improving activity and employment intentions provided a boost for the other sectors but weak investment intentions and profit expectations contained the recovery.

**Figure 8. Regional composite business sentiment measure: small firms**



**The composite growth measure fell in the north, but rose in the south.** South Island firms outside of Canterbury sit atop the regional scorecard (+5) with the activity outlook steady and hiring intentions turning around. Canterbury improved slightly, but activity concerns persist. The composite measure fell slightly across all North Island regions, and with just 4 points between them, discrepancies across the North Island are narrowing.

Source: ANZ

	Small				Large			
	Mar 18	Jun 18	Sep 18	Dec 18	Mar 18	Jun 18	Sep 18	Dec 18
<b>Composite Sentiment</b>	9.6	4.2	0.8	<b>-0.7</b>	18.7	10.7	5.1	<b>8.0</b>
Business Confidence	-20.3	-30.0	-44.2	<b>-35.6</b>	-18.1	-29.7	-44.9	<b>-28.4</b>
Activity Outlook	18.1	10.9	3.4	<b>6.2</b>	26.4	18.1	7.7	<b>14.3</b>
Exports	15.6	12.2	9.3	<b>11.1</b>	25.9	21.5	17.6	<b>14.2</b>
Investment	8.2	2.1	-8.1	<b>-3.7</b>	11.8	8.7	1.1	<b>2.3</b>
Capacity Utilisation	12.5	7.7	3.3	<b>4.9</b>	22.9	21.2	16.5	<b>19.0</b>
Residential Construction	19.8	9.6	8.5	<b>11.1</b>	27.2	12.6	4.6	<b>6.5</b>
Commercial Construction	14.5	5.6	-9.3	<b>7.6</b>	17.5	3.4	-7.7	<b>3.2</b>
Employment	5.7	4.0	-2.2	<b>0.9</b>	11.6	8.4	-1.0	<b>6.2</b>
Unemployment Rate	12.3	17.2	30.2	<b>18.8</b>	5.3	14.4	24.3	<b>17.8</b>
Profits	0.4	-12.2	-18.9	<b>-18.2</b>	5.7	-0.1	-11.0	<b>-1.9</b>
Interest Rates	43.9	48.0	37.1	<b>26.2</b>	38.9	37.1	22.0	<b>21.5</b>
Pricing Intentions	26.6	23.6	25.4	<b>22.8</b>	28.0	27.7	33.8	<b>36.2</b>
Ease of Credit	-26.8	-30.0	-38.5	<b>-30.6</b>	-25.3	-26.5	-30.0	<b>-22.0</b>
Inflation Expectations	2.1	2.2	2.2	<b>2.3</b>	2.1	2.1	2.1	<b>2.1</b>
Agriculture	2.5	-6.2	-7.4	<b>-10.3</b>	10.6	18.8	5.2	<b>18.2</b>
Manufacturing	10.1	6.5	1.1	<b>1.7</b>	8.2	9.7	1.2	<b>3.8</b>
Construction	16.9	-0.3	-9.3	<b>-2.9</b>	12.1	5.2	3.3	<b>10.1</b>
Retail	3.1	0.7	-4.2	<b>-7.0</b>	26.7	16.4	7.2	<b>7.8</b>
Services	13.9	8.8	6.8	<b>3.6</b>	24.3	10.7	8.0	<b>10.0</b>
Auckland	8.2	4.4	3.2	<b>-1.8</b>	29.1	18.1	13.7	<b>20.9</b>
Wellington	19.8	15.1	3.2	<b>1.9</b>	15.9	13.1	8.9	<b>2.4</b>
Rest of North Island	7.0	-0.5	0.0	<b>-2.3</b>	16.7	4.9	-0.9	<b>5.8</b>
Canterbury	4.0	-1.4	-10.1	<b>-4.6</b>	4.9	3.8	-6.3	<b>-2.0</b>
Rest of South Island	11.1	4.3	3.0	<b>5.0</b>	15.7	11.0	9.0	<b>7.6</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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