

ANZ BUSINESS MICRO SCOPE SPRING LIFT

Data for September quarter 2016

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 2016.

The survey takes in responses from 247 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

Andrew Webster
General Manager
Retail and Business Banking
Telephone: +64 9 252 4214

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

SUMMARY

- Small businesses are showing more confidence in the economy heading into the summer months.
- Our small business composite growth measure improved to its highest level in over a year.
- Growth prospects are highest amongst construction and service sector small business; Wellington the clear leader among the regions.
- Skilled labour shortages continued to be the cold snap on the minds of businesses leaders.

There was an early spring lift in confidence for small firms. A net 17% of small businesses are more confident in the year ahead. Within this group, *intermediate* businesses (those that employ 6-20 employees) jumped 15 points to +26 and *micro* firms (0-5 employees) improved to +9.

Our composite measure for small firms – a key proxy for growth - lifted to +15. The composite measure is based on firms' activity outlook, hiring, investment and profit expectations, all which improved in the September quarter. **Intermediate sized firms have the strongest wind in their sales.** A net 42% of firms in this group expect activity to lift over the next 12 months and the composite reading across the key measures was 22, up from 20. Growth prospects for micro firms are more modest, but with a 1 point lift in the composite gauge (boosted by 10 point lift in profit expectations), are heading in the right direction. The small firm composite measure improved in four of the five regions, with Wellington topping the list with 28. Canterbury lifted 9 points over the quarter while North Island businesses outside of Auckland and Wellington fell. Prospects for four of the five sectors improved in September with construction and services leading the way.

Inflation expectations remained flat and pricing expectations fell; both measures are yet to bloom.

FIGURE 1. SMALL BUSINESS CONFIDENCE, COMPOSITE MEASURE



Source: ANZ

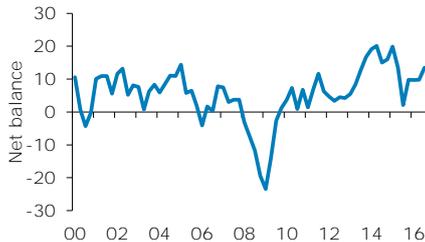
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FIGURE 2. OWN ACTIVITY



Source: ANZ

FIGURE 3. HIRING INTENTIONS



Source: ANZ

FIGURE 4. INVESTMENT



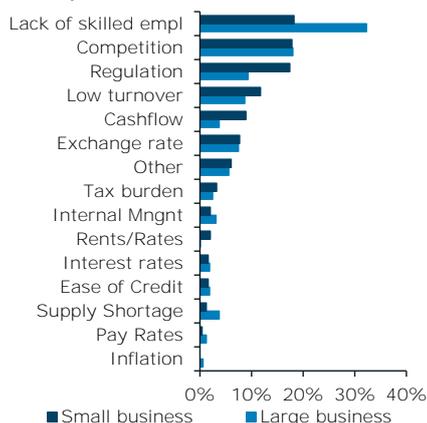
Source: ANZ

FIGURE 5. PROFITABILITY



Source: ANZ

FIGURE 6. BIGGEST PROBLEM FACED, BY FIRM SIZE



Source: ANZ

A net 30% of small firms expect a lift in activity for their business over the year ahead. That portrays confidence in on-going demand for their products and services, which flows into more investment, expanding their workforce, and even more impetus for growth prospects. Construction and services are leading the pack, and even small firms involved in agricultural activities are more buoyant, lifting 10 points to +11. While **there’s still a way to go for the agricultural sector**, the recent lift in dairy prices appears to be giving businesses something to look forward to. Retailing was the only sector to record a drop.

Small firms are looking to expand their workforce. Hiring intentions were up 4 points to +14. That’s the highest in over a year and sitting well above the five year average. Hiring intentions in manufacturing and construction businesses were up. Agriculture improved 16 points but is not yet in hiring mode with a reading of -2. Services were flat, but at +19, are well above historical averages. Intermediate sized firms lifted 6 points to +21; micro firms nudged forward 2 points to +7.

Investment intentions rose to +14 in September, a lift of 7 points. Both micro and intermediate sized firms improved 7 points in the quarter. Intentions are not as strong as they were in early 2014 (+25), but with a surge in manufacturing to +24 and agriculture seeing a 24 point turnaround, two of New Zealand’s most influential sectors are in a much better mood to invest than they were in June. Construction, retail and services were all stable for the quarter.

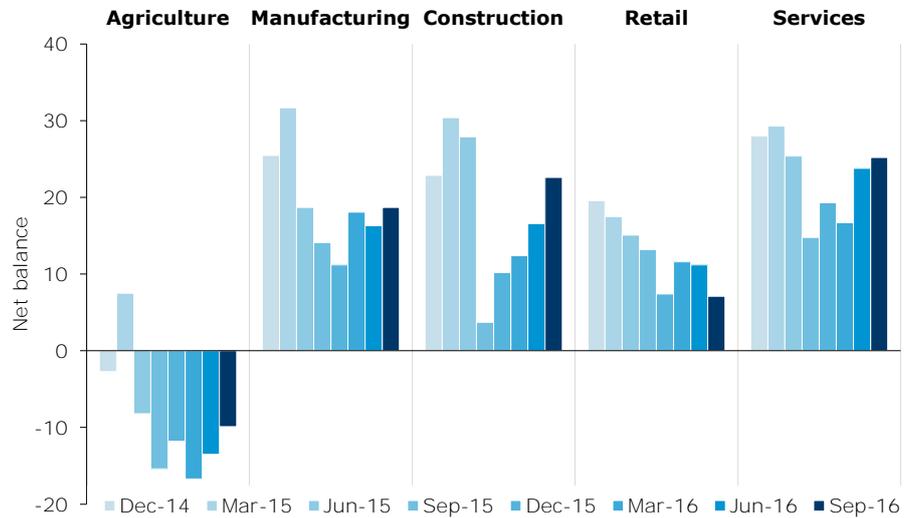
Stronger profitability is expected, which augurs well for more investment and employment. Profit expectations were up 10 points to +22 (5-year average +13). This follows a similar sized lift in the previous quarter and more importantly, expectations were up across all sectors. At +14 and +31 for micro and intermediate sized businesses respectively, both segments are showing confidence in the bottom line.

When it comes to problems faced by businesses, the message is clear – “we want more skilled labour, but we’re struggling to find it”. The labour market is healthy but it’s tightening. Migration is booming and bringing people who can and want to work, but businesses still feel they are being held back by the talent pool. It has been the biggest problem constraining small firm growth in 2016 and has strengthened for the larger businesses, now out to 32%.

Competition and regulation round out the top three problems and there are the usual bits-and-bobs in terms of other issues. Of note is that low turnover only ranks fourth, and this shows that the economy has plenty of demand. The emerging issue is fulfilling it.

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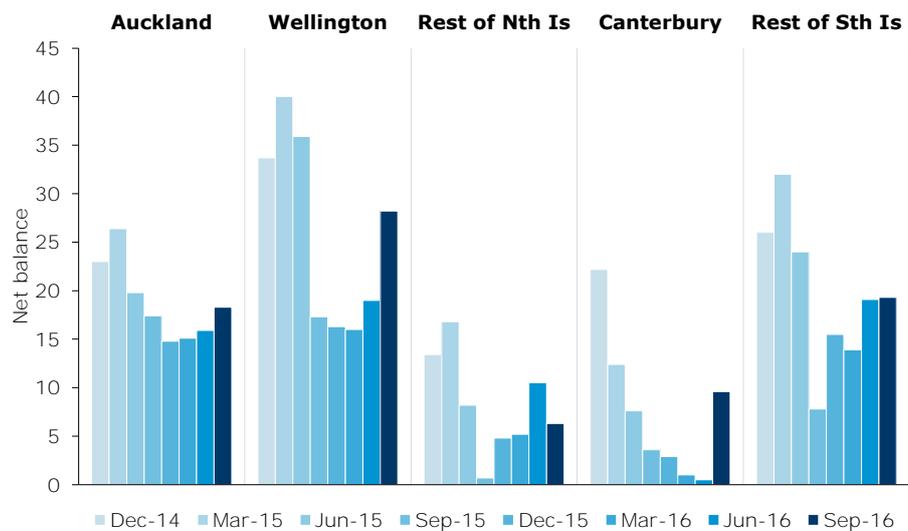
FIGURE 7. SECTORAL COMPOSITE BUSINESS SENTIMENT MEASURE: SMALL FIRMS



Source: ANZ

Our small business composite growth measure improved across four of the five sectors with services and construction out in front. Service sector activity across the economy is fairly robust and small businesses are playing their part. Construction activity is on a steeper climb with a solid pipeline; small businesses are signalling they're not going to miss out. Retail firms aren't expecting a material increase in activity and the pause on hiring continues. Growth prospects for agriculture small firms are still in a wintry blast, but there are some positive nuances from the sector. We expect the turnaround in growth prospects to continue.

FIGURE 8. REGIONAL COMPOSITE BUSINESS SENTIMENT MEASURE: SMALL FIRMS



Source: ANZ

The regional composite growth measure surged in Wellington and Canterbury also showed a decent lift. Auckland is also starting to pick up steam. North Island small firms outside of the main centres fell on scepticism of activity prospects.

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	Small				Large			
	Dec 15	Mar 16	Jun 16	Sep 16	Dec 15	Mar 16	Jun 16	Sep 16
Composite Sentiment	10.3	10.1	13.3	14.9	27.6	24.1	30.8	31.8
Business Confidence	14.1	1.1	8.2	17.4	21.4	10.5	20.1	23.1
Activity Outlook	24.1	20.2	27.3	30.4	40.9	38.0	39.5	42.2
Exports	11.7	8.8	15.1	14.6	35.5	31.8	31.0	33.3
Investment	7.7	2.4	6.6	13.9	24.4	26.1	26.9	30.5
Capacity Utilisation	13.1	9.8	12.8	18.9	32.5	33.3	29.3	38.4
Residential Construction	28.3	35.7	35.3	37.6	39.1	23.7	28.5	42.3
Commercial Construction	23.4	21.9	23.0	27.4	24.2	36.9	22.5	39.0
Employment	9.8	9.7	9.8	13.5	26.0	22.2	28.8	31.5
Unemployment Rate	20.8	9.6	10.1	-4.7	13.8	5.1	-3.0	-11.9
Profits	8.1	2.4	12.4	21.8	29.3	28.9	30.5	31.5
Interest Rates	-29.6	-36.1	-20.5	-24.9	-33.8	-39.2	-30.9	-35.3
Pricing Intentions	19.7	16.7	18.0	15.1	28.9	18.2	22.5	19.9
Ease of Credit	7.7	3.8	-4.3	-13.1	9.5	6.9	-1.1	-6.8
Inflation Expectations	1.7	1.4	1.5	1.5	1.6	1.3	1.4	1.4
Agriculture	-11.8	-16.7	-13.5	-9.9	14.6	10.0	28.7	9.0
Manufacturing	11.2	18.1	16.3	18.7	18.3	20.1	21.8	19.1
Construction	10.2	12.4	16.6	22.6	22.1	13.4	39.6	30.6
Retail	7.4	11.6	11.2	7.1	25.8	22.1	27.8	41.0
Services	19.3	16.7	23.8	25.2	33.2	27.8	33.2	36.3
Auckland	14.8	15.1	15.9	18.3	41.8	35.7	42.8	44.9
Wellington	16.3	16.0	19.0	28.2	23.7	20.4	27.4	31.5
Rest of North Island	4.8	5.2	10.5	6.3	24.4	21.3	24.7	20.0
Canterbury	2.9	1.0	0.5	9.6	16.1	23.2	33.8	32.3
Rest of South Island	15.5	13.9	19.1	19.3	21.2	11.8	23.0	29.9

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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