

# ANZ NZ Business Micro Scope

December quarter 2019



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## CONTACT:

**Benjamin Kelleher**  
Acting Managing Director  
Retail & Business Banking  
Telephone: +64 9 252 2289  
[benjamin.kelleher@anz.com](mailto:benjamin.kelleher@anz.com)

**Miles Workman**  
Senior 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 2019.

The survey includes responses from approximately 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.

## A little more cheer

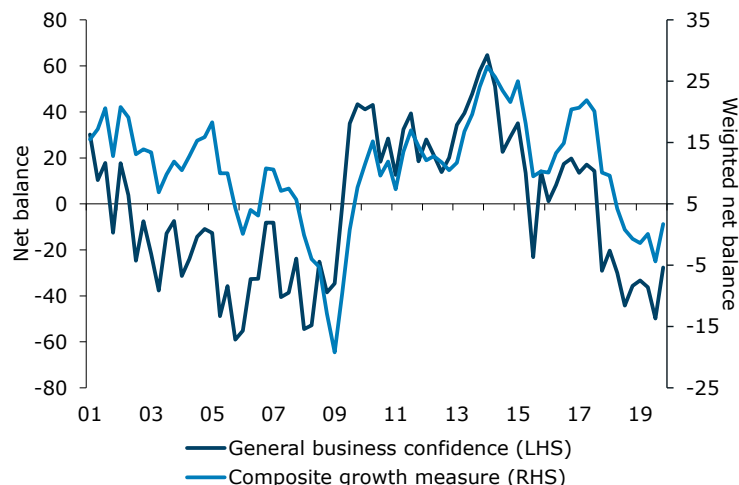
### Summary

- Small firm confidence ticked up in December, although remained at a low level
- Growth indicators also recovered
- Regulatory requirements and finding skilled labour remain top of the list of biggest problems faced by small businesses.

**Small firm business confidence saw a positive lift in the December quarter yet still remained in negative territory.** A net 28% of small businesses feel pessimistic about general business conditions in the year ahead. This is a notable rise from a net 50% feeling pessimistic in September and is the highest read since March 2018, albeit still at historically low levels.

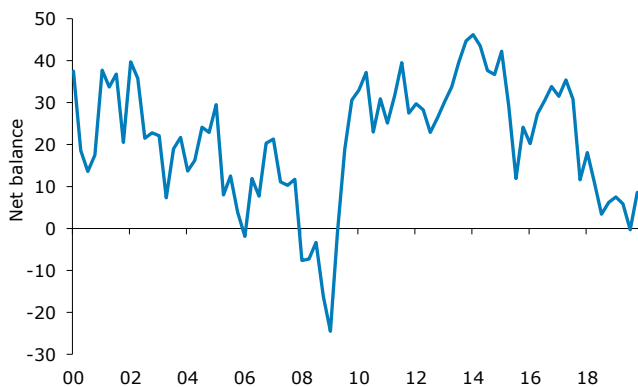
**Our composite growth measure for small firms – a proxy for GDP growth – rose back into positive territory this quarter.** A small bounce to +1.7 in the December quarter is encouraging, and is the highest since mid-2018. The composite measure is based on growth indicators such as firms' own activity outlook, hiring and investment intentions, and profit expectations. All four growth indicators saw improvements this quarter, relative to last. Firms' views of their own activity and hiring intentions were the main drivers.

Figure 1. Small business confidence and composite growth measure



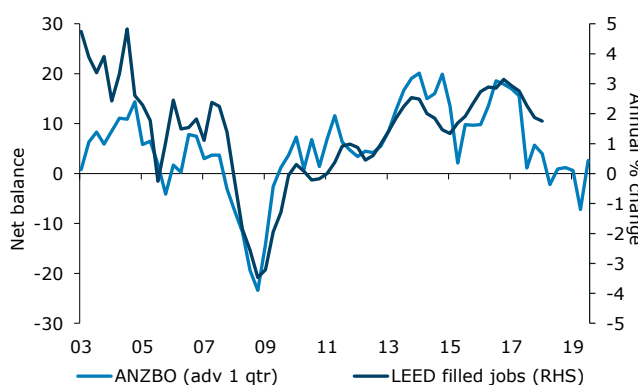
Source: ANZ Research

**Figure 2. Own activity**



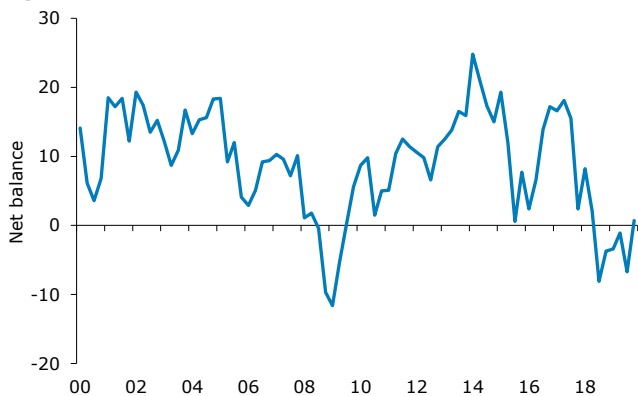
**Small firms' expectations of their own activity climbed to net 8.6%**, after a one quarter stint below zero in September. Retail is the only sector that is not expecting greater activity over the year ahead, with a net 12.5% of firms feeling pessimistic. Much of this can be attributed to the continuing inability to compete with online stores. Construction firms, on the other hand, are feeling much more upbeat, up 16%pts to +3.5%. Agriculture, manufacturing and services sectors are all finished the year feeling slightly more optimistic.

**Figure 3. Hiring intentions<sup>1</sup>**



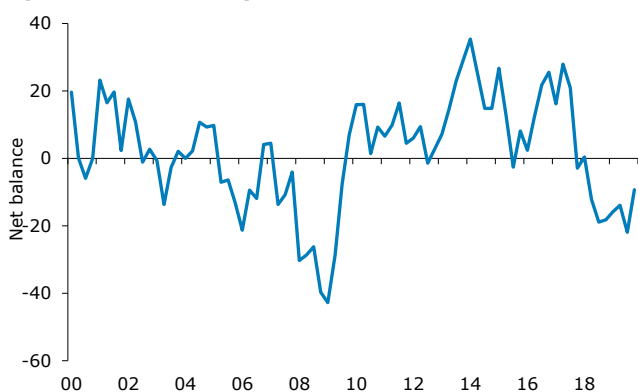
**Hiring intentions improved after a sharp fall in September.** A net 2.6% of small businesses intend to employ more staff over the year ahead. This is still a historically low reading, and represents a risk to the outlook for households (and the broader economy) given solid rates of employment growth and a tight labour market have been important drivers of consumption this cycle. With the agricultural, construction and retail sectors still looking to reduce headcount in 2020 this will be an area to watch – especially given large firms also recorded negative hiring intentions.

**Figure 4. Investment**



**Investment intentions crept into positive territory in December, after 5 consecutive quarters below zero.** All sectors except agriculture contributed positively. The construction sector led the charge, rising 17%pts to top this list at +8%. It appears the recent recovery in the housing market is providing some support here. The manufacturing, retail and service sectors also ticked up, with all looking to lift investment in the coming year. Agriculture, however, fell slightly to -21% as environmental, sustainability and debt concerns bite.

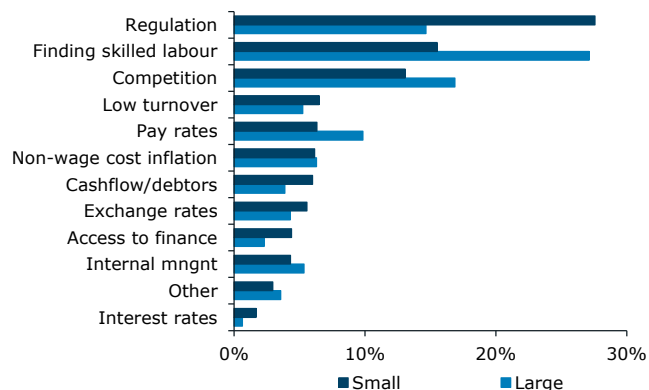
**Figure 5. Profitability**



**Small business profit expectations rose this quarter but remain in negative territory.** All sectors have net negative profit expectations for 2020, with competition and difficulty passing on higher costs weighing. Agriculture saw a notable improvement this quarter (up 25%pts), retail is the most pessimistic of all sectors. Construction and manufacturing are on the verge of positive profit expectations heading into 2020.

<sup>1</sup> Linked Employer-Employee Dataset (LEED). Latest data is for September 2018 at time of writing.

**Figure 6. Biggest problem faced**



**Regulation is the most important problem according to small firms.**

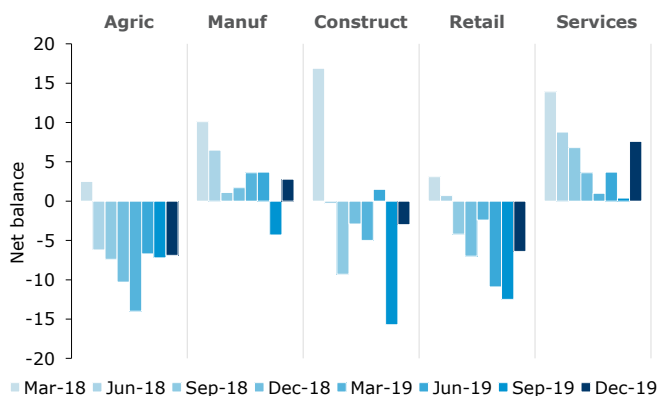
All sectors agree on this one with services, agriculture and manufacturing small firms particularly weary. Large firms overwhelmingly see finding skilled labour as their main problem.

**Difficulty finding skilled employees remains second on the list of problems.**

The labour market is tight, with many labour-intensive sectors relying on imported labour to fill seasonal demand.

Competition from other businesses is the other major problem among small firms.

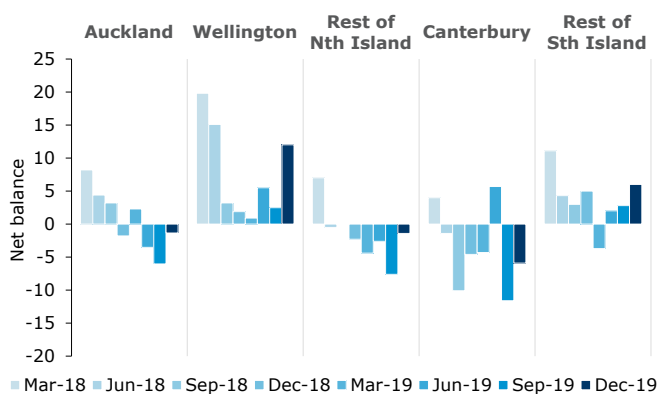
**Figure 7. Sectoral composite business sentiment measure: small firms**



**Our small business composite growth measure improved for all sectors this quarter.**

Manufacturing and services are leading the way with activity and employment prospects contributing positively. Agriculture, construction and retail remain downbeat. After a substantial fall in September the construction sector regained much of the loss with a 12.7pt gain, likely on the back of a rejuvenated housing market. Manufacturing, services and the retail sector eked out gains of 6-7pts each. Agriculture, on the other hand, was relatively stagnant as an improved activity outlook was outweighed by falling investment and hiring intentions.

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



**The composite growth measure improved in all regions; the capital surges ahead.**

Wellington managed a large gain this quarter driven primarily by a strong activity outlook and hiring plans. The capital even eked out a small gain on profit expectations, the only region to do so. South Island centres outside of Canterbury also recorded improving activity and hiring and expectations. Hiring intentions weighed heavily in Canterbury. Growth indicators were relatively subdued in Auckland, yet improved on a poor activity outlook over the middle of 2019.

Source: ANZ, Statistics NZ

Composite Measure	Small				Large			
	Mar 19	Jun 19	Sep 19	Dec 19	Mar 19	Jun 19	Sep 19	Dec 19
Business Confidence	-1.4	0.1	-4.4	<b>1.7</b>	2.1	5.0	-0.3	<b>1.8</b>
Activity Outlook	-33.3	-36.3	-49.9	<b>-27.7</b>	-36.3	-35.4	-50.3	<b>-27.0</b>
Exports	7.5	5.9	-0.3	<b>8.6</b>	9.9	10.9	2.7	<b>9.2</b>
Investment	-0.4	1.6	-2.0	<b>-0.7</b>	6.2	2.9	5.0	<b>6.9</b>
Capacity Utilisation	-3.4	-1.1	-6.7	<b>0.7</b>	9.0	7.5	-1.0	<b>5.6</b>
Residential Construction	3.5	3.8	1.5	<b>5.8</b>	13.7	6.7	2.2	<b>7.8</b>
Commercial Construction	1.9	-0.2	-4.2	<b>8.1</b>	9.1	-10.2	-10.3	<b>-7.3</b>
Employment	-4.8	-0.4	-7.4	<b>2.7</b>	9.5	-0.7	-9.2	<b>-2.2</b>
Profits	1.2	0.6	-7.2	<b>2.6</b>	3.2	2.4	-7.8	<b>-2.4</b>
Costs	-15.8	-13.9	-21.9	<b>-9.3</b>	-7.7	-8.6	-17.5	<b>-9.6</b>
Pricing Intentions	NA	47.6	48.7	<b>48.1</b>	NA	50.5	46.1	<b>49.7</b>
Ease of Credit	24.2	23.3	18.4	<b>23.0</b>	30.0	30.1	23.0	<b>27.1</b>
Inflation Expectations	-35.9	-37.4	-41.3	<b>-36.3</b>	-43.8	-37.0	-39.7	<b>-36.5</b>
	2.1	1.9	1.7	<b>1.7</b>	2.0	1.9	1.7	<b>1.7</b>
Agriculture								
Manufacturing	-14.0	-6.7	-7.2	<b>-6.9</b>	18.3	-4.4	6.4	<b>15.0</b>
Construction	3.6	3.7	-4.3	<b>2.8</b>	-1.8	7.1	2.1	<b>4.8</b>
Retail	-5.0	1.5	-15.7	<b>-3.0</b>	1.5	-5.7	-15.6	<b>-7.1</b>
Services	-2.4	-10.9	-12.5	<b>-6.4</b>	2.7	10.6	6.9	<b>8.6</b>
	1.0	3.7	0.4	<b>7.6</b>	2.7	4.7	-0.8	<b>-1.0</b>
Auckland								
Wellington	2.3	-3.5	-6.0	<b>-1.3</b>	4.4	11.6	4.4	<b>-0.2</b>
Rest of North Island	0.9	5.5	2.5	<b>12.0</b>	7.2	5.2	1.4	<b>9.6</b>
Canterbury	-4.4	-2.6	-7.6	<b>-1.4</b>	3.4	-1.4	2.2	<b>-0.1</b>
Rest of South Island	-4.3	5.7	-11.6	<b>-5.9</b>	-11.1	-1.8	-16.0	<b>-0.1</b>
	-3.7	2.0	2.8	<b>6.0</b>	1.0	9.9	-7.6	<b>0.1</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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