

ANZ NZ Business Micro Scope

Data for June quarter 2019



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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 June 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.

Soggy and foggy

Summary

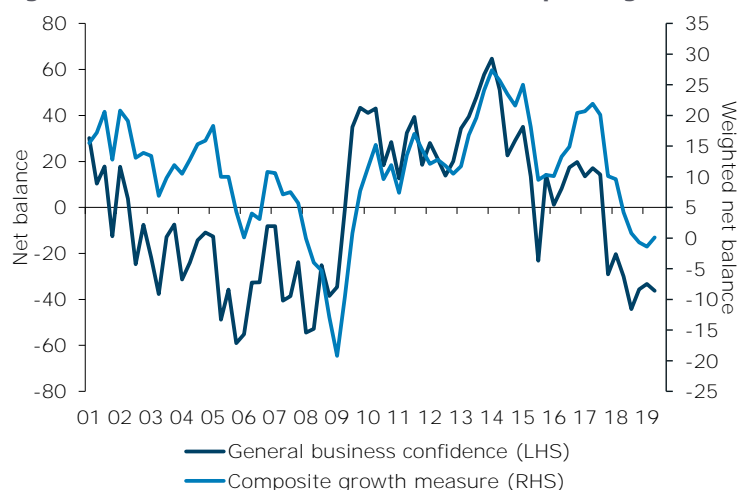
- Small firm confidence remains at very low levels.
- Growth indicators were stable, although low ranges still dominate the overall picture.
- Regulatory requirements and a lack of skilled staff continue to top the list of biggest problems faced by small businesses.

Small firm business confidence remained at very low levels in the June quarter, with a net 36% of small businesses pessimistic about general business conditions in the year ahead (down from 33% in March). This is still very low by historical standards and resembles small firm sentiment in the years leading up to the GFC (figure 1). We don't think the GFC story is likely to unfold again anytime soon, but small firms are likely feeling the impacts of the recent softening in economic momentum, with an increasingly uncertain global outlook also weighing.

Our composite growth measure for small firms – a proxy for GDP growth – eked out a small gain but is still very low. The composite measure is based on growth indicators such as firms' own activity outlook, hiring and investment intentions, and profit expectations. Activity and hiring intentions both made small positive contributions, but profit expectations and investment intentions continue to weigh (the latter is lagged to better align with GDP).

All four growth measures remained within familiar ranges at the low end of the spectrum in June, pointing to relatively stagnant growth among small businesses.

Figure 1. Small business confidence and composite growth measure



Source: ANZ Research

Figure 2. Own activity

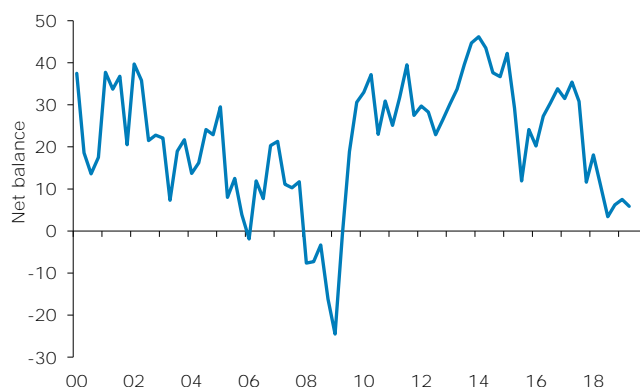


Figure 3. Hiring intentions

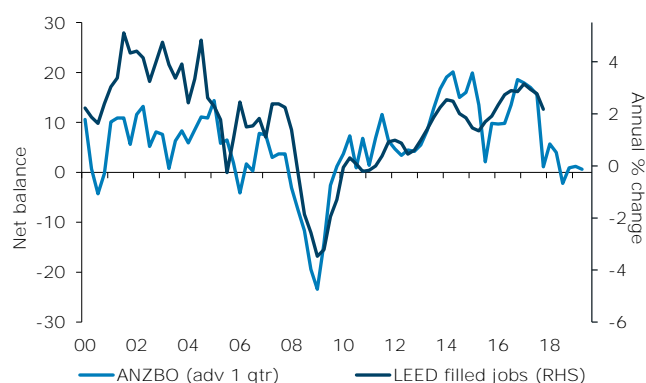


Figure 4. Investment

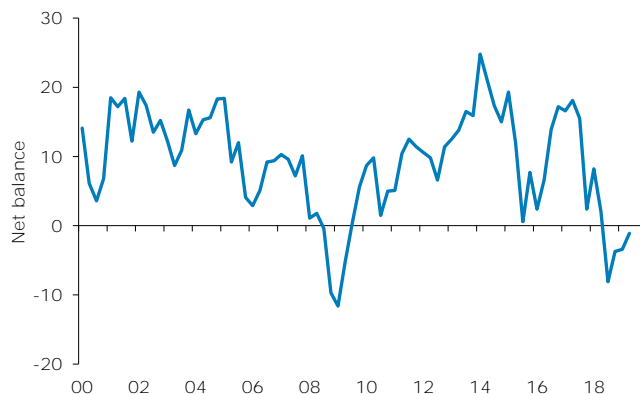
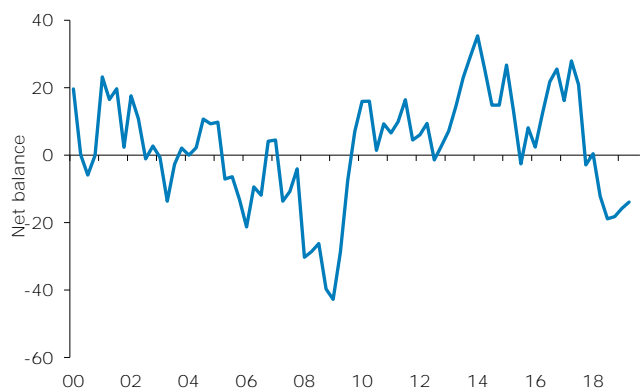


Figure 5. Profitability



Small firms' expectations of their own activity remained stable. Firms' view of their own activity fell back a touch to a net 6% (from 8%). Agriculture small firm expectations rose 16%pts to +18%, suggesting **there's** still work to be done despite regulatory concerns, difficulty finding employees and dairy prices coming off in recent auctions. Retail firms saw a material shift downward, losing 11%pts to a net 14% expecting their own activity to contract – the lowest since 2009. Ominous signs continue to hover around the retail sector, as competition (particularly from online) continues to make it difficult to pass on rising costs by increasing selling prices.

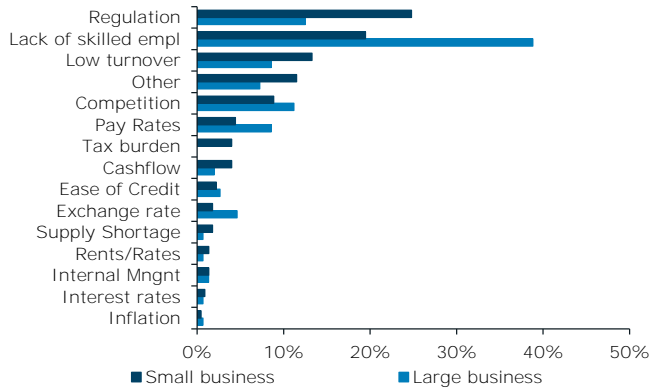
Hiring intentions remained low and the general signal for employment growth from small firms remains very soft. Hiring intentions have fallen from around a net 15%-20% expecting to take on new staff in 2017 to 1% in June (as it was in March). Official data has ticked down¹ from a growth high in 2017 and has tended to follow hiring intentions in recent years. The retail sector fell to -11% (from +6%) in what appears to be yet another signal that employment in the sector may stall from here.

Investment intentions improved slightly for the third consecutive quarter but remained in negative territory. Overall, the good news is that intentions aren't falling; in fact, they're improving ever so slightly. At a net negative 1% (up from -3%), small firms are on the verge of looking to invest in the year ahead once again. Only services firms posted a small positive (+4%) with all other sectors ranging from -0.3% (retail) to -13% for agricultural firms. Overall, soft investment is a little worrisome from a medium-term growth perspective, as it implies a lower capital stock than otherwise.

Small business profit expectations remain negative, which is where they have been for six of the last seven quarters. All sectors are net negative on profit expectations, indicating widespread concerns about activity and squeezed margin pressures. Manufacturing firms are most upbeat, improving from -19% in September last year to -0.3%. Services firms are sliding further into the red (-13%) despite a large portion of firms indicating **they're expect to raise prices in the next three months.**

¹ Linked Employer-Employee Dataset (LEED). Latest data is for March 2018 at time of writing.

Figure 6. Biggest problem faced

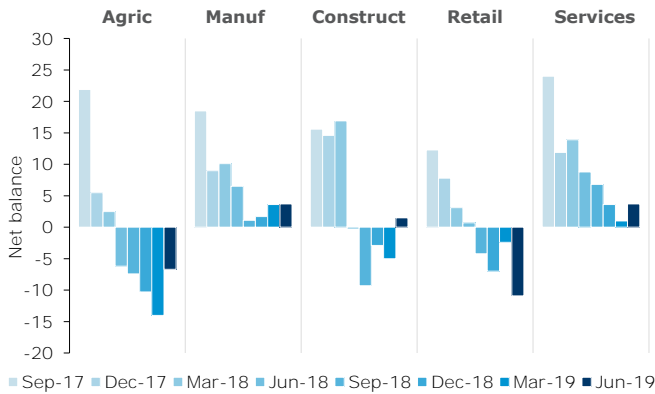


Regulation remains the biggest problem facing small firms, as it has been since the December 2017 quarter. All sectors report it as their biggest problem. Large firms overwhelmingly see lack of skilled employment as their biggest problem (39% of all large firms).

Minimum wage rises appear to be biting as pay rates rank 6th for small firms. Large firms view it as their 4th biggest problem.

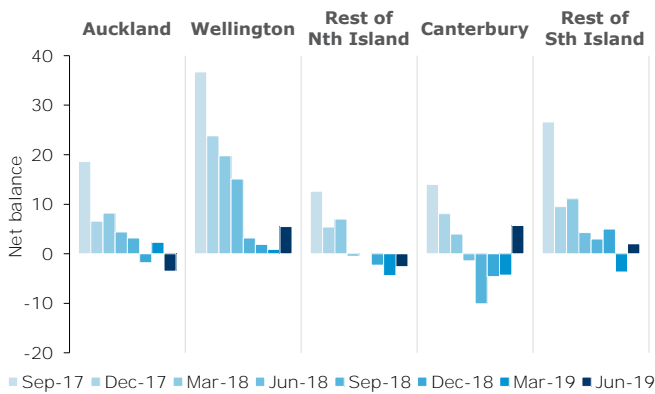
Difficulty finding skilled employees remains second on the list of problems. Despite the labour market loosening at the seams recently, finding skilled staff is still a widespread problem.

Figure 7. Sectoral composite business sentiment measure: small firms



Our small business composite growth measure improved across all sectors except retail. The retail measure fell 9%pts to its lowest level since 2009 as employment and activity expectations soured. Tough competition and a continuation of squeezed margins weigh heavily on the sector. Services halted a two year downward trend, improving on better prospects for employment and investment. Manufacturing was stable as firming employment intentions offset dwindling investment intentions for manufacturing firms. Improving investment intentions brought the construction measure back into the black; the sector is in positive territory for the first time in over a year.

Figure 8. Regional composite business sentiment measure: small firms



The composite growth measure looks to be improving in all regions except Auckland. Auckland fell 6%pts to go from the top region in Q1 to the worst in Q2. All four growth measures dragged on the index this quarter. Canterbury made the largest gain (10%pts) and now sits atop the regional pile. A strong turnaround in activity and employment expectations lifted the composite measure. A similar story is playing out in other South Island centres (up 6%pts to +2). In Wellington, investment intentions have recovered somewhat, supporting the region's small firms' growth prospects.

Source: ANZ, Statistics NZ

	Small				Large			
	Sep 18	Dec 18	Mar 19	Jun 19	Sep 18	Dec 18	Mar 19	Jun 19
Composite Sentiment	0.8	-0.7	-1.4	0.1	5.1	8.0	2.1	5.0
Business Confidence	-44.2	-35.6	-33.3	-36.3	-44.9	-28.4	-36.3	-35.4
Activity Outlook	3.4	6.2	7.5	5.9	7.7	14.3	9.9	10.9
Exports	9.3	11.1	-0.4	1.6	17.6	14.2	6.2	2.9
Investment	-8.1	-3.7	-3.4	-1.1	1.1	2.3	9.0	7.5
Capacity Utilisation	3.3	4.9	3.5	3.8	16.5	19.0	13.7	6.7
Residential Construction	8.5	11.1	1.9	-0.2	4.6	6.5	9.1	-10.2
Commercial Construction	-9.3	7.6	-4.8	-0.4	-7.7	3.2	9.5	-0.7
Employment	-2.2	0.9	1.2	0.6	-1.0	6.2	3.2	2.4
Unemployment Rate	30.2	18.8	29.2	36.3	24.3	17.8	25.6	32.0
Profits	-18.9	-18.2	-15.8	-13.9	-11.0	-1.9	-7.7	-8.6
Interest Rates	37.1	26.2	15.4	-28.3	22.0	21.5	6.1	-29.7
Pricing Intentions	25.4	22.8	24.2	23.3	33.8	36.2	30.0	30.1
Ease of Credit	-38.5	-30.6	-35.9	-37.4	-30.0	-22.0	-43.8	-37.0
Inflation Expectations	2.2	2.3	2.1	1.9	2.1	2.1	2.0	1.9
Agriculture	-7.4	-10.3	-14.0	-6.7	5.2	18.2	18.3	-4.4
Manufacturing	1.1	1.7	3.6	3.7	1.2	3.8	-1.8	7.1
Construction	-9.3	-2.9	-5.0	1.5	3.3	10.1	1.5	-5.7
Retail	-4.2	-7.0	-2.4	-10.9	7.2	7.8	2.7	10.6
Services	6.8	3.6	1.0	3.7	8.0	10.0	2.7	4.7
Auckland	3.2	-1.8	2.3	-3.5	13.7	20.9	4.4	11.6
Wellington	3.2	1.9	0.9	5.5	8.9	2.4	7.2	5.2
Rest of North Island	0.0	-2.3	-4.4	-2.6	-0.9	5.8	3.4	-1.4
Canterbury	-10.1	-4.6	-4.3	5.7	-6.3	-2.0	-11.1	-1.8
Rest of South Island	3.0	5.0	-3.7	2.0	9.0	7.6	1.0	9.9

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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