

ANZ BUSINESS MICRO SCOPE OPPOSING DYNAMICS

Data for March quarter 2012

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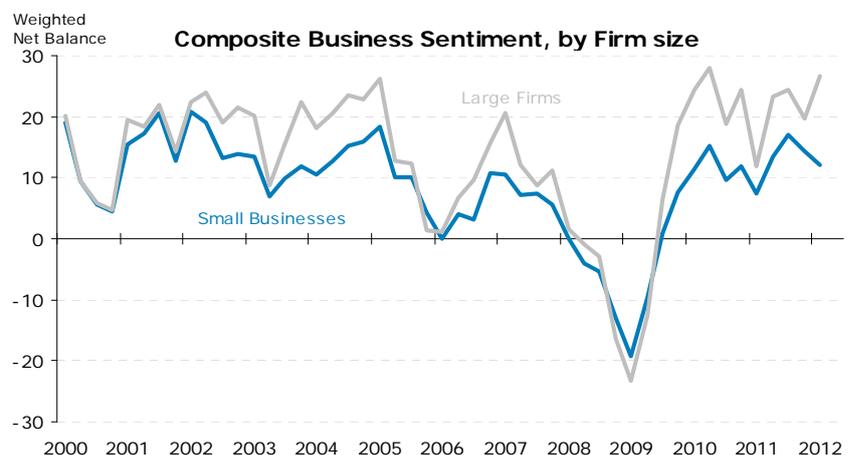
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SUMMARY

- Small businesses are upbeat, they are optimistic about their own business prospects, and expect to lift investment and employment over the year ahead. However, they are more cautious than larger firm counterparts, with readings generally lower across the board.
- Small business reported a drop in business confidence in the March quarter, in contrast with a lift in sentiment across larger-sized firms. This is the first time since December 2007 that the composite measure of business sentiment in the two business segments has moved in opposite directions.
- Low turnover and regulation are cited as the two biggest problems facing small firms.

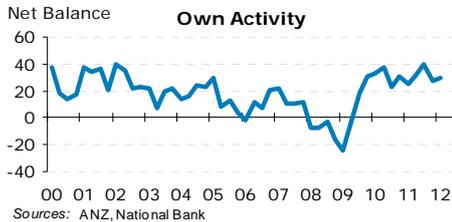
Small businesses are the life-blood of an economy. They account for 90 percent of firms and 38 percent of employment (with a similar contribution to GDP). It is also **a sector where there is limited economic information on how they are faring.** We overcome this shortcoming by defining small business as those firms that employ 20 employees or fewer and extract information from the National Bank's *Business Outlook* survey. This survey contains a rich array of information regarding business sentiment, how businesses view prospects for their own firm, profit expectations, hiring intentions and inflation expectations.

Small businesses remain positive about the outlook though business confidence eased in the March quarter. This contrasted with a lift in sentiment across larger-sized firms. A net 28 percent of small businesses are optimistic about prospects over the year ahead, up 9 points on last quarter but down 11 points on six months earlier. Our composite measure (which includes firms' own activity expectations, employment and investment intentions) showed a similar message, with readings positive, but diverging paths for small and large firms. This is the first time since December 2007 that the composite measure of business sentiment across the two business segments has moved in opposite directions. **This flags slower growth from the small business sector vis-à-vis larger businesses.**

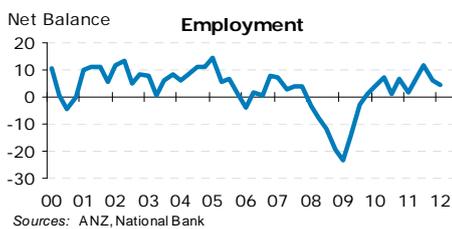


Sources: ANZ, National Bank

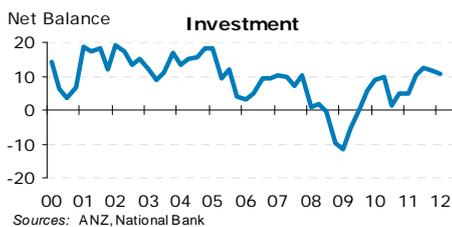
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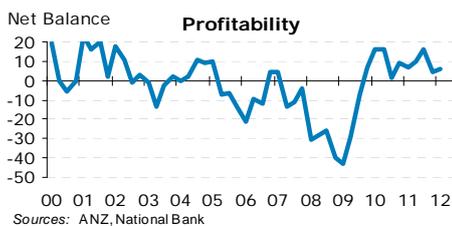
Small firms reported a small uptick in the economic outlook for their own firms' business activity. This question asks respondents for the outlook for their own business in particular, rather than prospects for the wider economy in general. A net balance of 30 percent was measured in March; this is considerably ahead of an average level of 19 percent recorded since 2000. Nevertheless, in comparison to an equivalent net balance of 49 percent measured across large firms, **the gap between the two segment sizes is the second widest to be recorded since the 2000.**



Hiring intentions across the small business segment eased to their lowest level since March 2011. With a net balance of 5 percent of firms expecting to increase their staff, the series is marginally ahead of the longer term average of 3 percent, but below the 12 percent peak registered six months earlier. Employment intentions over the large firms increased from a net 12 percent in December to 20 percent in March.

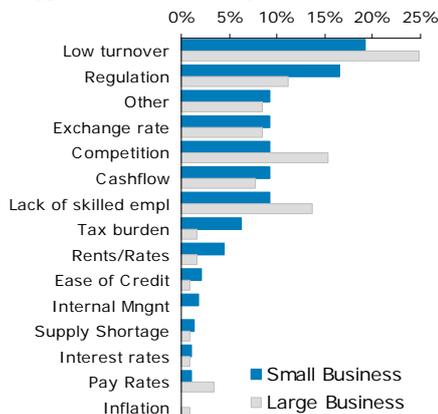


Business investment intentions remains robust. A net 11 percent of small businesses expect to increase investment in the upcoming 12 months – the fourth consecutive quarter that a double-digit figure has been recorded by small business. Investment is a necessary ingredient for sustained economic prospects; so in this regard the prolonged lift is welcomed.



Small businesses expect a positive level of profitability in the year ahead. A net 6 percent of respondents expect an increase in profitability. While lower than the net 16 percent expecting better profits six months ago, **the level of expectations has been on the positive side of the ledger** ever since the darkest period of the global financial crisis, in September 2009.

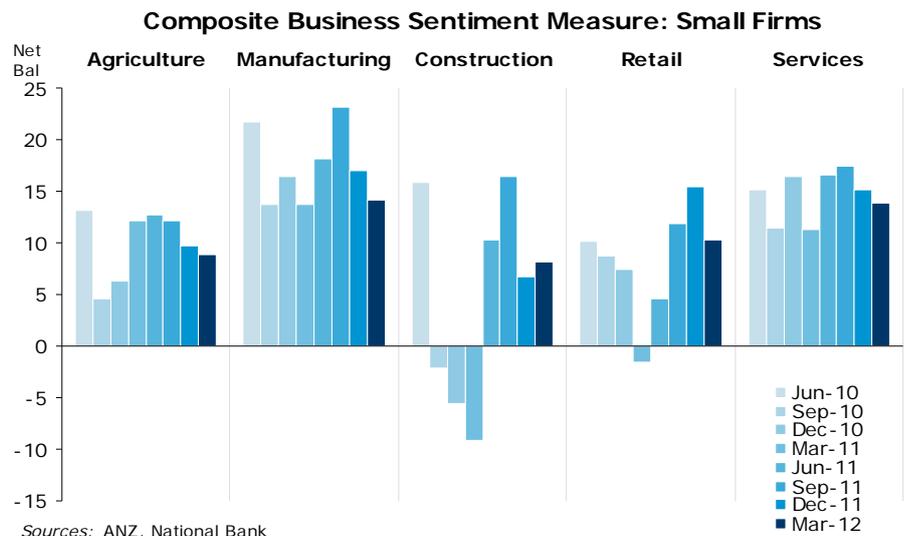
Biggest Problem Faced by Business Size



Low turnover has been flagged as the biggest problem facing New Zealand firms. This is the case for both small and large-sized firms. Nineteen percent of all small business are reporting that low turnover is the biggest problem they face in the current economic environment. A quarter of the larger firms are reporting it as their biggest problem. Regulation is the second biggest problem facing small business, with sixteen percent of small businesses reporting this as the biggest obstacle that they face. The next largest problem facing small businesses was shared equally (on 9 percent) between the exchange rate, competition, cashflow and other factors. Some of the 'other' factors include: earthquake, costs, lack of demand, variable workload and local government rates. Competition was the second biggest problem facing large firms, followed by a lack of skilled employees.

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Sentiment was weaker across four sectors, while confidence in the construction sector increased by a whisker. A post Rugby World Cup lull was measured in the retailing sector, recording the largest easing in sentiment in March, dropping 5 index points from a relatively high 15 in December. The outlook in the manufacturing sector eased 3 points, with identical drops measured in the agriculture and services sectors, both easing by 1 point.



	SMALL (0-20 employees)				LARGE (21+ employees)			
	Jun 11	Sep 11	Dec 11	Mar 12	Jun 11	Sep 11	Dec 11	Mar 12
COMPOSITE SENTIMENT	13.5	17.0	14.4	12.1	23.2	24.5	19.7	26.7
Business Confidence	32.4	39.4	18.5	28.0	40.3	45.0	23.6	40.1
Activity Outlook	31.7	39.5	27.5	29.7	44.2	46.1	29.4	48.8
Exports	27.3	23.0	21.6	23.3	37.7	19.3	17.6	15.8
Investment	10.4	12.5	11.4	10.6	17.6	21.3	13.7	17.4
Capacity Utilisation	22.5	20.5	17.6	15.0	31.6	26.7	19.6	25.6
Residential Construction	33.3	37.8	20.2	31.5	50.2	43.7	32.2	62.0
Commercial Construction	23.5	18.0	6.2	19.0	14.9	30.4	22.2	30.7
Employment	6.9	11.6	6.3	4.7	16.0	20.8	12.0	20.3
Unemployment Rate	5.1	-6.9	1.3	-3.0	-2.5	-9.0	0.2	-15.3
Profits	9.9	16.4	4.5	6.0	24.3	25.9	11.1	25.2
Interest Rates	45.3	67.3	43.9	28.1	49.9	67.4	43.1	32.0
Pricing Intentions	28.8	23.0	20.8	20.2	32.4	29.1	17.2	24.3
Ease of Credit	7.7	6.0	-2.8	4.2	17.1	17.4	-9.1	6.6
Inflation Expectations (%)	3.2	3.3	3.1	2.8	3.1	3.2	3.0	2.7

Sources: ANZ, National Bank. The data is a net balance (% up/improve minus % down/worsen) except for inflation expectations.

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