

ANZ BUSINESS MICRO SCOPE STRONGER FOR LONGER

Data for March quarter 2014

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 March 2014.

The survey takes in responses from 236 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

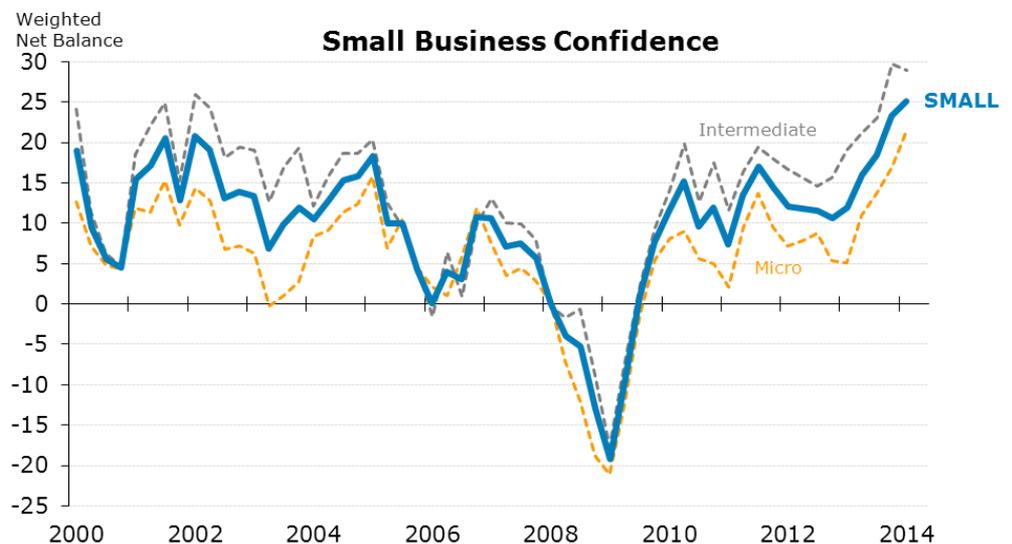
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SUMMARY

- Small business confidence improved for a sixth consecutive quarter, to touch a new high.
- Regulation is the biggest issue identified by small businesses, along with a growing awareness that interest rates will rise.
- Small business sentiment increased in four of the five sectors, with the service sector topping the survey once again.
- Sentiment remains strong across the entire country, with small business in the southernmost region the most optimistic.

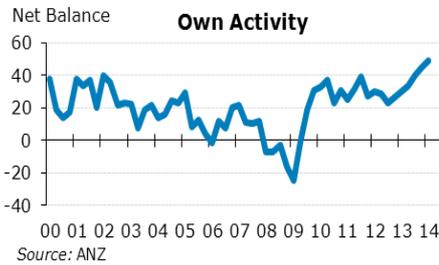
Small businesses account for 90 percent of firms in New Zealand, and employ nearly a third of all New Zealanders. Despite the significance of small business to the economy, there is only a limited amount of official data reported on economic prospects in the small business sphere. To fill this void we present survey information for small business, using employment as a proxy for business size. From this we have compiled a composite gauge of economic prospects in the small business sector, using weighted variables for expectations of activity, employment, investment, and profitability.



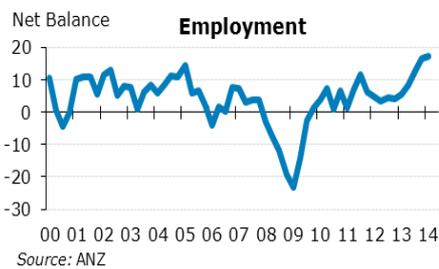
Source: ANZ

Our composite measure of small business sentiment registered a sixth consecutive increase in the March quarter, posting a new record high for the series. This reflects a growing groundswell of business optimism measured across most pockets of the business community. Indeed all four components used to construct the composite measure of business sentiment improved to fresh highs in March (see overleaf). The improvement wasn't universal however. Separating the small business composite measure into *micro* (0-5 staff) and *intermediate* sized firms (6-20 employees) reveals that the *intermediate* sub-group registered a marginal retracement from last quarter's all-time high. Our composite business sentiment measure for *micro* sized firms lifted 5 points to a net balance of +22, while *intermediate* sized firms eased 1 point to a net +29.

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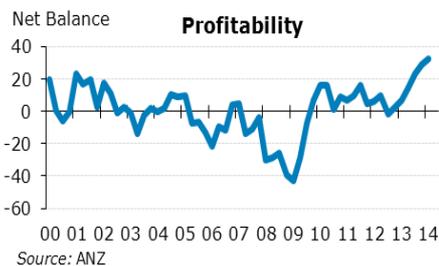
Small businesses have reported increased confidence with regard to prospects for their own business activity. A record level of optimism was recorded by the *micro* segment, increasing 9 points to a net balance of +45. Optimism in the *intermediate* segment was higher, at +52, but this outturn was marginally weaker (down 1 point) than that measured in December. The combined measure of own activity is +49, more than twice the long-term average of +21. The small business sector's perception of business confidence for the overall NZ economy (refer to table on page 4) lifted 5 points to a new record high of a net +63.



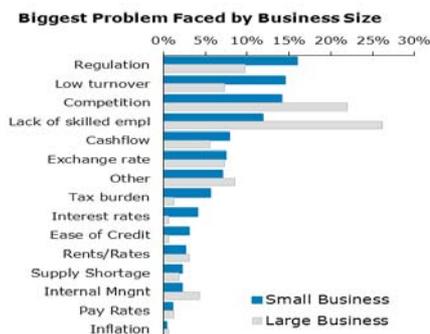
Hiring intentions were slightly stronger across the small business community, with a **net balance of 17 percent of small businesses expecting to increase staffing levels over the next 12 months.** Hiring intentions across *micro* sized businesses was marginally weaker with a small increase in the *intermediate* segment. Overall, hiring intentions inched up to a new high. Expectations for the unemployment rate eased to new record lows for both *micro* and *intermediate* sized firms.



After slipping marginally in December, **investment intentions across the small business community lifted sharply in March.** The aggregate measure of investment intentions across the small business community increased 7 points to touch a new record high of a net +23. Investment intentions across *micro* sized firms recorded a 7 point increase to +21, while *intermediate* sized firms reported an 8 point lift to +26.



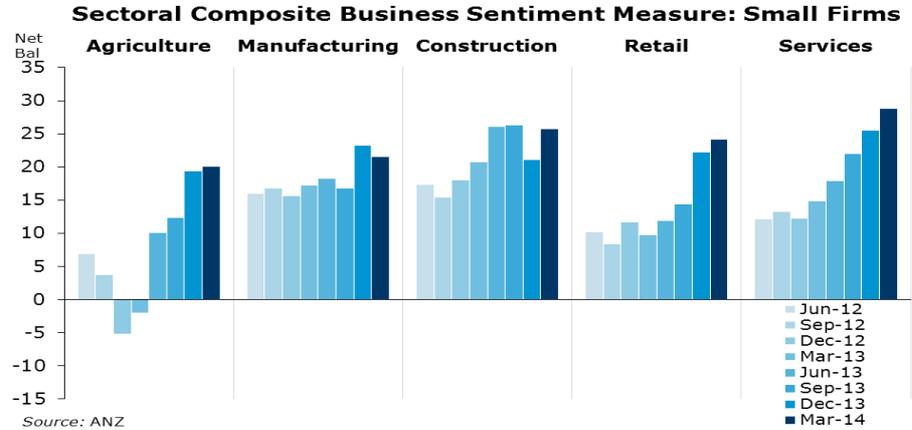
Expected profitability across the small business sector lifted to a new high in March. A net 33 percent of small businesses anticipate increased profitability over the year ahead, up 3 points from December. *Micro* sized firms reported a 10 point increase to a new record high net balance of +33. Expectations across *intermediate* sized firms declined 3 points to a net balance of 32 percent. Demand for construction work relating to the Christchurch rebuild, compounded by an increase in inward migration, is underpinning expectations for the construction sector, which topped the expectations for profitability in the latest quarter.



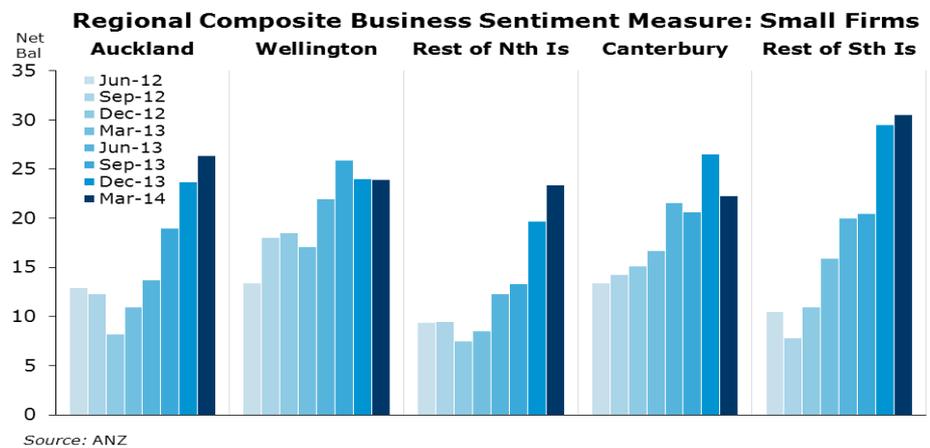
Source: ANZ

Regulation continues to be identified as the biggest problem facing small business in New Zealand. Sixteen percent of all small businesses identified this as the biggest problem that they face. Indeed the order for the top four issues identified as a problem for firms hasn't changed since last quarter. However the proportions of these major issues have decreased, with a growing concern for the level of interest rates becoming more pronounced. Businesses have become more cognoscente that interest rates are set to rise. At the end of 2012 a net 5 percent of small businesses expected interest rates to rise in the ensuing twelve months. Advance to March 2014 and this figure has shot up to a net 85 percent of small businesses that are expecting higher interest rates in the year ahead.

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Small business sentiment increased in four of the five sectors in March. The service sector registered the highest level of sentiment, with that sector recording the highest level in three of the four components used to calculate overall sentiment (own activity, employment and investment). The exception was the profit component, which was topped by the construction sector. Manufacturing recorded the only drop in small business sentiment, easing 2 points. Sentiment for the agriculture and services sectors improved to new record highs for the seven year period that we have data for.



While high, business sentiment was mixed across the five regions we monitor when compared to the previous quarter. Of the main centres, **Auckland recorded a lift in sentiment**, Wellington was unchanged and Canterbury registered a decline in sentiment. **Provincial NZ also recorded a rise in sentiment.** Fresh highs were registered by Auckland and provincial New Zealand, with the South Island excluding Canterbury recording the highest level of sentiment for the second successive quarter.

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	SMALL				LARGE			
	Jun 13	Sep 13	Dec 13	Mar 14	Jun 13	Sep 13	Dec 13	Mar 14
COMPOSITE SENTIMENT	16.0	18.4	23.3	25.1	28.4	31.3	40.3	43.8
Business Confidence	39.5	47.9	57.8	63.4	49.2	60.7	64.1	68.1
Activity Outlook	33.7	39.6	44.7	48.7	47.6	55.6	61.1	71.0
Exports	16.7	17.2	25.2	28.4	31.5	40.7	37.9	43.3
Investment	13.8	16.5	15.9	23.2	29.8	25.6	32.2	36.8
Capacity Utilisation	14.5	20.5	24.7	22.6	26.2	39.8	42.7	47.8
Residential Construction	41.7	45.8	45.3	43.9	51.9	55.0	52.1	65.7
Commercial Construction	25.8	26.1	35.9	35.4	34.5	41.2	29.7	50.0
Employment	8.4	12.8	16.7	17.2	22.0	27.8	34.6	41.4
Unemployment Rate	-10.3	-19.6	-30.1	-42.0	-21.9	-35.3	-37.8	-43.2
Profits	14.5	23.0	29.2	32.6	32.6	40.9	49.9	55.1
Interest Rates	34.4	52.6	69.9	85.0	31.8	56.6	62.4	89.3
Pricing Intentions	22.9	29.2	24.4	28.8	22.4	30.0	28.6	40.9
Ease of Credit	2.4	-3.6	-6.7	9.8	8.7	3.4	2.2	13.2
Inflation Expectations	2.3	2.3	2.4	2.6	2.2	2.3	2.4	2.5
AGRICULTURE	10.1	12.4	19.4	20.1	-3.9	5.6	-1.0	1.5
MANUFACTURING	18.3	16.8	23.3	21.5	13.6	25.0	27.8	35.9
CONSTRUCTION	26.1	26.3	21.1	25.7	36.7	41.4	51.7	52.3
RETAIL	11.9	14.4	22.2	24.1	36.2	31.6	48.5	51.3
SERVICES	17.9	22.0	25.5	28.8	34.2	34.1	43.1	45.7
AUCKLAND	13.7	19.0	23.7	26.4	34.9	40.0	38.2	49.4
WELLINGTON	22.0	25.9	24.0	23.9	14.7	24.7	34.2	33.0
REST OF NORTH ISLAND	12.3	13.3	19.7	23.4	28.0	27.7	44.5	45.7
CANTERBURY	21.6	20.6	26.5	22.3	31.2	32.5	44.3	43.1
REST OF SOUTH ISLAND	20.0	20.5	29.5	30.5	23.0	23.9	38.7	38.5

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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