

ANZ NZ Business Micro Scope

June quarter 2020



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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 2020.

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.

COVID crisis wreaks havoc on small firm confidence

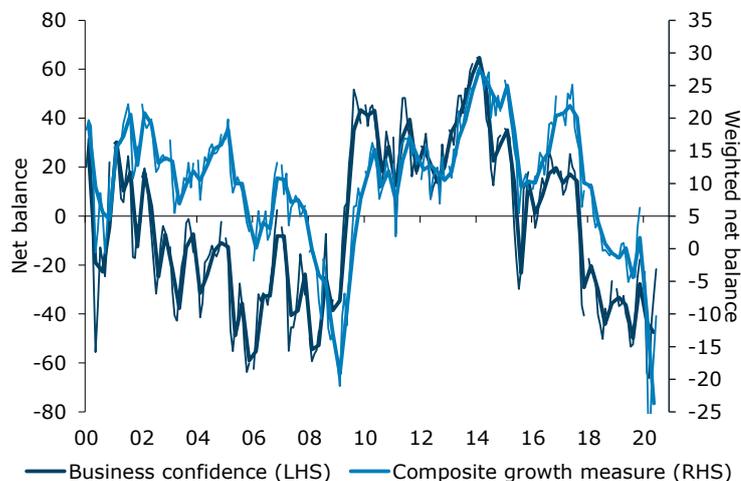
Summary

- The COVID-19 crisis has wreaked havoc of small firm business confidence.
- Growth indicators also sunk, although an early look at July monthly data suggests confidence is returning.
- Regulatory requirements are still the biggest problem faced by small firms, but low turnover is gaining a lot more attention in the post-COVID business environment.
- The domestic economy is the most important consideration when small firms make investment decisions. The global economy is also firmly in focus.

Small firm business confidence plunged in the June quarter with COVID-19 wreaking havoc on sentiment. A net 48% of small businesses feel pessimistic about general business conditions in the year ahead.

Our composite growth measure for small firms – a proxy for GDP growth – sunk to its lowest level, surpassing that seen during the Global Financial Crisis. The composite measure has been low by historical standards since the December 2017 quarter. **The COVID-19 induced halt in activity pushed the composite measure 14%pts lower to -24; the lowest point since we started measuring this data in 1999.** 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 plummeted this quarter, relative to last. Unprecedented monetary and fiscal stimulus have been put in place to cushion the blow. But with sectors like international tourism stopped entirely, policy can only do so much. Encouragingly, monthly readings from April to July suggest confidence is slowly returning for small firms, but all indicators remain in contractionary territory.

Figure 1. Small business confidence and composite growth measure



Source: ANZ Research

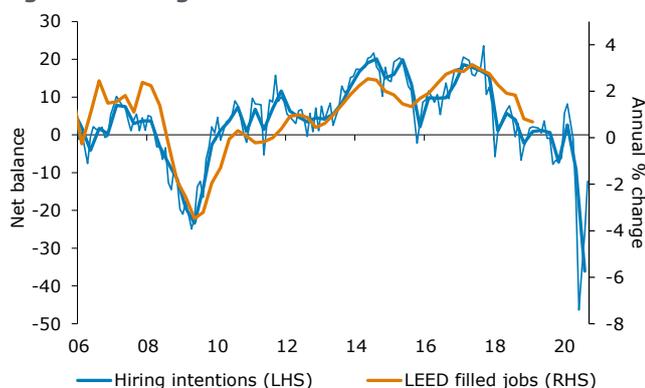
Figure 2. Own activity¹



Expectations of their own activity fell a whopping 29%pts to a net 38% of small firms eyeing up slower activity over the year ahead.

Retail firms are the least optimistic; already grappling with competition from online retailers, small firms in this sector are now reeling from the absence of tourists, changes in workplace flexibility and a gloomy outlook for employment and household incomes. The most optimistic is the agriculture sector, yet a net 32% of firms expecting a fall in activity is hardly anything to celebrate. Looking forward, the early read on the July month showed a vast improvement at -5%.

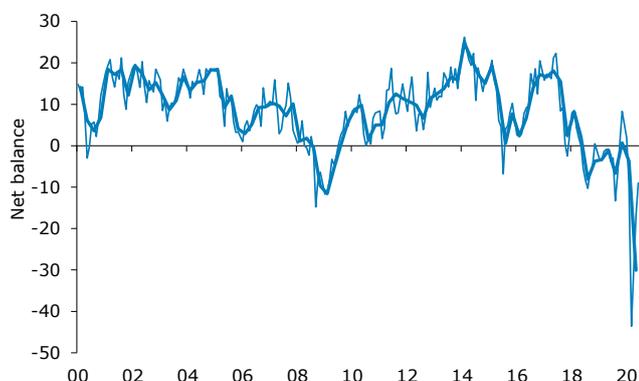
Figure 3. Hiring intentions²



Hiring intentions slumped to a net 36% expecting to shed jobs over the year – the lowest ever print in the timeseries.

It is gloomy across the board with all sectors lying within a net negative range of 30%-40%. Some of the supportive policy measures have cushioned the blow, principally the wage subsidy and its extension. But these policies are set to roll off in September and the inevitability of extremely difficult businesses conditions, including the economic hole that international tourism once occupied, will become apparent in time. However, the early read for July shows a sharp rebound has begun.

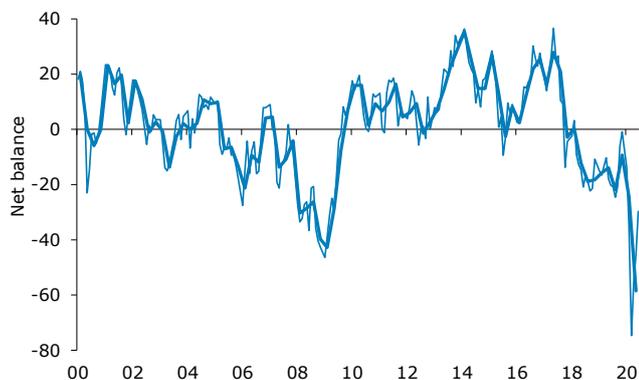
Figure 4. Investment



Investment intentions followed suit, falling to its lowest ever level with a net 30% of small firms expecting to reduce investment over the next year.

All sectors fell by 20-30%pts, indicating that firms are holding back until the outlook is clearer. Manufacturing and construction, at negative 19% and 20% respectively, are leading the pack while agriculture small firms are all but done investing for now at -49%. However, the July data suggests some improvement is on the cards for Q3.

Figure 5. Profitability



Small business profit expectations plummeted further in June.

A net negative 58% of small firms expect profits to deteriorate. It's sombre reading when the least pessimistic sector comes in at -43% (construction). Agriculture is the most pessimistic at -78%; relatively robust export prices will be welcomed, but the elevated NZD, recent drought conditions, and the very weak global economic backdrop will be weighing. Compliance, competition, difficulty passing on higher costs and difficult domestic conditions are also weighing. And while the July monthly data bounced backstrongly, there's still a long way to go.

¹ Figures 2:6 include the normal quarterly average as well as the monthly data to show the impact of COVID-19.

² Linked Employer-Employee Dataset (LEED). Latest data is for March 2019 at time of writing.

Figure 6. Biggest problem faced³

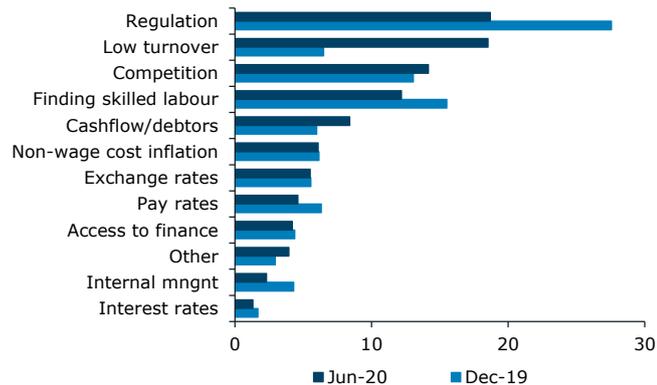
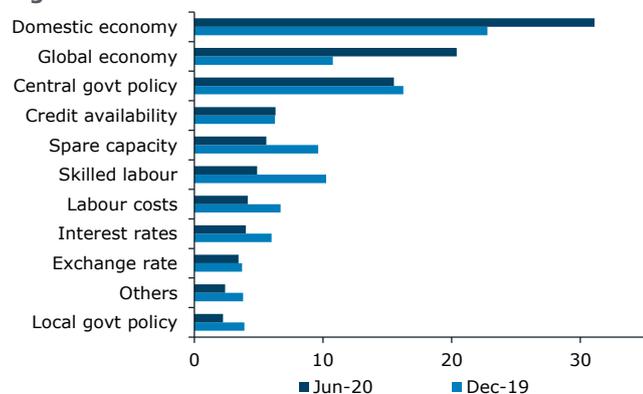


Figure 6 shows how the weightings for the biggest problems faced by small businesses have changed since December (the March survey was taken in the midst of the lockdown pandemonium, making the results difficult to interpret). **Regulation is the most important problem according to small firms, but low turnover has gained a lot more attention.**

Competition from other businesses and finding skilled labour are the other major problems.

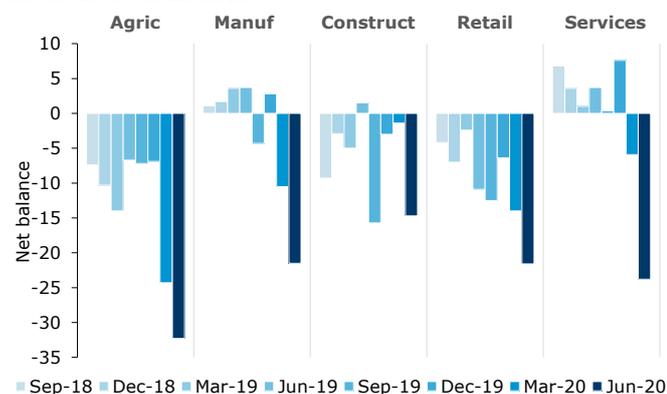
Figure 7. Investment decisions drivers



We also ask firms every three months about what is driving their investment intentions. As noted above, investment intentions are staging a comeback from deeply negative territory. **The domestic economic outlook was, unsurprisingly, the biggest driver by a long shot.** COVID-19 is having a devastating impact the world over, including our trading partners, hence the global outlook comes in a distant second, followed by central government policy.

Notably, spare capacity and skilled labour shortages have taken a back seat. The once tight labour market is quickly turning.

Figure 7. Sectoral composite business sentiment measure: small firms



Our small business composite growth measure fell dramatically across all sectors. None were spared as growth indicators fell across the board. The quick phasing through alert levels should help support a sharp rebound in activity in Q3, but the medium-term outlook remains weak.

Support measures, such as the Business Finance Guarantee Scheme and Small Business Cashflow Loan Scheme will be helping. But these policies are set to roll off in September and December respectively, and global and domestic demand is unlikely to be ready to completely pick up the slack by then.

Source: ANZ, Statistics NZ

³ Weighted using a score of 3 points for a 1st ranking, 2 for 2nd and 1 for 3rd, then scaled to 100 (ie a relative % weight) to allow better comparison across groups.

| Composite Measure | Small | | | | Large | | | |
|--------------------------|--------|--------|--------|--------------|--------|--------|--------|--------------|
| | Sep 19 | Dec 19 | Mar 20 | Jun 20 | Sep 19 | Dec 19 | Mar 20 | Jun 20 |
| Business Confidence | -4.4 | 1.7 | -10.1 | -23.7 | -0.3 | 1.8 | -7.6 | -27.4 |
| Activity Outlook | -49.9 | -27.7 | -43.5 | -47.5 | -50.3 | -27.0 | -38.7 | -47.7 |
| Exports | -0.3 | 8.6 | -8.6 | -37.8 | 2.7 | 9.2 | -5.7 | -42.6 |
| Investment | -2.0 | -0.7 | -14.2 | -30.9 | 5.0 | 6.9 | -13.6 | -30.4 |
| Capacity Utilisation | -6.7 | 0.7 | -3.7 | -30.1 | -1.0 | 5.6 | -3.4 | -35.2 |
| Residential Construction | 1.5 | 5.8 | 0.9 | -24.1 | 2.2 | 7.8 | -1.0 | -29.0 |
| Commercial Construction | -4.2 | 8.1 | -2.1 | -45.5 | -10.3 | -7.3 | 2.7 | -51.1 |
| Employment | -7.4 | 2.7 | -6.3 | -50.3 | -9.2 | -2.2 | -10.8 | -47.0 |
| Profits | -7.2 | 2.6 | -9.2 | -36.1 | -7.8 | -2.4 | -11.8 | -51.1 |
| Costs | -21.9 | -9.3 | -24.4 | -58.5 | -17.5 | -9.6 | -20.2 | -56.4 |
| Pricing Intentions | NA | 48.1 | 46.1 | 28.5 | NA | 49.7 | 44.8 | 21.7 |
| Ease of Credit | 18.4 | 23.0 | 20.6 | -4.4 | 23.0 | 27.1 | 21.4 | -2.8 |
| Inflation Expectations | -41.3 | -36.3 | -35.9 | -42.7 | -39.7 | -36.5 | -42.5 | -47.8 |
| | 1.7 | 1.7 | 1.7 | 1.5 | 1.7 | 1.7 | 1.7 | 1.3 |
| Agriculture | | | | | | | | |
| Manufacturing | -7.2 | -6.9 | -24.3 | -32.3 | 6.4 | 15.0 | -15.0 | -35.4 |
| Construction | -4.3 | 2.8 | -10.5 | -21.5 | 2.1 | 4.8 | -9.2 | -25.2 |
| Retail | -15.7 | -3.0 | -1.4 | -14.7 | -15.6 | -7.1 | -7.0 | -23.1 |
| Services | -12.5 | -6.4 | -14.0 | -21.6 | 6.9 | 8.6 | -11.0 | -31.2 |
| | 0.4 | 7.6 | -5.9 | -23.8 | -0.8 | -1.0 | -6.6 | -28.3 |
| Auckland | | | | | | | | |
| Wellington | -6.0 | -1.3 | -11.7 | -25.5 | 4.4 | -0.2 | -3.1 | -25.3 |
| Rest of North Island | 2.5 | 12.0 | 0.4 | -15.8 | 1.4 | 9.6 | -12.8 | -22.6 |
| Canterbury | -7.6 | -1.4 | -13.6 | -28.3 | 2.2 | -0.1 | -1.7 | -30.0 |
| Rest of South Island | -11.6 | -5.9 | -17.5 | -26.2 | -16.0 | -0.1 | -19.7 | -23.0 |
| | 2.8 | 6.0 | -7.0 | -20.5 | -7.6 | 0.1 | -23.1 | -48.6 |

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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