Grant Thornton

# Focus on: New Zealand

## **International Business Report** 2009 – Country focus series

### A year of turmoil

New Zealand is experiencing one of the deepest recessions in its history. Q1 2009 marked the fifth consecutive quarter of contraction in the economy as investment and consumer spending plummeted. The key indicators highlight the issues facing the economy:

- the New Zealand economy shrank by 1.0 per cent in the first quarter of 2009, having fallen by 1.0 per cent in 2008 alone
- investment tanked 7.3 per cent between Q1 2008 and Q1 2009
- the labour market continues to weaken; unemployment reached a six year high of 5.0 per cent in March 2009, a 1.2 percentage point year on year rise
- consumer spending fell by 1.4 per cent in the first three months of 2009 alone
- the New Zealand dollar has risen ten per cent this year against its counterpart from the US, impacting heavily on exports.

### Impact on privately held businesses

The Grant Thornton International Business Report (IBR) 2009 surveyed the views of 7,200 privately held businesses (PHBs) in 36 economies around the world. This report focuses on New Zealand, the experiences and attitudes of its privately held businesses and how they have been affected by the worst economic downturn in decades as illustrated in figure 1.

**Figure 1: Key indicators for PHBs**

| New Zealand compared to Asia Pacific average | 2007 New Zealand | 2008 New Zealand | 2009 New Zealand | 2009 Asia Pacific |
|---|---|---|---|---|
| **Outlook for the economy over the next 12 months** | | | | |
| Balance of optimists over pessimists | +42% | +30% | -15% | +2% |
| **Issue of greatest concern in the next 12 months** | | | | |
| Fall in consumer demand | | | 39% | 44% |
| Shortage of business credit | | | 25% | 8% |
| **Change in employment levels** | | | | |
| Balance of PHBs expecting an increase over those expecting a reduction | +36% | +26% | -19% | +8% |
| **Constraints on expansion** | | | | |
| Shortage of orders/reduced demand | 11% | 18% | 53% | 53% |
| Regulations/red tape | 41% | 47% | 41% | 32% |

Source: Grant Thornton IBR 2009

The IBR survey tells us that PHBs in New Zealand expect to suffer even more than other Asia Pacific businesses in terms of falling consumer demand whilst employment is also expected to contract. These concerns impact negatively on expectations for turnover growth and on profitability, and PHBs are overwhelmingly pessimistic about the economy over the next 12 months. Clearly the effects of the global decline in activity are taking its toll on PHBs.

## Looking ahead

The outlook for the New Zealand economy is very uncertain with many suggesting that the recession looks set to both deepen and broaden. Real GDP is forecast to contract by 2.6 per cent this year, before returning to growth of around 0.7 per cent in 2010. The OECD has advised that a cut in interest rates to two per cent would be beneficial, although the Reserve Bank of New Zealand has warned that inflation could temporarily fall below its 1-3 per cent target range in 2009.

Meanwhile, the situation in the labour market is likely to continue to deteriorate, with unemployment forecast to peak in 2010 at 7.6 per cent. Any potential recovery in the New Zealand economy will need privately held businesses to be back at the forefront to drive new business, employment and trade. To achieve this:

- businesses need to adjust to the new level of demand while working on innovative ways to develop product and market share
- access to credit needs to be improved to enable businesses to manage their working capital and long term funding needs
- the deteriorating jobs market will need to be well managed.

It is clear that during the months and years ahead, all businesses will face a number of key threats and opportunities which will require senior management to make some very 'big decisions'. Businesses surviving the downturn will look back on these decisions as pivotal moments in their company's history. Focusing on the right things will give businesses under pressure more room for manoeuvre, while for others it will provide opportunities to realise their ambitions more quickly than they had planned.

At Grant Thornton we help businesses make these decisions on a daily basis, to guide them through the good and bad times. Talk to us to find out how we can help you make the right choices for your business.

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## International Business Report results

The Grant Thornton IBR 2009 reveals that privately held businesses in almost all countries are less optimistic about economic prospects for the year ahead. PHBs in New Zealand are considerably less optimistic about prospects for 2009 with a drop of 45 percentage points from an optimism/pessimism balance[1] of +30 per cent in 2008 to -15 per cent in 2009.

For the sixth consecutive year, India tops the league table with a net balance of +83 per cent (+95 per cent in 2008), whilst Japan remains at the bottom with a balance of -85 per cent.

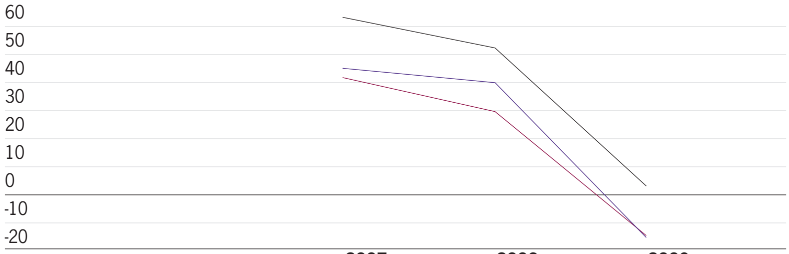
Overall optimism amongst PHBs in Asia Pacific economies[2] has fallen from 2008; this year a balance of just +2 per cent of PHBs in Asia Pacific countries are positive about their country's economy compared to a balance of +51 per cent in 2008, although this is higher than the global average of -16 per cent.

## Optimism/pessimism

- PHBs in New Zealand are considerably less optimistic about the country's economic outlook (-15 per cent) compared with 2008 (+30 per cent)
- levels of optimism regarding economic outlook have fallen by 45 percentage points from 2008 in New Zealand, lower than the 49 percentage points drop observed in the Asia Pacific region as a whole.

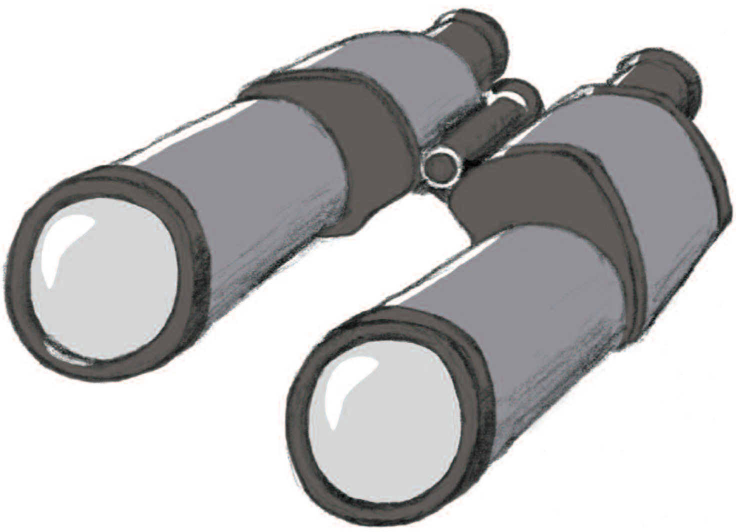
**Figure 2: Outlook for the economy over the next 12 months: 2007-2009**

Average percentage balance of businesses indicating optimism against those indicating pessimism




| | 2007 | 2008 | 2009 |
|---|---|---|---|
| Asia Pacific | 63 | 51 | 2 |
| New Zealand | 42 | 30 | -15 |
| Global | 45 | 40 | -16 |

Source: Grant Thornton IBR 2009



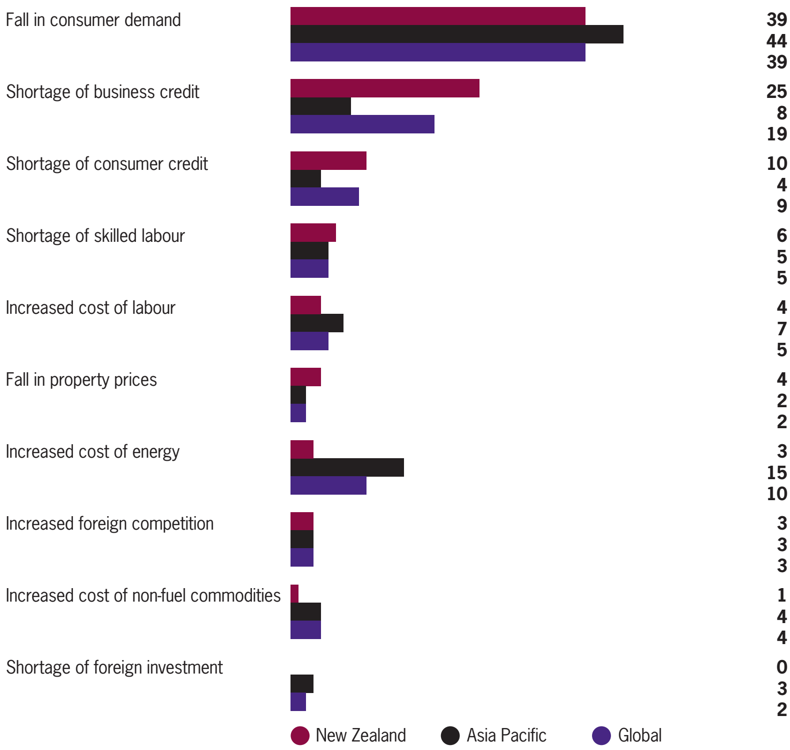
[1] the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

[2] for the purposes of IBR, the term 'Asia Pacific' refers to those Asia Pacific economies covered by our survey – Australia, mainland China, Hong Kong, India, Japan, Malaysia, New Zealand, Philippines, Singapore, Taiwan, Thailand and Vietnam.

## Greatest concern

- a fall in consumer demand is viewed as the greatest concern restricting expansion for PHBs in New Zealand (39 per cent), compared to 44 per cent in Asia Pacific as a whole
- a shortage of business credit is the second greatest concern for PHBs in New Zealand (25 per cent), well above the Asia Pacific average (eight per cent), and the global average (19 per cent)
- the increased cost of energy is of greater concern in both the Asia Pacific region as a whole (15 per cent) and globally (ten per cent), than it is in New Zealand (three per cent).

**Figure 3: Greatest concern in the next 12 months**
Average percentage of businesses

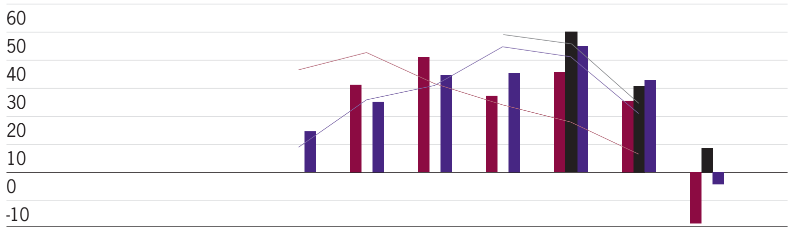



Source: Grant Thornton IBR 2009

## Employment

- PHBs in New Zealand expect employment to contract sharply in 2009, with the balance of businesses expecting an increase falling by 45 percentage points this year
- PHBs in the Asia Pacific region as a whole also expect employment to contract; the balance of businesses expecting an increase in employment declined by 23 percentage points this year
- actual employment growth across New Zealand in 2008 (seven per cent) was considerably lower than expected (26 per cent).

**Figure 4: Employment history: 2003-2009**
Balance percentage of businesses




| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009* |
|---|---|---|---|---|---|---|---|
| Expected New Zealand | – | 31 | 41 | 27 | 36 | 26 | -19 |
| Expected Asia Pacific | – | – | – | – | 50 | 31 | 8 |
| Expected Global | 14 | 25 | 34 | 35 | 45 | 33 | -4 |
| Actual New Zealand | 37 | 43 | 32 | 24 | 18 | 7 | – |
| Actual Asia Pacific | – | – | – | 49 | 47 | 25 | – |
| Actual Global | 8 | 26 | 31 | 44 | 41 | 21 | – |

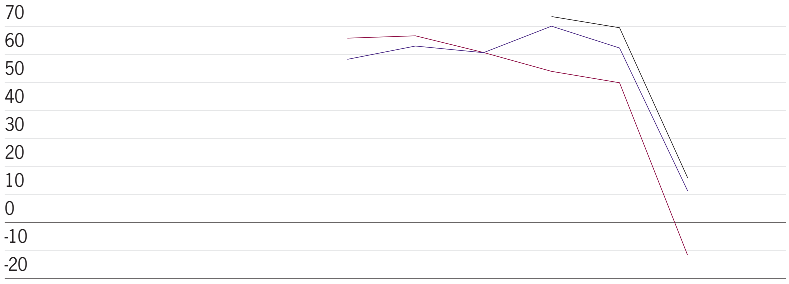
*actual 2009 data will be documented in IBR 2010
Source: Grant Thornton IBR 2009

## Revenue expectations

- optimism levels regarding revenue prospects have declined in New Zealand this year, falling by 62 percentage points from +50 per cent in 2008 to -12 per cent
- the Asia Pacific region as a whole observed a shallower decline, identical to the global trend, falling 52 percentage points, down from +68 per cent in 2008 to just +16 per cent this year.

**Figure 5: Revenue expectations: 2004-2009**

Average percentage balance of businesses indicating optimism against those indicating pessimism




| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| Asia Pacific | – | – | – | 73 | 68 | 16 |
| Global | 58 | 63 | 61 | 70 | 63 | 11 |
| New Zealand | 66 | 67 | 61 | 54 | 50 | -12 |

Source: Grant Thornton IBR 2009

## Profitability expectations

- profitability expectations amongst PHBs in New Zealand fell sharply this year, dropping by 65 percentage points compared with 2008
- the Asia Pacific region as a whole observed a shallower decline similar to the global trend, falling 48 percentage points, down from +42 per cent in 2008 to just -6 per cent this year.

**Figure 6: Profitability expectations: 2004-2009**

Average percentage balance of businesses indicating optimism against those indicating pessimism


| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|
| Global | 42 | 45 | 46 | 52 | 41 | -5 |
| Asia Pacific | – | – | – | 58 | 42 | -6 |
| New Zealand | 55 | 62 | 37 | 47 | 35 | -30 |

Source: Grant Thornton IBR 2009

## Constraints

- shortage of orders/reduced demand is viewed as the major constraint restricting expansion for PHBs in New Zealand this year; at 53 per cent, this represents a 35 percentage point increase from 2008
- regulation/red tape is viewed as the second greatest constraint restricting expansion by PHBs in New Zealand, at 41 per cent this is considerably higher than the Asia Pacific and global averages.

**Figure 7: Constraints on expansion**

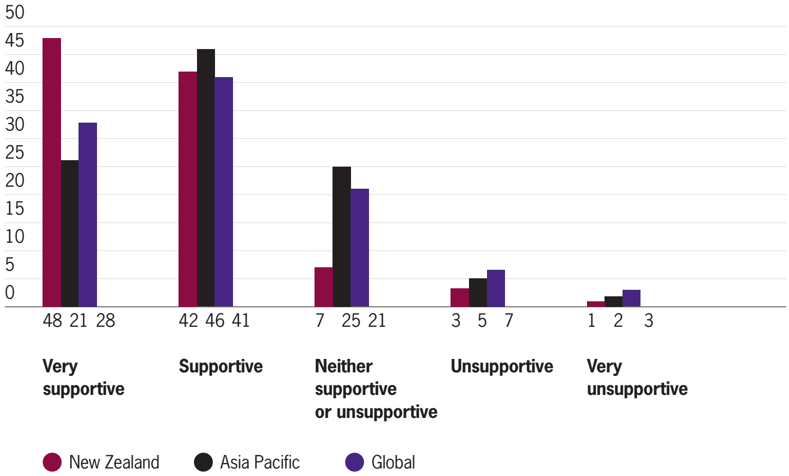
Average percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint


Source: Grant Thornton IBR 2009

## Support of lender

- 90 per cent of PHBs in New Zealand class lenders as supportive or very supportive towards their business, significantly higher than the Asia Pacific (67 per cent) and global average (69 per cent)
- just four per cent of PHBs in New Zealand class lenders as unsupportive or very unsupportive towards their business, similar to the Asia Pacific average of seven per cent.

**Figure 8: Level of support provided by lenders**
Percentage of businesses

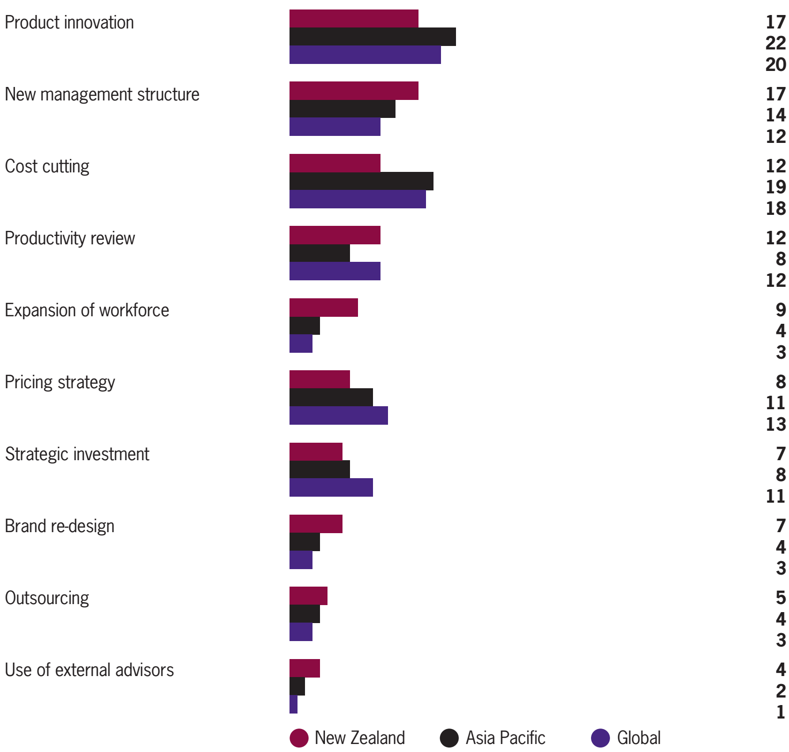



Source: Grant Thornton IBR 2009

## Business planning

- 28 per cent of PHBs in New Zealand have a formal business planning process accounting for less than one year. This is considerably higher than the Asia Pacific average (13 per cent)
- product innovation and new management structure have been the most successful initiative introduced by PHBs in New Zealand to increase profits, at 17 per cent
- cost cutting is a significantly more successful initiative in the Asia Pacific region as a whole (19 per cent) and globally (18 per cent), than it is in New Zealand (12 per cent).

**Figure 9: Successful initiatives that have been put into place to increase profitability**
Percentage of businesses



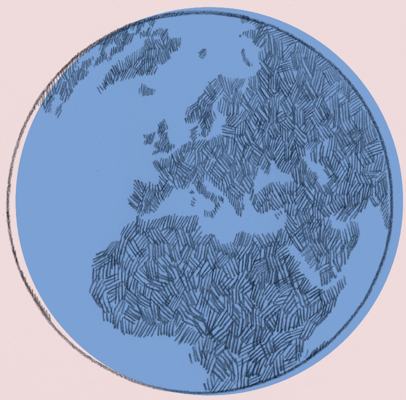

Source: Grant Thornton IBR 2009

The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,200 PHBs in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy. In New Zealand 150 PHBs were surveyed across all industry sectors. These businesses ranged from small to medium in size with numbers of employees varying from 10 to 149.

To find out more about IBR and to obtain copies of reports and summaries visit: **www.internationalbusinessreport.com**. The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

## Participating economies

Argentina
Armenia
Australia
Belgium
Botswana
Brazil
Canada
Chile
Mainland China
Denmark
Finland
France
Germany
Greece
Hong Kong
India
Ireland
Italy
Japan
Malaysia
Mexico
Netherlands
New Zealand
Philippines
Poland
Russia
Singapore
South Africa
Spain
Sweden
Taiwan
Thailand
Turkey
United Kingdom
United States
Vietnam



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