Focus on: New Zealand

International Business Report 2010 – Country focus series

The recovery

New Zealand emerged from its first recession since 1998 – as the economy contracted by 0.1 per cent – posting modest growth in Q2 2009, following five consecutive quarterly declines. Investment was hit particularly hard and remains weak, whilst key trade sectors remain vulnerable to the slow recovery in external demand.

The key indicators[1] are highlighted below:

- the economy continues to expand tentatively; GDP grew by 0.8 per cent in the three months to December 2009, following 0.3 per cent growth in the previous quarter
- having grown by just 0.2 per cent in Q3, exports contracted by 0.9 per cent in Q4 2009; meanwhile imports expanded by six per cent in the fourth quarter
- investment remains sluggish – gross fixed capital formation contracted by 0.9 per cent quarter-on-quarter in the fourth quarter 2009; this represents the sixth straight quarter of decline
- the unemployment rate rose to a ten-year high of 7.3 per cent in December 2009, and only mild employment growth is expected in the short-term.

Impact on businesses

The Grant Thornton International Business Report (IBR) 2010 surveyed the views of over 7,400 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 economic crisis along with how they are dealing with recovery, as illustrated in figure 1.

The IBR survey tells us that businesses in New Zealand are much more optimistic for the outlook of the economy over the next 12 months, although just over half expected to see an upturn in the global economy by the end of 2010. Business expectations for revenue and profitability are less downbeat than last year, but bureaucracy remains a major constraint on potential expansion.

[1] source: International Monetary Fund, The Economist and Experian.

Looking ahead

The New Zealand economy took a serious hit from the worst global recession since World War II, but is expected to rebound to growth of 1.5 per cent this year, accelerating to 2.7 per cent in 2011. Growth is expected to be underpinned by a recovery in private consumption, which fell by one per cent in 2009, but is forecast to rise by 1.8 per cent and 2.5 per cent over the next two years respectively.

As the economies of local trading partners – such as Australia, Japan and China improve – the largely primary exports of New Zealand are forecast to recover to expand by 1.4 per cent this year, and 4.4 per cent in 2011. However, the current account balance is forecast to widen to six per cent of GDP in 2011, due to import growth of more than nine per cent across the next 24 months.

Whilst the global economy appears to have stabilised, New Zealand is hugely reliant on global demand remaining robust – exports account for around a quarter of GDP – and this poses a major risk to the economy regaining strength.

As the economy exits recession, all businesses will need to face new challenges and take advantage of new opportunities to achieve consolidated growth and lead the way to recovery.

Figure 1: Key indicators for PHBs

New Zealand compared to the Asia Pacific average	2008 NZ	2009 NZ	2010 NZ	2010 Asia Pacific
Outlook for the economy over the next 12 months				
Balance of optimists over pessimists	+30%	-15%	+66%	+33%
Change in employment levels				
Balance of PHBs expecting an increase over those expecting a reduction	+26%	-19%	+35%	+33%
Constraints on expansion				
Regulations/red tape	47%	41%	33%	29%
Shortage of orders/reduced demand	18%	53%	30%	44%

Source: Grant Thornton IBR 2010

Talk to us to find out how we can you help you deal with the challenges of a new world economic order.

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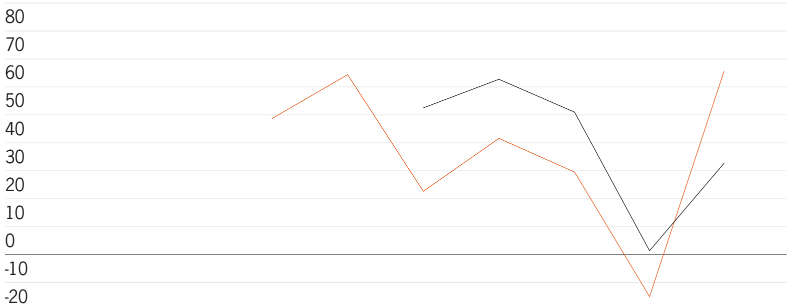
International Business Report results

The Grant Thornton IBR 2010 reveals that businesses in almost all countries are more optimistic about economic prospects for the year ahead. Businesses in New Zealand are more optimistic about prospects for 2010; their optimism/pessimism balance[2] has risen by 81 percentage points from -15 per cent in 2009 to +66 per cent in 2010.

For the first time in six years, India has been overtaken by Chile as the most optimistic country. Chile now tops the league table with a net balance of +85 per cent (-24 per cent in 2009), India comes in a very close second with +84 per cent, whilst Japan remains at the bottom with a balance of -72 per cent.

Overall optimism amongst businesses globally has risen from 2009; this year a balance of +24 per cent of businesses across all countries are positive about their country's economy – compared to a balance of -16 per cent in 2009.

Figure 2: Outlook for the economy over the next 12 months: 2004-2010
Percentage balance of businesses indicating optimism against those indicating pessimism

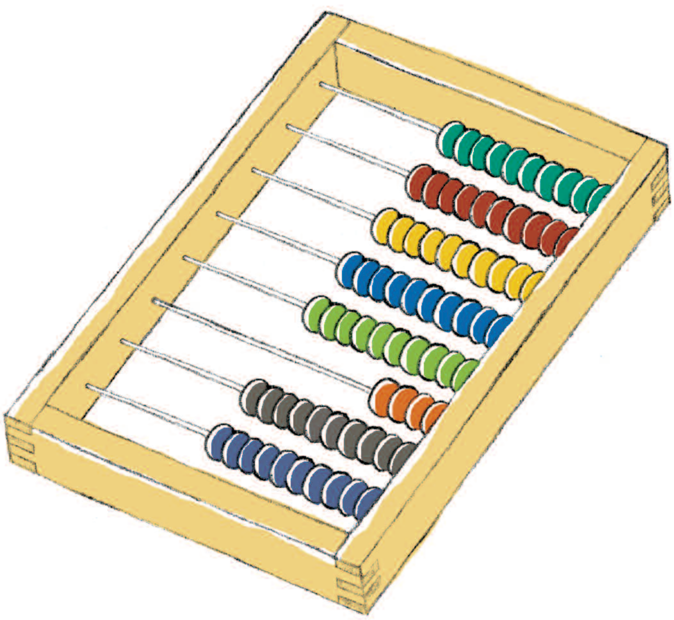


	2004	2005	2006	2007	2008	2009	2010
New Zealand	49	64	23	42	30	-15	66
Asia Pacific	–	–	53	63	51	2	33

Source: Grant Thornton IBR 2010

Optimism/pessimism

- businesses in New Zealand are considerably more optimistic about their economy this year (+66 per cent) compared with 2009 (-15 per cent)
- this is double the Asia Pacific[3] average of 33 per cent
- optimism amongst businesses in the Asia Pacific region has risen by 31 percentage points this year, from just +2 per cent in 2009 to +33 per cent.



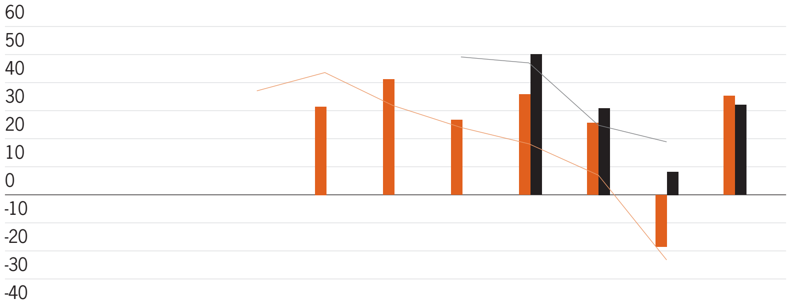
[2] the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.
[3] for the purposes of IBR, the term 'Asia Pacific' refers to those Asia Pacific economies covered by our survey – Australia, mainland China, Hong Kong, India, Japan, Malaysia, New Zealand, Philippines, Singapore, Taiwan, Thailand and Vietnam.

Employment

- a balance of +35 per cent of businesses in New Zealand expect employment to grow in 2010, compared with +33 per cent of businesses across the Asia Pacific region
- actual employment growth reported by businesses in New Zealand for 2009 (-23 per cent) was lower than expected 12 months previously (-19 per cent).

Figure 3: Employment history: 2003-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



	2003	2004	2005	2006	2007	2008	2009	2010*
Expected New Zealand	–	31	41	27	36	26	-19	35
Expected Asia Pacific	–	–	–	–	50	31	8	33
Actual New Zealand	37	43	32	24	18	7	-23	–
Actual Asia Pacific	–	–	–	49	47	25	19	–

*actual 2010 data will be documented in IBR 2011

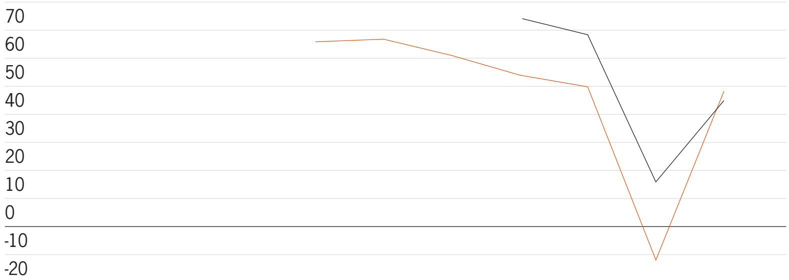
Source: Grant Thornton IBR 2010

Revenue expectations

- expectations for revenue prospects have rebounded to +48 per cent this year, having fallen to -12 per cent in 2009
- the Asia Pacific average has risen by 29 per cent, from +16 per cent last year to +45 per cent this year.

Figure 4: Revenue expectations: 2004-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



	2004	2005	2006	2007	2008	2009	2010
New Zealand	66	67	61	54	50	-12	48
Asia Pacific	–	–	–	73	68	16	45

Source: Grant Thornton IBR 2010

Profitability expectations

- the balance of businesses expecting to increase profits in New Zealand has turned positive again, following the dramatic 65 per cent decline witnessed last year
- this year a balance of +41 per cent of businesses in New Zealand expect their profits to rise compared with -30 per cent in 2009
- the Asia Padific average has risen by 32 percentage points to +26 per cent.

Figure 5: Profitability expectations: 2004-2010
Percentage balance of businesses indicating an increase against those indicating a decrease

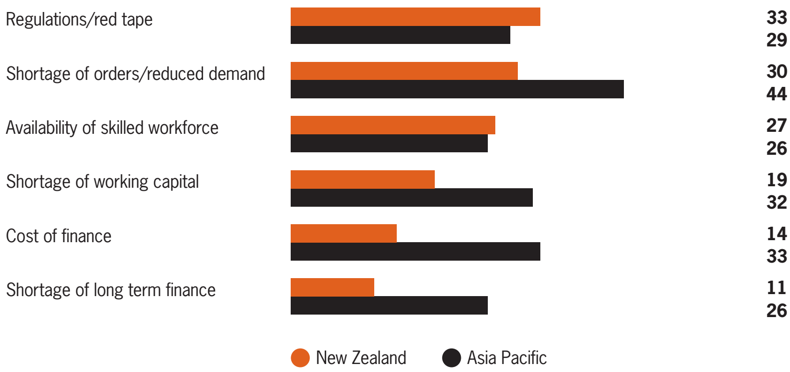
	2004	2005	2006	2007	2008	2009	2010
New Zealand	55	62	37	47	35	-30	41
Asia Pacific	–	–	–	58	42	-6	26

Source: Grant Thornton IBR 2010

Constraints

- regulations/red tape (33 per cent) is cited as the most pressing constraint on expansion by businesses in New Zealand this year, higher than the Asia Pacific average (29 per cent)
- a shortage of orders/reduced demand is cited as the greatest constraint by businesses in the Asia Pacific region as a whole, at 44 per cent, compared to 30 per cent in New Zealand.

Figure 6: Constraints on expansion
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

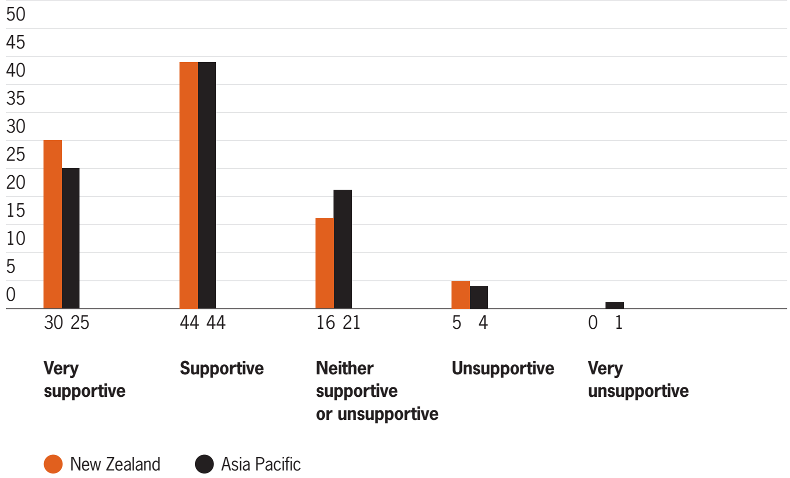


Source: Grant Thornton IBR 2010

Support of lender

- the majority of businesses in New Zealand are happy with the level of support provided by lenders; 74 per cent class lenders as supportive or very supportive towards their business
- this compares with just 69 per cent of businesses in the Asia Pacific region as a whole
- just five per cent of businesses in New Zealand believe that lenders are unsupportive or very unsupportive of their business, identical to the average across the Asia Pacific region as a whole.

Figure 7: Level of support provided by lenders
Percentage of businesses

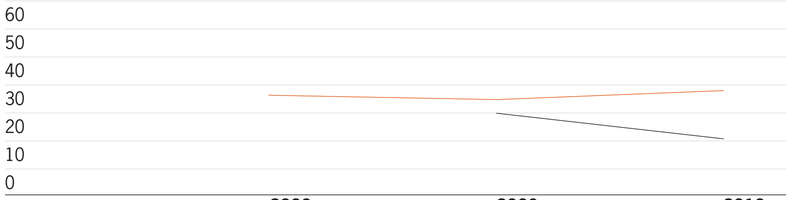


Source: Grant Thornton IBR 2010

Mergers and acquisitions

- the proportion of businesses in New Zealand planning to grow through acquisition this year has risen from 35 per cent in 2009 to just 38 per cent; this follows a fall of two per cent observed the previous year
- however, the Asia Pacific average dropped this year, from 30 per cent in 2009 to 21 per cent.

Figure 8: Plans to grow through acquisition in the next three years
Percentage of businesses planning to grow through acquisition



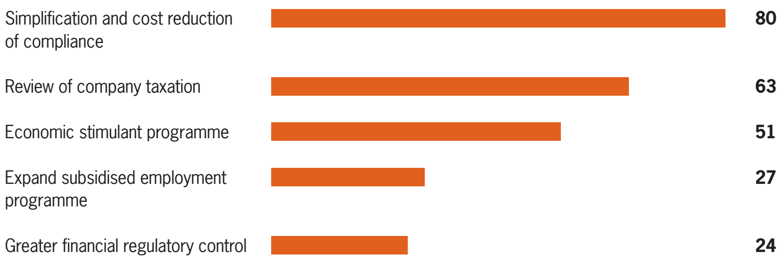
	2008	2009	2010
New Zealand	37	35	38
Asia Pacific	–	30	21

Source: Grant Thornton IBR 2010

Government assistance

- 80 per cent of businesses in New Zealand cite that the simplification and cost reduction of compliance would aid businesses through recession recovery
- the second most favoured form of government assistance is a review of company taxation, for 63 per cent of businesses
- one-half of businesses would also like to see an economic stimulant programme.

Figure 9: Government assistance that would aid businesses through recession recovery
Percentage of businesses

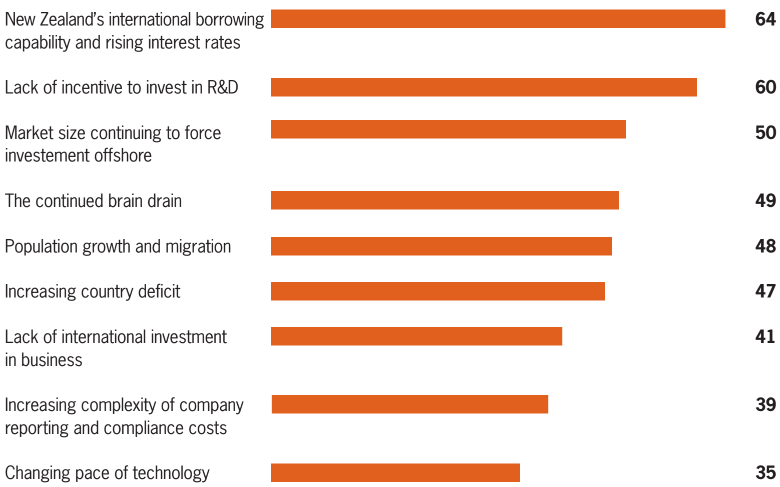


Source: Grant Thornton IBR 2010

Major issues, over the next three years

- 64 per cent of New Zealand businesses believe that the major issues over the next three years that will impact the country's performance are its international borrowing capability and rising interest rates
- 60 per cent have expressed concern over a lack of incentive to invest in research and development (R&D) as a major issue over the next three years
- New Zealand's market size continuing to force investment offshore, the continued brain drain, population growth and migration and the increasing country deficit are considered major issues by around half of all businesses in New Zealand.

Figure 10: Major issues that will impact New Zealand's performance
Percentage of businesses



Source: Grant Thornton IBR 2010

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 7,400 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 businesses were surveyed across all industry sectors. These businesses ranged from small to medium in size with total employment of between 10 and 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
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Poland
Russia
Singapore
South Africa
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