

# Focus on: New Zealand

## International Business Report 2011 – Economy focus series

### The economy

Having rebounded to grow by 1.5 per cent in 2010 following the global financial crisis, the devastating earthquake that hit Christchurch on 22 February 2011 threatened to derail the recovery. While the economy has proved more resilient than expected, with manufacturing holding up particularly well, growth prospects for the year remain fragile.

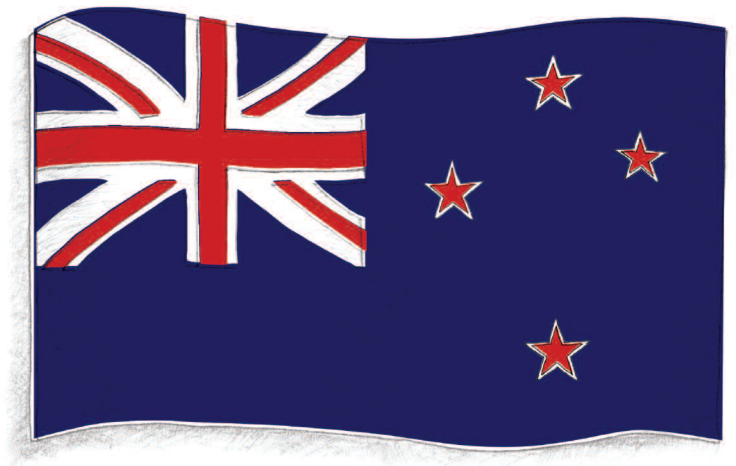
The key indicators<sup>1</sup> are highlighted below:

- the economy continues to expand tentatively; second quarter growth is forecast at a similar rate to the 0.8 per cent observed in the three months to March 2011
- the value of exports rose to NZ\$4.63bn in May 2011, up more than 10 per cent from 12 months previously, on the back of strong demand from China for agricultural produce
- imports rose by 18 per cent year-on-year in May 2011 due to increased demand for oil and aircraft parts
- the trade surplus in May 2011 stood at NZ\$605m or 13 per cent of the value of exports.

### The business perspective

The Grant Thornton International Business Report (IBR) 2011 surveyed the views of over 11,000 privately held businesses (PHBs) in 39 economies around the world. This report focuses on the experiences of privately held businesses in New Zealand and their expectations for the next 12 months, as illustrated in figure 1.

The IBR survey tells us that PHBs in New Zealand are optimistic about their economy over the next 12 months, although less so than in 2010. Business expectations for revenue are in line with those of last year but expectations for profitability have fallen and bureaucracy remains a major constraint on potential expansion.



<sup>1</sup> source: International Monetary Fund, The Economist and Experian.

## The outlook

Following the initial earthquake and subsequent aftershocks, the economy is forecast to expand by just 1.0 per cent this year. Average annual growth in the period 2012-16 is expected to rise to 3.5 per cent p.a., although this is unlikely to 'close the gap' with Australia where incomes are around a third higher.

Exports are expected to lag behind imports in the short to medium-term, widening the current account deficit from 4.4 per cent in 2012 to 6.6 per cent in 2015. With significant rebuild costs in Christchurch, government debt is forecast to expand to 10.4 per cent of GDP in 2011, rising to 14.7 per cent in 2013.

Kicking off in September, the Rugby World Cup is set to be the largest event ever held in New Zealand and should provide a timely boost to the economy. It is expected to attract more than 85,000 visitors and governor of the Reserve Bank, Alan Bollard, has forecast that the competition could generate NZ\$600m. Despite the large initial outlay on getting stadia ready, it is hoped that these costs will be outweighed by long term benefits and international exposure.

Figure 1: Key indicators for PHBs

New Zealand compared with the Asia-Pacific average	2009	2010	2011	2011
	NZ	NZ	NZ	APAC
<b>Outlook for the economy over the next 12 months</b>				
Balance of optimists over pessimists	-15%	+66%	+40%	+11%
<b>Change in employment levels</b>				
Balance of PHBs expecting an increase over those expecting a reduction	-19%	+35%	+22%	+36%
<b>Constraints on expansion</b>				
Regulations/red tape	41%	33%	35%	32%
Shortage of orders/reduced demand	53%	30%	29%	45%

Source: Grant Thornton IBR 2011

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

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# International Business Report results

The Grant Thornton IBR 2011 reveals that business optimism has risen in almost all countries. However, businesses in New Zealand are less optimistic about their economy over the next 12 months; their optimism/pessimism balance<sup>2</sup> has fallen by 26 percentage points from +66 per cent in 2010 to +40 per cent in 2011.

Businesses in India and Chile are once again the most optimistic globally, topping the league table of optimism with +91 per cent. They are followed by the Philippines (+85 per cent), Sweden (+81 per cent) and the United Arab Emirates (+80 per cent). Japan is the least optimistic country once again with a balance of -66 per cent, followed by Spain (-48 per cent) and Greece (-45 per cent).

Overall optimism amongst businesses globally has risen: this year, a balance of +28 per cent of PHBs across all countries are positive about their country's economy, compared with +24 per cent in 2010.

## Optimism/pessimism

- businesses in New Zealand are less optimistic about their economy this year (+40 per cent) compared with 2010 (+66 per cent)
- this is well above the Asia-Pacific<sup>3</sup> average of +11 per cent
- globally, business sentiment has risen from +24 per cent in 2010 to +28 per cent in 2011.

**Figure 2: Outlook for the economy over the next 12 months: 2004-2011**

Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2011

<sup>2</sup> the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

<sup>3</sup> 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.

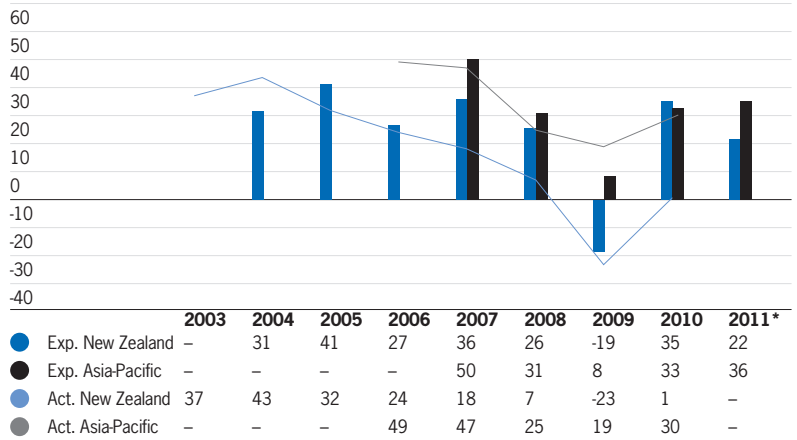


## Employment

- a balance of +22 per cent of businesses in New Zealand expect employment to grow in 2011, compared with +36 per cent of businesses across the Asia-Pacific region
- actual employment growth reported by businesses in New Zealand for 2010 (+1 per cent) was significantly lower than expected 12 months previously (+35 per cent).

**Figure 3: Employment history: 2003-2011**

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



\*actual 2011 data will be documented in IBR 2012

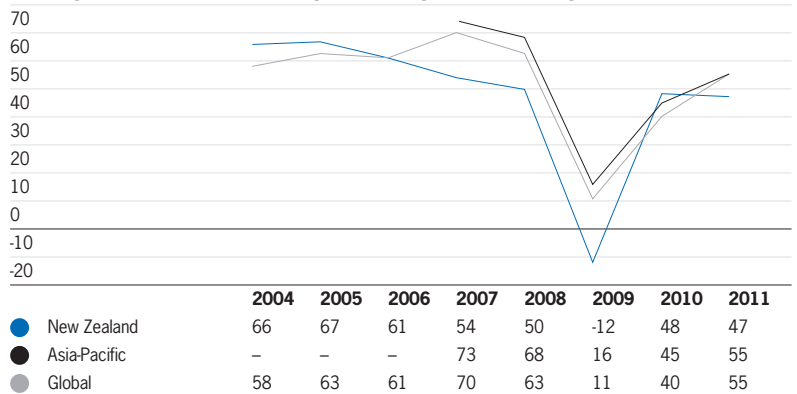
Source: Grant Thornton IBR 2011

## Revenue expectations

- expectations for revenue prospects are in line with 2010, +47 per cent this year compared with +48 per cent last year
- the Asia-Pacific business average has risen by 9 percentage points, from +45 per cent last year to +54 per cent this year
- Globally, expectations have risen from +40 per cent in 2010 to +55 per cent in 2011.

**Figure 4: Revenue expectations: 2004-2011**

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



Source: Grant Thornton IBR 2011

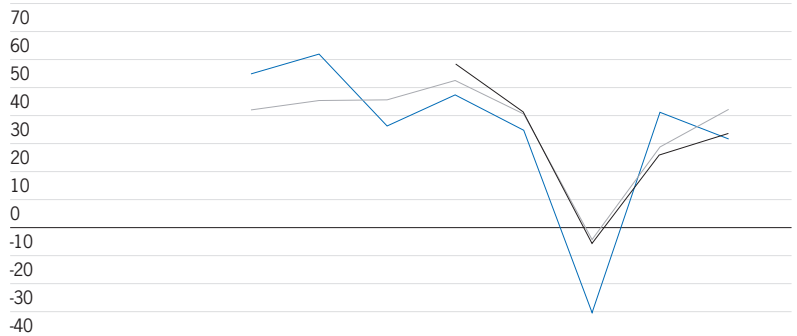


### Profitability expectations

- the balance of businesses expecting to increase profits in New Zealand has remained positive again following the steep fall observed in 2009
- this year a balance of +32 per cent of businesses in New Zealand expect their profits to rise compared with +41 per cent in 2010
- the Asia-Pacific business average has risen by 8 percentage points while the global average has risen by 13 percentage points.

**Figure 5: Profitability expectations: 2004-2011**

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



	2004	2005	2006	2007	2008	2009	2010	2011
● New Zealand	55	62	37	47	35	-30	41	32
● Asia-Pacific	-	-	-	58	42	-6	26	34
● Global	42	45	46	52	41	-5	29	42

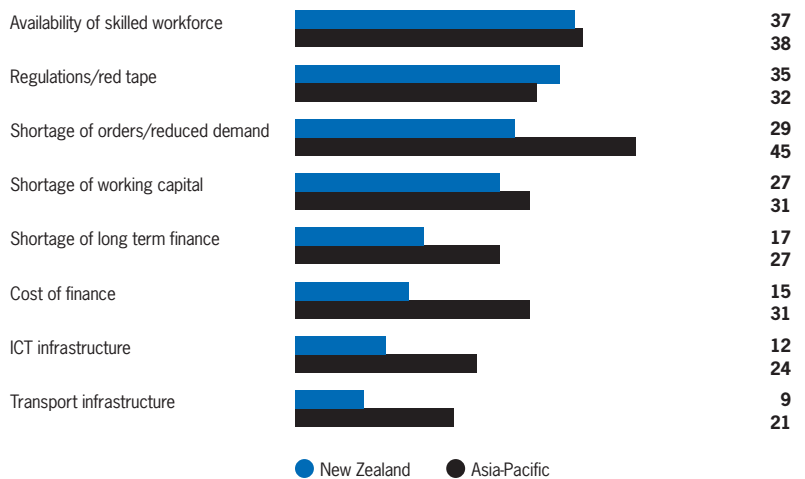
Source: Grant Thornton IBR 2011

### Constraints

- the availability of skilled workers (38 per cent) is cited as the most pressing constraint on expansion by businesses in New Zealand this year, in line with the Asia-Pacific business average (37 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 45 per cent compared with 29 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



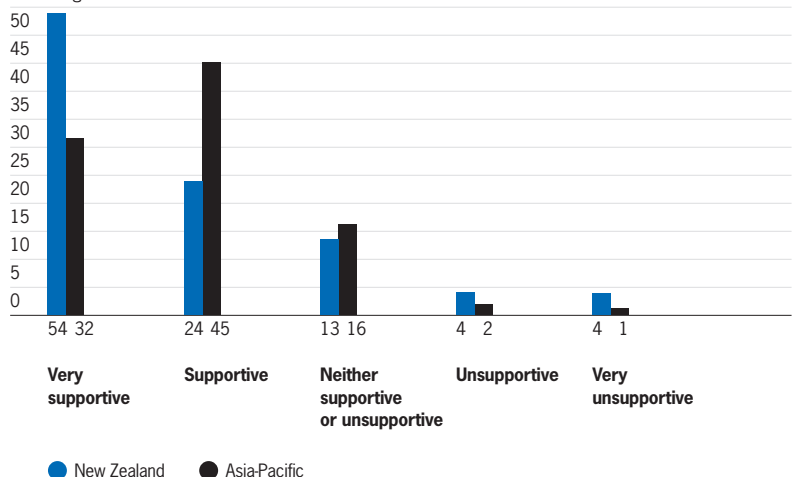
Source: Grant Thornton IBR 2011

### Support of lender

- the majority of businesses in New Zealand are happy with the level of support provided by lenders; 78 per cent class lenders as supportive or very supportive towards their business
- this compares with 77 per cent of businesses in the Asia-Pacific region as a whole
- eight per cent of businesses in New Zealand believe that lenders are unsupportive or very unsupportive of their business, higher than 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 2011

### Impact of earthquake

- February's earthquake had an impact on almost two-thirds of businesses in New Zealand
- almost one-in-five respondents believe the earthquake will have a long-term impact on their business
- 20 per cent of businesses classify this impact as short-term, and a further 26 per cent classify the impact as medium-term.

**Figure 8: What impact has the recent earthquake in New Zealand had on your business?**  
Percentage of businesses

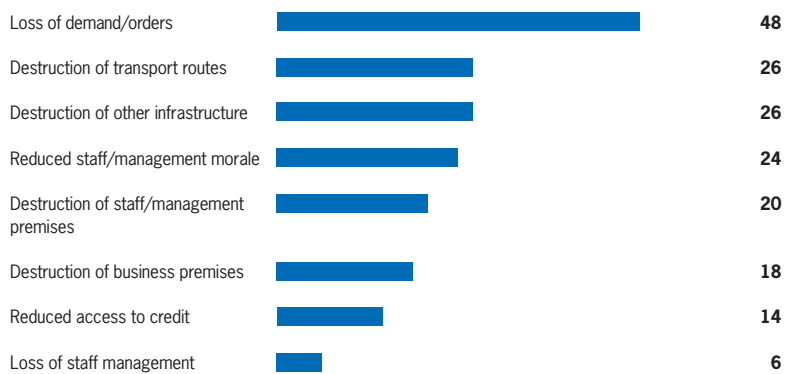


Source: Grant Thornton IBR 2011

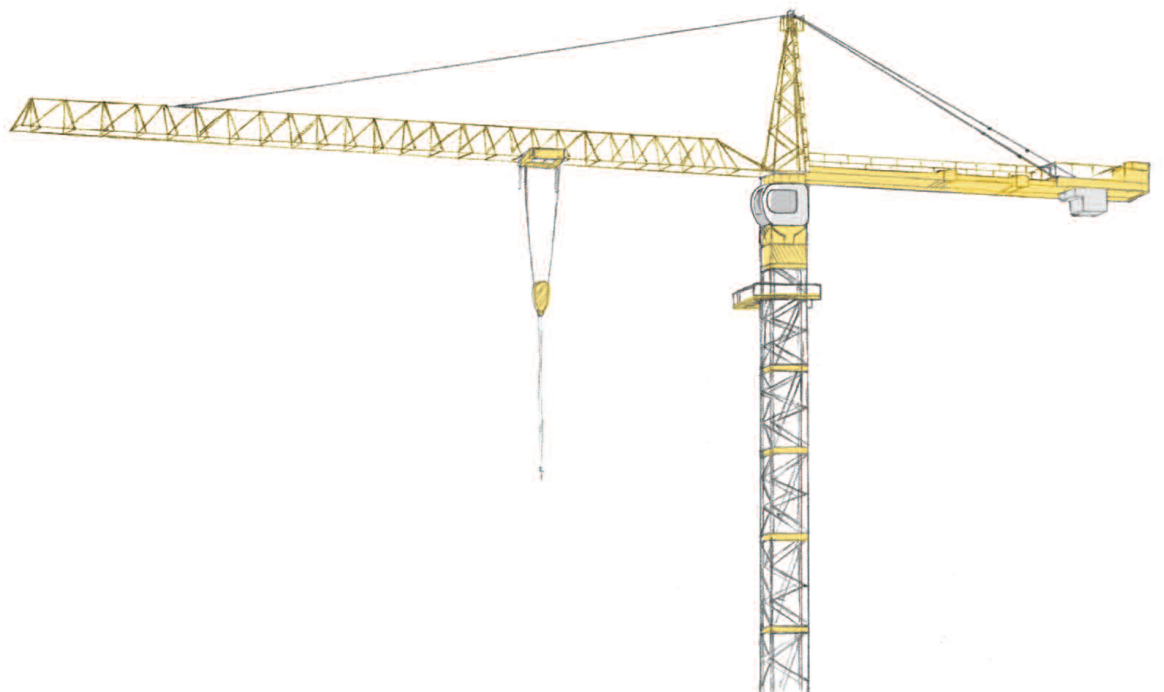
### Implications of global disasters

- almost 50 per cent of businesses have seen demand fall following February's earthquake, with a further quarter citing destruction of transport routes or other infrastructure as impacting on their business
- almost a quarter of businesses say staff/management morale has fallen following the earthquake
- meanwhile, 28 per cent of businesses said they were less optimistic about the outlook for the New Zealand economy following the earthquake, tsunami and nuclear disaster in Japan; 24 per cent said they were more optimistic.

**Figure 9: How has the earthquake impacted on your business?**  
Percentage of businesses



Source: Grant Thornton IBR 2011



The Grant Thornton International Business Report (IBR) is a quarterly survey of around 3,000 senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 11,000 PHBs in 39 economies on an annual basis providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy.

In New Zealand 185 businesses were surveyed across all industry sectors between November 2010 and May 2011. 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](http://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	Malaysia
Armenia	Mexico
Australia	Netherlands
Belgium	New Zealand
Botswana	Philippines
Brazil	Poland
Canada	Russia
Chile	Singapore
Mainland China	South Africa
Denmark	Spain
Finland	Sweden
France	Switzerland
Georgia	Taiwan
Germany	Thailand
Greece	Turkey
Hong Kong	United Arab Emirates
India	United Kingdom
Ireland	United States
Italy	Vietnam
Japan	



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