Grant Thornton

An instinct for growth™

Focus on: *New Zealand*

Grant Thornton International Business Report 2013

Contents

"The global financial crisis naturally selected the strong from the weak. Surviving businesses must now invest for growth and take the opportunity to snatch market share from competitors."

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Introduction

New Zealand is an island nation in the south Pacific of around 4.5m people. In 2012, its GDP was US$170bn, making it the 56th largest in the world.

Drawing on official data sources, such as the Economist Intelligence Unit (EIU) and the International Monetary Fund (IMF), and the Grant Thornton International Business Report (IBR), this short report considers the outlook for the economy, including the expectations of 200 businesses interviewed in New Zealand, and more than 12,500 globally, over the past 12 months.

Economy

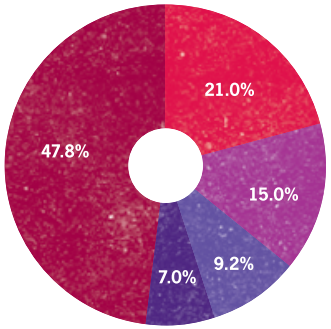
The New Zealand economy expanded by a very healthy 3.2% in 2012, much faster than most advanced economies.

The government remains committed to eliminating the budget deficit by 2015 which reached 4.3% last year. However, this is weighing on growth prospects with expansion of just 0.3% recorded in the first quarter of 2013. Australia remains a key trade partner, accounting for more than 20% of exports and 16% of imports, while China and the United States represent 15% and 9% of trade respectively. Dairy, meat and forestry products make up almost half of total exports.

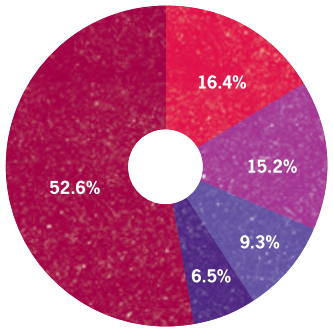
Key Indicators

- The economy expanded by 0.3% quarter-on-quarter in Q1-2013, a 2.4% year-on-year rise
- Construction was the standout performer, growing by 5.5% as rebuilding continues after the Christchurch earthquakes in 2010 and 2011
- The current-account deficit narrowed to NZ$2.2bn (around US$1.8bn) in Q1, down from NZ$2.5bn in the previous quarter, thanks in large part to continued strong demand from China for dairy exports – which account for a quarter of total exports
- Emigration to Australia fell to its lowest level in three years due to improving employment prospects in New Zealand and declining prospects in Australia. The net loss to Australia fell to 32,900 in the year to May 2013, down by 6,700 on the previous 12-month period.

Export destinations (2012)



Import destinations (2012)



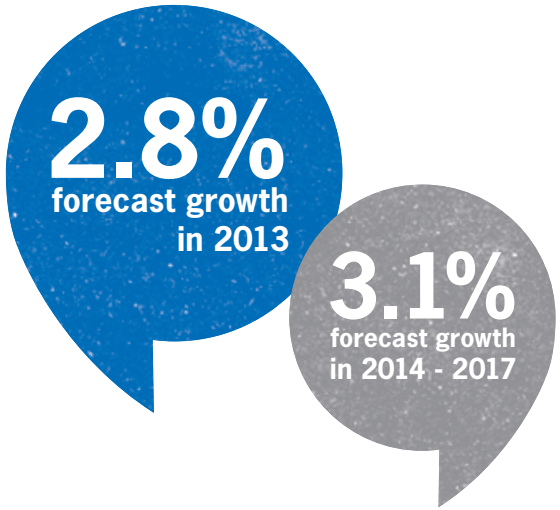
Others
Australia
China
US
Japan

Source: The Economist Intelligence Unit

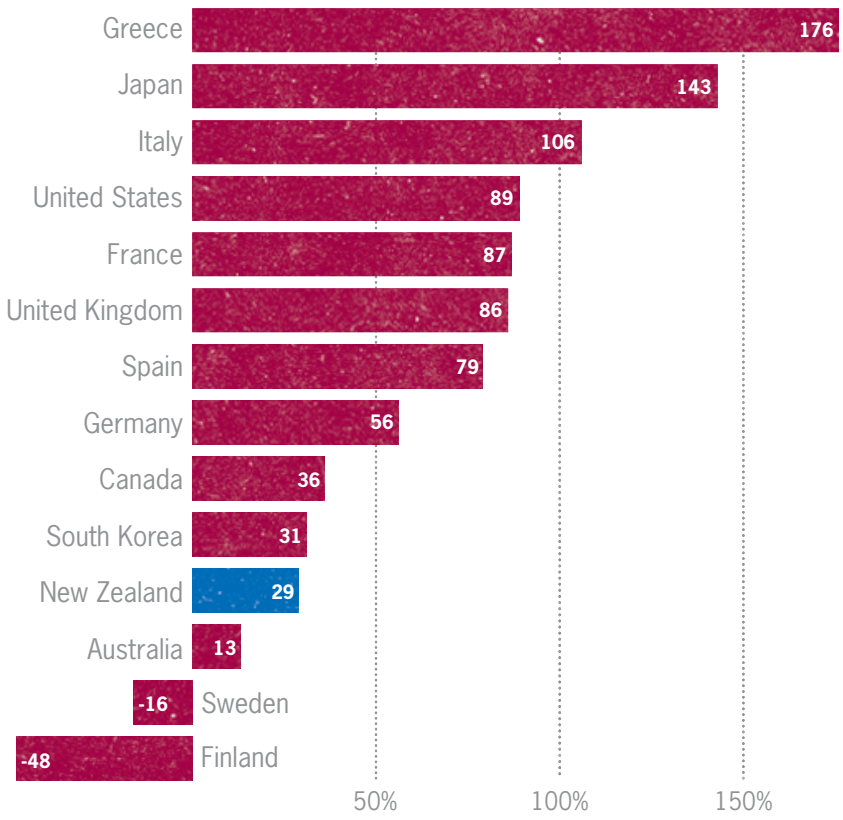
Economic outlook

The economy is expected to grow by 2.8% in 2013 and to average 3.1% a year from 2014-17. Fixed investment as the earthquake rebuild continues is expected to be the major growth driver with private consumption also likely to pick up. While healthy by advanced economy standards, growth is some way below pre-financial crisis levels with households and the government continuing to pay down debt.

The government remains committed to fiscal prudence. The budget deficit is forecast to fall to -2.1% in 2013, from -4.3% in 2012 and to move into surplus in 2015. Despite expected export growth of 3.4% in 2013 (up from 2.1% in 2012) the external sector remains in deficit. The current account deficit is forecast to widen to -4.7% of GDP this year, rising to -7.7% in 2015. The slowdown in China could hurt demand for dairy products but a strengthening in the United States should balance this out. A key government policy is to raise export performance through improving the access of local companies of those in the economy's high value manufacturing and services sectors to international markets. Increasing expenditure on R&D and fully exploiting New Zealand's natural resources have also been targeted.



Forecast government net debt (% GDP, 2013)

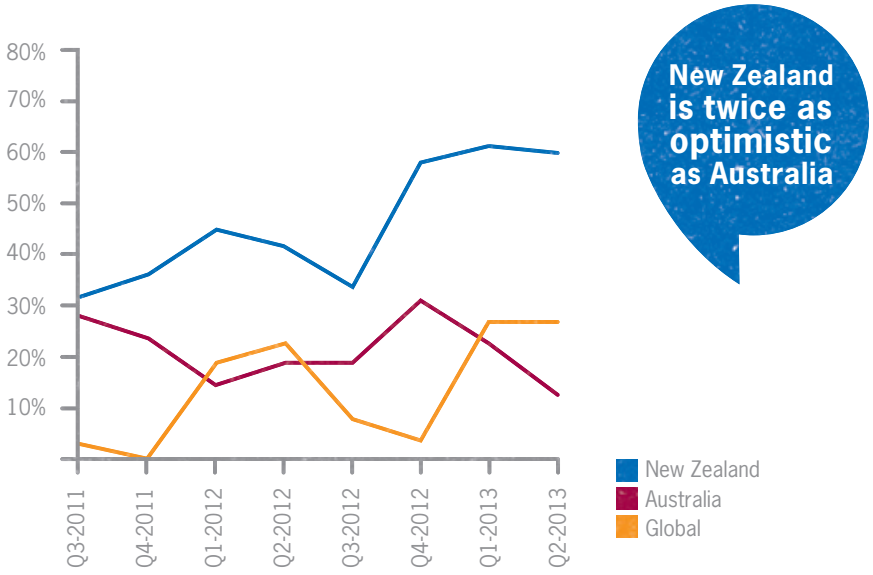


Source: IMF 2013

Optimism

New Zealand business confidence has consistently been above that of peers in Australia over the past two years. Over the past four quarters, New Zealand business optimism in the outlook for the local economy has averaged net 54%, compared with just 21% in Australia. In Q2-2013, New Zealand business recorded the seventh highest business optimism in the 44-economy IBR survey.

Net percentage of businesses indictating optimism for economic outlook (next 12 months)



Source: Grant Thornton IBR 2013

Profits

Net 58% of business leaders in New Zealand expect their profits to climb over the next 12 months. They are much more bullish than peers in Australia (32%) and globally (37%). Following a big dip in 2009 at the height of the financial crisis, confidence in improving profitability has risen steadily, surpassing Australia in 2011 for the first time.

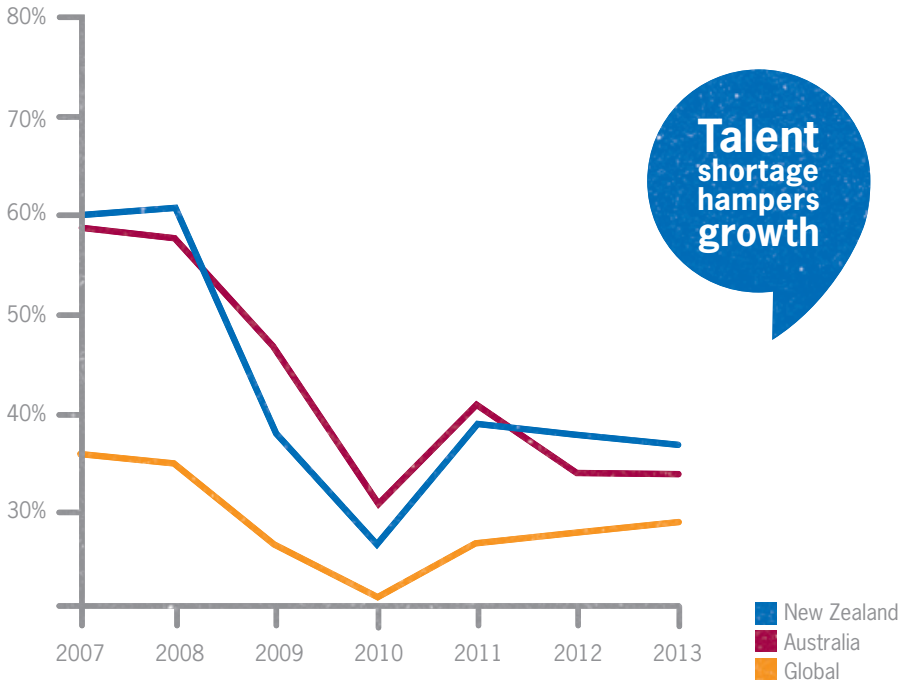
Net percentage of businesses expecting an increase in profits (next 12 months)

Source: Grant Thornton IBR 2013

Employment

A shortage of skilled workers continues to hamper business leaders in New Zealand. Over the past year, 37% of businesses have cited a lack of talent as a constraint on growth, well above the global average (29%) and marginally above Australia (34%). Both are suffering much more in this area than the other advanced economies in the G7 (24%). Before the financial crisis this issue was far more pressing with 60% of business leaders citing a lack of talent in both 2007 and 2008 although the fall appears to be driven more by demand than supply. Since the global recession, New Zealand businesses have been more circumspect in terms of hiring: in Q2, just 20% of businesses were planning to hire workers over the next 12 months. Despite this, the unemployment rate fell to a three-year low of 6.2% in Q1-2013, although it nudged back up to 6.4% in Q2.

Percentage of businesses citing a lack of skilled workers as a constraint on growth

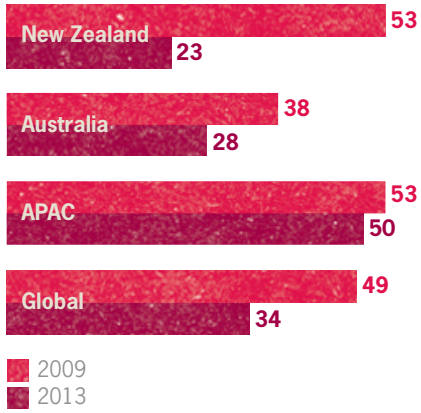


Source: Grant Thornton IBR 2013

Demand

Demand for New Zealand products and services remains strong. Just 23% of business leaders cited a shortage of orders/reduced demand as a growth constraint over the past four quarters, falling to just 14% in Q2-2013. This compares with 28% in Australia, 34% globally and 50% across the APAC region. It is also a massive improvement from 2009 when 53% of businesses were suffering from contracting demand.

Percentage of businesses citing a lack of demand as a constraint on growth



Inflation

Inflation remains well in check although it is expected to rise to 1.3% this year and 2.2% in 2014. Some inflationary pressures are set to come from businesses with net 37% indicating that they would raise selling prices on average over the past twelve months, well above Australia (27%) and the global average (22%). Salaries are also expected to rise, allowing consumption to keep up with rising prices. 84% of New Zealand businesses expect to increase worker salaries over the next 12 months – and 22% above inflation, ranking the nation 12th globally on this indicator.

Net percentage of businesses expecting an increase (next 12 months)

IBR 2013 methodology

The Grant Thornton International Business Report (IBR) is a quarterly survey of approximately 3,300 senior executives in listed and privately-held businesses all over the world. Launched in 1992 in nine European countries, the report now surveys approximately 13,000 businesses leaders in 44 economies on an annual basis, providing insights on the economic and commercial issues affecting companies globally.

The data in this report are drawn from interviews with chief executive officers, managing directors, chairmen and other senior decision-makers from all industry sectors. Q2 data is drawn from 3,300 interviews (50 in New Zealand) conducted in May 2013. 2013 data is drawn from over 12,500 interviews (200 in New Zealand) conducted between September 2012 and May 2013.

To find out more about IBR, please visit: www.internationalbusinessreport.com.

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