



# **BUSINESS SURVEY**

June 2007

## **Featuring**

Regional Activity Predictions  
Topical Business Items In The Headlines: Taranaki Views

Report prepared for  
**Venture Taranaki**

By  
Red Eye Limited

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## 1.0 Executive Summary

This report summarises the results of Venture Taranaki's six-monthly survey of Taranaki businesses. Its purpose is to monitor the local economic climate and key issues that affect businesses. The survey was sent to 1000 Taranaki businesses reflecting a cross-section by industry type, location and size. A total of 190 businesses participated in the survey.

In terms of the NZ economy, the majority of business respondents are anticipating the status quo will prevail (46.3%), 28.9% anticipate deterioration, whilst 22.1% expect improvement. Relative to the situation six months ago, there is a small shift away from those that believe in the status quo, and a stronger belief that conditions will either improve or deteriorate.

In terms of industry-specific conditions, the majority of respondents (57.4%) anticipate the economy will remain the same, 21.8% anticipate improvement whilst 19.1% predict a decline. Relative to six months ago, more businesses believe that industry-specific conditions will remain the same, and there has been a corresponding decline in anticipated improvement and/or decline. The agriculture industry appears the most optimistic. Manufacturing, health, transport and retail are the most pessimistic/cautious in relation to the economic climate and potential impacts in the coming 12 months. Businesses based in South Taranaki appear more optimistic (relative to New Plymouth and/or Stratford) regarding conditions in their own industry in the coming 12 months, as well as the New Zealand economic climate generally.

Businesses anticipate sales will essentially remain at similar levels over the next six months. There has been a decrease in those anticipating an improvement in sales, relative to when the last survey was undertaken six months ago. However that survey was undertaken prior to Christmas, thus a period of heightened retail sales and tourism activity could potentially have affected the outcomes.

The majority of respondents (77.4%) anticipate employee numbers will remain the same in the next six months with 15.3 percent anticipating an increase. These outcomes reflect a slight tightening of the employment situation of six months ago.

Businesses operating in the manufacturing sector, health and business/finance appear more likely to be taking on new staff, relative to other industries. However manufacturing businesses are also amongst those more likely to anticipate a decline in employment numbers.

The majority of businesses anticipate that the corporate tax rate savings will be reinvested in their business. However many respondents also add additional comment to the effect that much of this saving will probably be eroded by increasing costs in other areas e.g. Kiwi Saver.

Most do not undertake research and development within their organisation, and do not believe that the tax credit for R&D will lead to an increase in this type of activity within their firm.

Factors of greatest concern to Taranaki businesses at present include:

- Price of fuel
- Government regulations
- Wages/staff costs

- Labour availability
- Interest rates.

A total of 66.5 percent of respondents said the exchange rate is not significantly impacting on their business at present, but 33.5% stated it is. Exchange rate impacts and whether the current rate is perceived in a favourable light depends on the extent businesses are engaged in offshore activities and whether those activities are predominantly importing or exporting. i.e. it is favourable to importers but hindering exporters. Businesses were asked whether they have instigated any counter measures in responses to exchange rate impacts. Responses include hedging, cost reviews and buying/sourcing (off shore) stock/suppliers.

Approximately 33.3 percent of respondents think the Government should intervene in the exchange rate. However, 66.7% disagree with intervention. With respect to intervention, businesses were asked what sorts of interventions are appropriate. Respondents appear predominantly against further interest rate increases and suggested alternative possibilities including tariffs, devaluing of the dollar; reducing company tax rates and reducing in Government expenditure.

Taranaki businesses were also asked about their views concerning the ideal range they would like to see the dollar fluctuate between. In terms of the USD, the majority of respondents favour US60c-70c, whilst most approve of a AUS/NZD of A80c to 90c or even 95c.

A total of 50.3 percent of businesses state that increasing interest rates are also impacting on their businesses. Many state it is placing pressure on costs and decreasing profit margins e.g. the cost of finance/loans, the reduced spending power of customers, the flow-on effect to wage rates and potential increases in fixed costs such as rent. Many businesses feel there is little opportunity to move with respect to interest rate increases, however some have initiated strategies such as reducing costs, trying to pay off debt faster, increasing prices, implementing more aggressive selling campaigns and delaying investments in response to the situation.

## 2.0 Introduction

Venture Taranaki is a world-class economic development and regional tourism agency founded by the New Plymouth District Council. Established as a charitable trust with a private sector board, Venture Taranaki provides a strategic and focused approach to developing the Taranaki economy. Its purpose is to foster a dynamic and innovative economy which assists regional development, tourism and sustainable wealth creation in Taranaki.

The Taranaki Business Survey has been conducted twice a year since 1999. Its function is to monitor trends, identify key issues affecting the growth of Taranaki businesses and provide timely, accurate and valuable information for Taranaki businesses and stakeholders.

This research report has been independently analysed and prepared for Venture Taranaki by Red Eye Limited.

Venture Taranaki would like to acknowledge the New Plymouth District Council for its support with this initiative.

## 3.0 Methodology

The Venture Taranaki business survey is undertaken every six months in May and November. Survey forms are mailed out to 1000 Taranaki businesses throughout the region. Survey recipients are randomly selected from the New Zealand Business Directory Database (UBD), phone directory and Venture Taranaki client database, and considerable effort is dedicated to ensuring the sample is representative of industry sector and geographic location. The survey questionnaire comprises two sections - a standard economic/business section and a special topic section. The special topic for this survey focuses on the practices and views of Taranaki businesses concerning topical issues which are currently in the national news headlines.

As at February 2004 there were 8111 businesses operating in the Taranaki region (Statistics New Zealand). The distribution of businesses across Taranaki districts is detailed below:

**Table 1: Taranaki Business Population**

<b>District</b>	<b>Number of Businesses Operating</b>	<b>Percent of Taranaki Businesses</b>
New Plymouth	5,398	66%
Stratford	730	9%
South Taranaki	2,003	25%

The survey sample is reflective of the sub-regional business distribution between the New Plymouth, South Taranaki and Stratford Districts. In addition to business location, surveys are distributed in proportion to industry type.

In total 190 completed survey forms were received by the close-off date. This equates to a response rate of 19.0 percent. The survey aims to achieve a confidence level of 95 percent (plus or minus five percent) that survey results are representative of the entire Taranaki business population. This outcome is dependent on the willingness of participants to complete and return the postal survey forms. As analysis throughout this report is, in parts, broken down by industry sector and district, it should be highlighted that the 95 percent (plus or minus five percent) confidence interval is relevant to overall results and not at industry and district level (see appendix for confidence intervals at variable levels). Due to the larger interval at variable level, care should be taken when interpreting some results.

## **4.0 Respondent Profile**

Of those businesses who responded to the survey, 64 percent are located in the New Plymouth District, 23.3 percent in South Taranaki and 6.3 percent in Stratford. A total of 6.4 percent of businesses operated from branches located throughout Taranaki (or didn't identify a location). These proportions are in alignment with the required representative samples.

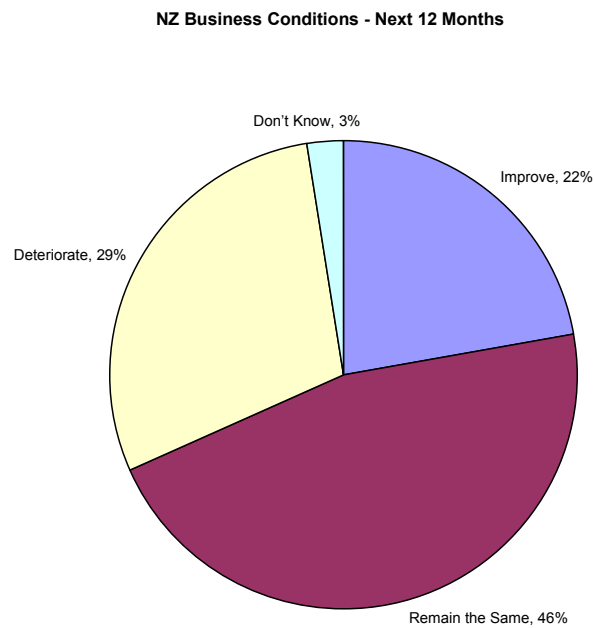
A total of 23.9 percent of respondents considered their primary business operation as 'retail and wholesale trade', while 13.3 percent reported they operated in the 'property, business, finance, insurance services' sector. A further 12.4 percent identified themselves as 'manufacturing' businesses, 9.6 percent in community/Government services and 13.3 percent as building/construction. All other industry sectors each comprised less than 10 percent of respondents.

The majority of businesses (38.8 percent) reported having between one and four staff, 28.2 percent had between five and nine staff, and 16.0 percent had between 10 and 19. The remaining 17.0 percent of businesses have 20 or more people working in the business.

## 5.0 Economic Findings

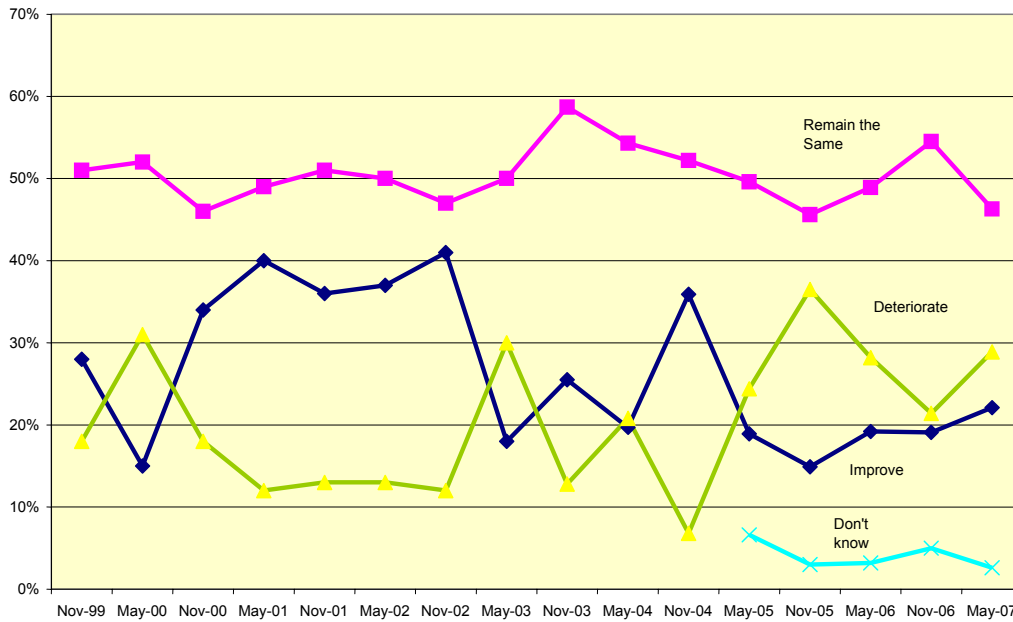
### 5.1 New Zealand Wide-Business Conditions

Respondents were asked to predict the general business outlook for New Zealand over the next 12 months. The majority of responding businesses (46.3%) predicted that general business conditions in New Zealand would remain the same. However, a reasonable proportion anticipated conditions would deteriorate (28.9%) and 22.1% believed the New Zealand economy would improve.



Although the majority of businesses perceive current economic conditions will continue for another 12 months, relative to the survey undertaken six months ago, there is the start of a shift in perception – it appears businesses are increasingly beginning to form a view that conditions will either improve or decline.

**NZ Business - Next 12 Months**



When analysing results by district, slightly higher levels of optimism were indicated by respondents based in South Taranaki District (30.2 percent) and New Plymouth District (19.0 percent). This was based on the percentage of respondents anticipating an improvement in economic conditions on a national basis. Those in Stratford appeared more cautious.

**New Zealand-Wide Conditions: Predictions for the Next 12 Months by District\***

Prediction	NPD	SD	STD
Improve	19.0%	8.3%	30.2%
Remain the Same	46.3%	58.3%	41.9%
Deteriorate	31.4%	33.3%	25.6%
Don't Know	3.3%	0.0%	2.3%

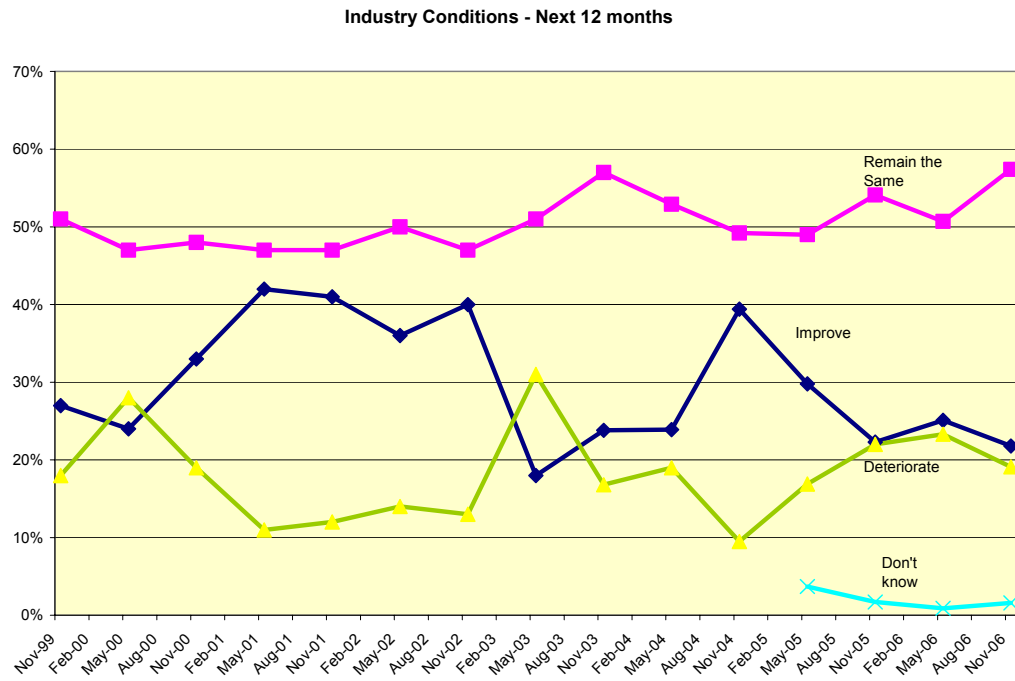
\* Balance reflects respondents located throughout Taranaki, thus were not district specific. Due to rounding factors, some outcomes may not total 100% with precision.

## 5.2 Industry Conditions

Respondents were asked to predict industry conditions for the coming 12 months with respect to their own industry sector. Once again, the majority of respondents (57.4%) anticipate stable industry conditions in the months ahead. A total of 21.8% anticipate conditions will improve, whilst 19.1% foresee



deterioration. The majority of businesses anticipate that the economic status quo will prevail in their own industry. Relative to six months ago, less businesses anticipate conditions will either improve or deteriorate.



The agriculture industry appeared the most optimistic in relation to conditions within their own industry. Manufacturing, health, transport and retail were the most pessimistic/cautious in relation to the economic climate and potential impacts in the coming 12 months.

Businesses based in South Taranaki appeared more optimistic regarding conditions in their own industry in the coming 12 months.

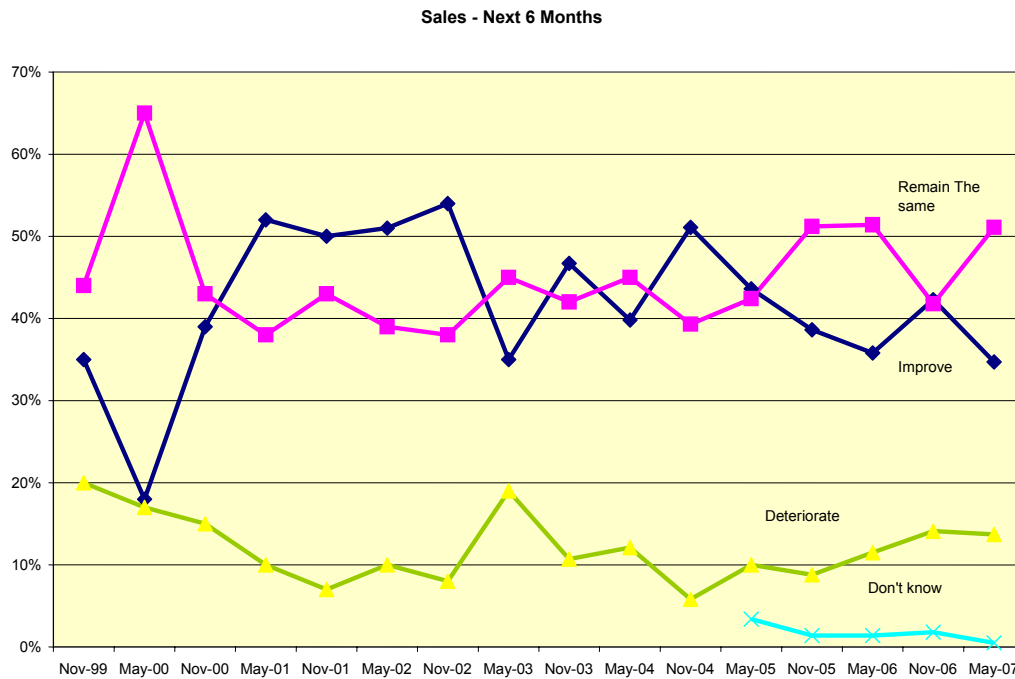
**Industry Conditions: Predictions for the Next 12 Months by District**

Prediction	NPD	SD	STD
Improve	20.0%	16.7%	27.9%
Remain the Same	56.7%	66.7%	51.2%
Deteriorate	21.7%	16.7%	18.6%
Don't Know	0.8%	0.0%	2.3%

*\*Balance reflects respondents located throughout Taranaki, thus were not district specific. Due to rounding factors, some outcomes may not total 100% with precision.*

### 5.3 Sales/ Customer Levels

Businesses predominantly anticipated sales will remain the same over the next six months. A total of 31.7% anticipated sales would increase – down from the November 2006 survey result which was undertaken prior to Christmas (thus a period of heightened retail sales) and the tourism season. Approximately 13.7% of respondents indicated sales levels will deteriorate.



New Plymouth-based respondents proved most optimistic with regard to sales levels, as 34.7 percent anticipate levels will improve over the coming six months. South Taranaki-based businesses appeared more cautious regarding sales levels.

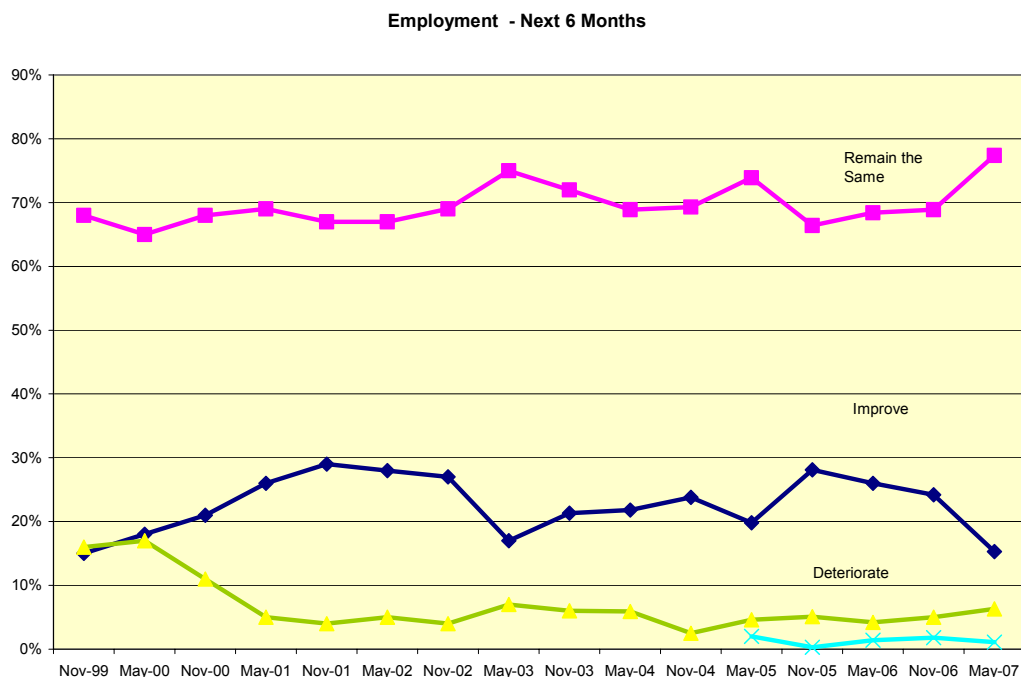
**Sales/ Customer Levels: Predictions for the next Six Months by District**

Prediction	NPD	SD	STD
Improve	34.7%	33.3%	25.6%
Remain the Same	50.4%	58.3%	58.1%
Deteriorate	14.0%	8.3%	16.3%
Don't Know	0.0%	0.0%	0%

\* Balance reflects respondents located throughout Taranaki, thus were not district specific. Due to rounding factors, some outcomes may not total 100% with precision.

## 5.4 Employment Levels

Respondents were asked to indicate whether they expected employment levels to change over the next six months. The majority of respondents (77.4%) anticipate employee numbers will remain the same, whilst 15.3% anticipate a need to increase employee numbers within their own businesses in the next six months. These outcomes are slightly down on the employment situation of six months ago, when 69.0% anticipated the status quo, and 24 percent an increase. Only 6.3 percent of respondents indicated staffing levels would decrease, with the balance (1.0%) of survey participants reporting they were unsure.



When reviewing employment demand across industry sectors, businesses operating in the manufacturing sector, health and business/finance appeared more likely to be taking on new staff, relative to other industries. However manufacturing businesses were also amongst those more likely to decline in employment numbers. When analysing predicted employee requirements for the coming six months at a sub-regional level, the majority of businesses predicted employment requirements will remain the same, irrespective of location. However, employment expectations were higher in New Plymouth than Stratford or South Taranaki.

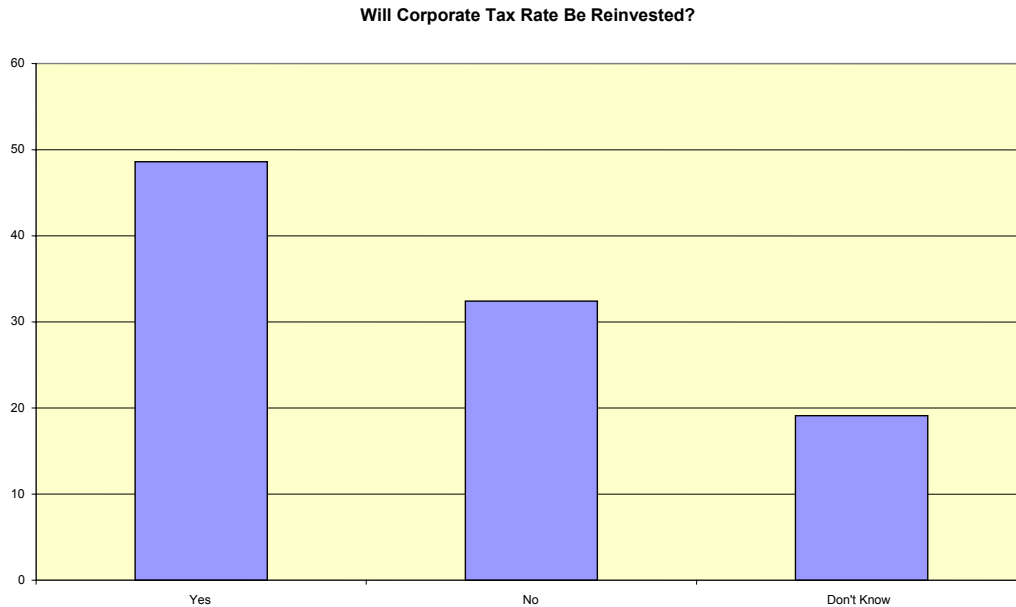
**Table 5: Employment Levels: Predictions for the Next Six Months by District**

Prediction	NPD	SD	STD
Improve	14.9%	8.3%	13.6%
Remain the Same	77.7%	75.0%	81.8%
Deteriorate	5.8 %	16.7%	4.5%
Don't Know	1.7%	0.0%	0%

## 6.0 Corporate Tax Rate Savings

Businesses were asked whether the corporate tax rate savings would be reinvested in their business.

A total of 48.6% stated it would be, with 32.4% saying no and 19.1% were unsure.



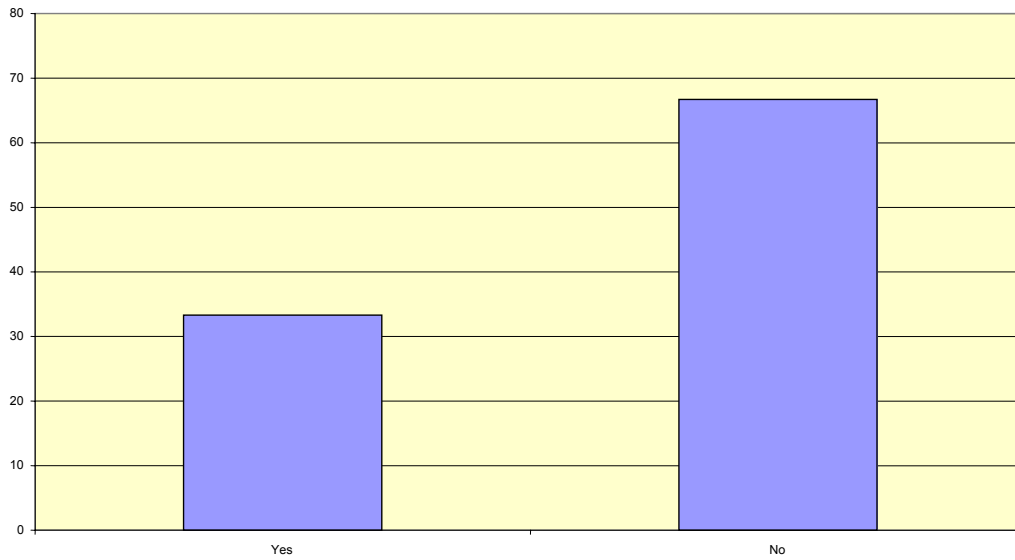
A number of respondents also commented that savings were likely to be eroded due to increasing costs. In particular - many respondents highlighted the cost of implementing Kiwi Saver.

## 7.0 Research and Development

Businesses were asked whether they currently undertook research and development (R&D).

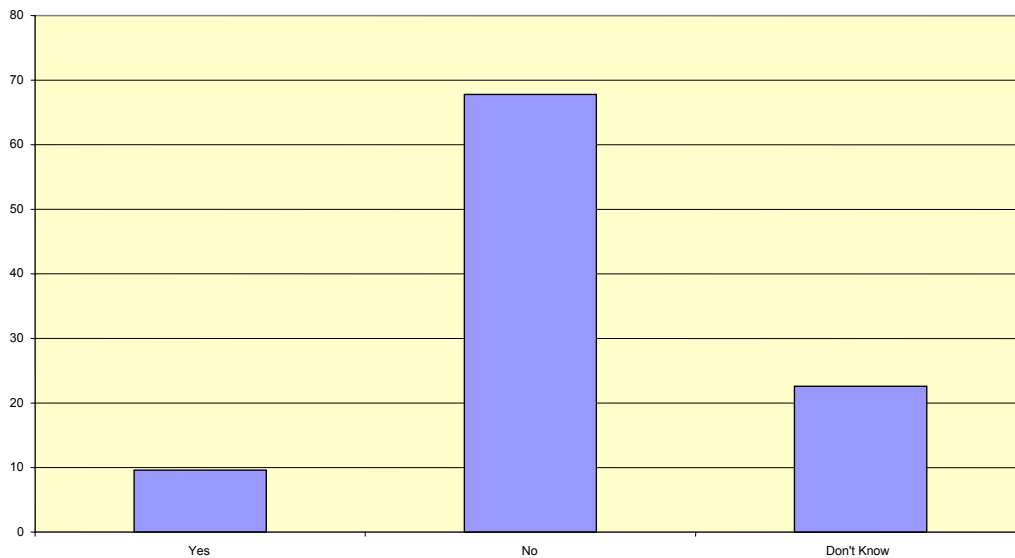
A total of 33.3% said yes; 66.7% stated they did not.

### Do You Currently Undertake R&D?



Businesses were also asked whether the R&D tax credit would lead to an increase in research and development activity within their firm. The majority (67.8%) said no. Only 9.6% said it would.

### Tax Credit Lead to R&D Increase?



## 8.0 Factors Impacting On Business

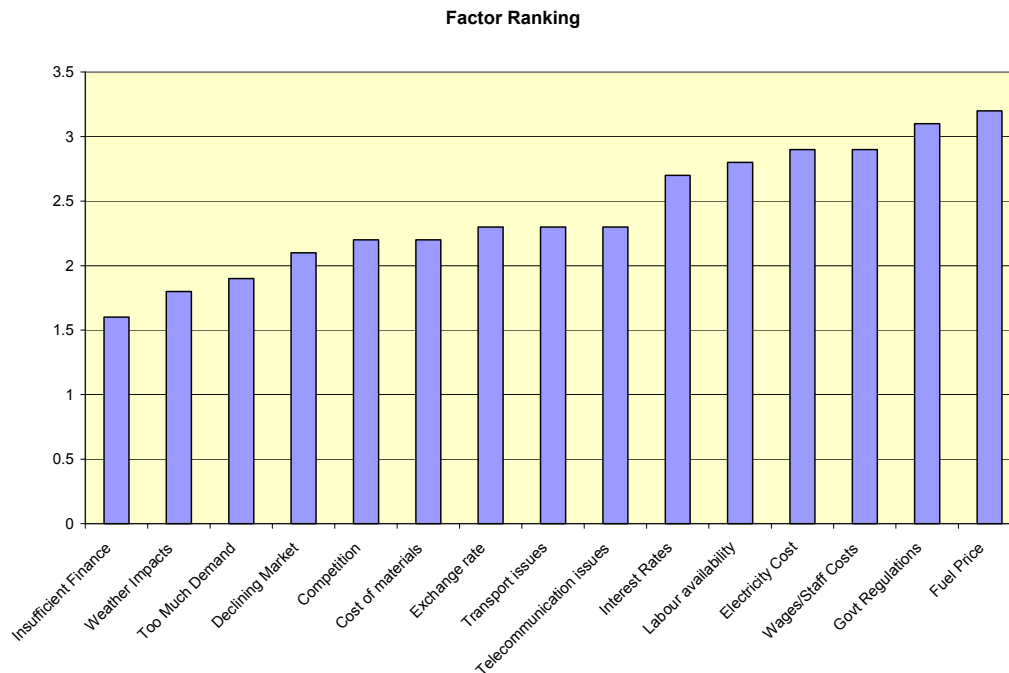
Businesses were asked to rank on a scale from 1-4 (1= least important, 4= most important) the relative importance of ten factors in relation to whether they were of concern and/or impacting on business.

The mean score of the rankings are listed below, with the HIGHEST RANKING reflecting the factor of MOST CONCERN

Factor	Rank
Insufficient Finance	1.6
Weather Impacts	1.8
Too Much Demand	1.9
Declining Market	2.1
Competition	2.2
Cost of materials	2.2
Exchange rate	2.3
Transport issues	2.3
Telecommunication issues	2.3
Interest Rates	2.7
Labour availability	2.8
Electricity Cost	2.9
Wages/Staff Costs	2.9
Govt Regulations	3.1
Fuel Price	3.2

The most concerning issue to Taranaki business is the price of fuel.

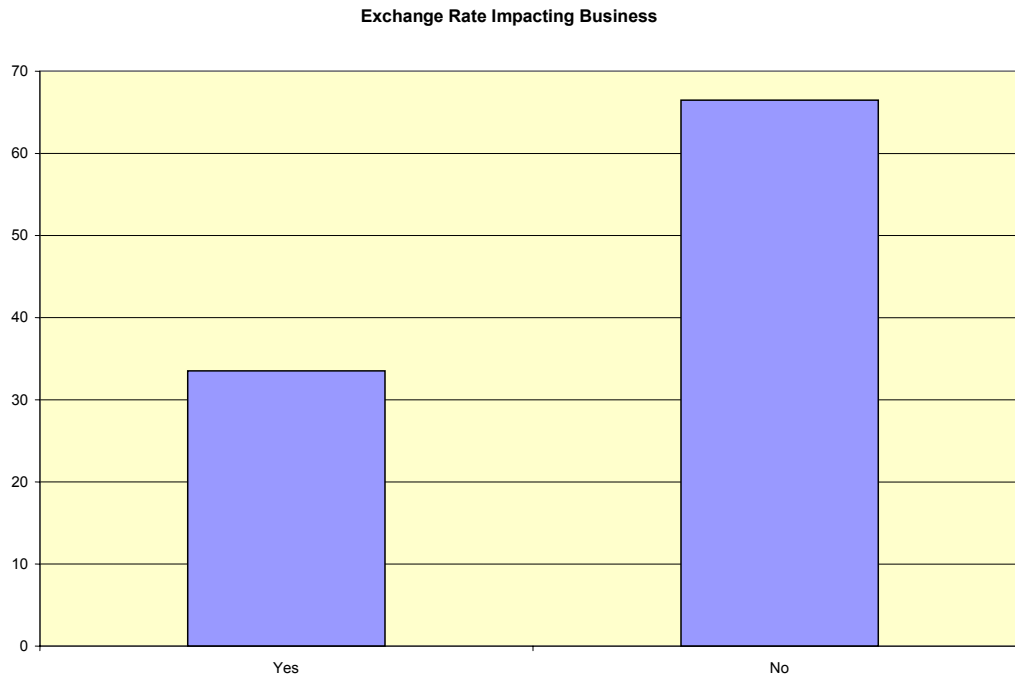
The item of least concern in the list is insufficient access to finance.



## 9.0 Exchange Rate

The survey questioned Taranaki businesses in relation to their views on the Exchange Rate.

A total of 33.5% of respondents stated that the exchange rate was impacting on their business and 66.5% said it was not.



Comments in relation to exchange rate impacts are listed as follows. In summary they highlight how current levels have assisted many importers but negatively impacted exporters:

- "Encourages our customers to travel overseas instead of spending on their homes."*
- "Tourists find things more expensive - don't spend and don't come."*
- "We do business with exporters."*
- "Our supplies are purchased ex \$US or AUD \$."*
- "Very positively."*
- "Competing imports are cheaper due to high NZ dollar."*
- "Buying new machinery while dollar is high."*
- "Reducing farmers' income & reducing price of our products."*
- "Favourable for us being importers."*
- "Lower returns, dissatisfied clients."*
- "Raw material purchases - everything is imported."*
- "Mildly affects exports but assists with components imported for manufacturing end product - 90% of our product is sold within NZ."*
- "Puts costs of goods up which we sell in store, lowering our GP."*
- "It affects the payout of farmers who are our main customers."*
- "Impacts payout for dairy farmers and their spending."*
- "It is affecting returns to the agriculture sector and slowing spending ability."*
- "Cost of imported products are currently stable, but as the dollar devalues (later) this will initiate price increases."*
- "All our goods are imported. Our clients are dairy exporters."*

*"It is helping as we only import equipment."*  
*"Exporting clients have decreased profitability."*  
*"Can be good for the traveller."*  
*"Through the www clients can buy cheaper than our cost."*  
*"Great as I purchase from overseas. Good for me."*  
*"Increase in materials and freight costs."*  
*"It impacts on farmers incomes negatively and this has a flow-on effect. This is a farming community and they are my customers- and their service industry are my customers as well. Less money in their pockets = less money in my own."*  
*"We're exporting."*  
*"The higher dollar suits our imported products."*  
*"Making capital items cheaper."*  
*"We import a reasonable amount so the higher the better."*  
*"Tourists spend less."*  
*"Imported chemical fluctuate - fuel is out of control."*  
*"People have less to spend and less overseas visitors."*  
*"To a small degree. Some of our suppliers reduce their product to us but most absorb the savings themselves."*  
*"Our overseas earning are not worth as much to us."*  
*"Sheep and beef farmers are re-evaluating their options."*  
*"Able to import at better prices."*  
*"Imported raw materials are cheaper."*  
*"It is great as we import most of our raw materials."*  
*"Domestic product sales priced at import parity for commodity priced in US \$."*  
*"We export and invoice in foreign currency."*  
*"A high dollar is favourable to our business."*

Businesses were asked whether they had instigated any counter measures in responses to exchange rate impacts. Counter measures included hedging, cost reviews, buying/sourcing (off shore) stock/suppliers. Detailed commentary is as follows:

*"I am trying to cut expenses."*  
*"Spending more on advertising."*  
*"Yes - building up raw material stocks."*  
*"No - can't do anything about it anyway."*  
*"No - what could we do?"*  
*"Yes - looking to cheaper suppliers and fabrication off-shore."*  
*"Holding funds offshore for trading i.e. proceed from sales used to purchase imports."*  
*"Trying to keep wages lower as this is our biggest cost."*  
*"Suppliers (importers) have lowered their prices."*  
*"Maintaining pricing structure to client to make our services affordable."*  
*"Closely monitoring stock levels."*  
*"Buying up stock."*  
*"Forward hedging."*  
*"Focusing on existing clients cash flow."*  
*"Finding new markets."*  
*"Buying and selling heaps."*  
*"Increase in price of jobs."*  
*"Yes - hedging."*  
*"Buying cheaper items."*  
*"Raise prices."*  
*"More affordable gifts. Topping local gift market."*  
*"No - out of our control."*  
*"Trying to keep borrowing to a minimum."*



*"Service provider to manufacturers, therefore the impact on them impacts us."*

*"Yes - leave NZ."*

*"Not as yet - still enough work."*

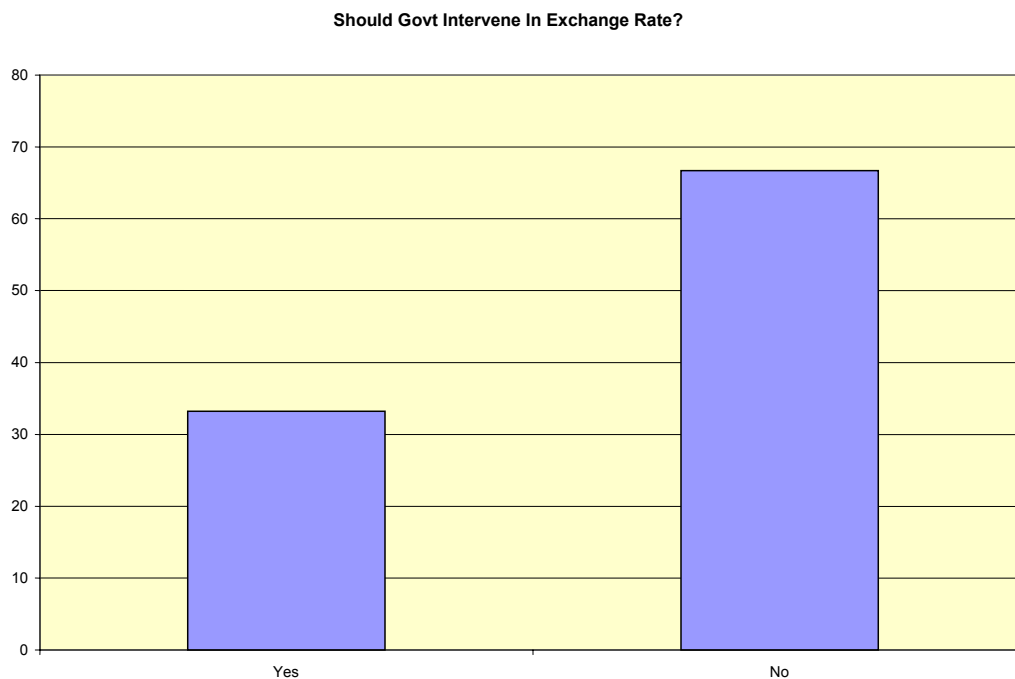
*"Regular contract reviews."*

*"Forward exchange contracts."*

*"Currency hedging (short term). Cost structures (local) under review."*

*"Looking at overseas opportunities."*

Businesses were asked whether they thought the Government should intervene in the exchange rate. A total of 33.3% of respondents thought the Government should intervene in the exchange rate, but 66.7% disagreed with intervention.



Businesses were asked what sorts of interventions were appropriate. Respondents were essentially against further interest rates increases, and suggested alternative possibilities e.g. tariffs, devalue the dollar, reduce company tax rate, reduction in Government expenditure. Detailed commentary is listed below:

*"Put in place what the general public ask for."*

*"Reduce the impact of high interest rates on the exchange rate by targetting sources of inflation rather than "one rule for all. Reduced tax on exports would ease some pain."*

*"Sack Reserve Bank Governor and modify expectations."*

*"Tax overseas investors instead of us."*

*"Capital gains tax to reduce property speculation. We're in business and we pay tax !"*

*"Stop banks borrowing overseas and dumping on NZ market."*

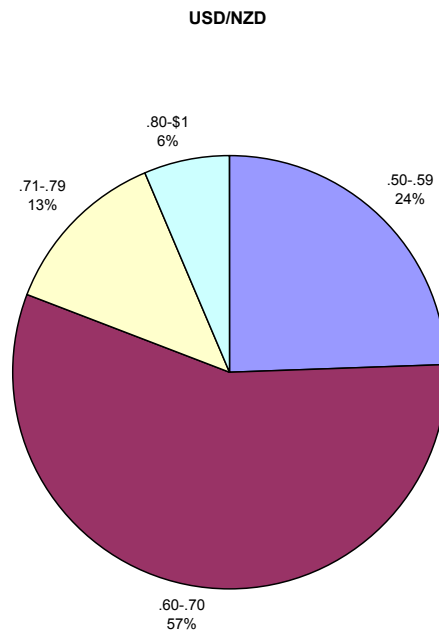
*"Their idea of addressing this issue is to raise interest rates - any person with a brain knows this will not work."*

*"Do something with tariffs."*

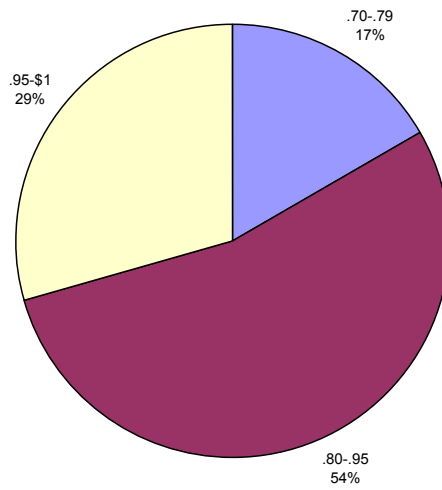
"It's too late."  
 "Emphasis should be on restricting money supply rather than increasing interest rates."  
 "Difficult but possibly de-value the dollar - however that would help exporters but would increase import prices."  
 "Devalue?"  
 "Incentives for businesses."  
 "Reduce company tax. Provide employment incentives."  
 "Lower the cash rate to keep exporters who are finding thing extremely difficult in this financial regime."  
 "Don't increase interest rates any more !"  
 "Get interest rates down to a realistic and non dangerous level."  
 "The strategy of lifting interest rates is not working. Reduce Govt spending"  
 "Investment in housing needs to be made less attractive."  
 "Govt needs to decrease their spending."  
 "Ideally try to put a hold on rates rising."

Taranaki businesses were also asked about their views on the ideal range they would like to see the dollar fluctuate between.

In terms of the USD, the majority of respondents favoured .60-.70.



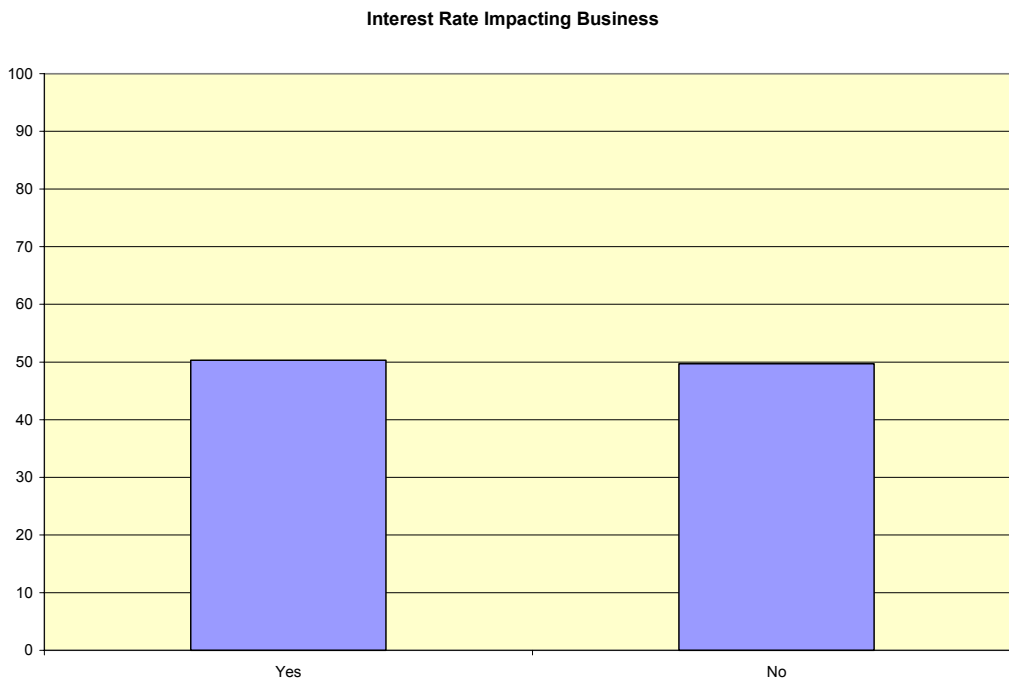
In terms of the AUS/NZD, responses in the .80-.90 range were frequently proposed, and overall most respondents favoured a range of .80-.95.



## 10.0 Interest Rates

Taranaki businesses were asked about the impact of increasing interest rates on their business.

A total of 50.3% of businesses stated that interest rates were impacting on their business and 49.7% said that interest rates had minimal to no real impact.



Businesses described the impacts increasing interest rates were having on their respective businesses. The majority highlighted the increasing costs to business e.g. cost of finance/loans, the reduced spending

power of customers, the flow-on consequences of wage rate pressures and potential increases to costs such as rent.

Selected commentary is listed below:

*"Business finance rates and overdraft costing more."*  
*"We pay more."*  
*"Cost of loans."*  
*"Higher floating mortgage repayments."*  
*"Overdraft on business"*  
*"Cost of finance."*  
*"Cost of borrowing up 20%."*  
*"Prices going up."*  
*"Concern for borrowing to build new building."*  
*"Mortgage repayments. The more money the banks take the less customers have to spend."*  
*"Increased cost."*  
*"Attempting to minimise long-term debt."*  
*"Overdraft interest affects us."*  
*"Higher cost of servicing OD and mortgages."*  
*"Not yet but if interest rates keep raising they will impact on our business."*

*"Expansion plan costs - finance building and equipment."*  
*"Impact on shareholder debt financing."*  
*"People are not as financial."*  
*"Overdraft facilities."*  
*"Effects market & people's ability to service mortgages."*  
*"Lowering profit margins. Slowing industry spending."*  
*"Business with mortgages or overdraft. Becomes a fixed cost."*  
*"As we provide into the commodity market, we are first to feel the tightening of purse strings."*  
*"Paying off loans."*  
*"Increasing cost of servicing loan."*  
*"Big mortgage & interest bill."*  
*"Have fixed rates coming out soon and wanting to borrow more. Overdrafts have increased as well."*  
*"Cutting all purchases to core needs."*  
*"Increasing the cost. Debtors increasing"*  
*"Putting further pressure on clients cash flow."*  
*"Tightening available retail spend. Stress on staff with mortgages"*  
*"Clients having to think hard before investing"*  
*"High interest rates stop people spending."*  
*"Higher mortgage payments by customers reduces their direct spending."*  
*"Not yet but rent may increase."*  
*"I have a large mortgage to service and so do many of my staff."*  
*"Slows redevelopment. Higher mortgage repayments."*  
*"People have less disposable income - becoming more careful about spending."*  
*"Makes difficulty in developing and growth within the company and product etc."*  
*"Not directly but a major concern. Already far too high and will eventually cause collapses, bankruptcies etc."*  
*"Overdraft rates now 13.7%. Home loan increasing spending on large items will reduce."*  
*"Reducing profit."*  
*"Cost of money is higher, wage increases more often asked for by staff."*  
*"Increased costs of overheads. Increased cost of living and operating."*  
*"Less confidence in real estate market"*  
*"Overdraft going up."*  
*"We have loans for the business."*  
*"Increase loan repayments."*

*"Higher finance costs."*  
*"Loan interests make overheads higher."*  
*"The price of our goods and transporting has gone up."*  
*"Slow down in work."*

Taranaki businesses were also asked about what measures - if any - they were taking in response to increasing interest rates. Many businesses felt there was little room to move, however some had initiated strategies such as reducing costs, trying to pay off debt faster, increasing prices, more aggressive selling campaigns and delaying investments. Detailed commentary is listed as follows:

*"We want to expand but interest rates have made it costly. Will delay a couple of years."*  
*"Automation & price increases."*  
*"Repay principle ASAP."*  
*"Increasing charge-out rate."*  
*"Yes - reduced spending where possible but this is difficult while trying to grow export markets."*  
*"Fixed rates."*  
*"Yes - special advertised."*  
*"Yes, looking at other alternatives within our shop such as fast food etc."*  
*"Trying to reduce borrowing."*  
*"Try and reduce overdraft."*  
*"No options really."*  
*"Not yet - trying to reduce debt."*  
*"Watch costs."*  
*"Fixing interest rates. Cutting costs - less customer service."*  
*"New lower priced range of products are being introduced into the market."*  
*"Promoting specials to maintain market share/presence."*  
*"Have cut back on spending to reduce the debt."*  
*"Yes - trying to get a bigger share of what discretionary spending is available."*  
*"Not much one can do."*  
*"Not yet but will have to increase prices."*  
*"Praying !! "*  
*"Specials, service, marketing."*  
*"Careful buying."*  
*"Have to cut back on expenditure to meet interest costs."*  
*"We will have to cut our margins to people interested in spending."*  
*"Set financial rates. Overdraft rates majority impacted."*  
*"Yes - borrowing less."*  
*"Hedging where possible."*  
*"Restrained by Govt regulations."*  
*"Try to stop spending."*  
*"Whatever we can !"*  
*"Frequent checking with bankers to negotiate best rates."*

## 11.0 CONCLUSIONS

The May/June 2007 survey highlighted the following results:

- In terms of the NZ economy, the majority of business respondents are anticipating the status quo will prevail (46.3%), 28.9% anticipate deterioration, whilst 22.1% expect improvement. Relative to the situation six months ago, there is a small shift away from those that believe the status quo will continue and a stronger belief that conditions will either improve or deteriorate.
- In terms of industry-specific conditions, the majority of respondents (57.4%) anticipate the economy will remain the same, 21.8% anticipate improvement whilst 19.1% predict a decline. In contrast with the outcome concerning general business conditions, businesses believe that industry-specific conditions are more likely to remain the same and there has been a corresponding decline in anticipated improvement and/or decline.
- The agriculture industry appear the most optimistic in relation to conditions within their own industry. Manufacturing, health, transport and retail are the most pessimistic/cautious in relation to the economic climate and potential impacts in the coming 12 months.
- Businesses based in South Taranaki appeared more optimistic regarding conditions in their own industry in the coming 12 months, as well as the New Zealand general economic climate.
- Businesses predominantly anticipate sales will remain the same over the next six months. A total of 31.7% anticipate sales will increase – a decrease from the Nov 2006 survey result. However the previous survey was undertaken prior to Christmas in a period of heightened retail sales and tourism activity.
- The majority of respondents (77.4%) anticipate employee numbers will remain the same, whilst 15.3% anticipate a need to increase employee numbers within their own businesses in the next six months. These outcomes are slightly down on the employment situation of six months ago.
- Businesses operating in the manufacturing sector, health and business/finance appear more likely to be taking on new staff, relative to other industries. However manufacturing businesses are also amongst those more likely to decline in employment numbers.
- The majority of businesses anticipate the corporate tax rate savings will be reinvested in their business. However many respondents added comment to the effect that much of this will be eroded by increasing costs in other areas - Kiwi Saver is mentioned by a number.
- The majority of respondents do not undertake research and development in their organisation, and do not believe the tax credit for R&D will lead to an increase in this type of activity within their firm.
- Factors of greatest concern to Taranaki businesses at present include:
  - Price of fuel
  - Government regulations
  - Wages/staff costs

- Electricity prices
  - Labour availability
  - Interest rates
- A total of 66.5% of respondents said the exchange rate is not significantly impacting on their business, however 33.5% state it is.
  - Exchange rate impacts and whether the current rate is perceived in a favourable light depends on the extent businesses are engaged in offshore activities and whether those activities are predominantly importing or exporting.
  - Businesses were asked whether they have instigated any counter measures in response to exchange rate impacts. Responses include hedging, cost reviews and buying/sourcing (off shore) stock/suppliers
  - A total of 33.3% of respondents think the Government should intervene in the exchange rate, but 66.7% disagree with intervention.
  - Businesses were asked what sorts of interventions are appropriate. Respondents are essentially against further interest rate increases, suggesting alternative possibilities e.g. tariffs, devaluing the dollar, reducing company tax rate, reduction in Government expenditure.
  - Taranaki businesses were asked about their views on the ideal range they would like to see the dollar fluctuate between. In terms of the USD, the majority of respondents favour .60-.70; the AUS/NZD: ideally .80-.90/95.
  - A total of 50.3% of businesses state that increasing interest rates are impacting on their business operations.
  - Interest rate increases are leading to increasing costs and/or decreasing profit margins e.g. cost of finance/loans, the reduced spending power of customers, wage rate pressures and potential increases in fixed costs such as rent.
  - Many businesses feel there is little room to move with respect to interest rate increases, however some have initiated strategies such as reducing costs, trying to pay off debt faster, increasing prices, implementing more aggressive selling campaigns and delaying investments.

# APPENDICES

## a. Disclaimer

All care and diligence has been taken in processing and analysing this report. However Venture Taranaki and its associated parties give no warranty that the information or data supplied contains no errors. Venture Taranaki and its associated parties shall not be liable for any loss or damage suffered by the customer consequent upon the use (direct or indirectly) of the information supplied in this report.

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## b. About this Report and Its Authorship

This business survey and analysis is an independent report commissioned by Venture Taranaki (Taranaki's regional development agency) and undertaken by Red Eye Limited. Red Eye Limited is a Specialist Projects and Research Company, based in Taranaki.

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