

Wellington Businesses Growing more Confident

January 2007

The mood of Wellington businesses continues to lift according to the Chamber's latest quarterly business confidence survey. This is despite signs of continuing labour shortages, the high dollar and the threat of looming interest rate rises.

A net 47% of respondents anticipate their own business situation will improve over the next six months (58% think it will improve against 11% expecting it to deteriorate). This figure has steadily increased over the last 12 months and is now at its highest level since February 2005. This reflects the economy's emergence from the slowdown and because it is a good indicator of impending economic activity it bodes well for economic growth in the region.

As well as the improvement in own-activity expectations, there is a lift in general business confidence. For the first time in at least two years there are more people expecting the national economy to improve than there are expecting it to deteriorate.

The survey was taken just following the Reserve Bank decision not to increase interest rates. This might explain some of the buoyancy but the suggestion that they are likely to go up at the next review in March may have offset some of that.

The improved optimism is reflected in robust investment intentions with 33.3% of businesses expecting to make a "major" investment in plant or equipment over the next 12 months compared with 30.6% last time.

Employment intentions are up slightly on the last survey too – particularly for part-timers. A net 27% of respondents expect to increase employee numbers in the next three months. Increased employment and investment intentions bode well for the region's economy looking ahead.

A shortage of labour featured heavily amongst respondents' list of concerns and the survey showed no signs of a let-up in the tightness of the labour market. 51% of respondents find it harder to find skilled staff than they did three months ago compared with 4% who are finding it easier.

One area where confidence is weakening is the export sector but even here it is not all bad news with only 4% of exporters expecting their export earnings to deteriorate over the next 12 months compared with 33% expecting an improvement. Notwithstanding this, the net figure of 29% is significantly lower than the 55% taken at the last

survey. This figure has been steadily deteriorating and is now at its lowest level in two years.

This fall in confidence amongst exporters is not surprising given the strength of the New Zealand dollar and the fact that it has gone against widespread expectations of a significant depreciation by this time.

This quarter's survey probed businesses' opinions on the New Zealand dollar and in particular the way the Reserve Bank conducts its monetary policy. Twenty seven percent of respondents believed the high dollar was having a negative impact on their business and the economy while 49% believed the level of interest rates was having a negative impact. It is perhaps not surprising that a greater proportion are concerned about interest rates but the 27% who are feeling the pain of the dollar is significant when compared with the 20% of Wellington businesses which export.

39% of respondents said they were not happy with the way the Reserve Bank conducted monetary policy in New Zealand but there were few suggestions offered as improvements. It is significant that 23% believe the government has more of a role to play in reining in inflation vis a vis the Reserve Bank.

Reserve Bank Governor Alan Bollard will be addressing the Momentum Breakfast on 15 March. He will use this opportunity to discuss some of the alternative and supplementary mechanisms which have been floated to assist the Bank in its goal of constraining inflation, and what else needs to be done to ensure monetary policy does not share the entire burden here.

Results for Business Confidence Survey - Jan-07

Trend Analysis



