

Business Confidence Plunges as Interest Rates Rise

April 2007

Business confidence took a plunge in April following the second of two successive rises in interest rates according to the Wellington Regional Chamber of Commerce's latest Quarterly Business Confidence Survey. The fall in confidence points to a slowdown in economic activity looking ahead.

Confidence in the region had been steadily increasing from about the middle of last year and the previous quarterly survey, taken in January, recorded the highest level of confidence since the beginning of 2005. That was before two successive hikes in the Official Cash Rate (OCR) by the Reserve Bank and a consequential rise in the value of the New Zealand dollar. Against the US, the New Zealand dollar is 9% higher than it was only two months ago and 7% higher than it was at the time of the last survey.

The first of the OCR increases, in early March, was widely expected. The second, in late April, was a surprise to many and the results of the survey, which was taken just following it, were undoubtedly influenced by it.

The survey showed a net 21% of respondents anticipate their own business situation will improve over the next six months (45% think it will improve against 24% expecting it to deteriorate). This represents a significant fall from a net 47% in January and is the lowest score since this survey began.

In addition to the deterioration in own-activity expectations, there was an even more dramatic fall in respondents' expectations of the state of the national economy. In the January survey 73% of businesses thought the national economic climate was settling or getting better, but that has since halved to 37%.

Consistent with the more pessimistic mood, investment intentions are lower. Only 23% of respondents are expecting to make a major investment in plant or equipment over the next 12 months. This is down from 33% in the last quarter. Employment intentions are also subdued. A net 24% of respondents expect to increase full time staff over the next three months down from 27% last time.

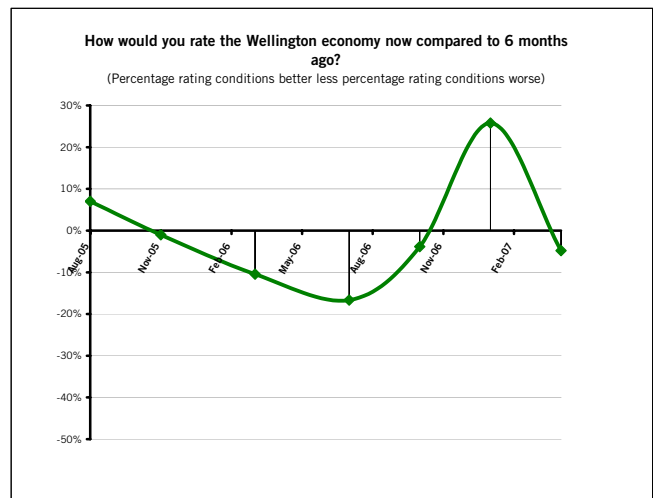
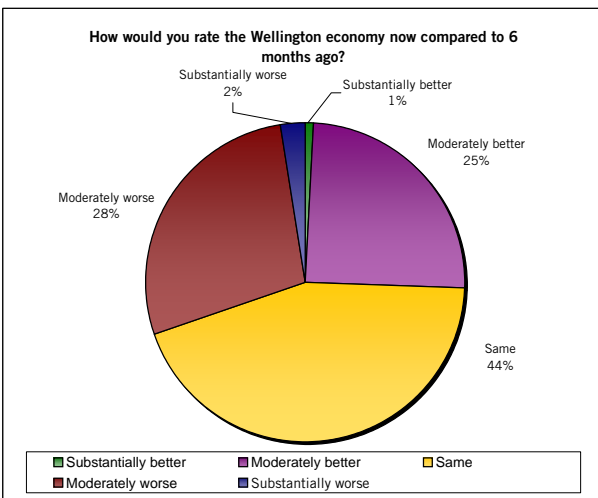
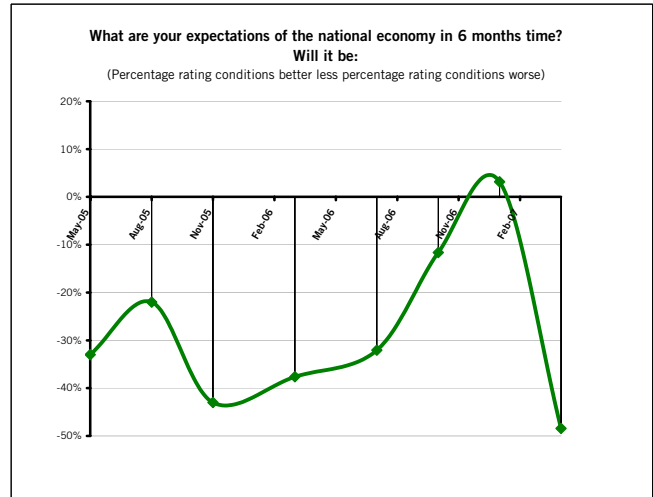
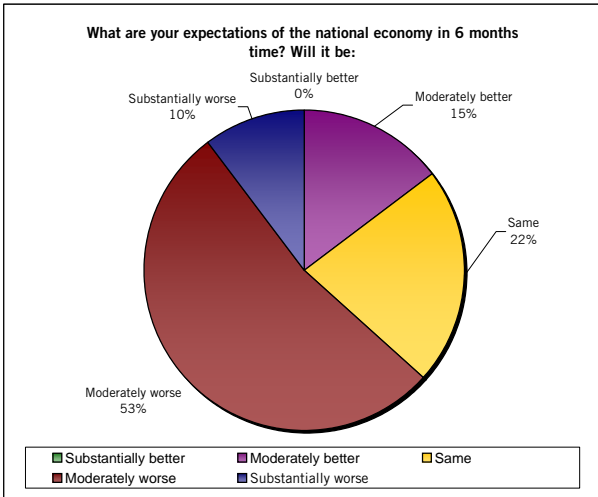
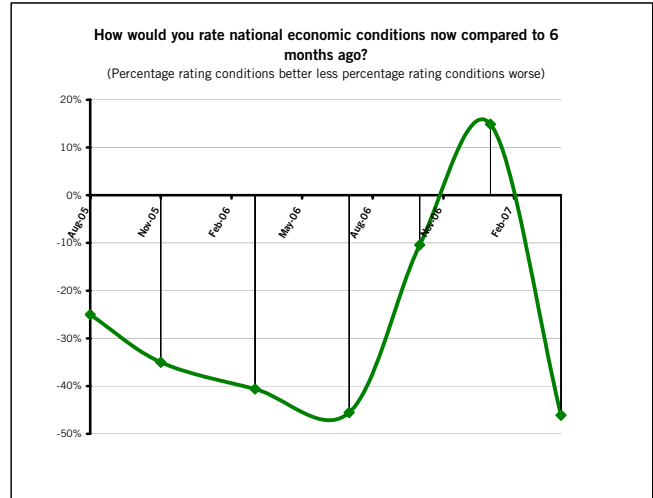
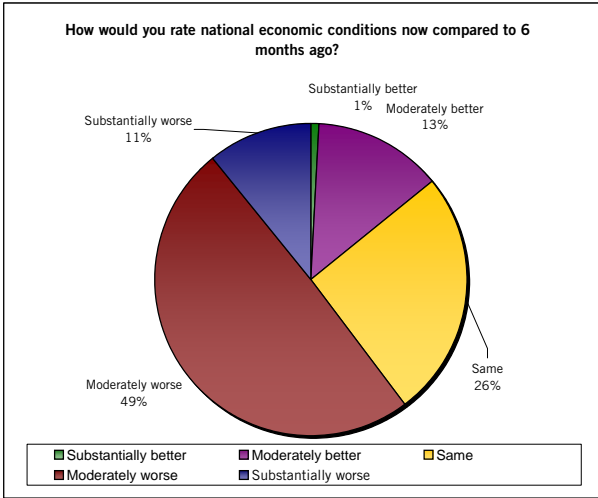
Reflecting the rising dollar, confidence in the export sector has been steadily declining since the middle of last year. The decline was repeated in this quarter with a fall from a net 29% expecting an improvement in export earnings in January to a net 6% expecting an improvement in April. This net figure is still positive, which is encouraging, but it is significant that it is at its lowest level since our survey began.

Not surprisingly, interest and exchange rates featured heavily amongst respondents' lists of concerns. Another issue that featured heavily in the list was a shortage of labour. It would appear that things are likely to continue to worsen on this front with 55% of respondents finding it harder to find skilled staff than they did three months ago compared with 2% who are finding it easier.

The falls in all of these indicators are all substantial and they suggest that the Reserve Bank's monetary policy may at last be starting to bite. After a year of threats but no action by the Bank, the two successive 0.25 percentage point increases - combined with rises in retail banks' fixed interest lending rates and the dollar approaching post-float highs - may have had the dampening effect on confidence that the Bank seems to think necessary. It remains to be seen what the impact is on consumer confidence which, as a main driver of inflation currently, is more of a focus for the Bank.

Results for Business Confidence Survey - Apr-07

Trend Analysis



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