

Wellington Regional Chamber of Commerce - Quarterly Business Confidence Survey

October 2008 - Confidence Falls as Financial Crisis Deepens

In the midst of financial turmoil, the latest Wellington Regional Chamber of Commerce survey has recorded a sharp drop in business confidence. For the first time since our survey began there are more businesses expecting their situation to worsen over the next six months than to improve. The result is unsurprising given the relentless bad financial news over the last three weeks.

Access to credit is becoming a major factor for businesses. Taken during the week ending 17 October, our survey shows 15% of Wellington businesses experienced increased difficulty getting credit in the last month.

At the other end, businesses are getting squeezed as households are spending less - spooked by falling house prices and tighter credit. This is evident from our survey which shows an increasing number of respondents reporting slower sales as an issue of concern.

The survey also shows signs that the labour market has turned. There are more businesses expecting a reduction in their employee numbers than an increase for the first time in at least two years (since we started asking the question in the survey.) Notwithstanding this, there are still a large number of businesses citing skill shortages and difficulty recruiting staff as areas of concern.

It is significant that in response to a one-off question this time round – “Are you likely to reduce the number of staff you currently employ in the coming months?”, 24% of respondents said yes.

Investment intentions are low with 19% of respondents expecting to make a major investment in next 12 months.

Paradoxically an increasing number of respondents are expecting the economy to improve compared with our last survey three months ago. Perhaps this is due to a feeling that things can't get much worse. When it comes to their own prospects, however, there is unprecedented pessimism with a net 4% of businesses expecting a deterioration compared with a net 20% of businesses expecting an improvement last time.

Looking ahead, we think the New Zealand economy is relatively well placed to withstand the storm with a robust economy, a sound fiscal position and well-capitalised banks.

There are a number of other reasons for optimism. Tax cuts and falling fuel prices have come at a good time. With higher interest rates than other countries, there is more leeway for reductions in New Zealand. The Reserve Bank is expected to cut the OCR by between 0.75 and one percentage point later this week (although this could be against a backdrop of rising international wholesale rates).

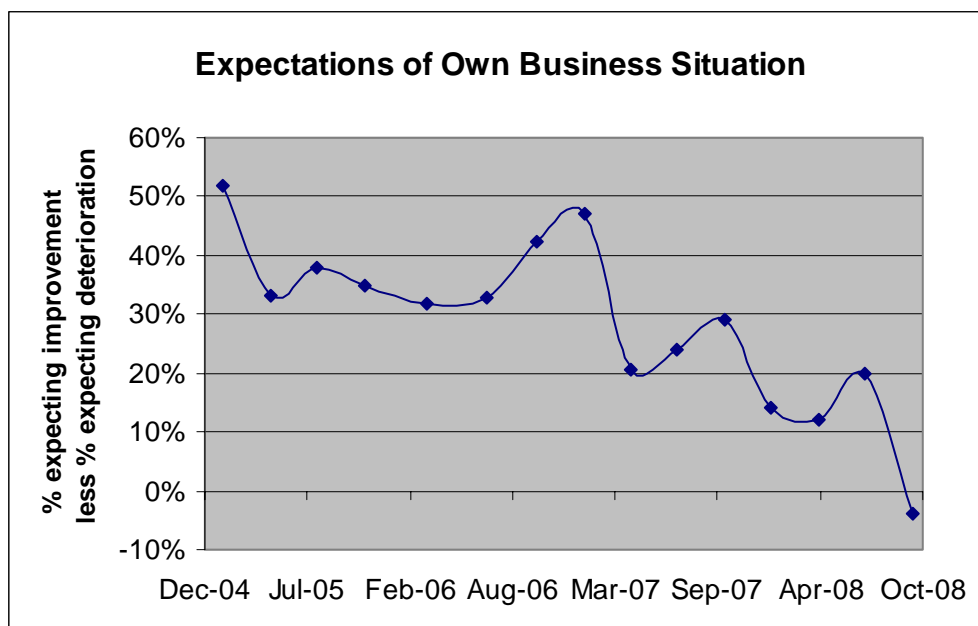
The falling New Zealand dollar will provide some assistance to exporters which may explain why confidence among exporters has not fallen so much with 53% expecting their earnings to improve.

The fact that New Zealand houses are not as overvalued as they are in many other parts of the world will also work to our advantage.

Wellington may also be relatively sheltered due to the predominance of the government and the fact that the government sector is less susceptible to credit constraints.

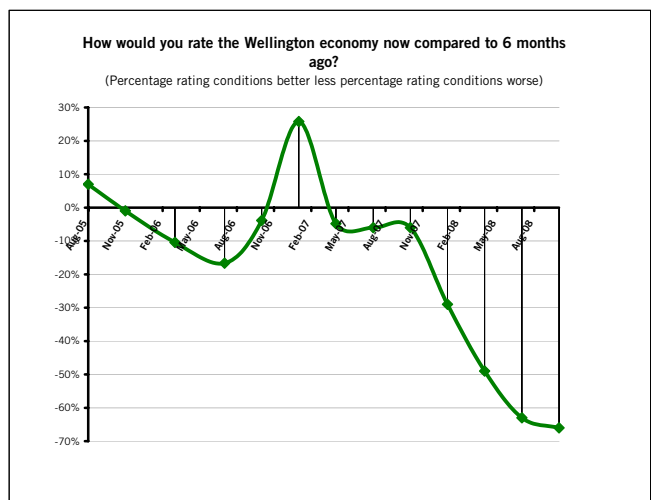
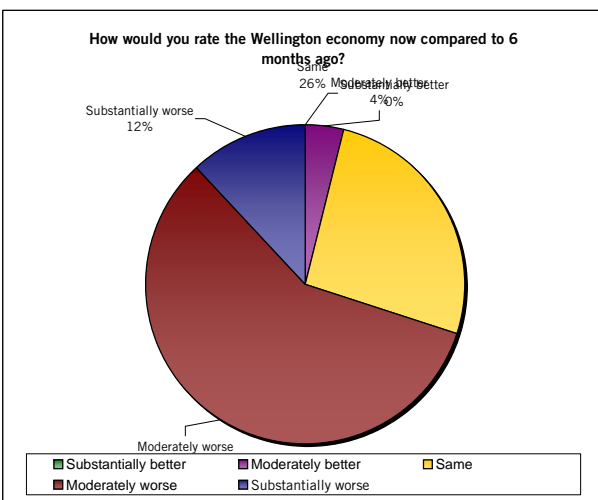
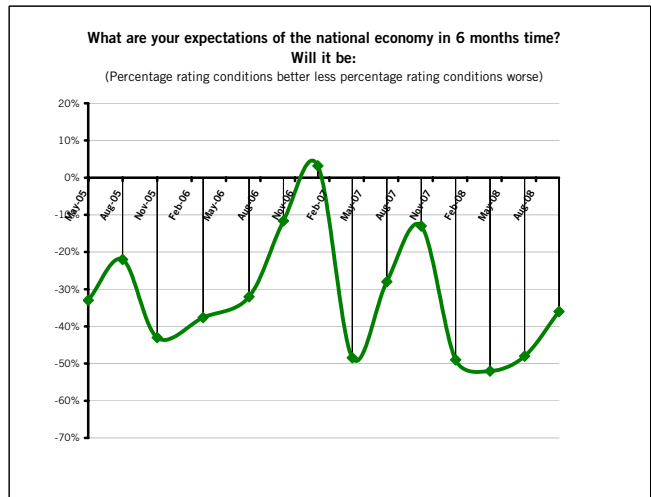
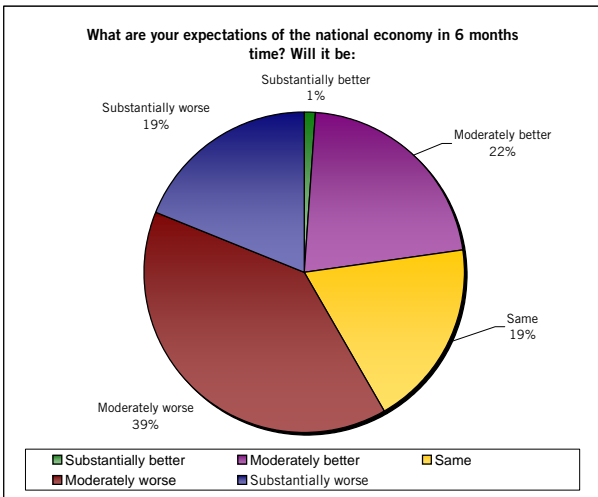
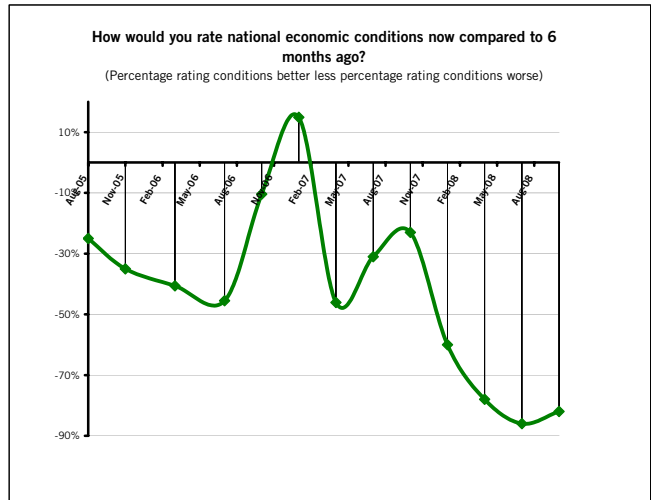
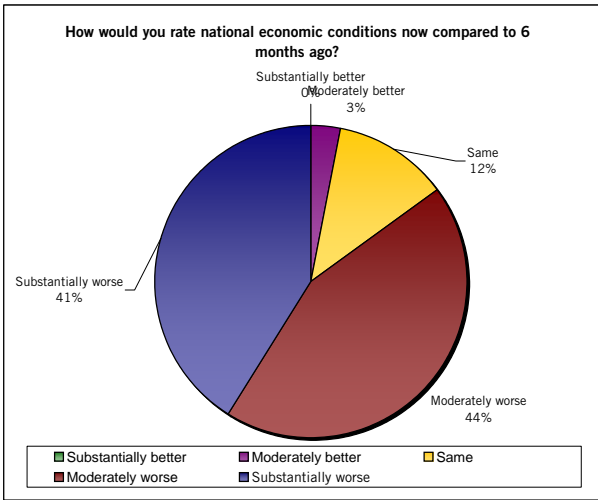
It may also benefit from an upturn in inward migration if more New Zealanders return home as a result of the financial instability offshore.

Our survey suggests businesses are more confident about the prospects for Wellington than the country as a whole.



Results for Business Confidence Survey - Oct-08

Trend Analysis



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