MYOB BUSINESS MONITOR ECONOMIC REPORT

THE VOICE OF NEW ZEALAND BUSINESS OWNERS | July 2012

MYOB Business Monitor | Executive Summary

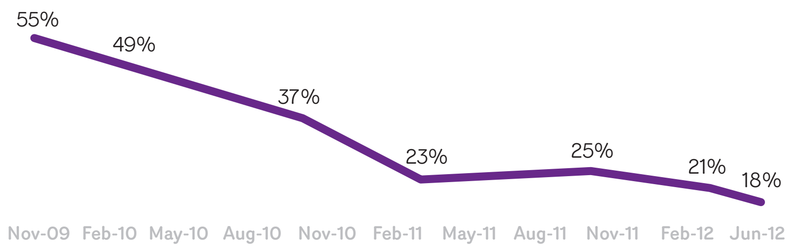
New Zealand's economic recovery remains uneven, with Auckland reporting strong revenue growth while the rest of the country struggles. Nationally, small businesses have downgraded their revenue expectations, with just 36% of businesses expected to increase their revenue over the coming year, compared to 42% in the April MYOB Business Monitor.

These results come after a difficult year for most small businesses, in which the Auckland and Wellington regions were the only areas to see significant growth, while growth in the other main centres stalled and businesses in regional New Zealand continued to struggle.

Over the last 12 months, a net 11% of Auckland businesses have seen their revenues increase, the second of two consecutive quarters of net positive revenue growth – a first since the recession began. Wellington reported a net 16% increase in revenue, while Christchurch saw a net 12% fall in revenue over the last year.

Outside the main centres, there was little sign of any sustained recovery, with a net 6% of businesses in the regions reporting a loss in revenue over the last year. Given that 46% percent of small businesses are located outside the main centres, this represents a significant drag on the economy's overall performance.

BUSINESSES EXPECTING IMPROVEMENT IN ECONOMY WITHIN THE NEXT 12 MONTHS



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Looking to the year ahead, Auckland businesses are most optimistic, with a net 36% expecting their revenue to increase over the next 12 months, compared to 33% in Christchurch and 25% in Wellington. In the regions, only a net 8% expected revenue growth in the year ahead, a fall from 25% in April.

New Zealand's small businesses are also pessimistic about the chances of a short-term economic recovery. Only 18% expect an economic recovery in the next 12 months.

By region, expectations reflect the diverse challenges for businesses in different areas of the country. In Christchurch, despite downgrading their own revenue expectations, businesses are the most optimistic about a short-term economic recovery, with 25% expecting a recovery in the next 12 months, encouraged by the promise of the Canterbury rebuild. Despite its strong growth figures, Auckland was less sure of a recovery, with just 17% of businesses in the major trading centre expecting a recovery, amidst ongoing concerns about volatility in the international economy. In Wellington, where government sector investment is tightly managed, just 14% expected a short-term recovery.

Looking at sales pipeline expectations over the next 3 months, Canterbury businesses report the highest growth in the country, with a net 17% of business reporting more work in their pipeline than usual, as the earthquake rebuild starts to deliver long awaited economic stimulus to the region. Despite a decline in economic confidence, Auckland based businesses are reporting solid pipeline growth over the coming quarter with a net 13% forecasting growth.

Businesses in the regions continue to battle more challenging trading conditions with a net 3% expecting more work on in the next 3 months. Wellington's recent growth looks set to end with a net 1% of businesses expecting less work on than normal – impacted by Government spending sentiment.

PIPELINE SALES PERFORMANCE BY REGION JUNE 2011 – MAY 2012

Northland -19%	Wellington -1%
Auckland 13%	Waikato 14%
Bay of Plenty 1%	Hawkes Bay -31%
Manawatu-Wanganui 3%	Christchurch/Canterbury 17%
Taranaki 10%	Otago/Southland 17%

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By Region

Outside the three main metro centres, businesses in Otago and Southland performed well with a net 9% gain in revenue, followed by a net 5% gain in revenue in Taranaki. However, small businesses in other regions continue to report challenging trading, with a net 18% of businesses reporting lower revenues in the Manawatu, a net 16% decline in the Waikato, a net 13% decline in Hawkes Bay and a net 9% decline in revenue in the Bay of Plenty.

Looking to the year ahead, several regions were more optimistic that their performance would improve over the coming year, with a net 21% of businesses in Otago/Southland expecting revenue to increase, followed by a net 12% in Taranaki and a net 10% in the Waikato. Only Northland (9%), Hawkes Bay (8%) and the Manawatu (11%) expected a net revenue loss over the next year.

Businesses in metropolitan areas were also far more likely to be optimistic about the chances of economic recovery than their more rural counterparts. 23% of businesses in the cities expect to see their revenue rise, compared to a net 1% of rural businesses who expect their revenues to fall over the next 12 months.

NET REVENUE PERFORMANCE BY REGION JUNE 2011 – MAY 2012

Northland 1%	Wellington 16%
Auckland 11%	Waikato -16%
Bay of Plenty -9%	Hawkes Bay -13%
Manawatu -18%	Christchurch/Canterbury -12%
Taranaki 5%	Otago/Southland 9%

By Sector

Many of the country's major sectors are still under considerable pressure. The agriculture and fishing sector as well as the hospitality and retail sector both reported a net 7% fall in revenue over the last year. The transport and warehousing sector also reported a net 7% fall.

Business was especially hard for the construction and trade sector, which was reporting a net 14% fall in revenue over the last year, despite the benefits of the Christchurch rebuild.

Although the construction sector is still in the doldrums, the property and business services sector experienced relatively strong growth, reporting a net 11% increase in revenue – the strongest performance of any sector. The increase in property sales has clearly not yet translated into demand for new buildings, especially with much of the construction industry being focused on the South Island and the opportunities associated with the Christchurch rebuild.

The other bright spot over the last year was the manufacturing and warehousing sector, which saw a net 4% increase in revenue.

Looking to the year ahead, finance and insurance emerged as the most optimistic sector, with a net 44% expecting revenue growth in the next 12 months.

Buoyed by their positive results this year, the property and business services sector is also expecting a strong performance, with a net 29% expecting a rise in revenue in the next 12 months. The construction and trade sector expects that rising demand for buildings and homes will flow on and benefit them as well, with a net 19% forecasting revenue increases over the next year.

Manufacturing and wholesale businesses are expecting a good year, with a net 31% looking forward to revenue growth.

Less optimistic is the agriculture and forestry sector, with a net 3% expecting revenue losses over the next 12 months. This came despite high commodity prices on international markets – a sign that New Zealand's primary sector is still very concerned about the potential impact of volatile international conditions.

Part of the explanation for poor economic performance by New Zealand's regional businesses lies in the net 7% loss in revenue experienced by exporters over the last year. A net 5% expected revenue losses to continue over the next 12 months.

By Size of Business

Over the last 12 months, larger businesses have performed better throughout the country than smaller businesses. Medium enterprises, those businesses with between 20-199 employees, recorded a net 27% increase in revenue over the last year. By contrast, sole traders and micro-businesses, those businesses who employ between 1 and 5 employees, had seen a net revenue increase of just 1%.

Small businesses, employing between 6 and 19 people, suffered the worst performance over the last 12 months, with a net 13% experiencing revenue losses.

However, in Auckland, where economic performance was better than the rest of the country, smaller businesses were performing far better. A net 15% of sole traders in the region experienced revenue growth compared to just 1% nationwide. This points to the vital role that smaller businesses play in the economy and suggests that more sustained growth will only come when our smaller businesses are experiencing better returns.

Encouragingly, smaller businesses are expecting their revenue to increase over the next 12 months, with a net 22% of sole traders expecting an increase in revenue as well as a net 15% of micro-businesses expecting revenue growth. Medium enterprises expect to continue their strong performance with a net 31% expecting revenue growth in the coming year.

Employers report higher sales pipeline growth over the next 3 months, with 11% of micro-employers, 12% of small business employers and 20% of medium sized employers reporting more work on than usual. Nationally, sole traders are reporting a net 5% growth in their sales pipeline over the coming quarter.

By Age of Business

Younger businesses tended to perform better than more established ones in difficult economic circumstances, with a net 4% of start-ups and a net 17% of businesses operating for between 2 and 5 years reporting growth in revenue over the last 12 months, compared to a net 11% of businesses that have been established for more than 10 years reporting a loss. A net 2% of businesses operating for between 5 and 10 years were reporting revenue growth in the last year.

Over the year ahead, newer businesses expected this trend to continue, with a net 43% of start-ups expecting to see their revenue increase over the next 12 months, as well as a net 23% of businesses operating for between 2 and 5 years. More established businesses were not as optimistic, with just 8% expecting their revenue to increase.

What is Placing Pressure on New Zealand Businesses

Fuel Prices again emerged as the key pressure facing New Zealand businesses, with 36% of businesses reporting it placed either “quite a lot of pressure” or “extreme pressure” on their business. Hardest hit by this pressure was the transporting and warehousing sector, with a full 40% saying fuel prices were placing an “extreme pressure” on their business, 27% more than any other business. With the transport and warehousing sector struggling over the last 12 months, the role that pressures from fuel prices have played cannot be overstated.

Another key pressure for New Zealand businesses was competitive activity, as low levels of economic growth saw businesses competing more for their share. 27% of businesses in New Zealand cited competition as placing either “quite a lot” or “extreme” pressure on their business. The sector feeling the biggest squeeze from competitive activity was the retail and hospitality sector, with 13% describing it as placing “extreme pressure” on their business.

Not surprisingly, given rising costs and increased competition, prices and profit margins were the other key pressures, with 27% reporting significant pressure.

TOP 5 PRESSURES ON NEW ZEALAND BUSINESS JUNE 2011 – MAY 2012

1. Fuel Prices	2. Competitive Activity	3. Price Margins and Profitability	4. Cashflow	5. Attracting New Customers (NEW)
36%	27%	26%	25%	25%

CITED AS KEY PRESSURES

Where New Zealand Businesses Plan to Invest

With competition a key pressure, New Zealand's businesses are focused on protecting their existing customer base, with 39% planning to increase the amount they spend on customer retention strategies over the next 12 months. Only 29% of businesses plan to increase the amount they spent on acquiring new customers.

The prospect of rapid growth in New Zealand's job market seems unlikely as only 9% of businesses planned to increase their number of full-time staff over the coming year, and 17% planned to increase the number of part-time or casual staff.

A modest increase in pay rates could be on the horizon though, with 20% of employers planning to increase staff wages in the year ahead.

However, New Zealand consumers could have to deal with price rises over the coming year, as 24% of businesses planned to increase their prices and margins, in response to pressure on their bottom line from rising costs.

More New Zealand businesses also planned to invest in getting their business online, with 22% planning on increasing the amount of money they spend advertising their business online.

WHERE KIWI BUSINESSES PLAN TO INVEST JUNE 2011 - MAY 2012

1. Customer retention strategies 39%
2. Acquiring new customers 29%
3. Number or variety of products or services offered 25%
4. Prices and margins on products/services sold 24%
5. The sale of products/services online 23%

E-COMMERCE TRENDS PROFIT INVESTMENT PRODUCTS FINANCE PITCH ADVERTISING SALES PERFORMANCE INDEX COMPLIANCE $MARKETING MANAGEMENT SECURITY POLICY WEBSITE ACCOUNT ENTREPRENEURSHIP REPORT

About the Study

The MYOB Business Monitor is designed to research key areas of business performance, including profitability, cashflow and pipeline work, as well as business confidence and satisfaction in the support of Government.

This report presents the summary findings for key indicators from the MYOB Business Monitor comprising a national sample of **1,005** business owners, managers and directors (operators), conducted in May and compiled in June 2012.

The businesses participating in the online survey are defined as both non-employing and employing businesses with zero employees ('sole traders'), 1-4 employees ('micro-businesses'), 5-19 employees ('small businesses') and 20-199 employees ('medium businesses'). Industries have been grouped for the purposes of providing meaningful results based upon sample segments of reasonable size, and with a lower margin of error.

(The business weightings in this report are in line with Statistics New Zealand: New Zealand Business Demography Statistics: At February 2010: ISSN 1174-1988.)

This research report was prepared by Gundabluey Research and fieldwork was completed by Colmar Brunton (a Millward Brown Company) for Julian Smith, General Manager – New Zealand, MYOB NZ Limited julian.smith@myob.com | www.myob.co.nz

Industry, Location and Business Size Sample Segments

The sample segments in this MYOB Business Monitor have been reweighted to reflect their actual proportions of all GST registered businesses in New Zealand.

Industry	Weighting	05/12	03/12	09/11
Agriculture	15%	82	87	110
Manufacturing and Wholesale	8%	68	101	72
Construction and Trades	11%	140	168	139
Transport and Warehousing*	3%	45	39	34
Finance and Insurance*	6%	31	30	48
Professional and Business Services	34%	291	276	272
Retail and Hospitality	9%	119	106	113
Other Industries** (included in total results)	14%	229	193	216
Total	**100%**	**1,005**	**1,000**	**1,004**

(Caveat: There is high margin of error of +/-15% @ 20% on this small base. Also note that the Finance & Insurance sectors and the Professional & Business Services sectors usually have very similar responses to questions.)*

*(**Other Industries, which have been combined to minimise their margin of error, include these sectors: Communication Services; Cultural & Recreational Services; Education; Electricity, Gas & Water Supply Services; Health & Community Services; Mining; and Personal & Other Services.)*

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The results of the responses from each of the areas of New Zealand have been reweighted to match population by location.

Location	Weighting	05/12	03/12	09/11
Auckland	31%	394	375	353
Wellington	10%	106	88	103
Canterbury	13%	93	118	110
Rest of New Zealand	46%	412	419	438
Total	**100%**	**1,005**	**1,000**	**1,004**

The segments by business size (number of employees in the business) have been reweighted to their exact present proportions of all GST registered businesses in New Zealand, as below:

Number of Employees/Business Type	Weighting	05/12	03/12	09/11
0 Employees/Sole Traders	69%	617	599	596
1-4 Employees/Micro Business	21%	246	257	270
5-19 Employees/Small Business	7%	92	116	102
20-199 Employees/Medium Business	3%	50	28*	36
0-199 Employees/ Sole, Micro, Small, Medium Businesses	**100%**	**1,005**	**1,000**	**1,004**

(Caveat: There is high margin of error of +/-15% @ 20% on this small base in 2012. For this reason, results for medium businesses are only reported as significant if they are above or below this margin of error in relation to other businesses by size.)*

E-COMMERCE FINANCE PITCH TRENDS ADVERTISING SALES $ MARKETING PROFIT PERFORMANCE INDEX MANAGEMENT SECURITY INVESTMENT COMPLIANCE POLICY PRODUCTS WEBSITE ACCOUNT ENTREPRENEURSHIP REPORT

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