



Let's Talk About Business Confidence

For months now the media has been full of stories about plunging business confidence. So, what is business confidence, how is it measured and how does it relate to small businesses?

Business confidence is, as its name suggests, a measure of how confident business owners feel about their businesses. In the words of one of my most successful clients' "business runs on one thing...enthusiasm". The more confident you are, the more enthusiastic you become.

At regular intervals different economists send short surveys to a selected cross section of businesses throughout the country. The purpose of the surveys is to give the economists an overall insight into how business owners feel about their businesses and gauge what their plans are for the coming 12 months.

The economists publish their finding from those surveys, and these are interpreted by a variety of the country's decision makers and can become the basis for government and central bank policy.

Business confidence is now at its lowest point since the Global Financial Crisis. Why is this?

At a national level, we can look to the continued and deepening trade war between the US and China causing a lack of confidence as exporting businesses see disruptions to their markets. Remember that our region produces a lot of goods for export.

At a local business level, we have seen rising costs being absorbed by many businesses who face strong customer resistance to price increases. For most, the sharpest rise has come from wages with the minimum wage being progressively increased over the past 2 years. And there is more to come - the Government will increase the minimum wage from \$17.70 to \$18.90 an hour on 1 April 2020, and to \$20 an hour the following year.

The nature of business is that for most, decisions are made reactively. If the economy slows businesses can't shed staff or end leases overnight and vice versa when economic activity is strong there is often a shortage of business premises and staff.



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To help smooth out the bumps, the Reserve Bank will look at its policy. We have seen in recent times a lowering of the Official Cash Rate, which has a flow on effect to the interest rates banks charge their customers. Once again, for many the effect will be reactive given they have fixed term borrowing. The Reserve Bank also can make things easier or harder for banks to lend money.

Government will also interpret the survey findings and look at ways they can stimulate or tighten the economy.

My current reading suggests that while things are slowing down there are some large-scale Government projects due to start that will help boost the economy. In this region we can relate to the Manawatu-Tararua Highway project.

There is repeated talk of a recession but not a depression. In economists' terms a recession is two successive quarters of negative economic growth. Bear in mind this may be point one of a percent. On the other hand, a depression is commonly defined as "a more severe version of a recession".

I believe the surveys are good to read but we should always be wary as they are often over sensationalised by the media. I would strongly recommend to any business owner that if you are invited (by a reputable economist) to participate in the survey that you do so.

The key piece of advice I give any businessperson remains that much of your success will depend on the level of enthusiasm you have for your business.

By Bill Taylor. *Bill is an accountant with MCI & Associates and local businessman. He has extensive practical experience in accounting and business, with a particular interest in taxation. He participates in many community activities and is on the Dannevirke High School Board of Trustees and the Scanpower Customer Trust.*

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