

Waikato Regional Business Sentiment Survey April 2024

Executive Summary

We surveyed the Waikato region about the economic challenges facing businesses

Our April 2024 Waikato Business Sentiment Survey results reflect a more positive outlook than might have been expected given the tough economic conditions facing local businesses. While overall confidence levels are down, our region's businesses are maintaining a level of pragmatic optimism, with 43% stating confidence in their own business performance and 48% expecting the Waikato regional economy to improve over the next 12 months.

Business priorities are largely consistent with previous surveys, with concerns about cost pressures, political uncertainty, ongoing skills shortages, and core infrastructure (roads, health, housing) continuing to dominate. Managing climate change risk is not yet a priority for the majority of Waikato businesses surveyed, likely reflecting a focus on more immediate issues and opportunities in a challenging business environment. However, the Primary sector and Māori businesses are leading the way in taking active measures to manage the risks of climate change on their businesses.

Results were mixed at a district and sector level, with confidence levels most negatively impacted for Māori businesses, those operating in the Waitomo, Waipā, Waikato and Ōtorohanga districts, and those in the Retail, Manufacturing, and Construction industries. Most confident in their business prospects were business in the Technology and Professional Services sectors.

Confidence and performance measures are down

- Respondents' net confidence in their own business remains positive but declined slightly from +9 in November 2023 (immediately post election) to +6 in April 2024. Of those surveyed, 43% are extremely (8%) or fairly (35%) confident about their business prospects over the next year, compared to 37% being fairly (30%) or extremely (7%) worried. Views on the outlook for the Waikato region and national economy have also declined but remain net positive overall (+5 for the national economy, +30 for the Waikato regional economy).
- Pressure on business profitability has increased, with 41% of businesses reporting a decrease in profit in the past year (compared to 35% in the Nov-23 survey). Profit expectations remain generally positive however, with 73% of businesses surveyed expecting to increase (44%) or maintain (29%) profit levels in the next 12 months. Growth intentions have increased, with 57% seeking to grow over the next 12 months.

Business priorities are consistent and clear

- Views on key challenges facing the New Zealand economy and barriers to business growth are largely unchanged from the previous survey: cost pressures (cost of living, interest and inflation rates, wage costs, costs of capital), skills shortages, political uncertainty, and housing affordability continue to top the list.
- Waikato business priorities for regional infrastructure investment are also consistent with previous surveys: roads (57%), health infrastructure (50%), affordable housing (48%) and renewable energy (21%).
- For this survey we asked the business community about how regional infrastructure investment should be funded. There was relatively strong support for a range of alternative funding tools including public-private partnerships (50%), development contributions (44%), and user pays models such as metering and tolling (44%).

Key points for decisionmakers

The resilience and diversity of Waikato businesses to economic challenges continues to show in these survey results, with challenging results for businesses that are facing more difficult headwinds being offset with stronger performances by businesses in others sectors and districts.

The Waikato business community will be looking to political decisionmakers at central and local government levels to implement policies that will make a tangible difference to the cost pressures they are facing, address ongoing skills shortages in key sectors, and address persistent local infrastructure deficits.

Waikato Regional Business Sentiment Survey April 2024

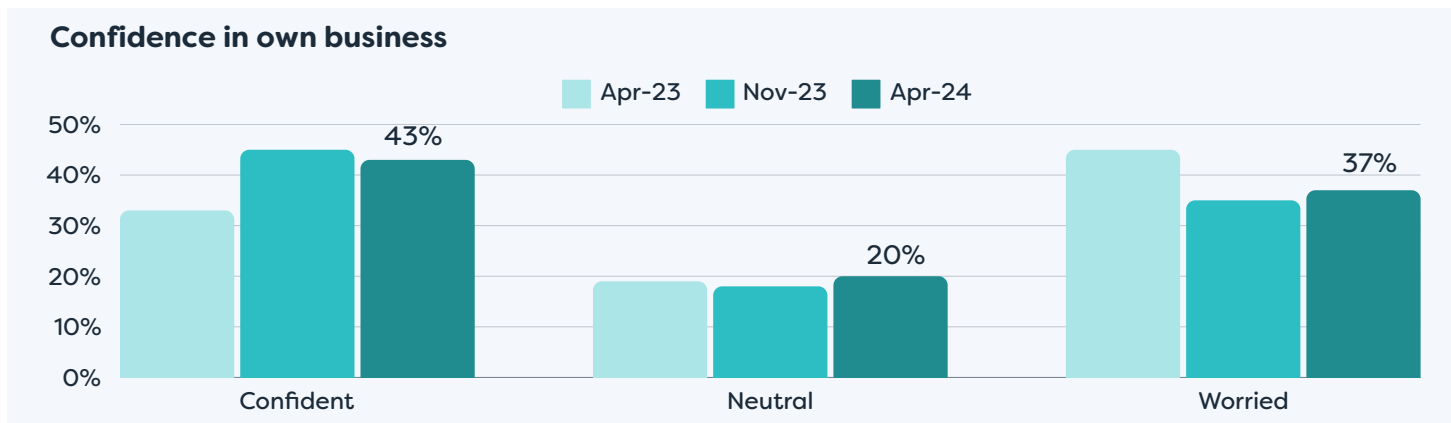
Business Confidence

Business net confidence has declined slightly from +9 in Nov-23 (immediately post election) to +6 in Apr-24. Net confidence fell particularly strongly for Māori businesses from +25 to -12, and was most negative for businesses operating in the Retail sector (-29) reflecting pressures on discretionary spending in a challenging economic environment. The Technology sector showed the strongest net confidence at +29.

At a sub-regional level, confidence is highest for businesses operating in South Waikato (+10), Thames-Coromandel (+6) and Hamilton (+5), and lowest in the Waitomo (-13), Waipā (-11) and Waikato (-8) districts.

The relatively stable overall confidence scores reflect the resilience and diversity of the Waikato economy - while some sectors and Districts are facing headwinds, others are seeing positive opportunities ahead.

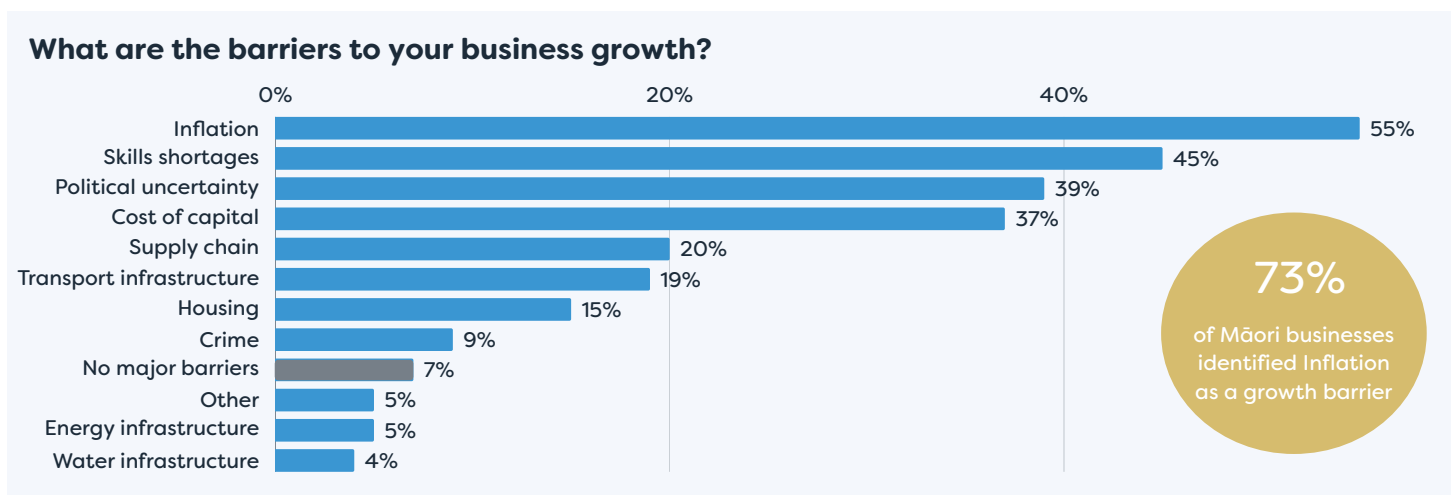
Note: Net Confidence is calculated by subtracting “worried” responses from “confident”



Business Barriers to Growth

Inflation, Skills Shortages and Political Uncertainty remain the top three most cited barriers to growth for Waikato businesses. The Inflation challenge is felt most keenly by Māori businesses (73%). Skills Shortages rate most highly in the South Waikato District (51%) and in the Manufacturing, Construction and Primary industries (all above 60%).

We separated out infrastructure types in this survey, which identified the significance of Transport Infrastructure as a key growth barrier, cited by nearly 1 in 5 Waikato businesses. Housing is most likely to be cited as a barrier to growth by businesses operating in Thames-Coromandel (27%) and least likely by those in Waipā (9%).

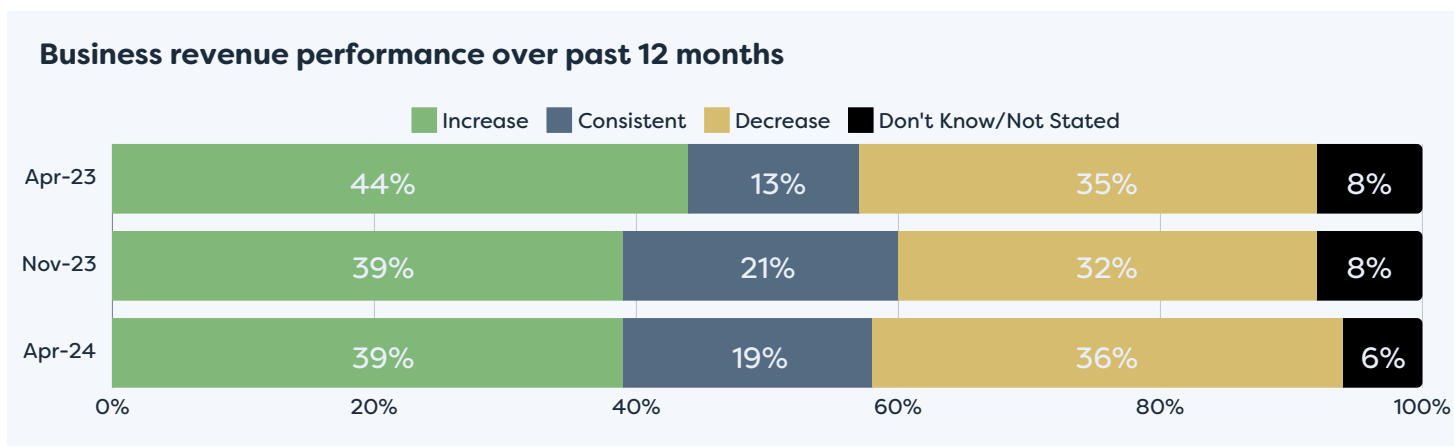


Business Performance - Revenue & Profitability

In line with the minor decline in business confidence levels, Waikato business revenue performance over the past 12 months has deteriorated slightly, with a small increase in the proportion of businesses reporting a revenue decrease (36%, up from 32%).

Māori businesses and those operating in the Matamata-Piako District were most likely to report a revenue decline (42% and 40% respectively). More than 40% of businesses in the Manufacturing, Primary, Retail and Construction sectors reported revenue declines. This is consistent with broader economic reporting on these industries, including the impact of commodity prices on the Primary sector and associated industries such as Manufacturing.

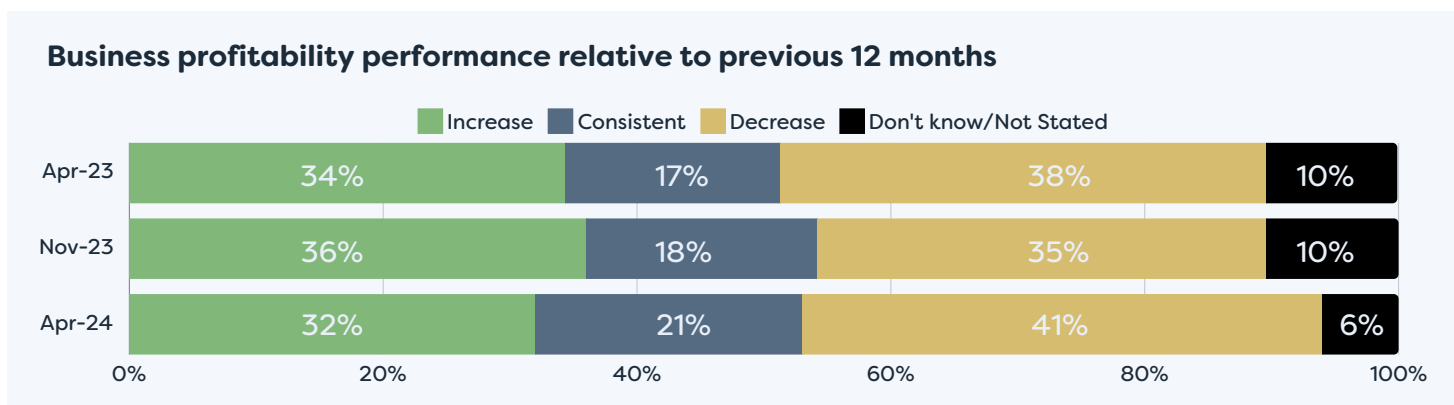
The Technology sector reported the most positive revenue performance, with 54% reporting increased revenue and only 26% reporting a revenue decline.



Profitability performance was also slightly worse than the previous survey, with a decline in the proportion of businesses reporting growth in profits, and an increase in the proportion reporting a profit decrease.

Māori and Pasifika businesses were more likely to have experienced a profit decline and less likely to have grown profits than the regional average, reflecting a challenging past 12 months for those businesses. Those operating in the South Waikato, Waitomo, and Matamata-Piako Districts also reported challenging profit results, with over 45% reporting profit declines.

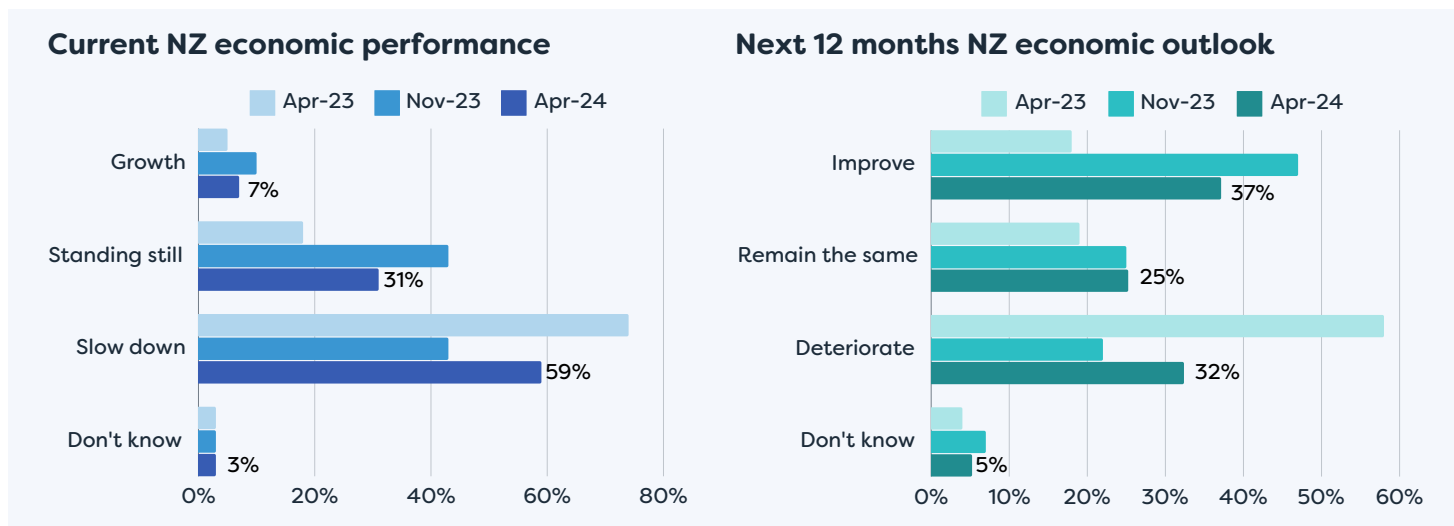
At an industry level, businesses in the Retail, Tourism/Accommodation/Hospitality, and Manufacturing sectors were most likely to have reported profit declines over the past 12 months.



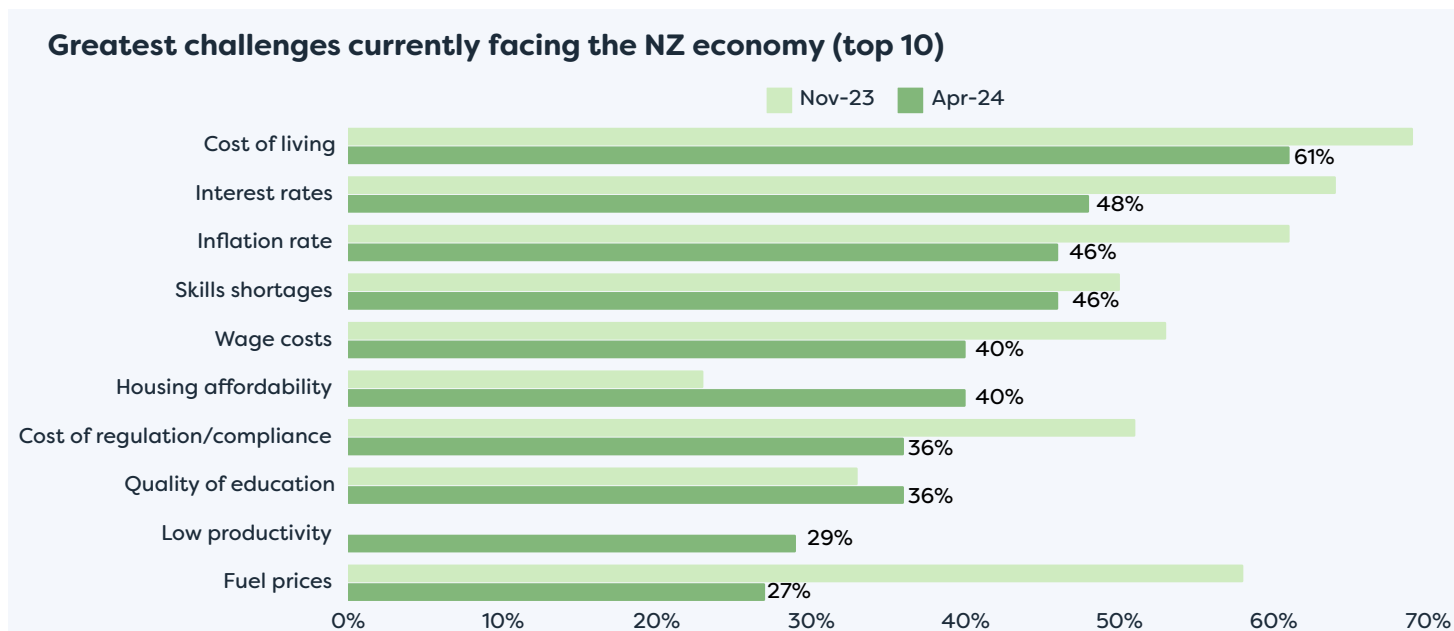
Waikato Regional Business Sentiment Survey April 2024

Views on the New Zealand Economy

Views on the performance of New Zealand's economy have markedly deteriorated since our last survey. Net confidence in New Zealand's current economic situation has declined 19 points from -33 to -52, with nearly 60% of businesses saying the current national economy is slowing down. The net negative view is consistent across Districts and industries.



Looking ahead, 37% of Waikato businesses surveyed are expecting the NZ economy to improve, down from 47% in the previous survey. The net view remains positive (+5) but is a material decline from the previous survey (+25). Pasifika businesses have the most positive outlook on the NZ economy, with 47% expecting improvement. At an industry level, Professional Services businesses have the most positive outlook, with 46% expecting improvement.



When asked about the greatest challenges facing the New Zealand economy, cost pressures remain top of mind for Waikato businesses. Housing affordability has increased in prominence, with 40% of businesses citing this in their top 10 challenges, up from 23% in the previous survey.

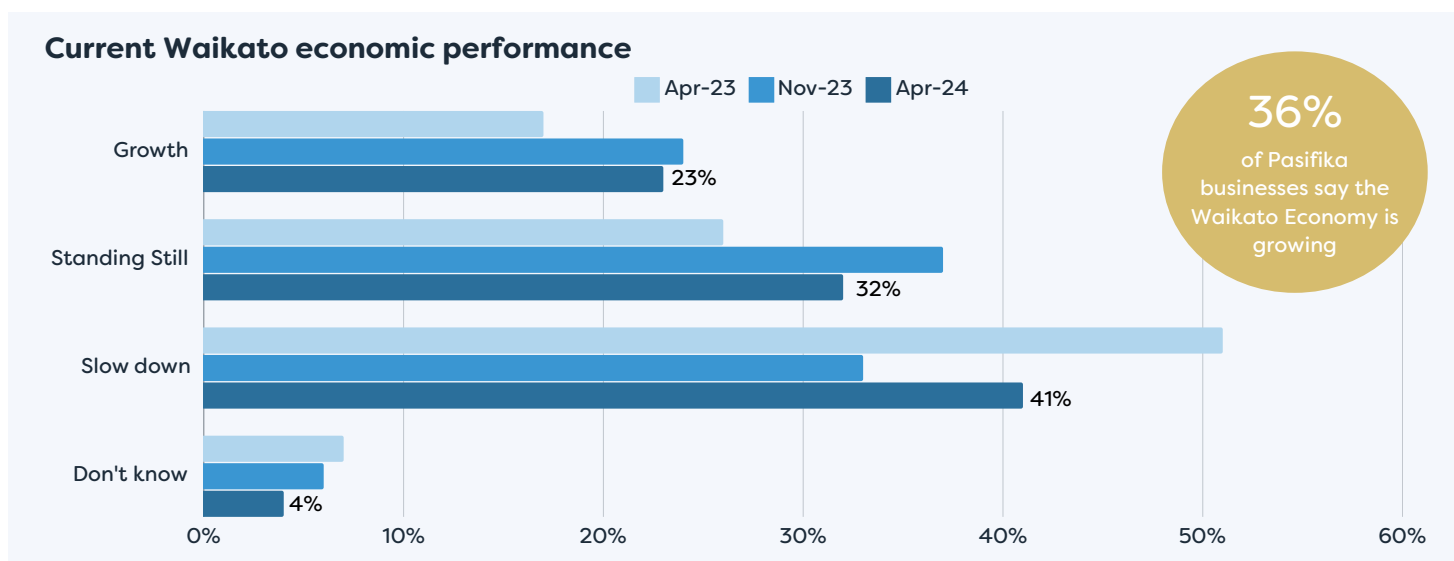
Results at a District level were consistent with the regional average, with a notable exception being 57% of businesses operating in the Waipā District citing Quality of Education as a top challenge compared to the regional average of 36%.

Waikato Regional Business Sentiment Survey April 2024

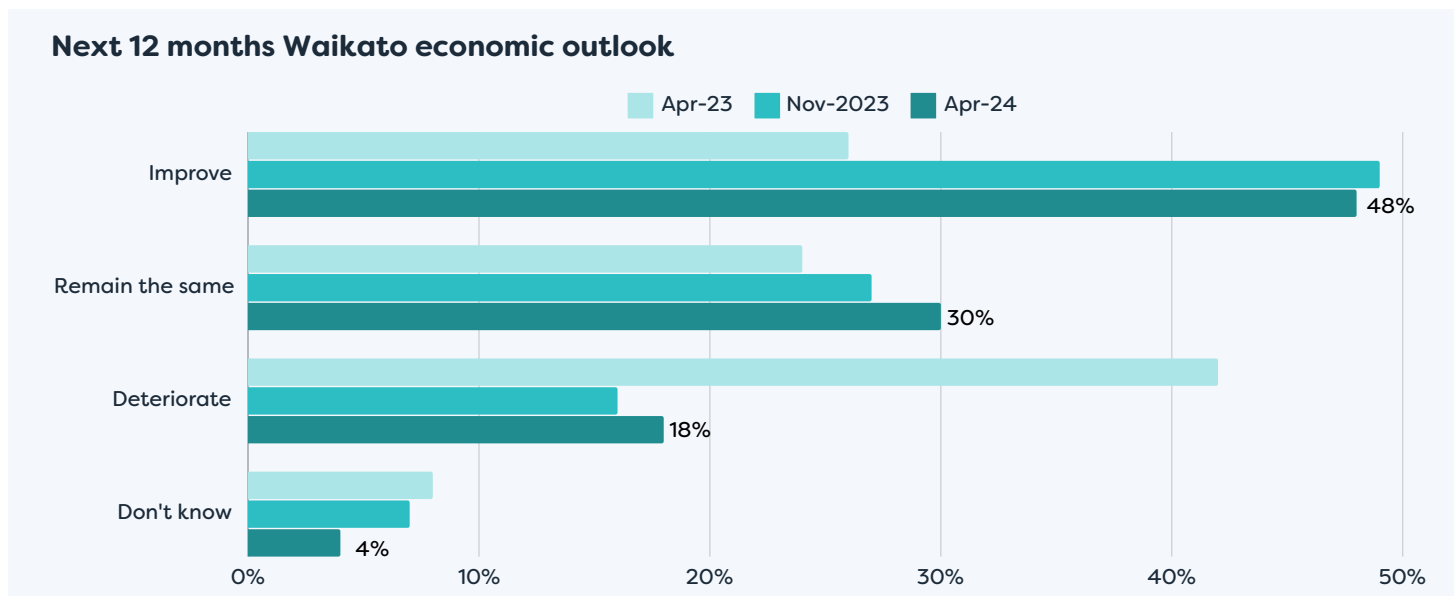
Views on the Waikato Economy

Lower confidence levels in the New Zealand economy extend to business views on the performance of the Waikato region, with 41% of businesses surveyed saying the Waikato economy is slowing down, up from 33% in the previous survey. At a District level, businesses operating in the South Waikato, Hamilton and Waikato districts were most likely to say the Waikato economy is growing, and those in Thames-Coromandel were least likely.

At an industry level, businesses in the Technology, Construction, and Professional Services sectors were most likely to say the Waikato economy is currently growing. Businesses in the Tourism/Accommodation/Hospitality industry were most negative, with only 17% saying the regional economy is currently growing. Pasifika businesses view the regional economy positively, with 36% saying the economy is growing and only 25% saying it is slowing down.



Views on the future performance of the Waikato economy are similar to the previous survey, with around half of the businesses surveyed expecting the regional economy to improve and less than 20% expecting a deterioration. Businesses operating in the Thames-Coromandel District hold the most negative views on the outlook for the Waikato economy, with 27% expecting a deterioration and only 33% expecting improvement. The Professional Services sector holds the most positive industry view, with 55% expecting the Waikato economy to improve.

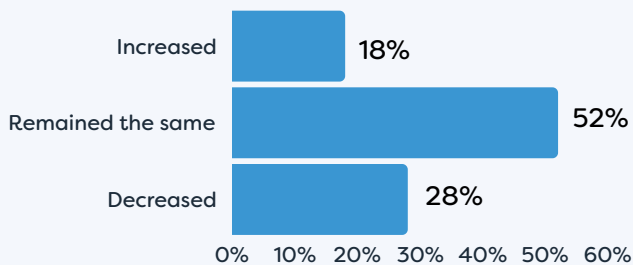


Staffing and Skills

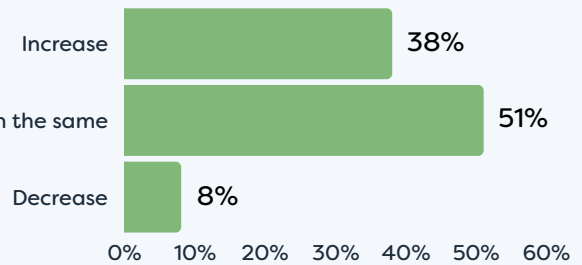
Consistent with the previous survey, half of the businesses surveyed maintained consistent staffing levels in the past 12 months. However, businesses were less likely to have increased staff levels, with only 18% citing an increase compared to 25% in the Nov-23 survey. The Technology sector was most likely to have increased staff levels (29%) but also had high levels of businesses reporting staff decreases (35%), indicating a relatively volatile period for the Waikato Technology industry. The Primary sector was most likely to have decreased staff levels (38%).

Looking ahead to the next 12 months, 38% of businesses are expecting to increase their staff numbers (a slight increase on the previous survey at 35%), with businesses in the Technology sector (65%) and operating in Hamilton (45%) most likely to be expecting staff increases.

Previous 12 months staffing level changes



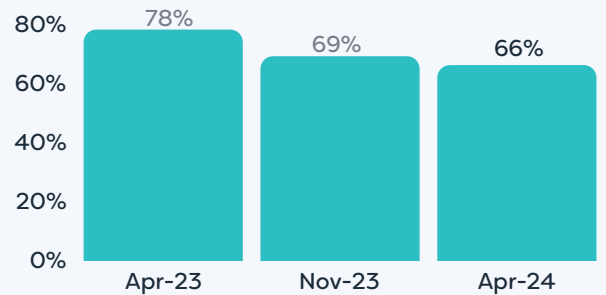
Next 12 months expected staffing level changes



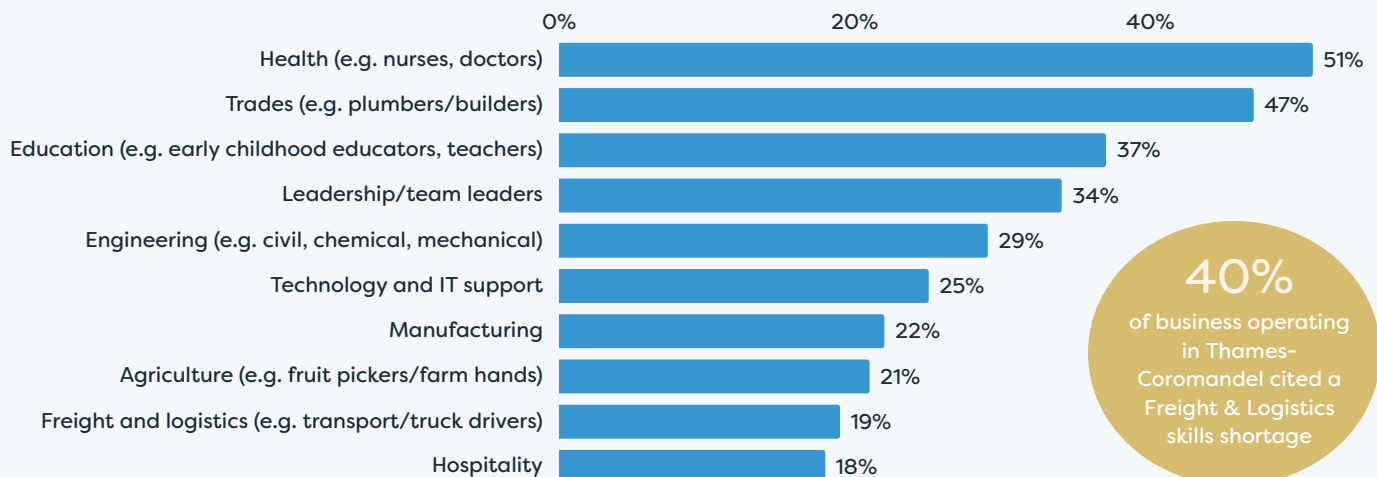
The percentage of respondents that believe there is a skills shortage in the Waikato region has dropped from 69% to 66%, reflecting further softening in labour market pressures. However, at two thirds of respondents this remains a key area of concern for Waikato businesses.

Technology and Retail businesses were most likely to cite a skills shortage (77%). Health workers continue to be the top cited skill lacking in the region, followed by Trades.

% of respondents that believe there is a skills shortage



Types of skills lacking in the Waikato region



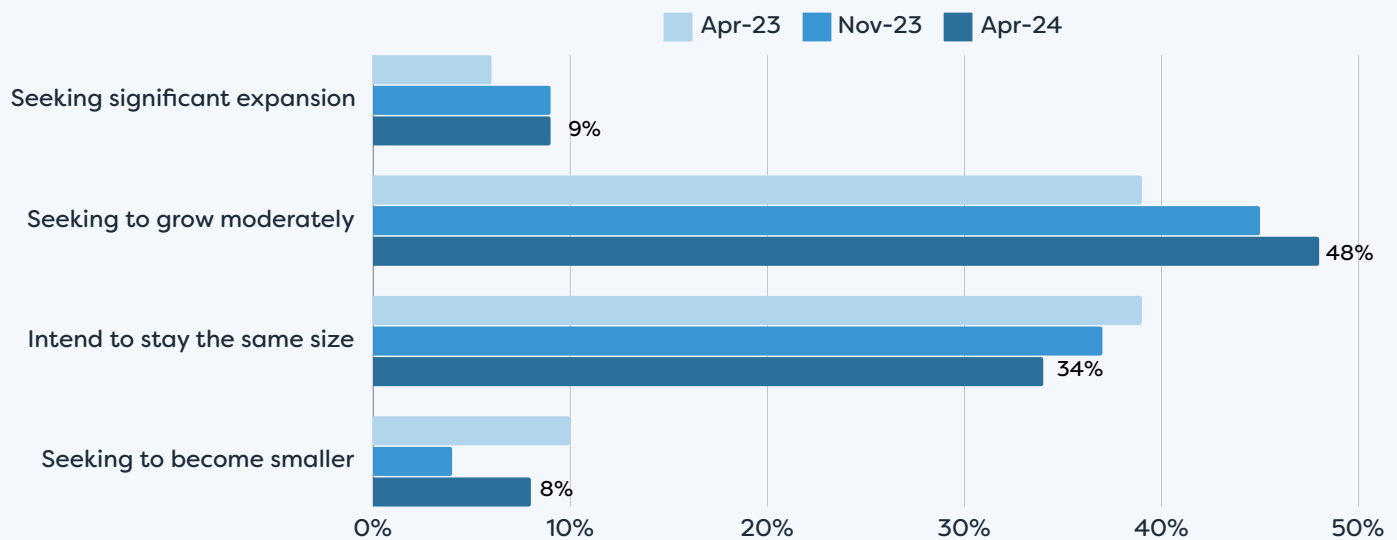
40% of business operating in Thames-Coromandel cited a Freight & Logistics skills shortage

Expectations for the Future

Slightly more businesses are seeking to grow over the next year (57%) compared to our last survey (54%), however the proportion seeking to become smaller has doubled from 4% to 8%, reflecting tough economic conditions and lower confidence levels.

Businesses in the Technology and Construction sectors are most likely to be seeking growth (71% and 62% respectively), with the Primary sector most likely to be planning for contraction (19%). At a sub-regional level, growth intentions are strongest for businesses operating in Hamilton (63% seeking to grow).

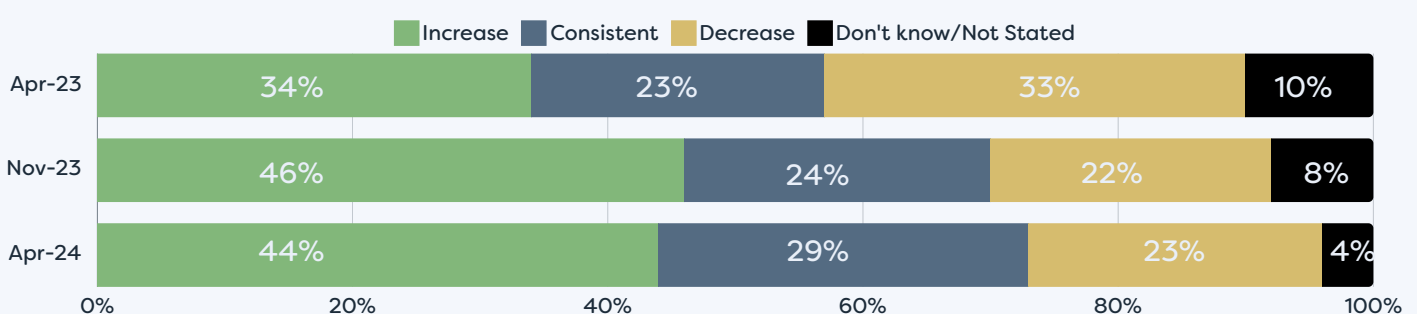
Growth intentions for the next 12 months



Profitability expectations are more moderate than the previous survey, with 44% expecting a profit increase and 29% expecting consistent profit performance. Māori businesses and those operating in Taupō and Hamilton are most likely to be expecting profits to increase in the next 12 months.

At an industry level the Technology sector is again most positive, with 58% of Waikato tech businesses surveyed saying they expect profits to increase. The Manufacturing and Retail sectors have the most negative outlooks for profitability, with over 30% of respondents from those industries expecting profits to decline in the next 12 months.

Profitability expectations for the next 12 months



Waikato Regional Business Sentiment Survey April 2024

Infrastructure Priorities

Consistent with previous surveys, the clear top three infrastructure priorities for the Waikato businesses surveyed were Roads, Health Infrastructure and Affordable Housing. Renewable Energy remains in fourth position, with one in five businesses surveyed citing this as a top priority for infrastructure investment.

Transport

At a sub-regional level, Roads are a particular pain point for businesses operating in the Thames-Coromandel District (62%). At an industry level, Roothing infrastructure was cited most often for businesses in the Tourism/Accommodation/Hospitality industry (73%). Public transport was cited most by businesses operating in the Waitomo, South Waikato, Thames-Coromandel, and Waipā districts (all above 20%).

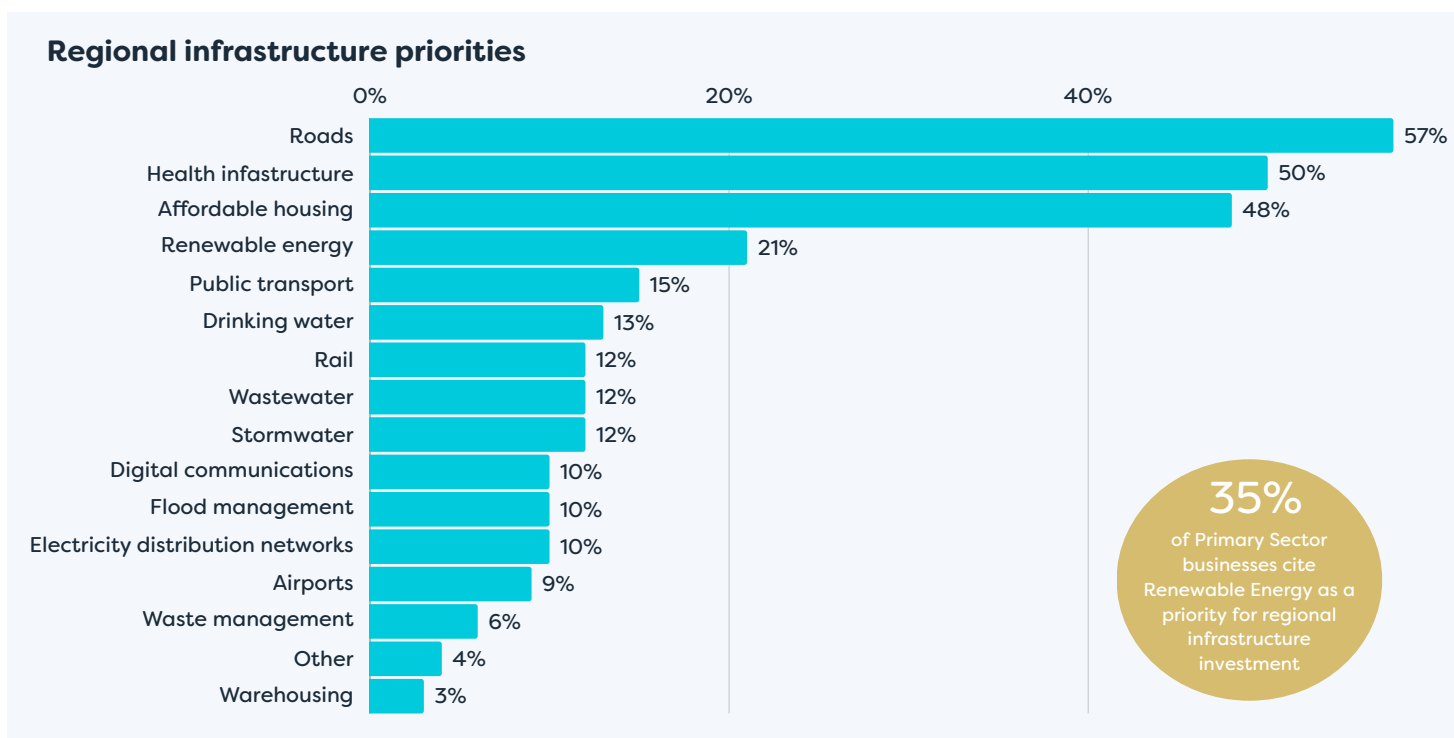
Water

Water infrastructure was a high priority for businesses in the Construction and Manufacturing industries, with 21% of Construction businesses prioritising Storm Water infrastructure, and 19% of Manufacturing businesses prioritising Waste Water. Pasifika and Māori businesses were more likely to prioritise Storm Water infrastructure (22% and 19% respectively). Waste Water infrastructure is of most concern for businesses operating in the Waitomo, Hauraki, and Taupō districts (all above 20%). Drinking water featured most highly for Māori businesses (19%).

Flood Management infrastructure is of most concern for Māori businesses (19%), those in the Construction and Tourism/Accommodation/Hospitality industries (both 15%), and, as expected given last year's extreme weather events, those operating in the Thames-Coromandel District (15%).

Energy

Renewable Energy infrastructure was cited most often by Māori businesses (25%) and those in the Primary sector (35%). Electricity Distribution Network infrastructure was most cited by businesses in the Manufacturing (26%) and Tourism/Accommodation/Hospitality (23%) industries, and those operating in the Hauraki District (17%).



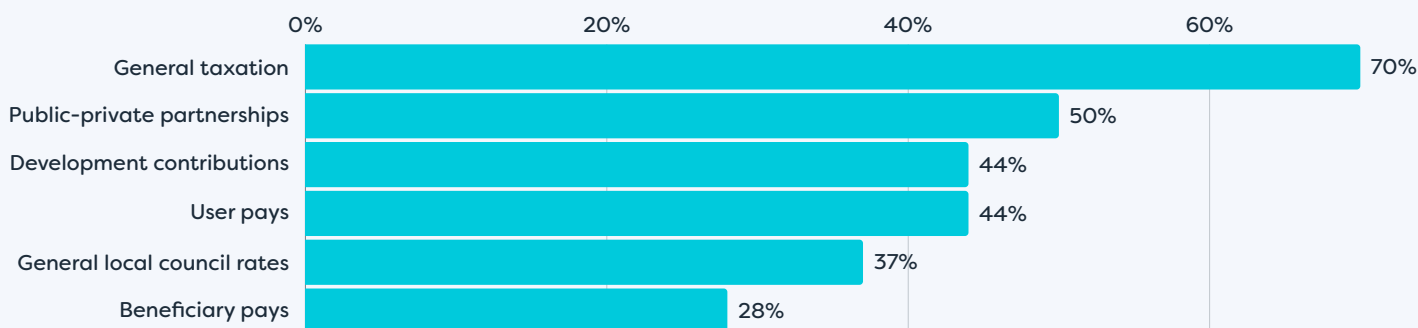
Waikato Regional Business Sentiment Survey April 2024

Infrastructure Funding

When asked about how investment in priority regional infrastructure should be funded, while 70% support the use of central government funding, there was relatively strong support for a range of alternative funding tools including public-private partnerships, development contributions and user pays models. Funding through general local council rates and “beneficiary pays” models such as value capture levies/targeted rates were less favoured.

At a sub-regional level, public-private partnerships were particularly favoured by businesses operating in the Waitomo and Ōtorohanga districts (both at 77%). There was also strong support for user pays funding models from businesses operating in Waitomo (62%) and Hauraki (61%).

How should investment in priority regional infrastructure be funded?



Risk Management

When asked about specific action being taken to manage the risk of climate change on their business, 55% of the businesses surveyed stated that they are not considering the risks or impacts of climate change on their business. Of those taking action (45%), the most common activity is to include climate change risks in their strategy/plans (consistent with the previous survey). Businesses most likely to be taking action to manage climate change risks were large businesses with 100+ staff (75%), those in the Primary industry (69%), and Māori businesses (58%).

Businesses least likely to be taking action were from the Manufacturing (63%), Retail Trade (61%) and Professional Services (58%) sectors, small businesses with 5-19 staff (70%), Pasifika businesses (58%), and businesses operating in Hamilton (58%).

How is your business managing the risk of climate change?



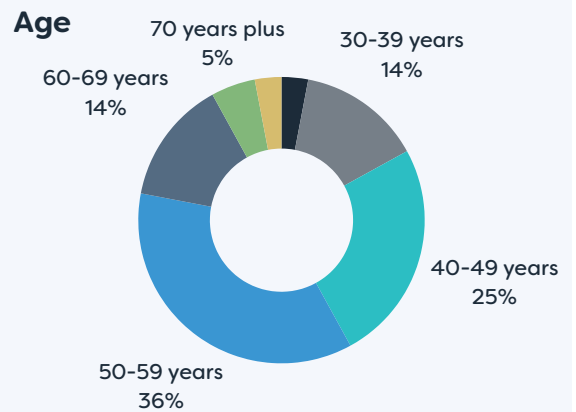
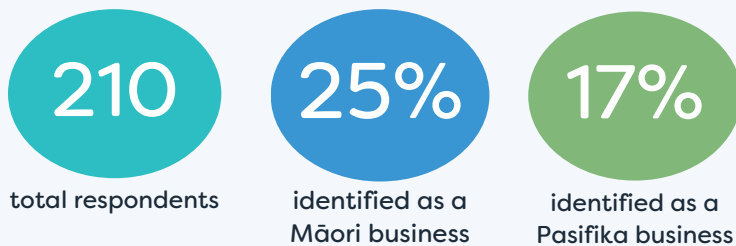
69%
of Primary sector businesses are actively managing the risks of climate change on their business

Waikato Regional Business Sentiment Survey April 2024

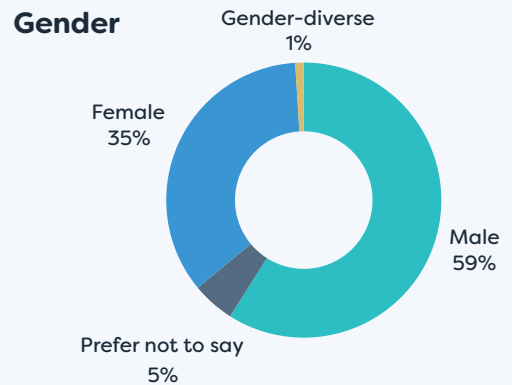
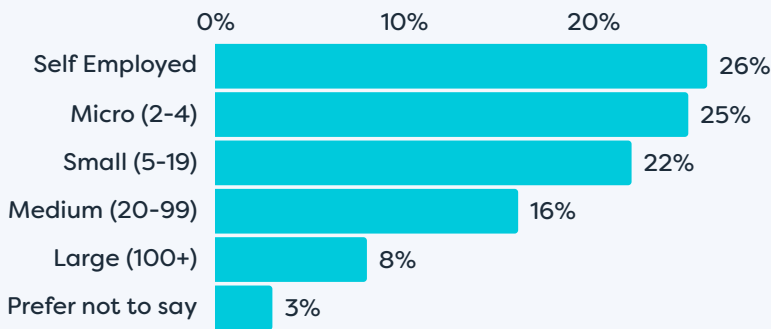
Footnotes

- Respondent profiles do not align to either district population contribution or sector GDP contribution (i.e. they are not proportional to regional distribution), results are indicative only.
- Results have been rounded to enable summation of data, some rounding errors may occur.
- All insights and observations from 210 samples received.
- Surveys were conducted by online survey from 1 - 22 April 2024.
- Net confidence scores are calculated by subtracting the negative response level from the positive.

Respondent Overview



Business Size (Number of employees)



Business District

NOTE: Businesses could identify as operating in several districts

