MYOB BusinessMonitor

TRANS-TASMAN SPECIAL REPORT

January 2014

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IN LATE 2013, MYOB, AUSTRALASIA'S LARGEST BUSINESS AND ACCOUNTING SOFTWARE PROVIDER, CONDUCTED ITS LATEST MYOB BUSINESS MONITOR. OVER 1,000 SMALL AND MEDIUM BUSINESS OWNERS AND MANAGERS IN NEW ZEALAND AND AUSTRALIA PROVIDED A UNIQUE SNAPSHOT OF THE PERFORMANCE OF THEIR ORGANISATIONS OVER THE PAST 12 MONTHS.

THEY ALSO GAVE INSIGHTS INTO THE PRESSURES, CHALLENGES AND OPPORTUNITIES OF THE CURRENT ENVIRONMENT, AND THEIR EXPECTATIONS FOR THE YEAR AHEAD.

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Business confidence soars in New Zealand; Australia starts 2014 more optimistic than in 2013

As the Kiwi dollar rises, the Australian dollar ebbs – creating opportunity and challenges for both countries

Fuel prices is the number one concern for SMEs on both sides of the Tasman

Half of all SMEs in both countries still don't have an online presence

Both Australia and New Zealand's business communities are largely made up of small and medium sized operations. These entities form a vital part of both economies, shaping demand, fuelling growth and supporting significant levels of employment and investment.

The results of the latest Business Monitor underscored the similarities and contrasts between the two countries. The New Zealand SME economy, hit harder by the effects of the Global Financial Crisis, has entered a period of strong confidence and growth, buoyed by significant construction demand and a high-performing rural economy. In Australia, the slowdown in the mining boom plus lingering weakness in key sectors' performances has seen reduced confidence amongst business operators.

In 2014, the question is how will both countries perform against a changing international market and the significant impacts of a changed Federal Government in Australia and an election year in New Zealand?

This report will review the relative recent performances of both markets and examine SMEs' expectations, predicted pressures and investment strategies for the year ahead.

Tim Reed
Chief Executive Officer
MYOB New Zealand
http://linkedin.com/in/timjreed

TWO COUNTRIES POISED FOR ECONOMIC IMPROVEMENT

In 2014, Australia and New Zealand enjoy the prospect of improving economic conditions.

That improvement is already being seen in New Zealand, both in terms of strong revenue performance and record levels of business confidence. SMEs are clearly seeing the momentum. The effects of the Canterbury rebuild and growth in Auckland, combined with the rural sector's performance, are underpinning what will likely be one of the most significant and sustained periods of growth in the country's recent history.

In Australia, businesses are more optimistic about growth this year compared to 2013, but the opportunities are probably at least six to 12 months behind where New Zealand sits. There remains a lot of concern about the winding down of the biggest mining investment boom since the Gold Rush days, which has largely cushioned the economy from the effects of the GFC. However, investment in housing construction is on the rise, building approvals are up more than 20% over the year and interest rates are creating strong demand for housing finance. And with the dollar dropping in value, Australia is increasingly becoming an attractive market for online purchases from overseas and an appealing travel destination.

EXCHANGE RATE PRESSURES

For both countries, the effect of the exchange rate will likely have a major impact on the two economies, both internally and as trading partners. If the Australian dollar continues a gradual downward adjustment – without falling off a cliff and creating widespread uncertainty – it will likely become a trigger of improved performance across the business community.

There's no doubt the continued strength of the New Zealand dollar creates a more challenging picture for exporters. In fact, a recent HSBC Australia report stated that the New Zealand dollar 'may surpass parity against the Australian dollar for the first time in four decades'. With the core drivers of the economy remaining strong, we are unlikely to see a significant adjustment to the Kiwi in 2014. As long as the value is tied to positive underlying fundamentals, it is likely to be a challenge SMEs are happier to live with, especially as it staves off greater pressure at the pump. With Business Monitor respondents ranking fuel prices as the number one pressure, any relief in this respect will be welcome.

EMPLOYMENT

SMEs in both countries are still signalling their reluctance to undertake major investment in employment, as Australians grapple with a lumpy period of performance and New Zealanders prefer to maximise other benefits of early growth following the recession.

One of the real challenges for Australian small businesses is the growth of labour costs. As we see the mining investment boom unwind, the flow on effects in terms of labour costs have been quite material to small businesses. So we'll be waiting to see how the industrial relations system recognises and responds to the changing environment.

In New Zealand, wages have seen little growth in the post GFC era. However, we are entering a point where there will be skills shortages, particularly in construction and trade, which is likely to have a flow on effect in the economy. We might see wage pressure coming on in New Zealand at the same rate as it is coming off in Australia, which could have noticeable influence in rebalancing population flows.

GOVERNMENT

In Australia, we are awaiting evidence that shows the performance of the new Government is starting to translate into improved business conditions. The Abbott Government was elected on a mandate of reducing red tape and making it easier to run a business. Last year, Prime Minister Tony Abbott kicked off his term by saying Australia is now open for business. In 2014, we hope that becomes tangible for small and medium business owners across the nation, both in the delivery of reform and in strong signals that there will be more to come.

The current New Zealand Government has delivered some significant business-focused reform over its first two terms. However, any election year brings uncertainty and with the potential of a change of government, SME operators will be looking very closely at the business policies of all the major parties.

In both countries, the greatest wish of business owners from their respective governments is simplification. This applies not only to reducing their tax contribution, but to making it easier to understand and meet their obligations, freeing them up to spend more time focusing on their business.

LOOKING FORWARD

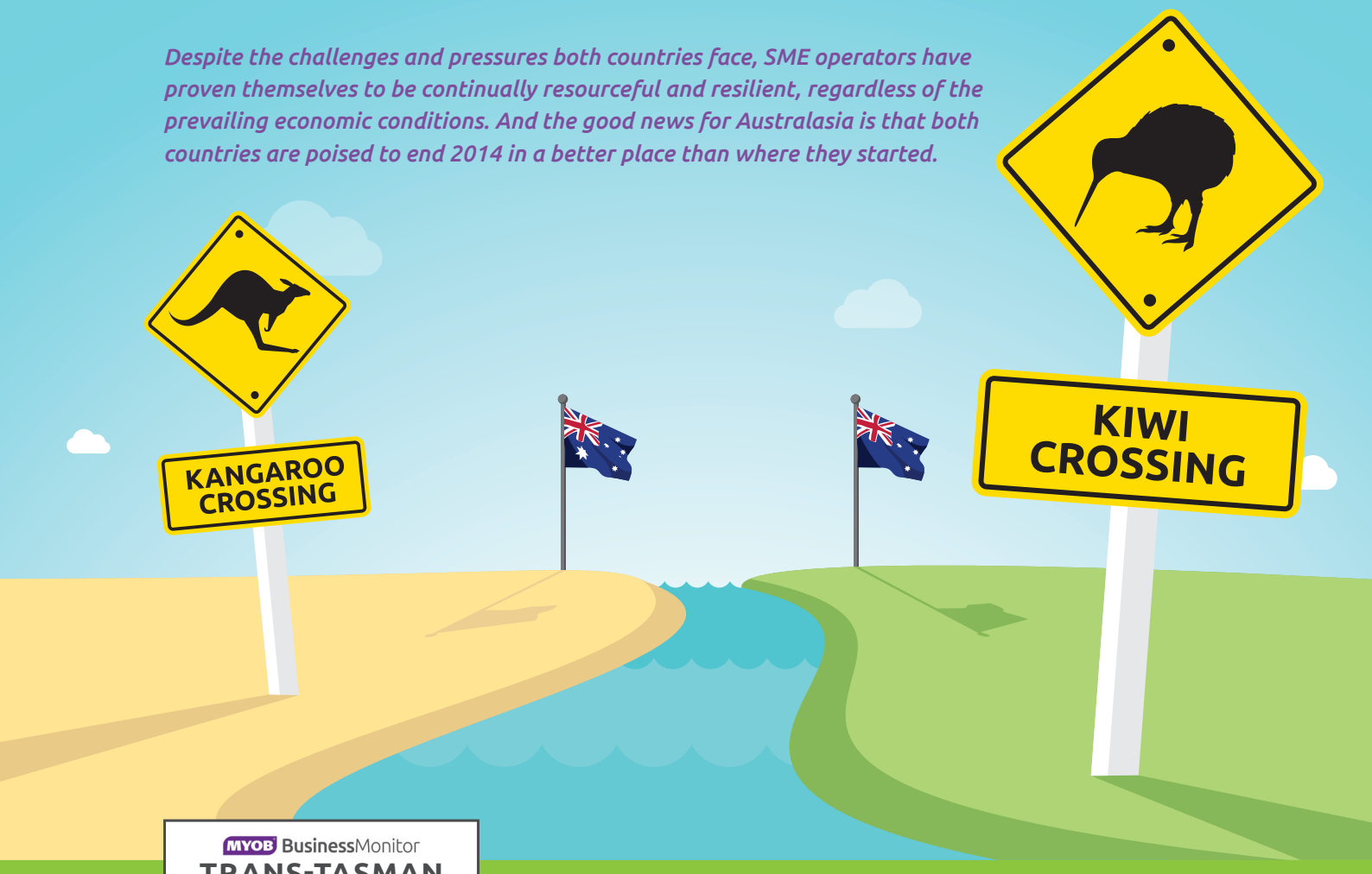
The biggest thing we could hope for in Australia is improving macro-economic conditions. This would come from sustained low interest rates, a winding back of the Australian dollar versus the Greenback and a smooth transition from the mining investment boom into infrastructure-led growth. If that transition is managed smoothly, small businesses will prosper.

This will mean the country's economic engine will continue churning though at a faster pace, and that will create confidence in consumers – of which small business owners will be the real beneficiaries.

In New Zealand, it would be ideal to see growth spread more widely than just the main centres. The transition away from the Auckland-based, housing-led expansion into more of a nationally balanced growth would be positive for the whole economy. With the effects of the Christchurch rebuild being seen across much of the South Island, and the rural sector bringing more wealth into the regions, we believe this trend is likely to strengthen in 2014.

Technology, and in particular internet technology, is an irreversible force that is continuing to pervade both countries. As SMEs begin to embrace the potentially transformative benefits of the cloud and other available technologies, we will see an increase in productivity that delivers real benefits for both economies.

Despite the challenges and pressures both countries face, SME operators have proven themselves to be continually resourceful and resilient, regardless of the prevailing economic conditions. And the good news for Australasia is that both countries are poised to end 2014 in a better place than where they started.



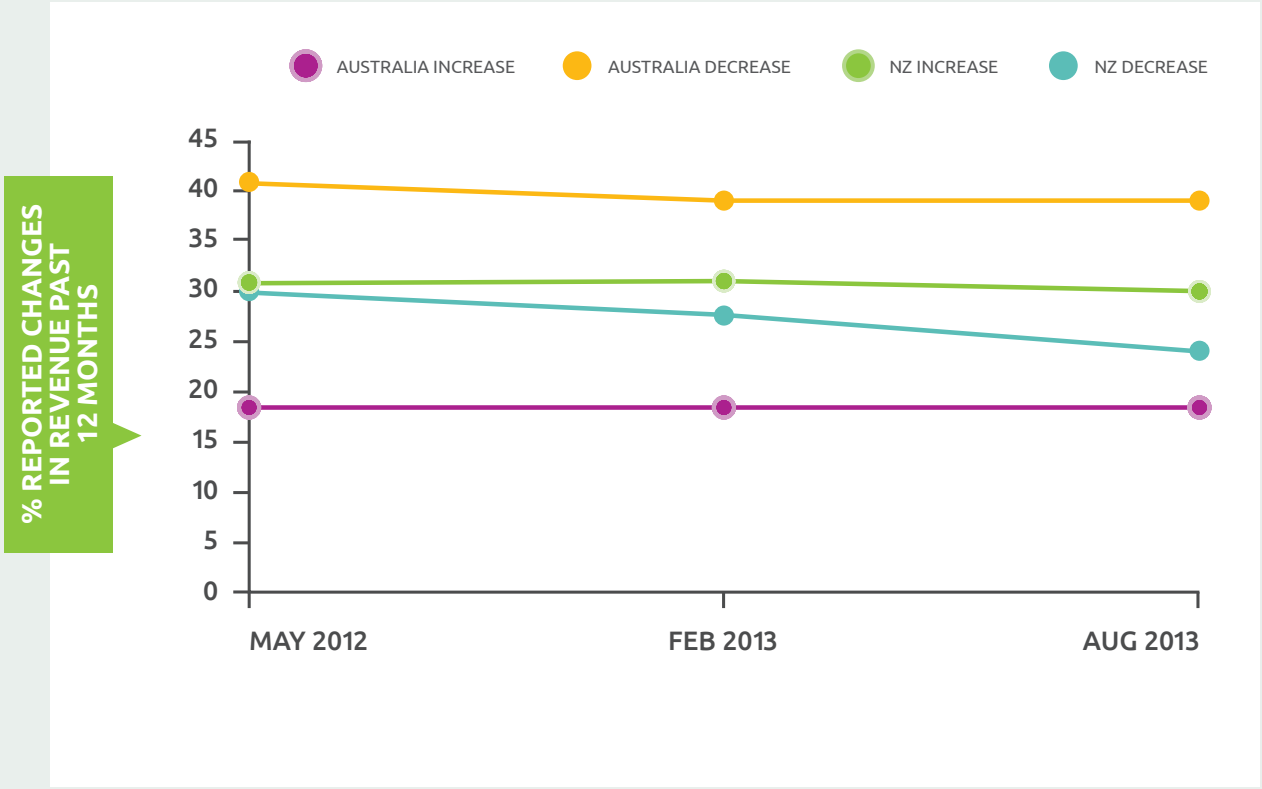
TWO SPEEDS IN 2013

New Zealand's SME economy far out-performed its trans-Tasman neighbour in 2013, highlighting the different stages of growth in the two countries.

Over the 12 months to August 2013, Australian businesses experiencing declining revenue far outweighed those in positive territory. 39% of Australian SME operators reported a fall in revenue while just 18% recorded a revenue increase. Putting this further into context, the proportion of operators reporting a revenue decline has been steady over three waves of the Monitor (41% in May 2012 and 39% in February 2013).

This is in stark contrast to the performance of New Zealand SME operators. 30% reported an increase in revenue in the year to August 2013, while 24% saw their revenues decline. The proportion of New Zealand operators reporting a revenue decline has also been trending steadily down over three waves of the Business Monitor (from 30% in May 2012 and 27% in February 2013).

NZ VS AUS PAST YEAR REVENUE

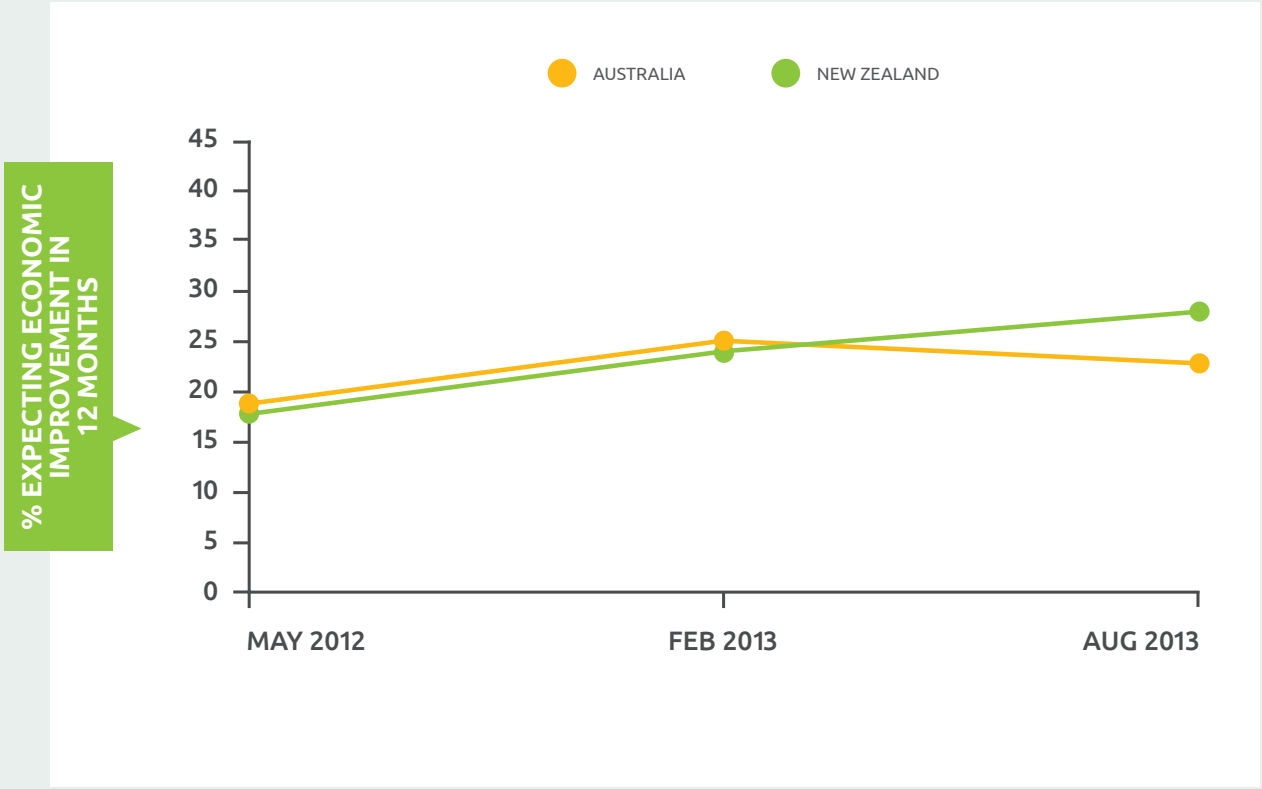


CONFIDENCE UP AND DOWN

Underscored by their own performance, New Zealand business operators are increasingly optimistic about the state of the economy. In the latest study, 28% of operators expected the economy to improve within the 12 months to August 2014 – up on 24% in February 2013 and 18% in May 2012. 59% expected it to take more than a year, down from 66% and 73% respectively.

In Australia, SME operators are less certain about the future of their economy. 23% of operators expect the Australian economy to improve within the 12 months to August 2014, down from 25% in February 2013. 61% expect it to take more than a year, up from 58%. Their confidence, however, shows an improvement on sentiment expressed in May 2012, when just 19% of business operators expected a near-term improvement in the economy.

NZ VS AUS 12 MONTHS CONFIDENCE



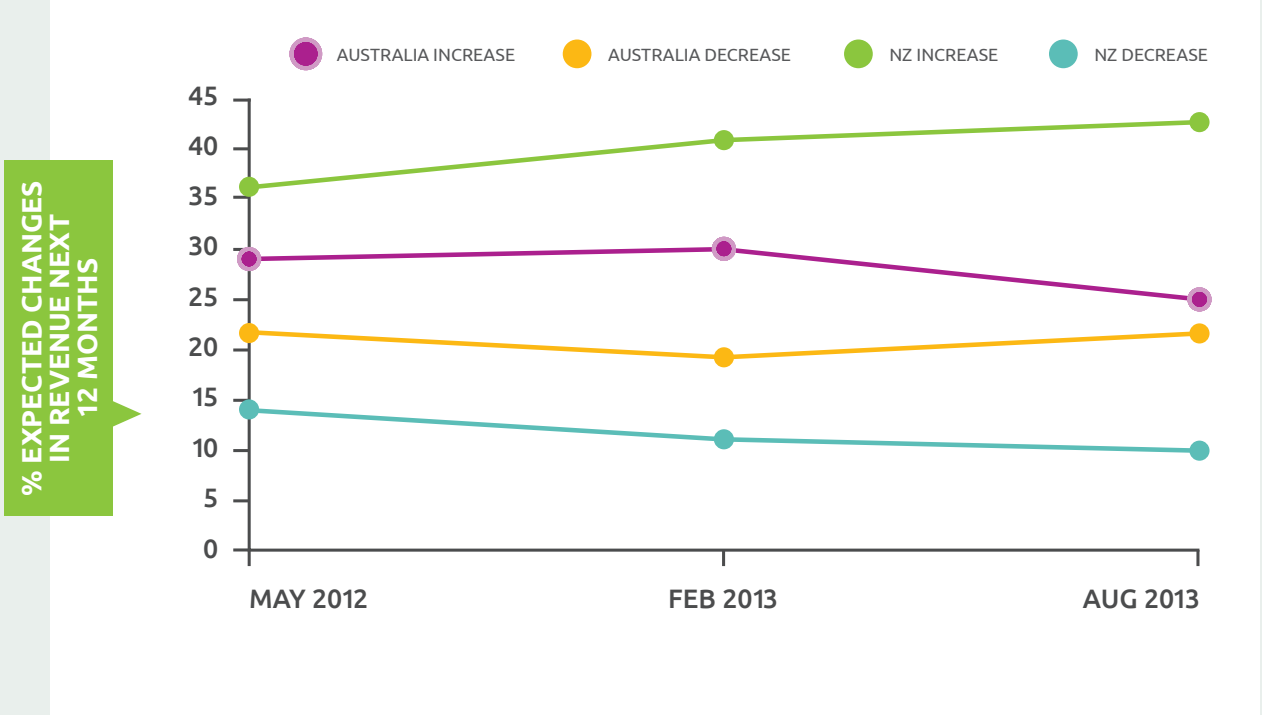
NEW ZEALAND MORE BULLISH ON REVENUE FOR 2014

This year, almost half of all New Zealand SME operators expect their business to be earning more. According to the Business Monitor, 43% are forecasting an improvement in revenue performance between August 2013 and August 2014. This again represents a steady improvement for businesses since May 2012, when 36% expected their annual revenue to rise, and February 2013, when 41% forecast it.

Just 10% of New Zealand business operators are expecting to see a fall in revenue this year, which compares favourably to 14% in May 2012 and 12% in February 2013.

Although revenue falls outweighed gains in 2013, Australian business operators enter the year with greater performance expectations. A quarter (25%) expect to see revenue improve over the next year, while 22% expect revenue to be down. The proportion of businesses forecasting a near term improvement in their own performance has fallen somewhat, from 29% in May 2012 and 30% in February 2013.

NZ VS AUS REVENUE EXPECTATIONS



CONTRAST IN KEY SECTORS ACROSS AUSTRALASIA

Comparing growth expectations in the key sectors surveyed in the Business Monitor highlights the significant differences in the stages of growth across the two economies.

The Australian manufacturing and wholesale, and construction and trades industries expect to see some of the lowest growth when compared to other industries. Only 17% of the construction and trades industry expect annual revenue to increase. And even though the falling Australian dollar will make products more attractive in export markets, just 17% of manufacturing and wholesale businesses predict a rise in revenue.

By contrast, in New Zealand, two of the sectors expecting the best performance in 2014 are construction and trades – fuelled by the Christchurch rebuild and Auckland's growth – and a resurgent manufacturing industry. 59% of manufacturing and wholesale businesses expect to see a revenue increase in the year to August 2014, the largest of any sector, while 44% of construction and trades businesses expect growth, rounding out the top three performing industries.

The difference in the agribusiness sector between the two countries is also marked, as New Zealand continues to enjoy the effects of a prolonged dairy boom. 37% of New Zealand agriculture, forestry and fisheries businesses expect revenue growth this year, compared to 19% of their Australian counterparts.

Possibly experiencing some of the worst effects of the slowing mining boom and high fuel prices, compounded by other areas of softness in the economy, the Australian transport sector is forecasting the weakest performance. Only 9% of operators here expect annual revenue to improve. In New Zealand, as the economy surges ahead, it will be driven by the transport industry – where 31% of operators expect to see annual revenue growth.

Only in Australia's finance and insurance industry is revenue performance expected to slightly outstrip its trans-Tasman cousin. 36% of SMEs in this sector expect revenue to improve in 2013, compared to 35% in New Zealand.

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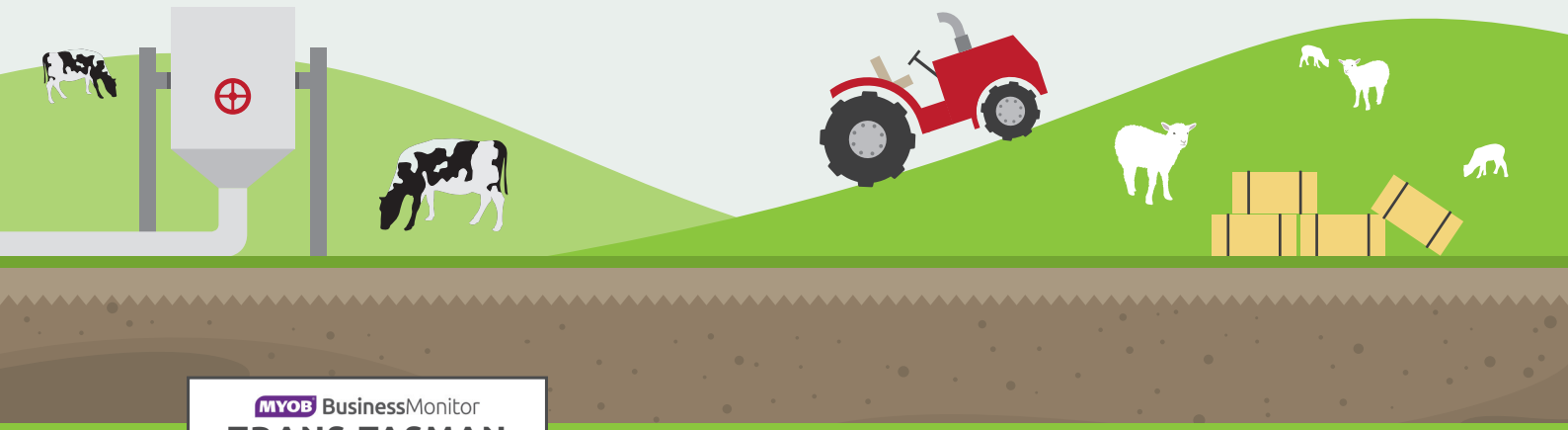
EXPECTATIONS BY INDUSTRY TYPE

	AGRIBUSINESS	BUSINESS, PROF. AND PROPERTY SERVICES	CONSTRUCTION AND TRADES	FINANCE AND INSURANCE	MANUFACTURING AND WHOLESALE	RETAIL AND HOSPITALITY	TRANSPORT, POSTAL AND WAREHOUSING
% EXPECTING ECONOMIC IMPROVEMENT WITHIN 12 MONTHS	13%	30%	21%	24%	22%	20%	21%
	23%	31%	30%	30%	25%	28%	25%
% EXPECTING INCREASE IN REVENUE WITHIN NEXT 12 MONTHS	19%	29%	17%	36%	17%	33%	09%
	37%	42%	44%	35%	59%	48%	31%

SIGNIFICANTLY HIGHER THAN TOTAL

SIGNIFICANTLY LOWER THAN TOTAL



TWO DIGITAL ECONOMIES

New Zealand and Australia compare very similarly in their use of online technology, with significant benefits available for both countries if businesses were to increase their presence and activity online.

THE CLOUD

Take up of cloud computing for business purposes remains low in both countries, at fewer than one in every five SMEs. New Zealand moved slightly ahead of Australia in the latest Monitor research with 18% using the cloud for business, compared to 16% of Australian operators.

Somewhat different benefits are reported by businesses when across the ditch. New Zealanders find remote access the major benefit (55%), followed by the ability to stay up to date with technology (34%) and a reduction of time spent on IT issues (30%). The top benefits for Australian operators are reduction of IT costs (25%), greater access to more technology (25%) and the ability to work remotely (25%).

New Zealand has a slightly higher proportion of businesses with both a website and a social media site (14%) compared to Australia (12%).

Businesses in the retail and hospitality sector (NZ 71%, AU 67%) as well as the manufacturing and wholesale sector (NZ 62%, AU 61%) are more likely to have an online presence. The businesses least likely to be online were those in the agribusiness sector (AU 21%, NZ 16%) and those in the construction and trades sector (NZ 32%, AU 30%).

SIMILAR ONLINE BENEFITS

Businesses with a website report similar benefits regardless of their location, with 53% of Australian SMEs saying their website has produced more customer enquiries or leads, compared to 61% of New Zealand businesses. 37% in Australia report more customer interaction (42% NZ), and 32% say they enjoy better lead conversion (28% NZ).

BOTH COUNTRIES MISSING OUT ON DIGITAL ECONOMY OPPORTUNITIES

According to MYOB's analysis of the data, both countries are missing out on significant economic potential due to the low online presence and take-up of the cloud amongst SMEs.

In Australia, business operators who utilise online technologies were more likely to see a revenue rise in the 12 months to August 2013. For example, those with both a business website and a social media site were at least 63% more likely to see revenue rise than those who didn't have one of these sites. This leading edge was followed by SMEs using cloud computing, who were 59% more likely to see an annual revenue rise than non-cloud users.

In New Zealand, similar positive flow-on effects of digital technology usage are seen going into 2014.

According to the recent Business Monitor, 38% of businesses with a website saw revenue increase in the 12 months to August 2013, compared to 26% of those without one. Over the next 12 months, more than half (52%) of New Zealand businesses with a website expect to see revenue increase, compared to 37% of those without. The trend is even stronger for businesses with a website and a social media site – 63% forecast revenue growth in the year.

ONLINE PRESENCE

Half of all SMEs

in both countries don't currently have an online presence

% with a business website only	26%	24%
with a business website and a social media site	12%	14%
% with a social media site only	08%	09%
% don't have an online presence	50%	50%
% using cloud in the business	16%	18%
% using accounting software	64%	52%

TWO LUCKY COUNTRIES

In both New Zealand and Australia, starting your own business is as much about lifestyle and personal fulfilment as it is about economic reward.

For business owners, work / life balance is important, enabling them to enjoy the extraordinary natural resources and unique environments that make both countries renowned the world over. Currently, in New Zealand, almost two-thirds of business operators (65%) are satisfied with their work / life balance, while in Australia, 50% feel the same.

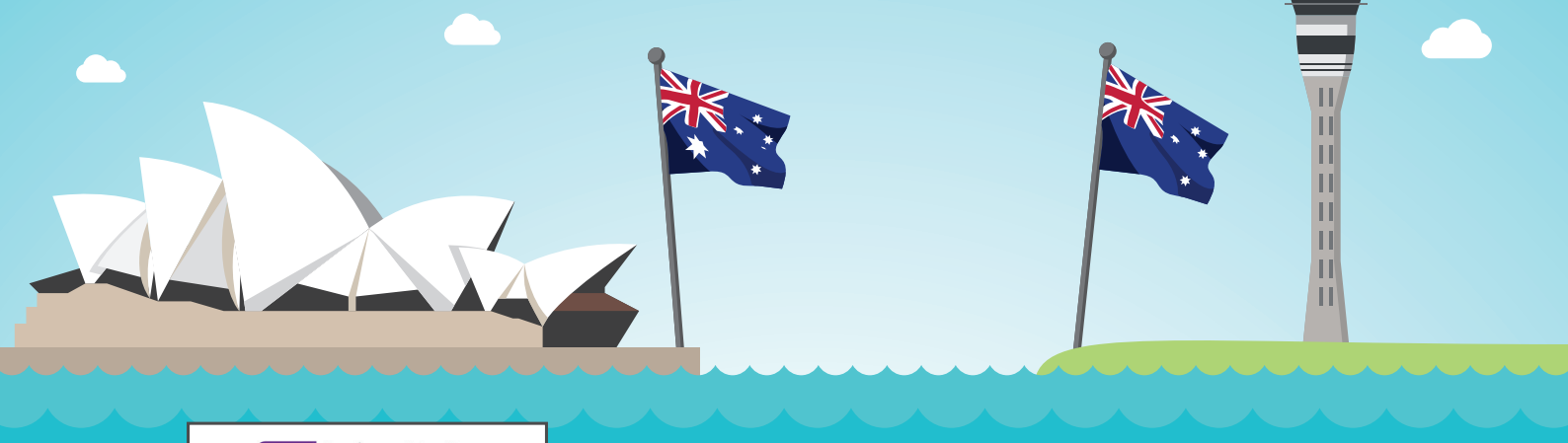
Both countries rate very highly in terms of ease of doing business. Australia is presently ranked 11th of 189 countries on the World Bank's global scale, while New Zealand enjoys third place on the same measure. New Zealand is first in the world in terms of ease of starting a business, according to the World Bank's measure, while Australia occupies third place.

Businesses in both countries clearly enjoy considerable advantages. However, both are also subject to the vagaries of international trade and the unique challenges of being two trading nations located vast distances away from key world markets.

According to the latest MYOB Business Monitor, there is considerable reason for positivity in both markets in 2014. New Zealand clearly enjoys a more solid start as a result of a variety of growth factors putting the country on track to enjoy one of the highest levels of OECD performance. But Australia still has many advantages, both from underlying factors such as population and market diversity, and the greater performance it has enjoyed over half a decade of global economic instability.

Both economies are predicted to end 2014 in better shape than they arrived, which for the SME sectors of both countries should mean the opportunity to enjoy greater growth and increased stability.

As two trading nations that have worked so closely together over their shared histories, growth on one side of the Tasman should readily translate into opportunity on the other. This should make Australia and New Zealand two lucky countries indeed in 2014.



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