CREDIT/EMPLOYMENT SURVEY REPORT

A report into the findings of the credit and employment survey (CES) conducted by the Ministry of Economic Development in February 2009.

BACKGROUND INFORMATION

The survey was developed by MED, with input from the Treasury, with the aim of gaining a better understanding of the impact of the current economic situation on New Zealand businesses. In particular, information was needed regarding credit and regarding employment, specifically for the government's Employment Summit, held on 28 February 2009. The survey was circulated through business networks and was able to be completed on-line with a closing date in mid February 2009.

GENERAL

659 responses to the survey were recorded. 406, or just under two-thirds, of these were from SMEs (businesses with fewer than 20 employees). This is an under-representation of businesses of this size. They account for 97.1% of all New Zealand businesses. Thus, whilst these figures were the most timely ones available, they represent a snapshot of businesses, rather than the whole economy. In what follows it should be borne in mind that the figures for the total sample contain a greater proportion of larger businesses than would be the case of a nationally representative survey of the whole economy.

From the responses, the most commonly represented industries were construction (13.7%), business services (13.5%), other (13.4%) and manufacturing (13.1%). 86% of the respondent businesses had been in operation for five or more years. Half of the businesses are regionally-based, just under a third describe their business as national and the remainder as international.

For the purposes of this report, the businesses have been analysed according to three employee size groups: small (0-5 employees), medium (6-19 employees) and large (20+ employees).

CREDIT AVAILABILITY

Applying for New Credit

One-third (34.2%) of the surveyed businesses had applied for debt or equity finance in the previous three months. Smaller businesses were less likely to have applied for finance, with 25.4% of small businesses having applied compared to 39.4% of large businesses.

In order to put these figures in context, they can be compared to those obtained in the *Business Finance Survey* 2004 (2004). The BFS had a slightly different structure, surveying businesses between 1 and 499 employees and excluding some industries (Financial services). The table below shows that although the overall figures are the same, this is a compositional effect (the BFS is weighted and stratified to make it nationally representative) and is driven by the greater proportion of larger businesses in the CES.

Comparing like with like, applications for finance appeared to have fallen in every size group. Indeed total applications (debt and equity) were lower in all size groups in 2009 than applications for debt in 2004 (except the 100-499 size group, where there had been a slight increase).

Comparing applications for finance with the BFS (% of businesses applying for finance)

Business Finance Survey 2004[1]			*CES 2009*	
Employees	**Debt**	**Equity**	**Employees**	**Debt/Equity**
1-5	29	5	**1-5**	27
6-20	42	7	**6-19**	38
21-100	44	7	**20-99**	36
100-499	45	5	**100-49**	47
Total	34	5	**Total**	34

When asked why they had not applied for debt or equity finance, three-quarters (75.9%) of respondents answered that they had no need for additional finance. This figure was lower for smaller businesses than larger ones (67.1% compared to 83.3%). These figures are lower than those in the BFS in 2004. In the BFS, 83% of businesses with 1-5 employees and 97% of businesses with 100-499 employees said they did not apply for debt finance because they did not need it (the figures for equity are higher still).

The next most common reason for not applying for debt finance was that the business or business owners did not like to be in debt (21.4%). As might be expected given the likely ownership of each type of business, this was a much more common reason given by small businesses (28.9%) than large ones (13.2%).

There were signs that smaller businesses were less likely to apply for new finance because they felt they faced some constraints. 14.5% of small businesses felt they could not afford to service debt and 13.2% said they were already approaching or

[1] Note that the Debt and Equity percentages from the BFS cannot simply be added as some businesses apply for both

breaching existing borrowing limits. The figures for large businesses were 1.5% and 4.6% respectively.

Of the 212 businesses responding that they had applied for finance in the previous three months, 59.5% had their applications granted as requested, 23.4% were granted with amended terms and 11.2% were granted but with a lesser amount of finance than was requested. 9.8% were refused completely. It was medium-sized businesses that were most likely to have their application granted as requested (67.7%), compared to small (50.9%) and large businesses (59.3%).

Existing Credit Facilities

Whilst applications for new finance are clearly important, they may be more of a threat to expansion plans (see below) than to the continued existence of the business. The survey also asked how existing credit facilities had changed in the previous three months. It had been reported that businesses had found credit drying up, whereas banks had countered that overall levels of credit had held-up or even increased. One reason for this may be that *new* applications or provision of credit had decreased, but businesses had taken-up increasing amounts of their existing credit facilities (e.g. they had increased the size of their overdraft). The results of this survey suggested that four times as many businesses (21.5%) had increased their overdraft/credit compared to those that had decreased it. 71.7% of businesses reported that their overdraft/credit had remained the same. The increase in credit was greatest in medium-sized businesses (29.6% of businesses reporting an increase) compared to small (18.9%) or large businesses (16.9%).

Another important impact that a credit crunch can have is through an increase in the *price* of credit. It appears that the impact of the decrease in the Official Cash Rate had balanced the impact of an increase in the risk premium on the price of credit, with just under half of the businesses (47.7%) answering that their interest rate or fees have stayed the same, while 44.7% had seen them decrease. Small businesses had benefitted least from the fall in interest rates with 38.8% of businesses reporting a decrease in interest rates or fees, compared to 47.4% of medium-sized businesses and 48.8% of large businesses.

Another way the price of credit can increase is through the requirement for increased collateral to be posted by borrowers. The collateral and security required had increased for 17% of businesses and stayed the same (81.3%) (it decreased for only 1.6%) of those surveyed. Collateral/security requirements had increased the most for medium-sized businesses.

Impacts on Business

When asked specifically how the availability of finance had affected their business 48.5% of respondents answered that their business had not been affected at all. Of those that had been affected, the most common effects were on longer-term decisions, with 22.6% of businesses putting expansion plans on hold and 17.6% putting reinvestment/refurbishment plans on hold. These figures were fairly consistent across businesses of all sizes.

Another set of responses to the availability of finance related to how businesses manage their employment levels. Of the businesses responding to the survey, 15.2% were laying-off staff, 15% had implemented a hiring freeze and 11.8% were reducing working hours. Small businesses reported that 10.5% of them were laying-off staff, 9.9% were reducing working hours and 6.3% were implementing a hiring freeze. Adjustments to employment policy appeared to be most important for medium businesses, with 20.3% laying-off staff, 20.9% implementing a hiring freeze and 18.3% reducing working hours. 15.5% of large businesses were laying-off staff, 19.9% had implemented a hiring freeze and 8.1% were reducing working hours.

It is important to note that these figures refer specifically to the impact of the availability of finance on business, not on the economic situation in general. That question is assessed in the next section and returns some quite different percentages.

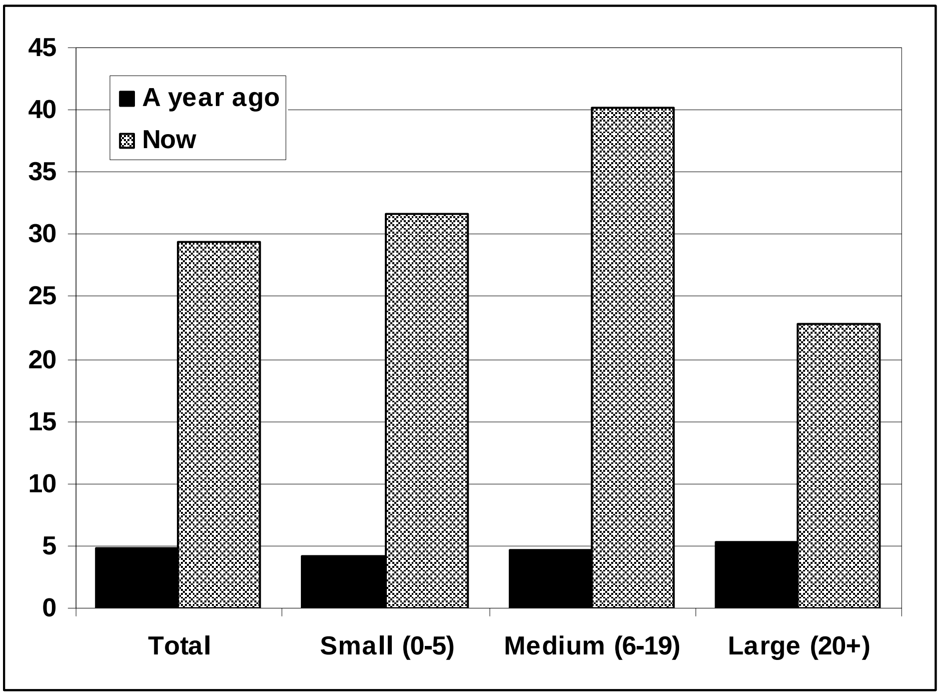
Raising Finance
Just under three-quarters (73.7%) of surveyed businesses had made no changes to the sources of their finance as a result of the current economic situation. This figure is slightly smaller for small businesses (70.7%) than for medium and large businesses. Just under a quarter of businesses (23.1%) had looked into alternative methods of raising finance. This was most common in small businesses (25.5%) and least common in medium-sized businesses (19.9%).

When asked to compare the current situation to 12 months ago, 68% of respondents believed it was harder to raise finance now (30.5% found it a little harder, 34.2% a lot harder and 3.3% impossible). Increases in businesses' difficulties in raising finance were greatest for the larger businesses, with 27.5% of small businesses, 34.4% of medium businesses and 40.5% of large businesses stating that it was a lot harder.

Length of Payment
One important source of credit that is both outside the financial sector and important for businesses' cash-flow is 'trade credit', that is the fact businesses do not always pay for goods and services immediately. If businesses take longer to pay their debts, this may improve their own cash-flow temporarily, but it has a negative impact on the business's suppliers. Businesses were asked how long, on average, they had to wait to be paid by debtors a year ago and how long they waited at present. A summary of their answers is presented in the chart below. Waiting more than sixty days for payment was a relatively rare thing in February 2008. Around 5% of businesses had an average wait of that long. This number had increased significantly

in the interim. In mid-February 2009 almost 30% of businesses were, on average, waiting two months or more to be paid. This number was lowest for large businesses who may be able to exert more pressure on debtors or have better systems to deal with late payment. However, two-fifths of medium-sized businesses were waiting for more than sixty days on average to be paid by debtors. This increase may have a number of reasons, in particular the cash-flow problems of the debtors themselves. It could have serious implications for the cash-flow of many businesses and may also be associated with the increases in overdraft/credit outlined above.

Businesses waiting more than 60 days to be paid by debtors, %



GENERAL ECONOMIC SITUATION

Sales/Revenue

The current economic situation is clearly not just a credit crunch; its effects are being felt in the real economy. Almost two-thirds of businesses surveyed reported a fall in sales/ revenue in the previous three months. Of these, 38.4% of respondents reported that their sales/revenue had decreased somewhat in the previous three months, and 22.5% said their sales/revenue had decreased greatly. Only 23.2% said theirs had stayed the same and 13.8% said sales/revenue had increased in the previous three months. There was some noticeable variation between the business size groups. Small businesses recorded figures of 31.1%, 29.6% and 23.5% for stayed the same, decreased somewhat and decreased greatly respectively. For medium businesses the figures were 20.4%, 44.3% and 23.4% and for large businesses the figures were 21.1%, 42.3% and 23.4%.

Business Plans for Expansion
Prior to the current economic situation, many businesses had plans for expansion. The survey sought to find out if growing businesses had curbed their expansion plans. This has important ramifications not only for the current economic situation, but also for how the economy will emerge from it. The survey asked respondents whether or not they had plans to expand their business prior to the credit crunch. Those who indicated that they did have plans to expand were asked to indicate what had happened to those plans following the credit crunch. Almost four-fifths (77.5%) of the businesses surveyed had plans for expansion. A third of those with plans for expansion had not changed or had even enlarged them. The remaining two-thirds of businesses with plans for expansion had scaled them back (28%) or put them on hold (37%).

Business Responses
Businesses were asked if they had responded to the current situation and how they expected to respond in the future. Businesses were asked to indicate which among six different factors had increased, decreased or stayed the same in the previous three months. The results for each are outlined below.

Number of employees
In total, 35.2% of the surveyed businesses answered that their number of employees had decreased in the previous three months. Conversely, 8.0% had increased their staff. However, when looked at by business size, there is considerable variation. The responses from small businesses show that 20.5% reduced their employee numbers, whereas 74.7% of businesses kept employment numbers the same. There had been much more employment contraction in medium-sized businesses (39.3% of businesses) and large business (47.2%) had decreased their employee numbers in the previous three months.

Hours worked by employees
Slightly fewer businesses (31.5%) had reduced the hours worked by their employees; 59.1% of all respondents said that hours had stayed the same. There was again variation between the employee size groups, with the percentage of businesses that decreased their employee working hours 27.3%, 32.3% and 35.3% for small, medium and large businesses respectively. Employment adjustment is clearly more marked in larger businesses.

Advertising/Marketing
One way in which businesses may respond to reduced credit and cash-flow is to focus their expenditure on current liabilities and reduce their expenditure on investment. Almost one-third of the businesses (32.3%) surveyed said they had reduced their advertising and marketing expenditure in the previous three months

(49.7% of all respondents say that theirs had stayed the same, and 18% said that it has increased).

Other business expenditure

The reduction in expenditure was even more marked in "other business expenditure". More than half (53.3%) of all the surveyed businesses answered that their other business expenditure had decreased in the last three months. 37.0% said it had stayed the same and 9.5% said that it had increased. The largest proportion of businesses reducing other business expenditure were among large businesses, where almost two-thirds reported reductions (64.7%). It was smallest in small businesses, of whom 41.6% had reduced other business expenditure.

Credit provided to customers/clients

64.1% of all respondents answered that the credit they provided to their clients/customers had stayed the same in the previous three months. 21.1% said it had decreased and 14.7% said that it had increased. This was relatively consistent across the business size groups.

Prices charged

A quarter (24.9%) of all of the businesses surveyed said that they had increased their prices in the previous three months. 60.2% said they have stayed the same and 14.9% said that they have decreased. By size, 28.9% of small businesses said their prices have increased, 24.8% of medium businesses said theirs had increased and 20.9% of large businesses said theirs had increased. The figures are relatively similar for prices staying the same. However, the proportions diverge again when the percentages of businesses who said their prices had decreased are compared – 10.2% (small), 15.2% (medium) and 20.9% (large).

Expectations of the Future

Businesses were asked to indicate how they expected the same six factors to change for their business in the next six months to a year.

Number of employees

Businesses, and small and medium ones in particular, were a little more sanguine about the six months to July 2009 than they were about the previous three months. Nevertheless, a quarter of businesses expected their number of employees to fall. The percentages for each group are shown in the table below.

	Increase	Stay the Same	Decrease
Small (0-5)	15.7%	74.9%	9.4%
Medium (6-19)	18.9%	56.8%	24.3%
Large (20+)	18.2%	36.4%	45.5%
Total	17.3%	56.7%	26.2%

Hours worked by employees
58.5% of businesses surveyed believed that the hours worked by their employees would stay the same over the next six months to a year. 27.2% expected them to decrease and 14.3% expected them to increase. The figures for the different employee size groups are presented below.

	Increase	Stay the Same	Decrease
Small (0-5)	17.9%	61.1%	21.1%
Medium (6-19)	13.7%	56.5%	29.8%
Large (20+)	10.8%	58.0%	31.3%

Advertising/Marketing
During the next six months to a year just under half of the businesses surveyed (49.6%) believed that their advertising/marketing levels would stay the same. 23.7% believe that they would decrease and 26.7% that they would increase. There was some variation between the employee size groups, with 55.0% of small businesses believing their levels would stay the same, compared to 45.1% of medium businesses and 48.6% of large businesses. 20.6% of small businesses thought their levels of advertising/marketing would decrease, whilst 25.6% of medium businesses and 24.9% of large businesses thought the same.

Other business expenditure
Similar differences were seen when businesses were asked how they thought their other business expenditure would change over the next year. Overall, 46.4% thought their expenditure would decrease, 41.2% thought it would stay the same and 12.4% thought that it would increase. The table below shows the differences that emerged when the surveyed businesses are assessed by employee size groups. Again, it was the larger businesses that were the most pessimistic about their expenditure in the future, with almost two-thirds of them expecting non advertising/marketing business expenditure to decrease.

	Increase	Stay the Same	Decrease
Small (0-5)	16.2%	52.5%	31.3%
Medium (6-19)	15.0%	38.3%	46.7%
Large (20+)	6.8%	29.6%	63.6%

Credit provided to customers/clients
64.8% of businesses surveyed believed that the credit they provide to their customers/clients would stay the same over the next six months to a year. 27.3% thought that it would decrease and 7.9% thought that it would increase. There were again divergences between the different sized businesses, with the most pronounced being for the medium-sized group. This is outlined in the table below.

	Increase	Stay the Same	Decrease
Small (0-5)	7.1%	71.0%	21.9%
Medium (6-19)	8.1%	58.8%	33.1%
Large (20+)	8.8%	63.7%	27.5%

Prices charged

Just over half of the businesses surveyed (52.9%) answered that they expected their prices to stay the same over the next six months to a year. 15.2% thought their prices would decrease and 31.9% thought they would increase. The table below outlines the differences between the employee size groups.

	Increase	Stay the Same	Decrease
Small (0-5)	33.7%	56.8%	9.5%
Medium (6-19)	34.5%	52.1%	13.3%
Large (20+)	28.5%	47.7%	23.8%

Information Sources

Businesses were asked to identify their main sources of information on the economic situation. 62.3% of respondents identified general media and other information providers as their main source of information. This was followed by economic or business commentators (55.0%) and discussions with associates in the same industry (46.4%). Fewer than a quarter (22.7%) of respondents said that they sourced their information from financial projections for their own business. There were, once again, differences between the different employee size groups and these are outlined in the table below.

	Small (0-5)	Medium (6-19)	Large (20+)
Financial projections for my business	14.2%	24.9%	28.6%
Discussions with colleagues and associates in the same industry	51.3%	51.5%	35.4%
Discussions with colleagues and associates in a different industry	27.9%	26.6%	21.7%
Economic or Business Commentators	46.7%	60.4%	58.3%
General media and other information providers	64.0%	62.1%	60.0%

OTHER SUB-SECTIONS

International
152 respondents identified their businesses as being 'International'. The responses of these businesses demonstrated some differences with businesses that identified themselves as 'Regional' or 'National'.

Around the same percentage of international businesses (34.1%) as total businesses (33.8%) had applied for finance in the previous three months. However, international business were less likely to have their request for finance granted as requested (42%) than regional or national businesses (62%). They were more likely to have the terms of the finance altered or amount reduced (46%) than regional or national businesses (29.4%). They were also more likely to have finance requests refused (12% versus 8.6%).

When asked to compare the current situation to 12 months ago, 30.4% of all respondents thought that it was a little harder to raise finance in February 2009, 34.7% thought it was a lot harder and 3.1% thought it was impossible. For international businesses, 21.2% thought it was a little harder, 42.5% thought it was a lot harder and 4.4% thought it was impossible.

Sectors
Three industries were significantly represented in the survey – construction (13.7%), business services (13.5%) and manufacturing (13.1%). A comparison of the responses of these specific industries to the overall survey results offers some interesting insights.

Construction
The proportion of construction businesses that have applied for finance in the previous three months (34.9%) was roughly the same as the proportion of total survey respondents that had done so (34.2%). However, while 59.5% of all finance applications were granted as requested, only 46.9% of applications by construction businesses were granted as initially requested. 34.4% of construction applications were granted with amended terms, compared to 23.4% for all respondents.

When asked how their credit facilities had changed in the previous three months there was little difference between the two groups regarding access to overdrafts and their interest rates and fees; however, there was a noticeable difference between the results for the security and collateral required. While the overall survey results showed 17.1% of businesses needing more collateral/security in the last three months, the construction results showed 27.7% of businesses needing more.

In addition, only 37.0% of construction businesses found that changes in the availability of finance had had no effect on their business, compared to 48.5% of all respondents. 26.0% of construction businesses reported that the availability of finance caused them to lay-off staff (15.2% for the overall survey response) and 19.2% had found that the changes in finance availability meant they could no longer pay all of their bills (9.4% for the overall survey response).

40.5% of construction businesses answered that their sales/revenue had decreased somewhat in the last three months and 37.8% that it had decreased greatly. The overall survey results for these questions were 38.4% and 23.3% respectively. Considerably more construction businesses had put earlier plans for expansion on hold (45.9%) than total businesses (29.3%). Half of the construction businesses surveyed (50.7%) had decreased their numbers of employees in the previous three months, compared to 35.2% of businesses doing so overall.

Manufacturing
The answers provided by the manufacturing businesses that participated in the survey were largely similar to the overall responses as far as the credit availability questions are concerned. However, when asked how they had responded to the changing economic situation as a whole over the last three months, some differences emerge. 44.3% of manufacturing businesses answered that they had decreased their number of employees in the previous three months and 44.9% that they had reduced working hours. The overall percentages for the same questions were 35.2% and 31.5%.

Similarly, when asked how their business expected certain factors to change in the next six months to a year, 34.2% of manufacturing businesses expected their employee numbers to decrease and 32.9% expected the hours worked by employees to decrease. The overall results for these questions were 26.2% and 27.2%.

Business Services
The overall results showed that 34.2% of businesses had applied for finance in the previous three months. Only 17.9% of business services businesses had applied for finance. 85.7% the business services businesses that had not applied for finance said that additional finance was not required; 75.9% of total businesses cited the same reason. Of the business services businesses that did apply for finance 66.7% had their application granted as requested, compared to 59.5% of all businesses.

64.2% of business services businesses answered that the availability of finance had not affected their business, compared to 48.5% of all businesses. There was also some divergence between the two groups when asked about the impact of the economic situation on sales/revenue. The total percentage of businesses that answered that their sales/revenue had decreased somewhat was 38.4% and those that answered that it had decreased greatly was 23.2%. For business services businesses those figures were 25.7% and 24.3%.

Business services businesses were also less likely to have decreased their employee numbers, hours worked, advertising, credit and prices (27.0%, 23.0%, 24.3%, 14.9% and 9.5% respectively) when compared to the total proportions (35.2%, 31.5%, 32.3%, 21.1% and 14.9%).

Similarly, business services businesses had a more positive outlook of the next six months to year. Only 16.4% of business services businesses expected to decrease their employee numbers, compared to 26.2% of all businesses. 15.1% of business services businesses expected to reduce working hours (27.2% total), 11.4% of business services businesses expected to reduce advertising (23.7% total), 34.7% expected other business expenditure to decrease (46.4% total) and just 6.8% expected their prices to decrease (15.2% total).

SUMMARY

The results of this survey support the view that the current economic situation is more than 'just' a credit problem. Large numbers of businesses are seeing falls in their sales/revenue. Businesses are increasing the time taken to pay debts with other businesses. Almost 30% of all businesses reported that they were waiting on average over 60 days to be paid by debtors. This may be due to the debtor businesses themselves having cash-flow difficulties (either due to reduced income, problems with access to finance or their own debtors delaying payments). The implications of so many businesses' balance sheets of waiting more than two months for their debts to be paid could be serious and have an impact on the demand for credit going forward.

The results of the survey suggest that businesses are increasing their existing lines of credit such as overdrafts (and indeed delaying payment of debts to other businesses) rather than seeking or receiving credit to invest in the longer term future of their businesses.

Another significant feature of the results is the responses from larger businesses. They appeared to be finding it more difficult to raise finance relative to the previous year, compared to small and medium-sized businesses. They were more likely to have reduced their employment and business expenditure in the last three months. They were also the most pessimistic about the future in terms of employment.

The Ministry of Economic Development intends to repeat this survey towards the end of May 2009.