Finding growth in an uncertain world

The growth outlook from PwC's 21st CEO Survey

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Executive summary

It's been an eventful start to 2018. Many of us are seeing New Zealand's business world become a little less certain, whether that's from fluctuations in the equity markets, the ongoing debate on trade and investment or heightened focus on regulations and climate change. All of that comes on the back of an already turbulent 2017, where we saw the first policy moves of the Trump administration, the start of Brexit negotiations and a change of government here in New Zealand.

It's not surprising then that we've also seen business confidence in New Zealand take a knock in the last two quarters. In these first few weeks of 2018, we've seen business confidence shakier than it has been in a number of years. With the NZIER reporting a sharp drop in business confidence in the final quarter of 2017*, CEOs need to have one eye on where we are in the current economic cycle and where we're heading next.

Given all that has happen of late, I was particularly interested to read the findings of this year's PwC Global CEO Survey, launched at the World Economic Forum in Davos, Switzerland earlier this year.

CEOs in New Zealand are some of the most pessimistic about the global economy. Confidence levels here are nearly half the level they are in Australia and the USA. However, New Zealand CEOs aren't as concerned about their own growth prospects, with almost 90 per cent expecting to grow this year, a figure that's ahead of our global results (although still lagging Australia's 98 per cent).

It's worth noting that our survey is a snapshot in time, taken last November, and I do believe our findings reflect the mood of that moment.

* NZIER Quarterly Survey of Business Opinion, January 2018.

Certainly, with all that's happened in the last few weeks it feels like a fool's game to be making predictions for 2018.

Instead, businesses are building an agenda that is agile and reflects the uncertainty of current times. They're strengthening their top line through organic growth and focussing on the things they can control, such as cost cutting (which is now the second-most popular growth strategy) and building resilience into their supply chain.

When it comes to the biggest threats to growth, we've seen these shift compared to just 12 months ago. New Zealand CEOs are becoming increasingly anxious about broader societal threats, with terrorism and populism now appearing in the top 10 risks. Cyber attacks took out the number one spot, which shouldn't come as a surprise with the major ransomware attacks we've all seen this past year – like WannaCry and Petya. A big mover this year has been the speed of technological change, which last year was number one, but has now dropped to 11th.

This year we also asked CEOs about the benefits of growth and in particular globalisation. We saw a lot of variation among New Zealand CEOs, with only 14 per cent believing globalisation has helped to close the gap between the rich and poor, while 57 per cent said it has enabled universal connectivity.

Reflecting on these findings, and some of my recent conversations with CEOs, it's clear we're all facing similar issues. There's also a real recognition that the coming year isn't going to deliver the same stable growth of the last five.

Our ability to be proactive and build flexibility into our business strategies is going to be vitally important for the year ahead. We must also partner with each other and work closer with key stakeholders to address social, economic and environmental issues like over-regulation, climate change and cyber security. The more we work together to solve these societal problems, the better off we'll all be.

This publication is just the start of our CEO Survey this year. Alongside the growth outlook, we're releasing two additional reports, on talent and technology, that we believe will be dominating conversations around the executive this year.

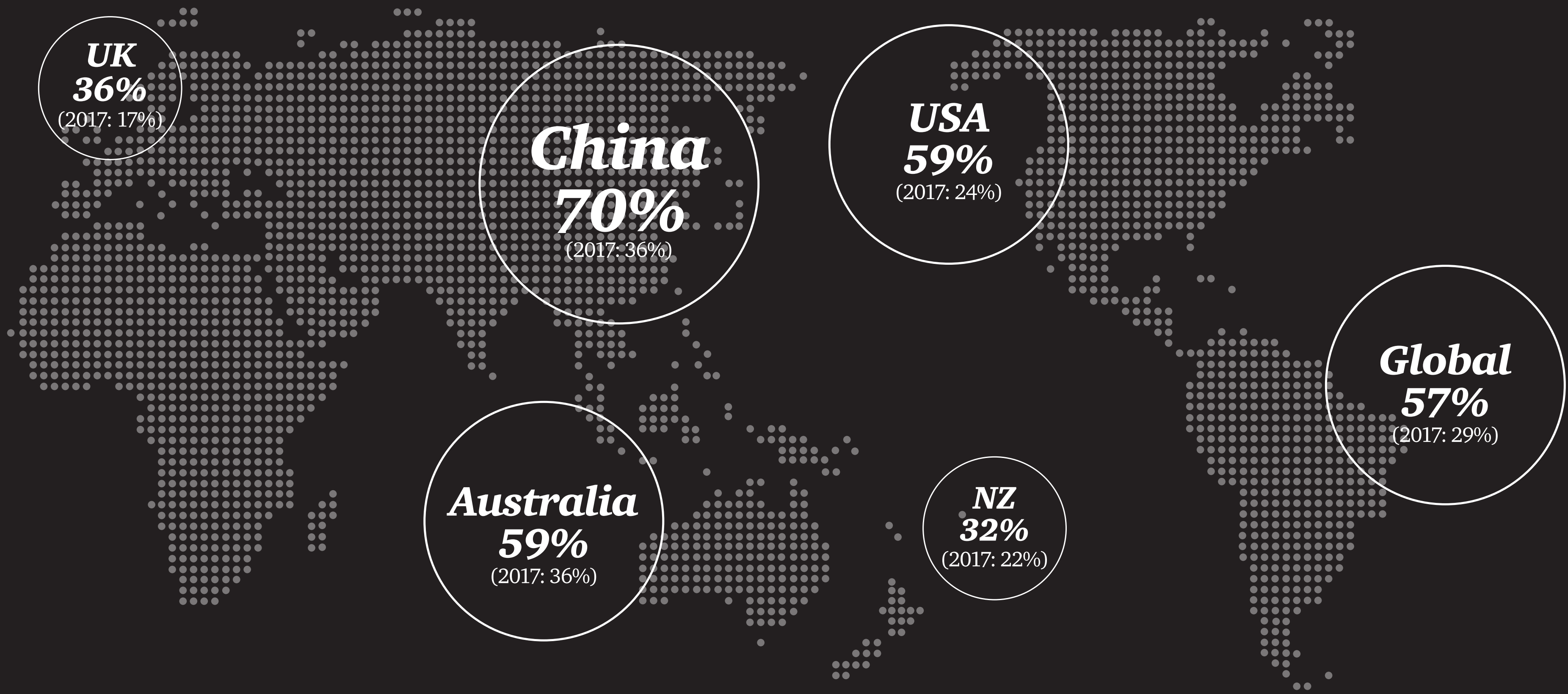
I'd like to thank the participants who took part in our 2018 CEO Survey. Your perspectives and thoughts help us capture the mood of New Zealand's CEOs – we couldn't have created this report without you.

Mark Averill
CEO and Senior Partner
PwC New Zealand

The growth and investment outlook for 2018

New Zealand CEOs are pessimistic on global growth…

Percentage of CEOs who think global growth will improve in the next year



… but are confident in their own prospects

In New Zealand ***89% expect to grow*** in the next 12 months

Globally ***optimism is slightly lower at 87%***

While Australian ***expectations are very high at 98%***

Where will growth come from next?

If we truly want to understand where New Zealand's economy is heading this year, we have to look beyond the day-to-day headlines at the bigger picture.

Here in New Zealand, both the economy and business confidence have been buoyed by a long spell of strong growth. The Global Financial Crisis of the late 2000s is a blip in the rear-view mirror and local CEOs have shrugged off recent challenges, from slowing growth in China to fluctuating commodity prices.

Underpinning business confidence has been our transparent and open approach to business in New Zealand, an effort that's been championed by central government. The new government has continued the previous government's commitment to transparency and policy milestones which should give business more visibility on what to expect from Wellington.

This economic cycle has certainly boosted New Zealand businesses, but CEOs now have to ask themselves how long will it last? And are they ready for what comes next?

The good news is CEOs here are bullish on their own growth prospects, even as they are unsure about the global outlook. Confidence in global growth is almost half the international level (32 per cent here vs 57 per cent internationally). What's more, confidence levels around the world have roughly doubled in the last year, but New Zealand has climbed only 10 per cent.

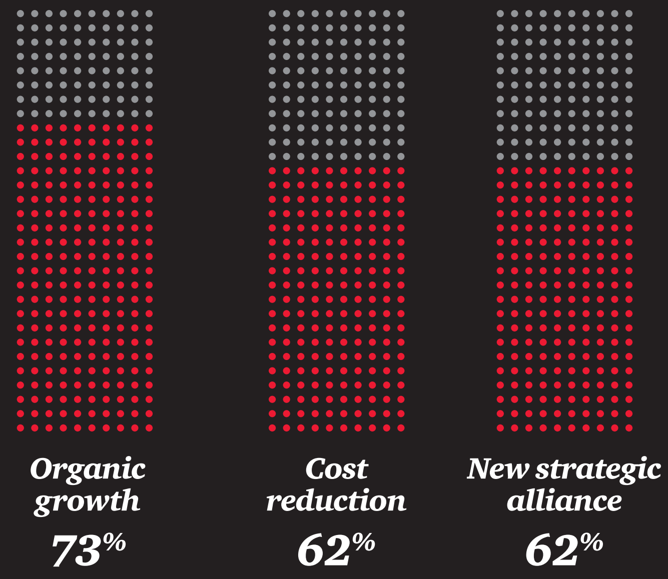
However, New Zealand CEOs are confident in their own growth prospects, more so than their global counterparts (although slightly behind Australian CEOs). While this is an interesting contrast, it supports our anecdotal evidence that CEOs here are looking to what they can control within their business rather than riding global trends, like rising commodity prices, to fuel their growth. 'Organic growth' is still our most common strategy, but we're ranking below the global average and our major trading partners (73 per cent locally vs 89 per cent in Australia and 95 per cent in the USA).

CEOs are instead looking to fuel their business growth by becoming leaner. Cost reduction is now joint second for the most popular growth strategy here in New Zealand, up 20 per cent on last year. This pivot of resources helps to explain why local CEOs are more optimistic about their own growth and less concerned about a fluctuating global economy.

On the other hand, mergers and acquisitions didn't rank highly, however this may simply reflect uncertainty at the time of our surveying last year. Our experience at PwC has been that merger activity is picking up, after a lull in the final quarter of 2017, a lull that's likely reflected in our survey data.

CEOs are focussing on what they can control

Top three growth strategies for New Zealand CEOs:



Top threats *to* ***growth***

	1. Cyber threats	2. Availability of key skills	3. Over-regulation	4. Terrorism	5. Changing workforce demographics	6. Populism
New Zealand	***41%***	***38%***	***30%***	***24%***	***22%***	***22%***
Global	***4th***	***5th***	***1st***	***2nd***	***16th***	***8th***
Australia	***2nd***	***14th***	***1st***	***9th***	***18th***	***6th***

The big risks keeping CEOs up at night

The global economy is certainly doing well – we're in a period of strong economic growth that's evenly spread internationally. We're also in a debt-heavy world. The amount of debt held by foreign governments, along with the artificial levity that Quantitative Easing has brought to the global economy, puts the current optimism on shaky ground. For all the positive sentiment building behind the global economy, the risks are certainly higher now than they were five years ago.

Interestingly, we saw very low levels of concern about possible threats to growth here in New Zealand. We asked CEOs about their risks to growth and, on average, they were much less concerned than their global counterparts by almost half (on average 15 per cent were 'extremely concerned' vs 27 per cent internationally). Across almost every risk we saw lower levels of concern here than in the rest of the world.

While CEOs here aren't as worried as their counterparts about risks to their organisation, two risks have seen considerable growth since last year: supply chain disruption and terrorism, up 16 per cent and 15 per cent respectively. It's perhaps not surprising these two are both so high – for CEOs in a globalised economy, a strong supply chain is a competitive advantage. This is also part of the reason why terror attacks have targeted transport hubs; we're all increasingly reliant on these arteries of global commerce, something that is especially true for a trade-dependent country like New Zealand.

We're expecting that CEOs will be working more closely on building resilience into their supply chain in 2018. Disruption here could come from a terrorist attack, a renegotiated trade deal or environmental pressures. Wherever it comes from, CEOs have to be ready.

The good news is CEOs can control their supply chains. Just like cost-reduction, it's an area where CEOs can prepare ahead of time and future-proof themselves.

Globally, we saw that long-serving CEOs – those who've been in the role for 11-25 years – felt better prepared than CEOs who've held the role for less time. Our local CEOs who took part in the survey were more likely to be in this tenure bracket than the global average, which may help to explain why company growth prospects are strong here and the perception of threats is low. It's worth remembering though that 2009 was the last time New Zealand recorded negative GDP growth, so CEOs with less than nine years in the role haven't had to deal with a downturn in the economy.

For CEOs who haven't yet had to navigate a low-growth global or local economy, it's time to look beyond the next 12 months to the coming years and think about how long current growth patterns will last and how they will respond.

The speed of technological change has seen the biggest shift since 2017, dropping 28 per cent and falling out of the top 10 business risks CEOs are facing (it was the top risk last year). This drop has seen cyber security become the biggest threat to growth.

Terrorism has been the risk that has seen the greatest increase, moving up 14 places since 2017 and entering the top five for the first time.

Who's benefiting from growth?

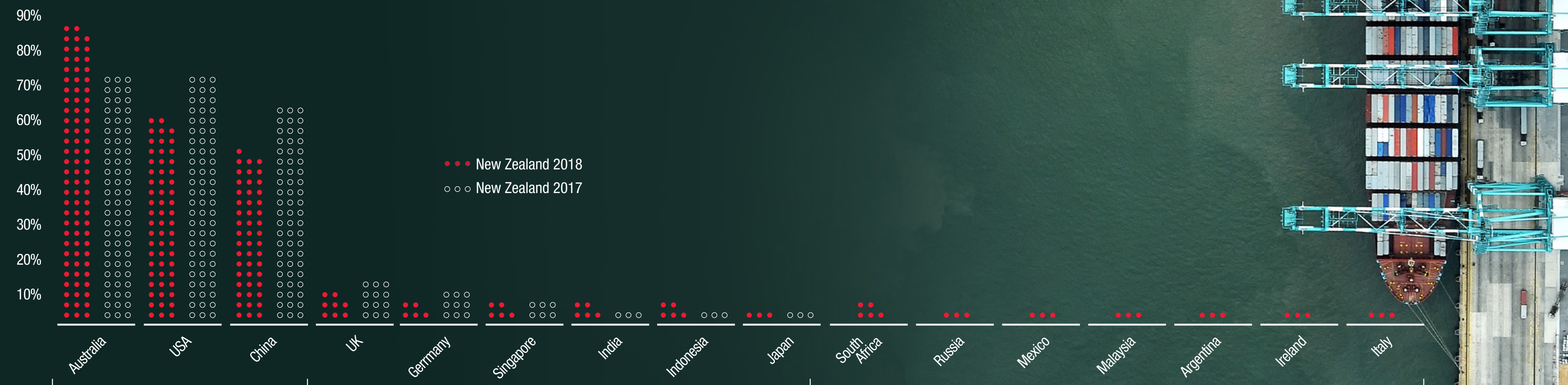
One of the biggest issues business leaders and government agencies are now focussing on is how globalisation and the growth that we've seen over the last decade has benefited individuals. CEOs in New Zealand were divided on the positive results of globalisation. While a majority believe globalisation has enabled universal connectivity (57 per cent), only 11 per cent believe it has helped to deliver universal access to infrastructure and basic services. Across the board though, local CEOs were more pessimistic than their global counterparts. Only 20 per cent on average believed globalisation was helping to solve important social issues, compared to an average of 30 per cent internationally.

The question of who benefits is also something that CEOs will be looking for from this year's Census, which will give both government and business an understanding of how households across the country are accumulating wealth.

There's clearly a lot of debate within New Zealand on the state of globalisation and how it impacts growth. Globally, though, New Zealand CEOs are responding to the increasingly optimistic growth outlook by looking to a much wider range of countries to drive their own expansion. While Australia, the USA and China are still the top three overseas markets, both the USA and China were down on last year. We also saw a much longer 'tail' of countries that CEOs are investing in – economies like India and South Africa – that didn't feature last year. It's a sign of CEOs here hedging their growth plans across a number of economies that are doing well, rather than focussing on just a few key markets.

New Zealand CEOs are investing in a growing number of international markets

Top growth markets for CEOs



Australia is our only major trading partner that is more appealing than a year ago...

Instead, there's a large group of smaller markets that are attacting investment from New Zealand CEOs.

Preparing the C-Suite

Our CEO survey is a chance to understand the conversations CEOs will be having to get fit for the future in 2018. Thinking about CEOs and their engagement with the broader C-Suite, these are the key conversations we see coming out of our 2018 CEO Survey:

CFO

How are we going to manage costs in 2018? Is a merger or a new partnership going to support our commercial objectives?

COO

How exposed is our supply chain to global volatility? How can we build in resilience in the event of an economic downturn?

CIO/CISO

What is our cyber exposure? How would a cyber attack affect our growth plans?

Fellow CEOs

How can New Zealand businesses future-proof themselves against turning economic cycles?

CMO

How transparent are we when we communicate with our stakeholders and shareholders?

Board

How are we managing the emerging risks our organisation faces?

About the New Zealand report

1,293 CEOs from New Zealand and around the world took part in our 21st CEO Survey, completing an online survey between September and November 2017.

The global survey was released at the World Economic Forum held in Switzerland on 16 January 2018. It provides a unique snapshot of how business leaders across New Zealand and around the world are planning for growth in 2018.

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