TONY'S VIEW Business Survey

Input to your Strategy for Adapting to Challenges

Feel free to pass on to friends and clients wanting independent economic commentary

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My Aim

To help Kiwis make better decisions for their businesses, investments, home purchases, and people by writing about the economy in an easy-to-understand manner.

Businesses busy but short of resources

Last week I sent out an invitation to about a quarter of the people on my Tony's View subscribers list inviting them to give insights into what is happening in their business sectors at the moment. The responses show that the underlying strength in the economy is good but there are big difficulties managing resource shortages, and costs are rising. Some of the key points which I have picked up include the following.

- Businesses are increasingly concerned about rising costs due to government regulations, as well as supply chain disruptions.
- Labour is in short supply.
- Most sectors are very busy.
- Residential construction is very strong but beset by shortages of staff and materials, rising costs, and difficulties working with consenting authorities.
- Some buyers are stepping back in residential real estate but there are still shortages of stock.

Accounting & business advisory services incl. business broking

- Clients are stressed with the economy and how it is impacting their business. They are tiring of the governments interventionalist policies and worry where this will end and are finding planning difficult at the moment as they don't know and can't anticipate with certainty what is around the corner. They worry about additional taxes and compliance costs being imposed.
- Businesses reasonably confident with good cashflow, motels in particular busier than pre-covid with domestic tourism due to large number of competitors taking WINZ/Corrections people, construction and related industries very busy, employing new staff difficult across most sectors. Concerns about increasing staff costs, increase in minimum wage and additional leave provisions. Clients starting to understand the additional costs of parental leave on their business. Interestingly we are seeing a lot of clients saying they can't get motivated and feel flat. We are doing a lot more counselling.

Advertising & marketing

- Government pushing hard to get programmes launched and promoted before FYE.
- Clients switching sourcing from offshore back to New Zealand. Shortage of staff. Events happening with more certainty now.

- I'm a market research consultant - 30 years in my own business - no staff. I'm seeing a cautious re-start to spending on market research by my large corporate clients. They were severely distracted by the need to manage Covid impacts with customers and staff and by big revenue hits on their business (travel and healthcare markets). They are only now emerging from the distraction and uncertainty this caused - and are cautiously looking to the future. I don't employ staff, so this is not an issue for me. I'm just waiting for the corporate-spending channels to open fully again.
- Huge consumer demand, less need for advertising.

Banking and finance generally

- Slow down in both investor and first home buyer enquiries. Historic preapproved clients now being successful at obtaining properties.
- Banks are definitely open for business and the cheap funding options made available since COVID (BFS) have had a huge uptake. Whether it's to reduce interest costs of existing borrowings or to invest in more plant and equipment/ automation.

Civil construction/infrastructure

- Principals/Employers are still trying to place all risk on Contractors, including risks that the Principal could manage better. There is lots of work around.
- In the electricity supply industry. Flat out busy, difficult to get qualified staff partially due to pay levels in our region and lack of housing for new staff to move.
- Having stock as a wholesaler is key at the moment. Relationships count as people are going to back up suppliers to secure product.
- Busy times, lack of supplies, lots of price increases and huge demand still for new builds.

Commercial construction

- Strong workflow for established construction firms. Shortage of skilled labour and supervision/management, which is affecting construction timeframes and quality. Suppliers are requiring early engagement in order to secure adequate materials.
- Material availability and price escalation uncertainty impacting our ability to provide an estimate of financial risk to future projects.
- Govt announcing shovel ready projects when there's huge lack of materials. Everyone is at capacity, so prices are increasing massively with contractors picking and choosing what jobs they want while charging triple for jobs they don't want. Trade stores stockpiling materials for a select few customers meaning it's a fight for the remnants.

Commercial Property Investment/Real Estate

- The exuberance of others in the market is surprising and adding to already strong headwinds such as pressure on rents, pressure on amount of space occupiers need and the rise of flexible working.
- Former tenants becoming commercial owner occupiers.

Education and training

- A focus on sustainability with the lack of cash cow students coming from overseas, a focus on customer satisfaction to retain those we have, a focus on digitisation and robotic process automation in order to reduce the number of permanent staff and offer options to customers studying by distance.
- We are looking for staff. Not very much available and who can work and are qualified they have to leave Auckland for PR purposes.
- In international education industry, definitely business is going down.
- More young families having babies instead of travelling, resulting in an increased demand for our services. We also have longstanding short staffing but are seeing more people this year in training in our industry.

Energy

- A quick rebound post lockdown. The industry continues to be competitive.

Engineering

- Lack of resources (staff) in order to have the capacity to do the work should we win tenders etc.

Farming & farming services

- Regulations and labour shortages.
- Dairy farmers are having a positive year with both commodity pricing and production working in their favour. Add to that the saving they are making by not holidaying in the Islands or Australia and they have cash to retire debt or to purchase items they might have delayed in the past. The ongoing outlook into the next few years means they can make some positive decisions about lifting production levels while managing this in a way not to increase their environmental footprint.
- Everyone is comparing it to what it was like just before the GFC.
- Product prices are looking good especially in dairy. Fonterra's capital structure reforms are an uncertainty.
- Good milk price means good cash returns. Land values have been declining in last few years, however seeing evidence of this turning in recent months. Difficult to get staff who want to work on farm in some areas.

- Over-regulation by the govt. Threat from forestry investors buying farmland for carbon shrinking the industry.
- Shipping and container availability (refrigerated) continues to be a mess and a huge disruption to exporting. Ships might be coming on time next week but by the time next week arrives they could have been delayed a week, and then arrive 3-4 days early. Managing bookings, documentation, containers, and transport, let alone our customer is a nightmare

Financial Advice/Management

- Financial services related companies struggling to obtain permanent staff to undertake project work (regulatory-driven and "digital transformation") at a perceived cheaper cost than contractors.

Government - local & central

- Most significant issue at present is what the Government’s COVID recovery plans will mean for the public sector. We are already seeing some of this play out in the public service wage freeze. Such steps will potentially have a massive impact on talent retention in the public service, not to mention associated diminishing of morale. Targeting of the public service, particularly those who operate in the essential areas of health and education, could backfire on the government.

Health

- Fewer Group Sessions going as before due to pandemic.
- More about policy then services.
- Significant increase in supplies as well as constrained supply making buying the goods you want more difficult. In turn you are less inclined to complain about the price increase because of the difficulty in obtaining the goods. Further, it is difficult to pass these increased costs directly on to the consumer.

Horticulture incl. viticulture

- Inability to find staff. Good level of sales, but expenses increasing faster than we can raise prices. To me, that’s inflation.
- Huge labour concerns - lack of suitable individuals (hard working, committed people).

Hospitality

Hospitality I believe has bounced back to traditional sales patterns at least in suburban areas. Fringe CBD is OK with inner city apartment dwellers a good market compared to inner city business being quite quiet due to corporates working from home. In regard to government policy on minimum wage, 5 days additional sick leave and Matariki public holiday starting it means stand alone operators of hospitality outlets especially if the operators are not 'hands-on' will find it difficult to adjust remuneration for those already being paid above minimum wage. As a comparison a hospitality group with numerous outlets can adapt and improve the hourly rates by acquiring new premises. The cost of the wages clerk, HR, marketing and overall management can be spread over more outlets enabling the hourly rate directly attributed to an outlet being higher.

Not withstanding this the historic model for operating a hospitality venue is certainly transitioning. Public bars of the 60's,70's and 80's transitioned to sports bars of the 90's and 00's. Sports bars are now losing the popularity they once had due to the technology of home theatre. Operators in this field have had to adapt to having events, activities that bring people together to share in an experience which might be unique to the venue or at the very least hard to copy in the home environment.

Functions is by far and away the best 'blue sky' opportunity that operators can promote with relative exclusivity.

To achieve relevance in today’s market hospitality operators need to start with a consistent brand and fit out of the premises that creates the 'theatre' then maintain experiences that target the customer base they want to attract.

This doesn't mean the 'theatre' can't be adapted for different daily audiences but to do that it means far more importance needs to be placed on marketing to the segments independently, so overlap doesn't occur and confuse what the brand is trying to achieve. An example is targeting families during weekend days but bands for students or adults say from 10.00 pm on a Friday and Saturday night all the while advertising function spaces that co-exist with the target audience at any given time.

Information technology & telecommunications

- Strong demand for services. Customers are spending again.

Insurance

- Toughening market becoming more litigious.
- Lack of engagement in the regulation changes that is putting pressure on providers to deal with the slackers at the expense of service for those who were prepared. General adviser understanding on what is required is no where near the level required and this will hurt adviser independence.
- Reasonably steady growth assisted by insurer continued rating increases. Compliance issues still problematic & creating productivity issues.
- More domestic households seeking cheaper insurance by accepting less cover, more businesses tyre kicking/shopping around looking for cheap insurance premiums but by trying to hide their not so flash claims history in order to obtain cheaper than last year prices. Other years businesses were happy for prices to roll now they demand cheaper even when it's not possible.

Legal

- From most accounts the property market does seem to have cooled off slightly, however this only seems to be compared to the previous madness of the last 8-10 months. We are still incredibly busy with property transactions. The banks still can't seem to keep up with the demand for their services and if anything, seem to be getting less efficient in most cases, almost like some of them have just given up on trying.

Manufacturing (all categories)

- Slowing demand from offshore customers as they adjust spending priorities post covid. This along with increasing costs in raw materials and labour is putting the business under cash flow stress. Skilled labour is very hard to find, and therefore we are investing heavily in growing our own staff.
- Demand in the new residential & commercial construction is high, certainly in the South Island. Demand for improvements on existing homes is as high as it's ever been. Our biggest issue is finding good staff. Historically we have relied on skilled migrants in certain roles. We are also finding it harder to get visas to retain existing staff with visas expiring soon.
- International shipping both inbound and outbound is getting worse, not better. Impacting sales and customer confidence. Very time consuming trying to keep customers supplied.
- Very busy at present, difficulty getting staff, even for labouring positions, materials are becoming more expensive, and supply is becoming less dependable, particularly material sourced from overseas
- Substantial growth while facing difficulties with raw material supply and continued shipping delays.
- Residential building sector is very busy. We have seen an increased demand for our products across the country. Freight costs for imported components are constantly increasing and delays are very common. Component and finished goods costs from China are increasing anywhere between 5-15%.
- Supply chain challenges. Higher demand for raw materials. Higher input prices but also good environment for price increases so passing increases on as much as possible.

Media

- Ad bookings are increasing, particularly from the travel industry which was a key sector pre-Covid. Great to see this business returning now that the travel bubbles are in place.

Miscellaneous

- Printing & packaging. Increased competition. Increasing costs. Demand picking up again.
- Interestingly enough opposite to your "usual" recession, there's no sign of a weakening demand for services and products, it's the supply which is the struggle for most businesses. Difficulty getting stock in, due to worldwide delays, ships passing NZ, being stuck at sea for weeks due to port congestion, diverted to other ports within NZ or even Australia and trade cycles are suddenly going from 60 days to over 200 days! On top of getting stock, parts, material etc the other major challenge is the very tight labour market. Especially in the primary sector (kiwifruit mainly) with borders still closed, lots of the pickers from overseas are missing. Some infrastructure projects require specialists/ engineers to install specific machinery/plant/equipment, however those from overseas can't enter the country. Doesn't really matter too much what industry you're in, it seems almost each and every business is fighting for the few (qualified or at least somewhat qualified) jobseekers that are looking for jobs. Finding lesser skilled people means having to first train them up, which takes time and costs money.
- Outsource design consultancy. Extremely busy.
- Marine engineering. Still a huge increase of workload across the industry since last year's lock down. A lot of money being spent on high end NZ owned vessels. A lot of vessels being bought and sold.

Mortgage broking

- The FOMO is lessening somewhat in the last two months but the FOOP is getting stronger. Still very busy with equity on paper so people are confident in using or leveraging off it to buy new build investments or upgrade their own home.

- Slight reduction in enquiry, increased success in offers being accepted, fewer investor purchases, continuing high prices.

Property investment

- Wellington Commercial Property. Demand for office space has dropped off Q2 2021; people still concerned about impacts of Covid 19 from a H&S perspective. Noticeably shorter lease terms being asked for, although some inquiry from start ups wanting to move off the kitchen table. CBD retailers still struggling due to lots of working from home predominantly in the public and big corporate sector. New SME's are cautious (uncertainty in market in general - what is the new normal, supply line issues, impacts of a government with a large majority that appears largely anti business / commerce or just demonstrably incompetent). Positive office rental growth on a $ psm basis for smaller (sub 200m2) offices.

Property Valuation

- Change is becoming evident in the residential property market. The commercial market is firm with good investor interest. Very high demand for valuers, long delays to get work done, many valuers turning work away.
- Legislation changes around depreciation applications for commercial investment property.

Residential Construction including section development

- Tapering off demand.
- Strong demand for new builds. Demand for sections far outweighing speed at which new sections being released. Increased cost and supply chain issues for raw materials and products across the industry.
- Increased demand for units/houses that offer opportunities to work from home and larger living space to spread out.
- Consumers are confident, we are finding our client base are happier to spend their dollars on upgrades and additions to their home instead of the usual travel/consumer items. Materials in short supply.
- All trades in Canterbury very busy, hard to find qualified staff, issues buying vehicles.
- Lack of staff and uncertainty due to visa changing constantly.
- Unable to start jobs because of delay in titles and consent processing.
- Shortages of materials. Classic boom/bust construction cycle. We need a recession.
- Land prices have gone up so much. Building supply is in shortage. But overall, the industry is still very strong.
- Import & Distribution Fastening/Construction products. Huge Shortages of materials. Hold ups at the ports of up to 2 weeks which is compounding the supply problems. Way more sales than the ability to supply.
- Its a great time for good businesses to excel, there is plenty of work but minute attention to every detail is critical to succeed. Its a continuously changing and challenging supply-starved market.
- Bewilderment at govt policies re housing development at the coal face Both legal advisors and accountants have no understanding of the new housing rules. Training schemes pumping out poor product. Hard to obtain materials in quantity. A lot of anti Labour govt sentiment bubbling under the surface. Frustration with top tradies keeping an eye on Australia.
- I work in the roof painting and re roofing of existing residential houses. I currently have quite a bit of work on my books but have noticed a drop off in enquiry and new jobs coming thru but have a couple of months work in front of us so not concerned at this stage. I have been trying to find an extra staff member since the start of the year but getting plenty of time wasters and people already employed feeling out the market. I have finally got someone starting on Monday who is a relative of a customer I just completed a roof for. He has no experience and I have had no luck finding a suitable experienced roofer. Trademe was a waste of time to advertise on.

Residential Real Estate

- Enquiries are down and people taking longer to decide on what to buy.
- Confidence with consumers is still strong; people are still looking for transactions/to make deals.
- Stock is in short supply and there is a high demand from buyers. The problem is the vendors won't sell unless they have somewhere to go to, so I am now having to door knock properties.
- Real Estate: with the new rules around residential investment, we're seeing investors pulling back from acquiring new properties. Some are offloading a few (but not all) of their lower-yield properties and pivoting toward new builds, which will invariably be out of town purchases due to the lack of land in this province. Some buyers are taking this an indication prices will fall, although at this stage there's no evidence of a reduction in house price - more a gentle flattening of demand.
- Fewer buyers taking more time to make their buying decisions. Offers coming in lower compared to 2 months ago. Difficulty now is to align sellers' expectations with lower prices and more cautious and fewer buyers. Buyers are waiting and anticipating a drop in prices.
- General slow down of buyer activity, though homes are still selling it is just not the fever pitch that it has been recently. Prices seem to be stable.
- A little bit of wait and see.
- A shortage of property coming to the market.
- Residential investors are very hesitant to buy.
- Confidence returning, strong buyer enquiry, reduced stock availability.
- Less urgency to purchase, sales volumes declining however price points holding not regressing. Investor purchasers have evaporated.
- Buyers and vendors playing a wait and see game, fewer investors active, fewer people bidding and attending auctions and fewer offers in multi-offer situations. However, the sales prices seem to still be there...for now.
- Lack of stock / silly competition between agencies to get listings, starting to see a gap between vendors and purchasers, the market is slowing.

Residential Rentals

- Low number of people interested in rentals. Difficult to gauge a market rent that appeals to tenants. A number of Investors are selling
- Caution
- No problem to rent all residential and commercial properties, high demand in Wellington.
- 1–2-bedroom rentals are very slow to move. This has never been the case in Auckland as they are always in demand. Perhaps younger professionals / workers are being squeezed financially and moving back in with parents or going flatting. Also, there are no mothers with kid/s coming into the country for education from Asia this year.
- The rental accommodation business sees high demand. Compliance costs are increasing and these need to be passed on.
- Extreme uncertainty over the future position of landlords. Tax, borrowing, legislative controls, rent, property values, future demand?
- Rental prices are skyrocketing, and it is hard to keep up with the speed of increases. Usually in winter prices plateau, but this year they just seem to be climbing higher.

Retailing

- Motor vehicle sales. Significant latent demand in market remains, awaiting overseas manufactured whole goods and parts to arrive in country and clear ports. Global demand remains high, and factories are at capacity. Future forecasts are being written down due to active manufacturing management
- Higher investment in inventory to drive higher sales as money is relatively cheap to borrow. Marketing effectiveness is changing rapidly - traditional media is harder to get results from, moving to social media, especially FB & Instagram.

- Appliances. Things are tightening and stock challenges continue
- We are in the retail kitchen business and have very strong demand and sales at the moment just as you predicted in April of last year. Supply of imported and local product has become patchy to say the least. We have lengthened our lead times to account for this but still have product out of stock at times. Some of our large suppliers are struggling to keep up with demand despite their production running at 24/7 they are unable at times to meet demand. Skilled staff /contractors are very hard to source and keep.
- Shortage of product due to the increased sales volumes.
- Service stations. The shortage of available staff and shipping delays, which are impacting our ability to procure the necessary stock.
- Home improvement still high priority for our customers.
- Lack of migrant workers affecting our turnover.
- Importer and distributor. Demand from retailers and consumers seems solid (NZ and AU). However big delays in getting goods from suppliers - East and Europe. Price increases looming. Then there are the shipping cost increases and delays.
- Wholesale/distribution to retail. Massive cost rises in sea freight. Significant price rises in most product purchased. Wage rises, not only at minimum wage level, but this has also ricocheted through all employees to maintain an equitable distance from their peers & new minimum wage. We have implemented an across-the-board markup increase of 4% to cover the wage increases. The freight & product cost increases will be priced into the goods naturally. Estimated overall 10% increase for 2021 in pricing. Here comes inflation!
- Motoring parts and services. Stock shortages. Biggest impediment to growth, probably 20% reduction in sales as a result.

Tourist accommodation & attractions

- Lack of longer-term bookings. Bookings are very short term (booked and staying within the next week) which is not allowing us to have confidence in our accommodation/tourism sector.
- Significant enquires for ski services from Oz, bookings coming in but a lot lighter than 2019 yet. Definite hesitancy due to COVID threat to accessibility. Good number of enquiries, quotes and bookings for conference and incentive groups from both NZ and Australia. New Australian wholesalers want to become resellers.
- Lack of guests due to closed borders.

This publication is written by Tony Alexander, independent economist. You can contact me at tony@tonyalexander.nz Subscribe here https://forms.gle/qW9avCbaSiKcTnBQA

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