Input to your Strategy for Adapting to Challenges

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

ISSN: 2744-5208 Tuesday 17 August 2021

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.

Strong demand, cost pressures and labour shortages

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 the following.

- Business costs are rising across most sectors from a multitude of sources including shipping, labour, and materials.
- Labour availability remains poor, and remuneration is moving higher.
- Sales in the motor vehicle sector are very strong.
- Construction remains as strong as ever across its various sectors.
- Farmers are earning good revenue, but costs are rising, and compliance issues are becoming increasingly problematic.
- In residential real estate comments about slowing activity remain swamped by feedback of strong demand, rising prices, and shortages of stock.

Comments are grouped in the following categories

Accounting & business advisory services incl. business broking
Advertising & marketing
Banking and finance generally
Civil construction/infrastructure
Commercial construction
Commercial Property Investment/Real Estate
Education and training
Engineering
Farming & farming services
Financial Advice/Management
Forestry
Health
Horticulture incl. viticulture
Hospitality
Information technology & telecommunications
Manufacturing (all categories)
Miscellaneous

Mortgage broking
Property investment
Property Valuation
Recruitment
Residential Construction including section development
Residential Real Estate
Residential Rentals
Retailing
Shipping, transport, storage & distribution
Tourist accommodation & attractions
Vehicles

Accounting & business advisory services incl. business broking

- Businesses are doing pretty well with annual accounts being completed. They have worked hard over the last year and their results are pretty positive for the majority.
- Strong buyer activity.
- Recruitment issues.
- The SME sector, excluding tourism based on overseas tourists, are really exceeding the owners' expectations. There seems to be lots of cash available. Most SME owners are not prepared for this and so lots of 'dosh' is being wasted. The cycle will change and that wasted 'dosh' will be 'one of our life's regrets'.
- Employment -- there is no one out there and this seems to be industry wide and worldwide (western).
- Hard to source some products. There are delays getting laptops and printer ink and the cost of items has risen, but firms seem busy and have lots of work coming in. They are keen to get on with work they can do.
- Skills shortage and staff being offered large increases to move to competitors. Business uncertainty among clients s they wait for the government to be clear on the path out of border closure. Supply chain issues hampering growth and service delivery.
- Management consultant - Loads of work, not enough consultants. The pattern of work has moved from travel-heavy to Zoom-heavy and that has opened up new opportunities for NZ-based consultants with specialist expertise to take smaller contracts anywhere in the world. It also means we can access skills from anywhere in the world to service NZ clients - potential to do a lot more of this.
- Concern about the future, cashflow issues, trust issues with local and central government, clients not adapting to changing work environment.

Advertising & marketing

- Digital Marketing services are in high demand and there are lots of opportunities for businesses to operate more profitably. Two challenges though are 1. Clients struggling to hire more staff to be able to services more customers and 2. Limited availability of specialised coding services causing delays.

Banking and finance generally

- Lots of enquiry from developers either settling investment property for future development or immediate construction loans.
- Shortage of housing stock, fierce competition for houses.
- Banks reducing face to face relationships, pushing more and more services online. Reducing banking hours, closing branches. Obviously, fees & interest rates will increase over next 12-18 months. Tick the box Credit Approvals, no gray areas. Experienced RM's leaving, younger RM's lacking in Overall banking knowledge and relationship building skills.

Civil construction/infrastructure

- Increase in subdivision requests and larger projects.
- Huge demand at the moment that does not look to be easing off.
- Lack of finance for larger projects.
- Inability to find experienced skilled workers to undertake all the projects at present.
- Lack of qualified and competent staff, a new generation of people coming through who don't have any drive, common sense or desire to work.
- Increase in infrastructure spending by government at the same time that access to skilled professionals is tight. Extremely difficult to recruit offshore due to government border restrictions. Local resources are at capacity. Salaries and poaching of staff on the rise as companies try to secure the limited pool of resources. Construction costs and supply chain issues increasing.
- Staff shortages, material shortages and intense wage and supplier pressure.
- Market is booming, opportunities arising from seemingly nowhere, securing enough skilled staff is the main handbrake.

Commercial construction

- Strong demand. Staff shortages. Inflation with obtaining supply more important than price- lots of price increases.
- Commercial and Industrial Trades Services - High demand for services. Lack of resources, weaker competitors struggling to deliver and stronger companies finding it easy to pick up work. Market poised for massive growth but severely constrained by lack of resources.

- International confidence seems to be increasing, we are seeing projects that have been parked with covid slowly starting to come back online and sales increasing, but still well down on pre covid.
- Lots of work out there, significant challenges with timely availability of imported components. Shipping cost increases driving up to 30% price increases for some products.

Commercial Property Investment/Real Estate

- Commercial rentals. The inability to pass on the full OPEX costs. Business is struggling under the weight of operating costs and levies.
- Steady as she goes.
- Higher demand among buyers for commercial property.
- Commercial, industrial and retail tenants all steady. No one seeking rent relief or failing.

Education and training

- ECE Sector. Cost/price squeeze. Wage cost increasing, other input cost increases due to supply chain issues and customers sensitive to price increases.
- Business generally running along at slightly above 2020 levels.

Energy

- Significant materials increases (Solar Panels), but a glut of people willing to retrain and enter our industry.

Engineering

- Everyone I speak to is flat out. Its like the UK in the 80's. We are struggling to handle people ringing up wanting to buy things and have them installed. Its the best year in the company's 30+ year history.
- Mainly site work jobs, not many large ones.

Farming & farming services

- Critical shortage of skilled staff.
- The income side of both dairy and drystock is very positive and at present the weather is cooperating. The negatives are the difficulties finding staff especially in dairy. Many visa holders are leaving for Australia or Canada which both have more permissive residency criteria. There is huge cost inflation at present especially wages & fertiliser. Interest rates look like heading north too. So it's anticipated that the extra income will be eaten up by inflation. The market for dairy

farms seems to have picked up, with many potential buyers and not much going on sale yet. Carbon farming is pricing hill country farmers out of the market.
- Agriculture returns are strong across the board but the compliance requirements and govt changes that impact farming just keep coming.
- Increasing costs across the board. Labour shortages. Increasing compliance costs and regulations. Uncertain market conditions.
- Aquaculture - Low export prices, freight logistics and huge increase in freight costs, labour shortages skilled and unskilled, increase in compliance costs especially from regional government and increase in regulation. This primary sector is struggling both at farming level and processing level.

Financial Advice/Management

- People are still willing to take on lending for buying property despite the media assertion that the market is going to come to a screaming halt. Rising interest rates are causing a few people to "freak out" as if the sky is falling in even though we are at historical lower levels still and banks have been testing everything at much higher rates for the last 7+ years.
- Low interest rates resulting in more client-lead enquiry.
- Continued flow of funds away from deposits and into financial instruments such as shares and bonds.
- Tightened supply chain, in all links of chain, both quantity and timeliness suffering, notably in import of intermediate g & s. Continued dearth of investment opportunity in acceptable risk assets exacerbated by perception of over valued equities markets. Well known labour market shortages notably in experienced and middle manager tiers with long pipelines to trained new entrants. Uncertainty for investment from ad hoc nature of public policy, instability and volatility of public policy views.

Forestry

- While export log prices continue to be volatile, NZ domestic market for logs remains very steady and very strong and is expected to be that way for quite a while yet. Forest owners in the main forest centres are very fortunate in having good quality domestic processors on their doorstep and will continue to support them going forward.

Government

- Huge demand for contractors, limited ability to gain staff on a permanent basis.
- People taking the chance to start their own business due to COVID redundancies.
- Shortage of overseas materials.

Health

- Limitations on hospital facilities and hospital staffing, is hampering our ability to grow.
- Optometry. Still appears to be steady demand for products & services and not much supply chain delays.
- Few people applying for jobs advertised, applicant numbers way down, and none with right qualifications so short staffed. Business revenue still not recovered to levels from pre-Covid lockdowns. Operating with 50% staff compared to pre Covid lockdowns. Trades or repair people appear busy so take days longer before can get anyone out to repair anything. Many customers and staff have been ill this winter and for longer periods than normal. I know other small business's are also finding we are the meat in the sandwich and their is little meat left, i.e. we are caught between on one hand, wealthy commercial landlords still going about their business with little regard as to the detrimental impact they have on their tenants business and on the other hand, the many governments policy changes, resulting in increased costs & wages so making it hard to be profitable.

Horticulture incl. viticulture

- We supply horticultural products. Sales up but supply issues with sourcing and shipping goods. Shipping costs going through the roof along with erratic delivery.
- Local food supply industry - sales have returned to 75% of pre-covid, Lack of tourists still having impact on sales. Lot of cost increases, Labour, Freight, compliance costs, all of which has also impacted on raw material costs. Sale price all time high, partially due to usual seasonal increase but higher than in the past to cover these costs. A portion of these price gains will defiantly remain as seasonal supply increases at a guess I say 8-10% range on previous years prices.

Hospitality

- Cafes, bars, and restaurants - Turnover up significantly since covid. Quietest week (but still OK) has just been after school holidays and mention of interest rates rising.

Information technology & telecommunications

- Stiff competition for quality resources.
- Insane growth but cannot find enough talent to fill the vacancies. Even with this labour supply/demand imbalance, salaries are not moving upwards at any decent rate. It seems NZ employers keep wanting to pay employees with annual increases less than inflation.
- Significant demand by customers to enable new ways of working given the shift from working in offices to working remotely. Customers IT infrastructure is not fit for purpose for this prolonged working style. Customers cobbled together solutions to get through the initial burst of lockdown

now they need permanent solutions that are robust and secure. The volume of work is leading to labour shortages which is causing salaries to increase above inflation. Supply chain constraints are troublesome which is causing Customers to order before Christmas for June delivery. There is a large project demand which cannot be solutioned due to lack of skilled resources. Customers are also trying to make sense of the multitude of offers in the market and settle on what is right for their business. The industry has not yet solved for in person on the ground in New Zealand and what can be delivered from offshore. In summary there is a wall of work out there that cannot be delivered.

- A focus from all sectors (SME through enterprise and government) on transforming their businesses to operate more effectively in a digital world. Many enterprise customers are realising that their legacy systems need upgrading so they can continue to compete with newcomers. A couple of random examples would be reducing churn in the energy and telco sectors (currently greater than 20%) through to the requirement to enable digital IDs for touchless sign-up to services ranging from new bank accounts to loans and government services (MSD benefits etc.)
- With security incidents getting some media attention there have been more organisations making enquires about cyber assurance, assessment and testing services. So business has been quite solid so far this year.
- Short of skilled workforce.
- Lower-level staff lured away by more money, then need to pay more to replace them.

Manufacturing (all categories)

- International freight pricing remains ridiculous, the freight costs more than the goods being shipped. Some materials pricing (stainless steel in our case) is the same. The uncertainty around pricing is starting to affect our sales/quoting process as we're simply unable to offer a fixed price for some things, or straightforward job is now a lot more expensive due to materials cost.
- Excessive cost increases both locally & Internationally. Shipping issues and local labour sourcing. In and amongst this the market in our category remains buoyant.
- Some material shortages, price increases across the board, some wage increases.
- Increased demand for value added food products.

Miscellaneous

- Retirement Living and Aged Care - Staffing issues beyond anything experienced in 30 years. Steady demand for services and product.
- Entertainment. I work mainly in international Film and TV production. It feels like a covid backlog has coincided with a massive surge in streaming service popularity. The reworked business model has streamlined the process of the production company getting the end users money. In the old days it would be advertising dollars paying a tv network to pay a production company to

make the show. Nowadays, the viewer is essentially paying the production company directly, resulting in way more productions with much larger budgets. Great for us lowly technicians. "

- Immigration consultancy. Clients are nervous and want to secure their immigration status in New Zealand. Some are giving up and returning to their home country as their family members are repeatedly being declined entry to New Zealand. Employers are keen to hold onto their skilled staff. There is some poaching going for skilled workers and employers are increasing their offers to retain them or face losing them.
- Wholesaler. Shipping delays, increasing labour costs, increasing local transportation and packaging costs, unpredictable demand.
- Retired - A marked increase in basic living costs including rates, power, insurance, petrol, and just recently groceries. These are all necessary to exist and super does not get any increase until April 2022 if we are lucky! Coupled with this has been a noticeable decrease in interest rates where one has funds invested. One has to take into account age and health when placing funds in the share market. The other very big issue is the continued increased cost of housing and availability. We have our names listed at 4 different retirement villages in the Waikato and the chances of having a place to go to is diminishing by the week. As seen on the media today cost of acquiring an apartment in an Auckland village is just plain stupid.
- Importer & distributor - Supply issues on whole products & components, manufactured in a range of countries, but mostly SEA and China. Freight delays on shipments due to shortage of ships coming to NZ and also delays at ports (TGA & AKL) If we had the product here, we could sell it twice over. Product arrives and goes out immediately to retailers. If they didn't indent it, there's almost no opportunity to restock. Manufacturers are telling us that component delays are severely impacting their ability to assemble and supply. Some factories are completely shut due to covid.

Mortgage broking

- Market perhaps cooling with expectation of higher interest rates. Bigger loans.

Property investment

- Labour and material supply delays.
- An ongoing supply shortage of commercial property investments across the full range from vacant properties to fully leased properties.
- High prices - intense competition - overseas investors

Property Valuation

- Plenty of work, all commercial and residential clients have a great deal of confidence. Low interest rates making ownership or investment a sensible option so demand for property is high, even the stuff that has been on the market for a few years. Projects are ok. Plenty of investors wanting to buy a good property. Yields are the lowest possibly ever, definitely for the last 40 years. Demand greater than supply. To take the money out of the property market, interest rates need to rise.

Recruitment

- Strong persistent demand for IT folk, pretty much across the board with focus on Data, Cloud and Security and UX/UI.

Residential Construction including section development

- Going like a train, keeping up is the challenge.
- Town planning consultancy advising developers - Record high work volumes, difficulty in sourcing good staff, significant salary inflation. Council cannot retain staff and thus whilst applications can get into Council, they take even longer to get out.
- Demand for sections is very strong with nothing available in wider Te Puke area (limited house and land packages selling but not built till next year). Rural property also in very short supply between Tauranga and Matata; especially anything with kiwifruit. Desirable properties attract a lot of interest. I believe the market pricing would normalize if the inventory had a chance to replenish, however, new land supply is minimal. I believe we will see/are seeing a reduction in building and subdivision consents due to dire land supply restrictions leading to less new house construction in our area. This may lead to an extension/worsening of the existing market shortages. There are currently 15 - 20 residential properties for sale in Te Puke, in 2017-2018 this would have been around 100 which was a strong market then, by summer 2019 this was down to 50 (before covid) which was a bad shortage. Plenty of surveying work still coming through but possibly less front-end work from building companies. Solicitors seeing some slow down in dealing, probably due to limited sales due to constraint in market listings now affecting transactions, but I hear solicitors are getting repeat work from clients missing out at auctions. More generally, very limited large development land opportunities on the horizon in Papamoa and Te Puke for residential housing so hard to see how the current supply shortage will change in the medium term (from the supply side). Inflation of pricing is definitely happening. It has been normal for a while to struggle to get any trades for routine work. Builders, plumbers, electricians' prices steadily ticking up. Our area is probably leading the way here. While not our industry, I hear from clients that kiwifruit picker wages are up to $35ph now.
- Labour & material delays and shortages.
- Lifestyle subdivision. Significant strength as strong as we have seen since the end of lockdown. Still strong desire to have space possible prep for some with expectation of delta.
- We work on small to medium scale land development projects. We feel the height of the section market may have been hit in our area (Wairarapa), with recent sales involving multibids and auctions setting prices very high, buyers now seem reluctant to pay this price in a standard negotiation, so some sections are sitting on the market. We are not proceeding with any new projects at present as development land is scarce and highly priced and we don't have certainty that high section prices will hold until the completion of any project - we base our projects on an 8-to-18-month cycle depending on timing with the contracting season. We also found engaging a contractor a problem with our last project as contractors are not able to find new staff to meet the current work, creating delays for many.
- Compliance and processing with council very slow and challenging.
- Other developers seem to believe that the prices will continue to rise and are still paying out large sums for land. This might be risky in an era of rising interest rates.
- Expecting shortage of key building materials so we start stocking building material for new coming projects. Slow response/process from Auckland Council, Watercare, Vector.

Residential Real Estate

- Lack of listing stock.
- Still lots of interest, lots of eager customers for the right product.
- Quieting down.

- Not as many buyers, not in a hurry. Needing builders reports to satisfy the banks.
- Listings have slowed down.
- Increasing FOMO, multi offers, scarcity of listings.
- Market is currently fairly buoyant, but not as hectic as has been.
- High demand with a shortage of properties available to choose from.
- Listings are approx. 92% less than they were Oct 2010 when listing numbers peaked. August 2021 about 340 listings in the entire Far North with an estimated 50% under contract and then 50% of the remaining listings multi listed (more than one company) which would leave 85 properties (houses and sections) actually available in the Far North.
- Listing volumes are increasing.
- Buyers looking, but still a shortage of listings. Some vendors have unrealistic expectations.
- Sales have been very good in this region with multiple offers for each property but not many new listings coming up which will reflect into a slowdown in sales.
- Lots of new real estate salespeople coming in thinking it is boom times for all - the fact is the market is saturated with agents already & it will be a lot harder than they think to become established.
- Steady & consistent, traditional winter lull (last week & this only).
- Here in Papamoa, the number of listings of residential properties have nearly doubled since January but are still below 80. Crazy selling prices are still being witnessed at Auction which in Tauranga is the favoured and most transparent way of achieving the best price for the owners. In our company sales via Auction are still strong if last weeks session is anything to go by - nearly 90% sold under the hammer. Likewise more than 90% of the advertised open homes are an Auction method of sale. Overall inventory remains tight; time taken to sell runs from a few days to a month and as alluded above, prices are not falling or even plateauing. Demand is still out-stripping supply.
- Market is definitely slowing down. Where one-bedroom listings were receiving 50 enquiries in a week., a recent one-bedroom listing on the market has had 5 enquires in the same amount of time.
- Still plenty of buyer demand, (although to a slightly lesser extent) with an increasing shortage of listings. This is creating price competition still. Mostly home buyers, but still a few investors. Sections wanted, but nothing available.
- There is a serious shortage of listings so with strong demand, prices are holding well if not increasing. There is a concern that interest rates will increase so there is a degree of urgency with buyers.
- FOMO, Investors are back in the market and are very active.
- Even more desperate shortage of real estate stock, with the spring influx about to come to market. Will an influx of new listings ease the upward price pressures?
- Lack of stock coming to the market, people are staying put as they can't find anywhere to go that they can afford. Cheap commission companies not giving a good standard of service or care to both the vendor and purchaser no skill involved because properties are selling themselves within days.

Residential Rentals

- Lower quartile rents increasing at a faster rate than other rents due to diminishing supply of rental properties at the lower end of the market - the government has no sustainable answer to this problem & only offers handouts & unsatisfactory emergency accommodation.
- Government interference is causing a great deal of uncertainty. Please just let us get on with our job of providing good quality rental accommodation.

Retailing

- Retail still very strong, people are still spending. Lots of cash around.
- Market softening a tad and very hard to recruit good staff.

Shipping, transport, storage & distribution

- Significant pressure on international shipping with both costs and availability. High demand for domestic transport services.
- Still experiencing significant shipping disruptions with vessels deviating from schedules as well as omitting certain ports, however in the Container Transport and Warehousing sector we are experiencing volatile periods of extreme busyness. We are having to be responsive and extremely flexible for our export customers and as such have seen an increase in linehaul container volumes in order for our export customers to meet vessels. We see unpredictable import volumes due to discharging disruptions, which will have a negative impact on retail and construction customers.
- Global supply chain disruption is significant and likely to last a long time. It is making operating difficult and causing our customers problems. Shipping costs keep rising, though at a slower rate than before. No-one can predict when things will go back to normal. Just when you think things will calm down, some new crisis happens. A ship blocks the Suez. Vietnam gets lots of COVID. China gets some COVID and shuts down. A delta outbreak in NZ - especially at one of our major ports - would cause chaos. Though no-one knows for sure, most people are picking that the shipping disruption and delays will continue well into 2022. Labour shortages are the other big issue. Closed borders are killing us.
- In response to customer demand and increased business we need to increase staff numbers, however we are experiencing a massive shortage of suitable candidates and lots of unfilled vacancies.

Tourist accommodation & attractions

- A lot more vacancies in boarding house rooms. Takes a while to find good tenants for residential. Expenses going up a fast pace - rates, insurance, power maintenance. Supply issues for things like showers and extraction fans.
- Inbound tourism operator - zero business due to borders shut, ongoing since March 2020, will not change until international leisure visitors allowed to enter NZ.
- Can't find staff to do cleaning at $24 an hour.
- Price growth - reasonable demand - labour shortages.

Vehicles

- Inflated demand and constricted supply driving pricing increases.
- Cars are flying out the door! Shipping and production delays are keeping some customers waiting for stock to arrive, but it does not seem to be a deterrent. It has been a really strong year.
- Massive increase in spending.
- Lack of trained staff.

Links to publications

Tony's View Spending Plans Survey

Tony's View Business Survey

Tony's Thoughts Vlog

REINZ & Tony Alexander Real Estate Survey

Oneroof weekly column

mortgages.co.nz & Tony Alexander Mortgage Advisors Survey

Tony Alexander Regional Property Report

Valocity Valuer Survey

Crockers & Tony Alexander Investor Insights

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