Input to your Strategy for Adapting to Challenges

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

ISSN: 2744-5208 Monday 13 December 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.

Businesses grappling with many operational issues

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. A smaller than usual number of responses was received (74) which probably reflects the approach of Christmas and many people feeling tired and looking forward to a break from the great number of operational difficulties businesses are encountering.

My interpretation of the responses is that they mainly show the following.

- Labour availability remains poor and is constraining business growth.
- Supply chain problems remain strong.
- Businesses are increasingly frustrated with compliance and regulation rules and costs.
- Demand for residential property is easing off.

Comments are grouped in the following categories

Accounting & business advisory services incl. business broking
Banking and finance
Civil construction/infrastructure
Energy
Engineering
Financial Advice/Management
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
Tourist accommodation & attractions
Vehicles

Accounting & business advisory services incl. business broking

- A business broker. Very little enquiry even for very good medium sized very profitable businesses. Owners of businesses are very reluctant to commit to selling unless its a genuine almost forced retirement situation, hopefully with interest rates rising the issue of what to do with my cash if I sell may wane. Overall confidence seems fairly soft.
- Hesitant customers - as they navigate big impacts on their businesses (retirement villages, travel).
- Clients are tired and need more certainty from the Government about the path forward. There is a lot of nervousness about changes next year and the potential impact of the drop in consumer activity in the new year, and the impact on cashflows.
- Very busy in Business Brokering / Financial Adviser sector. Banks & non-banks have certainly tightened up their credit policies & are taking less risk. Everyone still getting to grips with new CCCFA Legislation as well.
- Too much to do.
- Christmas rush. Short span of time for border opening before Christmas.

Banking and finance

- Too much time spent on, and customer relationships being strained by, excessive demands for compliance.

Civil construction/infrastructure

- A lot of projects around Auckland but not enough experienced HR resource available to undertake all the work.

- Very busy time, fewer contractors are pricing for work as they are too busy already. Staff/resource shortages are slowing progress on some projects. Materials prices have greatly increase and seem to continue to increase.

Energy

- Labour shortages. This includes low numbers of applicants for trainee/apprenticeship roles. Sometimes struggling to attract people of the right quality/calibre. Closed borders are going to be a major issue in 2022/23 in preventing recruitment of skilled labour. Linked to the shortages are spiralling wage/salary costs. We are having to promote/increase pay to try and retain people. Supply chain issues are becoming worse over an ever increasing range of products. Cost of materials is climbing, and at rates above inflation. Increasing costs of doing business - sick leave, Matariki, now possible 'Social Insurance'.

Engineering

- Council delays are having serious implications for the feasibility of small commercial construction projects. Often taking 3 months to get a consent with councils blatantly ignoring the Building Act time limits. MBIE appear to be turning a blind eye to this and there are no avenues available for legitimate complaints. Councils are requiring unreasonable upgrade works on existing buildings in order to get a consent. Some recent examples add a third to the original budget. Due to costs and time pressures the options of going for determination is not feasible. Councils are taking advantage of this. Clients are wary of complaining for fear of it prejudicing future projects.
- Busy.

Financial Advice/Management

- Riding through for the long-term view. Anticipation of Global Infrastructure investment. Quality Equities at bargain prices. Strengthening of overseas currency for investments already held offshore for added compound growth. Expected moderation of interest rate increases otherwise businesses may have to increase prices to stay afloat adding to already high inflation pressures. More and more Clients seeking advice with less and less Financial Advisers about - a wee conundrum...

Health

- Increase in clients needing help.
- Very busy with clients and more high end treatments than normal.

- Covid increase our business.

Horticulture incl. viticulture

- Accelerating costs of labour, services and materials in a domino like effect. Innovating to deal with unpredictable labour force attitudes towards quality & efficiency. Similar attitudes emerging from some service providers - suspect this is a cross industries challenge. Compliance efforts, primarily in time spent to provide/clarify the same type of information coming from all quarters, not just local & central governments, without standardised formats or emphasis on standardised data sets/processes.

Hospitality/entertainment

- Events. Huge uncertainty with low client confidence. Planning is challenging and the Covid Pass complicates it more (although necessary). Skilled staff shortage as many have left the industry.
- Cafes, bars, and restaurants. Total confusion with this traffic light system if you can call it a system. Angry people.

Information technology & telecommunications

- COVID-19 Delta and the Auckland lockdown have slowed decision making, but existing business remains steady and continues to grow.
- After a big rush to invest in digital there is a huge demand for talent slowing the industry down and making digital even more unattainable to customers. With that companies knowing they need to invest in digital avoid it slowing the adoption.
- Increased costs of regulation impacting on our customers' ability to write business, which directly impacts our business. The knock-on is that focus is internal rather than on building value through growth. Overall costs to serve have remained steady in my industry. There's a feeling that Auckland is ready to 'burst forth' and close down earlier for the Xmas period to escape the eternal lockdown. I'm still hearing from customers in building and construction that material costs are increasing, and supply issues are compounding their inability to deliver projects on time.

Manufacturing (all categories)

- Some pent up demand, a more considered buyer. Shipping delays and continued cost increases.

- Demand is robust + 20% $YTD. High inventories to try and offset inventories outages due to raw material supply uncertainty. Continual rising costs of all input goods. Trying to accommodate staffs' issues with childcare due to the school attendance debacle.
- Very high demand (Building & Construction Sector), rising international materials & shipping costs, scarcity of labour and increasing wage & salary rates.
- Staff shortages, product shortages - otherwise positive and very busy!
- Increasing costs and staffing constraints.

Miscellaneous

- Business & home services; cleaning, lawn mowing. Immigration constraints impacting labour availability - hard to find people. Significant cost increases [compliance, minimum wage, CPI] eroding margins & market unwilling to take up price increases. AKL travel restrictions impacted ability to service / grow outside Super City.
- Professional services - environmental and engineering consulting. Potential incredible demand driven by various challenges and legislative changes (environmental challenges, historic underspend in infrastructure, transport and housing demand, plus a bit of climate change for good measure!) plus resource scarcity caused by restricted immigration.
- Landscaping and grounds maintenance. Lots of work coming in, cannot find any extra staff even for unskilled work, costs rising and suppliers increasing prices but customers understanding at present, but I feel that will change next year and reputation/ quality of work will become even more important to secure work. Upskilling and treating staff as well as we can, always looking at how we can be as efficient and cost effective as possible

Mortgage broking

- Absolutely everyone including all the banks are totally confused with CCCFA rules. This has been admitted by a big bank openly. The lenders are so scared of doing one thing wrong. So they would rather decline than approve any loans. For the advisers, it is better not to do anything. Why do we waste our time talking to the clients, collecting all the information, spending hours or even days loading through the complicated CRM, waiting in the banks' queue for 2-3 weeks, and then only to get a decline or heavily reduced loan amount from the lenders? This is frustrating. The CCCFA is not designed for Home Loan products. It might be suitable for small unsecured consumer loans, but not for home loans, not for residential investment loans. It needs to be amended, if not completely abolished. No joking.

Property investment

- Demand for industrial property is exceptionally strong, both tenant demand, owner occupier and as tenanted investments.

Property Valuation

- The tap seems to have been turned off significantly for residential valuation work in the past 3-4 weeks. I think people may finally be waking up to the fact that bank fixed interest rates have increased significantly recently. New lending criteria from banks seems to be causing issues with borrowing money.
- Property values higher than ever, but some buyer hesitancy now interest rates are starting to rise. Anecdotal evidence that banks have stopped/reduced lending so this will slow the market. Building product shortages causing disruptions in the new build area and higher material costs leading to higher construction costs. Lucky values are so high. Rents are showing big increases in the industrial sector, modest increases in the office sector and nil in the retail sector. Good demand for industrial property, the other areas are a bit selective, building, location and tenant factors important.

Recruitment

- Tight labour market with skill shortages across the board. Permanent recruitment down considerably with most companies short of staff but reluctant to put permanent employees on their books without the confidence of viable future business. Also the cost of deploying permanent staff can be catastrophic for a business if business declines due to a number of factors including covid restrictions and supplies of materials and product. As a consequence most recruitment businesses with labour hire or contract business are doing very well with many ahead of pre-covid levels.

Residential Construction including section development

- Lack of resource both in builders & building materials.
- Plenty of work coming through however major labour and supply chain shortages.
- Consultants are flat out, can't give enough time needed for a project. Material supply also need long lead time, catch contractor out.
- Architect. Despite residential real estate slowing over the last 2 weeks, we have retained design work on all residential development projects (so far), social housing, apartments, retirement, aged care - all connected in with house sales; Construction/material costs rising, supplies not always available, experiencing delays - frustrating some projects

Residential Real Estate

- Strong interest from high net worth purchasers primarily NZ based, Non-resident Kiwis and Australian. Opportunities in the top end of the market are thin on the ground and prices are still under upward pressure.
- General buyer slow down. Increasing number of listings.
- Banks are making lending harder and FHB enquiry has slowed down. Investment buyers are slowing down and selling some properties. People seem to be fatigued and just a bit "over everything".
- Business demand levelling off coinciding with the close of the calendar year. This is consistent with previous years.
- High demand short on listings.
- Caution, uncertainty creeping in.
- Dropping demand, Finance harder; More cautious buyers.
- Buyers are more circumspect. There is a greater choice of listings so they are identifying property that will suit their needs for a reasonably long period of ownership. The developers have slowed dramatically and are seeking very long settlements. Residential and lifestyle prices have had no real change but slower interest. Auctions are working well with pre auction offers being presented and accepted. 66% of pre auction offers are sold to the original purchasers but at a higher value. There is competition. The auctions require experienced management. Overall the real estate market looks good.
- Uncertainty about what will happen in the market in 2022.
- Slowing down of the market, buyers finding it tougher to get finance, not having the right deposit and worrying about the higher interest rates.
- Increase in listings.
- High levels of stress and uncertainty, nobody quite sure of economy, worries about inflation and interest rate rises and possibility of recession.
- Listings slowly increasing but buyers much more conservative. Rising interest rates cited as an area of concern and worries that this is a property bubble in Nelson.

Residential Rentals

- Increased rents, shortage of supply and a government fuelling the problem due to lack of a general understanding of how markets operate.
- More disruption to our ability to operate by the government this time via the privacy commissioner.

Retailing/wholesaling

- Spending is improving nicely. Supply chain issues are growing. Investing in stock is becoming critical for survival, this obviously implies large upfront outlay.
- Ongoing price increases from overseas suppliers, increased freight costs, shipping delays.
- Down 30-40% still with people working from home. Wgtn based coffee business. It's going to get worse with Covid to spread thru the country before we come out the other side. I see comment about coffee going to $7. Hmmm. Not too sure customers will wear that. Expect them to shop around if that happens.
- Slow and restricted supply chain.

Tourist accommodation & attractions

- Needless to say we are operating on fumes as the Borders remain closed. The recent Govt announcement of gradual Border openings have seen a muted response as customers take the wait and see approach. In addition, having to self isolate for 7 days upon your return to NZ has also dampened the desire for people to book travel. This 7 day restriction will affect inbound tourism more, as very few travellers will be prepared to sit in a hotel/motel room for 7 days before they commence their NZ holiday. Considering tourism was a vital part of the NZ economy pre Covid, it beggars belief that the Govt have largely disregarded it. For tourism to work, it requires both an Inbound & Outbound flow, and one of the biggest concerns is that Airlines that previously flew into NZ will look to other markets, resulting in short-term capacity shortages and higher prices. Given time that will self correct, but the short term outlook is less options and higher prices. 2022 will still be tough, with the belief that a majority of NZers looking for an overseas break will travel to the Pacific, Australia, Hawaii and possibly some Asian cities. Roll on 2023!!!
- Depression. Despair. No visitors. Bad sentiment. Uncertainty. Prospect of a low revenue summer school holidays. Many putting on a brave face.
- Summer hire business Wgtn. Very seasonal. Make most money during summer school. holidays. Wet and windy spring followed by slow start to summer. Still no cruise ships or international tourists. Doubt substantial visitors from other regions due to covid situation. So expecting two summers with very limited trade. Business to close at the end of this summer. Not sold as going concern. Will try and sell second-hand stock. Lick wounds. Personally have pivoted to become an essential worker as an employee to keep head above water.
- Absolute frustration of no clear pathway ahead reinforced by the relief of finally a plan of sorts. Problem is we can be shut down with 5 hours notice, so many are too scared to book unless can get a refund (fair enough).
- Outbound travel. There is still too much uncertainty (and a lack of confidence in the Govt) about borders and home MIQ requirements. The move away from the original thinking of allowing low risk travellers to come into NZ without isolating for 7 days is madness. The lack of export earnings through no visitors, no new international student arrivals (and their families visiting) is going to hurt the NZ economy long term. We are along way away, and not as favoured as many people believe, so need to be open and welcoming. The lack of airfreight (or high cost) is also hurting distribution, and we run the risk of airlines diverting reduced capacity to other destinations. While there are some green shoots of demand for International travel, Govt action is too slow and conservative (they have created a sense of general fear and appear unable to change public opinion or actions even as vaccination rates increase).

Vehicles

- Strong demand, customers are willing to wait for product (partly because competitors are in the same boat). As a result, margins are holding well with little incentive to discount. International logistics as well as internal distribution are a major challenge.

Links to publications

Tony's View Spending Plans Survey

mortgages.co.nz & Tony Alexander Mortgage Advisors Survey

Tony's View Business Survey

Tony Alexander Regional Property Report

Tony's Thoughts Vlog

Valocity Valuer Survey

REINZ & Tony Alexander Real Estate Survey

Crockers & Tony Alexander Investor Insights

Oneroof weekly column

Tony's View Portfolio Investment Survey

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