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 15 November 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 busy but under worsening cost and resourcing pressures

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

- Labour is increasingly hard to find, wage rates and salaries are rising, and poaching of staff is increasing.
- Shipping delays are getting worse and shipping costs still increasing.
- Discontent with the government is strong across many facets.
- Banks are tightening up criteria for lending to the business sector.
- The frenzy continues in residential real estate with only an occasional comment that heat is easing.
- Widespread inflationary pressures.
- Hardly anyone has mentioned rising interest rates or debt levels.
- Very strong demand from investors for commercial property, but current owners unwilling to sell.
- Some developers are putting projects on hold.

Comments are grouped in the following categories

Accounting & business advisory services incl. business broking
Civil construction/infrastructure
Commercial construction
Commercial Property Investment/Real Estate

Education and training
Energy
Engineering
Farming & farming services
Financial Advice/Management
Health
Horticulture incl. viticulture
Hospitality
Information technology & telecommunications
Insurance
Legal
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

Accounting & business advisory services incl. business broking

- Some clients going well, some struggling.
- We were asked the other day for advice given our experiences pre GFC. Boomers have seen a lot and our experiences will prove useful to our clients.
- My client base is mainly construction and related where I act as virtual CFO. Supply chain and qualified staff issues are becoming worse with more delays, committed supplied being diverted and staff leaving, e.g. returning home overseas, not being able to be replaced because of the MIQ fiasco.
- Staff shortages, client supply issues, pressure on margins.
- Higher wages pressures building and higher costs and some shortages of capacity.
- Workload is very high and access to extra trained staff is limited.
- Cash flow pressures will be extreme Jan thru May as small business traditionally Pays 2nd and 3rd Provisional Tax, 3 lots of GST, Holiday Pay, and Terminal Tax funded by with low sales income being generated over the traditional NZ business Xmas shutdown and banks

unwilling to lend. Business response for many will be to not file with and or pay IRD and walk away. Govt seems to not understand NZ Small business sector leaving IRD as the interface and IRD unwilling to pass on the bad news.

- Growth - our clients are active with a lot of opportunity (due diligence activity is up on business purchases, talks of mergers etc). Some challenges around cash flow which largely can be managed, unfortunately the banks don't make it easy though. The main challenge with growth is people resourcing - we and our clients are not seeing this as a short-term issue (closed boarders) but a longer-term pain point that is going to require other ways to solve the problem to take a business to the next level.

Civil construction/infrastructure

- Limited large projects in the south island. But lots of medium and small ones. Businesses aligned to this are doing very well and can't get enough people to do the work. But if you have previously focused only on large projects and have an overhead structure aligned accordingly, life is not as easy.
- A perfect storm of a significant, long-term infrastructure deficit that needs to be addressed, coupled with significant supply chain pressures and a limited skilled resource pool. An increase in people moving between organisations for salary bumps but not shifting the sector ahead in terms of capacity for delivery of infrastructure. A very strong focus on climate - both the carbon impact of new projects (in the transport infrastructure sector) and climate adaptation/resilience responses at a local government level.
- Large current spend and future build investment from the government makes for a secure future for infrastructure projects. Previous generations of under investment (both nationally and locally) would indicate a brave government would need to appear to push back on the current trend in infrastructure build across transportation, three waters and energy. There is a lot of catchup required. The civil construction and infrastructure sector continues to be a poor performer when it comes to operational efficiencies. Much of the process and technology investment in recent years has been for strategic purposes rather than operational outcomes.
- There is a belief within the industry that technology will replace skilled labour, thus constraining wages. Wages have been constrained; skilled labour has left the industry. But there was limited investment within the industry and communications across the industry players (government, consultants, engineers, contractors) to create robust processes to utilise unskilled labour. Note that unskilled and under-skilled labour are across all levels of construction/infrastructure industry.
- Labour and skill constraints have led to excessive working hours and a high staff turnover. Construction has the highest industry suicide rate in NZ. Without solid investment in operational process improvement the NZ infrastructure industry will continue to be constrained by under utilisation of its workforce.

- Extremely busy since Level 3 in Auckland, main constraint is qualified staff, would hire if right candidates available. Work booked out well into next year once xmas craziness done with.
- Planning impeded by COVID restrictions - last minute changes causing headaches in trying to supply enough product.

Commercial construction

- Flat out, over booked, buying more equipment weekly to keep up.
- Strong forward work, approx. 9 months. Enquiry slowing down, back to more 'normal' rate of enquiry. Staff still hard to find although they are there if you persevere and make your business 'employer friendly'.
- The construction supply chain from supplier through to consultants seems stretched. It is challenging to get materials at short notice or to get drawings etc. signed off quickly. Quite a balancing act. Furthermore it is also hard to find skilled people to carry out work and we are beginning to see a bit of staff poaching.
- Lockdowns have caused a significant backlog in production, there is a lot of work to catch up on in the coming months. New orders have held up throughout so there is a lot on the books. Costs are still high and rising. Project leads are having to be qualified ruthlessly, and complex or highly competitive ones are being declined.

Commercial Property Investment/Real Estate

- Sales: Strong demand for leased investment property owing to low interest rates. Paucity of listings as reluctance to sell. Owner/occupiers interested but apprehensive. Leasing: Industrial strong, bulk retail good, suburban office and strip retail very challenging.
- Industrial real estate is strong, cap rates still low, get offers on buildings not on the market at around 4% cap rate. Not interested in selling though.
- Lack of stand-alone commercial property investments.
- Tenants have great difficulty paying leases and business is not stable.
- Out of area buyers, Auckland mainly but also further south, cannot view properties and are stating they are moving north, and there are lots of them. I see an incredible number heading our way when they can. The big issue is that we have nothing to sell them!! I am working with council on the issue of supply of sections but this takes forever. It is really frustrating when we are struggling to make ends meet when there is so much opportunity we cannot capitalise on because of COVID lockdowns.

Education and training

- Covid lockdown and uncertainty especially in Auckland impacting sales.

Energy

- Crazy logistics and manufactured goods costs (steel, solar PV panels, Li-Ion Batteries).

Engineering

- Industry demand is high but with a shortage of materials.
- Very busy. Shortage of experienced competent structural design engineers.
- Operating beyond capacity.
- Labour shortages. Lack of skilled people available.

Farming & farming services

- High business income. Increasingly difficult to get some supplies. Big price increases for some input goods.
- Record prices for beef and great grass growth although carcase weights are down due to drought conditions in first six months of 2021.

Financial Advice/Management

- Regulation and change being dominated by the banks, lack of suitable younger employees to take on to train and associated costs.
- Attractive share values.
- Weight of capital looking for a safe harbour. Lack of suitable assets at economically justifiable price points for acquisition, effects of supply chain disruption and the effects of COVID on business.
- Still lots of business out there in the lump sum investment space. Could be better if we weren't locked down in Auckland.
- Rising interest rates not yet attracting new TD funds. More clients are adding funds to their KiwiSaver, making it their primary investment vehicle now that they have access. Have seen older advisers leaving the industry and the employment market remains tight.

Health

- We are very busy with surgeries in private hospitals all over NZ. The public hospitals are doing less than normal orthopaedic procedures and appear to be gearing up for an influx of Covid patients once borders open.

Horticulture incl. viticulture

- Rising land prices, labour shortage, water shortages.
- Lack of tourists/holidaymakers. Hospitality still hamstrung with Covid restrictions and Auckland lock-down impacting on numbers of travellers, which is impacting on horticulture sales. Increasing transport costs and supplies, however the sale price has remained higher than previous years. Possibly some exiting the industry or wetter spring in North Island.
- Closed Hospitality is having a huge impact on all sectors of the food supply chain, from primary producers right through to imported goods, not to mention Hospitality itself!

Hospitality/entertainment

- Customers are preferring to shop local and avoid crowd. So far customers are avoiding central city and even malls on opening have been slower than expected.

Information technology & telecommunications

- Pressure on costs, looking to change and reassess areas of expenditure.
- Demand from business customers is outstripping our ability to resource up appropriately to meet their needs. Leaving money on the table is not easy to do. Still a tight labour market. Pay rises haven't seemed to flow to existing employees, only those ready and willing to move.

Insurance

- A number of smaller advisers are exiting the industry ahead of the new regulations. A small number of clients are feeling the pinch financially, not helped by insurance premium increases. More KiwiSaver clients aged over 65 are looking to put large lump sums into their KiwiSaver accounts. As now all of the banks have exited the life insurance space, at a time when the adviser force is going through significant upheaval, even more consumers are looking for personalised advice.

Legal

- Property work is slowing with fewer sales going through. Relationship property advice has a slight uptick. Business and related work is steady. However in general there is a slowing down when there would normally be a speeding up at this part of the year. Accordingly it is very difficult to predict what will happen over the next 5-6 weeks and early next year.

- Work levels currently very high. Productivity is down somewhat mix of inefficiencies of working from home and difficulties of staff remote working. Looming shortage of skilled staff, likely to become acute in 2022.

Manufacturing (all categories)

- Cost of raw materials are increasing. Supply issues/shortages are increasing. Inventory levels are high, resulting in increased borrowings/debt. Customer orders are much lower than last year. Meaning a perfect storm of increasing costs, falling sales, increasing debt.
- Demand is still high, quotes and orders in are still at or above target, but invoices have been down for several months due to customers not taking deliveries. So we have taken substantial losses over last few months but have a full order book for when we can deliver again. If we didn't have a bit of a 'hump' to survive on over this period we'd have been screwed.
- Increase in orders and demand.
- We manufacture products for residential construction so key things we are seeing is big demand (exceeds capacity); supply issues including rationing from large offshore suppliers; shipping costs and delays; big increases in costs of inputs - labour and materials; labour shortages and a need to pay well above minimum wage to have any chance of recruiting for the factory (and still failing). Immigration policies are hamstringing us - both for skilled technical staff and semiskilled factory labour that just isn't available in NZ. Irrational COVID restrictions have caused big frustrations, project delays and costs for installation of new machinery. And uncertainty is a major issue - very hard to plan and end up trying to second guess the next decisions out of Cabinet and having multiple contingency plans - very time consuming on top of all of the issues mentioned earlier. Plus being Auckland based there are mental health and wellbeing issues for staff to consider.
- Shipping has gone from 1 boat a week out of the USA to 1 a month if you are lucky. No reliability about getting stock. Construction contracts still want fixed timelines. We are ceasing to quote to avoid dealing with these issues. Not worth dealing with these issues when we are so busy.
- Real shortage of labour, increase in shipping cost by up to 620% and we are moving up sales prices to keep up with increased costs, power, labour and raw material.
- Food and Beverage. No change in difficult environment. Global shipping continue their relentless pursuit of profit with continuing deterioration in service. Materials and labour costs escalating squeezing margins further. Sadly the consumer ends up paying for all of this.
- Replacing temp staff with permanents. Any staff hard to find let alone good staff. Developing Covid strategies and policies. Changing Govt policies unhelpful. Some signs of slowing demand. Delays with raw materials. Continual price increases of same.
- Plastics manufacturing going very well conditional you aren't constrained by resin availability and/or shipping delays. On the upside, the cost of imported products now making locally manufactured good price competitive for domestic consumption.
- Freight delays.

Miscellaneous

- Mowing franchise. Increased numbers of mature people are looking for a lifestyle change, a change of pace, and to reduce the daily stress cycle of early starts, time driving, and pressure filled long days. They want to have responsibility for just themselves and the flexibility that gives them. These are often people in positions of significant responsibility who are seeking a more simple existence. Increased numbers of customers are looking to our brand for

services, they are seeking quality and reassurance, and are happy to pay a higher price for this extra value.
- Pet accommodation. Lots of people heading away for weekend breaks, but only booking 2-3 weeks out, not many others taking longer holidays. Christmas bookings are full- so most people still hoping to get away then. Expecting a lot of bookings once the borders open.

Mortgage broking

- The ability to get lending to purchase property is significantly changing especially for property investors. The new CCCFA rules, interest rate increases and tax changes have reduced lending significantly. 90% of what we could do 2 months ago we can no longer get approved.
- Property activity appears to have slowed, especially first home buyers, lack of listings and slow demise of fomo. Higher interest rates have shocked a few, most aware of an increase but surprised at the higher-than-expected numbers. Need to be very sure of any new deals and taking a very conservative view of the numbers to ensure clients' expectations not too high and giving them best chance of an approval. If not prudent you could do a lot of unpaid work in the current environment.

Property investment

- Lack supply of materials, lockdown restrictions and lending restrictions taking hold.
- Development projects on hold due to uncertain supply chain, delays with contractors, resource consent and building inspection expensive and time consuming.

Property Valuation

- Land prices continuing to increase in Havelock north due both to increasing numbers of Aucklanders arriving and also very limited stock.

Recruitment

- High demand from employers for professional talent in the IT and Engineering sectors. Software Development, product design and development for high tech manufacturing (to export markets). Historically high pressure on salaries. Some candidates signing contracts and then reneging for offers of 20% more $'s. Supply of talent is under incredible pressure due to ongoing border restrictions. High levels of interest from international candidates, especially from the US which is highly unusual.
- Recruitment hasn't slowed; in fact we've seen more business than ever. In saying that our clients aren't the hardest hit like hospitality and retail; instead they are primarily manufacturing, professional services, technology and government agencies.

Residential Construction including section development

- I am developing sections which in our area of Northland there appears to be insatiable demand.
- Busier than we have every been.
- Recruiting skilled staff with some experience. Plus the limited availability of contractors due to everybody being busy.

- Material shortages, lack of skilled & unskilled workers, record high land prices across the board.
- Our customers are starting to experience project slippage with material availability an issue.
- Massive supply issues with product resulting in delays.
- Extreme workloads and having to turn away new projects at least until after Xmas. Major professional staff shortage.
- Worry about inflation, product availability, increasing employee costs and an overwhelming concern about the government's direction and lack of understanding of business.
- Chaos reigns on construction sites (grappling with Covid requirements) projects delayed, supply chain disruptions and trade-based material pricing is increasing - soon after the 3rd qtr inflation outcome, households wary of trades people repairing problems at home.
- Massive supply constraints - materials and labour.
- Very frustrating waiting on engineering certification big delays, council delays with the shortage of planners. The red tape is putting significant costs into sections. We are a self funded business I certainly wouldn't want to have to answer to anyone. (Bank) re time delays. The problem is the costs have to get built into section sales.
- Delays getting power companies to lay services in new subdivision.
- A slight slowing in enquiry for new builds. Section enquiry still very strong. 1st home buyers & investors still active.
- Higher costs are all across the board including, materials, trades labour, staff salaries, land, consultants.
- Ongoing material supply shortages with no obvious relief in sight. Never ending material price increases with seemingly no end to these either. Too much work, not enough trades. Everyone is frantically busy. Homeowners choosing to renovate/extend as it is much cheaper than selling and buying. Homeowners generally understanding of delays and price increases though.

Residential Real Estate

- Very strong market but calming down at the top end, completely bank driven. Winter is coming - well, maybe Autumn anyway. We're enjoying the golden run while we can.
- People with champagne tastes but only beer budgets wasting a lot of my time.
- Many more buyers than sellers. Demand continues to be strong. Little or no price resistance.
- Slightly increased supply, strong prices still, buyer enquiry slowing a little.
- Cooling of real estate buyer enquire. Have not seen this since first Covid.
- Still a lot of energy in the market however the government isn't making it easy for some sectors of the market with recent changes and banks are tightening up lending.

Residential Rentals

- Trying to select good well-paying tenants.
- Increasing rents, fewer rentals available, less desirability to invest in rentals.
- Waiting on the outcome of Auckland Council's push back on the proposed NPS-UD changes. The changes would allow us to replace individual older rentals with three new three storey houses. We'd sell one and keep two to rent out, so there's an increase in housing stock.
- Rents in Hawkes Bay continuing to increase at higher-than-normal rates. More rental properties now coming on market to rent but demand still well in excess of supply.
- All very quiet. Tenants are not moving. Incredibly hard to get trades people for bigger jobs e.g. improving drainage down the side of a house in Wellington and getting extraction fans installed.

Retailing/wholesaling

- FMCG. Price increases across the board driven by shipping, manufacturing and raw ingredient costs. I see a significant average basket price increase at grocery stores in the next 3-6 months. estimate 5-10%.
- Sales continuing to be strong (compared to pre-COVID) outside of Auckland. Auckland store closures have had significant impact - hoping for a re-opening rebound from 10th November. Supply chain delays continue to be challenging, and volatile shipping costs and availability of bookings are a particular challenge. A lot of uncertainty in forecasting demand ahead next 6-12 months.
- October very good despite Auckland lockdown. Logistics & export price increases a major issue.

Shipping, transport, storage & distribution

- International shipping remains problematic. There is no relief on the short-term horizon. The earliest we think we will see shipping rates drop is 2nd quarter 2022. Hopefully capacity will increase on key shipping routes at the same time. All this inflationary pressure has lined the pockets of the shipping companies.
- Increasing demand heading into Christmas.
- On-going supply chain disruption both offshore and within New Zealand. Further disruption within China as factories working at 50% or less capacity due to power rationing/shortages. Capital cycle almost double last year due to holding more inventory/longer delivery lead times. Demand for warehouse storage space increasing. Increasing costs and will be raising prices again for the second time this year. Wages up by $2 per hour this year.
- Delays in shipping from China coupled with 5x increase in shipping costs and material costs.

Tourist accommodation & attractions

- We have Airbnbs in Queenstown and we are being decimated by the Auckland and border lockdowns. This flows on to so many businesses in Queenstown. Hopefully Auckland can travel soon!
- Clients looking for clarity on when they can travel and take their domestic holiday. Our staff are looking with concern at what a Post New Year open domestic borders will possibly bring. An acceptance that the remaining 6-7 weeks to Xmas will just be continually messy as people try to hang onto planned breaks - and then give up. Confused horizon.
- No confidence in making bookings.
- No Planes, No Tourists, No Aucklanders, No Business, No change.
- Hard to tell. Post ski season now and before summer MTB starts, so is quiet. How well the MTB season does is a real unknown at this stage of Covid 19.
- Increase in hospital related visitors, less lead in time on bookings.

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

Tony's View Portfolio Investment Survey

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