Mint Design

Mint Business Insights

With **Tony Alexander**

July 2023

ISSN: 2816-1734

Businesses strongly concerned about the economy

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.

Each month I send an invitation to about half of the 31,000 people on my Tony's View subscribers list inviting recipients to give insights into what is happening in their business sectors at the moment. 230 people replied from a wide variety of sectors this month. The aim is to gain real time insights into what is happening in various sectors with respondents choosing whether to focus on customer flows, pricing and cost pressures, expansion plans, and so on – whatever they consider to be the most important developments.

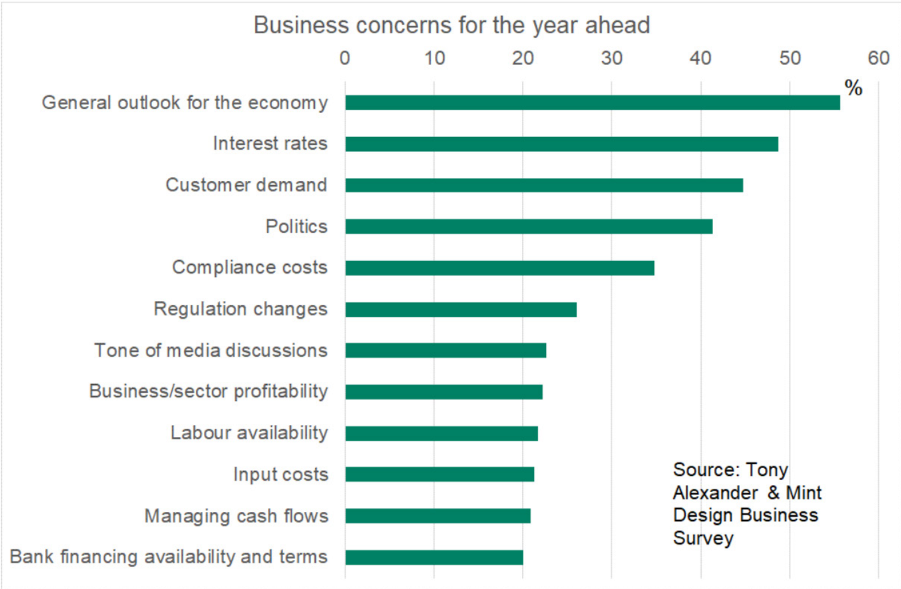
This month businesses reported that problems in finding staff are easing reasonably rapidly while supply chains are functioning much better. There is however deep concern about the economy and the impact which continuing high interest rates will have. As the election approaches increasing concerns are being expressed about the government.

Tony Alexander
Independent Economist

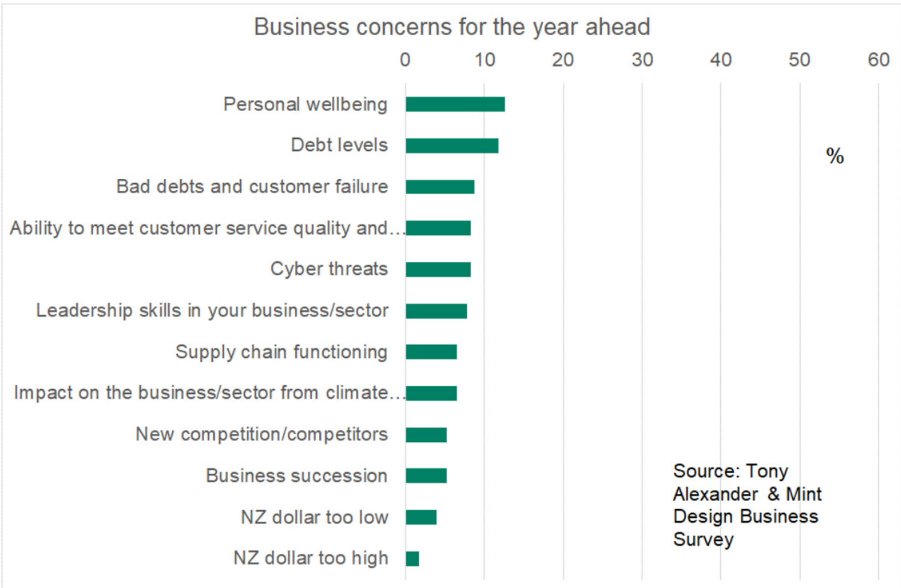
What concerns you most for the year ahead?

We ask businesses to choose the things which concern them most about the year ahead. They can choose more than one area of concern. The following two graphs show the most common and then least common areas of concern cited by business in this month's survey.

The biggest concern is the general state of the economy followed by interest rates, customer demand and politics.

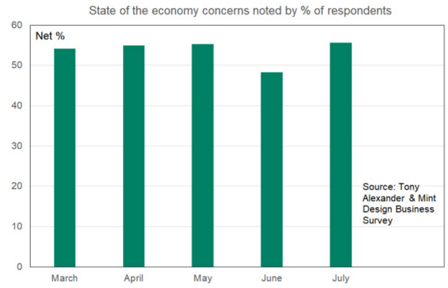


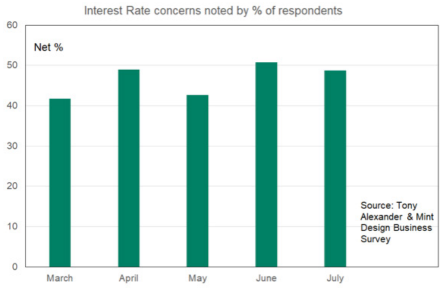
The things of least concern are the level of the NZ dollar, business succession, and new competition.



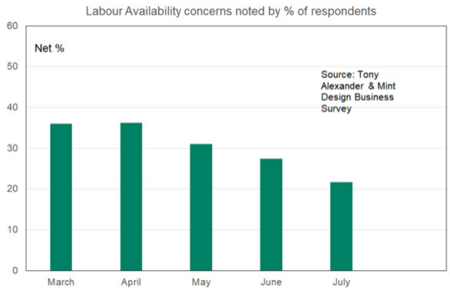
Our survey has been running for five months now and we are able to gain some useful insights into how concerns are changing over time in the following set of graphs.

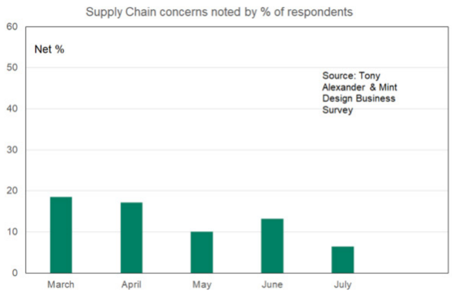
Concern about the general state of the economy and interest rates have stayed high for five months.



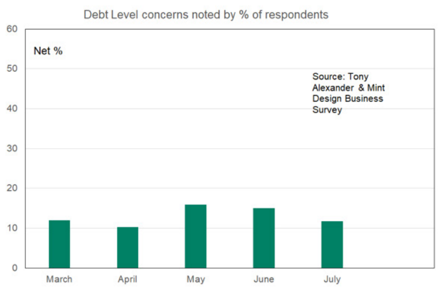


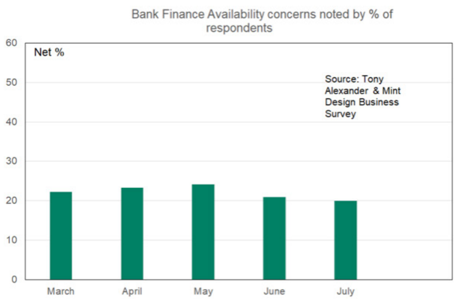
Worries about the availability of labour are easing off and this is consistent with evidence recently contained in the NZIER's Quarterly Survey of Business Opinion. Also steadily declining are concerns about smooth functioning of supply chains.





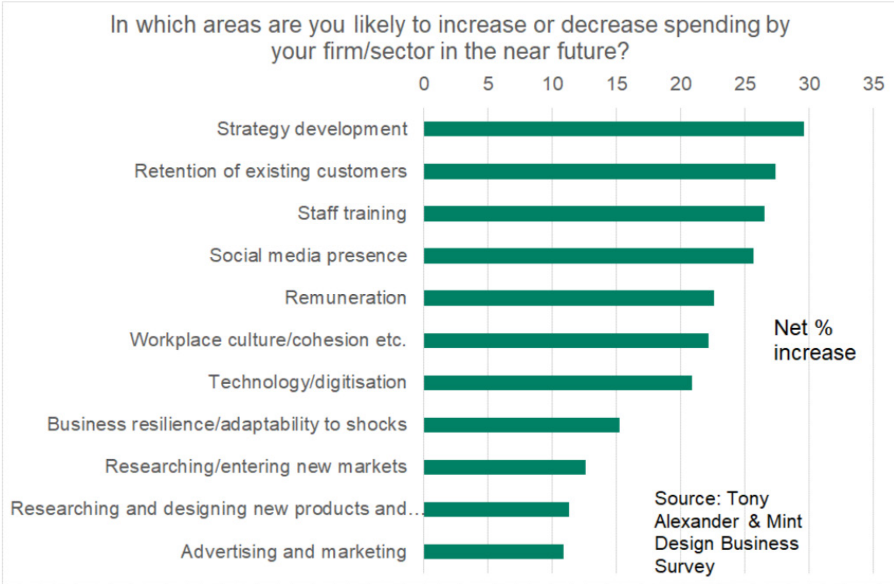
Worries about debt levels are staying at low levels while concerns about access to bank finance are lessening.



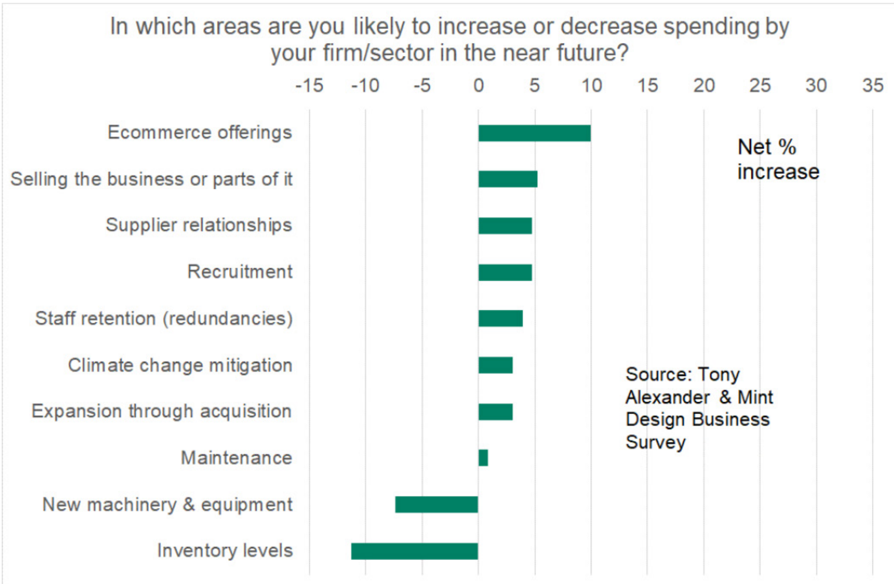


In which areas are you likely to increase or decrease spending by your firm/sector in the near future?

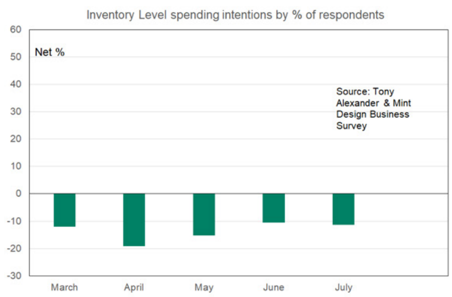
Our second main question is addressed at identifying where businesses are going to allocate their scarce funds in the coming year. As above, we split the results across two graphs starting with areas where most businesses plan greater allocation of resources. The top area of planned spending increase remains as ever Strategy Development, followed by retention of existing customers.

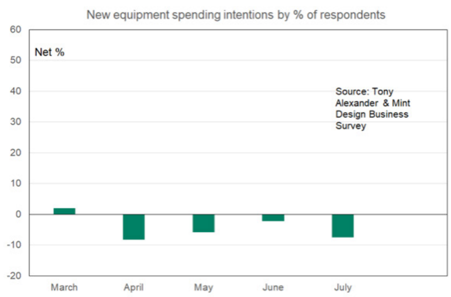


This next graph shows the areas of lesser planned spending increases. Reductions in spending for machinery and equipment and stock levels continue to be planned.

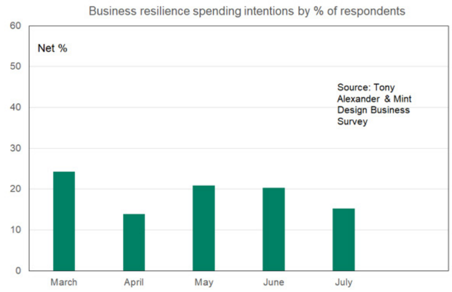


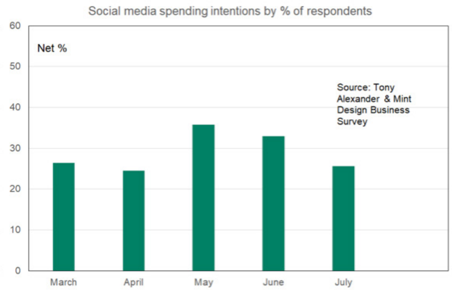
There is greater month to month volatility in spending plans than concerns and very few areas of potential spending are showing increasing or decreasing strength. In the two cutback areas at least things are not getting any worse.





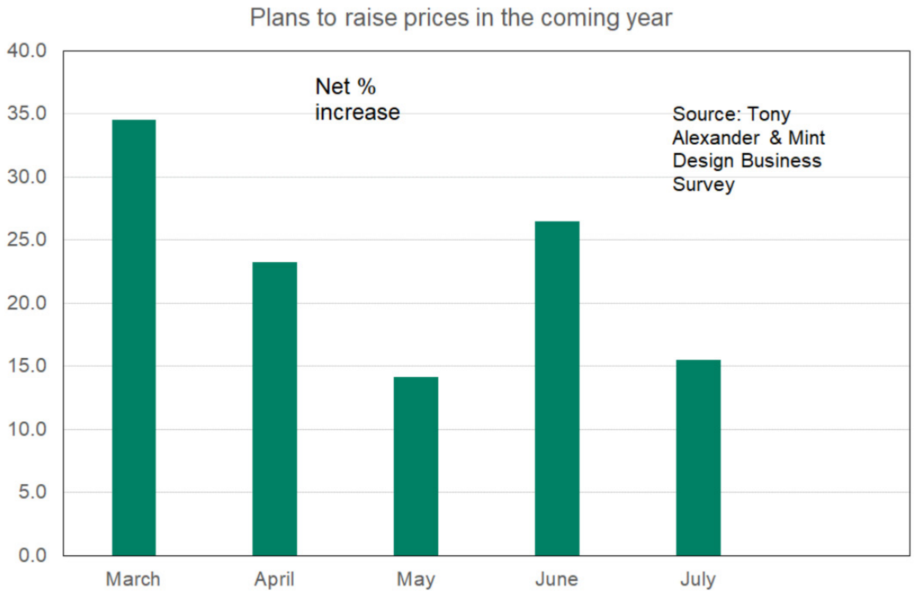
Despite the considerable uncertainty surrounding businesses and even recent weather events, there is no rising trend in spending planned for building business resilience. Planned spending on social media shows no rising or falling trend.





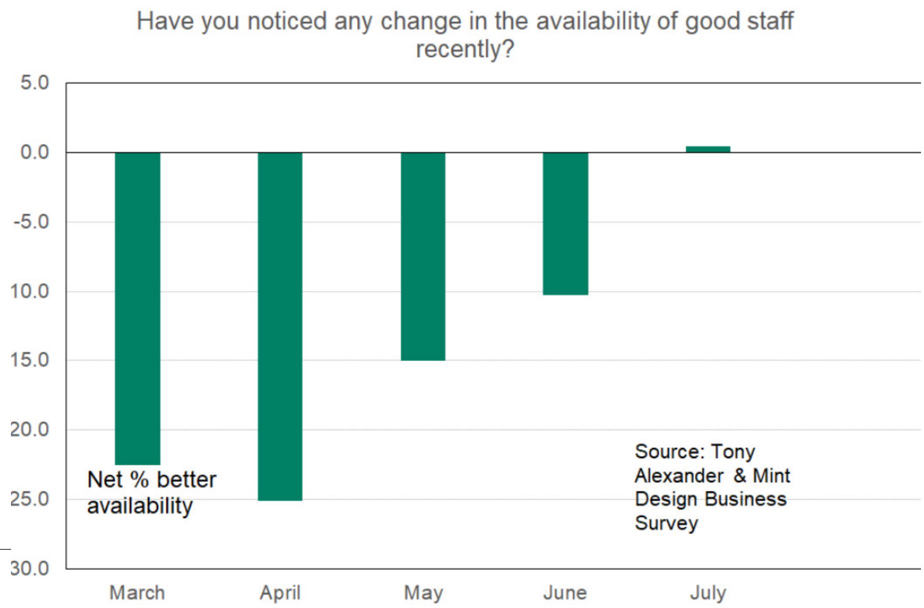
Are you planning on increasing your prices for any of your products or services this year?

The general trend in the proportion of businesses planning to raise their selling prices in the coming year is downward. A net 16% of businesses have noted such plans this month from 27% last month.



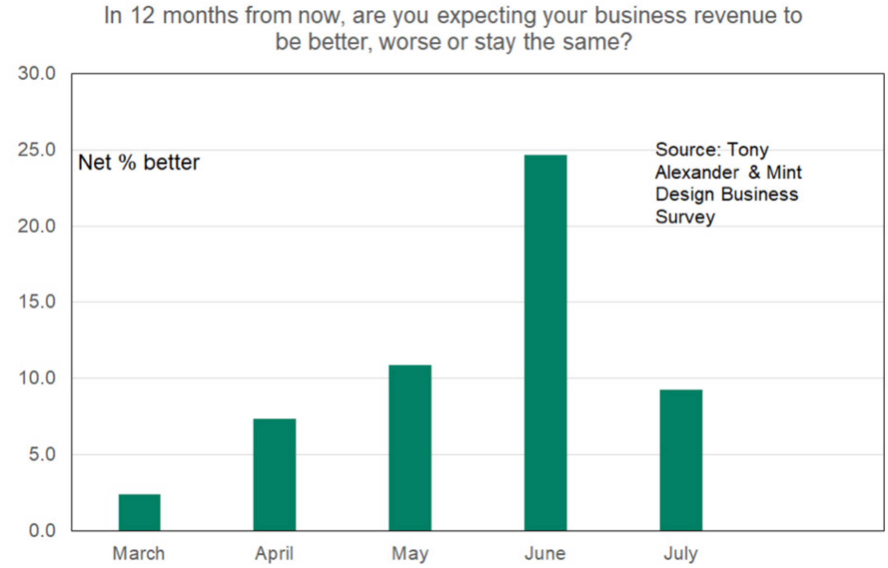
Have you noticed any change in the availability of good staff recently?

Consistent with our result above showing decreasing concerns about sourcing staff, a net 1% of businesses this month have said that staff availability is improving. The turnaround is more stark than in that other measure.



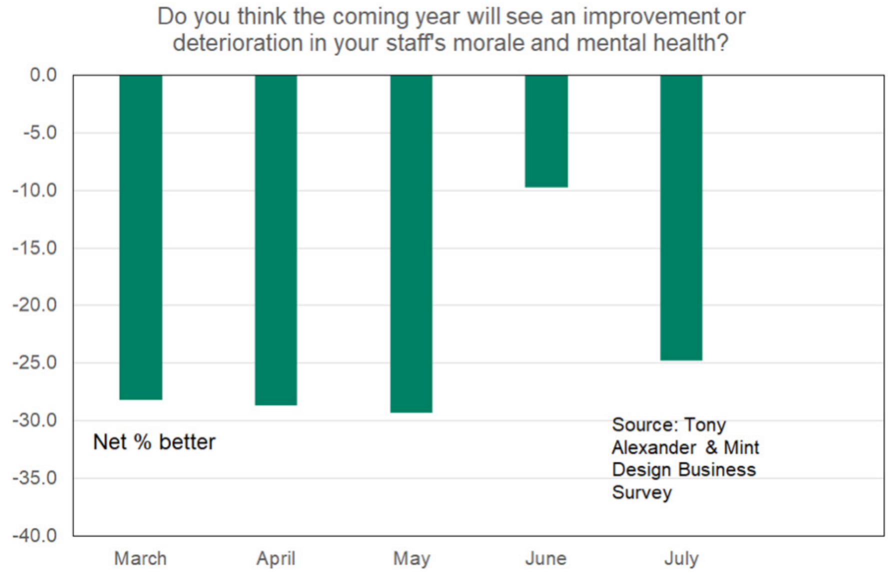
In 12 months from now, are you expecting your business revenue to be better, worse or stay the same?

A net 9% of our respondents this month have said that they expect their revenues to improve in the coming year. This is a sharp drop from the net 25% of June and suggests that outcome was an outlier. Next month will yield true insight into whether there is an improving trend in place for this measure.



Do you think the coming year will see an improvement or deterioration in your staff's morale and mental health?

A net 25% of respondents feel staff morale will deteriorate over the coming year. There is no rising or falling trend for this variable.



Respondent Insights

Following are most of the comments submitted by survey respondents, grouped by the industry they allocated themselves to from a list of over 30 sectors. These are the comments of the respondents.

Main points which we are able to glean from these responses include the following.

- Accountants note stress across many sectors and a shortage of staff.
- Both commercial and residential construction sectors are easing off.
- Strong business sector discontent with the government, bureaucracy, and regulations.
- Less talk of rising costs – though some concerns still exist.
- Improving real estate turnover with some listings shortages emerging.

Accounting & business advisory services incl. business broking

- Average skill level decreasing, with experienced Accountants retiring and graduates / new entrants not lasting the distance or coming with much lower people skills than my generation X.
- Cash flow tightening
- Clients needing more help to improve their business efficiencies.
- Clients are finding softening in some sectors while services are in greater demand and people are prepared to wait
- Staff recruitment and retention far and away the biggest issue we face
- The need to make sure we are providing a good service to clients to maintain relationships with them.
- Recent Sale of client base
- Good accountants seem in low supply as we have addedanother 3.5% to our client base in the last three weeks. Clients are very slow to pay and are under financial stress. Possible change of government and tax law making advice tricky.
- In peak time, working hard to get things done, new staff will help but a period before they are productive
- Still really busy. Watchful eye on whether higher borrowing costs when 1-year rates come off from now will impact on economy
- More financial stress on businesses and owners with reduced demand and higher costs including interest; some have decided to call it quits or retire early as it is not worth the hassle anymore.

Advertising & marketing

- Clients are not pushing forward with new projects. Rebrands and NPD has slowed dramatically.
- Margin squeeze is a constant challenge for clients. Clients' inertia with marketing strategy & spend makes our cashflow forecasts & budgets difficult to predict.
- The economic downturn is starting to pinch the advertising industry. Our clients are asking for more than ever, yet with decreased budgets, and we are struggling to find (or hold onto) skilled staff to service their demands.
- Lack of, or holding budget until after the election results in fewer projects.

Banking & Finance generally

- B2B financing - seeing some slowdown in demand as both the cost of finance and the cost of the asset wanting to be financed has increased significantly meaning monthly payments are much higher than they used to be - with some doubt about the economy in the future people are keeping their assets for longer.
- Loan unaffordability, for both new and existing borrowers. Loans rolling onto interest rates that are significantly going to impact discretionary spending.
- Mortgage advisor - seeing many more first home buyers, and sell and buys are slowly coming back, some speculative investors too.

Cafes, bars, and restaurants

- Stabilising of COVID related issues, and improved operating conditions, but now having to deal with slowing demand.
- Civil construction/infrastructure
- There is some slowing but nothing to be to worried about. Just the norm of things slowing before an election.
- Political interference within projects promoting ideals that add to extra costs with little or no added benefit. Huge bureaucracy that is effectively a monopoly service provider that provides poor service at huge cost.
- General uncertainty
- Just comes down to people, we grew our team from 90FTE to 130FTE over the past year which has been hard work and expensive with recruitment and training cost blowing out. The training will need to continue to get new staff up to speed and grow existing staff of course, we are losing a few to Australia, which is concerning, but if I was 25yrs younger I would go as well!

Commercial construction

- Construction T/O in Commercial Sub Trades is heading down rapidly.
- For the first time in many years our market has softened a little so more energy is being spent on expense management and efficiencies. We will also attend to some deferred maintenance projects. Medium term prospects look good so no plans to alter resourcing levels in the interim. Happy to look at increased capital investment post election

provided there is a change of government.

- Clear direction from government on where we're heading. Swapping, changing & never actually doing what they say they're going to do, makes it extremely difficult to plan ahead.
- We're going alright but hearing through the grapevine that a few reasonable sized companies in the Wellington construction sector are against the ropes / are closing down / have gone under. Have picked up a few new guys on working holiday visas so getting new employees for us is going alright at the moment
- A clear mix of haves and have nots (in terms of having sufficient work). The slow down in government spending (pre-election and economic driven) is combining with the private sector caution for a bumpy 12 months
- Longer lead times on projects
- Maintaining staff wages and trying to keep cost steady and maintaining profit
- Margin squeeze. Time to sell extending. Focus on containing cost rather than increasing revenue
- A lot of enquiries in the commercial/ industrial design building, some projects held up by slow Resource Consent processing for subdivisions. A lot of KO projects on hold, no new private apartments buildings in the pipeline but plenty of other type of accommodation coming through

Commercial real estate

- Tenants in retail are scared by the Government
- No business has any money. Slow or discounted payments for everything except Rates & Taxes.
- Lack of decision making in business that will be exacerbated by the upcoming elections
- Most tenants are very stable and are running successful businesses. Together we have negotiated only realistic increases in rents which are sustainable to both parties.
- Only wish the political mandarins would pull their heads in and control their over the top charges etc, this applies to both central and local. As a suggestion they might wish to look at their excesses in expenditure.
- The emptying of commercial premises has slowed.
- I think most investors are recognising a general bottoming out of the C&I market and so are looking to re-engage in the marketplace again. Good competing offers are starting to be made by buyers, in order for them to be able to acquire good quality commercial assets, especially those that are well leased to resilient and recession proof type business tenants.
- We sell and develop commercial and residential property. The market remains subdued, albeit there is money seeking bargains and reasonable interest for well located property. Nothing different from prior downturns. High interest and building costs could see property pricing plateau at this reduced rate for some time, unless wages spiral upward to offset interest and other inflationary cost pressures. Feasibility studies don't work based on cost vs valuation.

Education and training

- Poor accountability by senior management
- Tough times ahead, but some much uncertainty as to what / if / when / how....

Energy

- Significant reduction in capital spending across the sector.

Engineering

- Consulting engineer: we're seeing a lot of potential projects in the commercial/ industrial sector go on hold or fall off early in the design stage. Forward workload is uncertain, and we expect revenue to be significantly down on last year.
- Being in carbon and energy consulting we are concerned about a change in government
- Some of our customers are experiencing decline in their markets
- Costs have blown out i.e. wages, interest , transport and couriers. Difficult to pass on but may have to later this year. Haven't seen a major drop in sales yet but there is a lot of uncertainty.
- Private developers still slow to purchase new land, but are busy implementing current resources consents that are in place. Overall workload has dropped but not to a level where we are seeing it impacting revenue

Farming & farming services

- Everything is so tight and getting worse. Confidence in the sector is reducing quickly. Consumers are changing their buying habits and trading down. Consequently demand is falling in most markets we cover.
- Farming (both dairy and dry stock) is going through a period of low profitability made worse by higher interest rates. We've been here before, but the cycles do seem to be getting quicker between the peaks and troughs. Staff are very slightly easier to find now that the borders are more open, but INZ are very slow, and the complicated visa process means spending money on consultants for a process we could do ourselves even 3 years ago.
- No one is happy. A high level of despondency. Grinning and bearing it. Fed up with the current government and want a new one that can manage money. Total bewilderment at the way the Government has messed up an ETS that was working and is now no longer planting new trees. China is a grave concern and previous buying levels are unlikely to return. Business viability is on our minds.
- Marketers demanding more and wanting to pay less
- Impractical rules & regs around compliance & climate mitigation achieving uncertain outcomes.
- Fresh produce exporter. Extremely tough year after Cyclone Gabrielle. Widespread redundancies and expecting some growers to reduce area or give up. We need a reprieve with the NZD, particularly against the JPY. Tough times but we will get through it.

- Dairy Consultant comment - Dairy Sector is being hammered by rising input costs and cost of funding (many between 8 - 9% floating which the majority are). Cashflow is very tight, and clients are tightening their belts. Have already had a few clients require overdraft extensions. Hoping the milk price holds above $8 which is just above breakeven with average debt levels. If milk price drops below $7 a lot of dairy farmers are in trouble.

Forestry

- Government and public sector meddling and mismanagement have become major issues. Huge growth of government sector has resulted in an almost continuous stream of new and altered regulations or proposals for changes. A lot of government activity for little or negative benefit.

Health

- Continued demand in private healthcare. Chaos in public healthcare. Continuing escalation in supply costs. Hard to find quality staff especially administration.
- Staff "cooked" after pandemic workload, leading to less staff to employ as workloads increase. Pharmacy has perpetually been expected to be more efficient, do more for whatever the Govt decides to pay - last year's 3% was a stop-gap insult that didn't cover underlying cost-pressures- I'm not holding my breath for a decent outcome in current negotiations.
- Underfunding

Horticulture

- A lot of work with very little return due to weather, labour cost, regulations.

Information technology

- Frustration about lack of transparency around government plans alongside a history of even where there was a plan there is absolutely no chance of this government delivering it.
- Very few new projects kicking off, businesses have a 'wait and see' approach regarding the economy (recession) and uncertainty about the election- the Labour government is not business friendly, making it difficult to start up or sustain a business with a lot more expenses and a lot of res tape...
- Uncertainty. Economic outlook is poor, but nobody knows what it will look like - but the IT sector is busy right now. Margins have been squeezed; everybody is working really hard. Uncertainty is the key word.
- Projects being put on hold until after the election. Staff wanting to work from home and have "balance" (understandable), but they want to be paid for this balance and paid well. It's just not sustainable to pay junior staff $70k and then give them mental health days and work from home all on the business. When you're a small team you need to collaborate closely, so we have to be in the office. I feel like people have grown to have unreasonable expectations of employers which is tough on a small business.
- Skilled staff still very hard to find. Many considering moving overseas due to cost of living. No real long term economic strategy apparently in either main political party.
- Small business owners talking about selling up. They have had enough and either want to retire or just get out of business and away from staff
- Costs are increasing everywhere, and we are trying to not increase our prices where possible by being more efficient.
- Redundancies in IT sector, recession and high interest rates combined gives a very uncertain economic outlook. Savings have gone up a bit, but not that much as needed.
- We sell IT to Construction Industry. The slowdown of projects because of the cost of capital is having the desired impact in dampening demand in the industry. Our sales and lead volume are down 20-30% on last year and trending worse.
- Growth will have to come through smarter spend, partnerships and acquisitions.
- Pressure has come off salaries and there are more skilled people available.
- NZ still struggles with the concept of adding value and this remote working is not great for the revenue of the company.

Insurance

- Far too much compliance required by the FMA.
- A great, relatively recession proof industry to be in. Need more experienced advisers though to facilitate growth.
- Retailers quiet, services still busy, some businesses still having a good year , while others very quiet, appears that spending on luxuries have declined, but work on any type of repairs that need done still being completed.

Legal

- Property market slow, many businesses finding it tough and some will fail. Mortgagors finding it tough and discretionary dollar diminished.
- Complexity / cost. Deals not getting done due to different views on value. Market says 30% down. Considerable uncertainty and even commentators saying sift slow down. Ignores actual / likely pain of cost increases and revenue flat / decline.

Manufacturing (all categories)

- Significant drop off in consumer demand for products in our market sector (craft spirits). Consumers are trading down to less premium options.
- Waiting for a big downturn
- Relived we have been consistently raising our prices along with inflation over the past 2 years. However going forward if those who should have haven't best not to dwell on it before it's frowned on!

- I've found in the last few weeks businesses are watching cashflow more than ever
- China slower for premium products
- Drop in demand due to inflationary pressures. Still a struggle to find skilled staff (no change here in past 12-24 months).
- Price pressures from rising input costs but little ability to recover margin due to supermarket/customer dominance
- Interest rates have sucked a lot of cash out of our business as a borrower.

Miscellaneous

- Consulting We are seeing an increase in inquiries indicating confidence in the conference sector is improving. However as the economy is tanking in an election year, forward bookings for another part of our business is cratering.
- Dive education training & retail Terrible weather patterns have impacted our industry for the last 3 summer seasons. Based on the Coromandel we are now also doubly impacted by the significant road closures - particularly SH25A. Suppliers of our retail products have all significantly increased prices which have had to be passed on to consumers. Cost of compliance has also increased as well as the time that the extra demands take.
- Environmental Planning One of the key problems is the legislation my business deals with. Due to politics and poor agency advice local government and resource management legislation has not been improved significantly for a generation and the main political coalitions are not cooperating in reform. There is still considerable inconsistency across local government entities and significant underfunding of infrastructure capacity. Much of the planning process I use on behalf of clients is inefficient and often unnecessary. The consequence is increasing compliance cost, which is mostly borne by my clients. The cost of resource use, subdivision and development (especially land) is significantly greater than it has been. This also impacts the local community in that it a) retards employment; b) effectively reduces housing stock; c) makes the overall pattern of development more inefficient in terms of location and infrastructure support.
- Events & expos Demand has returned but our firm and others in our industry do not have sufficient quality skilled staff to deal with demand and provide a quality product like we were able to prior to Covid times.
- Home improvements Recruitment is difficult - there's a lack of suitable applicants. Keeping up with price increases for imported componentry is also a challenge.
- Industrial plant and machinery Order levels falling quickly, worst (excluding early 2020) for 10 years.
- Printing & packaging My main business is printing art reproductions for my clients. Turnover looks to be falling as discretionary incomes deteriorate over winter and the slowing economy. After the election and coming summer, I'm hoping this will improve.
- Professional services General economic and political environment could derail business (election)
- Gym members leaving for Aus or UK 24 to 30 yr old. People signing up on higher rate memberships with less commitment so they can exit without any penalties. Cheaper gyms are becoming busier, so premium gyms attracting those who have disposable income . Focus more on mental health. The competition is trying to discount itself out of trouble. I have doubled my membership over the last 18 months, which makes me feel like there is money out there, it just depends on which segment you service and their disposable income.
- Sourcing Retailers are cautious, reducing inventories and buying less.

Mortgage broking/advisory

- Banks not lending and property market slowed down. Significant red tape issues.
- Slower demand

Motor vehicle sales/parts

- More customers deferring planned purchases as business confidence slows. Stock supply improving, however we're no longer in a high demand environment. Expect more retail marketing / offers in coming months. Govt Clean Car changes has been disruptive.
- A tired and fatigued workforce
- Lower levels of inquiry and a general hesitation to commit to spending, including vehicle
- maintenance.

Recruitment

- There seems to be very much a two speed market; the faster speed is available to those who have the right product-market fit and are well managed or are aligned with businesses that are, the slower speed is where those that don't have the right product-market fit or the wrong clients are operating. Those two distinct lanes are in a lot of cases indistinguishable from the other, don't follow any obvious trends but are definitely the difference between success and failure at the moment.

Residential construction incl. section development

- Clients are being very careful about expenditure. I'm being careful to avoid bad debts. It reminds me of the late 80's.
- A big lack of customer engagement
- Architectural design. Busy with small jobs but larger projects have evaporated.
- Home builder sales have dropped by as much as 70% since October 2022. We are nearing completion of the tail of work in progress. The volume of renovations projects has also decreased in the past 9 months. We expect many of the consented building projects not to go ahead, as we ride out 'the reset'.

- We are not seeing a slow down in our niche high end construction and feel pretty positive about the future.
- Lack of work, especially in the new housing sector, all my Group housing clients have had poor sales in the last 12 months
- People can't borrow money from the banks to build houses
- Residential building is now feeling the hangover from over stimulus from the government. Sales down around 15% and looking worse for another 6 - 12 months.
- Customers are waiting to see which way the election goes before committing to big purchases.
- Increasing raw materials/input costs, demand slowing, funding of projects harder to obtain and more expensive.
- The demand side of our business is very low. At the same time development costs are escalating due to changes by Local Authorities and Government National policy statements. Land Surveying … We are seeing constant flow of work across the residential, commercial and Government development clients we work with and are continuing to increase staff numbers accordingly.

Residential real estate

- Market is turning positive and demand for all services is rising. Developers still quite active on new startups and second tier lenders happy to back them. First home buyer demand for valuations is strong.
- Changes to the real estate environment is causing problems from developing sections to finding good homes for people who can afford them.
- We've had a year comparable with 2008 economically. Exacerbated by weather events and the loss of SH25A.A tight real estate state market holding its breath for the election outcome. Labour has to go!
- In residential real estate, there's more buyers, but few listings coming on.
- Uncertainty. Everyone waiting for election results. Interest rates rises having big effect.
- Reduction in motivation for sellers to list heading into spring/election. Increase in buyer demand but lack of good stock to purchase. Interest rate increases for existing mortgage holders has not translated into wholesale stressed selling - mortgagee sales, they are managing so far!
- Noticed a few second homes/baches being sold to release cash? Not enough to call it a trend though.
- We need to get past the election to figure out lay of the land for next few years- pluses and minuses for potential sellers and buyers.
- Not enough stock, uncertainty with economy and interest rates
- Public confidence in the economy. The lead up to an election always slows people down. They tend to adopt a "wait and see what happens" mentality. Stability with lending interest rates will help a lot.

Residential rentals/investment

- Increased costs
- Doesn't make sense to invest in rental property or even hold them, not willing to finance tenants with no right to move them out if bad ones!
- High cost of interest rates, council rates, insurance and maintenance are creating huge cashflow problems for property investment. Interest non tax deductibility will create even more difficulties.
- Increasing costs due to changes in government policy and increasing interest rates.
- complete lack of confidence in the current leadership
- Current government making it very tough for residential property investors with removal of interest deductibility, increased compliance costs, legislation that increasingly favours tenants in general and worse still protects the bad ones. Interest rate cost shock is also a major concern as we come off historically low rates. Major squeeze on cashflow will mean that many investors are holding on by the skin of their teeth awaiting relief from the reserve bank and hopefully a new government.
- Residential rentals are no longer profitable with non deductibility of interest costs.

Retailing

- Monitor credit accounts very carefully, develop even stronger relationships with key clients, develop new markets / clients
- Increase in shoplifting crime, police not able to investigate.
- A marked decrease in customer spending in the last 6 weeks particularly, customer count steady but average sale down 10%
- Cashflow a concern, looking to reduce inventory levels.
- Debtor payments have slowed, normally bulk of payments received 10th to 20th of month, now closer to end of month if not up to 10 days past.
- Still seeing an overall decrease in spending, but with events coming up in the next few months our e-commerce site is going to be supported by in-person opportunities. Going old school in what got the brand noticed in the first place and building back up from there

Shipping, transport, storage & distribution

- Decreasing customer demand
- Ive been in the equipment sales and hire industry for 30 years, the increased interest, wage and compliance costs are reducing our profitability, my response during the GFC was redundancy, and moving from investing to reducing debt, I predict the next 12 months are going to be a challenge.
- Productivity appears to be down, traffic, road conditions are but a couple of quite a few reasons. It just 'feels' like it is harder to get tasks done!

Tourism & accommodation

- Weakness in domestic travel that hasn't been there for the past 2-3 years. Our market sector prior hasn't been impacted too much by inflation, but negative media stance is eroding previous confidence.
- Increasing demand due to the women's world cup resulting in record level nightly rates for short-term rentals - this summer should be very good as well.
- Improved demand from foreign travellers is allowing accommodation price increases. Do have concerns about Govt wasting tax revenue.
- Lack of airline capacity. Outbound fares (from New Zealand) will remain high until there is a significant increase of flights from all our major markets. Fares from New Zealand depend on travellers (tourists) to New Zealand. Two sides of the same coin.

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