Mint Design

Mint Business Insights

With **Tony Alexander**

November 2023

ISSN: 2816-1734

Sentiment improves post-election

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. 192 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.

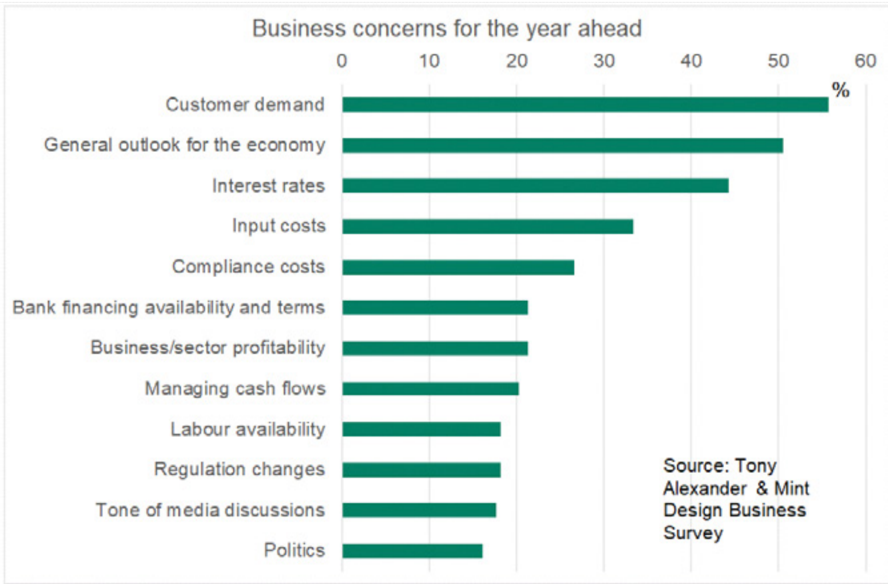
The results show a decrease in concerns about politics and regulations following last month's general election, decreasing plans for raising prices, but still negative plans for capital spending on new equipment, etc.

Tony Alexander
Independent Economist

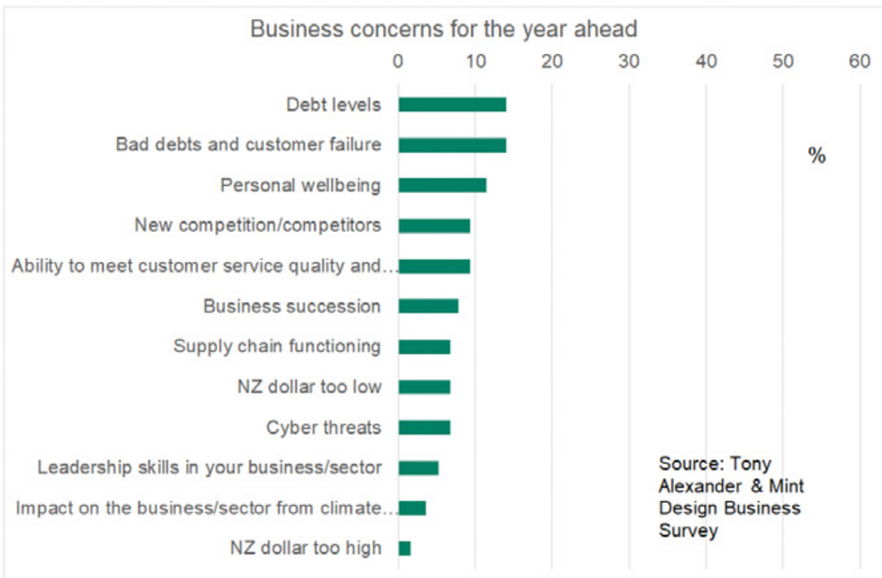
What concerns you most for the year ahead?

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 businesses in this month's survey.

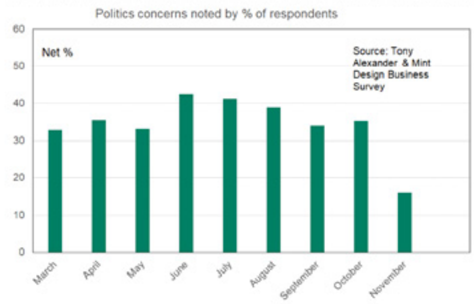
The top three concerns this month are customer demand, the outlook for the economy, and interest rates.

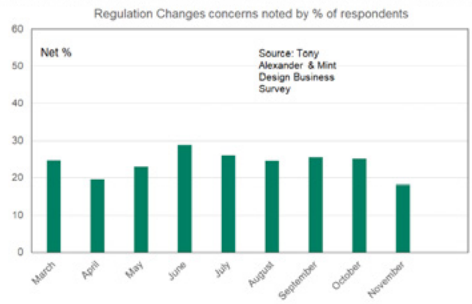


As ever, there are very few businesses feeling concerned about the NZ dollar being too high. Climate change and cyber threat concerns remain low, and worries about the functioning of supply chains are minor.

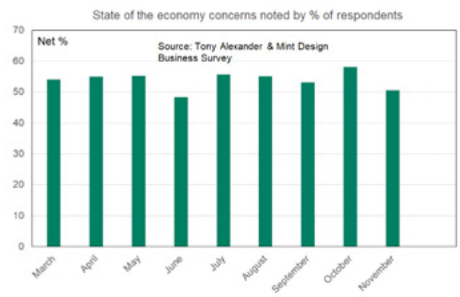


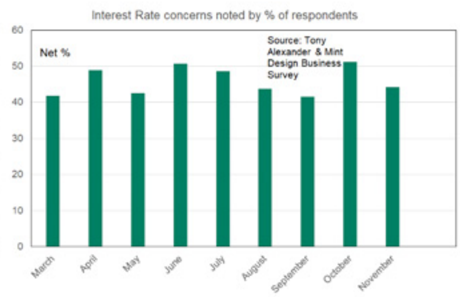
These next graphs look at changes in a selection of areas of concern for businesses since our survey started in March. The biggest area of change this month is with regard to concerns about politics. The change in government has seen a drop to just 16% of businesses saying this is of major concern, from 35% last month and 34% in September. Associated with this drop and undoubtedly reflecting hopes for change, the proportion of businesses saying they are concerned about regulations has fallen to 18% from 25%.



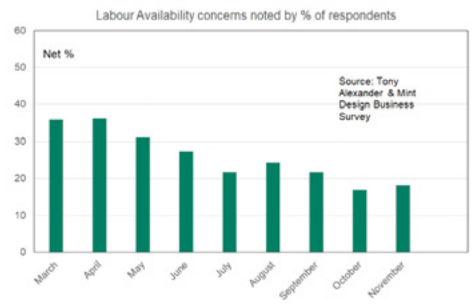


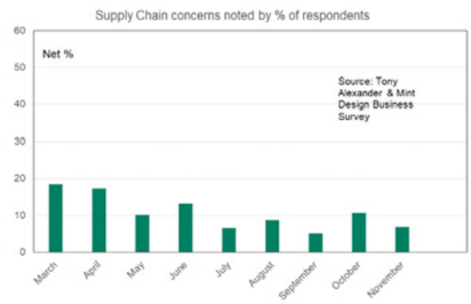
Worries about the state of the NZ economy have eased but remain elevated, with 51% of respondents listing this as an area of concern. Interest rate concerns also remain elevated, with 44% of businesses citing this.



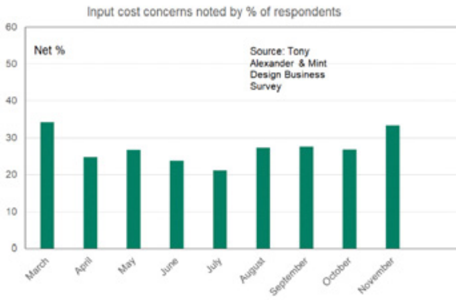


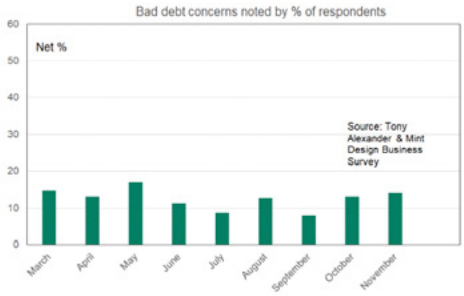
Concerns about the availability of labour have ticked up slightly, but the trend still appears to be downward. This would be consistent with other measures here and in alternative surveys which show businesses increasingly finding it less difficult to secure staff. Supply chain concerns also continue to edge down.



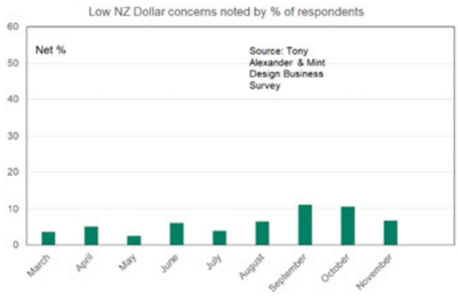


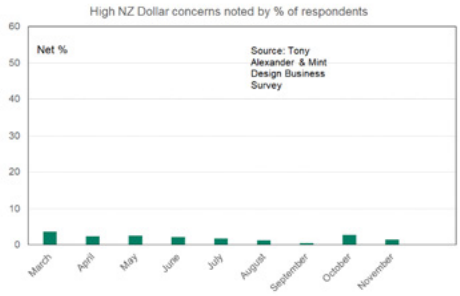
Of some concern with regard to the inflation outlook is a lift to 33% from 27% in the proportion of businesses saying they are worried about input costs. Lower interest rates require lower inflation, and this measure is one illustration of why the Reserve Bank will remain cautious for some months longer. With regard to bad debts, most of us economists expect issues during 2024 as the extended period of economic challenge in many sectors - especially retailing, residential construction, and hospitality – causes debt problems. But as yet concern in this area is not newly lifting.





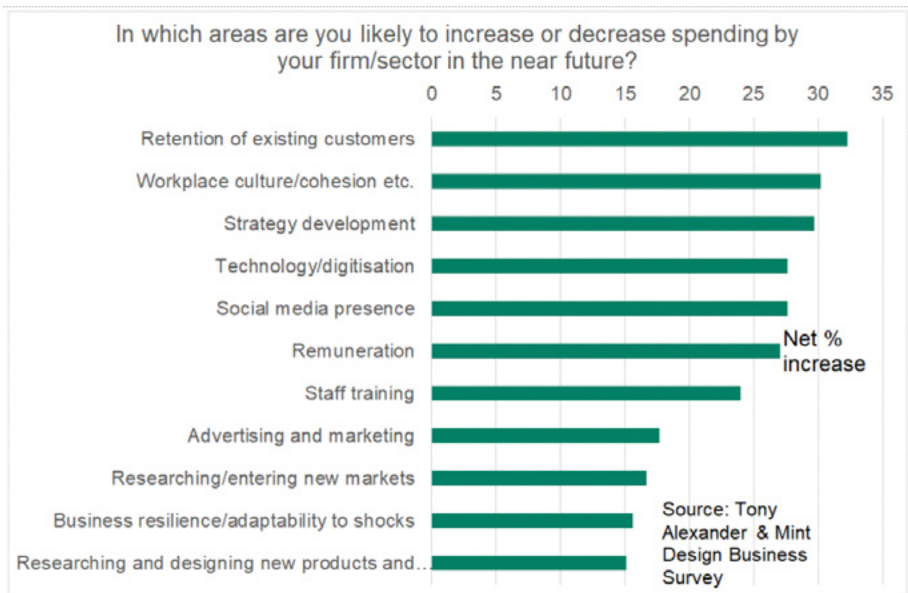
Finally, as ever the degree of concern about our currency in this cycle of restraint remains very low. The monetary policy tightening period of 2021-23 has not this time around been associated with a soaring NZ dollar because interest rates have also been rapidly increased in other economies.



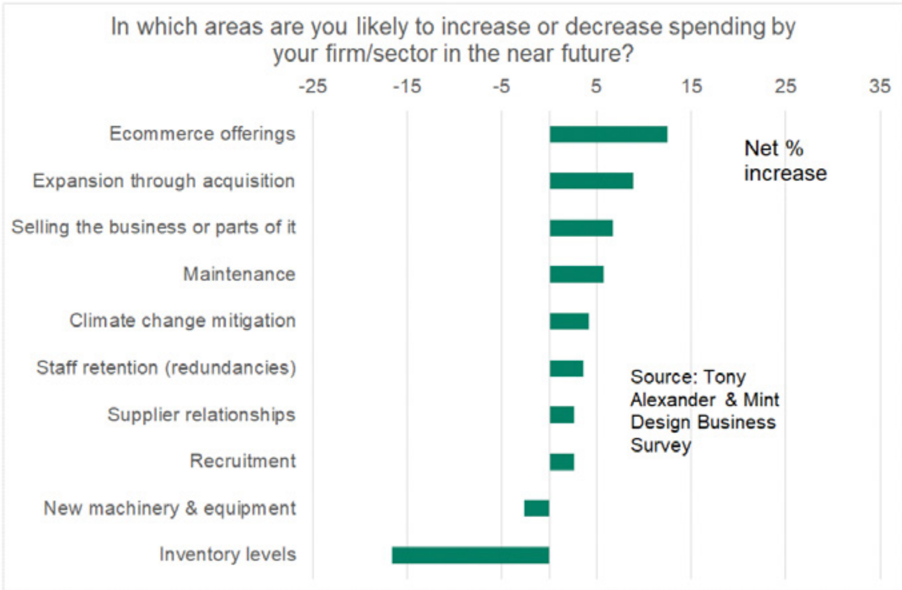


In which areas are you likely to increase or decrease spending by your firm/sector in the near future?

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 the planned spending increase is the retention of existing customers, just as it was in October. Workplace culture and cohesion have moved to the second highest area of planned spending increase while strategy development continues its place in the top three.

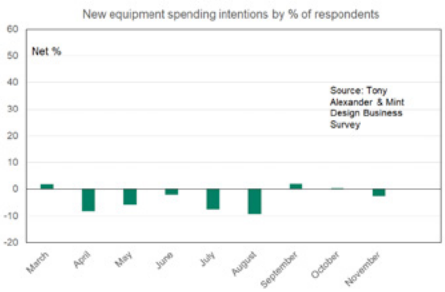


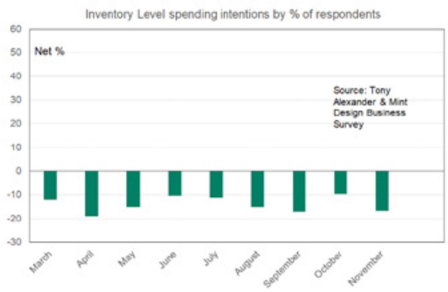
Prospects for business capital spending in the context of poor sentiment and an increasingly friendly labour market remain poor. The outlook for productivity growth in New Zealand, unfortunately, continues to worsen.



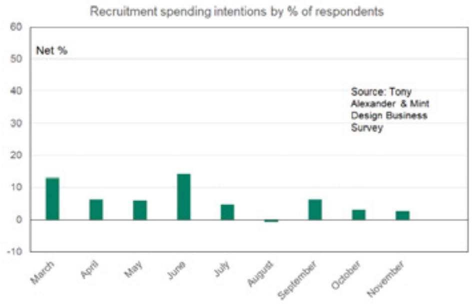
These next graphs look at how planned areas of spending change have been tracking since our survey started in March this year.

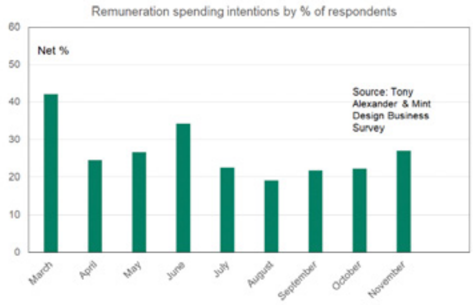
As just mentioned, plans for spending on machinery, etc. remain extremely poor. But these intentions are not as bad as for inventory levels. High interest rates and worries about customer demand will be driving businesses to slim down the capital they have devoted to stock levels. Any long-term effects of the supply chain problems of 2021-22 encouraging higher average inventories seem minimal.



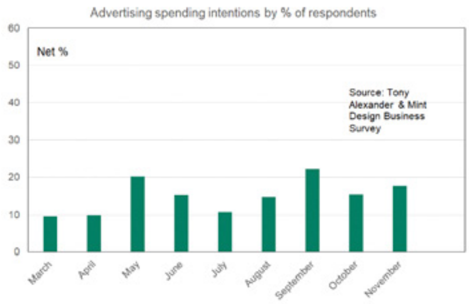


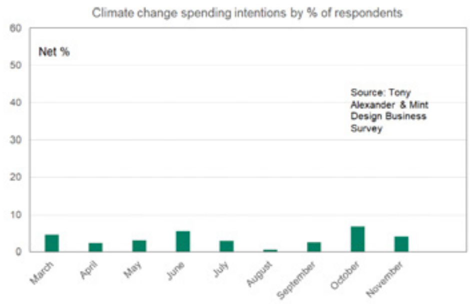
Plans for spending on recruitment are trending down, likely reflecting the reduced need for such spending when labour is more readily available because of the migration boom. But there has been a lift recently in plans for spending more on staff remuneration which runs counter to expectations of slowing wages growth. This may reflect intentions to maintain high staff numbers rather than invest in labour-saving technologies in the near future.





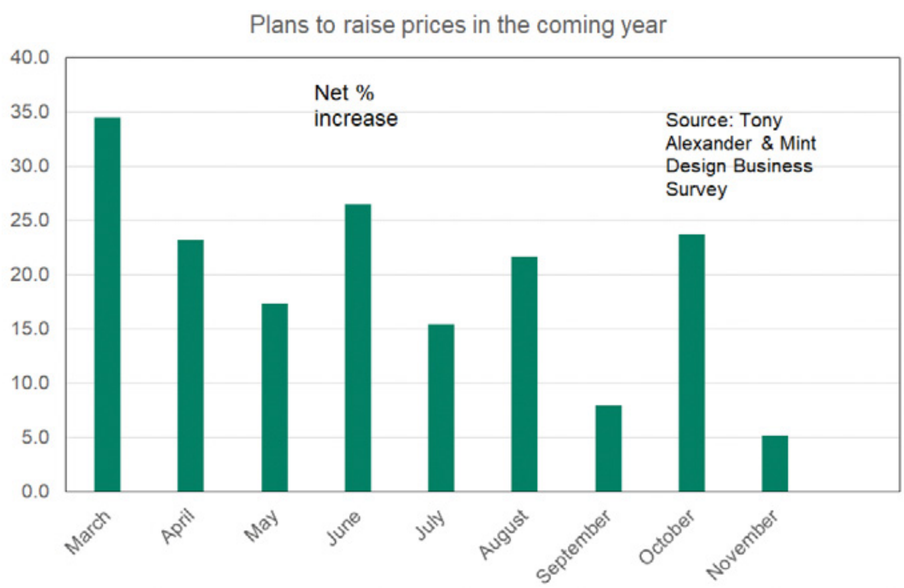
If one looks closely enough at the next graph there can be seen a small upward trend in the proportion of businesses planning to spend more on advertising. But at 18% the proportion is low and suggestive of restraint in an environment of constrained cash flows. Plans for spending on matters related to climate change, as ever, remain minimal.





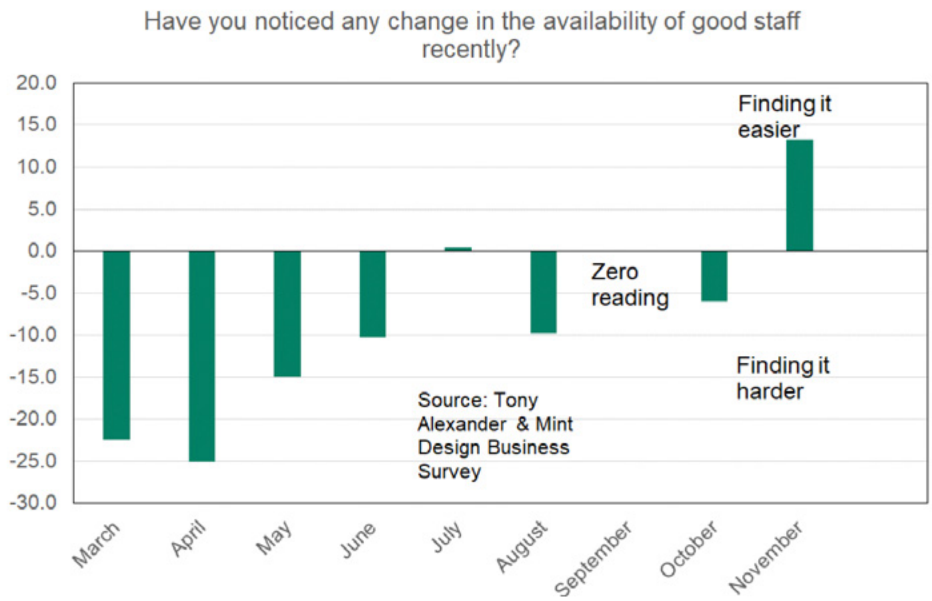
Are you planning on increasing your prices for any of your products or services this year?

One firmly pleasing element in this month's survey is a reduction in the net proportion of businesses planning to raise their prices to just 5% from 24% last month. This series is displaying some volatility, but the trend is down. This adds to the slowly improving picture for inflation in New Zealand and therefore scope for lower interest rates in 2024.



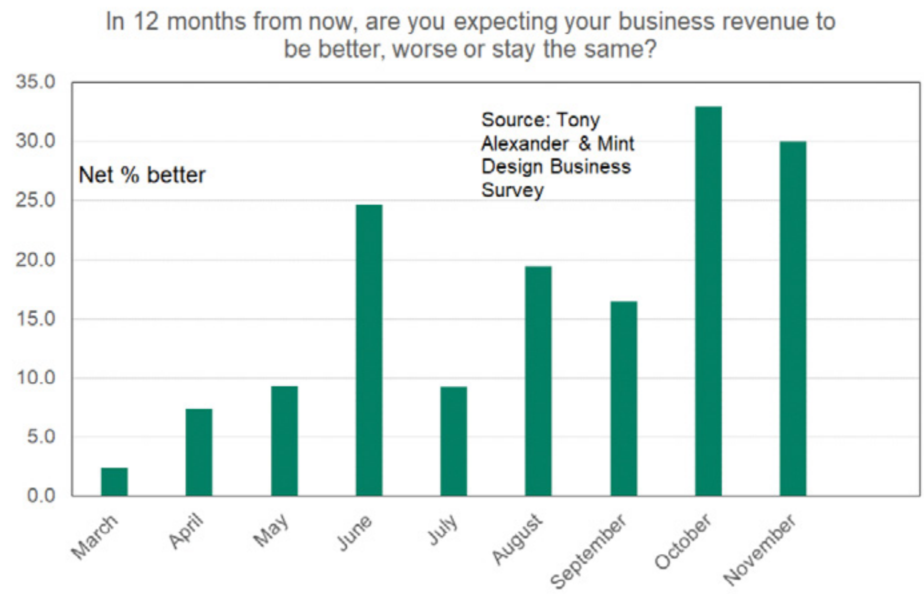
Have you noticed any change in the availability of good staff recently?

Reflecting the way the record net migration boom is rapidly boosting the labour force, a net 13% of our business respondents this month have said that they are finding it easy to get good staff. This is a reversal of the net 6% last month, saying finding good staff was hard and well away from the net 25% in April, reporting staff sourcing difficulties.



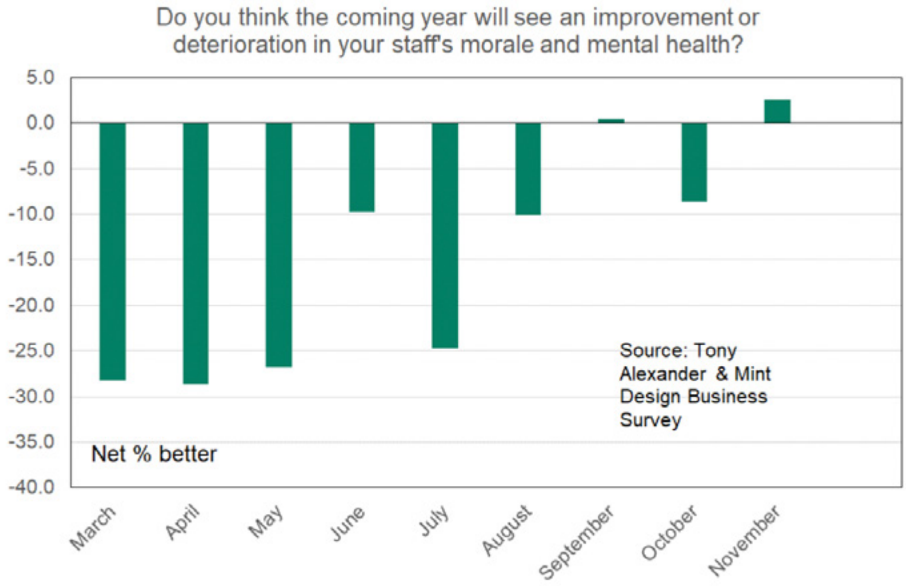
In 12 months from now, are you expecting your business revenue to be better, worse or stay the same?

A net 30% of businesses say they expect their revenues to improve in the coming year. This is about the same as the net 33% result in our October survey and consistent with an improving trend in this measure underway since earlier this year.



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

In this month's survey, a net 3% of businesses have said that they anticipate an improvement in staff morale and mental health over the coming year. The trend is good. But the level of positive expectations is still very low.



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.

The main points which we can glean from these responses include the following.

- Staff availability has widely improved, but there remain shortages of skilled people in many industries, nonetheless.
- Businesses are pleased about the change in government.
- Retailers report closed wallets of most consumers.
- House construction comments fall strongly on the negative side. Commercial construction insights have also turned toward the negative.
- Cash flows are tight for many businesses.

Accounting & business advisory services, incl. business broking

- Hesitation to outsource services due to economic and political uncertainty
- Businesses need strategic planning help, but affordability is the issue - we need to be more value-driven.
- Cashflow pressure on clients and trying to help them with IRD debt and bank debt
- Good sales & activity until 6-8 weeks before the election and renewed activity levels & enquiry post-election suggest another solid year - similar to the previous 3-4 years. Business Broking
- We see a lot of client pain out there. We keep getting referrals from people in pain!
- Our clients are nervous about the economy though they feel a little more confident with the change of government.
- Private business sales - same dynamics regardless of the economy's direction. Companies are seeking growth by acquisition, but many are more talk than action. It's often baffling as to why they even bothered enquiring. So, nothing new there.
- There is budgetary caution from customers in both public and private sectors. This impacts our work pipeline
- Some (most) SMEs don't have the cash flow to spend on advice at the very time they need it. Most clients are having tough times and have been using up war chests, so are starting to run out of reserves. Business owners who are nearing retirement are more risk averse/less energetic and are having difficulty changing tack to reinvigorate their businesses. They were planning to exit soon and are coming to terms with not being able to do that or getting a lower sale price.
- Potential slow down on the horizon, quality staff really hard to find, stress on current staff, especially middle level, is starting to impact.
- Price sensitivity of clients.
- Some clients are delaying providing records to prepare their annual accounts due to cashflow reasons or other pressures, resulting in even less time for collating records. Others are wanting their work done quickly for the bank, but we always see this. Some clients are really doing it tough if they have not or have been unable to reduce personal spending to match reduced profitability.
- Decreasing margins and inability to pass costs onto the customer. Increasing risk for lower returns makes a number of owners question the validity of their operating models

Advertising & marketing

- Businesses are cutting down investment and discretionary spending due to the economic outlook.
- Clients have shrunk marketing budgets and battening down the hatches until the economic outlook becomes clearer.

Banking & finance generally

- Low number of transactions impacting business via dropping asset volumes and increased pressure on staff to write new business.
- Careful/cautious customers - reticence to commit to new equipment as both the cost and the interest rate make it much more expensive than the last time they purchased that equipment.
- Impact of IRD on SME Business when it comes to recovering monies or entering into schemes of arrangements that businesses simply cannot afford!

Cafes, bars, and restaurants

- Our business (restaurant) relies on discretionary spending by middle NZers who are experiencing pressure from interest rates. Until rates start to ease, even if a little, people will be extremely careful around their spending. The only thing slightly working in our favour is that there is a trend towards enjoying experiences rather than tangible items. (so they say!) I don't see any growth in our business until rates start to fall.

Civil construction/infrastructure

- Work is slowing down, and some larger operators are chasing work a lot harder than they were six months ago

- Labour costs are still increasing rapidly for highly qualified and experienced practitioners. Lack of funding is stifling the market, and most developers are struggling to get projects underway.
- Steady demand. Hard to get deals across the line.
- Infrastructure is tough at present - margins are tight.
- New government - certainty in investment and regulatory direction for the next period will be good
- Concerned about forward work in the coming year.

Commercial construction

- Competitors from outside the region making a move, likely to reduce margins to challenging levels
- Increase in competition, increase in availability of skilled resources (both from the residential sector), increase in enquiries from commercial customers who put projects on the back burner for 2023.
- An awful lot of planned commercial construction seems to be on hold. Primarily because of the cost of money + the cost of building + lack of availability of funds; however, uncertainty regarding the govt change has been in play for several months, too.
- We are seeing a number of clients with a significant amount of work in the pipeline sitting on their hands, waiting for the market to turn. Apartment developments (aged care and free market) are on hold while developers try to time the market for when the demand is back.
- We are a bespoke joinery installation business; we cater to a small clientele and our biggest one has commented on a downturn in the commercial construction sector. I am not 100% sure if that is the case or whether customers are sourcing joinery elsewhere due to delays in production due to staffing issues. Our other market is residential (architectural), of which I don't see any real change. We did hear that due to the slowdown in the housing market, retirement villages have had a slower turnaround in sales.
- Stagnated
- Projects taking longer to get underway, more budget-checking stages.

Commercial real estate

- I have 17 commercial tenancies, and for the first time in 12 years, I have vacancies. Can see it improving!
- There has been a lift in commercial confidence and activity since the election. Vendors and purchasers want to do deals, but the banks appear to be unwilling to come to the party, and they only seem to want to lend up to a maximum of a miserly 40% LVR, so purchasers have to find the other 60% as a deposit.
- Uncertainty about the health of the office and retail markets.
- Uncertainty in the economy nationally and internationally
- Potential tenant weakness due to difficult trading conditions, interest rates and other problems spreading throughout the country.

Education and training

- Lack of a strategy that can be translated into action
- Domestic students are getting jobs and not going to school, we're more reliant on international students now
- Waiting on the new government to be proactive on increasing training for NZ job ready beneficiaries

Engineering

- The uncertainty. Many businesses in the sectors we supply are going to the wall (according to the auction sites), yet turnover is holding up. Margins are tight, and profitability is marginal.
- Finding good technical staff who are motivated and can come to work for more than 5 minutes without having time off sick.
- Financing for clients is getting tighter. This impacts cash flow across the land development sector.
- Auckland Council's entrenched anti-development bureaucracy is adding years of delays and costs to development projects that are needed to provide housing.
- Enquiries slowing

Entertainment

- Supplier price increases, including council-owned venues, in some cases up to 20%. Customers are asking for delayed payment terms and a lot of payments are being received late.
- Challenging conditions in the entertainment sector as competing for the discretionary dollar
- Event management - Lower client budgets and increased costs

Farming & farming services

- The first five months of this financial year (April) we have made a loss, things seem to turn a week before the election, but we don't expect it to be a great year as the impact of rising interest rates has not fully come through to everybody yet.
- Farmers are the most pessimistic and suspicious in many years. Cynical and anxious about the future.
- Too much unnecessary regulation, which is poorly researched and delivered in an ad-hoc manner.
- Due to a shortage of supply we are experiencing an increase in revenue at the moment, which is long overdue but confidence that this increase is sustainable is low. The inability to hire capable staff increases the workload on

present staff which leads to a general tiredness amongst staff, which can't be sustainable forever.

- Kiwifruit grower (gold). Contractors' standards and timing improved noticeably, fingers crossed on what we have little control over weather, picking, packing ,export returns cannot be bothered increasing holdings more likely to reduce. Don't know how green growers survive
- International sheep and cattle prices are falling while fixed costs remain high.

Financial advice/Wealth management

- A lot of uncertainty from customers as they look to the new govt, they're worried about the future. They worry about interest rates and stability of our economy.
- We are looking forward to a resolution of the parties in forming the new Government.
- Communication preferences for clients are now very fragmented and easily overlooked, so lots of follow-up. A lot more late cancellations for appointments

Health

- Instability
- Interest rates are affecting customer spending.
- Areas where government funding are very underfunded, health in particular. Care for NZ people going forward is very uncertain, unless you have private funding and/or private health care. The mountain is now so large it is unlikely to be solved in the next ten years, under any government.

Information technology

- Activity is still strong despite the looming holiday season. Plenty of competition out there but so long as the economy remains consistent or grows, then we should see opportunity.
- Skilled staff are still difficult to find, and we are having to pay higher rates than we budgeted for (which were already up on the prior year)
- The general state of the economy remains a concern as these flows on to business confidence and customers buying intentions.
- Some competitors have been discounting to pre-COVID levels which we cannot believe is sustainable considering the inflation of the last 12 - 18 months. Is this strategic manoeuvring or desperation?
- Low Business confidence is having a material impact on businesses not starting new projects. There are a number of projects on hold while businesses are waiting to see which way the economy is going. Over the past 2 months, there has been a significant slow-down in IT spending as evidenced by our lowest order intake volumes since the Covid dip.

Legal

- Slight increase in the residential property sales volume for a very low base
- Whether we like it or not, many law practices have property as a key factor, and when the property market falls, law practice income follows. So we would be happy with a steady property market, and to continue to seek to diversify to other areas of practice.
- Demand is high in Matrimonial Property and Trust work

Manufacturing (all categories)

- Our sales are steady, but we expect less demand and more bad debts over next 6 months.
- Things slowed down coming up to the election compared to last year. They took off straight after the election.
- Inventory levels are high
- We're supplying the high end architectural homes with long lead times. At the moment we are getting a lot of signed quotes, but our quote issue numbers are dropping. We believe there are those homes that need to continue on and get finished but we are wary that this sector may also be slowing down over the next 6-18 months.
- Far more cooperation and interest from Chinese suppliers
- More offshore interest in our products
- Continuing procrastination by managers of government tenders
- Food and Beverage: Recession really starting to dent sales. All levels of staff are impossible to find, particularly good staff - have had over 50 open roles for over a year. Compliance costs continue to increase. Supply chain starting to settle from the covid disruptions.
- Confidence levels have improved with change of Govt; cost controls critical; fine balance between maintaining productivity without unduly increasing stock levels and impacting profitability.
- Lower demand due to high interest rates
- A small decline in the number of outbound international travel, around 2% based on 3mths ago
- Innovation and the development of new products are the keys to growth in our niche market. We export worldwide but our growth since the popping of the Covid consumerism bubble has been driven by delivering new products to where a product does not currently exist. Being first to market allows us to enter with premium margins and leverage's our 60 year heritage of being a trusted brand in the performance motorsport market.

Miscellaneous

- Flooring - A slowdown in demand for product, no hurry. Customers are also becoming increasingly difficult and have high expectations on a low budget.
- FMCG Wholesale distribution - Cost of living impacting consumer demand, especially for premium products (FMCG). Supermarkets' market dominance means profitability as a supplier is difficult, alongside massive increases in all input costs over the last couple of years. At least we will have a new Government in the next week or two.
- Fuel Distribution - Generally find a positive response by organisations wishing to reducing their fuel costs.
- Hire Access Equipment - Equipment mainly supplied to commercial users and the building sector. Has been slow the last 3 months just seeing a pick in the last week.
- Horticulture - slow/reluctant spending. Cheaper options being taken more often.
- Importer/distributor - Slowing market, hard to make profit, banks tightening up.
- Investment Management - The business my team looks after is across a number of industries with all facing challenges. While the availability of staff has eased, quality of staff is mixed - the impact from the societal changes since 2020 impacts productivity and engagement. Price increases are required as there is margin pressure across all the businesses, while we manage more accounts which are in arrears.
- Leadership Development - Increased incoming inquiries following the election - the change of government (although not yet officially formed as at the time of reply) appears to have given various businesses the confidence to go forward, resume strategy planning and invest in future thinking. Previously the focus was on protectionism. Makes for a refreshing change.
- Understandingly quite a few retailers have noted falling revenues, be it the lead-up to elections & uncertainty afterward, appalling management cluster by the Labour Govt., consumers dealing with interest rises, cost of living and media reporting.
- Sourcing and wholesale - More compliance, higher employee expectations
- Sport recreation - Low-cost competitors are dropping prices and/or offering free trials in the fitness industry. I have increased my prices and have no pushback. There is a group of customers in my industry who value a quality product and are willing to pay for it, My gym is increasing about 3% each month, steady growth, and no sign of people leaving due to increased cost pressure. That said, the local hospitality industry is suffering, and I can see less people visiting the restaurants near to my gym.
- Trade Business Support - Tough economic conditions impacting all sectors & customers

Mortgage broking/advisory

- Mortgage advice industry is extremely busy, but we see more and more new entrants into the industry.
- Removing pointless red tape, regulation, duplication in finance industry will enable credit to flow again.
- 90% of our work is aerospace-related and the rest of the work is general manufacturing. We are busy, I have a feeling things may slow down in the New Year.

Motor vehicle sales/parts

- We sell parts into the automotive collision repair market, and this seems to be pretty buoyant at the moment. Staff are getting easier to find and the pressure to keep increasing wages seems to be cooling. Still seeing increases in other input costs such as insurance and freight which is squeezing profitability.
- Customers not yet spending at levels of 2 years ago.
- Regulatory costs continue to increase for the same (or lower) standard of service.

Printing and Packaging

- In the past year, we have had to put our staff wages up quite a bit, more than in the last 21 years; I believe we will be doing more of this again this year. Hard to juggle the wage increase with keeping staff and keeping customers with rising costs so we still have a decent positive bottom line. Certainly, need to keep a close eye on business reporting and monthly adjustments where necessary.
- The drive to sustainable packaging, as well as the need for traceability for consumer authentication and tracking will lead to sustained growth in the years to come.
- Increased turnover is welcomed as the holiday season approaches, this is usual for this time of year. Otherwise, turnover for the financial year so far is down over 25% compared to last year, which was down on the year before.
- A slowing market but supplier pricing seems to have peaked.

Recruitment

- Very quiet in the market...it slowed down with the election and sits in limbo whilst we await the 3 headed monster to make up its mind on who gets what... then we move into the Christmas lull....so a quiet period ahead.

Residential construction incl. section development

- Land development consulting - Continued quiet period for land development. Regulatory uncertainty and funding challenges are the key issues.

- Now that the property cycle has peaked, we will expect to see less new builds and subdivisions until build costs stabilise and mortgage rates decrease, which we expect to be a 2025 story. Some valuation companies may need to shed staff and/or not replace those leaving
- Too few valuers in a far more complex, stressful environment.
- The increased cost of a new build combined with the fall in existing real estate prices has turned people off from building new. Our new build inquiry has really dropped off
- Overbearing council consent staff and resource consent staff aided by government legislation that disregards reality. Insulation of roofs is a good example where the extra costs are inflated by consequential costs for trusses and framing. The lifetime extra dollar and carbon dioxide costs outweigh the savings on these.
- Each extra rule increases council staff. However, this cost to society if far outweighed by a factor of 3 being the costs of extra private sector staff to counter silly council staff demands."
- Tale of two halves. Some home builders have streamlined their businesses and lowered costs, resulting in increased demand - others have not done anything and are declining in their sales and demand for our services. Important to back winners
- Banks are being really difficult in financing new builds
- The phones are not ringing at all

Residential real estate

- I see more confidence returning to the Real Estate Market
- The next 3 months is seasonally low for the business, but we anticipate strong demand in March 2024 through to November 2024
- Confidence in Government needed, and confidence interest rates have peaked. Interest deductibility and reduction in brightline test period would benefit all
- Uncertainty
- Buyers' ability to borrow funds.
- Some uncertainty coming to an end with the real estate market volumes increasing without any increase in prices if interest rates do not decrease.

Retailing

- Retail is tough with a lot of good staff moving to Australia. Margins are getting squeezed and the cost of doing business is increasing so we need to be able to increase costs to the customer
- A very noticeable decline in retail sales from a couple of weeks prior to the election. Since then things have been very quiet. Hoping once the Coalition is formed, customers can have some surety and can move forward with spending plans.
- I have an established wholesale business with bigger AAA accounts across the country such as Mitre 10 stores and Garden centres, sales are down a lot due to construction fading, general inflation on all the basics and a payout drop for farming in provincial areas like the Waikato and BOP.
- Customer confidence is affected right now by uncertainty re coalition outcomes, high interest rates cost of living increases. Our costs continue to rise faster than turnover!
- People wanting/expecting a cheaper deal is increasing. Mixed comments about the future seem to be driven by who they listen to in the media. Lots of younger people going on OE's still.
- We supply to the Jewellery industry a range of product that has had a very good run in the last 10 years but right now we are seeing that retailers are struggling with people not coming in store. Tourism is back, but I still don't think that they are spending like they were. We feel the crime has really had an impact on the stores and their attitude. A lot of stores are only purchasing the minimum, making the shelves look quite empty.
- We are looking forward to this next government and hopefully the changing attitude they bring with a more confident buzz to the economy.
- Sales have been down 15%-20% for the last three months, retail crime is still featuring in our business, availability of motivated, engaged staff is an issue. Staff are using their 10 days of sick leave in full, which has driven up operating costs.
- Customers have less discretionary spending and are prioritising what they are spending their money on
- Sales decreasing by low single digits (%) vs last year.

Shipping, transport, storage & distribution

- Ocean rates have plummeted to equal or below pre-pandemic levels, making it very difficult to make a margin. Due to reduced overall market volume, competitor sales activity is ramping up.
- Marketplace is slowing down/tightening therefore risk is increasing. Some of our customers' customers (restaurants/supie) are struggling to pay or are closing.

Tourism & accommodation

- We are finding it slightly easier to find staff than we were at the same time last year. The jury is out on whether or not they will be good staff! Forward bookings are robust and provided nothing comes along to spoil the party (ex-tropical cyclones and/or a new variant, neither being helpful in the holiday park/tourism sector!) and summer is moderately warm & largely dry, we expect the next six months to be the best trading window since 2019.

- We operate a boarding house in Auckland. Since the borders were opened, we have had unrelenting demand for our rooms. We are 100% full, as are all other similar facilities.
- Undertaking acquisition of a parallel business in the Pacific to provide year-round product offering. Expectation that this will impact significantly on revenue as well as staff morale.
- Competition from others who seem to be struggling.
- Travel Agent - Capacity constraints and the rising cost of airfares - and the weak NZ dollar.

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