Mint Design

Mint Business Insights

With **Tony Alexander**

September 2023

ISSN: 2816-1734

Deep economic concerns persist

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. 188 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 they remain deeply concerned about the economy and interest rate levels, but minimally concerned about climate change and cyber threats. The fall in the NZ dollar has boosted concerns that our currency is too low. Plans remain in place for reducing inventory levels and there is an upward trend in the proportion of businesses thinking about selling their enterprise.

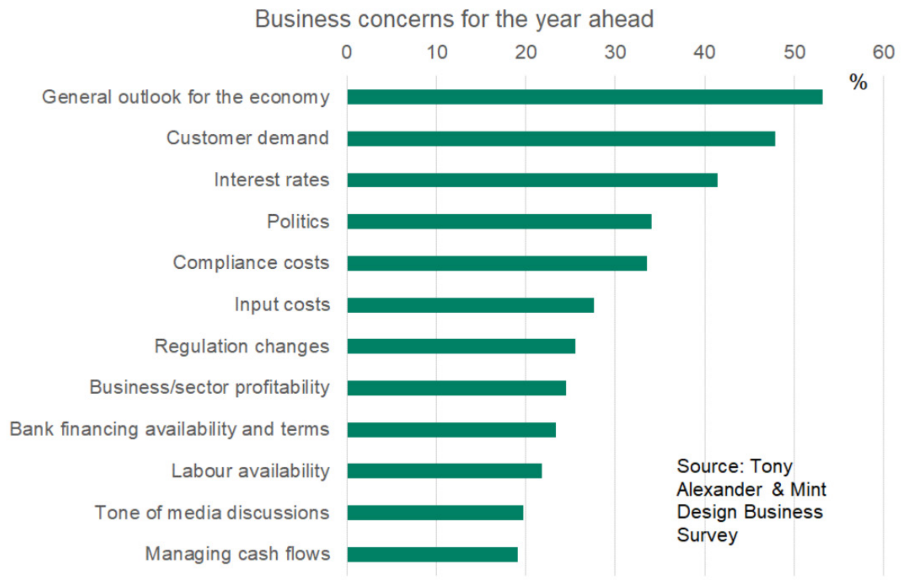
Plans for raising selling prices are easing off which will please the Reserve Bank and eventually borrowers – perhaps next year. Assisting this may be some noticeable easing in the proportion of firms noting difficulties in sourcing staff. Tightness in the labour market is easing off.

Tony Alexander
Independent Economist

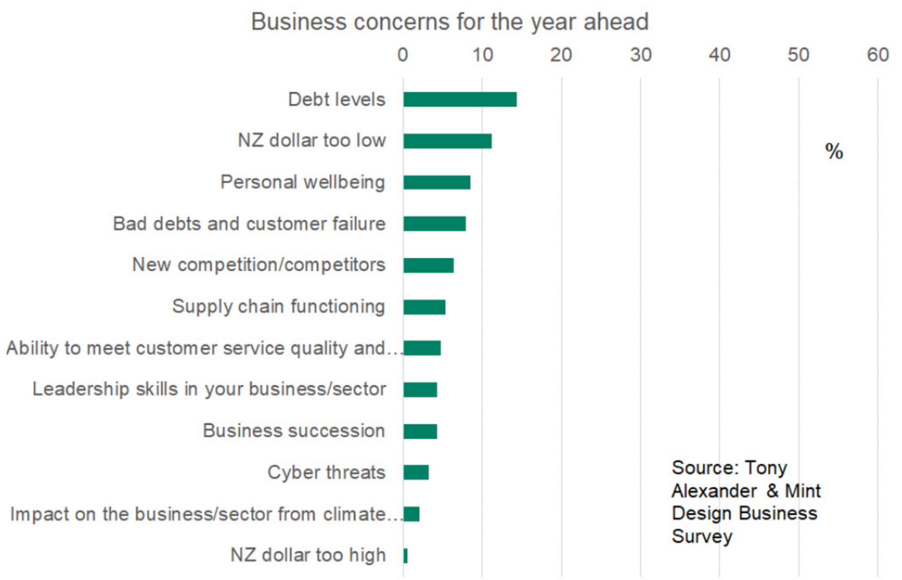
What concerns you most for the year ahead?

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.

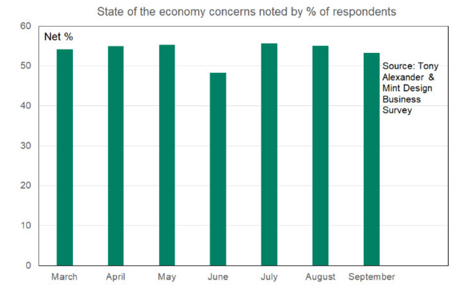
The top three concerns this month are the same as last month – the outlook for the economy, customer demand, and interest rates. Politics and compliance costs also rank as high concerns.

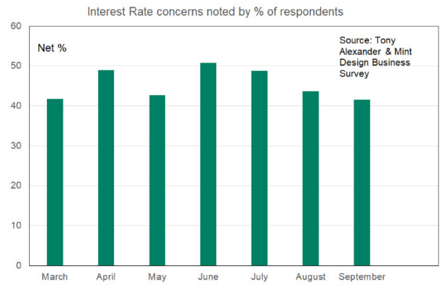


Least concerning to business is the NZ dollar being too high, followed by climate change and then cyber threats.

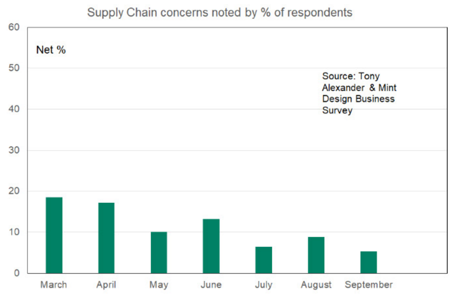


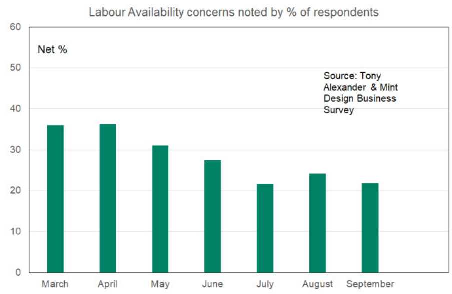
Worries about the economy have been high for the entire period of our survey with no easing trend yet evident. In fact, many businesses express high concern about the economy in the context of the policy and political environment of recent years and what the election may bring if changes do not occur. The high level of concern about interest rates is at least easing to a slight degree.



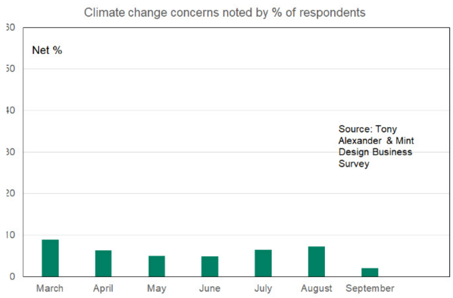


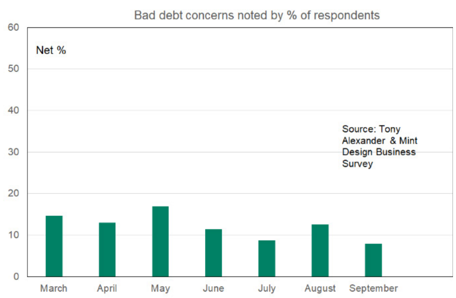
There are mild improving trends underway regarding concerns about supply chains and labour availability.



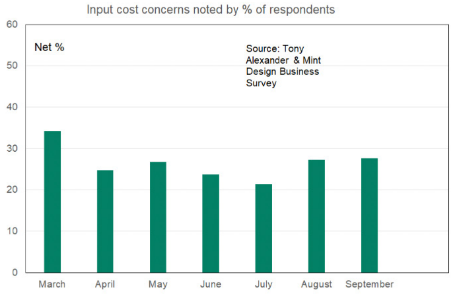


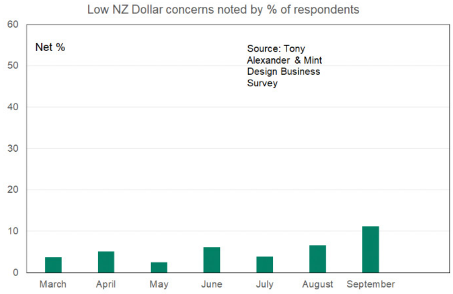
Climate change concerns have been low since our survey started and remain low in spite of recent extreme weather events here and overseas. Interestingly, concerns about bad debts are not trending up despite high concerns about the economy and pressure from high interest rates.





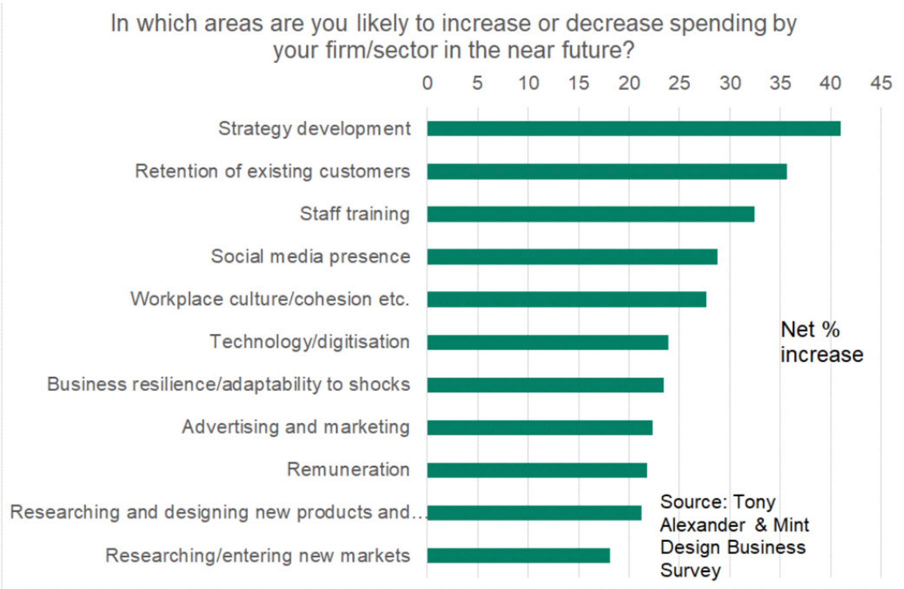
Worries about input costs have increased recently and this is something which will be a source of concern for the Reserve Bank as it seeks to crunch inflationary tendencies in the business sector by crushing consumer spending. One interesting development this month has been a sharp jump in the proportion of businesses noting concern about the NZ dollar being too low. This may reflect the currency's recent decline to US 59 cents and lower for a while.



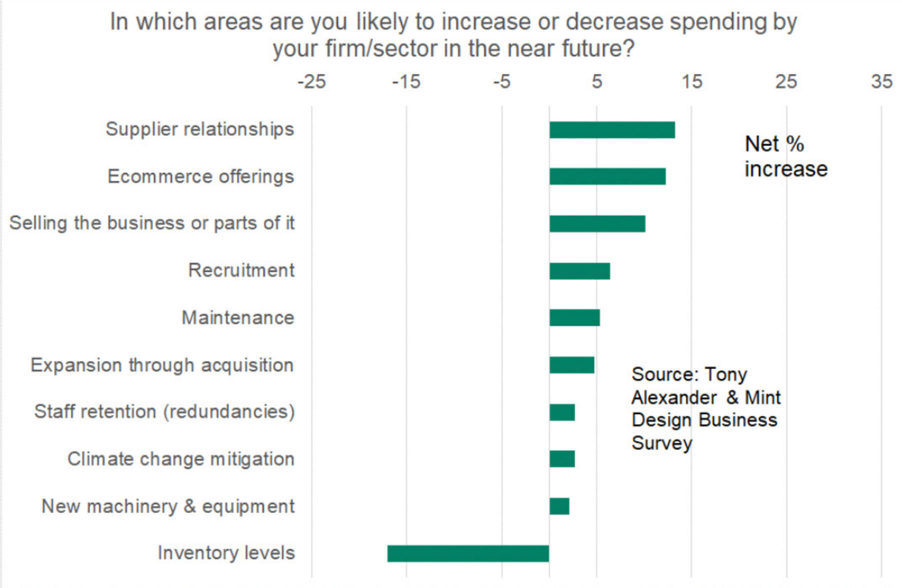


In which areas are you likely to increase or decrease spending by your firm/sector in the near future?

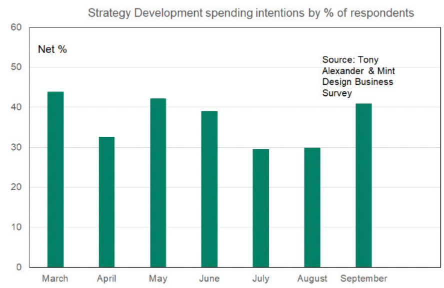
Our second main question is addressed at identifying where businesses are going to allocate their scarce funds in the coming year. As above, we split the results across two graphs starting with areas where most businesses plan greater allocation of resources. The top area of planned spending increase is strategy development followed by retention of existing customers. These were also the two areas of highest planned spending in last month's survey.

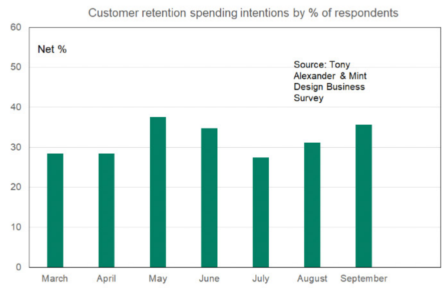


Last month we noted that cutbacks in spending were planned in five areas. This time around, despite continuing high pessimism about the economy, only one area is set to see reduced spending – inventory levels. As noted previously this is to be expected at this point in the economic cycle.

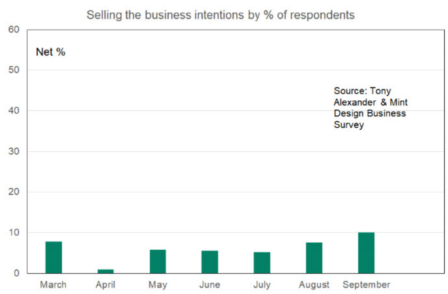


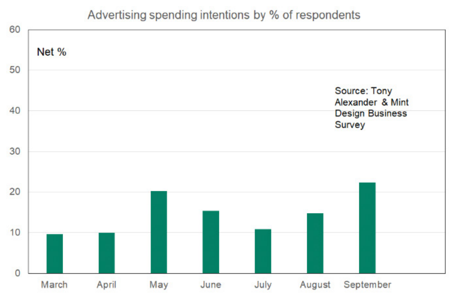
These next graphs look at how planned areas of spending change have been tracking since our survey started in March this year. First, for the top two areas of planned spending increase.



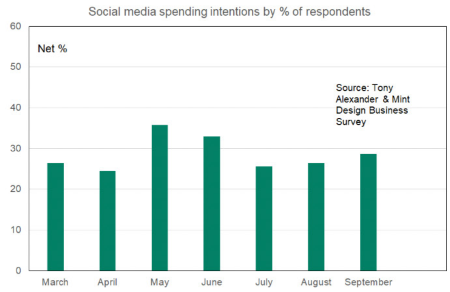


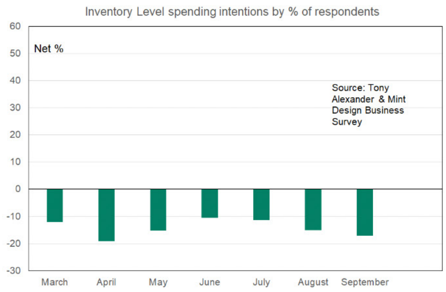
One interesting upward trend underway is intentions of selling one's business or part of it. This seems logical given the deep concerns businesses have about their operating environments. But then again, there is also a small upward trend in plans for spending more on advertising. As a rule when cash flows get tight this area of spending can get quickly cut. But in the modern fast-changing world the potential cost of not having an advertising presence may be greater in terms of brand recognition and market share than in earlier days when advertising largely meant newspapers, radio, and trade magazines.



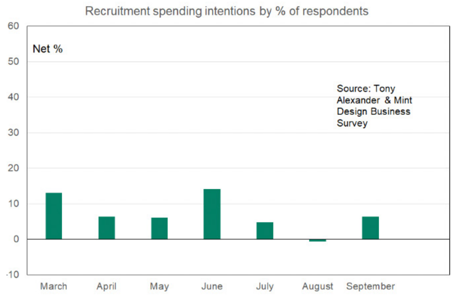


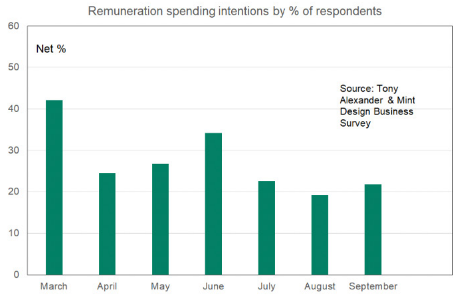
Plans for spending on social media are reasonably firm and have recovered slightly over the past two months after pulling back heading into Winter. As noted above, plans for spending on inventories remain negative.



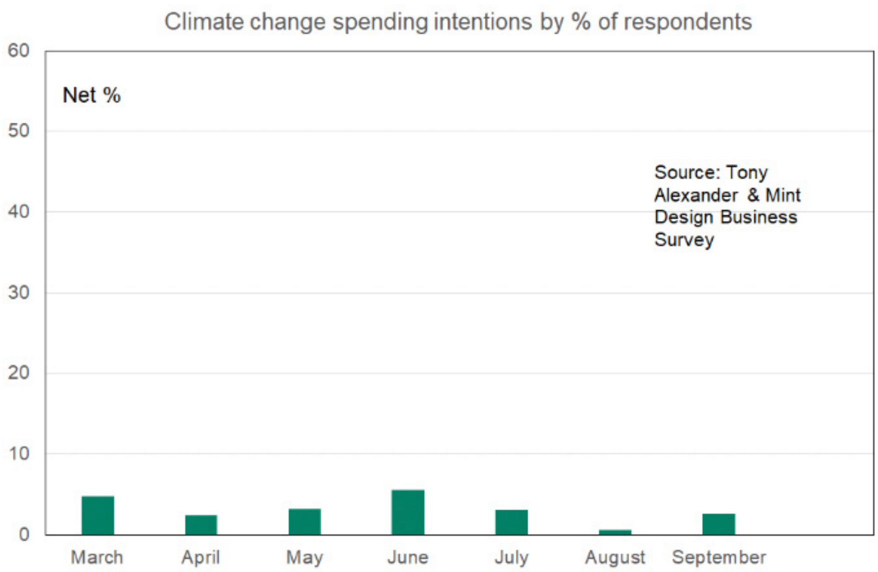


With regard to spending on staff, plans for spending on recruitment are positive but very low. Remuneration spending plans seem to be trending down but not in convincing enough a manner for the Reserve Bank to feel confident that wage-driven inflation is well easing.



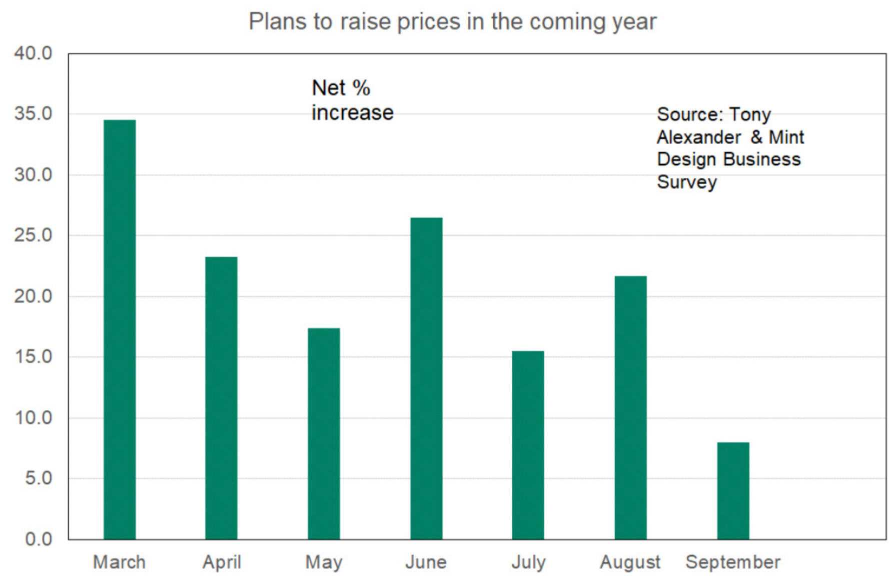


Finally, there is one area of deep concern in the media but for which businesses are not planning to devote many resources in the near future – combating the impacts of climate change.



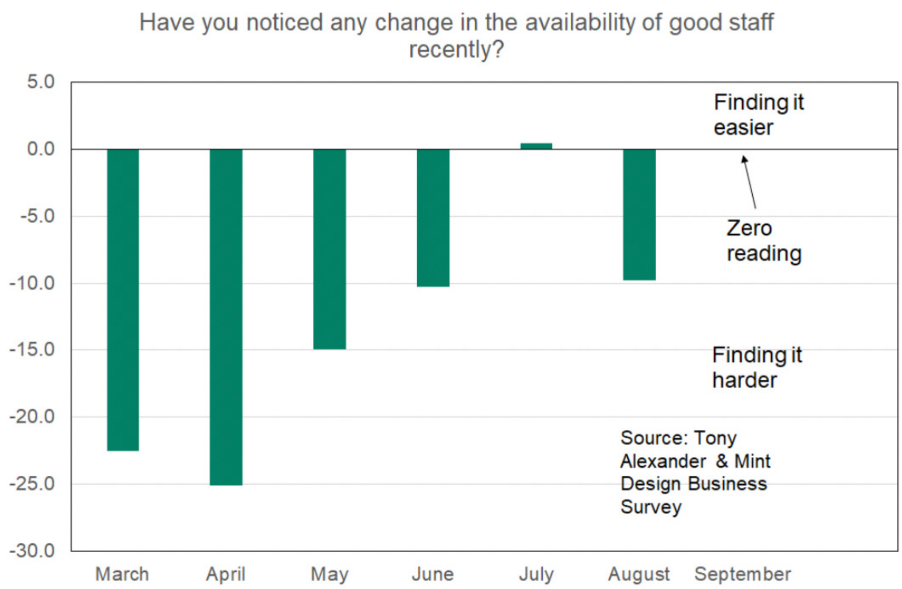
Are you planning on increasing your prices for any of your products or services this year?

While some of the measures discussed above do not provide hope that inflationary pressures are easing much, better news for borrowers comes in the form of business pricing plans. This month's survey has recorded a fall to a net 8% of respondents planning to raise their prices in the coming year from 22% in August.



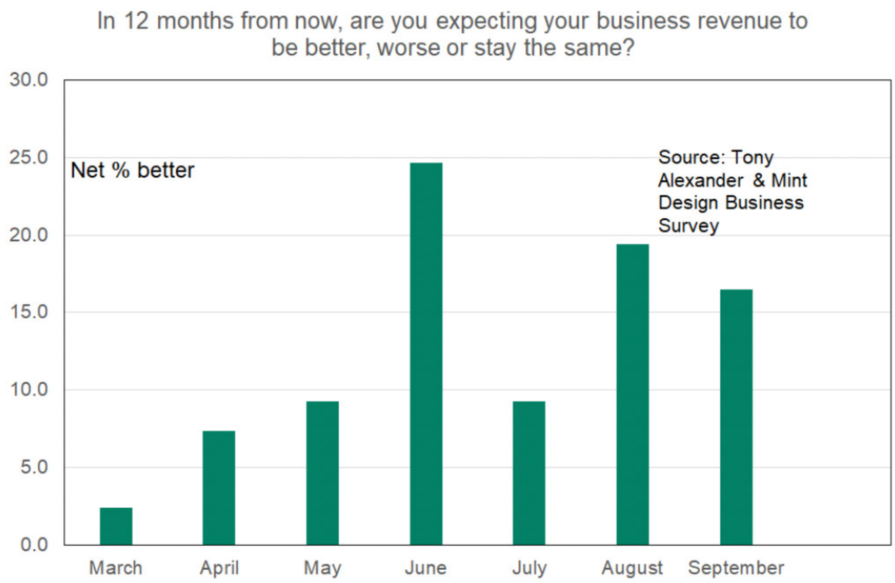
Have you noticed any change in the availability of good staff recently?

This month as many businesses have said that they are finding it harder to get staff as have said they are finding it easier. This shows as a zero reading for September. In August a net 10% of respondents said that it was getting harder to find staff. An improving trend is underway, and this is consistent with many other indicators for the labour market which show some of the stress easing. Nonetheless, in the comments offered by businesses below it is clear that in many areas finding skilled staff is still a problem.



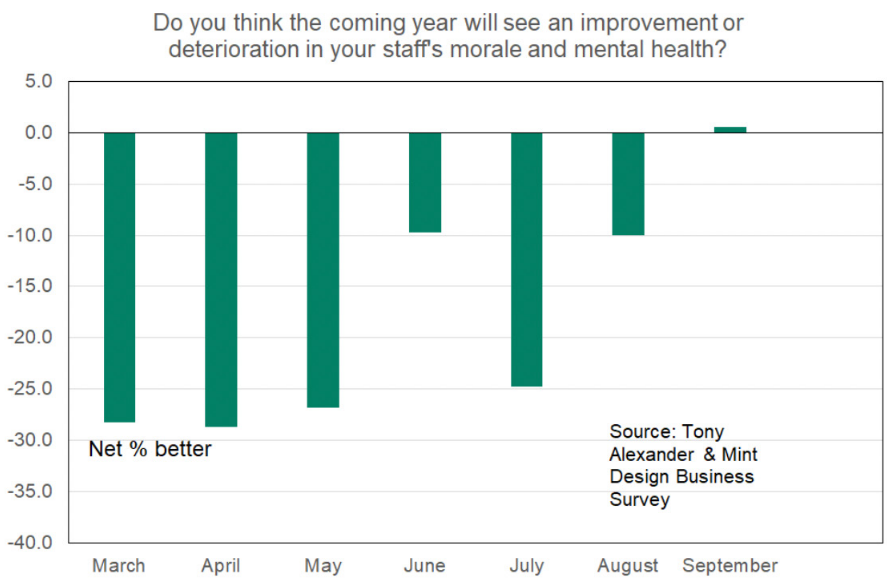
In 12 months from now, are you expecting your business revenue to be better, worse or stay the same?

Perhaps reflecting expectations of things eventually getting better at some point in 2024, there is a broad upward trend in the net proportion of businesses expecting their revenues to improve next year. Of course this might be matched by expectations for higher costs, or reflect expectations of higher selling prices per unit of output.



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

For the first time in our monthly survey there is a small net positive proportion of businesses saying that they expect staff wellbeing to improve in the coming year. This is a very welcome change from the depths of concern seen earlier this year.



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.

- Many people (customers and businesses) are putting off spending, awaiting the election outcome. Expectations for activity after 14th October are expressed to be highly dependent on which party wins.
- Finding staff is still difficult in many sectors, but comments about this are less common and less strong than some months ago.
- Construction activity is falling away.
- Many expressions of uncertainty regarding what lies ahead. Caution prevails with an undertone of pessimism.

Accounting & Business Advisory Services, incl. Business Broking

- Business is still solid. Really hard to find staff; feels like there are less doing the profession.
- Really hard to find good senior staff. Marketing effort/ spend to increase to attract/retain clients - the need to be doing more for our clients
- A concern is the ascendancy of AI and whether it will take over the role of the accountant/advisor. But I have been hearing this for the past 30 years, and as usual, it is most likely that our roles will change rather than be taken over.
- In the small business marketplace, some are just hanging in there. Repaying IRD debts due to the impact of C19 subsidies is taking a toll. In a general sense, hesitation to step out of the paradigm they know due to either fear of increasing costs and regulations or lack of knowledge of how to adapt.
- Recruitment has been a major concern over the past 12 months, but there are signs of that easing. For clients, it is very much a two-speed economy - boom or bust.
- As a consultant, my business is dependent on my customers' business health. It can go up or down for a variety of reasons. My personal advice to clients at the moment is to focus on protecting net margins, managing costs, really looking after our best people and eliminating any non-productive activities. Advice that our government might have considered over the last six years. Cashflow is a real challenge, and it only takes one or two major shocks to a business before they are suddenly cash-negative, and the environment for borrowing isn't very conducive to digging your way out of the hole. I think the environment for businesses has turned very negative. High interest rates, high inflation, high taxes and fast-rising staff costs really rob a business of its juice.
- A shortage of skilled workers is coming as others retire, but we mitigate this by extensive in-house training. We advise small businesses, so our workload will increase significantly with the difficult economic times.
- A lot of companies in many sectors are doing very well. In a few sectors, business is hard. A lot of investment decisions seem to be on hold until after the election.
- Need for good advice and support.
- We are being approached by a lot of new clients, increasing our base by about 10% in two months. Some clients are very slow to pay, and some are under real pressure as the government subsidies have dried up. We have started clearing out less favoured clients.
- Mental health is suffering, and stress levels are increasing for clients and staff.
- There is a high level of stress around inflation costs, interest rates and the impact of lower commodity prices in regional areas.
- The well-prepared, strategically focused, and those with strong balance sheets are thriving.
- The excessive spending by the government is driving poor business performance and inflation. When this is rectified, it will, in the short term, cause more pain, but it needs to happen as we are debt-ridden as a country.

Advertising & Marketing

- We are holding our own in the video creation & marketing business and making small profits month to month. This is only due to the fact that we entered the AU market at the end of last year, and this has made all the difference. AU will be 50% of our revenue by the end of this financial year, and it will be two-thirds by the end of 2024. A lifesaver.
- A slowing economy means less investment spend by clients. Some clients are looking at exit strategies, but getting finance is problematic for potential buyers, including MBO.

Architecture

- Clients are struggling to get their residential projects financed, meaning projects go on hold.

Banking & Finance

- Over-emphasis on compliance and regulations has impacted negatively on our business. The time needed for training, documentation and handling complicity has been frustrating.

- Very low transaction numbers, almost boring. General negativity in most people I speak to. Real disappointment in government and council staff.
- We are a commercial and asset finance broker business. We have seen a material slowdown in our client's own investment intentions and therefore need for business finance. There is much less investment in plant & machinery, with this trend accelerating over the last three months. We are getting busier, assisting our clients restructure their debt repayments to cope with weaker cash flows in their businesses.
- The Big Four banks are exiting asset finance, which means that there are increased opportunities for B2B finance operators such as ourselves - even though the market generally has businesses hitting pause while they wait and see the result of the election.

Cafes, Bars, and Restaurants

- Customer frequency has decreased, and the spend when in our business is cautious.

Civil Construction & Infrastructure

- There is a huge lack of qualified staff. Companies in our industry are having to pay a huge hourly rate to keep their staff.
- I have also noticed a huge slowdown in receivables, specifically in the last two months. Have not seen it this slow in the last 30 years in business.
- Lack of skilled labour, high interest rate cost, no bank finance, buyers not in the market due to unaffordability.
- Quality staff are hard to find. Business is picking up - we are a demolition company, and finding our larger clients are stalling the jobs, but finding smaller clients are happy to proceed with the job, and they seem to have confidence we are at the bottom of the cycle.
- Margins have been squeezed as less work and more competition.

Commercial Construction

- We predominantly service the commercial construction market & we've had a significant drop in demand. Many projects seem to be on hold, or perhaps clients are installing their own joinery.
- Old contracts are now completed, and new contracts are priced better now for today's costs.
- Wet weather slowing sales. Project lead-in time takes 4 to 6 months longer. Current government has no plan that helps/ benefits businesses.
- Residential construction has already taken a battering. It's now starting in Commercial construction, and redundancies are imminent and inevitable. The other consequences of business failure will follow.
- Prolonged recession.
- Confidence with the clients to proceed with projects, largely due to high interest rates and construction rates still relatively high.
- A government that does industry reports but has no useful solutions to fix issues with consenting, compliance costs and enabling innovative need products in the construction industry. Tough to be a small business with a Labour government.
- Forward work is very light and not showing signs of improvement.
- Decreased revenue and tighter margins at present. Taking on smaller projects to fill the order book. No plans to downsize at present, as we can see an increase in activity in the next six months. Some suppliers are going ahead with price increases, whilst others are discounting to maintain market share. Sorting all of our maintenance projects, sorting inventories, etc.

Commercial Real Estate

- Certainly more interest and confidence are developing from businesses as the silent majority see the writing on the wall for this current government.
- Investors are taking a wait-and-see approach - sitting on the sidelines.
- Appears to be signs of businesses under stress with some sublets happening, and finally, a bit of vacancy is starting to show in the industrial property sector, which has been extremely tight for some years now. If anything, this is healthy and allows some movement; where businesses literally had no room to grow as there was nowhere to go, now there are some options. Vendors are starting to be more willing to meet the market, and there appear to be plenty of investors out there with cash waiting for high cap rates, but at the same time, for the right property, owner-occupiers will still pay very good money.
- Slow sales are mostly related to lending and the disparity between previous yields and the current market.
- Lack of business confidence.
- Cash flows are being crunched in commercial property.

Education and Training

- Demographics and NZ internal competition are resulting in staff redundancies. Lack of vision and leadership is inhibiting growth.

Engineering

- Poor future workload, a strong slowdown in demand for consulting engineering.
- Staff skills are down, but their demands are higher than ever. Makes life difficult.

- Turnover is good, but profit is down due to large increases in costs (mainly wages, freight, fuel and interest) and low exchange rates. The future is very unclear.
- Resource consents take years to be approved.

Farming & Farming Services

- Upward pressure on input costs is still around. The milk price drop will put pressure on some farmers, so belt-tightening is underway. Capex investment is likely to be deferred.
- Uncertainty - especially with overseas markets. There is a lot of concern over the government and the election.
- Rural valuation is very quiet.
- It's tough going cashflow-wise in farming at present.
- Horticulture - Weather still having effects on industry, having been so wet this year. Uncertainty with the election coming up, so a lot of holding off on decisions.

Financial Advice/Wealth Management

- Business expectations are being clouded by excessive worldwide debt levels, international economic conditions, and New Zealand political uncertainty during the pre-election period.
- In Financial Services, never has an industry been so dependent on the outcome of a political election.
- Hard to sell the benefits of investment portfolios, given current rates achievable through term deposits with virtually no risk.
- Early stages of digitalisation will accelerate. Use of scale to develop broader strategies around holistic customer service. The struggle to retain/grow/train adviser workforce will continue due to the ageing force and difficulties retaining staff through the years between initial training and developing a mature skill level.

Health

- Increased pressure on revenue expectations with less resources, burnout and increased staff turnover.

Information Technology

- We work in H&S. There's a huge increase in incidents in the community with threats and intimidation to field-based teams. Mental health issues, which I believe are linked to people spending too much time alone/working from home and not feeling part of a team and then struggling with money and family members losing jobs, etc. Our customers are on the coal face of it and it's really freaking bad. It's good for our business, but it's really not how I'd like to see growth come about.

Manufacturing (all categories)

- General uncertainty. Lack of confidence in NZ political leaders and the direction of the country.
- Falling demand at retail for products in our sector of the market (premium craft spirits) from consumers trading down and new low-priced offerings entering the market, pulling down the whole market.
- Consumer reluctance: watching their spending, taking much longer to make financial decisions.
- There seems to be somewhat of a holding pattern at the moment while the uncertainty of the election result remains in play. There is an expectation things will get going again once the election result is known.
- A lack of capable people remains our biggest issue. Aside from automation (which is still too expensive given our volumes), the only other option for us to improve productivity right now would be to regain access to migrants - which at the current settings (being the $29+ an hour pay rate required) is impossible.
- We have enough work coming in to keep everyone happy, but we also get influxes where the customer needs it in a hurry. Costs are now stable, and the supply chains are getting back to where they once were before COVID-19.
- Low commodity prices squeezing profitability.
- Impact of inflation is reducing consumer demand. I hope that recent price increases will stick. Fuel and freight costs have a major negative impact on our business, and unfortunately, the short to medium-term outlook is not good. Like many, hoping for a change of government next month.
- Customers have been sitting on their hands and not making fast purchasing decisions.
- The younger customer segment has not been renovating as much as they usually would, but we are seeing middle-aged and older customer segments still very active.
- We've completed the latest round of price increases; the intention is this will be it for the next 12 months, but we anticipate a small volume decline as an outcome of this.
- We are currently still busy, but our forward work is dropping off, and we are now looking to fill the last quarter. Other companies in our industry have already dropped in workload and are going further afield to seek work and are discounting their pricing in the tender market. We could be in for a rough 2024.
- Demand is picking up, and the summer is looking good.
- Wider economy and social challenges are having a bigger impact on staff morale/happiness than anything workplace-related. A few years of large increases in wages has set an expectation that the rate of increase will continue, even with a flattening economy creating some friction. As promotions restart in supermarkets, the race to the bottom is on for those chasing market share where the only winner is the supermarket owners.

Miscellaneous

- Biotech - Ensuring funding is secure and establishing international sales growth.
- Fitness - gym - We're a busy gym operating at the quality end of the market. In August, there was a noticeable decrease in new members signing up. We've increased our marketing spend and presence but have not seen the usual uptick in sign-ups that would typically result from that. Hoping it's not the beginning of the recession starting to bite.
- Planning - Increased cost due to systemic delays and process requirements on clients, which is making them reluctant to engage with the RMA and related legislation.
- Recreation, sport, fitness - I am a 24-hour gym with a cross-section of people and businesses as members. Tradies say work is drying up, less long-term projects on the horizon, and younger professionals are looking at Aus to go to for work and better pay. Small business owners like myself can't wait for Labour to go. As a 24-hour gym, I have increased my membership by about 50% since last year and am now increasing the price. Those who can afford to, stay; those who can't, or don't value the weekly fee, move to a lower cost option when the increase email comes. There is a perception by some that businesses aren't impacted by increased expense costs.

Mortgage Broking/Advisory

- Property is selling. Still some standoffs pending the election.

Motor vehicle sales/parts

- Lower customer demand means we have to fight for every sale and offer the very best customer experience. However, finding staff motivated to offer that high level of service is very difficult. The current generation simply doesn't seem to want to meet even the most basic of requirements despite being very well-paid and receiving great benefits. Lower sales, higher costs and yet productivity continues to decrease also. We are waiting for warehouse robotics to meet our budget.
- Number of staff away on sick or special leave since the government doubled entitlement.
- Major upheaval with 1st July increases to the government Clean Car scheme. This may disappear on 1st January, depending on the election, so buyers will wait. This will cause hugely problematic cashflows and affect profit. Timed with high interest rates and a slow economy, this is extremely challenging on many fronts.
- Current market is very quiet, and August being our worst on record, we can only hope things change when we have a change in government.

Printing and Packaging

- Demand is looking uncertain heading into 2023; costs are rising, which we cannot recoup.

Residential Construction incl. Section Development

- Land Surveyor - Increasing customer demand prior to election, which is not the usual experience.
- Whilst we have seen an increase in new business and inquiry over the past three months in residential construction, we expect things to remain softer until the end of the year, with the upcoming election and interest rates continuing to edge up.
- Material prices are coming down. Availability of contractors has improved.
- There appears to be good underlying demand but little commitment. A lot of people are waiting for the election, and depending on what way that falls, we could see a swing in the collective confidence to the positive or negative.
- Sales are flat, but the cost of business is high, so it is difficult to make a profit.
- We are now seeing a more cautious approach from clients in regard to how they can structure their proposed goals.
- Majority of clients require a more detailed costing of their projects than the previous 12 months.
- Increase in new builds due to population increase and a change in government (hopefully!)
- Waiting for a change in government... if it doesn't occur, significant drop off in clients... business collapse.
- Clients having difficulty with finance and increased interest rates, many on hold with uncertainly, enquiry and interest has picked up last two months. New H1 regulations have increased house prices by 20-40k, which is not helping sales. We feel after the election, there will be some increased sales; however, we expect it not to be significant until the end of 2024. Finance approvals are taking longer than expected, causing delays.

Residential Real Estate

- As we enter our summer months, everyone is more positive and commencing to make positive decisions.
- A bit more positivity in buyers. Government leaves uncertainty with where they are heading. Seem to be giving money away, seems very reckless.
- Rental sector in Wellington improving, new migrant arrivals are beginning to impact the market - quicker to rent properties. In real estate sales, we are beginning to see more interest. Maintenance contractors cold calling, seeking work, which is new.

- Lack of certainty within the economy. This is likely to change after the election.
- Currently huge uncertainty due to the upcoming election

Residential Rentals/Investment

- Property valuation - Investors have a wait-and-see attitude. Owner-occupiers are still active buyers when a good opportunity is available.
- I own 10+ rentals across the North Island, mostly in Auckland. Removal of interest deductibility for residential rentals has seen my tax bill soar from around $20k per annum to around $100k per annum (so far) as future changes/provisional tax are taken into account. Interest rates more than doubling has also had a massive squeeze on cash flow for my fixed loans that came off this year. I'm rapidly increasing rents across the board, achieving 5%, 8% and up to 21% increases on some properties over the past six months. On tenancy turnovers, I'm typically getting 10% to 18% increases. I'm also deferring maintenance where possible, which isn't helping the trades, and being less flexible than I have in the past with tenant requests to break fixed tenancy periods, etc.

Retailing

- Importer Wholesaler - Retail is very slow. Retailers are struggling.
- Fuel costs hurting destination stores/areas. Wealthy customers unaffected by interest rates and COL are overseas, retail confidence in the gift and homeware sector is generally down, with reps all commenting on the lack of orders being placed.
- Buyers are holding back. Their costs are increasing to go to the events with the cost of diesel, entry fees and accommodation. Less people attending events, less need to buy things for events and less face-to-face selling opportunities for me. My costs to attend these events have also increased.
- Uncertainty as to where retail trade is going to trend. Deep discounting across the sector and significant Australian interest in the NZ market, targeting through aggressive pricing.
- Arts, canvas and photo printing - business is slowing down further. My future plan is if my printer breaks down or is made obsolete it won't be economical to upgrade, so I will close the business and look for further opportunities
- Flooring Residential: A significant part of our business is related to residential new builds, and so has slowed as expected. However, the top end of the market that is not "finance dependent" is firing well, and as happens when new build slows, the refurb market increases. Year-on-year, we are the same as last year in volume & dollars.
- Sales downturn across the online retail sector, according to Facebook group discussions. Some hopes are resting on the election, giving Kiwi's confidence to start spending again.
- Small but steady falls in fuel volume. High and rising wholesale fuel costs. Excessive taxation and increased staff cost (government driven).
- Sales are tracking at 2015 levels - customers looking for cheaper items - they want quality but can't afford to pay for it, margins squeezed and cashflow has deteriorated.
- Regulatory, financial and political pressures on the agricultural sector - worsening if Labour government continues.
- Things are generally slowing down due to elections coming up and uncertainty ahead. Still strong demand/sales and the expected increase in airline capacity/competition/customer pressure will hopefully reduce prices from current highs.
- Decline in retail sales continuing - hopefully, better after the election.
- White Ware Sales - people are more careful when choosing the appliance, such as how many energy stars....etc.

Shipping, Transport, Storage & Distribution

- Wait and see up to the election to see what regulatory changes come in, especially around the clean car standard.
- Negative sentiment and poor demand across consumer durables. Concern for the current direction of NZ.
- A slow down regarding imports and exports, companies are very aware of increased costs.

Tourism & Accommodation

- Seeing the rebound in tourism post-COVID-19 continue.
- Increase in government compliance costs, high labour costs, and poor government leadership.
- Turnover is stagnant, but costs are still increasing.
- Bookings are slowing, although the high season is looking good. After closing international and domestic borders, we're now weathering the RBNZ's high interest rate costs and slow down in spending.
- Tourism is on the up.
- Looking for a more positive and cohesive environment post-election if there is a change of government.

This publication is written by Tony Alexander, independent economist. You can contact me at tony@tonyalexander.nz

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