

Selwyn Business Opinion Survey

August 2021



About the Survey

The Selwyn Business Opinion Survey is a pulse check of Selwyn businesses. The Survey has been designed to help understand current and future business trading conditions at a local Selwyn level.

The topics covered include:

- Employment and investment trends.
- Recently experienced business conditions.
- Expectations of future business conditions.
- Key business challenges and emerging opportunities.

Results are generally summarised in net terms by taking the percentage of businesses reporting an increase in the indicator in question, minus the percentage reporting a decrease.

The Survey is updated every six months. It will provide an important barometer of business conditions in Selwyn that can be used by local businesses for planning purposes and to support activities by Selwyn District Council's Community and Economic Development Team.

Context to the timing of the current survey

The most recent survey was conducted from 10 to 20 August 2021. There were 115 respondents.

The Survey coincided with a move from COVID-19 alert level 1 to 4 on 17 August. There were 77 survey responses before the alert level move was announced at 5pm on 17 August and 38 responses after that time.

Surprisingly, there were no material differences between responses before and after the change in alert levels. In fact, although not statistically significant, future profit expectations and investment intentions surprisingly were actually marginally higher for respondents after the alert level shift.

The absence of any discernable effects on business confidence from the lockdown announcement may in part be because the lockdown in the South Island was initially confirmed for only a 72 hour period and evidence that the lockdown would likely endure for a longer period became most apparent after the close of the survey.

Executive Summary

This section summarises key messages from the survey of Selwyn businesses and sets that against the general economic context.

Key messages from Selwyn businesses

- The overarching message of the August Selwyn Business Opinion Survey was that businesses are overwhelmingly more positive about the outlook than what was reported in February 2021 and in the first survey in August last year. This improvement was across all indicators.
- Selwyn businesses are expecting their profitability to improve over the next six months, with a strong sales pipeline outweighing escalating costs. The optimism of Selwyn businesses with regards to their profit outlook is running ahead of national averages at present.
- Cost pressures have mounted, which is echoed across New Zealand. But businesses are beginning to feel confident enough in their demand to pass on some of these increased costs in the form of higher prices.
- Employment intentions continue to strengthen, despite ongoing challenges in finding labour. Labour sourcing challenges have intensified for all skill levels.
- Against a backdrop of Covid uncertainty and supply chain disruptions, business investment has still risen and a net 17% of businesses expect to increase investment over the next six months.

Table 1 – Businesses' recent experience and expectations of the six months ahead

Net balance	Previous experience (February 2021)	Current experience (August 2021)	Predicted experience – next 6 months
Staff numbers	-6%	10%	16%
Investment	22%	28%	17%
Output/sales	-10%	23%	27%
Prices	19%	38%	47%
Operating costs	46%	72%	62%
Profitability	-8%	-5%	14%

Results are summarised in net terms by taking the percentage of businesses reporting an increase in the indicator in question minus the percentage reporting a decrease.

Background context to the survey

Infometrics June Quarterly Economic Monitor showed that Selwyn's economy strengthened through the June 2021 quarter, with GDP sitting 8.8% higher than in June 2019 before Covid-19. The monitor highlighted that employment of Selwyn residents has been relatively strong too, up 0.8% over the past year, compared to a 1.3% decline for Christchurch City residents.

Selwyn continues to be an attractive destination to move to for residents and businesses alike. Infometrics noted that residential building consents have set another record in Selwyn, with 506 consented in the June 2021 quarter, and are up 11.2% on an annual basis. Non-residential consents remain solid, at \$138m for the year to June 2021. Selwyn's population growth has also stoked consumer spending, with retail spending on cards in Selwyn reaching \$156m in the June 2021 quarter, a 17.5% increase on 2019.

Despite such positive observations, heightened concerns around a resurgence of Covid-19 as a result of the highly contagious delta variant are continuing to create uncertainty for businesses. This uncertainty has resulted in alert level re-escalations domestically, and has also made predicting when borders will reopen more challenging, even as vaccination levels rise higher.

Inflationary pressures are another mounting issue to grapple with. These pressures have come about because of a combination of higher demand and supply constraints. It is widely anticipated that the Reserve Bank will begin lifting the official cash rate soon in response to these pricing pressures, which would likely flow through into an increase in some interest rates for borrowing.

Employment trends

This section outlines what the Survey showed is happening for overall staff numbers at Selwyn businesses and whether businesses are facing difficulty finding staff to fill vacancies.

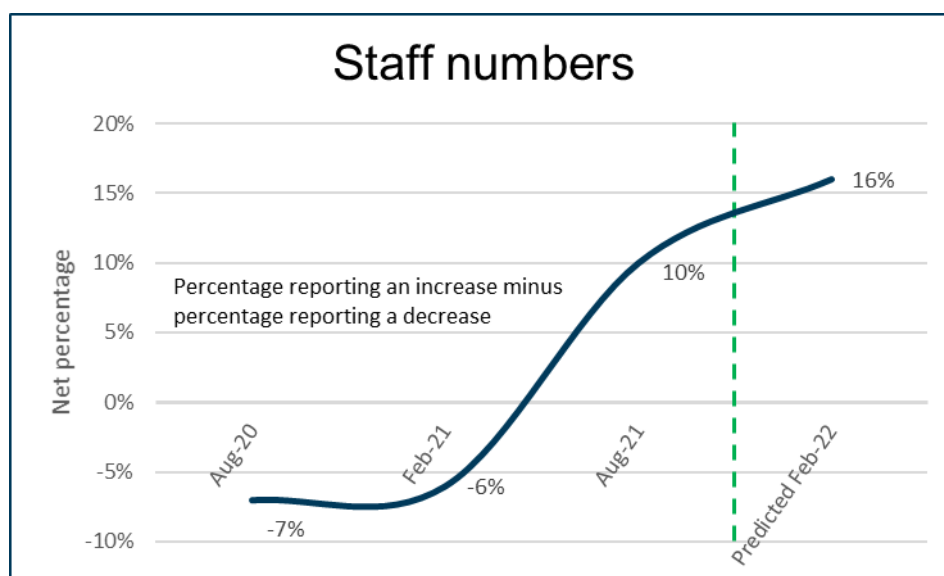
Total employment

Employment trends are an important barometer of businesses' confidence in their own activity outlook. Staffing decisions are not made based on day-to-day activity – instead decisions reflect how businesses expect conditions to unfold over a more sustained period.

A net 10% of Selwyn businesses expanded their headcount over the past six months. This marks a sharp turnaround from the previous two surveys which showed that businesses were on average shedding staff.

Employment demand is anticipated to strengthen further in the months ahead, with a net 16% of Selwyn businesses expecting to expand their headcount over the next six months.

Graph 1



At a national level, the July ANZ Business Outlook shows a net 21% of businesses have positive employment intentions, up from a net 20% of businesses in June.

Difficulty of finding staff

Making decisions about staff numbers is only half the challenge, finding workers to fill any vacancies that emerge is the other. Consequently, it is also important to assess how easy it has been for Selwyn businesses to find staff.

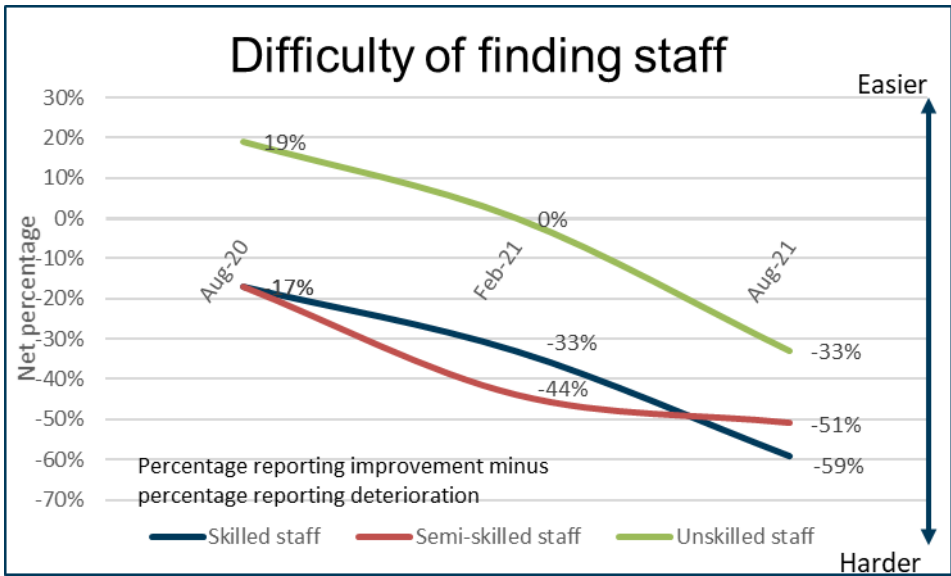
As employment demand grows, at a time when border closures have disrupted access to migrant workers, labour shortages nationally have become very acute. The latest NZIER Quarterly Survey of Business Opinion reported that the scarcity of skilled and unskilled labour is at the most acute on record over the history of the survey, with firms finding it particularly difficult to hire skilled labour.

These challenges are also apparent in Selwyn District, with a net 59% of businesses finding it harder to find skilled staff over the past six months and a net 51% struggling to find semi-skilled staff. Both of these measures have deteriorated significantly over the past year.

Employers are now also experiencing widespread difficulty finding unskilled labour. In August last year, a net 19% of businesses still reported that it was easy to find unskilled staff, but that situation has since flipped around, with a net 33% of Selwyn businesses now reporting difficulty finding unskilled labour.

These challenges in finding labour will constrain some businesses' abilities to expand, and may fuel investment in productivity boosting technologies.

Graph 2



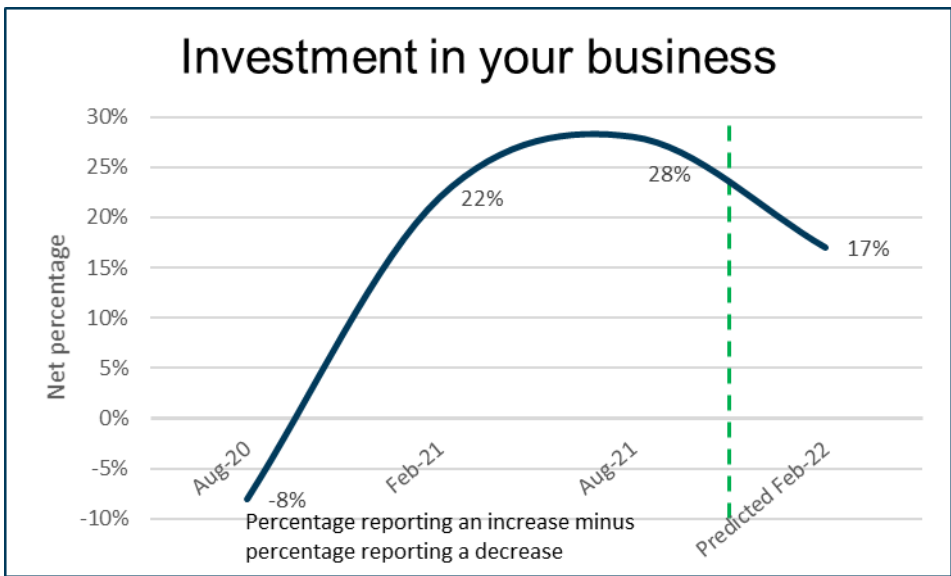
Investment trends

Current and intended investment is another important barometer of confidence by Selwyn businesses in their outlook. Business investment is typically quite volatile across the economic cycle.

Data from the most recent survey shows that a net 28% of Selwyn businesses increased their level of investment over the past six months, which was significantly higher than the net 22% of businesses who reported investing more in the February survey.

Business investment is anticipated to ease slightly over the months ahead, with a net 17% of Selwyn businesses expecting to increase investment over the next six months.

Graph 3



Selwyn businesses' level of investment intentions are in line with the national average. The July ANZ Business Outlook shows a net 17% of businesses nationally expect to increase their investment. These investment intentions are in part buoyed by a strong activity outlook for most businesses and a relative scarcity of labour, but they are tempered somewhat by an expectation of higher interest rates and debt servicing costs ahead.

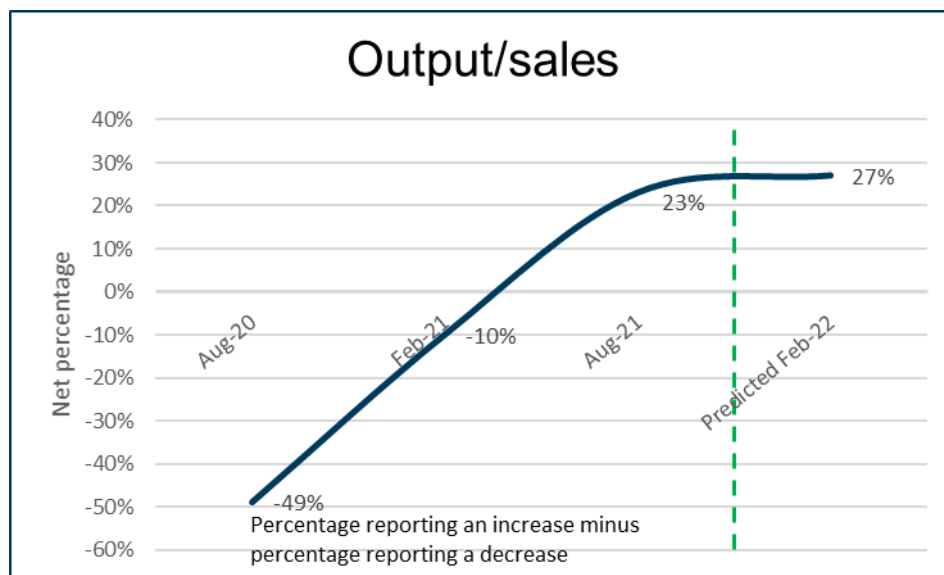
Business conditions

Sales

Selwyn businesses were asked about how their revenue had performed over the past six months and how it is expected to perform over the next six months.

The Survey showed that a net 23% of businesses experienced an expansion in sales over the past six months, compared to a net 10% who experienced a decline in the previous six months. Businesses are also optimistic about their sales pipeline, with a net 27% expecting sales to increase over the next six months.

Graph 4



Selwyn businesses have similar levels of confidence in their sales outlook to the national average. The July ANZ Business Outlook showed a net 27% of businesses nationally expect their trading activity to rise over the year ahead.

Operating Costs

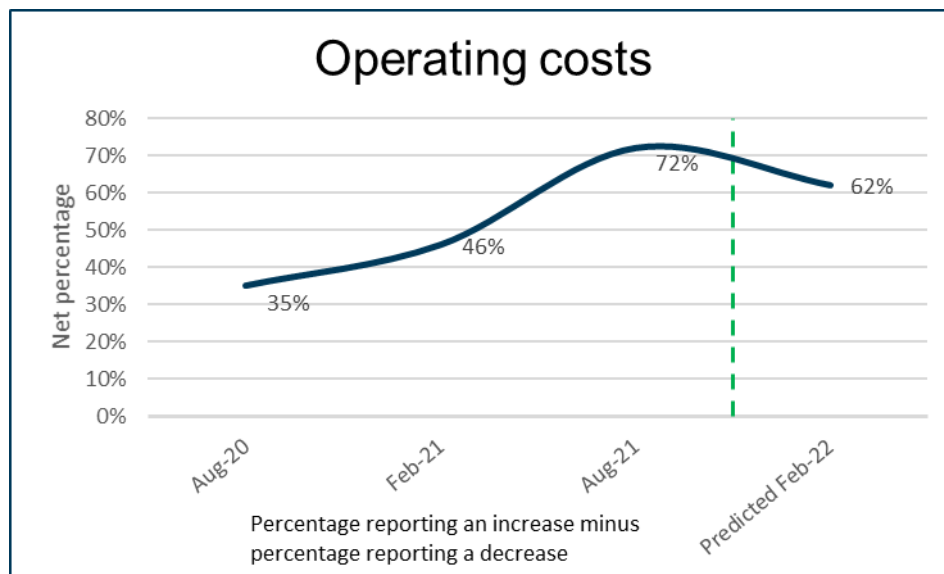
Selwyn businesses were asked about whether their operating costs had increased over the past six months and whether they expected their operating costs to increase over the next six months.

The data shows that cost pressures have become acute for businesses. In our inaugural survey in August 2020, a net 35% of businesses reported an increase in operating costs, while in the most recent August 2021 survey, a net 72% of businesses reported cost increases over the past six months.

Cost pressures are anticipated to remain high over the next six months, with a net 62% of Selwyn businesses expecting their operating costs to continue rising.

These cost pressures are not just occurring in Selwyn. Cost pressures nationally are even more acute, with the July ANZ Business Outlook reporting a net 88% of businesses nationally anticipate an increase in operating costs.

Graph 5

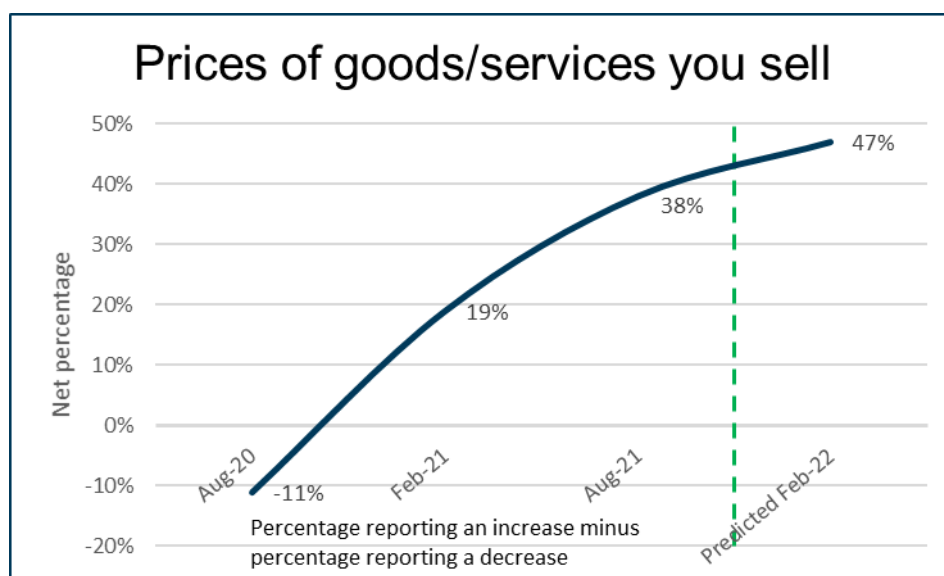


Price of goods/services sold

Selwyn businesses were asked about whether they had increased their prices over the past six months and whether they intend to increase their prices over the next six months.

A net 38% of Selwyn businesses increased prices over the past six months, up from 19% at the February survey.

Graph 6



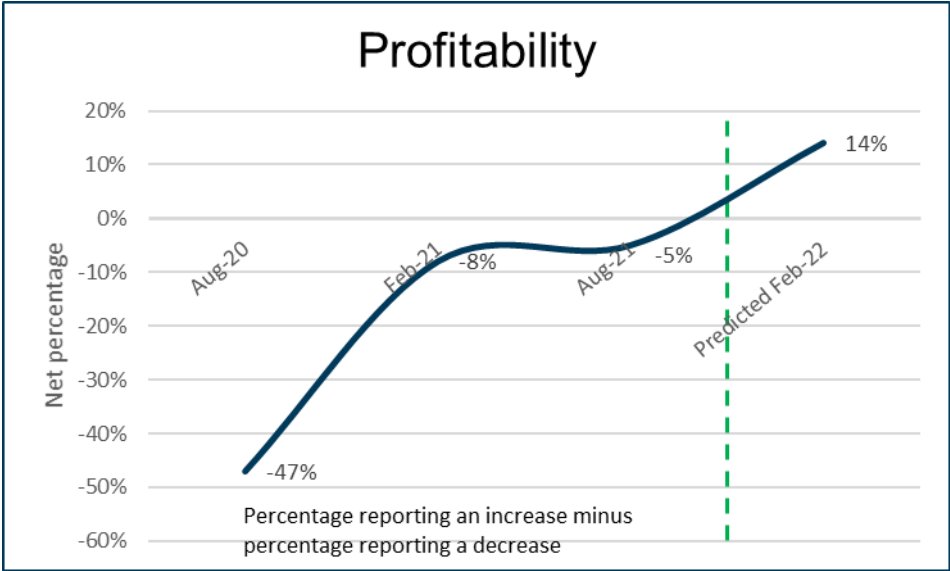
Over the next six months, the proportion of Selwyn businesses reporting that they intend to increase their prices is even higher, sitting at a net 47% of businesses. Nevertheless, this result is still below the national trend, with the July ANZ Business Outlook reporting a net 61% of businesses nationally expect to increase their prices.

With the economic recovery having become more entrenched, businesses are more confident to pass on rising cost pressures in the form of price increases for customers.

Profitability

Selwyn businesses were asked about how their overall profitability had changed over the past six months and whether they expected profits to change over the next six months.

Graph 7



A net 5% of Selwyn businesses experienced a slight decline in profitability over the past six months, as sharply higher operating costs outweighed increased sales. Nevertheless, the situation has improved markedly since the inaugural Selwyn Business Opinion Survey in August last year when a net 47% of businesses reported reduced profitability.

Encouragingly, Selwyn businesses are optimistic about their outlook, with a net 14% of businesses expecting an increase in profitability over the next six months.

This situation in Selwyn is more optimistic than what is occurring nationally. The July ANZ Business Outlook reported that businesses nationally on average expect profits to remain flat over the year ahead.

The effects of shipping and logistical challenges

Global supply chains have been severely disrupted by sharp increases to the cost of shipping, as well as a reduced reliability of shipping schedules. Selwyn businesses were asked to report on how shipping and other logistical challenges have affected their business.

The most frequently identified challenge was delays in getting raw materials (41.8%), closely followed by increases to the prices of these raw materials (38.8%). There was also a large cohort of businesses facing delays in receiving new equipment and machinery (20.4%) they had invested in. In response to these challenges, a small proportion of businesses have turned to using local suppliers (5.1%).

At first brush, a surprising number of businesses have not faced any logistical challenges (29.6%), though closer analysis shows these businesses tended to be in professional services or other types of 'weightless' parts of the economy where logistical practicalities are not so relevant.

In terms of the experiences of exporters, a large number reported that they have faced difficulties getting goods to market (25.5%), and for some of these exporters that experience has reduced the viability of exporting (14.3%), while other businesses have decided to focus more on domestic markets (10.2%).

There were 3.1% of businesses who reported having export consignments returned to them because of shipping cancellations. The share of businesses reporting this challenge may seem low, but it is a costly challenge for those affected, as freight companies still need to be paid despite no revenue having been received by the exporter. Storage of any consignment of perishable goods that are returned is also problematic, with coolstorage capacity stretched.

Of the businesses that selected 'other', most highlighted that logistical challenges are affecting many parts of their supply chain and distribution, both from a cost and a reliability perspective. Some import businesses also commented that they have broadened the range of products they stock to deal with unexpected periods of unavailability of some brands.

Table 2 – Shipping and logistical challenges faced by Selwyn businesses

Logistical challenge	Proportion reporting challenge
Delays getting raw materials	41.8%
Raw material prices have increased	38.8%
My business has not faced logistical challenges	29.6%
Difficulty getting goods to market	25.5%
Waiting on new equipment and machinery	20.4%
Increased shipping costs have reduced exporting viability	14.3%
Sales focus shifted to domestic markets instead of exporting	10.2%
Other (please specify)	8.2%
Alternate local suppliers have been found instead of importing	5.1%
Export consignments returned because of shipping cancellations	3.1%
Other transportation methods have been used	2.0%

Proportions add to >100% as it was possible to identify multiple challenges.

Recruitment and staff retention challenges

Over recent surveys, many Selwyn businesses have reported difficulty finding workers. These trends are echoed across New Zealand.

In the current survey, Selwyn businesses were asked how they have responded to recruitment and staff retention challenges.

Some 45.4% of businesses reporting no challenges in finding or retaining workers, which suggests a little over half (54.6%) of businesses did experience these challenges.

Of those reporting staffing challenges, some 29.9% of businesses reported offering higher wages in response, while 24.7% have offered more flexible working arrangements. Many businesses also reported mitigating recruitment or retention challenges by attempting to develop a better workplace culture (16.5%).

Many businesses have also been forced to compromise, with 21.7% reporting they hired someone without all the desired skills for the role. Encouragingly, 19.6% of businesses have tried to close skills gaps by investing in upskilling of existing staff. A further 4.1% of businesses have incorporated a new apprenticeship scheme

Most businesses have reported playing fair with competitors, with just 5.2% having recruited staff locally from competitors. More common has been luring staff from other industries (7.2%) or from other regions (7.2%). No businesses reported successfully obtaining a border exemption for a migrant worker.

Of the businesses that selected other, several noted increased use of contractors. This strategy brings temporary relief, but can be costlier than having resources on staff.

Table 3 – Recruitment and staff retention challenges faced by Selwyn businesses

Recruitment/staff retention challenge	Proportion reporting challenge
My business has not faced challenges finding or retaining workers	45.4%
Offered higher wages	29.9%
More flexible working arrangements	24.7%
Employed someone without all the desired skills	21.7%
Invested in upskilling	19.6%
Developed a better workplace culture	16.5%
Other	10.3%
Improved non-cash compensation (perks and employee benefits)	8.3%
Recruited staff from other regions	7.2%
Recruited staff from other industries	7.2%
Recruited staff locally from competitors	5.2%
Incorporated a new apprenticeship scheme	4.1%
Obtained border exemptions for migrant workers	0.0%

Proportions add to >100% as it was possible to identify multiple challenges.

Additional comments

This survey also gave respondents an opportunity to share qualitative feedback. We asked businesses to share areas of their business that had either been positively or negatively affected over the past six months or are expected to be over the coming six months.

Here are some of the aggregated themes from these comments:

- Several commentators reported that the availability of commercial space in Rolleston has become rather limited, which has pushed up lease costs.
- There are also reports of an increase in competition between businesses. Some businesses commented that an increasing concentration of activity within Rolleston has been detrimental to those trying to do business in other parts of the district.
- Cost pressures dominated many comments, with businesses reporting significant increases to electricity, raw materials, and shipping expenses. These expenses also come on top of more stringent compliance requirements, particularly for those in the agriculture sector.
- Staffing challenges remain front and centre for many businesses, with increased staff costs creating challenges to achieve a balance where business can financially flourish. Other businesses have reported operational challenges because they can't find enough staff.
- Encouragingly, several commentators have reported that because New Zealanders can't travel overseas, they have more money to spend locally.
- Some tourism businesses have reported frustration that they are still getting overseas bookings but can't predict when they will be able to service this demand. Other tourism businesses have reported reducing their capacity to survive.
- The recent flooding is of concern, as some damage will take a while to recover from.
- Many commentators reported that although they are able to adapt quickly to operating under changing Covid alert levels, they remain concerned about the planning uncertainty the situation is bringing.

Who responded to this survey?

Table 4 – Industry of survey respondents

Industry	Count
Agriculture, Forestry and Fishing	16
Mining	0
Manufacturing	10
Electricity, Gas, Water and Waste Services	5
Construction	8
Wholesale Trade	4
Retail Trade	13
Accommodation and Food Services	12
Transport, Postal and Warehousing	4
Information Media and Telecommunications	3
Financial and Insurance Services	2
Rental, Hiring and Real Estate Services	2
Professional, Scientific and Technical Services	7
Administrative and Support Services	2
Public Administration and Safety	0
Education and Training	4
Health Care and Social Assistance	5
Arts and Recreation Services	2
Other Services	16
Total count	115

Table 5 – Size of survey respondents measured by employee count within business

Number of employees in business	Count
1-5	73
6-9	11
10-19	13
20-49	10
50-99	5
100+	3

Table 6 - Length of time survey respondents' business has been operating

Length of time business has been in operation	Proportion
<6 months	7.1%
6-11 months	3.5%
1-5 years	22.1%
6-9 years	14.2%
10+ years	53.1%