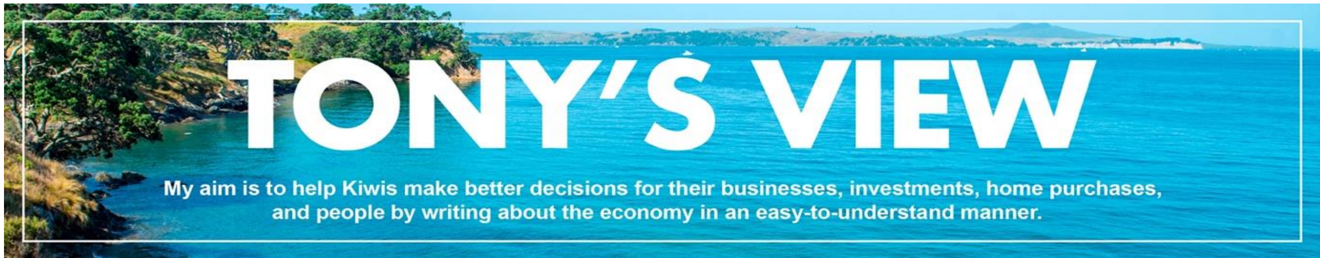

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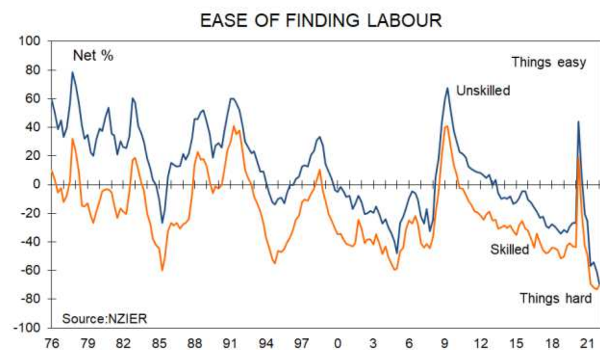
Handling labour shortages

I don't have a number in my head for how many Kiwis will depart for Australia over the next three years. But if I did, then I'd be increasing it on the basis of the emails I received from employers following my comments about wages last week.

Some bosses don't get it. Some expressed concern about the low skills and motivation of new hires, others about how hard it is to be in business nowadays with so many problems to deal with. Both sets of concerns are valid, and both are irrelevant to my main point.

With the unemployment rate at 3.2% and record or near record proportions of employers in the NZIER's regular survey saying they cannot easily find skilled or unskilled people, we broke through the bottom of the barrel a long time ago. Many of the people presenting for a job do not have the skills needed. Many see no need to acquire them. Quite a few find the job too tough and leave after a few weeks if not days when it comes to manual jobs. If they show up at all. Many have become skilled at living off benefits.



The problems facing our businesses are also multitudinous and set to get worse. There is increasing disruption to supply chains stemming from Russia's war against Ukraine and much of the rest of the world responding by cutting Russia out of the world trade and financial systems.

But more than that, China's position regarding handling Covid is essentially where we all were over two years ago. Their population is lowly vaccinated, vaccinations have probably worn off, and the Chinese vaccines used are inferior to those developed and used in other countries. The continuing pursuit of an eradication strategy reflects the fact that China would face devastating health and death consequences were they to let the newer variants rip through their population.

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Until China accepts it must use foreign vaccines, then gets its people vaccinated, we will face a continuing risk of factories, transport systems, ports, and entire cities being locked down with no notice.

It looks like businesses will face worsening supply availability and higher costs all through this year well into 2023.

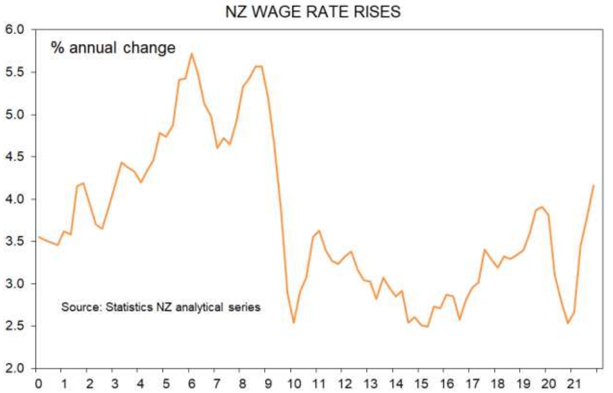
On top of that, businesses are challenged by a government with little understanding or desire to understand the mindset and problems faced by businesses even in "normal" times let along the challenging environment of today.

But the reality of these two factors of poor staff skills and many other challenges does not change this simple fact. When something is in short supply its price needs to adjust in an open market so that it goes to those who can most afford it, presumably on the basis that they can make most profit.

We cannot boost income per capita in New Zealand and take ourselves back up the OECD ladder through government direction, assistance programmes, or even development of infrastructure. The higher incomes which Kiwis need in order to meet high costs for so many things can only sustainably come from staff shifting to businesses which can pay more whether that be in newly growing or long existing sectors of activity.

And it is no good firms installing kegerators. Apparently, these are fridges for beer kegs and the latest "in" thing for businesses to have to keep their staff. Imagine the scene when the worker goes home in the evening and says to her husband "We're only getting a 3% wage rise this year, but I love working there, the other people are great, and the boss really cares. She just installed a huge beer fridge!"

That doesn't put any extra money on the table to pay the soaring weekly grocery bill, or higher rents, or higher interest rates, or higher rates, electricity, broadband, and insurance charges.



People need extra money, not better access to beer, pool tables, internal slides from one floor to the next, and lots of prettily coloured bean bags.

Sorry employers, but many of you just don't get it when it comes to the necessity of higher wages

for improving our standard of living overall and helping struggling Kiwi families pay their rising bills.

That is why a lot of people are going to shift to Australia. You'll get substantially higher wages, cheaper housing (especially in Brisbane), lower living costs, and the ability to work and maybe create your own business in a far greater range of sectors than available in New Zealand. They'll even let you help dig holes in the ground to extract minerals. And you know what? After three weeks working on the GC (and still there) I've not encountered a single sheep joke. Maybe that is because most people on the coast come from somewhere else. The attitude here is different from other locations in Oz I feel.

New Zealand is a great place to live – but only if you are prepared to sacrifice a lot of things, a decent income being one of them. It is a great place to start up a business with very few barriers to doing so. There are good organisations available such as Icehouse which can help you grow your business. There is a relationship with the bush which is far more comforting than across the ditch. I came back to NZ in the 1980s for the land and it is the land that will keep me there over 50% of the time.

But there are plenty of other places in the world with mountains, lakes, hot pools, beaches, and bush. You can only revel in our wonderful environment up to the point where your kid needs new clothes for school, and you can only get second-hand from a local welfare agency.

So, my message to businesses remains the same. Labour is in short supply. The supply needs to go to our most profitable businesses with the best growth prospects. The mechanism for achieving that is accelerated wages growth. It has nothing to do with needing productivity to rise – that is a red herring excuse for inaction often promoted by our business bodies. House prices have soared with no improvement in their productivity. Same for electricity, cheese, timber, petrol.

The stages of adjustment

If you find you cannot afford higher wages and cannot find the staff you want, then you need to go through a process of figuring out the best thing to do. My starting point if in that position would be this.

Stage one

Are some of my outputs yielding very little profit? If so, cut them out.

Are some of my customers yielding very little profit? If so, tell them to go elsewhere.

Are some of my production and distribution methods yielding poor results? If so, stop them.

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After cutting out poorly performing products, clients, and processes I would then revisit staffing requirements and see if my need has decreased and if I can now pay more.

If not, then its on to the next stage.

Stage two

Can I boost the productivity of my existing staff by investing in their skills, better systems, more and better machinery, better located and more efficient premises? If so, then I have to ask myself whether I am able and prepared to borrow the funds needed to shift the way I do things to higher productivity settings.

If yes, then get on with it. If not, then I move to stage three.

Stage three

Can I improve productivity by merging with a competitor so we can gain some economies of scale?

If yes, see if you can pull it off. If not, then its stage four.

Stage four

Can I switch my business into a totally different field, making use as best as possible of the resources currently in hand? If yes, then get some external advice on how to go about doing it.

If not, then what is the value of my business as an ongoing concern? Would anyone want to buy it? If not, then either you struggle on, eroding your family's capital, or you make the call and close down.

I know from family experience that making such a call is extremely difficult and I don't wish it upon anyone. But in business hard decisions have to be made.

For your guide, for the moment employers are getting away with not offering decent wage rises. From my monthly Spending Plans Survey we can create a measure of the net proportion of people who expect their wages to go up. At 4% the proportion is low and there is no upward trend in place.

This lack of wage growth anticipation may be because although the unemployment rate is at a record low of 3.2% and media frequently report dire shortages of staff, most people are still not letting themselves feel high job security. For the moment, employers are getting away with low wage rises partly because of caution amongst employees associated with covid and caused by Russia's pursuit of war.

If I were a borrower, what would I do?

Nothing I write here or anywhere else in this publication is intended to be personal advice. You should discuss your financing options with a professional.

Policy tightening accelerated

The Reserve Bank met 80% of market expectations this afternoon by raising their official cash rate 0.5% to 1.5%. This rise follows 0.25% increases in October, November, and February and means that the rate is now back to where it was in the middle of 2019 as it was being cut from 1.75%.

In making the rate rise today the Reserve Bank noted that the surge in inflation to an expected peak just over 7% in the first half of this year is largely due to supply chain constraints and the recent surge in commodity prices.

But they also noted that the labour market is at a position beyond maximum sustainable employment and that the economy is supported by fiscal policy, rising export incomes, and good balance sheets. With strong capacity constraints the Reserve Bank said

"The Committee will remain focused on ensuring that current high consumer price

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inflation does not become embedded into longer-term inflation expectations."

In other words, they will focus their attention not on crushing high inflation in the short-term but on making sure people do not build expectations that inflation above 3% will continue for an extended period.

This means they will be doing some substantial monitoring of inflation expectation measures and gauges of wage rate changes in coming months to get a feel for whether high inflation is at risk of becoming entrenched.

Helping them to suppress price rise expectations are areas of weakness they noted such as falling house prices, weak consumer sentiment, high uncertainty, and slowing world growth with tightening policy stances offshore.

Amidst all the uncertainty the RB logically noted that they are incentivised to act sooner rather than later to get the official cash rate to their targeted peak of about 3.25%. They noted

"A larger move now also provides more policy flexibility ahead in light of the highly uncertain global economic environment."

In response to a 0.5% move which not everyone expected, but comments which did not contain explicit warnings of a potential need for deep pain to rein in inflation, wholesale interest rates after the release underwent only minor changes.

My current expectation for the one-year fixed mortgage rate in April each year is shown in the first column of the table below. I focus on that rate because there are many people who have fixed one-year repeatedly since 2009 and the strategy has worked very well.

The second column shows what the one-year rate will average over the next 2-, 3-, 4-, and 5-year periods. The last column shows the current minimum 2 – 5-year fixed rates charged by the lenders I track.

	Forecast 1 year rate	Rolling average rates	Current fixed
2022	3.99		3.99
2023	5.00	4.50	4.69
2024	5.25	4.75	4.99
2025	4.25	4.62	5.39
2026	4.00	4.50	5.69

If these forecasts prove correct (I'd give that a 10% probability), rolling one-year fixed will deliver an average rate for the next two years of 4.50%, three years 4.75%, four years 4.62%, and five years 4.50%.

If I were a borrower, what would I do?

Personally, I wouldn't fix longer than two years.

To see the interest rates currently charged by major lenders go to www.mortgages.co.nz

In Tview Premium each week

1. I include deeper discussion about rate changes and the factors driving where borrowing costs will go.
2. I also present graphs showing levels of fixed mortgage rates over the past three decades so that latest changes can be put into perspective.
3. I also print graphs showing bank lending margins on fixed rate mortgages so one can get a feeling for the direction in which rate pressures lie and by how much mortgage rates could change even without any alteration in financial market/monetary policy pricing.

Links to publications

Tony's View Spending Plans Survey

Tony's View Business Survey

Tony's Thoughts Vlog

REINZ & Tony Alexander Real Estate Survey

Oneroof weekly column

Handling high interest rates

Handling staff shortages

Handling high cost of living

mortgages.co.nz & Tony Alexander Mortgage Advisors Survey

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