

Navigating the New Normal: Business Trends and Challenges in the Post-Covid Era

Introduction to the Post-COVID Business Environment

The return to post Covid normality has created quite a unique business environment across the entire business landscape. We have said from the outset of the pandemic that this is a bottom-up recession, and while the relatively secure Baby Boomer generation is coasting (and some would say spending like drunken sailors) there is clear evidence at nearly every other level of the community that the cost of living (particularly for those that are renting or that have a mortgage, have younger children and are not in senior roles) is starting to take its toll.

Economic Trends and Their Impact on Different Demographics

This is not just in the tightening of discretionary spending, but also in relation to mental health and evidenced by the extraordinary increases in Workcover claims and premiums across the country, and in Victoria in particular. Workcover premiums in Victoria are expected to increase by over 40% year on year alone, utility tariffs are soaring and even for the more affluent the impost of land tax increases on top of appreciating land values is seeing tightening of spending at many levels.

Wage Dynamics and Inflation: The Ongoing Financial Struggle

With wage increases having been locked in based on the 7 to 8% inflationary period of fifteen months ago we suspect there will be no immediate respite in relation to interest rates, and most certainly no reductions in the foreseeable future, so the pressures from below will continue to build and support our bottom-up recession theory.

Shifts in Consumer Spending: The Hospitality Sector's Challenges

Towards the end of June, the firm started to see an extraordinary drop in some areas of discretionary expenditure, particularly in hospitality. Those businesses that are not providing value after taking advantage of the post pandemic surge in demand by increasing prices and reducing offerings, have seen 40% odd drops in revenue, even those with relatively steady patronage.

Pubs have appeared to fare best but 40% drops on top of higher (or strictly enforced award conditions) wages, utilities and input costs have seen numerous highly profitable businesses turn to losses. The post pandemic surge in hospitality appears to have come to an abrupt halt.



Property and Construction: Trends and Challenges

In the property industry we have various connections across all segments and once again there are varying signs and trends. Those businesses that rely on established builders are all incurring some form of bad debts as their clients struggle or even collapse. Apart from the high-profile cases there are numerous smaller builders going to the wall with cascading impacts across numerous trades. Those trades that are dealing directly at a domestic level appear to be doing very well and are still quite busy.

Banking and Lending Patterns in the Current Economy

At a banking level, obtaining a residential mortgage has become increasingly difficult while lending on residential developments has actually improved. Lending on commercial office developments has almost stopped causing overall pipeline of new lending to fall away quite dramatically even though industrial and retail activity remains steady. There is, however, a real lift and shift to stronger residential development lending and the easing of presale proportions and conditions which is gaining considerable momentum.

Commercial office vacancy levels are now starting to flow through to the valuation of properties within the managed property portfolio funds and superannuation funds and this has genuine long-term consequences for the value of the very large superannuation savings pool that the country enjoys.

Across many sectors the firm is starting to see the pull back of orders and slowing pipelines from industrial or business to business sectors which we have not seen since the initial over reaction to the lockdowns. This would suggest that all sectors will feel the impending tightening of economic activity.

While the retention of the right people is still a high priority for most businesses, and it is still challenging to fill roles with quality candidates we are now seeing an easing in the employment market with higher quality candidates returning to most advertised roles.

The Evolving Workforce: Employment Trends and Outsourcing

The firm has also started to see the emergence of overseas outsourced administrative support functions across a number of small to medium sized businesses. While the trend to call centres and back-office functions has been in place for quite some time (and to the frustration of consumers) the roles we are seeing are important administrative functions where there is constant interaction within various people within the client organisation.

Examples being co-ordination and booking of appointments, installation or service calls after initial enquiries, measures, or quote site visits, in addition to traditional administrative functions that follow the provision of services or supply and installation of goods. Typically, a quarter of the cost of locally based services with very high standards of communication.



Government Programs and Economic Realities

As we surmised some months ago state-based programs are now being wound back with the enormity of some state-based deficits and the cost of funding them eating into capital allocations and a range of departmental funding programs.

This has not impacted the large infrastructure projects however, that were locked in some years ago and are now in full swing in most states, particularly Victoria. Apart from the disruptions to commuters, the labour market is also being distorted by very high rates of pay on these projects and adding to the domestic construction industry's skills shortages.

Advisory for Businesses: Strategic Focus Areas

In June this year we shared our insights of how the business landscape was emerging in a post Covid era which has been remarkably accurate and was accompanied by the advice that emphasised that businesses needed to focus on four key areas:

1. Concentrate on your core business where you are more likely to have a competitive advantage.
2. Manage cash flow as a priority and keep your bankers informed.
3. Look after your key people while keeping an eye out for the right people and resist hiring just to fill a position; and
4. Lift outbound client facing activity.

Author: John McKinstry, Managing Partner nem Australasia.

29th of November 2023

This article is based on research and opinion available in the public domain.