

Rotorua business pulse October 2022

Rotorua business confidence has shifted in the right direction as international visitors return and a new Council takes the reins. Macro challenges weigh on businesses looking out to 2023 as staffing and inflationary pressures continue.

A note to the new Council: the state of play in Rotorua

The operating environment that Rotorua businesses find themselves in has changed dramatically compared with the first Pulse survey conducted in April. Macro conditions have shifted from being COVID-19-centric and the resulting direct impacts of border uncertainty and operating restrictions, to being more complex due to global inflation, geopolitical forces and worldwide talent shortages.

Businesses will be watching debt levels closely as central banks around the world hike interest rates in an attempt to curb inflation. However, low rates of unemployment have negated the impact of these hikes, leading to steeper rate climbs. Looking to 2023, homeowners refixing mortgages will be faced with higher interest rates, and consumers grappling with the continued rise in cost of living will likely see a rapidly reducing disposable income and spending propensity. The threat of an economic downturn in 2023 is very real according to economists, which, coupled with inflation levels, will lead to a challenging business operating environment.

At a local level, confidence has been buoyed by the opening of borders and the return of international tourists, bringing with them not only economic activity but vibrancy and optimism. The newly elected Council and mayor have added to this positivity, providing the business community with a much needed reset and way forward after an immensely challenging few years.

Background

The Rotorua Business Pulse programme is a joint initiative between RotoruaNZ and Rotorua Business Chamber. The programme provides Rotorua business leaders (owners, CEOs, GMs) an opportunity to share their thoughts on the local economy and how their business is faring across key metrics. This survey was in field from 6 - 23 October 2022 and was completed by 82 Rotorua businesses. It is the second survey in the programme. The first survey was conducted in April 2022 and the programme will continue to run on a six-monthly basis.

The October Pulse survey results show Rotorua businesses feeling considerably better off than in April and confident looking out to next year, despite the economic headwinds described above. Businesses are generally feeling good about their forward sales and many are planning to pour capital into their business in the next year, which are positive signs for Rotorua.

Business concerns continue however, mainly centered again around the areas of inflation and staffing, both of which are firmly tied into global macro trends. Regulation is also top of mind for businesses as they wrestle with policy changes across key domains.

The business community is calling for an immediate resolution to emergency housing which has remained the main challenge facing the city, as it was in April. A recent report commissioned by RotoruaNZ quantified the negative reputational damage associated with emergency housing, putting the annualised cost at \$92m/year. This damage is reflected in the city's September economic measures, which show tourism expenditure and guest nights tracking well below the rest of the country. Positively, consenting numbers have been strong, much needed in a city with a very visible housing shortage.



Average annual % change, September 2022

Measure	Rotorua	Bay of Plenty	New Zealand
GDP	1.0 %	2.4 %	2.6 %
Traffic flow	-1.7%	-4.2 %	-4.1 %
Consumer spending	5.3 %	7.9 %	7.0 %
Employment	2.6 %	3.6 %	3.1 %
Jobseeker Support recipients	-7.4 %	-7.8 %	-11.4 %
Tourism expenditure	-3.4 %	0.9 %	3.3 %
Guest nights	-19.3 %	-6.5 %	-6.0 %
Residential consents	22.7 %	-10.7 %	7.0 %
Non-residential consents	-26.0 %	-19.8 %	19.0 %
House values	-5.0 %	-2.7 %	-2.0 %
House sales	-27.8 %	-24.2 %	-25.6 %
Car registrations	-12.5 %	-11.4 %	5.3 %
Commercial vehicle registrations	7.9 %	-6.4 %	6.3 %

Source: Infometrics Quarterly Economic Monitor

While the clear immediate priority area is Fenton Street, Rotorua businesses have also called for Council to lift their sights and lead with a clear long-term strategic vision. This includes an aligned sector strategy by building on the success of our existing largest sectors and exploring other opportunities, as well as long-term infrastructure planning.

Key themes

- Many more businesses are feeling better off compared with last year and remain confident looking out to next year.
- Business leaders express confidence in their pipeline, capital investment and employing additional staff. There is positive sentiment towards internal business practices, the return of tourists and a new Council.
- As in April, inflation and staffing remain top concerns for businesses, leading to profitability concerns. Regulation also enters the list of concerns towards the top.
- Rotorua businesses have responded to the tightening labour environment, providing flexible employee working arrangements.
- Our city is precariously balanced, with emergency housing being the main driver of negative sentiment.
- Lifting of sights is needed by Council to provide the business community with a vision beyond the immediacy of challenges around Fenton Street. Business funding priorities center around infrastructure and housing.

Explainer

A number of the questions are standard business confidence-type questions based on the perception of things deteriorating, remaining the same or improving. For these types of questions, the results are presented as a net score, subtracting the deterioration percentage from the improvement percentage. Other results will just be presented as a standard percentage of respondents.

Many more businesses are feeling better off compared with a year ago and remain confident looking out to next year

Rotorua businesses are much better off compared to a year ago, with a huge +49 pt turnaround from -30% in April to +19% in October. While net results continue to be negative for Rotorua and New Zealand, there has been a massive improvement since April, with Rotorua up +47 pts and New Zealand up +34 pts.

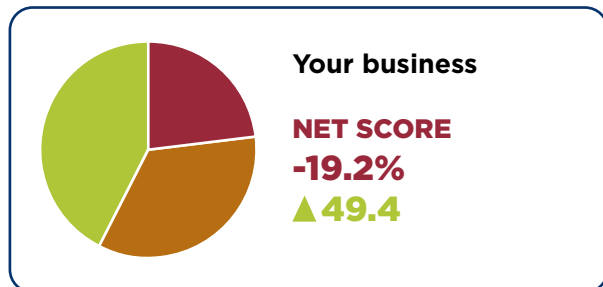
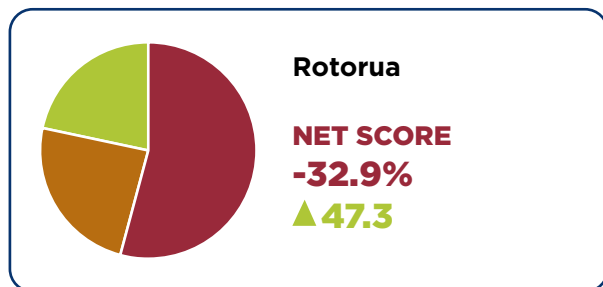
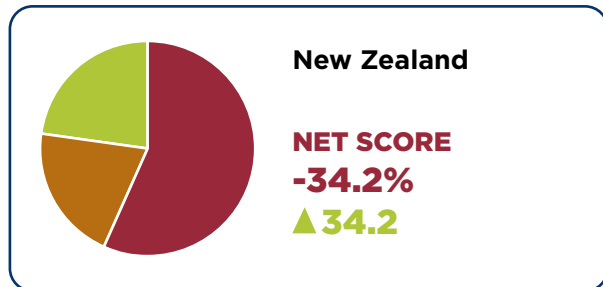
Looking out to next year, confidence has remained in line with April, with a net +40% of Rotorua businesses expecting their own economic situation to improve. This is an encouraging metric given that the April survey was conducted at a particularly challenging point in the city's history and the current starting point is already much improved. New

Zealand (+2.5%) and Rotorua (+5%) both have marginal net positive ratings, suggesting again, as with the April survey, a separation of business confidence with broader economic outcomes.

This phenomenon where businesses are more positive about their own business outlook compared to broader business confidence is a typical occurrence in most confidence surveys. As an example, in the October 2022 ANZ Business Outlook survey, businesses had net confidence of -42.7% in broad business confidence but -2.5% in their own activity outlook, a difference of 42.2 pts. Note that Rotorua businesses' net +40% confidence looks positively rosy compared with other New Zealand businesses.

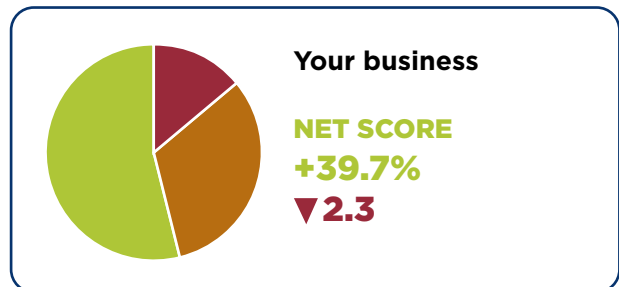
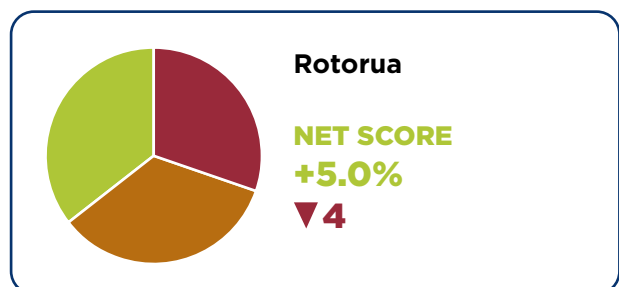
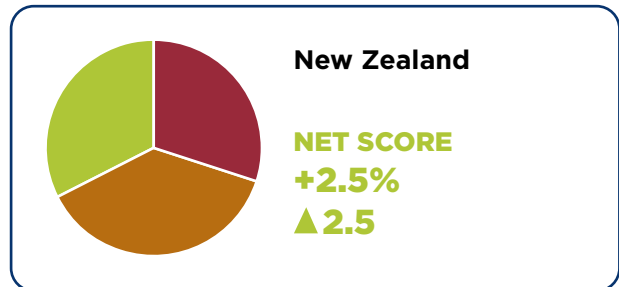
Compared to 12 months ago, how do you think the economic situation has changed for...?

● Deteriorated ● Remained the same ● Improved



In 12 months' time, how do you think the economic situation will have changed for...?

● Deteriorated ● Remained the same ● Improved



Business leaders express confidence in their pipeline, capital investment and employing additional staff

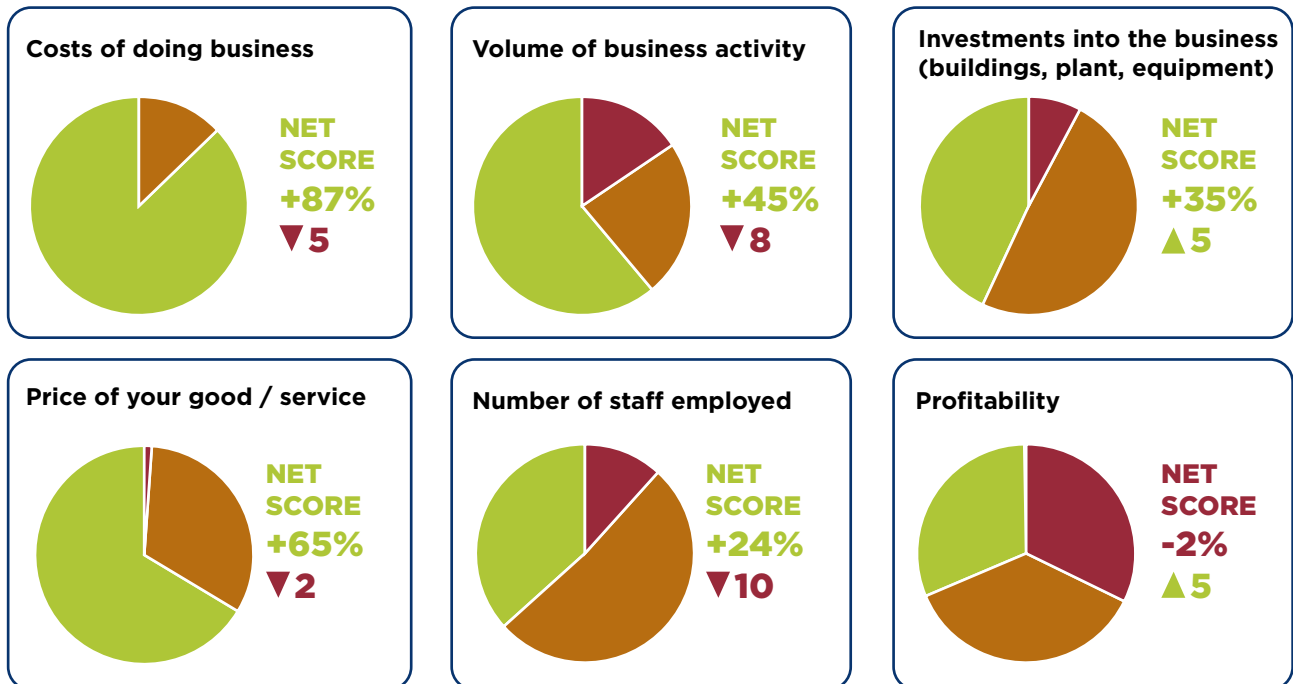
There are a number of drivers of increased confidence across both core business metrics and external factors. Despite an overall 8 pt drop compared with April, Rotorua businesses remain confident in the volume of business activity, with net +45% expecting it to increase. Capital investments are looking positive too

with a net +35% of businesses expecting to invest more into their business, a 5 pt increase from April. Staffing numbers are still expected to rise but this has dropped from a net +34% in April to +24% in October, possibly caused by uncertainty around costs of doing business and in line with the net reduction of expected business activity.



Across the following measures, how do you expect your business to have changed in 12 months' time?

● Decreased ● Remained the same ● Increased



More than a quarter of businesses are most positive about their forward work pipelines, an increase of 4 pts from April. Organisational culture and business strategy remain number two and three on the list.

When businesses were asked to comment on what they were most positive about for Rotorua, two clear themes came through from the comments: the return of tourism, and the new Council and mayor. Of the 71 comments, 48% related to the return of tourism, and 20% of comments related to the election of a new Council and mayor.

What is the number one thing you feel most positive about currently for your business?

	April 2022	October 2022	Change
Forward work/sales in the pipeline	23%	27%	+4
Organisational culture	20%	22%	+2
Business strategy	16%	16%	-
Business survival (staying afloat)	9%	8%	-1
Managing through the impact of COVID-19	8%		
Debt levels	5%	6%	+1
Ability to generate profitability	4%	6%	+2
I am not positive about anything for our business	3%	6%	+3
Retaining skilled staff	5%	4%	-1
Retaining unskilled staff	1%	0%	-1
Ability to invest capital in the business	1%	3%	+2
Other - please specify	3%	3%	-



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We're really lucky. Staff longevity averages 10 years, and several people have been here 30 or 40 years.

KILWELL

Where Adventures Begin™

KILWELL FIBRELAB

Kilwell Sports and Kilwell Fibrelab

Craig Wilson - Chief Executive Officer

In 1933, John Wells moved his fishing tackle business from Auckland to Rotorua. He knew fishing in the Lakes District was prolific and recognised the value of having 18 lakes within easy reach to test, design, and eventually start making his own line of fishing tackle.

Ninety years on, under ownership of the third generation of the Wells family, Kilwell Sports is still Rotorua-based, has developed a manufacturing arm called Kilwell Fibrelab, and is doing a whole lot more than making rods.

The abundant fishing here is also what led Craig Wilson to pack up his rods and make the move from Auckland to take up an accounting role with Kilwell. Some years and an OE later, he found himself in the chief executive's seat.

When asked what keeps Kilwell in Rotorua when some large businesses might shift to a larger city, Craig says that besides the owners living here, the location is exactly the reason.

“It's central for distribution, particularly with Port of Tauranga so close, as about 70% of our products are exported.

“We've got a good reputation, too, we're quite well known here. A lot of people complain they can't get staff; I don't have that many problems. We usually put a note out to staff and they check around with family and whānau, and sooner or later we have a cousin of someone or a brother.

“We're really lucky. Staff longevity averages more than 10 years, and several people have been here 30 or 40 years.”

The founder's son and second owner Jeremy Wells made it to 52 years before he retired.

Currently, Kilwell has more than 70 employees. Pre-Covid it was nearly 100 but they're growing back slowly and optimistically, as the recent addition of a sales manager has already paid dividends.

“We've got a really big pipeline of work for Fibrelab. We hired a sales manager less than six months ago and it's the first time there's ever been a sales manager. Kilwell products have always sold by word of mouth previously.”

On the flip side of the coin, finding top-end skilled staff located in Rotorua is difficult.

“The last few we've hired are from Tauranga and are commuting. Fortunately they're on the sales side of things so they don't need to be in the office all the time, but it's still tricky for a business this size where you're talking to people all the time, and people have questions and need you for things. Teams and Zoom have their limits.”

The work in the pipeline includes the acquisition of a new business, and launching a new product range called Response Lifejackets. There are also several Australian and US-based firearms companies looking at working with Kilwell.

“It's good export dollars and it's lots of jobs. In fact, one opportunity that we're looking at will create eight new jobs, running in two shifts.

“The demand's always there, it just kind of changes from products in various industries from time to time.”

You could say the company's reputation, both domestically and overseas, is as strong as the fibre-wrapped products they create.

As in April, inflation and staffing remain top concerns for businesses, leading to profitability worries. Regulation also enters the list towards the top

While some core business measures remain positive as outlined above, inflationary pressures abound, with a net +87% of businesses expecting costs to increase. A majority (+65%) of businesses will be increasing prices accordingly but profitability is uncertain, resulting in a net -2%, although this has improved 5 pts since April. This is also shown in the list of business concerns, with 68% of businesses being very or extremely concerned about inflation, the top concern on the list.

Finding skilled staff is second on the list with 63% of businesses, and there has been a 5 pt increase in concerns around staff retention, suggesting that businesses may be increasingly worried about employees getting head hunted or potentially going offshore. To get a picture of the scale of the skills shortage, 63% of businesses are planning to hire staff in the next 12 months and 52% currently have vacancies. As with the April survey, a wide range of roles have been difficult to recruit for across trades, hospitality, professional services and many others.

New additions to the survey – regulatory and policy challenges, and immigration settings – have come in near the top of the list of concerns, with 47% and 40%, respectively, concerned about central and local government. When asked what the regulatory concerns were, businesses provided a wide range of responses. On the central government side, these included Three Waters reform, immigration, fair pay/minimum wage standards and environmental regulation. There was also a lot of commentary expressing general discontent with the current government and the impact on business from taxes and ‘over regulation’. Comments around local government largely related to emergency housing, Three Waters and general comments about Council being poorly run.

There has also been a reduction in the number of businesses concerned about profitability and business survival, suggesting that fewer businesses are on the edge compared with April.

Please rate your current level of concern about the following in relation to your business (very + extremely concerned)

	Very + extremely concerned April 2022	Very + extremely concerned October 2022	Change
Inflation - cost of goods / services	71%	68%	-3
Finding skilled staff	68%	63%	-5
Retaining skilled staff	48%	53%	+5
Regulatory and policy challenges	52%		
- Central Government		47%	
- Local Government		40%	
Immigration settings		35%	
Ability to generate profitability	40%	31%	-9
Supply chain / shortages	33%	29%	-4
Finding unskilled staff	27%	25%	-2
Retaining unskilled staff	25%	24%	-1
Ability to invest capital in the business	23%	24%	+1
Forward work/sales in the pipeline	21%	20%	-1
Export conditions	19%	20%	+1
Debt levels	19%	19%	-
Business strategy	9%	12%	+3
Organisational culture	13%	9%	-4
Business survival (staying afloat)	15%	8%	-7



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One huge highlight for us is that it has been great to bring this opportunity back to Rotorua and reshape our technologies to fit new markets.



CETOGENIX

Cetogenix

Alexandra Stuthridge - Chief Operations Officer

Cetogenix is a ground-breaking cleantech company that launched in July this year.

Clean technology, or cleantech, is any process, product, or service that reduces negative environmental impacts through significant energy efficiency improvements, the sustainable use of resources, or environmental protection activities. Cetogenix, specifically, has created technologies to divert organic wastes from landfills and other disposal routes to produce sustainable low-carbon economic alternatives to fossil-derived natural gas and materials.

We caught up with chief operations officer Alexandra Stuthridge to talk about the company's journey thus far.

In July, you received \$4.5m in seed funding. Was receiving this funding a make-or-break situation for you?

Cetogenix is undertaking leading-edge deep technology in the cleantech space. Deeptech/cleantech is expensive and requires significant capital if it is to accelerate at a pace that successfully enables impact. You can have the best idea proved at lab-scale that often never realises impact without such investment.

Proving the Cetogenix technologies (e.g., Ceto-Boost) and demonstrating them at scale are critical to commercialising the technologies into the market.

Funding also enables Cetogenix to hire critical talent and build the equipment required to support the scale-up development past the bench top.

Is what you do replicated anywhere else in New Zealand or the world?

Cetogenix technologies are unique and produce results that are critically required in some of the world's largest markets, such as Europe (gas supply is deeply affected by the Ukrainian war), and Canada, who are leading the implementation of key sustainable goals to reduce the impact of fossil carbon and waste disposal. That said, Cetogenix technologies are extremely complementary to the existing renewable natural gas producers across the globe, enabling the extension of their yields by up to 40% using the same feedstocks. This is a game changer for an industry that is built on older technology platforms.

What have been the challenges and highlights in getting a new business off the ground?

Cetogenix is committed to build on this opportunity from New Zealand. However, this contributes to our greatest challenge in terms of distance to our markets and translating New Zealand innovations into international markets. The distance makes it difficult to engage with these markets and competition to attract high-quality personnel to build capacity from a global ecosystem.

One huge highlight for us is that it has been great to bring this opportunity back to Rotorua and reshape our technologies to fit new markets. Another highlight is having the opportunity (and bravery) to build a business from novel science that the Cetogenix leadership team helped develop in previous roles at the Crown Research Institute, Scion, some years ago (integrated with new technologies) and being co-located on campus with Scion as one of Cetogenix's key research partners.

Are you optimistic about the future of business here in Rotorua? Why or why not?

I am encouraged that Rotorua is looking to improve and is actively engaging with organisations like Cetogenix to understand business needs and how they can achieve growth for the city, and perhaps a willingness to actively support and promote a start-up community in Rotorua.

Rotorua provides many benefits: it is central to many locations, well-resourced for families and outdoors activities, including its incredible Redwoods Forest, which all contribute to good work-life balance.

Hopefully Cetogenix can be a positive exemplar that encourages others to see it is worth pursuing deep tech start-ups in Rotorua.

When asked about the number one thing that keeps business leaders up at night, one in five lose sleep over finding skilled staff, in line with the April survey. This is followed by upcoming work which has increased from 8% to 13%, suggesting that things may be starting to slow down for a segment of Rotorua businesses. There has been a sharp decline in business owners being kept awake by profitability concerns.

What is the number one thing that keeps you awake at night with regards to your business?

	April 2022	October 2022	Change
Finding skilled staff	24%	21%	- 3
Forward work/sales in the pipeline	8%	13%	+5
Debt levels	3%	8%	+5
Regulatory and policy challenges	8%		
- Central Government		8%	
- Local Government		1%	
Retaining skilled staff	4%	7%	+3
Business survival (staying afloat)	8%	5%	-3
Inflation - cost of goods / services sold	5%	5%	-
Finding unskilled staff	1%	4%	+3
Ability to invest capital in the business		4%	
Ability to generate profitability	16%	3%	-13
Business strategy	1%	3%	+2
Managing through the impact of COVID-19	8%		
Other - please specify	5%	6%	-
Nothing keeps me awake at night	8%	11%	+3

Rotorua businesses have responded to the tightening labour environment, providing flexible employee working arrangements

The competitive labour market has meant that along with the rest of the world, Rotorua businesses have had to adapt, with many more offering flexible working hours, increasing from 54% in April to 79% in October. Additionally, 68% of Rotorua businesses are now paying the living wage, a 6 pt increase from April, and half of businesses now provide staff with the option to work from home.

We have also seen a large shift in businesses who have carbon policies in place, from 26% to 41%. Almost half of businesses also incorporate Māori cultural elements into their businesses.





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We live in Rotorua and are proud to have a hand in building the infrastructure that the community, our family, and friends get to use.



WSP Rotorua

Fred Shilton - Business Manager

A day in the life of a business manager for a global engineering company involves quite a broad scope of activities.

Fred Shilton's coming up on four years as business manager at WSP Rotorua and 17 years with WSP. He likens the role to managing a waka: "Keeping an eye on the horizon and encouraging everyone to keep paddling in the same direction."

Fred also provides technical support on projects and some project governance. Networking and client management are key components, as is checking ahead to see what the pipeline is looking like, including what work they are not going to consider because they've got enough on their plate at the moment. More on resourcing and growth opportunities later.

WSP provides support for transport, infrastructure, and property and building projects. This means there's a wide range of tangibles that Rotorua residents and visitors benefit from: the Hemo Gorge roundabout rebuild; Titokorangi Drive's pathways, drainage plantings and forest lighting; Te Ngae Road improvements; and much more. One of the office's key projects at the moment is the earthquake strengthening and interior improvements of the Rotorua Museum.

"We're involved with Council in project managing it and have been working on this for the last couple of years. That's an exciting project to be part of. It's an iconic building for Rotorua, and for New Zealand."

While WSP has nearly 30 staff, they're looking to hit the mid-30s over the next six months. Most of the new hires, including an engineering husband and wife team, will be coming from overseas. Like other businesses we've talked to, the theme of finding highly qualified staff rings true for WSP.

"The internationals will be the technically qualified people we're really struggling to get in New Zealand.

"The biggest challenge for us has been getting enough skilled people to support the work available. I do wonder about the news, and the negativity around the motels, but I think even before that it has always seemed a challenge to try and get people to come to Rotorua. I'm not sure exactly why. Why wouldn't you want to live here when you've got the lakes and the forest? You've got everything else right here. And you're close to the coast if you want to go to the sea."

Regardless of the struggle to find staff, Fred is firmly in the glass-half-full camp and his heart is in Rotorua.

"I like to solve problems, I like to fix things and make a difference, so being involved in projects here in our town, that's what creates the biggest buzz. For most of us in the office, it's about working in the community to create what matters for future generations. We live in Rotorua and are proud to have a hand in building the infrastructure that the community, our family, and friends get to use.

"I'm optimistic that we will continue to see growth in Rotorua, particularly with a greater acceptance of remote working enabling people to live outside of the main centres for the better lifestyle that Rotorua undeniably offers. This growth, along with visitors returning to enjoy everything Rotorua has to offer, will continue to boost business in the area."

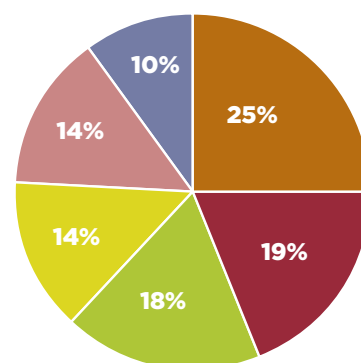
Which of the following statements are true for your business?

	April 2022	October 2022	Change
We offer flexible working hours to employees (for roles where this is possible)	54%	79%	+25
We pay the living wage or higher to all staff	62%	68%	+6
We plan to hire additional staff in the next 12 months	57%	63%	+6
We currently have vacancies that need to be filled	47%	52%	+5
Our staff have the option to work from home (for roles where this is possible)	45%	49%	+4
We incorporate Māori cultural elements into our business practices		47%	
We have policies in place to reduce carbon emissions	26%	41%	+15
None of the above	10%	3%	-7

Our city is precariously balanced, with emergency housing being the main driver of negative sentiment

The survey results display a clear divergence in the levels of confidence between businesses and Rotorua more broadly. Their outcomes are, however, inextricably linked and the sentiment of businesses about the state of Rotorua is a reflection of business owners' confidence in their own city. This can be shown in that when asked what Council's top priority for the business community should be, the response was resoundingly (63% of comments) to sort out emergency housing and repair our damaged brand.

We also asked business owners to write one word which describes the current state of Rotorua. The results suggest a city that is struggling despite an optimistic cohort remaining hopeful. The 72 comments have been themed into broader areas >.



- **In a bad state:** 18 comments
- **Run-down / flat:** 14 comments
- **Hopeful:** 13 comments
- **Damaged:** 10 comments
- **Uncertain:** 10 comments
- **Lacking direction:** 7 comments

Lifting of sights is needed by Council to provide the business community with a vision beyond the immediacy of challenges around Fenton Street. Business funding priorities center around infrastructure and housing

While the above responses show there are very clear immediate challenges to be addressed, comments from businesses suggest that this can't be at the expense of Council developing a long-term strategic vision that the Rotorua business community can get behind. Businesses are calling for a proactive Council willing to work closely with

Rotorua business leaders and provide leadership in the development of a sector strategy and a long-term infrastructure plan. This would also go some way to boost business confidence that Rotorua can become a city that attracts high quality talent, an area that businesses are clearly struggling with.

"I'm excited to see a new Council come in with new eyes and energy. While we need short-term actions to address some of our current issues, I'd love to see a really clear vision for Rotorua in the future that the community can buy into. The economic conditions will remain rocky for a period to come, but I do believe Council can grow confidence to continue investment through this period."

"I think now is the perfect time to re-strategise where we want our community to be. This should include incorporating all of those services utilised during COVID, as well as our commercial and corporate sector. We love Rotorua and are invested in our community therefore the opportunity for a whole-of-leadership brainstorming session would be great to show a unified and joined-up approach for Rotorua."

Business funding priorities back up the need for a long-term vision, coupled with the immediate need for housing. Core infrastructure is the top priority, with an average sum allocated of \$23.8m of the total allowed \$100m. Residential land development is the second highest with \$18.3m and inner city is next at \$15.6m. The Rotorua Museum and industrial land development are neck and neck at \$15m. Project-specific items such as the Aquatic Centre, Blue Baths, EEC, Lakefront and Westbrook received lower allocations.

Looking at the number of respondents who allocated funds, the inner city actually received the highest proportion with near universal support of 87%. Core infrastructure followed with 83% and residential land at 79%.

If you were given \$100 million to spend on long-term capital projects in Rotorua, how would you allocate this across the following areas?

Long-term capital project	Average spend allocated (\$M)	Percentage of respondents who allocated money
Core infrastructure	23.8	83%
Residential land development	18.3	79%
Inner city	15.6	87%
Rotorua Museum	15.1	70%
Industrial land development	15.0	72%
Environmental initiatives	11.8	68%
Aquatic Centre	8.1	65%
Blue Baths	7.2	58%
Energy Events Centre	6.6	44%
Lakefront	6.0	45%
Westbrook sports development	5.9	44%
Other*	22.9	23%

*Other includes: emergency housing / city security, mountain biking infrastructure, rates minimisation, Rotorua brand, Infrastructure - roads, residential housing development, conference facilities, industry specific - tourism / forestry / tech / geothermal, sports field / arena

Demographic of respondents

Eighty-two Rotorua businesses responded to the survey, up slightly from 79 businesses in April. There was a cross-section of businesses from different industries, with a more balanced distribution compared to the April survey, which was more heavily weighted towards tourism and accommodation.

There was a decent distribution among different sized businesses, from small SMEs to large 51+ employee operations. Thirteen percent of respondents were Māori owned businesses.

If you have any questions, please email
insights@rotoruanz.com

To download the report, please visit
rotoruanz.com/business-pulse-survey

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