

Economic Outlook for Contractors

UPDATE: Summer 2023

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SOUTHBROOK
— ACCOUNTING —

The cover features a photograph of a light blue piggy bank that has been broken in half. A piece of the piggy bank is missing, and a piece of yellow tape is stuck to the remaining part. The piggy bank is surrounded by several silver coins. The background is a soft, out-of-focus light blue. The text is overlaid on the image.

TECCANADA
The Executive Committee

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Canada

A downturn could have started as early as Q2, and will continue into 2024 marked by reduced inventory and capital spending, cautious business strategy, declining machinery orders, and lower retail sales. Depleted household savings will limit spending potential, and the Bank of Canada may consider raising interest rates if inflation persists.

U.S.A.

The U.S. economy may stagnate or experience a mild recession in the next nine months, with paused job growth and rising unemployment. The Federal Reserve is unlikely to lower interest rates prematurely, to ensure low inflation is sustained.

International

Copper prices have declined by 13% since late January, indicating China's recovery is falling short and Europe's economic slump is reducing copper demand. Weak global economic conditions and risks in the banking system are causing the Brent crude oil price to shift downward, with downside risks to oil demand extending into 2024.

United States

- » *Economy under increasing stress*
- » *Mild recession the most likely scenario*
- » *Fed wants solid evidence of cooler job market*
- » *Business investment is on hold*
- » *Slowdown in inventory accumulation*
- » *Non-auto manufacturing is slumping*
- » *Tighter lending standards add to restriction*
- » *Wage cost pressure too high for 2% CPI target*
- » *No Fed cuts until unemployment up*
- *» *Recession won't be as bad as 2008*
- » *Support from housing and auto demand*
- » *Boosted by high wage and salary growth*
- » *Commercial real estate stress*
- » *Changed office needs, refinancing problems*
- » *Borrowers defaulting, property values falling*
- » *Housing demand not as rate-sensitive now*
- » *No oversupply of homes like in 2006-2007*
- » *Single-family outlook better than multifamily*
- » *Single-family starts a recovery driver in 2024-25*

Canada

- » *Inflation trend unacceptably high*
- » *April CPI ex. gasoline up 6.2% m/m annualized*
- » *Bank of Canada may resume raising rates*
- » *End result likely to be interest rate overkill*
- » *Strong 1st Quarter growth misleading*
- » *By March the economy had stalled*
- » *A downturn appears to have begun in Q2/23*
- » *Inventory & investment pull-back underway*
- » *Household savings are being run down*
- » *Single-detached starts on steep downtrend*
- » *Inventory of unsold new homes up 63% y/y*
- *» *Serious office market problems*

Canada's Outlook

- **Economy was stronger in Q1 than expected**
- **Q2 is down – Businesses are more cautious**
- **Capital Investments have dropped off**
- **TD bank is not offering mortgages for investors buying Office Complexes**
- **Commercial construction market has weakened**

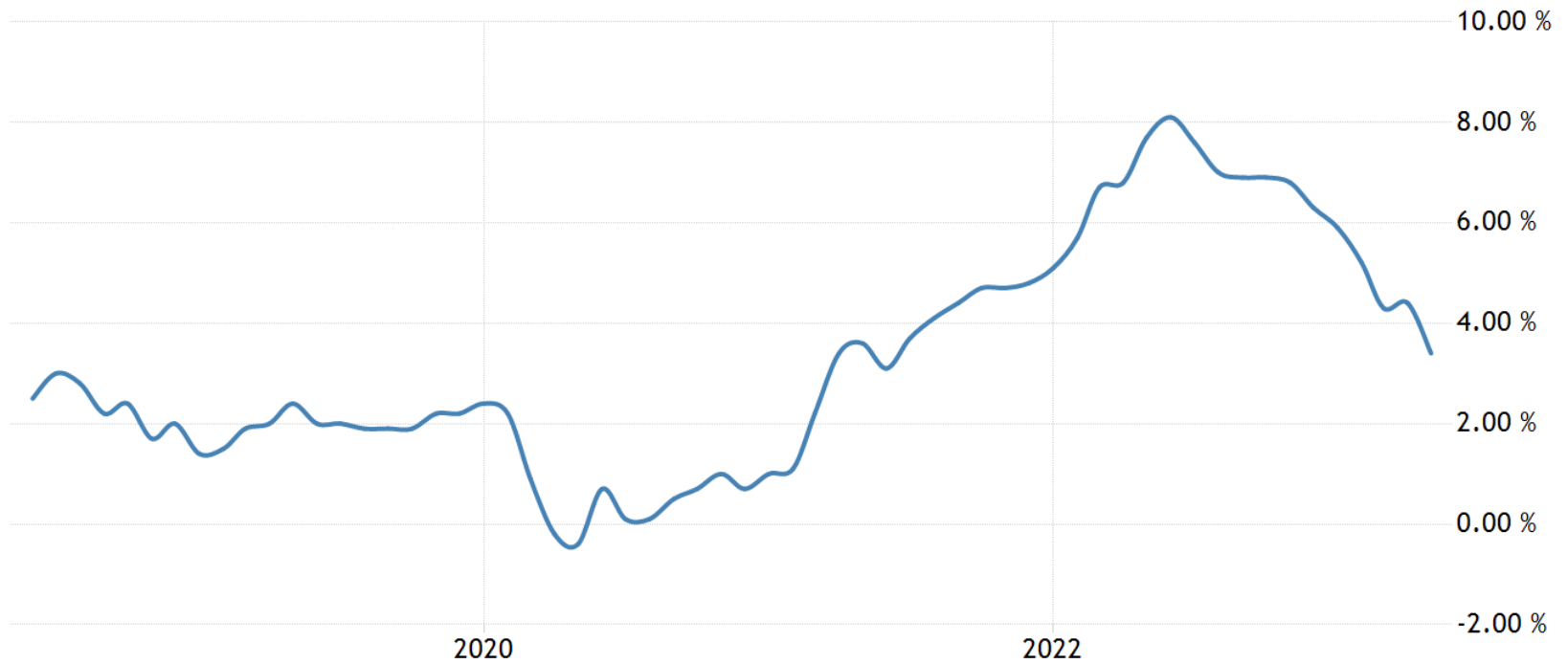
Canada's Outlook

- Household savings are being run down
- Personal savings are down
- Mortgage interest costs are 28.5% higher than a year ago (April 2022)
- Rent costs are 6.1% higher than April 2022
- Canada's strong population growth is adding to the housing demand – rental market is strong
- Current economy's strength indicates interest rates haven't peaked yet

Canada's Outlook

- Labour costs continue to rise (unemployment rate of 5%)
- Pricing Ceilings – customers are not willing to pay even more
- Corporate Profits are down in most sectors
- Mild Recession in Q3/Q4 = “stalling of Canada’s economy”
- AI tech stocks are driving S&P 500 growth yet corporate profits are down = mismatch and skewing everything!

Canada's Inflation 2023



Landscape Construction

- All Markets are not equal
 - \$0-50,000
 - \$50,000 - \$150,000
 - Higher interest rates, less borrowing, not using a Home Equity line
 - +150,000
 - Longer Sales Cycle

Commercial - Summer

All Markets are not equal

- **HOA/Condo/Multi-Residential**
- **Commercial/Institutional/Office**
- **Residential**

Commercial - Winter

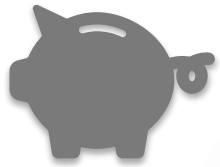
All Markets are not equal

- **HOA/Condo/Multi-Residential**
- **Commercial/Institutional/Office**
- **Residential**

**How should we
Respond?**

Key Opportunities

Leadership



**Educate yourself on
Economics**



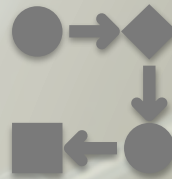
Be the voice of reason



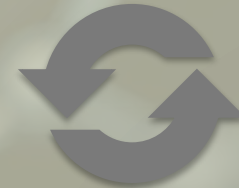
Be Positive



Connect with people



Be agile & strategic



**Be focused – plan ahead
1 “business cycle”**

Staff

Labour	Tight Labour Market for the foreseeable future
Protect	Protect your greatest Asset (A&B's) <ul style="list-style-type: none">• It is more expensive to lose them and then to hire & train
Evaluate	Evaluate the talent pool <ul style="list-style-type: none">• Grit, tenacity, follow through
Top	Top grade & expect more – (move out C&D's)
Ensure	Ensure that owners & managers are not performing \$20/hr tasks

Culture



BE INTENTIONAL



**CELEBRATE WINS!
MONTHLY BBQ'S ETC**



**GET 3RD PARTY
ACCREDITATIONS**



Marketing

Review Market Segmentation

- Henry of Pelham Family Estate brands
- Speck Bros. brands

Offer different products/services at different margins to attract a different market

- Create different budgets & pricing

HENRY *family estate*
of PELHAM

Marketing

**Focus on
Customer
Acquisition
Cost NOT Cost
per lead!**



**Be the squeaky
wheel! Meet
regularly with
your Marketing
Company**

Ensure that your brand message is correct and positioned well



Differentiate yourself from the “Sea of Sameness” - Position yourself: Be the Expert

“Be the Contractor in our Clients pocket”

Notifications vs Email example



IF you cannot show the difference, then you compete on price!!

Sales

**Have a
Referral
Strategy**

- **Focus on the Client Experience**
- **Get 5-star Google Reviews**
- **Just Ask!**
- **Invest \$\$ into your past customers**

**Become a
Sales
Professional
(invest in
sales Training)**

**Lower close ratios
is the new reality**

Pricing

Comparing YTD to Plan

- # of Hours sold/worked
- Overhead recovery
- Enter your Actual P&L into your Budgeting software

Interest rates are what they are = Cost of doing business is up!

Is your price at the market rate?

Cash Flow

Free up	Free up Cash
Manage	Manage your debt - lower your fixed and direct costs
Focus on	Focus on Efficiencies
Focus on	Focus on timely invoices and AR collections

Investing

Continue to Invest in Efficiencies

New Equipment = less downtime, less repairs

Automation = less manual labour

Partnerships

- Lean on your industry peers
- Keep close to your Bank Manager & Suppliers
- Ask questions!
- Listen to resources



Conclusion

- **When the economy is volatile, it is an opportunity for you to shine!**
- **Double down on your determination, your grit and your resilience**
- **When the economy becomes stronger, you will be already in the market and be better and stronger than ever!**

Questions?

