



**BDO WELLBEING & BUSINESS
PERFORMANCE INDEX**

CONSTRUCTION SECTOR

APRIL 2023 REPORT

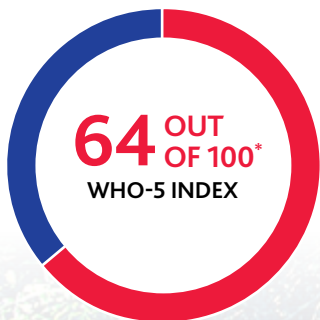


SECTOR FOCUS: CONSTRUCTION

This report shares sector-specific findings of the April 2023 measure of the biannual BDO Wellbeing & Business Performance Index - Te Rangahau o Ngā Hauora Pai - which monitors both wellbeing and business performance (and the link between the two) among New Zealand's business leaders. The April 2023 Index findings are compiled from our third measure of the survey, undertaken during March 2023 among a nationally representative sample of 504 business leaders and owners who responded to our digital survey. To view the main April 2023 report and video insights – providing a whole-of-business lens – along with our other sector-specific commentaries, go to bdo.nz/wellbeing.

WELLBEING TAKES A HIT AS CONDITIONS IN THE CONSTRUCTION SECTOR WORSEN

Construction business leaders scored 64 out of 100 on the WHO-5 Index – the World Health Organisation's internationally recognised wellbeing measure. The Index has been on a steady decline since our first measure in May 2022; moving from 82 out of 100 in May 2022 to 68 in October 2022 and now to 64 [Figure 1]. This decline has reflected worsening market conditions for the industry. In May last year, most construction businesses were still in a boom phase, with more work than they could handle. However now, our [BDO Construction Sector Report 2023](#) shows a decline in forward work, particularly for lower turnover businesses and in the residential sector. The declining WHO-5 Index among construction business leaders and owners is the most pronounced across all sectors we monitor.



*** HOW THE WHO-5 SCORE IS CALCULATED:**

Someone who scores 'all of the time' on a particular statement is given a score of 5, while if they score 'at no time' they get a score of 0 for that statement. The total raw score, ranging from 0 to 25, is multiplied by 4 to give the final score, with 0 representing the worst imaginable wellbeing and 100 representing the best imaginable wellbeing.

BUSINESS FINANCIAL PRESSURES AND EXTERNAL ECONOMIC FACTORS TAKING A TOLL

The number of construction business leaders feeling less mentally healthy than normal has also increased significantly, from 29% in October 2022 to 50% in our March results. Business financial pressures have been the key driver here, with 61% of those who had been feeling less mentally healthy than normal citing this as a reason [Figure 2]. This is 17% higher than the whole-of-business average and reflects declining margins as a result of inflation. This was also highlighted in our BDO Construction Sector Report, where only 12% had seen their profit margins increase in the last year.

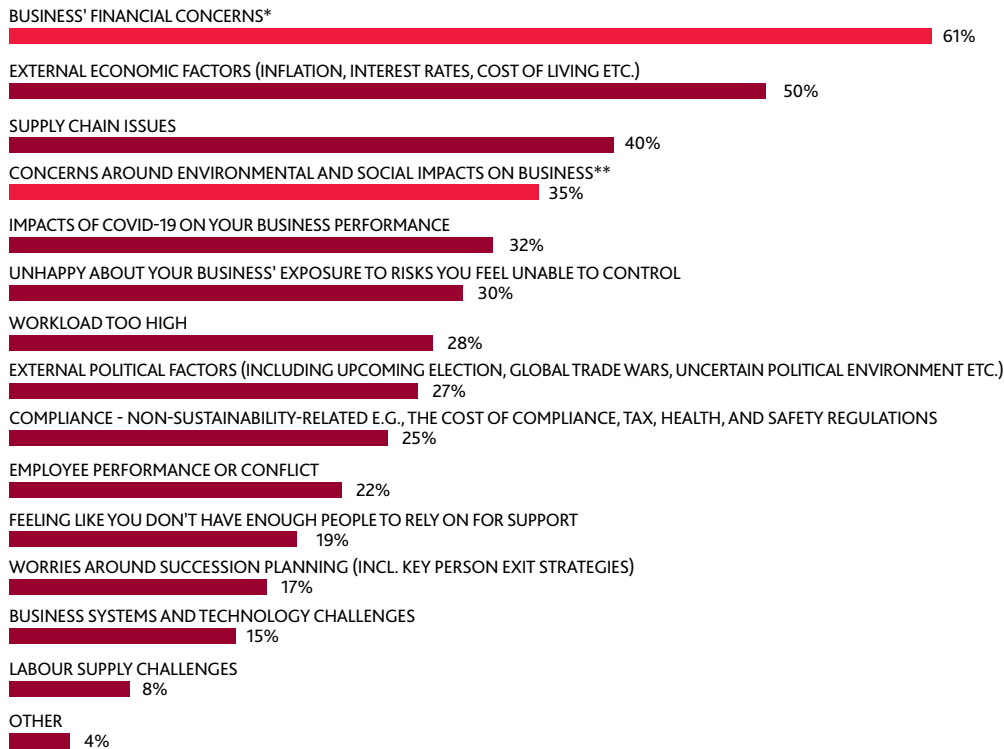
It comes as no surprise then that external economic factors are also a key cause of stress, with 50% of those feeling less mentally healthy saying this is a contributing factor. External political factors are also a key contributor at 27% - with an election coming up and both political parties reprioritising Government spending, it will be interesting to see how this affects the construction and infrastructure sectors.

The business impacts of COVID-19 are also causing negative wellbeing among construction business leaders, with 32% of construction leaders who have been feeling less mentally healthy than normal citing COVID-19 as a key cause of this. The seven-day isolation period continues to be an issue in this sector, where employees cannot work from home unlike in many other industries.

It was pleasing to see that 43% of construction business leaders were using strong financial management processes as a way to stay mentally healthy – this was 12% higher than the whole-of-business average, and shows the importance of strong financial management as a way to manage the boom and bust cycles that are prevalent in the industry [Figure 3]. Strong financial management includes creating a cash flow management plan, reviewing accounts and margins regularly, and having a clear business plan.

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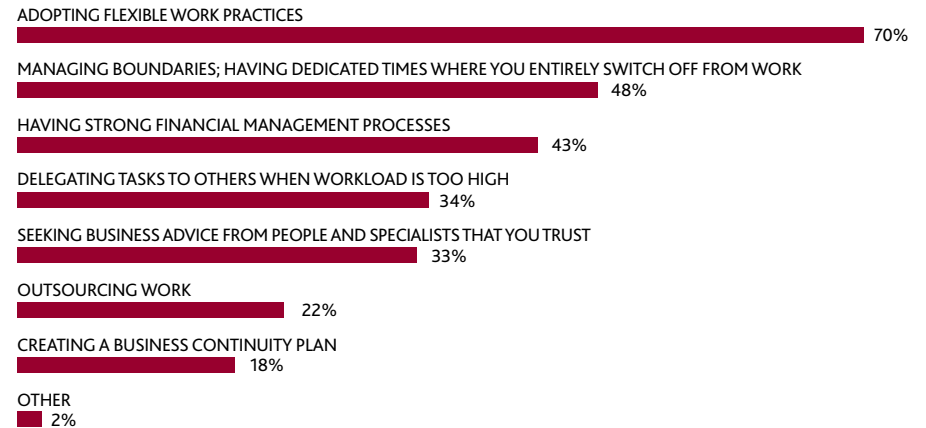
FIGURE TWO: IN THE LAST 6 MONTHS HAS ANYTHING BEEN CAUSING YOU TO FEEL LESS MENTALLY HEALTHY THAN NORMAL IN YOUR BUSINESS LIFE?



* Combined score based on respondents who selected the following two drivers:
Cash flow problems 36%. Business' financial performance challenges 50%

** Combined score based on respondents who selected the following three drivers:
Concerns around physical risks to infrastructure caused by natural disasters and climate change – 19%
Concerns around transition risks (non-physical) associated with climate change – 14%
Compliance – Sustainability/ESG-related – 24%

FIGURE THREE: WHAT DO YOU DO TO STAY MENTALLY HEALTHY GENERALLY IN YOUR BUSINESS?



BUSINESS PERFORMANCE

Generally, construction business leaders are feeling less positive about their business performance, with 57% saying they have felt positive about their business performance all or most of the time in the last six months, compared to 60% for all business leaders.

Looking ahead, 68% of construction business leaders expect to feel positive about their business performance all or most of the time in 6 months' time – this is a drop of 9% from our October 2022 results, and shows a decline in positive feelings about the future. The same trend can also be seen in expectations for general mental wellbeing in 6 months' time, with 70% of construction leaders expecting to feel generally satisfied with life all or most of the time, compared to 75% in our October 2022 results.

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STRONG FINANCIAL MANAGEMENT EVEN MORE IMPORTANT DURING TOUGH TIMES

"There are parts of the sector, particularly residential construction businesses and those with lower turnovers, that are suffering from significant challenges, with margins eroding from high costs, labour shortages and declining house prices. Businesses operating here will need to have strong financial management plans, including effective forecasting allowing for revised overhead structures and different margin scenarios, in order to overcome these challenges."



NICK INNES-JONES,
BDO CONSTRUCTION SECTOR LEADER

TIPS FOR CONSTRUCTION BUSINESS LEADERS TO MANAGE ECONOMIC UNCERTAINTY

- Review your cash flow, making sure you address overheads, and only incur necessary capital expenditure.
- Monitor project gross margins and accounts monthly.
- Spend additional time planning which staff will be on each site and when, so that productivity can be optimised.
- Stress-test your monthly forecasts against any unforeseen events – and any potential reduction in work and delays.
- Incorporate allowances to cover rising building costs. Where possible, avoid fixed-price contracts and include cost-escalation clauses.
- Do your due diligence when accepting projects. If a client is unlikely to be able to pay to the last bill, don't accept them. Even when you need more work, doing it for an unprofitable project will leave you in a worse position than if you hadn't taken on the project at all.
- Devote more time prospecting for and negotiating additional work.
- Do not accept heightened contract risks and unreasonable clauses simply to win a project.
- Pre-plan and be prepared to down-size activity levels and staff numbers if there is insufficient profitable work for everyone.



FOR MORE TIPS AND VIDEO INSIGHTS,
VISIT [BDO.NZ/WELLBEINGINCONSTRUCTION](https://www.bdo.co.nz/wellbeinginconstruction)



WELLBEING SUPPORT
CONTACTS

Xero Assistance Programme (XAP)
1737.org.nz – National mental health helpline
Mental Health Foundation ([mentalhealth.org.nz](https://www.mentalhealth.org.nz))

CONTACT OUR SPECIALIST CONSTRUCTION TEAM AT [BDO.NZ/CONSTRUCTION](https://www.bdo.co.nz/construction)