

# New Zealand Equity Monthly

## June 2022

Despite challenges, stagflation not materialising and companies well equipped to weather storm

12 July 2022

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### Stagflation not materialising amid shortage of workers

As in the rest of the world, times are tough for New Zealand's economy, with the GDP having seen an on-quarter decline of 0.2% in the first three months of 2022. Even so, given that stagflation occurs when higher inflation is combined with slower economic growth and rising unemployment, New Zealand is contending with the negative growth and inflationary aspects of stagflation without the accompanying unemployment issues. Data released on 4 May by Stats NZ, New Zealand's statistics agency, show that unemployment in the March 2022 quarter was unchanged from the previous quarter at 3.2% (compared to 4.6% in the first three months of 2021). However, this situation also highlights the tightness of New Zealand's labour market. In addition to the current worldwide shortage of workers, one reason for the situation in New Zealand is the relative ease with which some sections of the workforce can leave the country to find work elsewhere. New Zealand is already losing nurses to Australia, for example. Given that a recent graduate in New Zealand pays an effective tax rate of 19.8% (compared to an effective rate of 16.6% for graduates earning the same amount in Australia) and a newly qualified nurse in New Zealand pays a marginal tax rate of 33 cents on the dollar, we need to see more dynamic decision-making by the public sector on wages and tax brackets.

### Migration trends a key driver behind New Zealand's labour issues

Provisional figures released by Stats NZ on 13 June highlight the role migration trends are playing in the tightness of New Zealand's labour market. Net migration was -8,700 overall in the year ended in April 2022, with a breakdown of the data revealing that net migration of non-New Zealand citizens was -8,900 while net migration of citizens of the country was positive by 200. The figures also show that migrant arrivals of New Zealand citizens were down 36% compared to the year ended in April 2021 while migrant departures of New Zealand citizens rose by 21%. Looking ahead, we expect to see a noticeable increase in the number of citizens and non-citizens departing the country. This will shrink the workforce while keeping unemployment lower than it would be otherwise. Although low unemployment is positive for an economy, experiencing a tight labour market amid a worldwide shortage of workers is likely to choke New Zealand's growth.

### New Zealand companies well equipped to ride out tough market outlook

New Zealand's equity market has already been impacted by this tough environment. The benchmark NZX 50 Index dropped below the 11,000 level for the first time in two years on 13 June and continued to struggle for the rest of the month. Despite this, New Zealand's companies look relatively well equipped to weather the storm given the competitive advantages they have in terms of quality management and boards, strong balance sheets, and stable earnings. Although the valuation implications of the current environment are dominating the picture for equities at present, in our view it also pays to look ahead to the likely shape and timing of New Zealand's economic recovery as well as the recovery bellwethers we are likely to see.

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