

New Zealand Equity Monthly August 2022

Market faring well but rising costs, labour market issues and demographics pose challenges

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By Michael Sherrock, Portfolio Manager

Equities recovering from lows seen in June

In an encouraging sign for New Zealand equities, the benchmark NZX 50 Index ended August approximately 10% higher compared to the lows it saw in June, when it dropped below the 11,000 level for the first time in two years. However, the market still faces challenges given that at the end of August the index was also down about 10% compared to the start of 2022.

Companies facing pressure from rising costs and labour market challenges

As is the case elsewhere, one of the chief sources of pressure on New Zealand's companies is rising costs. For example, Producer Price Index (PPI) data released on 17 August by Stats NZ, New Zealand's statistics agency, showed that businesses across all industries saw input prices jump by 9.7% in the 12 months ended June 2022. However, the main headaches for New Zealand's businesses are the result of tightness in the labour market. In addition to rising labour costs, companies are facing pressure from labour availability issues, higher staff turnover and vacancies across workforces. The challenges are broad based and are affecting both the skilled and unskilled labour markets. Although the government has responded with moves including the full reopening of New Zealand's border on 31 July, companies' labour market difficulties are unlikely to be resolved in the near term.

Labour issues exacerbated by population changes and demographics

The extent of these labour market woes were illustrated by provisional data released by Stats NZ on 16 August showing that New Zealand's resident population saw annual growth of just 0.2% in the 12 months until the end of June 2022. This was the lowest rise seen since June 1986 and largely reflected a net migration figure of minus 11,500. The net outflow is likely to be the result of workers seeking better pay and working conditions overseas, particularly in sectors with highly transferrable skills such as healthcare, education, firefighting and law enforcement. New Zealand's demographic situation is compounding the issue, with data released by Stats NZ on 16 August showing that the number of people aged 65 or older increased by 22,800 in the 12 months ended June 2022. Given that the working age population (those aged 15-64) decreased in the same period, the ratio of working age people to those aged 65 or older has dropped from 4.8 ten years ago to less than four currently. This puts New Zealand on course for dealing with an ageing population while having fewer working people to support it.

Retirement sector among those showing resilience

Despite the challenges, a number of sectors are proving resilient in the current climate. The retirement village sector, for example, appears to be benefitting from New Zealand's demographic situation, having withstood the recent slowdown seen in the rest of the residential property market. Furthermore, as mentioned above, we believe that the market as a whole moved in the right direction in August.

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