

# New Zealand Equity Monthly September 2021

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## Market already looking past latest lockdown

The equity market reaction to New Zealand's second COVID-19 lockdown has been far more muted than the first time similar restrictions were imposed. The first lockdown from March 2020 caused an aggressive sell-off as investors and companies alike adjusted to a completely unprecedented situation. This time, however, the market has absorbed the lesson of the sharp economic rebound that occurred once the first restrictions were lifted, and investors are looking past the latest lockdown with far more certainty than before that it will be a short-term, one-off occurrence.

## Firms increasingly focused on rising business costs

A major topic for New Zealand companies since before the first lockdown has been the increasing cost of doing business. One reason for this is the material rise in the minimum wage seen in the past five or six years. Labour availability has also been a large issue for companies, with border closures reducing access to unskilled staff as well as to skilled workers. Companies are having to offer higher wages to attract new personnel while also raising the pay of existing employees to prevent poaching by other firms. Furthermore, businesses are seeing a productivity impact from an increase in sick leave provision from five days to 10 days and the associated reduction in potential days worked by each employee. There will be a further impact next year with the addition of a new public holiday. Employers are having to choose between running slightly leaner or hiring more staff to compensate for the increased benefits. Companies are also contending with cost increases caused by soaring energy prices. A key issue will be whether firms have the pricing power to avoid profit falls by passing on the increased costs.

## Supply chains, rate hikes and cyber security also attracting attention

As they have elsewhere, supply chains have become an issue in New Zealand. Firms are having to move from a just-in-time inventory system to holding more stock amid uncertainty over how quickly orders will arrive or even if items can be sourced. Higher interest rates are also on the horizon given that the market has priced in a total of three hikes in the Reserve Bank of New Zealand's Official Cash Rate by 22 February 2022. Banks are also starting to increase mortgage rates, and this will impact certain firms. In addition, cyber security has had a serious impact on various companies over the past 12 to 18 months. New Zealand's Exchange was disrupted by cyberattacks for four straight days in August last year. More recently, some banks have seen their online banking services targeted. Given that cyber security is a large risk for businesses, key points to note will be how firms manage that risk as well as the costs they are likely to face.

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