

New Zealand Equity Monthly February 2022

New Zealand equities resilient on strong corporate earnings

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By Michael Sherrock, Portfolio Manager

New Zealand equities showing resilience on strong corporate earnings

The New Zealand market recovered well from the global plunge in equities seen in response to Russia's invasion of Ukraine on 24 February. The current events in Europe have had very little immediate impact on New Zealand, particularly from a corporate earnings perspective. The reporting season for the period ending December 2021 recently concluded with companies having released significantly strong half- or full-year results. Few companies missed their own guidance or market expectations and a number of them performed better than expected. This is a good sign for the market.

Companies seeing headwinds from broad-based cost impacts

In common with the rest of the world, New Zealand companies are also facing headwinds as they deal with a number of varied cost impacts. New Zealand's Consumers Price Index (CPI) is showing higher prices in a wide range of sectors, including energy and food. It will be important to monitor how CPI impacts consumer sentiment in the next 12 months as belt tightening by consumers is a potential obstacle for companies and the economy. We are already seeing the effect of price increases on firms through the Producers Price Index (PPI), particularly with the high figure for inputs (prices paid by producers), which was 8.1% for the year. In contrast, the output PPI, which shows the prices companies receive for the goods and services they sell, has been running about 1% below input prices, meaning that companies have had to absorb a gap between the prices they pay and charge.

Policy changes, interest rates and Omicron also set to impact companies

Government policy developments are also affecting New Zealand's companies, mainly in terms of labour costs. The minimum wage is set for a 6% hike on 1 April 2022, bringing the increase seen in the past five years up to 35%. This will particularly impact small businesses amid the continued pain from the pandemic. Labour productivity is also likely to be affected given that minimum sick leave has been doubled from five to ten days and another day of annual leave is to be added for employees this year. This will lead to fewer productive hours in a year for each unit of labour, which businesses will need to counter either by absorbing the difference or searching for new employees. Companies and consumers alike are also feeling the continued effects of higher interest rates and the Omicron COVID-19 variant.

Companies releasing strong outlooks, although vigilance over Omicron is required

Adding to the encouraging signs of strong earnings and market resilience seen so far, the outlook statements released by New Zealand's companies have also been solid. Given the frequency with which companies have mentioned the Omicron variant in caveats, however, it will also be important to monitor how COVID-19 affects corporate performances in the next six months.

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