

New Zealand Equity Monthly November 2022

Inflation and unemployment levels remain key issues for New Zealand as year-end approaches

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Living and business costs still creating challenges

The cost of living and the cost of doing business are still weighing down on New Zealand's consumers and companies as the end of 2022 approaches. According to data released by Stats NZ, New Zealand's statistics agency, the consumers price index (CPI) remained stubbornly high in September 2022 with an on-year rate of 7.2%. On the corporate side, New Zealand's companies continue to grapple with wage inflation driven by a scarcity of workers, higher logistics costs amid lingering supply chain issues, and elevated interest costs as hikes in the Official Cash Rate (OCR) continue to bite. The OCR currently sits at 4.25% after a 75-basis-point hike in November 2022 and it is seen going as high as 5.5%. The key issue going forward will be whether higher rates can slow down consumption given that the Reserve Bank of New Zealand now appears to be focused on curbing inflation above all other considerations, including economic growth.

Unemployment rate looking less likely to move upwards

One issue complicating the picture for New Zealand is its low unemployment rate. Data from Stats NZ showed that 3Q unemployment was at 3.3% and unchanged from the previous quarter, suggesting that the rate is unlikely to increase as much as previously expected. One reason for this is the likely departure of workers for positions in other countries including Australia, where mineral resource companies and other employers are working hard to entice personnel from elsewhere in order to beat global labour shortages. One implication of this is that the OCR is unlikely to be cut back from its current elevated level if New Zealand's unemployment rate fails to increase as projected. At the same time, migration figures continue to underscore the challenges New Zealand companies face in securing personnel. Provisional data from Stats NZ show that net migration to New Zealand came to -8,400 in the year ending September 2022. Given that migrant departures of New Zealand citizens were up 41% on-year in the same period, New Zealand appears to be losing citizens and failing to replace them with non-citizens at an adequate rate.

Younger workers without homes looking relatively insulated from headwinds

One potential bright spot for New Zealand is that some sectors of society may be less susceptible to the impact of higher prices and interest rate hikes than others. One example is younger people who are not making monthly mortgage payments but still receiving pay increases. Given that New Zealand's most recent census revealed that only 44% of those aged 25-29 lived in owner-occupied homes as of 2018 (compared to 61% in 1991), a sizeable proportion of people in that age range will be able to maintain a good standard of living despite inflationary pressures and higher interest rates. This means that they are less likely to rein in their spending than others.

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