

New Zealand Equity Monthly February 2023

Although rising costs still pose major challenges, RBNZ sees labour market pressures easing

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Living costs still rising with CPI at 7.2% in December quarter

The cost of living remains a major issue for New Zealand as we move further into 2023. According to the latest consumers price index data released on 25 January 2023 by Stats NZ, New Zealand's statistics agency, annual inflation for the quarter ended December 2022 was unchanged from the previous quarter at 7.2%. Living costs continue to soar across the board, with fuel, energy, and food prices as well as higher interest rates continuing to erode disposable incomes. Shortages of goods and services caused by the recent severe storms over New Zealand's North Island also look likely to push prices upward. Following a 50-basis-point rate hike by the Reserve Bank of New Zealand (RBNZ) on 22 February 2023, the Official Cash Rate is now 4.75% and is projected to reach 5.5% as the central bank continues to prioritise tackling inflation over other areas of the economy.

Business costs set to be driven upward by minimum wage increase in April

The cost of operating a business is also continuing to climb, as evidenced by the frequency with which many companies mentioned rising costs in New Zealand's recent corporate earnings season. Businesses face a wide range of cost-related challenges including shipping expenses and interest costs for borrowing. One of their major cost drivers, however, is wage inflation amid a continued shortage of labour. Data released on 1 February 2023 by Stats NZ showed an annual increase of 4.1% across all salary and wage rates in the December 2022 quarter. Companies are now bracing themselves for a further increase in wage costs on 1 April 2023, when the adult minimum wage will be hiked by approximately 7% from the current hourly rate of NZD 21.20 to NZD 22.70 per hour. While we understand that wages have been low and that there was a need to raise them, dealing with the speed of the change is likely to be challenging for companies.

RBNZ sees unemployment rising to 5.7%

One interesting aspect of the RBNZ's February Monetary Policy Statement is that the central bank forecasts unemployment to climb from its December 2022 level of 3.4% to a peak of 5.7% in March 2025. The RBNZ expects the figure to rise as a multi-quarter slowdown in economic activity together with steady growth in the labour force ease pressures in the labour market. In view of New Zealand's migration trends, however, the net flow of New Zealand citizens is more likely to contribute to labour market tightness than help to ease it. According to provisional data released by Stats NZ on 16 February 2023, although New Zealand returned to net migration in 2022 with a net gain of 15,800 individuals, the country experienced a net loss of 16,600 New Zealand citizens during the year. Furthermore, we expect to see an outflow of young people in particular in the first quarter of 2023 as the world continues to normalise. At the same time, given that the provisional net gain in 2022 was driven by non-New Zealand citizens, the government's introduction of an emergency Recovery Visa for migrant workers to assist in responding to the recent extreme weather looks positive for the labour market.

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