

New Zealand Equity Monthly May 2024

Reporting season paints cautious picture amid equity market weakness

By Tim O'Loan, Research Analyst
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Equity market continuing to struggle with high inflation and interest rates

New Zealand's equity market is currently facing challenging times. As of 30 May, the S&P/NZX 50 Index of the 50 largest names on New Zealand's Exchange was in negative territory not only for the month to date but for the year to date. Although New Zealand equities experienced a strong rebound from late 2023 through to early March 2024, we concluded at the time that the possibility of interest rates staying higher for longer posed a risk to the market. Given the economic data seen since then, as well as the struggles experienced by equities, we feel that our concerns have been proved correct. One of the key figures has been New Zealand's consumers price index (CPI), which remained high in the March 2024 quarter with an annual rate of 4.0%. In view of this environment, the Reserve Bank of New Zealand (RBNZ) maintained the Official Cash Rate (OCR) at the elevated level of 5.5% at its Monetary Policy Committee meeting on 22 May.

Reporting season shows firms maintaining cautious outlooks amid headwinds

Given the aforementioned economic background, it is perhaps unsurprising that many firms maintained cautious outlooks in the recent earnings reporting season. Specifically, our concerns over the impacts of high inflation and interest rates on consumption were borne out by examples of the cost-of-living crisis putting pressure on companies' margins. It is clear that higher costs are impacting consumer spending, and these pressures are damaging companies' pricing power by making it difficult for them to raise prices without impacting demand. Companies are also facing additional headwinds depending on the sector. The property sector, for example, is grappling with the removal of commercial building depreciation for tax purposes by New Zealand's recently elected government. Another example is the retirement sector, which is struggling with the impact of a slowdown in the property market in addition to elevated inflation and high interest rates. The sector's current situation stands in contrast with the period until around 2022, when it performed strongly as New Zealand's housing market soared. This reflects the tendency for weaker house price inflation to make it more difficult for retirees to sell their current homes.

Sense that rates have peaked among signs that outlook may brighten

Although the OCR is likely to remain elevated for an extended period, a consensus has built that rates have now peaked out at 5.5%. The clearest sign of this is signalling from the RBNZ. After its policy meeting on 22 May, the central bank commented that it remains confident that monetary policy is restricting demand and that it expects inflation to ease further as capacity pressure continues to decline. Furthermore, many sectors and companies are reasonably positioned to benefit once a rebound occurs. The retirement sector, for example, still stands to benefit from the ageing of New Zealand's population and a shortfall in the supply of retirement villages.

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