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New Zealand's economic recovery more visible but remains uneven

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Uneven recovery seen creating selective opportunities in New Zealand equities

New Zealand's economic recovery is becoming more visible, but it remains uneven. Businesses are increasingly looking beyond current weakness and anticipating better conditions ahead, while households and the housing market continue to lag. For equity investors, we believe this creates a backdrop that is becoming more constructive, but one that still calls for selectivity. The gap between expectations and current conditions is particularly visible among businesses. Generally, businesses appear to be expecting demand to improve before they are seeing much evidence of that recovery today.

Households remain more cautious. New Zealand's consumer confidence index (ANZ-Roy Morgan) recovered from its April lows to 97.6 in September but remains below the neutral 100 level. Higher living costs, mortgage pressures and a subdued housing market continue to weigh on discretionary spending. Housing activity has improved at the margins, with higher sales volumes and shorter selling times, but prices remain well below their 2021 peaks. The important distinction is therefore between direction and level: economic momentum is improving, but actual activity remains subdued. Housing is becoming less of a headwind, rather than turning into a tailwind.

Retirement sector shows early signs of recovery

This gradual improvement is already evident in retirement villages. Resales of existing units have strengthened. Resales are particularly valuable because they allow operators to recycle capital from existing portfolios without the significant expenditure associated with new development. However, new sales remain considerably weaker, suggesting the sector has yet to experience a broad housing-led recovery. Stronger resales ease some pressure on operators, but a sustained improvement will ultimately require better new sales, settlements and cash generation.

Demographics and reform support the long-term outlook

Beyond the economic cycle, the structural case for retirement remains compelling. New Zealand's population aged 75 and over is expected roughly to double by the mid-2040s. Maintaining existing penetration and occupancy rates could require around 2,100–2,400 new retirement units annually, providing unusually clear visibility over long-term demand. Potential reform of aged-care funding could provide an additional tailwind. Existing funding has not adequately reflected the cost of developing and operating care beds, forcing some retirement operators to effectively cross-subsidise care from their village businesses.

Proposed reforms, including increased funding and a longer-term model linking reimbursement more closely to actual costs, could improve the economics of care provision. The broader corporate mood is also improving. Management teams and boards are not yet broadly bullish, but conversations are shifting away from defence and caution towards execution, productivity and growth. That reinforces the picture of an economy at an early stage of recovery, potentially creating opportunities for investors willing to distinguish between improving expectations and businesses already positioned to benefit from the upturn.

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