

BRAMWELL BROWN LTD

INVESTMENT ADVISERS – SHAREBROKERS

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Official Cash Rate

The Monetary Policy Committee agreed to raise the Official Cash Rate (OCR) to 0.75 per cent on November 24th. The Committee agreed it remains appropriate to continue reducing monetary stimulus so as to maintain price stability and support maximum sustainable employment. The level of global economic activity continues to rise, supported by accommodative monetary and fiscal policy settings, and the relaxation of COVID-19 health-restrictions. The pace of global economic growth has ebbed however, due to the elevated uncertainty created by the persistent COVID-19 virus. Global supply-chain disruptions are causing both cost pressures and constraints on production, at a time when consumer demand remains strong. Central banks globally face the challenge of distinguishing between transitory price increases and underlying sustained inflation pressures to assess the need for, and timing of, reductions in the level of monetary policy stimulus. New Zealand's public health restrictions are easing as the country transitions into the COVID-19 Protection Framework. The framework will enable greater mobility of people, and goods and services. With the easing of restrictions, it is anticipated that the COVID-19 virus will become more widespread geographically, albeit manageable for health authorities, and less harmful for those vaccinated. However, household spending and business investment will be dampened in the near-term by these ongoing health uncertainties.

The recent nationwide health-related lockdown, the more prolonged restrictions in Auckland, Northland and the Waikato, and the continued Level 2 restrictions elsewhere, resulted in a sharp contraction in economic activity. Despite these lockdowns, underlying economic strength remains supported by aggregate household and business balance sheet strength, fiscal policy support, and strong export returns. Capacity pressures have continued to tighten. For example, employment is now above its maximum sustainable level. A broad range of economic indicators highlight that the New Zealand economy continues to perform above its current potential. Headline CPI inflation is expected to measure above 5 percent in the near term before returning towards the 2 percent midpoint over the next two years. The near-term rise in inflation is accentuated by higher oil prices, rising transport costs and the impact of supply shortfalls. These immediate relative price shocks risk generating more generalised price rises given the current domestic capacity constraints. The Committee noted that further removal of monetary policy stimulus is expected over time given the medium-term outlook for inflation and employment.

New Zealand Retirement Expenditure Guidelines

The Massey University Fin-Ed Centre aims to empower New Zealanders to make more financially savvy decisions – to give people the tools they need for the life-long process of managing their finances. Part of their work includes the New Zealand Retirement Expenditure Report to establish guidelines for "modest" and "comfortable" retirement. The 2021 Retirement Expenditure Guidelines are the tenth in a series that began in 2012, to assist New Zealanders in making financial plans for their retirement.

Two levels of expenditure have been included in the guidelines. The No Frills guidelines reflect a basic standard of living that includes few, if any, luxuries. The Choices guidelines represent a more comfortable standard of living, which includes some luxuries, or treats. The report also distinguishes between one-person and two-person households, and city living versus living in the provinces. The table below shows some of the findings.

Weekly Income	One-Person Household		Two-Person Household	
NZ Super (After Tax)	\$436.94		\$672.22	
Weekly Expenditure				
	City	Provincial	City	Provincial
No-Frills Budget	\$726.19	\$604.92	\$864.94	\$746.81
Choices Budget	\$1,028.89	\$1,116.23	\$1,470.26	\$1,176.14

As you can see, all groups are spending more than they are receiving in NZ Super, which means all groups must supplement their income somehow. The next table summarises income (NZ Super) versus expenditure, and shows the shortfall for each category.

		Weekly Expenditure	NZ Super	Deficit
One-Person	No Frills - City	726.19	436.94	289.25
Households	No Frills - Provincial	604.92	436.94	167.98
	Choices - City	1,028.89	436.94	591.95
	Choices - Provincial	1,116.23	436.94	679.29
Two-Person	No Frills - City	864.94	672.22	192.72
Households	No Frills - Provincial	746.81	672.22	74.59
	Choices - City	1,470.26	672.22	798.04
	Choices - Provincial	1,176.14	672.22	503.92

The difference between income and expenditure makes for fairly grim reading, particularly if you are single. A single person living in provincial New Zealand must find an extra \$679.29 per week if they want a retirement with choices. How do you fund that difference? The following table shows the estimated lump sums required to fund the difference between NZ Superannuation and expenditure.

		Weekly Deficit	Lump Sum Required	Lump sum calculations assume retirement at 65, and life expectancy to 90. The full lump sum is expended in retirement.
One-Person	No Frills - City	289.25	\$293,000	
Households	No Frills - Provincial	167.98	\$170,000	
	Choices - City	591.95	\$600,000	
	Choices - Provincial	679.29	\$688,000	
Two-Person	No Frills - City	192.72	\$195,000	
Households	No Frills - Provincial	74.59	\$75,000	
	Choices - City	798.04	\$809,000	
	Choices - Provincial	503.92	\$511,000	

Again, some of the figures here are fairly daunting. A single person living in the provinces needs to have saved close to \$700,000 in order to enjoy a comfortable retirement. These lump-sum figures are higher than in previous guidelines, presumably due to the lower returns available at present. As returns on bank deposits, bonds and shares reduce, a larger lump-sum is needed to generate the income required. Even though the figures may appear out of reach to some, it's better to know what's required than not.

Unfortunately there is no easy fix to generating the large sums required to meet our retirement goals. All solutions involve compromise of some description. If we have to, where do we begin to compromise? For most of us the problem is that we simply don't have the amount of capital to achieve the dream retirement lifestyle. The areas we can influence include:

- Retirement date – pushing it out allows more time to build capital, and leaves less time to use it
- Spending – it might not be palatable but we do have the ability to curb our spending
- Leaving a legacy for children – not necessary in my opinion – spend it yourself
- Risk – instead of investing in bank deposits, we have the ability to take on risky investments such as shares in an attempt to boost returns
- Consume capital – we have the ability to erode our capital over time
- Income – consider taking on part-time work to boost your income

Inflation

I think we can all agree that the cost of living has increased significantly in recent years. The Reserve Bank's latest Monetary Policy Review statement talks about near-term inflation of 5%. Rates of inflation at this level will have ongoing implications for investors. The Reserve Bank has limited tools in order to maintain inflation between 1% and 3%, as it is required to do by Government remit. As inflation increases, the Reserve Bank will increase interest rates in order to suppress economic activity. The opposite has happened over the last thirteen years, following the Global Financial Crisis in 2008, and continuing after the Covid19 outbreak in 2020. The Official Cash Rate (OCR) has dropped from 8.25% in 2008 to 0.25% in 2021. The October and November increases (to 0.75%) are the first since 2014.

The continual decline in interest rates between 2008 and 2021 fuelled the rise in asset prices (shares and property). Investors owning shares have enjoyed significant capital gains over that period. Will the opposite happen as we enter a period of increasing interest rates? We have seen the NZ50 Gross Index drop by 5.50% since early October on the back of the most recent OCR increases, and I would expect further declines if interest rates continue to rise. This makes investing in shares difficult, particularly for those new to the markets, with large sums available for investment. Do we sit on the side-lines, waiting until the sharemarket reaches the bottom? My issue with this strategy is that we move into the realm of trying to predict the future, which we have proven time and again we aren't particularly good at. For most investors we are also trying to generate income, so we need to allocate a portion to shares to achieve this. My advice remains the same:

- Understand the risks you take with investments, and stay within the risk you can tolerate
- Hold a wide variety of asset classes
- Buy good companies and hold them for long periods
- Hold overseas investments as insurance against a shock to the New Zealand economy
- Limit your exposure to individual companies
- Be aware that a market correction will occur at some point
- Don't attempt to time the market – invest in stages
- Don't be tempted to sell if the market does fall

Portfolio Administration

Are you having trouble with the share registries sending your financial information via email rather than post? Are you spending hours searching for financial information for your accountant at the end of each financial year? If so Bramwell Brown can help. We offer a portfolio administration service where we handle all the mail associated with your portfolio and liaise with your accountant at the end of each year. Call the office if you would like to discuss this service.

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