

BRAMWELL BROWN LTD

INVESTMENT ADVISERS – SHAREBROKERS

Director: Brett Dymond – BBS, GradDipBusStud (Personal Financial Planning)

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Interest Rates

Interest rates continue to have a considerable influence on the economy. The Reserve Bank again raised the Official Cash Rate at its last Monetary Policy Committee meeting. It is now at 5.50%, a level not seen since 2008. Here is a summary of their latest decision.

The Monetary Policy Committee today voted to raise the Official Cash Rate (OCR) from 5.25% to 5.50%. The Committee agreed the level of interest rates are constraining spending and inflation pressure. The OCR will need to remain at a restrictive level for the foreseeable future, to ensure that consumer price inflation returns to the 1% to 3% annual target range, while supporting maximum sustainable employment. Global economic growth remains weak and inflation pressures are easing. This follows a period of significant monetary policy tightening by central banks internationally. International supply chain constraints have also eased following a period of disruption, and shipping costs have declined. The weaker global growth has led to lower export prices for New Zealand's goods. In New Zealand, inflation is expected to continue to decline from its peak and with it measures of inflation expectations. However, core inflation pressures will remain until capacity constraints ease further. While employment is above its maximum sustainable level, there are now signs of labour shortages easing and vacancies declining. Consumer spending growth has eased and residential construction activity has declined, while house prices have returned to more sustainable levels. More generally, businesses are reporting slower demand for their goods and services, and weak investment intentions. Businesses report that a lack of demand, rather than labour shortages, is now the main constraint on activity. While immigration has assisted to ease labour shortages, its net impact on overall spending is uncertain. The recent recovery in tourism spending, to around three-quarters of its pre-COVID-19 trend level, is also supporting demand. The repair and rebuild facing significant regions of the North Island — due to the recent severe weather events — will support economic activity, in particular the horizontal construction sector. The timing of this predominantly government investment will be spread over several years. Broader government spending is anticipated to decline in inflation-adjusted terms and in proportion to GDP. The Committee is confident that with interest rates remaining at a restrictive level for some time, consumer price inflation will return to within its target range of 1% to 3% per annum, while supporting maximum sustainable employment.

Budget

The most recent budget was predictably underwhelming, given the state of our economy at present. Treasury estimates households and businesses will suffer losses from the North Island flooding of up to \$6.5 billion, with damage to infrastructure estimated at up to \$7.5 billion. Those sorts of numbers are eye-watering, and unfortunately restrict the Government's ability to channel funds to other areas. The increase in the trustee tax rate to 39% was a bit of a surprise, however I doubt it will have much of an impact. Most family trusts have the ability to allocate income to beneficiaries, who pay tax at their marginal tax rate. I think if the Government really wants to reduce the gap between rich and poor, the simplest way is to introduce the widely debated capital gains tax. It's a policy that has never gained traction (and doesn't win elections), yet many other developed countries have it. I'm not sure what all the fuss is about – as long as only realised gains are taxed, it seems fair to me. There needs to be certainty that the cost of introducing and collecting the tax does not outweigh the expected benefits, and that the rate of tax imposed does not unduly discourage hard work, saving, and risk-taking. Moving wealth from one sector of society to provide for others is always going to be contentious.

KiwiSaver

The KiwiSaver anniversary (July 1st) is not far away. Members eligible for the Government contribution who have been in the scheme for a year or more should ensure they have deposited at least \$1,043 with their provider before the end of June. This means you will receive the maximum Government matching payment of \$521.43. If you contribute less than \$1,043 from your wages you can make voluntary contributions that top it up to the desired amount. If you have been in KiwiSaver for less than a year you should ensure you have contributed the equivalent of \$20 a week from the date you joined.

Fixed Interest Offers

More fixed interest offers are now being made in accordance with the Financial Markets Conduct Act 2013, as an offer of securities of the same class as existing quoted securities. This means that if a company is issuing a bond with similar characteristics to a bond they already have listed, they can rely on their previous disclosure prospectus. In practice, it means new bond offers now have a shorter application time-frame than they have had previously. In some instances, we have less than a week to gauge interest from our clients before we must place a bid for an allocation of bonds. It is a far more efficient system, however it requires us to be able to communicate with a large number of clients quickly. Email is our preferred method of communication. If you are interested in receiving the latest fixed-interest offers, please supply your email address and we will add you to our list of recipients.