

20 January 2020

**A FEW INTERESTING THOUGHTS LOOKING FORWARD TO THE NEXT DECADE -
SOME WITH NO EFFECT PROBABLY ON NEW ZEALAND BUT OFTEN WITH
SOME INDIRECT EFFECT**

- (1) 78% of people in the USA live payday to payday - there are thousands of payday loan shops throughout the USA.
- (2) Close to 50% of Chinese men are smokers.
- (3) China is building a coal firepower station every two to three weeks - they are concerned about their energy requirements for the next decade.
- (4) Some developed countries have a population that is severely overweight - the figure in USA is around 40% - these countries are heading for major health issues regarding ankles, knees and hips - a single hip operation in NZ now is around \$17,000 - \$20,000 if done on a private basis.
- (5) The current population of USA is 328,234,523 - NZ's latest figure is 4,699,755 - the USA has a population 70 times NZ's population - the US gross economy (referred to as Gross Domestic Product - GDP) when you allow for the currency difference is around 92 times the size of the NZ economy.
- (6) The following countries have sheep numbers as follows:

China	170 million sheep
Australia	68 million sheep
India	53 million sheep
Sudan	50 million sheep
Iran	50 million sheep
Mongolia	30 million sheep
NZ	27 million sheep

The USA only has 5 million sheep.

- (7) The following countries have dairy cow numbers as follows:

India	58 million cows
EU	23 million cows
Brazil	16 million cows
USA	9 million cows
China	7 million cows
Russia	7 million cows
Mexico	6 million cows
NZ	5 million cows

(8) The following countries have beef cattle numbers as follows:

Brazil	212 million beef animals
India	190 million beef animals
China	114 million beef animals
USA	90 million beef animals
Ethiopia	54 million beef animals
Argentina	51 million beef animals
Sudan	42 million beef animals
Pakistan	38 million beef animals
Mexico	32 million beef animals
Australia	29 million beef animals

(9) In NZ sometimes you hear someone say that they lose as an individual 30% of their gross income in Income Tax - this statement is possible but to lose 30% of their taxable income would need to be \$303,000 - this is how this figure is arrived at:

(a)	Income Tax on the first	\$14,000 of income	\$1,470
(b)	Income Tax on the next	\$34,000 of income	\$5,950
(c)	Income Tax on the next	\$22,000 of income	\$6,600
(d)	Income Tax on the last	\$233,000 of income	\$76,890
		<u>\$303,000</u>	<u>\$90,910</u>
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$\$90,910 \div \$303,000 = 30.00\%$

(10) With lower interest rates, investing ones surplus cash is getting more critical - have a look at this framework:

- You and your spouse have saved \$100,000 - you are both 50.
- You won't need it until you retire in 15 years' time.
- You feel the return of the capital will be more important than the return on the capital so you invest it in a balanced fund in KiwiSaver, say, at hopefully an average 6% return over the 15 years.
- You also contribute a further \$500 per month into the fund.
- You allow for the income being reinvested in KiwiSaver to be taxed at 17.5% in the dollar.
- What do you have when you retire in, say, 15 years' time?

Starting balance	\$100,000
Plus reinvested (monthly) (\$6,000 x 15)	\$90,000
Plus dividends and interest	\$175,136
	<u>\$365,136</u>
Less Income Tax	\$30,649
End balance	<u>\$334,487</u>
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- (11) Let us say that you also decide to contribute a further \$1,000 per month as well as reinvesting the earlier \$500 per month - what does the end result look like?

Starting balance	\$100,000
Plus reinvested (monthly) (\$6,000 x 15)	\$90,000
Plus further contributions (\$12,000 x 15)	\$180,000
Plus dividends and interest	\$276,087
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Less Income Tax	\$646,087
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End balance	\$48,315
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	\$597,772
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The original \$100,000 may well be used to reduce the mortgage which would save perhaps \$4,000 per year in interest each year which would amount to \$60,000 over the 15 year term - outside of this point, though, this saving and reinvesting plus a monthly contribution can amount to something very worthwhile leading into your retirement.

- (12) In the 2019 year, the USA let in 595,348 immigrants - less than 50% of the figure of several years ago. The NZ 2019 year figure is around 55,600 - the USA figure is only around 11 times the NZ figure. Mr Trump has approximately halved the USA immigrant intake.

- (13) Presently the biggest economy in the world - the USA - is strong on:

- Economy is running well.
- Low unemployment (around 4.4%).
- USA dollars is strong.
- Central Bank is independent of Trump.
- Trade war with China may be on the turn.
- Innovation is strong.
- Fresh water.
- People work quite hard – on average only a fortnight holiday a year.
- Banking industry is strong.
- Agriculture is quite strong.
- Military is strong.
- No noticeable major housing problems.
- Infrastructure mainly sound.
- Roading sound.
- Best building in every small town are banks, churches and fire brigade.
- Cemeteries all have artificial flowers and very often on a slope for view.
- Strong on religion - very patriotic.
- Sound control of energy requirements.
- Approximately 100% self-sufficient regarding coal, gas and oil.

- (14) The USA is weak on:

- 50/50 regarding Trump - colossal time wasting.
- Inequality of income - trouble.
- Inequality of wealth - trouble.
- 78% live and work from payday to payday.
- Quite a few big companies are struggling with paying their pension payments to ex-employees.
- Loss of respect from many countries.
- Major health plan issues.
- Student loan debt at 1.6 trillion (USD).
- Major political arguments.
- Impeachment - newspapers full of it.
- Election costs are in the billions.
- Immigration reduced but far from solved.

- Policeman for the world - can't seem to retreat.
 - California struggling.
 - More and more three hour daily commutes in bigger cities - housing so far out.
 - Many working beyond 65 years of age.
 - Big tech having big influence.
 - Struggling to lose with dignity on most things.
 - A complicated country in many ways.
 - People don't travel overseas nearly as much as NZers.
 - Internet has a very big effect in many areas.
 - Truth seems to be a movable feast.
- (15) The average NZ household debt to gross income ratio is currently around 164% - this figure was 56.2% in 1991. The NZ household average gross annual income is currently of \$98,621 - this would suggest that the average NZ household family debt is around \$162,000. This figure is hard to calculate for farming because of the different industry and scale but in principle many dairy operators would have a ratio of 300% and many sheep and cattle operators would have a ratio of 200% - this is all part of the reason our banking system (Australia – which owns 85% of NZ banking) is tightening up their lending to agriculture – they want to see this percentage lower.
- (16) The NZ Student Loan debt is currently around \$1,600,000,000 (\$1.6 billion) - it involves some 720,000 NZ student borrowers with a present average debt of around \$22,240 each. In the 2019 year, the NZ Inland Revenue wrote off the student debt of 827 NZ students who had gone into bankruptcy to avoid their Student Loan debt. Concerning a few points and suggestions here:
- (a) Providing a student does not leave NZ for more than 183 days, the loan is interest free.
 - (b) The whole point here is about education, skills, perseverance and discipline and, in the main, needs to be encouraged.
 - (c) This bankruptcy option is unsound and in many cases will backfire in later years.
 - (d) Within reason, the Inland Revenue will accept all sorts of repayment arrangements.
 - (e) Once the earners are above \$19,760, Inland Revenue will take 12% of future earnings above that point as loan repayment.
 - (f) The government charges no interest on these loans with the cost to government in the 2019 year of this policy being \$594 million.
 - (g) The loans in arrears are substantial at close to \$1.2 billion - many are in Australia - being interest free, this is perhaps not surprising.
 - (h) There has been talk in the USA and in NZ in writing these loans completely off - this, though, would be very unfair on students and parents and grandparents who have paid off loans or part of them or who may have contributed such that no Student Loan was taken out in the first place.
 - (i) We feel that parents and/or grandparents could consider paying off, say, 50% of the Student Loan once the education is satisfactorily completed with the student covering the other 50% over time.
- (17) The family health insurance policy cost cover required in the USA is unbelievable - the average family with two children are paying around \$1,000 per month - \$1,200 per month - that is around \$12,000 - \$14,400 per year. Presently, the political plans to cope with this are really struggling because to provide all USA residents with a reasonable health cover involves a cost in the trillions of dollars.

(18) A few thoughts that are still working:

- (a) Farming doesn't have compound interest as such, but land value inflation increased from around 1973 at around 7-8% compounding, which is much the same thing.
- (b) If over that close to 50 year period you took away, inflation gains from farming only the top 15% of farmers would have actually added to their net assets from surplus income after all expenses - how do we justify this - from Practice financial records over a long period of time, the percentage of monies drawn off from gross income of a typical NZ sheep, cattle, cropping and dairy farm is along the following lines:

Farm working expenses	63%	} Each as a percentage of the gross farm income
Interest and rent	18%	
Plant replacement	3%	
Farm development	1%	
Income Tax	5%	
Personal drawings and allowances	8%	
	<u>98%</u> (1)	
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(1) Leaving, say, 2% that perhaps may be capitalised into the net assets long term.

- (c) Pita can remember many years ago a top 10% farmer telling him that he looked down for many years before looking up and looking out.
- (d) Compounding wisdom is something the top operators do in every business.
- (e) Liquidity provisions - every farmer from Christchurch to Picton needs \$100,000 in the Farm Income Equalisation Scheme:
- (i) Partly for better sleep.
 - (ii) Partly for droughts.
 - (iii) Partly to cope with banks tightening up.

[Change (ii) to wet and this comment would apply to the West Coast also.]

- (f) If a man is no good with sheep at 25 years of age, he will be no good at 50 years of age.
- (g) Never forget your Balance Sheet - your bank won't.
- (h) Follow the money, not the crowd.
- (i) Dreams and profits are sometimes a long way apart.
- (j) Diversifying your assets is standard procedure but don't diversify yourself too wide - narrow, deep and focus is the key.
- (k) Technology won't save you, but it will be a major plus - tools cannot replace wisdom - simple human habits of high performance will carry the day.
- (l) Identify your skills - just three key ones will do - if this takes time, it is not a good sign.
- (m) Opportunities often hide in problems - dig them out.
- (n) Fail well - that is, learn from your failures.
- (o) None of us is as smart as all of us.
- (p) Sometimes, trust beats truth.

- (q) Absolutely understanding something is more important than absolute accuracy.
 - (r) Place a value on the intangibles - family, time, goodwill, leadership, climate, communication, culture and feelings.
 - (s) As soon as possible, live a life true to yourself, not a life others expect of you.
 - (t) Limit your options - too many options lead to indecision.
 - (u) 'Hack' your nature - that is, cut out your bad habits.
 - (v) Everyone thinks of changing the world, but no one thinks of changing themselves.
 - (w) Your actions and decisions inside the farm gate determines production but outside the farm gate tends to determine profitability.
- (19) The banks now require around 1.5 - 2.5% a year of their advances back - we are back to the old rural bank days. These loan principal repayments are not Income Tax deductible so an annual repayment of, say, \$100,000 (represents 2.5% of a \$4,000,000 loan) is absorbing somewhere between \$128,000 - \$133,000 of that year's taxable income - the moment any particular expense/payment is not Income Tax deductible in business terms, its real cost is higher.
- (20) One would have to think that the China - USA - Iran - Iraqi - Middle East - Brexit situation might sooner or later have some detrimental effect upon our NZ trade situation - the best way for NZ agriculture to cope with this is to build up their financial reserves - say, always having 10% of your gross income in reserves - our banks have tightened up noticeably in the last six months - if you get into a tight spot, this recent tightening up may simply look like an entrée.



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