Issue Three: Twenty Twenty Three

OPPORTUNITIES | PATIENCE | GROUNDWORK

Covisory Connect

MAGAZINE

About us

[but really all about how we can assist you with your issues and concerns]

Are you looking to understand what is important to you from your perspective?

We partner with you to help you understand what is truly important to you. We help individuals, families, and their businesses to exceed their expectations for what matters most to them.

Have a problem?

We work with you to transform how you conduct your businesses and trusts. We help you to build enduring, resilient frameworks and capabilities across all that you do.

Our team defines us

Covisory is a team that are united by a strong set of values, with a deep commitment to making a positive impact through our work and how we connect with you, our client.

With an expert team with significant technical and commercial experience based New Zealand and Internationally, we combine local insight and global expertise and contacts to help you turn your goals into reality.

Our consultants include accountants, lawyers, designers, business managers, entrepreneurs, strategists, researchers, and writers. We can provide you with the right team, with the right expertise and experience when you need it.

All our people have been drawn to Covisory for the opportunity to apply their expertise to important complex challenges that you face.

Our reputation is defined by our interactions with our clients

- We help clients build strong systems to achieve better performance through data.
- We work with you to build positive outcomes for your future, and for future succession.
- We create solutions that are always in partnership with you, that uniquely combine our expertise and the particular resources of your business and family circumstances. We deliver innovative solutions that create immediate results and a strong framework to sustain your progress into the future.

OUR PURPOSE

To be innovative customer centric advisers exceeding your expectations for your business, trust, wealth & tax needs

Covisory Website

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Interactive - Click to Navigate

INTRODUCTION:

NIGEL SMITH
Founder -
Covisory Group

So what does it all mean?

Welcome to the latest Covisory Connect edition. We delayed publishing this until after the election night results were known, although the final form of our government may not be known for up to another month by the looks of it, again not unexpectedly.

Economies go in cycles, and at present, we are in the down or bad part of the cycle. We don't think that the election will see any instant change to public sentiment, spending, or economic conditions. It may however give some optimism and hope.

The new Government will have a major job trying to turn around the economy, reign in inflation and the spiralling cost of living, and get our economy back on track. One of the key issues facing us is that we ultimately need to make New Zealand a better place to live, and in doing so that will require us to lift our productivity as an economy, not just in total but on a per-head basis. New Zealand has been going backwards for a long time, masked by the fact that our economy has grown through immigration.

The rhetoric around wealth tax however may not have won this time, but it won't have gone away. I am sure that we will see in future elections the Greens and the Maori's both seeking to bring in wealth tax as a means to redistribute wealth. The concern here however is not so much the redistribution of wealth to those that need it, but to those that choose not to work or to participate in the economy productively.

In this issue I have written an open letter to the new Government, setting out not only my views as such but many of the views that you have shared with me over the last few months while we have talked about our collective concerns about New Zealand as a place to live and more importantly a place for our children to live in the future as well. We all truly do aspire for New Zealand to be a better place for all New Zealanders.

The economy will likely remain flat until the middle of next year before the first spring buds of growth will see us coming out of recession. The outlook for interest rates remains high for the next two to three years, until at least the inflationary effects are brought under control. That will see a muted and slow climb back for the property market, ultimately controlled by whether banks are prepared to lend money to people who want to buy properties or not. Changing the settings for residential investment properties will help, but ultimately, the finances around buying residential and investment properties simply don't work where the interest rate settings are presently.

We foresee a quiet run into Christmas, hopefully, some great weather over the Christmas period to make up for the rubbish that we have had over the last year, everyone coming back reinvigorated and looking for a better 2024, with a slow pick up from around Waitangi weekend on. We know it has been a difficult year for many of you, but we still believe that tomorrow should be a better day than today.

Nigel

Covisory Deskside Chats

Recently produced video blogs.

1: Trends in Aucklands Chartered Accounting Market
2: Three notable trends in NZ Domestic Trusts
3: The demise of the wealth tax (or is it?)
4: Tax residency for individuals
5: The 39% tax rate

See Video's & Publications

Scroll to the bottom for Deskside Chat section

The market is the market

Where to for valuation multiples?

In writing this article I had reason to look back some 40 years to when I was learning my trade as a Business Valuer under John C. Hagen.

Hagen (1990) comments:
"I have for some time advocated that there exists two markets:

One which is advised by professional people and which is driven by rational arguments.

The other which is not receptive to professional advice but works on the basis of formulae and accepted (and often irrational) folklore.

When one finds oneself operating by chance in the latter, it is foolhardy indeed to ignore reality no matter how unjustifiable and mystical it might appear. The market is the market. So while all the theory is invaluable to understanding how the market should react it is essential to take note of past actual transactions which provide irrefutable evidence as to how the market does act."

The 'market approach' John Hagen makes reference to is the Direct Market Data Method –a method of valuing businesses that uses data on actual sales of other similar or comparable businesses to assess the value of the business.

It has become widely recognized that for small and mid-sized businesses – that's 98% of New Zealand businesses–that this method provides the best indicator of value.

BIZSTATS provide market comparable transaction data for small and mid-sized NZ businesses – comprising data on some 11,000 sale and purchase transactions over the past some 20 years.

Further analysis of BIZSTATS data reveals a particularly interesting factor:

'over the period from 2010 through to 2022, there has been very little variation in multiples - in fact average multiples over this period have remained in the very tight band of 2.5 to 2.6 times Sellers Discretionary Cash ("SDC")/Earnings before Proprietor, Interest, Tax and Depreciation (EBPITD)'.

What does this tell us about multiples for SME's!

First, and foremost, that multiples for SME's have remained particularly flat over a relatively long period of time. In my view, this has important implications for the future – that is, that assuming there is no fundamental changes to the 'risk environment' that SME businesses operate in, then multiple should remain steady going-forward.

It also means that despite significant increases in P/E ratios of publiclytraded companies over the years, there has been virtually no tendency for the P/E ratios or multiples of small businesses to follow the same track.

The only factor that has affected, and we must assume will continue to affect, the value of small businesses will be their level of earnings.

Accordingly, the business valuer will require to focus more on the other side of the valuation equation – that is, assessing future maintainable earnings ("FME").

Now whilst, as outlined above, we have experienced flat multiples over the years, the same cannot be said of earnings levels. In fact, average SDC/ EBPITD between 2010 and 2022 has approximately doubled – some $350k to some $700k. Furthermore, significant variations in earnings levels have been experienced over this period, and there is the expectation that the frequency of such variations is only going to increase going forward. This latter factor is a function of the uncertain business environment we are facing.

What this all means to the business valuer is that recent past years or periods of earnings are not necessarily a good indicator of future earnings. Increasingly, factors that could impact on earnings going forward will need to be analysed and considered–what if there is another pandemic – how will climate change impact the business – what about the impact of ESG on the business – what about the potential for technology changes and structural market changes on the business and the business environment.

In summary, whilst the historic trend of particularly steady multiples will make the business valuer's task of assessing multiples easier going-forward, the greater uncertainty and changing business environment going-forward will make the task of assessing FME's much more difficult.

BUSINESS:

APPENDIX 1 –
Qualifications and Experience

Mike has a background in corporate advisory, having worked for Deloitte in New Zealand and the United Kingdom in its Corporate Finance area; where he specialized in the valuation of privately owned businesses. Mike qualified as an ACA in 1985 whilst at Deloitte.

More recently, Mike was a founder member of ANZ's private equity business; going on to establish and head up its sister Development Capital business for Australia and New Zealand; and then to head ANZ's private equity business in New Zealand. A key function of his private equity investing involved the valuation of privately held businesses.

Presently, Mike is Managing Partner of the New Zealand practice of The MBO Group. This Group, which also operates in Canada and Australia, is a boutique advisory firm focusing on management buy-outs and acquisitions. This advisory work invariably involves valuations of target businesses.

Further, Mike is a consultant with Covisory Partners, where he specializes in business valuations and business sales.

Mike has been accredited by CA ANZ as a Business Valuation Specialist (a designation held by select chartered accountants with proven expertise in the valuation of businesses, shares and other assets).

Mike has extensive experience in the valuation of closely controlled companies for shareholder disputes and relationship property matters.

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Tax in Brief

GST Fraud via TikTok

The Australian Tax Office has been the subject of a massive GST fraud scheme which has netted over $1.2 billion in refunds via fake GST claims.

The scheme involved registering a fictious business, obtaining an Australian Business number and claiming 10% GST refund on expenditure not incurred. It went viral over Tiktok in late 2020 and 2021.

The Australian Tax Office has reported that they have taken action against over 56,000 people and stopped a further $2.2 billion GST refunds.

The scheme does not appear to have found its way to NZ. The NZ Revenue's system with GST returns and refunds automatically flags new businesses that seek GST refunds. It also allows the Inland Revenue further time to review refunds if they consider it necessary.

ACC Quick Update

Are you aware from the 2022/23 tax year that you are now being invoiced for ACC levies on overseas employment income?

Starting from the 2022/2023 tax year, ACC is levying Aotearoa New Zealand tax residents for income earned from overseas employment and services.

ACC has a legislative obligation to levy overseas earnings under the Accident Compensation Act 2001 but has not been charging these levies routinely because of the way IR previously collected information about overseas earnings. An unrelated change to the Inland Revenue's IR3 Individual tax return has made this information available.

Throughout this time, ACC cover for accidents and related entitlements has remained available. If you were injured overseas while working, then the cost of medical treatment in NZ is potentially covered by ACC. Hence the levy.

If you receive an ACC levy invoice, it's because your IR3 showed you had liable earnings from overseas employment or services.

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GENERAL INTEREST:

Dear New Government

I am writing to you as a New Zealander to set out my hopes and aspirations for the incoming Government, regardless of who it is.

I am a New Zealander, I am not a Maori, not a Pakeha, not European, and it doesn't matter whether I have been here for 5 minutes or 5 generations. I am a New Zealander and I consider that we are all the same.

I seek a better New Zealand not just for me, but for my children and grandchildren, and for any others that come to call New Zealand their home in the future. I think we all aspire for New Zealand to be a better place.

While we have just had an election, and have been relentlessly subjected to different parties' policies, I don't think political parties disagree with the sentiment that we all want a better New Zealand. It is simply the emphasis that we place on particular areas that differ between the parties. Probably 90% of what the Government spends would be the same under any political party, so what we are talking about is trying to get some more common agreement between the different parties, particularly around long-term goals and aspirations.

So here is a wish list for you my new Government about things that I would like to see for New Zealand going forward:

1 We need to make New Zealand a place that people aspire to live in and that is world-leading. For too long we have been sliding down the rankings of economic output, health, education, and any number of other international measures that we are marked against. We can look at other countries like Ireland and see that what were once basket case economies, are now world leaders, why can't we do the same? What cross-party buy-in and agreed vision do we need to have so that we can all row the boat in the same direction?

2 We need to improve our productivity per person. While the economy has been growing, we each produce less each year. How can we do this and how can we invest in innovation, technology, and people to make this happen?

3 We are all New Zealanders, and as Shane Jones says let's put the "K" back in the Kiwi. Whether we have been here for 5 minutes or 5 generations, we are all people and we are all equal. We do need to stop race-based pathways and simply look after those in need according to their need, not their race or ethnicity. People with needs should have those needs addressed.

4 However, I am also the first to acknowledge that Maori and Pacific Island peoples in general have been under-achieving and under provided for in New Zealand historically. But rather than putting an ambulance at the bottom of the cliff, let's look at how we can make better pathways and opportunities for these people. Part of this is about providing better education, and part of it is to provide better regional growth opportunities so that if you are in Northland or the East Cape, there are good jobs that pay well and inspire young people to want to work harder to make a better life for themselves. There have been some fantastic recent innovations in both those areas as examples, that we need to look at, learn from, and create aspirations for regional New Zealand to provide a better lifestyle. Let's stop the urban drift, and start building better opportunities for all New Zealanders, wherever they are.

5 We need a health system that looks after people. Sadly, like many of you, I have had to deal with the public health system with ageing parents. It is slow, cumbersome and ridiculously inefficient. It took me 5 hours one day to get my father discharged from the hospital and that is from when they said he was able to go. There is too much paper and bureaucracy, not just in the health system, so we need to work out how to make things work better. Let's put money into front-line services not back-room administration and build systems that are truly world-leading and efficient.

6 Finally, personal security and safety. We all deserve to live in a safe and caring environment. While I appreciate that many out there are suffering, and finding it hard to make ends meet, that doesn't give you the right to go and steal or ram raid just because you cannot afford otherwise. Our social services should provide a backstop in these situations. There are many countries in the world, particularly Middle Eastern countries, where you simply would never think of stealing, attacking another person, or breaking the law because the consequences are just too severe. Perhaps in New Zealand, it is the lack of consequences that have caused the decline in our personal feelings of safety as we go about our day-to-day lives. We have all either witnessed, or known someone who has been subject to or read about events that leave us feeling uncomfortable in our own country. This must end.

So dear New Government, can you please work with your fellow political parties on both sides of the political divide to agree on some long-term aspirations for New Zealand to make it a better place for not just me, but my children and grandchildren and for any others that choose to make New Zealand their home in the future. New Zealand is a beautiful country and a great place to live, we just need to make it one of the best places in the world, and none of us should accept this ongoing gradual decline into third-world mediocrity and failure that is the path we are currently heading down.

Here's hoping for a better tomorrow for all of us.

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Productivity NZ

Key Takeaways

- Productivity and Well-being: A productive New Zealand is essential for improving the material living standards and well-being of its people. It allows for investment in education, health, institutions, and infrastructure, which, in turn, contributes to a productive economy.
- Resource Stewardship: New Zealand is blessed with abundant natural and social capital. However, historical approaches to resource use and protection raise concerns about sustainability and the legacy left for future generations. Preserving and restoring these resources is our collective responsibility to ensure the well-being of future generations.
- Work Ethic vs. Productivity: New Zealanders are known for their strong work ethic, as evident from high employment rates and long working hours. However, simply working harder is not enough to improve productivity. To address the productivity challenge, it is crucial to focus on the inputs or resources used in production and commit to long-term investments.

New Zealand's Path to Productivity

A productive nation is not just a goal in itself; it is a means to enhance the living standards and overall well-being of its people. It enables the government to invest in critical areas like education, healthcare, infrastructure, and institutions. In return, a well-educated, healthy population, coupled with knowledge and capital, is fundamental for driving a productive economy.

GENERAL INTEREST:

The Wealth of New Zealand

New Zealand, is fortunate to possess an abundance of resources, including land, water, vibrant communities, and skilled individuals. However, the historical approach to managing and safeguarding these resources raises concerns about their long-term sustainability and the legacy we leave for future generations. As stewards of these resources, we bear a collective responsibility to preserve, protect, and, when necessary, restore the natural and social capital that underpins our overall health, physical wellness, and spiritual well-being.

The Power of Productivity for a Sustainable Future

Productivity offers a unique opportunity to secure a better future while minimizing the costs to our present resources and people. Recent decades have demonstrated that New Zealanders are willing to work hard, evident from high employment rates and extended working hours. However, while we put in the effort, other countries have been reaping the benefits of higher productivity. They not only maintain and improve living standards but also enjoy more leisure time.

Beyond Output Growth: The Role of Productivity

It's essential to distinguish between growth in output production and improvements in productivity. To address the productivity challenge effectively, we must focus on how we grow output production, which essentially involves the inputs or resources we utilize in the process. In essence, our understanding and insights indicate that the spotlight should be on the input side of the productivity equation.

Long-Term Investments for Sustainable Prosperity

To meet the productivity challenge, we need a commitment to sustained investments over the long term in the various inputs or resources currently under our guardianship. These resources constitute our endowments, and it's imperative to ensure that they are not only better maintained but are also adapted to meet the needs of 21st-century New Zealand.

Investment: The Key to Prosperity

Investment serves as the linchpin for unlocking New Zealand's productivity potential. It encompasses a comprehensive range of capital, including physical, intellectual, human, social, cultural, and environmental. By making strategic investments across these dimensions, New Zealand can pave the way for a more productive and prosperous future.

Innovation: The Engine of Growth

Innovation plays a pivotal role in driving productivity and, consequently, economic growth. Innovative products, services, and production methods not only fulfil unmet needs but also contribute to long-term improvements in prosperity and well-being. To date, New Zealand's investment in research and development (R&D) has lagged behind other nations. However, policies like the Research and Development Tax Incentive (RDTI) are steps in the right direction.

Focused Innovation Policy

While broad-based approaches like the RDTI are essential, a focused innovation policy is equally critical. Successful small, advanced economies like the Netherlands, Denmark, Finland, Sweden, and Singapore offer valuable lessons that can be adapted to New Zealand's unique context. Key recommendations for enhancing innovation policy include:

1. Utilizing existing initiatives and collaborating with industry, researchers, iwi/Māori, and educators to prioritize focus areas.
2. Concentrating resources to enable substantial, long-term funding for focus areas, with industry contributions.
3. Aligning government efforts across various domains, from exporting to education, to support world-class innovation ecosystems.
4. Incorporating iwi and Māori voices in decision-making to promote flourishing innovation ecosystems.
5. Embedding evaluation practices for transparency, visibility, and learning.

Supporting Workers in Transition

Worker mobility and a dynamic labour market are pivotal for productivity. The ability to transition between jobs facilitates resource reallocation, benefiting more productive firms. However, the closure of low-productivity firms can negatively impact workers. Policies ensuring income security, access to training, and career progression are essential for worker resilience and opportunity.

Improving Government Policy Foundations

Strong policy foundations are critical for boosting productivity. The government's performance in New Zealand significantly influences overall economic efficiency and equity. Evaluating the efficiency and effectiveness of specific policies, focusing on outcomes, and considering selection effects are paramount. Robust data and information are indispensable for creating a government learning system that supports people in improving their well-being.

To conclude, raising productivity levels in New Zealand is a multifaceted endeavour that requires strategic investments, a focused innovation policy, support for transitioning workers, and improved government policy foundations. By embracing these key takeaways, New Zealand can pave the way for a more productive and prosperous future for all its citizens and generations to come.

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TRUSTS:

Three Trends in New Zealand Domestic Trusts

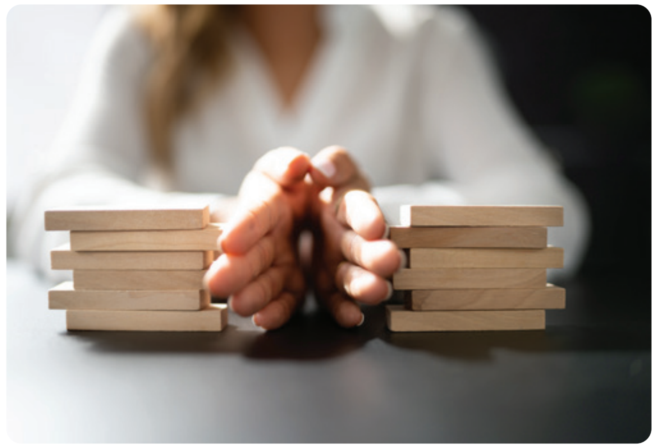
Nigel Smith, tax advisor to many high net worth individuals warns of some global trends in the trust landscape which if you have kids overseas you might want to better understand.

#1 Global Beneficiaries and Tax Implications

A significant trend that has emerged in the world of domestic trusts relates to beneficiaries who live and work in foreign countries. Whether it's Australia, USA, England, to destinations like Spain, Italy, France, and Greece, if your children live and work away from New Zealand, they may be impacted by home-country taxation issues for beneficiaries who live overseas.

From a New Zealand perspective, there are no tax implications when making capital distributions to foreign beneficiaries. However, this could pose potential tax challenges in the beneficiary's 'new' home country. For example – Your daughter may live and work in the UK as a resident non-domiciled individual. Any income distributed to her is not taxable unless she brings it into the UK. This becomes particularly relevant if a trust distribution helps finance a property acquisition in the UK – like your daughter's first home.

To navigate this complex landscape, it is wise for trusts to proactively consider the residency of their beneficiaries during annual trust reviews or when preparing financial statements and tax returns. In some cases, it may be more beneficial to dissolve the trust and transfer the assets back to the settlors/beneficiaries (typically parents) who are not eligible for rest-home subsidies. Thinking ahead is essential, because untangling assets post the demise of the settlors can prove challenging, depending on the countries involved.



#2 Rising Incidence of Disputed Trusts and Estates

Another noticeable trend is the escalating number of disputes involving trusts and estates, often necessitating the involvement of independent expert trustees and executors. Whether disputes are undergoing resolution processes, such as mediation or court proceedings, or involve executing wills due to deadlocks, they all have recurring themes and concerns.

What can you do when one beneficiary resides in a property, 'the estate's asset' yet it was meant to be sold to benefit all beneficiaries? Stakeholders often overlook the practical matters of questions about rent payments, adjustments, and allocation of costs for insurance, rates, and repairs.

#3 Disclosure of Information to Beneficiaries

The final trend relates to the disclosure of information to beneficiaries, an area that has gained prominence with the Trusts Act of 2019. The legislation wanted to make previously considered best practices, standard for all future trusts. Central to this trend is the need for beneficiaries to know and understand their status as beneficiaries, enabling them to hold trustees accountable for their actions.

The Trusts Act 2019 outlines exceptions for disclosure, but they are relatively limited. In cases of uncertainty, it is expected that courts will demand trustees to disclose beneficiaries' status, provide a copy of the trust deed, and share information about the current trustees and their contact details. The extent of annual disclosures, such as trust financial statements, remains a subject for individual consideration. In our opinion, best practice remains for trustees to be fully engaged with beneficiaries including sharing annual financial statements with them and meeting with them annually to understand their needs and position.

While tax considerations for global beneficiaries, the proliferation of disputes, and the need for greater disclosure have come to the forefront, addressing these trends proactively and judiciously will ensure the continued efficacy and relevance of domestic trusts for small to medium business owners.

Trusts must evolve with the changing times, ensuring they serve their intended purposes while remaining compliant with the evolving legal and tax landscape.

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BUSINESS:

Unlocking the Power of Face-to-Face Connections:

Why meeting in person matters

In today's fast-paced digital age, where virtual meetings have become the norm, it's crucial to remember the profound value of in-person connections. Beyond the convenience of quick exchanges, a world of richness in face-to-face interactions exists. These moments offer more than just information; they allow us to know one another truly.

As humans, we are inherently wired for connection. It's not about reducing conversations to mere 20-minute exchanges, but about embracing the opportunity to understand and trust one another deeply. Listening, often underestimated, is the key to uncovering unspoken thoughts and building lasting relationships.

So, here's our challenge to you: whenever possible, transform your online meetings into in-person gatherings. Dive beyond the digital surface and explore the stories and aspirations of the individuals you meet. Cultivate trust and active listening in your interactions.

Let's break down those digital barriers and seize the opportunity for face-to-face meetings whenever we can. These connections are more than just business transactions; they add colour and meaning to both our business and personal lives.

So, go ahead, make the choice for real connections - your future self will be all the better for it!

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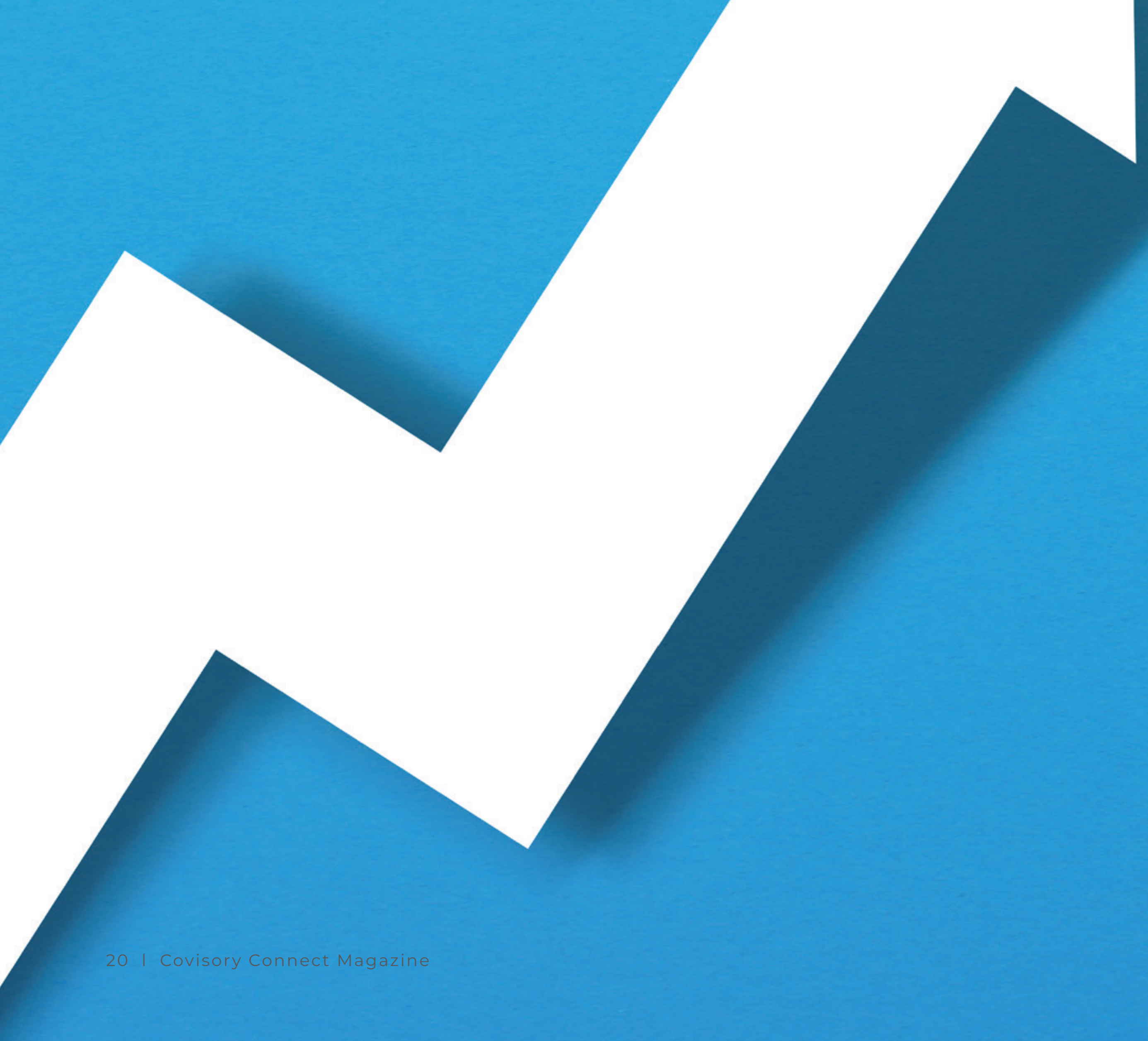
Inflation remains a hot topic

Europe, North America and homegrown perspectives on the economy.



Europe's carrying a growing responsibility: The problems with inflation are now much greater than in the USA. The inflation problem began in the US in 2021, but is now far worse in Europe, the latest figures show.

Inflation in the US has been falling in recent months

While inflation is coming to an end in the US, according to economists it is still a major problem in Europe.

It points either to high interest rates for European homeowners well into next year or an economic downturn, experts estimate.

Figures out of the US for the month of July

The main figure rose slightly to 3.2% in June. The more buoyant core inflation, which is found by subtracting energy and unprocessed food, fell to 4.7% from 4.8% in June.

The July figures from the Eurozone, on the other hand, pointed to inflation and a comparable core inflation of respectively 5.3% and 6.6%.

Comparably, here at home in New Zealand, the annual inflation rate slowed to 6% in the second quarter of 2023, the lowest since the fourth quarter of 2021 and compared to 6.7% in the previous period. Still, the prices remained at the levels not seen since the 1990s!

It's necessary to get inflation within the target range and to anchor inflation expectations. The interest rate increases, together with the re-introduction of macro-regulation such as a cap on the ratio between loans and housing value and proposals for the introduction of restrictions on the ratio between loans and income, as well as lower immigration and tax increases on investments in rental housing, have also reduced the demand for housing. With an increased supply of housing, this will make it possible for more people to enter the housing market.

European economists were particularly concerned about a rise in inflation on services in Europe, which they believe will be difficult to put a lid on again.

Figures may even underestimate inflation in the Eurozone and overestimate it in the US.

INTERNATIONAL BUSINESS:

Eurostat does not include the development in the costs of owning a home, just as you for example see in the USA and select Scandinavian countries.

If you put them on top of the figures from the Eurozone, according to calculations by the European Central Bank (ECB), it has historically added approximately 0.2 percentage points to core inflation.

If, on the other hand, you remove them from the North American figures, you end up with a core inflation of only 2%. And that's the US Federal Reserve's – Fed's inflation target.

Growing concerns

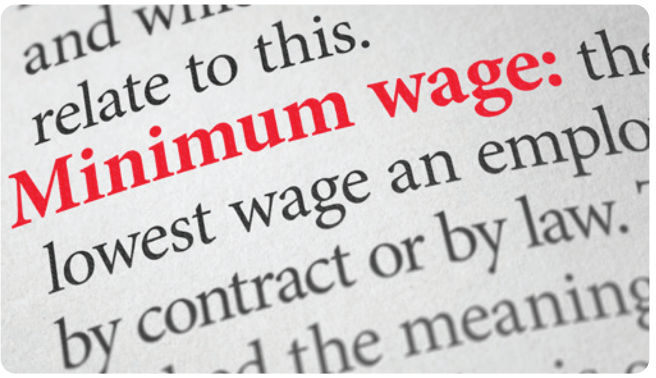
The inflation problem, which started in the USA in 2021 – amongst others, due to the country's enormous aid packages during the pandemic, has now become mainly a European problem.

This development will force the ECB to raise interest rates again during the autumn to approximately 4%, while the Fed with an interest rate of between 5.25% and 5.5% is finished.

The ECB has also finished raising its interest rates, but this is only because the bank expects a downturn in the European economy. During the Northern Hemisphere autumn and winter, it will force inflation down towards the ECB's target of 2%, it is estimated.

Even in that scenario, however, economists do not see interest rate cuts from the ECB until more than halfway into 2024. With the key figures you see in Europe today, under normal circumstances the ECB would clearly lower interest rates. But you can't do that because core inflation is so high. It is actually worrying that it does not fall more than it does in Europe.

Inflation shot up quickly in the US during 2021 and peaked in the summer of 2022. Since then, it has fallen almost as fast again, especially if you calculate it as in the Eurozone. In the Eurozone, core inflation rose more slowly and also appears to be falling more slowly again, although the European economy has been hit harder. Analysts say that this is due, among other things, to the fact that the European economy is less flexible than the North American one, and that the ECB started its interest rate increases much later. The labor market is also tighter in Europe, and you now see, for example, rise to wage increases in many countries, which may prolong the inflation problem.



Wages are on the increase

Finally, according to the ECB, there are signs that many European companies have been eager to use the inflation narrative to raise their prices to boost their margins.

All these things can be seen unfolding in Germany.

The country's economy is among the most weakened by the fall in real wages, the sharp increases in energy prices last year and a weak development in the Chinese economy.

Even so, core inflation is still at 5.5% in July, fresh figures from the German statistics office showed.

This shows that the underlying price pressure is significantly higher in Germany and thus not only driven by temporary price increases for energy and food.

A struggling economy

The NZ economy continues to struggle. Tax take is down. Operating deficits are real, as we work our way towards surpluses and a more positive outlook to come leading into 2027 in turning around the current account deficit.

Demand is outstripping supply creating inflationary pressures here at home and negatively bringing the economy to its knees.

So where is the growth going to come from?

Well, election times have historically always created a sense of instability and uncertainty in the economy, so we'll simply have to await the outcomes from our General Election post 14 October 2023!

The cost-of-living crisis is affecting many NZ'ers

Disclaimer

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Covisory

Linking people & businesses for
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