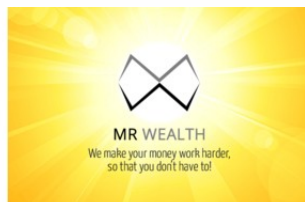




NEWSLETTER

May 2023



Introduction

Welcome to the newsletter for May 2023. This month, we spend a little time talking about the sharemarket, a bit more time talking about interest rates and take a good look at what is happening with house prices. Prices may have reached the bottom of their cycle, as supply shortages start to exert their influence.

Read on to find out more.



Max Reinhardt

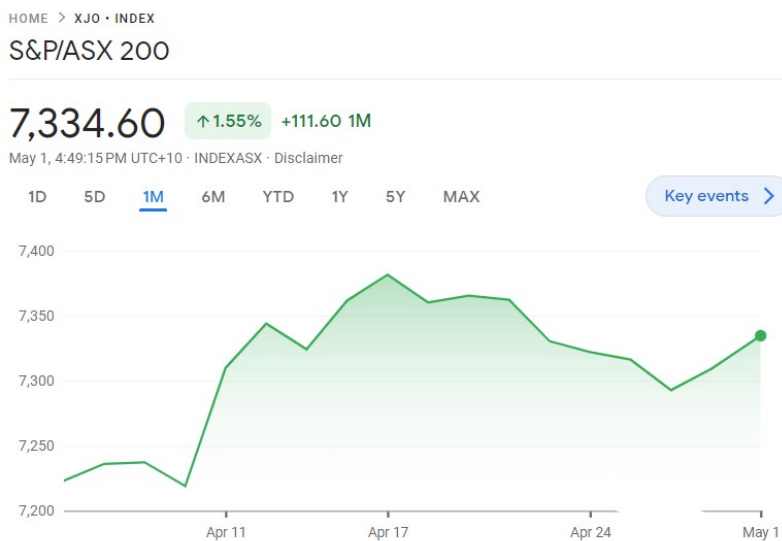
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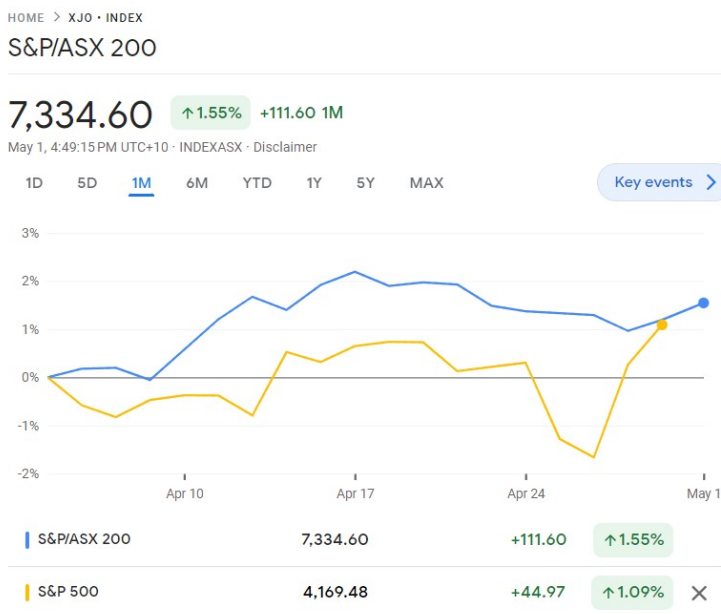
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The Share Market

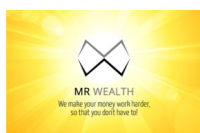
April was a gently rising month for share prices on the Australian market. Here is how the ASX 200 tracked, thanks to the ASX and Google:



As is so often the case, the performance closely followed the experience in the US market, with Aussie investors being a little more bullish during the month before the US investors caught up towards the end. Here is how the two markets tracked for the month:



Australia’s market is now up by a little under 5% so far in 2023, but, as you can see below, there has been some substantial variation:



Market Summary > S&P/ASX 200

7,267.90

+321.70 (4.63%) ↑ year to date

2 May, 3:42 pm AEST • Disclaimer

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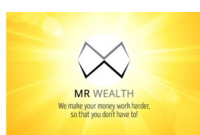


As we have written many times before, this variation can be your friend when it comes to investing.

If you invest regularly into an asset that fluctuates in price (the simplest example being an index fund tracking the ASX 200, such that the share price performs in concert with the graph above), then these periodic dips are the times when you can add outsized units to your holding. Basically, if you invest the same amount each month, then the number of investment assets that you acquire will be higher in those months in which prices are lower. This will 'skew' the average purchase price of your investments down.

For a market such as this one, advice to 'buy regularly' is about the best way to proceed. There is no particular influence on the market that lets anyone predict that a strong movement up or down is in the offing. The share market is, in fact, quite boring at the moment.

Which is itself something of a risk. The risk in this case is that people may forget about entering the market and end up missing out on the magic ingredient of time.



The Residential Property Market

There is increasing evidence that we may have reached the bottom of the house price cycle. Corelogic report that dwelling prices rose in every capital city except Darwin in April. Sydney had the highest rises. As Sydney is the largest market, this pushed the national average for capital cities up across the board. Regional prices tracked sideways. Here is how the [ABC reported Corelogic's findings](#):

Change in dwelling values, April 2023

Location	Month	Quarter	Annual	Total Return	Median Value
Sydney	1.3%	3.0%	-10.7%	-8.1%	\$1,031,138
Melbourne	0.1%	0.3%	-8.9%	-5.9%	\$751,125
Brisbane	0.3%	0.1%	-9.8%	-5.8%	\$705,016
Adelaide	0.2%	-0.1%	1.3%	4.8%	\$650,981
Perth	0.6%	1.0%	1.3%	5.9%	\$572,837
Hobart	0.0%	-2.4%	-12.7%	-9.1%	\$648,811
Darwin	-1.2%	-2.0%	-0.5%	5.5%	\$484,483
Canberra	0.0%	-1.0%	-9.3%	-5.8%	\$839,732
Combined capitals	0.7%	1.4%	-8.4%	-5.1%	\$771,579
Combined regional	0.1%	-0.1%	-6.8%	-2.8%	\$579,818
National	0.5%	1.0%	-8.0%	-4.6%	\$709,130

Table: ABC News / Source: CoreLogic

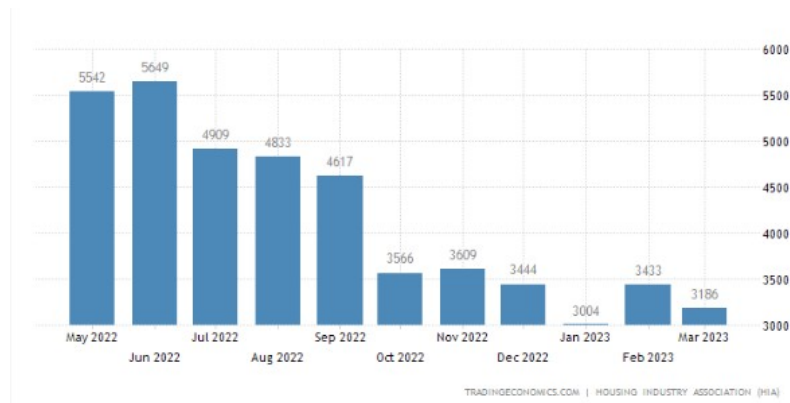
The base for house prices is almost certainly a supply issue. Australia does not have enough house to accommodate everyone. The National Housing Finance and Investment Corporation (NHFIC) [recently reported](#) that Australia is likely to have a shortage of more than 100,000 homes by 2027.

This situation is likely to worsen before it improves. By some reports, net migration to Australia will reach almost 400,000 people during 2023. This is a huge increase and is more than NHFIC had in mind when they made their forecast. 100,000 might be a low estimate of the housing shortage.

And so, it seems, we are seeing the coming together of supply and demand factors in the residential property market. Demand has fallen over the last several months, as higher interest rates made it harder for new buyers to borrow. This led prices lower. But it looks like they have now met the supply-side issues coming in the other direction.

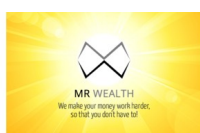
This 'coming together' means that, while house prices have stopped falling, fewer houses are changing hands. We can see that in the data from the Housing Industry Association, who report that the number of new houses that changed hands in March of 2023 was a long way short (more than 40% less) than the same number in March 2022. Here is how [Trading Economics](#) made sense of the data:





Note – be a little careful of this graph. The bottom of the graph represents 3000 sales, not zero sales.

So, this is good news for people who already have a home, bad news for people who want one, and bad news for real estate agents as well. While prices are higher, there are fewer houses changing hands. This means less commission. It is also bad news for states that rely on stamp duties for much of their income, so perhaps expect to see some innovative ways for states to come up with to try to raise more revenue.



Inflation and Interest Rates

Last month we gave you a deep dive into the mix of monthly and annual CPI changes that are used to report inflation. As we somewhat predicted, the accumulation of monthly changes to the end of March 2023 fell to a figure of 6.3%, down from 6.8% at the end of February and 7.4% at the end of January.

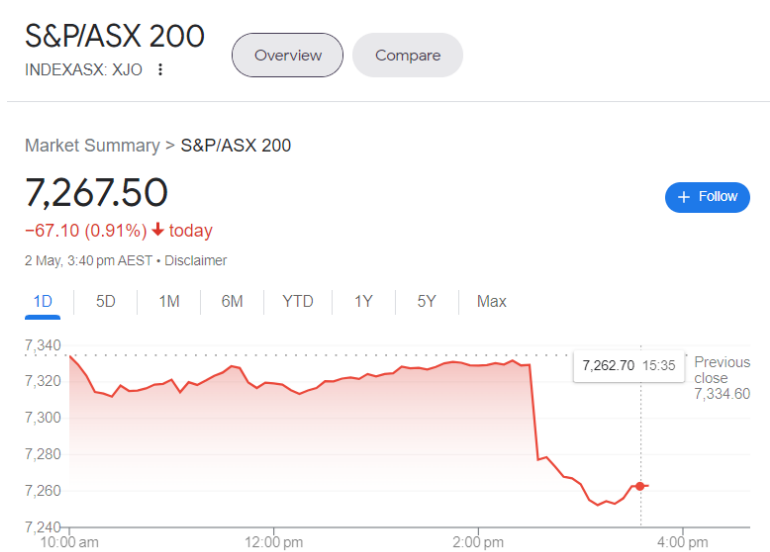
The best laid plans can go astray, though, and you may have seen some confusing numbers being thrown about when the inflation numbers were announced. This is because the ABS also releases quarterly numbers which use a slightly different data set. So, the quarterly numbers you may have seen suggested inflation was 7% for the four quarters to the end of March 2023.

Yes, that all sounds rather odd. The '12/12ths' to the end of March 2023 gave rise to a different figure than the '4/4ths' to the same point in time. Last time we looked, 12/12ths was the same as 4/4ths, but there you go – nothing in macroeconomics is straightforward!

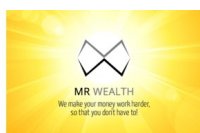
What we can say is that the inflation figure for the end of March was lower than the previous one, whether it is being measured quarterly or monthly. As was say above, the monthly figure was 6.3%, down from 6.8% at the end of February. The quarterly figure was 7%, down from 7.8% for the December quarter. So, the rate of inflation has slowed by both measures.

None of which of which had an impact on the decision of the RBA on Tuesday this week, which was to recommence with interest rate rises. The official cash rate target was increased by another 0.25% and is now 3.85% - 3.75 percentage points higher than it was at the start of 2022.

The increase came as a surprise to most commentators. Of the major four banks, only the Commonwealth Bank predicted a rise this month. The Australian share market did not like the news, as you can see from this graph which shows pretty precisely what time of day the interest rate announcement was made:



As we wrote above when discussing residential property, low supply is starting to mitigate the impact of rising rates on property prices. The RBA Governor cited the 'resurgence' of property prices this week when he was announcing the latest rise. Time will tell if this extra rate rise will suppress prices at all. Once again, we are watching two conflicting influences at work.



The Legal Stuff

General Advice Warning

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