

NEWSLETTER

April 2023



M & M FINANCIAL GROUP
WEALTH CREATION | INSURANCE | RETIREMENT

Introduction

For the first time in a year, interest rates stayed put. House prices didn't though. They started rising again. And the share market? Well, it fell. But not by much. And it was rising by the end of the month.

Read on to find out more.



Mason Walsh

03 6275 5436

mason@mmfinancial.com.au

www.mmfinancial.com.au



Matthew Geappen

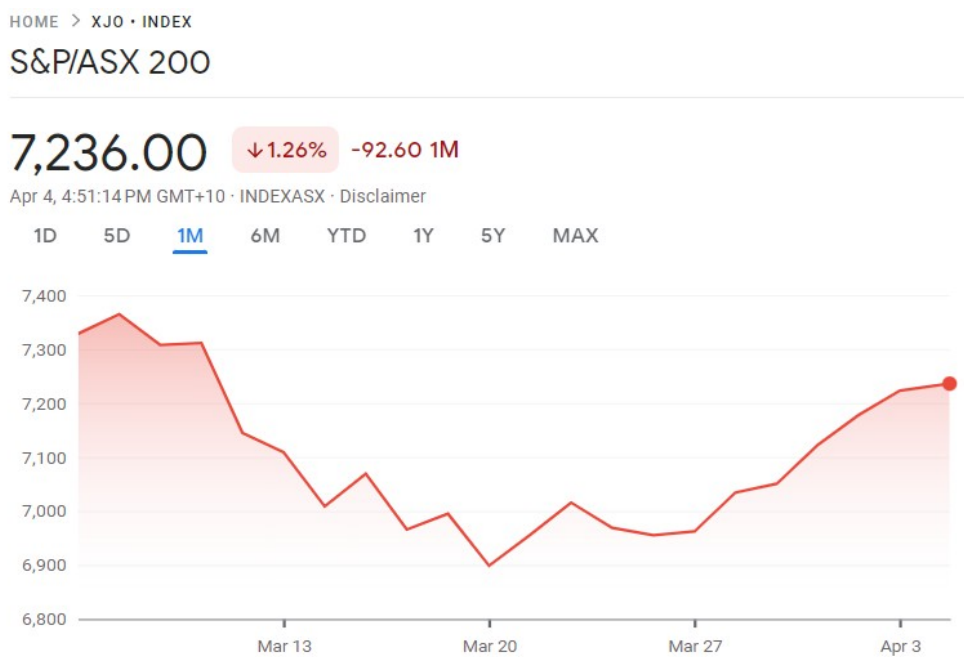
03 6275 5436

matt@mmfinancial.com.au

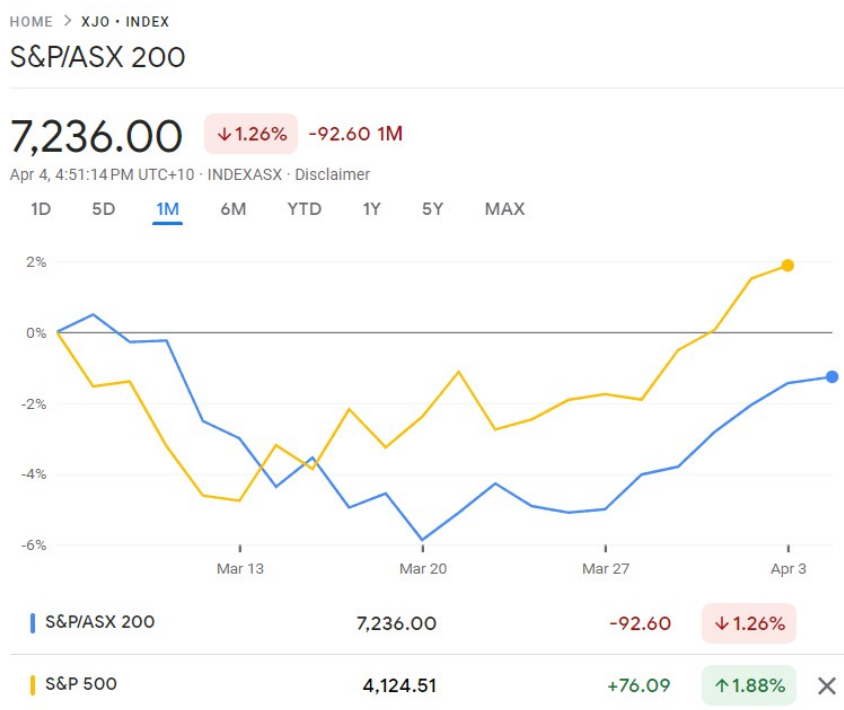
The Share Market

The Australian share market, as measured by the ASX 200, fell over the last month. We did not go to press until Tuesday this week, as we waited to see what would happen with interest rates. This makes our point of reference this month the 4th of April, rather than the last day of March.

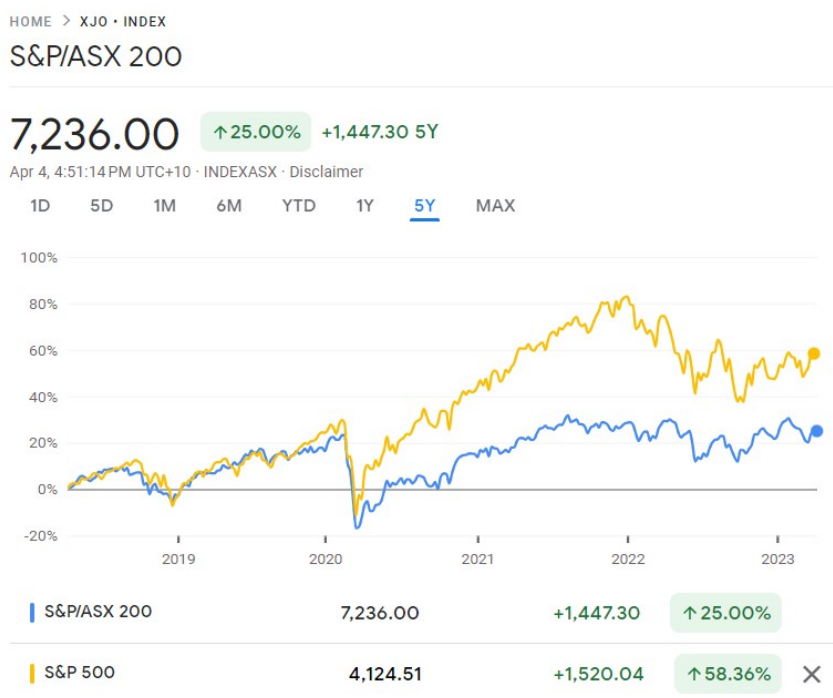
Nevertheless, here is how the month to April 4 looked for the ASX 200, thanks to Google and the ASX:



The direction of our movements broadly followed the US market, although that market, as measured by the S&P500 index, was a little more optimistic:



Then again, US investors have been more optimistic than their Australian counterparts for the last five years now, so why should last month have been any different:



Despite the fact that our market turned down, a close look at the daily changes in March shows that nothing too dramatic was occurring. The market fell steadily for the first three weeks of the month before it turned and started rising again. The falls came in the context of a couple of second tier banks in the US going out of business (we wrote about one of them in a weekly article at the time). The rises came in the context of no ‘contagion’ effect from those bank closures becoming immediately apparent.

March’s performance was actually quite boring as the market really took a ‘business as usual’ approach. The same can’t be said for house prices or interest rates, however. Things were a lot more interesting there. Read on to find out more.

The Residential Property Market

As we write below in our discussion of inflation, the times may be a changing. In the month of March, median house prices rose in most Australian capital city markets. This is the first time that has happened for many months.

Here is what happened to the various median prices in March, thanks to the respected market analyst, CoreLogic:

CoreLogic RP Data Daily Home Value Index: Monthly Values*

31 March 2023

CITY	ALL DWELLINGS			HOUSES			UNITS		
	Index value	% Change YoY	% Change MoM	Month End Value	% Change YoY	% Change MoM	Month End Value	% Change YoY	% Change MoM
Sydney	189.2	-12.1% ↓	1.4% ↑	199.6	-13.3% ↓	1.5% ↑	166	-8.7% ↓	1% ↑
Melbourne	158.8	-9% ↓	0.6% ↑	168.3	-10.5% ↓	0.6% ↑	140.4	-5.5% ↓	0.4% ↑
Brisbane (inc Gold Coast)	143.3	-8.2% ↓	0.1% ↑	151.9	-10.1% ↓	0.2% ↑	119	0.1% ↑	0.1% ↑
Adelaide	166	3% ↑	-0.1% ↓	168.3	2.1% ↑	-0.1% ↓	152.4	9.7% ↑	0.2% ↑
Perth	109.9	1.9% ↑	0.5% ↑	113	2.1% ↑	0.5% ↑	93.5	0.2% ↑	0.2% ↑
5 capital city aggregate	160.5	-8.7% ↓	0.8% ↑	166.6	-9.6% ↓	0.9% ↑	144.4	-5.9% ↓	0.7% ↑
Brisbane	139.3	-8.5% ↓	0.1% ↑	147.7	-10.4% ↓	0.1% ↑	107.4	2% ↑	0.2% ↑
Darwin	96	1.6% ↑	-0.4% ↓	107.9	2% ↑	-0.4% ↓	78.3	1% ↑	-0.6% ↓
Canberra	158.5	-8.1% ↓	-0.5% ↓	170.3	-9.8% ↓	-0.7% ↓	122.8	-1.9% ↓	0.1% ↑
Hobart	169.1	-12.9% ↓	-0.9% ↓	170.7	-13.4% ↓	-1% ↓	163.1	-10.5% ↓	-0.4% ↓

The table contains a lot of data, so let us highlight a few aspects. House prices rose in all markets other than the smallest three of Darwin, Canberra and Hobart. The rise in house prices in the largest market, Sydney, was 1.5% for the month.

The story was similar with units. The largest market, Sydney, saw prices rise by 1%. All the other capitals, except Darwin and Hobart this time, also rose.

As a result of these rises, the aggregate change for all dwellings in the largest five capital cities (Sydney, Melbourne, Brisbane, Adelaide and Perth) was 0.8%.

This is the first time in a long time that residential property prices have risen. This may mean that the monthly figures are an aberration. Alternatively, it may be that demand for housing is outstripping supply, even in the face of rising interest rates. There is pretty compelling evidence that Australia is facing a housing shortage. For example, the National Housing Finance and Investment Corporation (NHFIC) estimated this week that Australia will have a shortfall of more than 100,000 houses by 2027. Housing is important. And whenever there is a shortage of important things, the price of those things tend to rise.

This might mean that we are now seeing two opposite influences on pricing for housing. Increased interest rates reduce the amount that people can borrow, which dampens demand and theoretically reduces prices. But demand is still much higher than supply, which theoretically drives prices higher.

Which of these two influences is the stronger will determine what happens next for residential property prices.

Inflation and Interest Rates

Something very unusual happened this week. Interest rates remained where they were! That's right. For the first time since May last year, the board of the RBA met and did not raise interest rates. Maybe it's because the football season has started and the Board had something else to talk about.

The non-increase was in line with many pundits' expectations as during March the outlook for inflation started to look much improved. This was indicated by the CPI figure for the 12 months to the end of February falling to 6.8%. The same figure for the 12 months to the end of January had been 7.4%, and the figure for the 12 months to the end of December 2022 was 8.4%.

As we have written about previously, these 'monthly annual' figures can use a confusing mix of information. We love our clients to understand the world of money. So, in this article, we will explain how the CPI figure is calculated and why the RBA and the community in general can have some cause for optimism regarding inflation.

The following gets a bit 'numbery' but hopefully you will see that Australian inflation is almost certainly now on a downward curve, which should be good news for most of us.

When they calculate the CPI figure for the 12 months to the end of January 2023, the Australian Bureau of Statistics includes data from each of the following months:

MONTH	MONTH
Feb-2022	Aug-2022
Mar-2022	Sep-2022
Apr-2022	Oct-2022
May-2022	Nov-2022
Jun-2022	Dec-2022
Jul-2022	Jan-2023

The ABS gathers the average retail price of a whole range of items at the end of each month and uses them to measure the CPI index at the end of those months. This lets them identify the extent to which the CPI rose or fell in a particular month.

The CPI index figures at the end of each of the twelve months to the end of January 2023 were as follows:

MONTH	CLOSING VALUE
Feb-2022	110.4
Mar-2022	111.6
Apr-2022	111.9
May-2022	112.7
Jun-2022	113.6
Jul-2022	114.3
Aug-2022	114.5
Sep-2022	115.0
Oct-2022	115.5
Nov-2022	116.4
Dec-2022	118.2
Jan-2023	117.7

Just a quick note about indexes (or 'indices,' which is the official plural of index). The base year for the numbers above was 2017. In that year, the ABS added up the price of all the things it measures for the CPI. It gave the total of those prices an index value of 100. At the end of each subsequent month, when it calculates the total of new prices of all of those items, the total is compared to the 2017 total and then expressed as a percentage of the 2017 total. So, at the end of February 2022, total prices for the items used to measure the CPI were 110.4% of the total in 2017. Prices had risen, on average, by 10.4%. Using an index makes it easier to calculate the rate of change in prices.

To then understand the monthly figures in the table above, notice that at the end of January 2023 the index was 117.7. At the end of January 2022 (a year earlier), the index was 109.6 (this is not shown in the above table). The difference between these two numbers is 8.1 points. 8.1 is 7.4% of the starting value of 110.4.

So, the rise in CPI for the 12 months to the end of January 2023 was 7.4%. This leads us to say that the annual inflation rate for January 2023 was therefore 7.4%. 7.4% was the rate at which the CPI rose for the twelve months that ended in January 2023.

As you might expect, to calculate the annual inflation rate to the end of February 2023, we use slightly different information. The February figure includes the following months (with associated closing values):

MONTH	CLOSING VALUE
Mar-2022	111.6
Apr-2022	111.9
May-2022	112.7
Jun-2022	113.6
Jul-2022	114.3
Aug-2022	114.5
Sep-2022	115.0
Oct-2022	115.5
Nov-2022	116.4
Dec-2022	118.2
Jan-2023	117.7
Feb-2023	117.9

This third table has removed February 2022 from the analysis and added February 2023. The table then shows that, at the end of February 2023, the index was 117.9. The figure at the end of February 2022 was 110.4. The difference between these two numbers is 7.5, and 7.5 is 6.8% of 110.4.

So, the CPI index 'only' rose by 6.8% for the 12 months to the end of February.

The annual inflation rate indicated by the CPI was 7.4% at the end of January 2023 and 6.8% at the end of February 2023. The change between the two monthly figures is entirely due to the fact that February 2022 was removed from the analysis and replaced by February 2023. The other 11 months used for the analysis remained the same.

What this means is that the change in the annual figure that we see reported each month depends entirely on what happens to the CPI index in just two individual months: the 'oldest' one that 'leaves' the analysis and the most recent month that 'joins' the analysis. This means that it is really

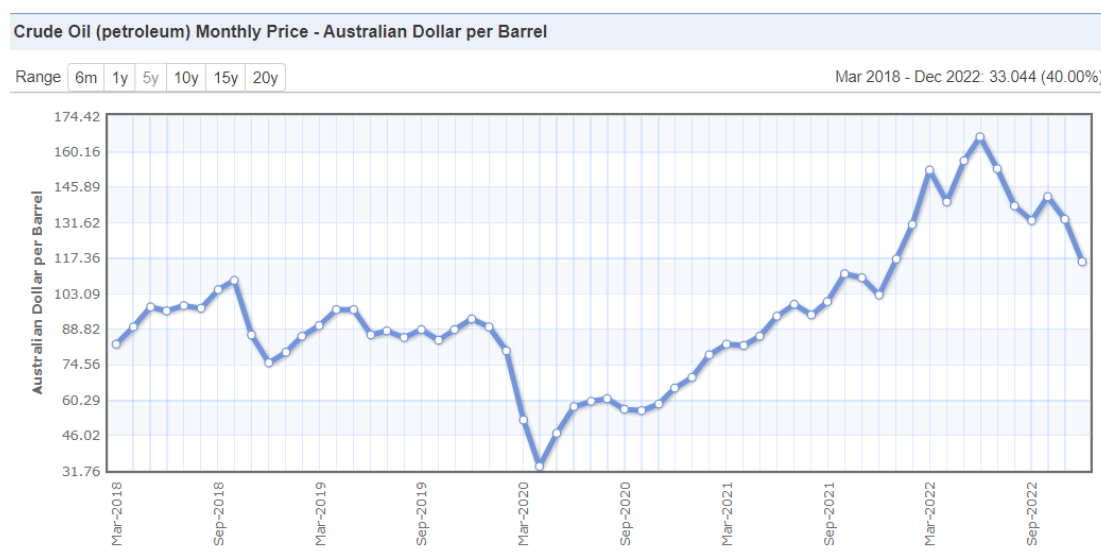
the difference in the CPI change in those two months alone that determines the change in the annual figure.

If the 'new' month has a lower rate of inflation than the 'old' month, then the rate of annual inflation will fall. And vice versa.

This is a key point, especially when we think about what the next reported annual inflation figure will be. This will be the CPI for the twelve months to the end of March 2023. March 2022 was actually the 'second worst' month in terms of monthly CPI rises for the 2022-2023 period. The index rose from 110.4 at the end of February 2022 to 111.6 at the end of March 2022. This was more than 1% inflation in a single month. The impact of March 2022 has added more than 1% to any annual inflation figure that includes that month.

That is, the month of March 2022 has added more than 1% to every calculation of annual inflation since. But the annual figure for March 2023 will not include March 2022. Removing March 2022 from the analysis will therefore almost certainly give us a lowered annual inflation rate. The only way this would not happen is if the CPI change in March 2023 was equal to or bigger than the rise in March 2022.

This is really unlikely. March 2022 had some unique circumstances, much to do with the Russian invasion of Ukraine and its impact on world oil prices. The following graph shows the monthly changes in world oil prices over the last five years, thanks to analyst [Index Mundi](#):



As you can see, oil prices rose steadily throughout the first six months of 2022, with March being an especially sharp rise. At the end of March 2022, the price for a barrel of crude oil was \$A152. From there it kept rising, so that by June 2022 it had peaked at \$A166 per barrel.

As of the end of March 2023 the price was just \$A113 per barrel. Oil prices are not rising like they were 12 months ago. In fact, they have actually fallen. You have probably seen this at the petrol pump. Petrol prices this year are generally lower than they were twelve months ago – especially considering that twelve months ago there was a temporary reduction in the amount of tax paid per litre. Current petrol prices include an extra 22 cents per litre in tax that was not being levied this time last year.

This fall in oil prices feeds through to many parts of the economy. It suggests that it will be very hard for average prices generally to have risen in March 2023 to anything like the extent that they rose in March 2022. Indeed, there is a chance that prices in March might actually *fall* a little, as they did in January 2023.

Accordingly, when the ABS calculates the CPI index for the end of March, the monthly change for March 2023 will almost certainly be much lower than the monthly change for March 2022. This means that an 'expensive' month leaves the analysis, and a 'cheaper' month joins it. Almost certainly, this will mean that the next annual inflation figure that we see reported will be even lower than the most recent figure of 6.8%.

In fact, if the rate of change in March 2023 is the same or less than it was in February 2023, then the annual figure to the end of March will dip **below 6%**.

This is why the RBA has not increased interest rates this month. The annual rate of inflation is falling because one of the really expensive months of 2022, March, is no longer included in the analysis.

If you look again at the tables of monthly data above, you will see that the months of May, June and July 2022 were also months in which the CPI index rose quite substantially. And the graph of the global oil prices shows that much of the rise in these months was caused by increased petrol prices. If global oil prices do not spike again, and the monthly rate of change that we saw in February 2023 continues until the end of July, then Australia's rate of annual inflation would actually fall to just above 4% by August 2023. This will happen not so much because of what is happening in the here and now. It will be because what happened 13 months ago is no longer in the analysis.

In this context, there is really no justification for raising interest rates again. That would only change if inflation starts to turn upwards again – and very quickly.

The Legal Stuff

General Advice Warning

The above information is general in nature and does not take into account your personal situation. You should consider whether the information is appropriate to your needs, and where necessary, seek professional advice from a financial adviser.

Contact Details

Address	11 Scott Street Bellerive TAS 7018
Phone	03 6275 5436
Website	www.mmfinancial.com.au
Email	admin@mmfinancial.com.au

Licencing Details

M & M Financial Group Pty Ltd ABN 32 651 685 442 is a corporate authorised representative (no. 1293646) of Synchron Advice Pty Ltd ABN 33 007 207 650 (Australian Financial Service Licence no. 243313).