NEWSLETTER
October 2023

Frawley Financial
PLANNING & RETIREMENT SERVICES

Introduction

Welcome to the October 2023 newsletter. We look at September's significant downturn in share prices which happened alongside further strengthening in the residential property market, while interest rates remained unchanged.

Ben Frawley

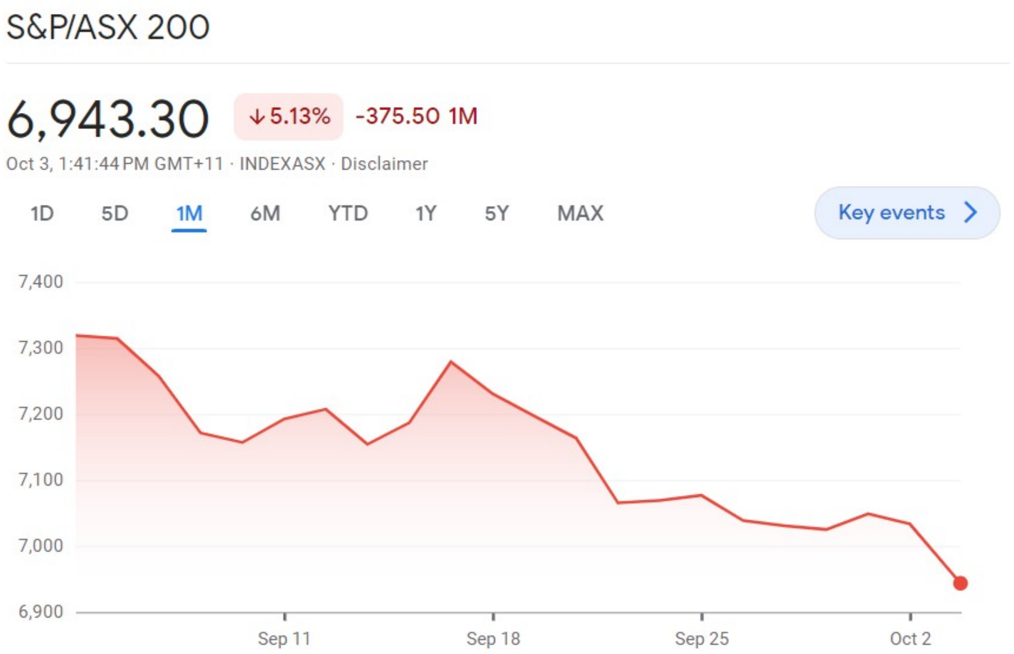
0418 690 071

ben@frawleyfinancial.com.au

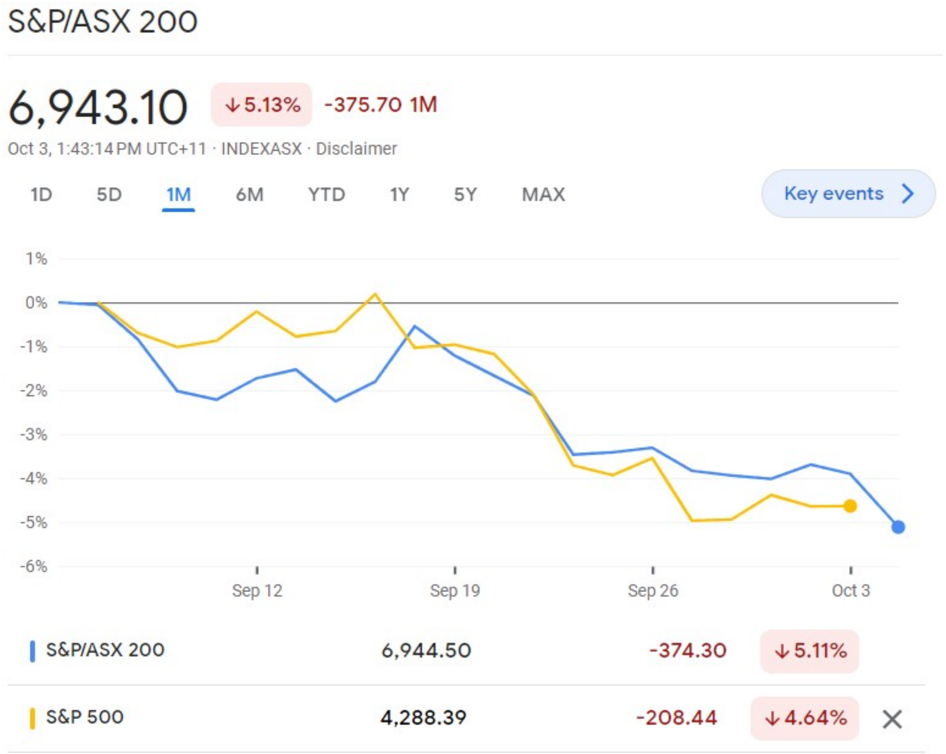
www.frawleyfinancial.com.au

The Share Market

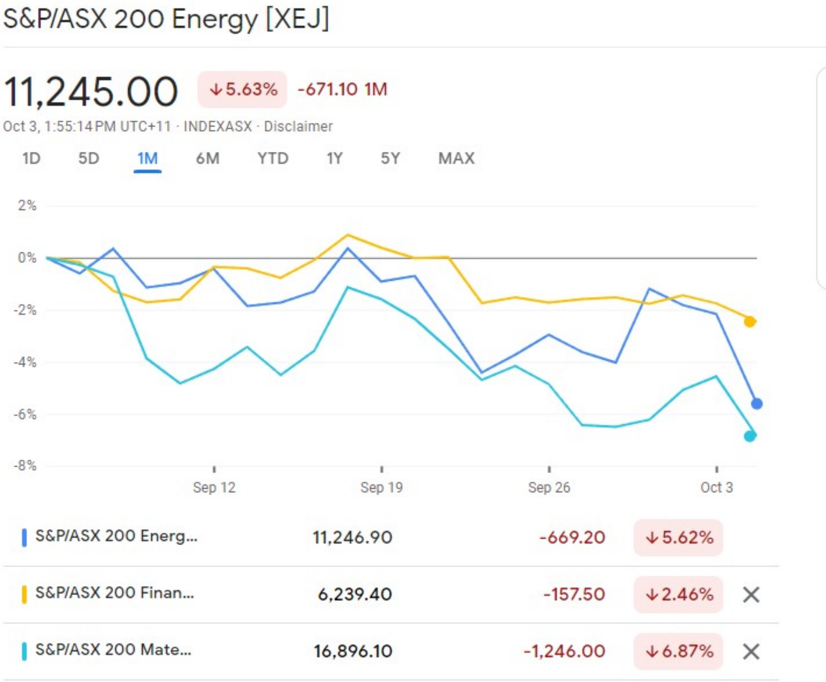
September was a great month on the share market… if you were buying! It was not so great if you already held shares and horrible if you are selling. The market was down more than 5% for the month (measured to the 3rd of October). Here is how it looked thanks to Google and the ASX:



As is often the case, the falls in our market broadly echoed falls in the much larger US market, although the Australian index did fall a little faster and a little further for the month. Here is how our market (in blue) performed compared to the US market (in yellow):



The falls for the month are largely attributable to falls in commodity prices, which affect energy and material companies such as BHP and Fortescue Metals. We can see this cause when we compare those sectors with the largest single sector on the Australian market, the financial sector. Here is how September fared for these three sectors (financials in yellow, materials in light blue and energy in dark blue):



As you can see, the financials index 'only' fell by 2.46%, where the other two sectors fell by more than 5.5%. Five of Australia's largest 20 companies are materials companies (miners) and two more are energy companies. So, these two types of company comprise 7 of the largest 20 companies in our market. If their prices fall, they bring the market with them.

On the US front, the major influence on their market seems to have been the Central Bank's statements that interest rates are likely to stay high for some time. This has continued to cause some investors to move away from shares towards bonds and other interest-paying investments. It has also encouraged investors to invest into the US cash and cash equivalent market. The current Fed rate, for example, is 5.5%. This is significantly higher than the Australian target cash rate of 4.1%. This difference encourages investors looking for 'safe' returns to prefer the US markets.

Taken together, these effects mean that there is a bit of a 'double whammy' happening: prices paid for the products made by some of our biggest companies are falling, causing their forecast profits and thus their share prices to fall. There is also a continuing gentle movement away from shares and towards (US) interest-bearing securities happening alongside that.

Really, though, these are natural 'swings and roundabouts' in share market pricing. Markets do not rise in a relentless straight line; periods of doing well (such as the 12 months to the end of June) are often followed by periods of doing not so well, such as September 2023. Over time, the experience has been that the positive moves are larger and more frequent than the negative ones, such that the value of share-based investments rises over time. We have not seen anything that suggests that times have changed.

So, September simply stands as a good month for people who were investing into the share market. For people already there, it was a good month to simply hold on.

The Residential Property Market

Residential property prices continued their rebound in September. Houses and units rose in just about every city. There were some exceptions in the smaller markets of Canberra, Darwin and Hobart, but the five larger cities all rose in value. Here is how Corelogic made sense of the various city markets:

CoreLogic RP Data Daily Home Value Index: Monthly Values*

30 September 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	225.9	7.3%	1%	245.6	8.1 %	1 %	185.1	5.2 %	0.9 %
Melbourne	181.4	1.5%	0.4%	205.2	1.2 %	0.3 %	140.3	2 %	0.6 %
Brisbane (inc Gold Coast)	169.1	5.1%	1.2%	179.8	4.5 %	1.2 %	139.2	7.3 %	1.2 %
Adelaide	177	5%	1.7%	180.4	4.6 %	1.7 %	158.6	7.6 %	1.4 %
Perth	135.1	8.8%	1.3%	141.5	9.1 %	1.3 %	103.4	6.5 %	1 %
5 capital city aggregate	190.4	5.5%	0.9%	204.8	5.8 %	1 %	155.5	4.6 %	0.8 %
Brisbane	165	5%	1.3%	175.8	4.4 %	1.4 %	125	8 %	1.1 %
Darwin	104.2	-2.2%	0.1%	110.8	-2.6 %	-0.3 %	93.1	-1.1 %	1 %
Canberra	167.9	-3%	0.2%	180.7	-3.3 %	0.4 %	130	-1.8 %	-0.4 %
Hobart	184.8	-7%	-0.6%	187.1	-7 %	-0.6 %	175.6	-6.9 %	-0.5 %

If the graphic is a bit busy, don't worry. The data in it is actually very consistent. House prices rose by between 0.3% (Melbourne) and 1.7% (Adelaide) for the month, where unit prices rose by between 0.6% (Melbourne) and 1.4% (Adelaide).

We have now had a series of months where prices have risen, and so the yearly comparison between prices on September 30 2023 and the same date in 2022 have all turned positive. The annual changes for each of the six state capitals were as follows;

City	House Price Change	Unit Price Change
Sydney	8.1%	5.2%
Melbourne	1.2%	2%
Brisbane (inc Gold Coast)	4.5%	7.3%
Adelaide	4.6%	7.6%
Perth	9.1%	6.5%
Hobart	-0.7%	-6.9%

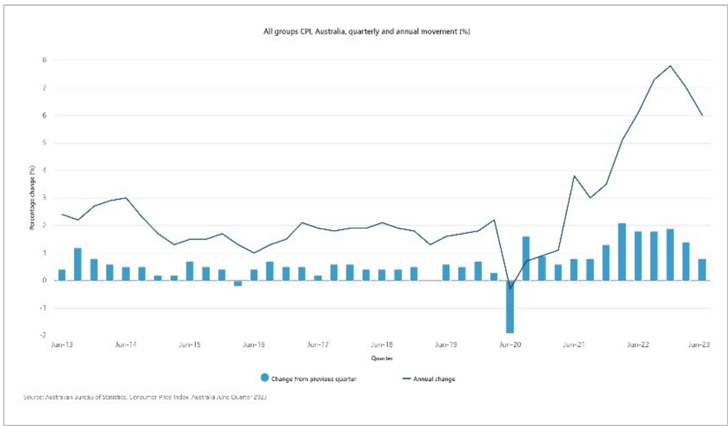
Of course, these rises need to be seen in the context of rising prices generally. Any rise of less than about 5% is actually a fall in 'real dollar terms,' as general inflation has been around the 5% level. In that context, we can argue that housing is still cheaper than it was a year ago in places like Melbourne and (especially) Hobart, the only city where nominal prices are actually lower than they were last year. As we discuss below, the interest rate rise cycle has slowed down, if not stopped. Undoubtedly, rising interest costs have reduced demand for housing. But that reduction in demand is being increasingly offset by the constrained supply that we are seeing relative to our population.

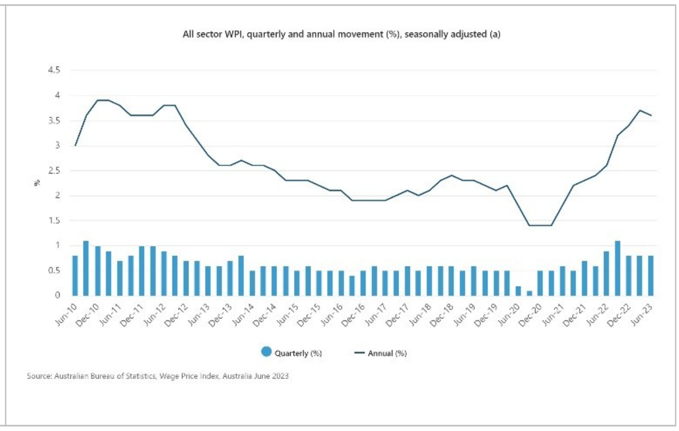
Inflation and Interest Rates

We sat down to write this newsletter on Tuesday October 3, at the same time that new RBA Governor Michelle Bullock sat down with her Board to determine what they will do with interest rates this month.

The new regime took a 'business as usual' approach and left rates unchanged for a fourth month in a row. There were the usual caveats that the next decision might be upwards, but there does seem to be a general mood that inflation is coming under control – or at least is not so out of control that continued rises are needed to try to curb it.

In it's commentaries earlier this year, the RBA regularly referred to its concern that wages would rise in response to higher prices, placing further cost pressures on businesses. These pressures would in turn lead businesses to raise prices and so facilitate a 'wage-price spiral.' The most recent data, however, indicates that this has not happened. Wages have simply not kept up with inflation. We can see that when we position two graphs from the ABS side by side. The one on the left is inflation. The one on the right is wage growth.





Please note that the scales on the left-hand side of the graphs are not the same. For the year ended June 30 2023, wages rose by 3.6% on average. Over the same period, the CPI was 6%. Thus, workers' spending power was reduced by at least 2.4%. What's more, the wage growth figure was a slight reduction on the figure for the year ended March 30 2023, suggesting that wage rises may have peaked.

This is just one indicator that the concerns that the RBA had that inflation would get 'out of control' may not come to pass. Wages have not even kept pace with inflation so far, making it impossible for them to in turn become a cause of inflation themselves. There is no sign of a wage-price spiral so far.

Fingers crossed, that remains the case.

The Legal Stuff

General Advice Warning

The above suggestions may not be suitable to you. They contain general advice which does not take into consideration any of your personal circumstances. All strategies and information provided on this website are general advice only.

We recommend you seek personal financial, legal, credit and/or taxation advice prior to acting on anything you see on this website.

Contact Details

Address	3 Spring Street Sydney NSW 2075
Phone	0418 690 071
Website	www.frawleyfinancial.com.au
Email	ben@frawleyfinancial.com.au

Licencing Details

Ben Frawley is an Authorised Representative (AR:1005939)

Frawley Financial Planning & Retirement Services Pty Ltd ABN 33 613 713 429 is a corporate authorised representative (no. 1246109) of Crown Wealth Group Pty Ltd ABN 22 603 037 510 (Australian Financial Service Licence no. 494274).