NEWSLETTER

December 2022

Edgeworth Partners

Introduction

Welcome to our final monthly newsletter for the year. And what a year it has been. We briefly review the three big elements of personal finance: property, shares and interest rates, before signing off from newsletters for 2022.

Read on to find out more. And see you in 2023!

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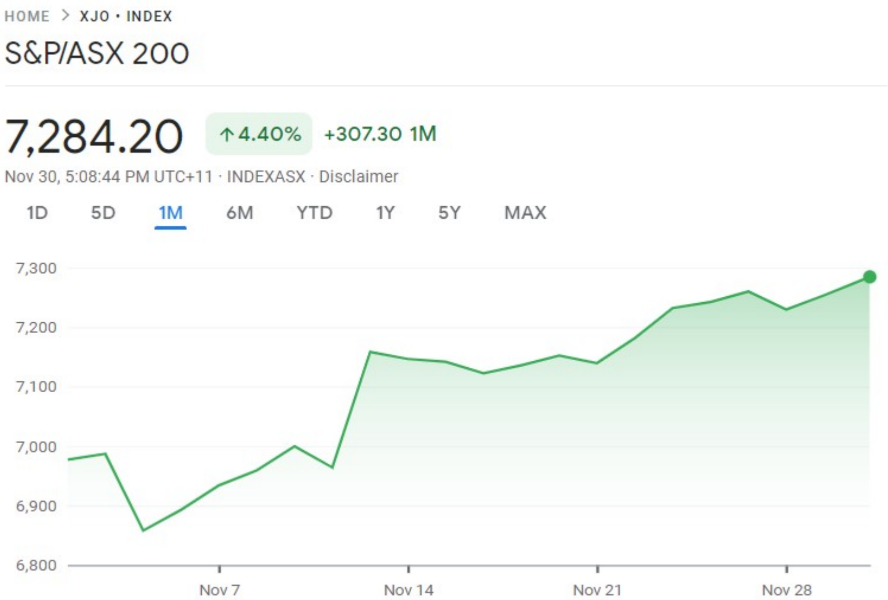
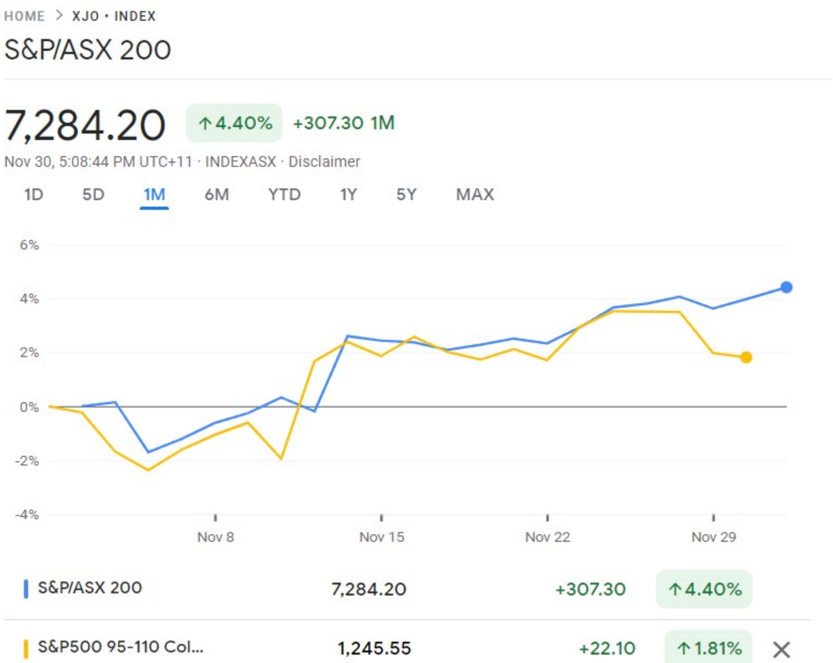
The Share Market

First, the good news, and if you own shares, the news really is good. During November, shares rose by 4.4% on average, as measured by the ASX 200. Here is how the market looked, thanks to Google and the ASX:



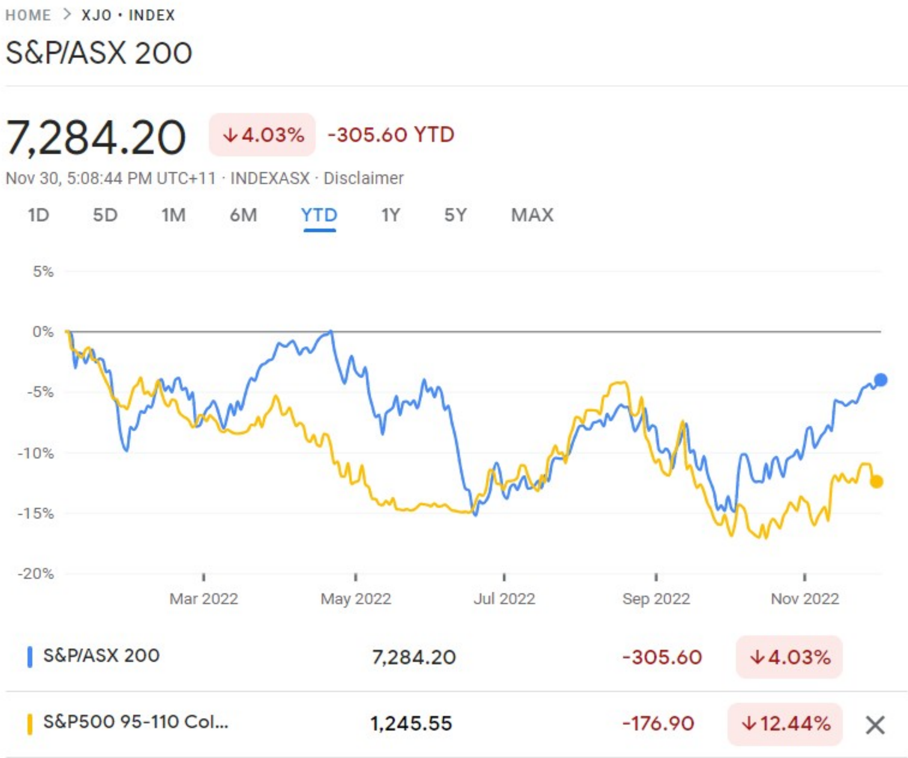
Following the rise in October of 8.29%, this means that the market is up 827 points, or 12.8%, since October 2. That is a great 8 weeks!

The recent rises mean that the Australian market has outperformed the major world market, the US, as measured by the S&P 500. The US index rose less than 2% during November:



That said, the Aussie market needed some good months in 2022, because up to the start of October, things were looking pretty dire. By the start of October, the market had fallen 15% from its value on January 1. Because of the way percentages work, the recovery over the last two months means that, for the eleven months since the start of the year, the ASX 200 is down 4%. Given that the average dividend yield is typically around this figure, shareholders have largely broken even to date in 2022.

Breaking even remains a good news story by world standards, though. Once again, here is the comparison between the US and Australian indices, up to the end of November (Google, ASX). Australia is the blue line; the US is the orange line:



There is no secret as to what has been hindering general share prices on world markets: interest rates, and the rising thereof. Rising interest rates are a cost for business and an impediment to spending, and they have been on an extremely rapid upswing during the year in most industrialised economies.

In Australia, however, the rate of change slowed last month when a series of monthly 0.5% increases was replaced by a smaller increase of 0.25%. And this seems to explain the rebound in our share market, as confidence returns. Oh, and as we wrote last month, the fact that our market is heavily skewed towards financial stocks like banks, who actually rather like it when interest rates are rising.

So it seems our market investors are thinking that the hard yards of interest rate rises might be coming to an end, or at least slowing.

Interest Rates

As we wrote in the previous section, interest rates have risen sharply so far this year. We have gone to press before the first Tuesday in December, when the RBA will meet for the last time in 2022, so we don't know whether interest rates will rise one last time before the year comes to an end.

So, as we review the year of 2022, we thought it would be useful to look at what is happening with the main driver of higher interest rates: inflation.

You may have seen the report that, as of September 2022, inflation over the previous 12 months reached 7.3%, as measured by the Consumer Price Index. One of the more unusual elements of inflation and the public square is that the rate of inflation is announced quarterly, but the figure given refers to the 12 months prior to the announcement date. So, the announcement prior to September was for June 2022, when the annualised inflation rate was 6.1%. Many people will add the two figures of 7.3% and 6.1% together and conclude that prices have risen by more than 13% altogether. Doing so of course ignores the fact that the June and September figures actually had nine months in common. The difference between the two figures, 1.2%, was the impact of adding the months of July, August and September 2022 and removing the months of July, August and September 2021 from the analysis.

So we thought it would be interesting to look at inflation across a much longer time period. Here is what we found when we went back five years, to the year ended September 2018.

Date	CPI Value	Rise from Previous September	Rise from September 2018
September 2018	113.5	n/a	n/a
September 2019	115.4	1.6%	0.9%
September 2020	116.2	0.5%	2.4%
September 2021	119.7	3.0%	5.4%
September 2022	128.4	7.3%	13.1%

Remember, the figure on the right shows the cumulative change in prices over a four-year period – from September 2018 to September 2022. In this context, a total rise of 13.1% is actually not that bad. While it is true that annual inflation (the rise from the previous September) is higher this year than it has been in the three previous years, the longer-term situation is that inflation has not been a damaging issue for Australia.

This is particularly the case given the causes of inflation since 2020, all of which constituted external 'shocks' to our economy: Covid, associated supply disruptions and the Russian invasion of Ukraine, which caused fuel and food shortages in some parts of the world, drove inflation higher all around the world. Added to that, in our local context we have had floods and bushfires that have caused shortages and other supply problems.

When supply of an essential item falls, the price rises. There is an old saying that tells us that "the solution to high prices is high prices." What this means is that, when a price rises, some combination of two other things happen. Firstly, where possible, supply increases - either of a particular good/service or of something that can be used as an alternative. This is often the case with food production, for example, where high prices can encourage farmers to plant more of a high-priced crop. This raises supply of that item… which reduces prices.

At the same time, wherever possible, high prices also reduce demand for an affected item. Earlier this year, for example, the price of lettuce soared due to floods. In response, many people simply chose to buy other vegetables for a while. Demand for lettuce reduced, and as supply was restored, prices fell back.

This simple interplay of supply and demand means that high prices operate as a 'signal' to the market for people to change the way they act. In this way, high prices become 'self-correcting.' Here's hoping that 2023 shows our recent inflation to be of this type.

The Residential Property Market

Sydney median property prices have passed a major milestone. As of the end of November 2022, they have fallen by more than 10% from their value 12 months prior.

Esteemed market analyst Corelogic released their November-end figures just as we went to press. For the first time this year, every one of the five mainland capital cities saw negative changes in the median property value for the three months prior to the end of November (figures are not yet available for Hobart ☹).

Here is how each capital city's median price looked:

City	Quarterly Change	Annual Change
Sydney	-4.4%	-10.6%
Melbourne	-2.7%	-6.9%
Brisbane	-5.4%	3.7%
Adelaide	-0.8%	13.4%
Perth	-0.5%	3.9%

The total effect of these changes was a national average decline of 3.6% for the quarter and 5.4% for the previous twelve months. In the context of a general rise in prices of 7.3% (see the previous section on interest rates and inflation), that 5% fall is quite substantial.

Amongst other things, the fall means that, if real wages can rise over the coming months, then 'housing affordability' will improve. Housing affordability basically tells us how many years a person would need to work to be able to afford to buy a house. It is currently low and has been for quite a while, meaning that it takes many years of earnings and savings to buy a home. This in turn makes it difficult for first time home buyers to enter the market.

In theory, if prices fall and wages rise, housing becomes more affordable. If you are worried about younger people's ability to buy a home, then this is good. For these people, falling house prices should be good news. Unfortunately, there is one caveat: because most people borrow money to buy a home, rising interest rates effectively raise the price of housing. And interest rates have so far risen by a larger percentage than house prices have fallen.

Ah well. Maybe next year.

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.

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