Casa mia

Australian house prices just keep rising. If you're like me, you'd swear it's not happening to your own home, but it is.

In March, home prices lifted 0.6% month on month (m/m) again; that pushes the year-on-year growth to 8.8%. This is the equal largest increase since Oct-23 (after Feb-24 also rose 0.6%).

Importantly, the strong prices have continued, despite the increase in the number of sales. The (estimated) number of dwelling sales in Mar-24 rose 15.4% m/m and 9.8% y/y.

According to UBS economists, this strength isn't going to dissipate any time soon and they now expect faster dwelling price growth of >5% to 7% y/y.

The 3 key drivers are:

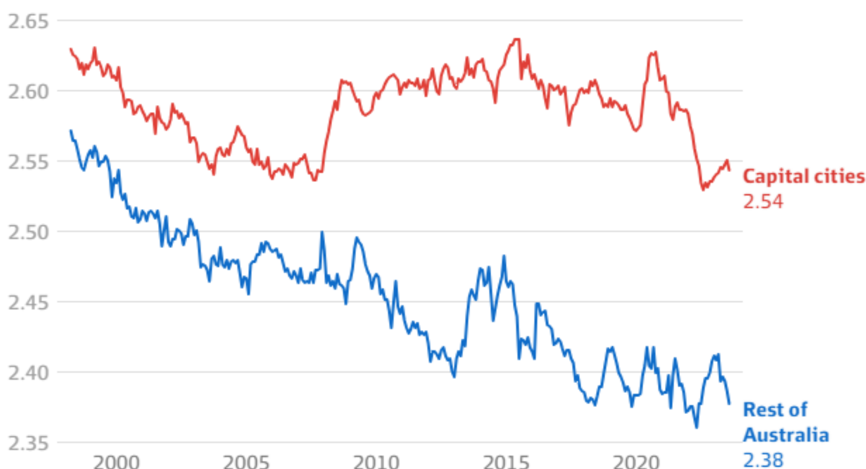
1) Actual house price growth in recent months remains surprisingly strong, which appears to be elongating a self-reinforcing dynamic that is underpinning expectations of future price gains.

2) Recent data on migration and population growth looks even stronger than previously anticipated. A record influx of 549,000 temporary migrants in the 12 months to September 2023, managed to push the annual population growth to 2.5 per cent, its highest rate since 1952. According to the AFR 'the migration surge is largely a one-off boost caused by international students and temporary workers returning to Australia following the end of pandemic travel restrictions."

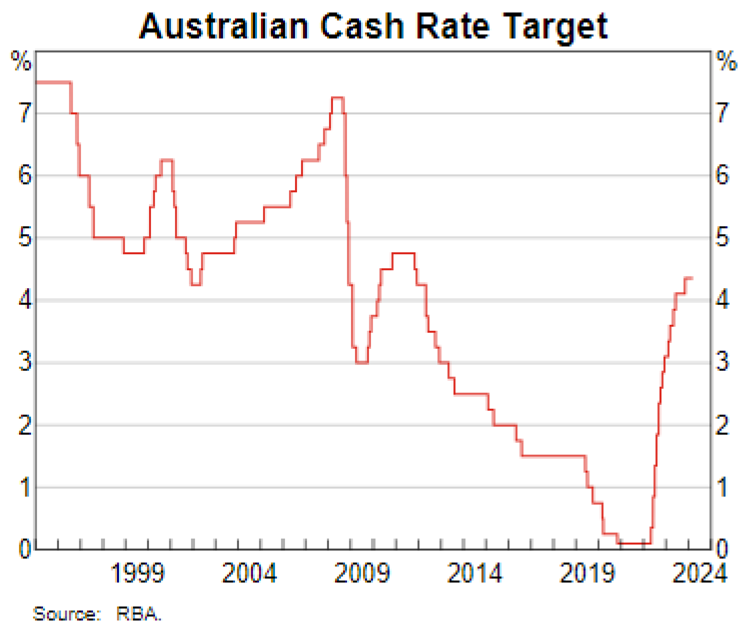
3) The resilience of house prices to an increase in the number of sales; albeit this is more driven by existing properties coming onto the market (perhaps some distressed sales); whereas the pipeline of new housing supply is set to be even worse ahead, given the ongoing weakness in residential building approvals.

The RBA has also warned supply has failed to keep pace with the highest population growth rate in 72 years and a pandemic-era preference for living with fewer people fuels housing demand."

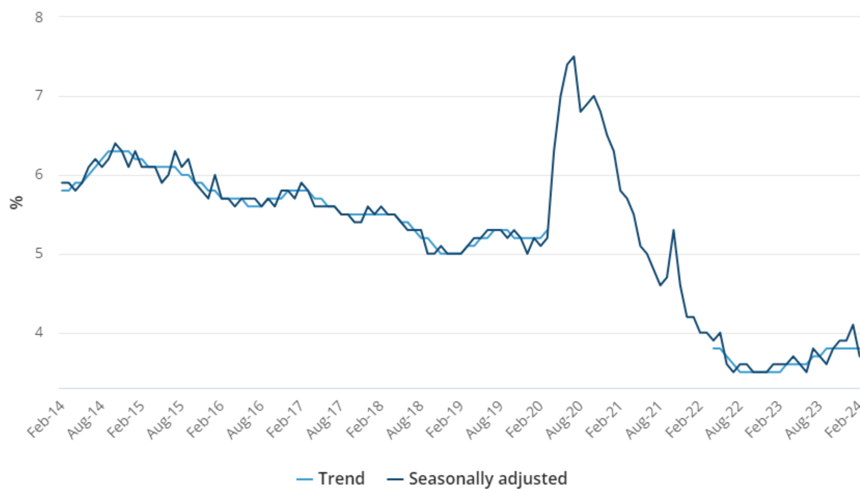
The chart below illustrates the reduction in the number of people per household; it doesn't look like much, but it results in an additional 120,000 homes required just to accommodate the existing population



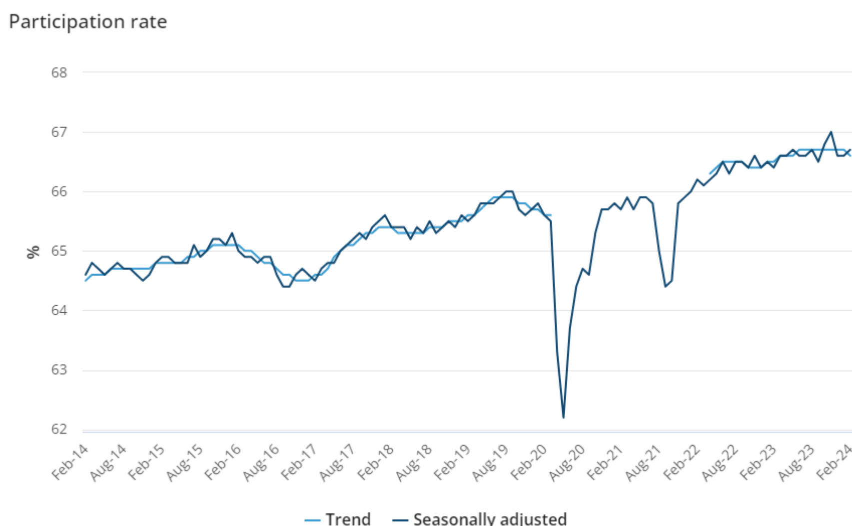
This price strength contradicts my expectation of weakness or at the very least, stagnation, resulting from the hockey stick rise in the official cash rates. I'd dare say it will limit the RBA's potential enthusiasm to cut rates too early.



Furthermore, the unemployment rate is still crazy low



Although the participation rate is increasing, slowly



Excessive inflation is a sticky syrup and can be exceedingly difficult to remove. My fear was, and still is to a large degree, that if the RBA cut too early, household optimism returns with gusto and inflation bares its teeth even more aggressively, resulting in an even higher cost of living, more unrealistic wage demands, faster dwelling price rises, collapsing businesses unable to keep up, etc. The situation becomes worse than it was originally.

All in all, it looks as though your house value will continue to rise for a while yet, or if you're trying to get into the market, it looks to be painfully competitive for a while yet. And interest rate cuts? The smart money says September/October/November this year. I'm not so sure.

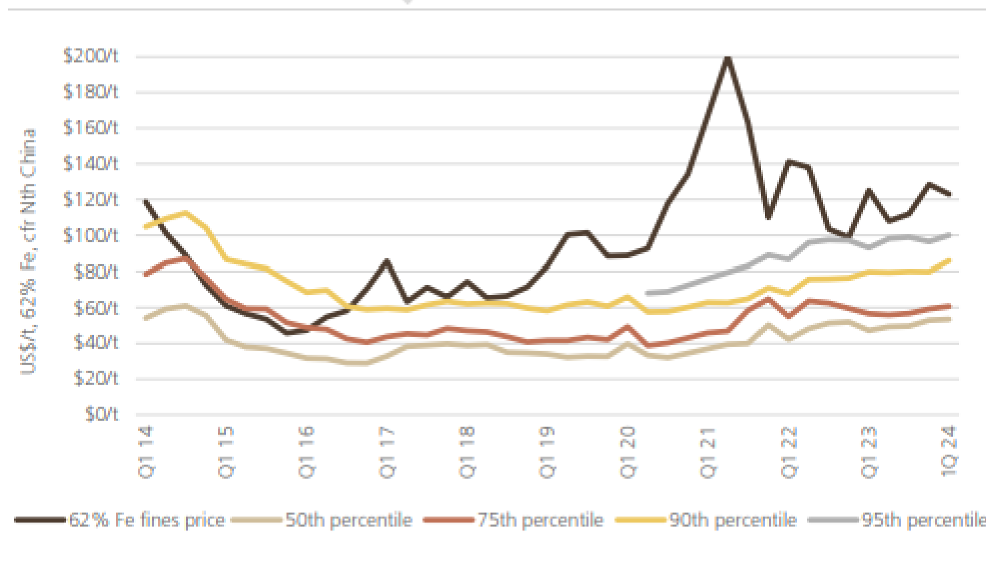
Iron ore

Finally, iron ore has retreated as we predicted………. Some 2 years ago. Yes I know, a stopped watch, etc. But the price has slipped from over $140/tonne to $98/tonne today. This obviously affects Fortescue, who is 100% reliant on iron ore sales, RIO (70%) and BHP (55%).

The weakness is a well predicted reduction in Chinese steel output, high inventories and demand concerns, despite strong steel exports.

Around this US$100/t mark we enter the 95th percentile and then the 90th percentile at US$86/t (i.e., only 90% of producers can make money at this level). Iron ore prices will likely find cost support at ~$90-$100/t near term for this very reason; but the risk of weak Chinese steel output could be a further negative.

Figure 1: Iron ore price vs 50th, 75th, 90th, 95th percentiles



Source: WoodMac, Platts, UBS

Another problem exists for producers, namely, costs are continuing to rise, which could potentially push more producers into the 'unprofitable' territory if the iron ore price remains low or weakens further.

It should be noted that most producers will continue to produce long after it is economic to do so, on the expectation of a price reversal and the even higher cost of turning production off. This in itself could further exacerbate the price weakness.

Now that the price has fallen from its highs, it'll be extremely interesting to watch both where it settles and where the share prices of iron ore companies settle, as investors calculate what they think the long term price is likely to be.

2 year iron ore chart

Enjoy your weekend,

Ben and the team.

This report has been prepared by Ben Morrissey
Shaw and Partners, Morrissey Wealth Management
Level 36, 120 Collins Street
Melbourne VIC 3000

Morrissey Wealth Management (Authorised Representative Number 268130) is a Corporate Authorised Representative of Shaw and Partners Limited (AFSL 236048) (ABN 24 003 221 583)

This market update is issued by Morrissey Wealth Management an authorised representative (no. 268130) (the “Morrissey Group”) of Shaw and Partners Limited AFSL 236048. This market update is confidential and may be privileged. Unauthorised use, copying or distribution of any part of this document including attachments is prohibited. The views expressed are personal to the Morrissey Group and do not necessarily reflect the views of Shaw and Partners. This market update has been prepared without taking into consideration any investor's financial situations, objectives or needs. Accordingly, before acting on the advice in this document, if any, you should consider its appropriateness to your financial situation, objectives and needs. Every reasonable effort has been made to ensure the information provided in this document is correct, but we cannot make any representation nor warranty as to the accuracy, completeness or currency of that information. To the extent permissible by law, no responsibility for any errors or misstatements is taken, negligent or otherwise. Shaw or its authorised representatives may also receive fees or brokerage from dealing in financial products, see Shaw’s Financial Services Guide for information about the services offered by Shaw available at http://www.shawandpartners.com.au/.