

GENERAL MARKET OVERVIEW

JUNE 2024



Population & Employment

The Reserve Bank of Australia retained its cash rate at 4.35% during its June meeting, keeping borrowing costs unchanged for the sixth time since it was last raised in November 2023 and aligning with market forecasts. That said, the central bank cautioned again that inflation was still above the midpoint of the 2–3% target range, mainly due to the high cost of services. While recent economic figures have reinforced the need to stay vigilant to upside risks to inflation, the board continued to view that it was not ruling anything in or out as it will rely upon data. At the same time, there were indications of softening economic activity, as highlighted by easing GDP growth, rising jobless rates, and slower-than-expected wage growth. Policymakers added that they will closely monitor the global economy, trends in domestic demand, and the outlook for inflation and the labour market.

The board also kept the interest rate on Exchange Settlement balances unchanged at 4.25%.



Inflation

Consumer Price Index

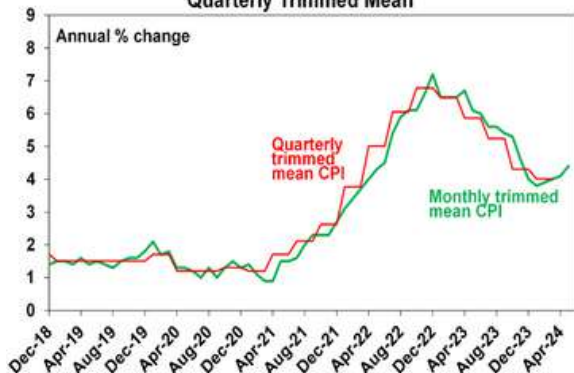
On June 26, the ABS released a higher-than-expected 4% inflation rate for the year to May, up from 3.6% in April. The Bureau noted that the most significant price increases were in housing, up 5.2%; food and non-alcoholic beverages, up 3.3%; transport, up 4.9%; and alcohol and tobacco, up 6.7%.

Electricity prices surged by 6.5% in the year to May, a significant increase from 4.2% in April. According to the ABS, this rise was primarily due to eligible households depleting the Energy Bill Relief Fund rebates, underlining the impact of this trend on the economy.

Australia's monthly CPI indicator has now gone up for three months in a row, driven by an upswing in service inflation at a time when goods inflation has stopped falling. While headline inflation may still be in line with the RBA's forecast for 3.80% yoy in the June quarter, trimmed mean inflation based on monthly data so far risks being materially above its forecast, which is also at 3.8% yoy and implies a 0.8% QoQ rise.

If the June quarter inflation data, to be released in late July, confirms a trimmed mean rise of 1% qoq/4% yoy or more, this could have significant implications for the RBA. It likely prompts an upward revision to its underlying inflation forecasts through next year. Given the RBA's low tolerance for any further upside surprises on inflation, any slowing in the pace at which inflation returns to target could set the scene for another rate hike at its August meeting.

Monthly Trimmed Mean CPI Indicator versus Quarterly Trimmed Mean





Population & Employment

Population

Australia's population was estimated at 26.82 million in September 2023, with growth of 2.5% YoY. The rate of growth has begun to accelerate with borders reopening and migration rapidly increasing, while the natural increase in the population growth rate has dampened. All states and territories have experienced positive population growth rates, with WA having the highest growth of 3.3% YoY to September 2023 and Tasmania growing the slowest at 0.3%. NSW and VIC grew at a respectable rate of 2.3% and 2.9% YoY, respectively.

Employment

The May jobs data mainly was as expected. Monthly job growth was solid at +39.7K (which also reflects the strong growth in the labour force from high population growth), and the unemployment rate fell back to 4.0%. The labour market in Australia remains in good shape. Still, leading indicators suggest further slowing in job growth over the next six months and a gradual rise in the unemployment rate, as per the jobs leading indicator.



Housing

Dwelling Approvals

Total dwelling approvals edged 0.3% lower in April, remaining near 12 year low. The April dwelling approvals update was unremarkable, confirming that new dwelling investment will remain weak, particularly once backlogged projects start to complete. The low level of new dwelling approvals is particularly stark when compared to the strongly rising population. The mix is currently seeing four additional persons for every new dwelling approved – the average over the last 65 years is below two.

Median Dwelling Price

National average home prices rose another 0.8% in May, pushing them further into record territory. However, the gains remain highly diverse. Conditions in Perth, Brisbane and Adelaide continue to be very strong, helped by relatively lower levels of supply evident in total listings running more than 30% below their five-year averages, and strong interstate migration in the case of Brisbane and Perth. But this contrasts with far more constrained conditions elsewhere. Sydney has made it back to its record high but only just and the other capitals remain well below their record highs. Melbourne and Hobart are seeing total listings well above their five-year average.

Vacancy Rates

Rental vacancy rate has fractionally increased in almost all capital cities, teamed with a rise in properties available in most areas, but the numbers remain close to all-time lows. With overseas migration and student visa applications having peaked, the number of prospective tenants per rental property slightly easing, and more renters entering shared housing options to reduce costs, these factors combined could help to relieve some pressure on the rental market. However, the critical undersupply of current and new rental properties, along continued strong demand and rental price growth, means that it will still be tough going for renters and the rental market will remain extremely challenging for the rest of 2024. There were 7.1% more rental property listings nationally in May 2024, with almost all areas seeing increases. The 1.1% national vacancy rate (according to SQM Research) has lifted fractionally, but is still sitting near record lows across all capital cities, apart from Darwin (1.1%) where a downward trend continues. Vacancy rates were highest in Canberra (1.7%), lowest in both Adelaide and Perth (0.6%).

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Sources – ABS, CoreLogic, Domain, SQM, RBA, Westpac, NAB, ANZ and CBA.