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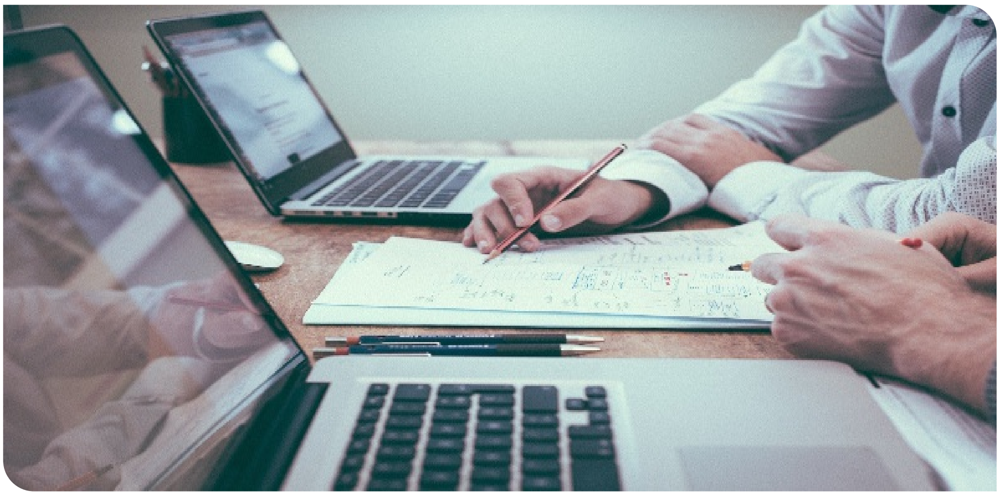

March 2021 Newsletter

Welcome to the latest edition of our newsletter. We hope that you find the following articles to be informative - as we aim to help you make better financial decisions.

Lending update - March

As businesses aim to return to "normal" with the confidence boost offered by the COVID vaccination roll out, all eyes are on housing prices across the country.

Buoyed by record low interest rates, dwelling prices nationally increased by 2.1% in February, which is the fastest month on month increase since 2003. St George Bank Economist, Matthew Bunny, is expecting dwelling prices to continue on this trajectory with up to 10% growth in 2021 and again in 2022.

Housing finance figures also appear to be following a similar upward trend with new lending for housing rising again for the eight consecutive month, up 10.5% in January from December. There is a strong demand for both owner-occupiers and investors, however the ratio of first-home buyers again increased to account for 36.5% of new owner-occupier funding.

One possible contribution to these factors is the First Home Loan Deposit Scheme. On the 3rd of February, first-home buyers across Australia received another boost from the Federal Government with an additional 1800 places added to the Scheme. Subject to income and other tests, first-home buyers are able to purchase a home, or build a new home via the scheme with a much lower deposit than has previously been expected. Via participating lenders, the Scheme guarantees up to 15% of the property value which in turn removes lenders mortgage insurance and total deposit required. When combined with other state-based incentives, this can mean that first-home buyers might only need a 5% deposit to purchase. Such low deposit figures have been unseen since prior to the introduction of responsible lending rules 10 years ago.

In addition to assisting first home buyers into the market, the Federal Government is incentivising owner-occupiers to complete substantial renovations to their properties, or build a new home, as part of an initiative to boost to the construction sector. Whilst the boost has reduced from $25,000 last year, down to the current $15,000, the grant continues to encourage spending. However with a current deadline of 31st of March 2021, the rush is on to sign a contract before the deadline.

Property update - March

Australian home values surged 2.1% higher in February; the largest month-on-month change in CoreLogic's national home value index since August 2003.

Spurred on by a combination of record low mortgage rates, improving economic conditions, government incentives and low advertised supply levels, Australia's housing market is in the midst of a broad-based boom.

According to CoreLogic's research director, Tim Lawless, a synchronised growth phase like this hasn't been seen in Australia for more than a decade. "The last time we saw a sustained period where every capital city and rest of state region was rising in value was mid-2009 through to early 2010, as post-GFC stimulus fueled buyer demand."

Sydney and Melbourne were among the strongest performing markets, recording a 2.5% and 2.1% lift in home values over the month respectively, as Australia's two largest cities caught up from weaker performance through 2020. The quarterly trend however, is still favouring the smaller cities; Darwin housing values rose 5.5% over the past three months, Hobart values rose 4.8% and Perth was up 4.2%.

Regional markets (up +2.1% over the month) have continued to show a higher rate of capital gain relative to the capital cities (up +2.0%), however the performance gap has narrowed compared with the earlier phase of the growth cycle.

One of the factors driving housing prices higher is low advertised supply levels. CoreLogic's most recent measure of total listing numbers continues to see advertised supply significantly below that of recent years. The number of properties advertised for sale nationally remained 26.2% below 2020 levels over the 28 days ending February 21.

Whilst available supply remains at historically low levels, the quarterly number of home sales is estimated to be up 35.3% on 2020 levels, with regional dwelling sales 40.6% higher compared with a 32.0% lift in capital city sales.

Mr Lawless believes the mismatch between supply and demand is a central factor pushing prices higher. "Housing inventory is around record lows for this time of the year and buyer demand is well above average. These conditions favour sellers. Buyers are likely confronting a sense of FOMO which limits their ability to negotiate. Vendor discounting rates were estimated at a record low of 2.6% in February, and auction clearance rates have consistently been in the high 70% to low 80%, which is well above average."

New listing numbers could see a more substantial lift in March, with CoreLogic's real estate platform data indicating agents are becoming more active. "Although new listings are likely to track higher over coming months, if buyer demand continues to lift it's likely overall advertised stock levels will remain low," Mr Lawless said. "Serious buyers would be well advised to have their financing preapproved and be ready to act fast in order to secure a property under such tight supply conditions."

Source: CoreLogic

Should you have any queries in relation to this newsletter, please feel free to contact our office.

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Economic Update March 2021

Within this month's update, we share with you a snapshot of economic occurrences both nationally and from around the globe.

Bond yields spike

- US inflation fears bubble up and the 10-year bond interest rate rises to reflect this
- Globally COVID 19 cases have declined for 6 weeks, millions vaccinated in the US and UK
- Corporate earnings strongly surprise on the upside and governments continue spending

We hope you find this month's Economic Update as informative as always. If you have any feedback or would like to discuss any aspect of this report, please contact our team.

The Big Picture

As if there wasn't enough to contend with in coping with the pandemic, US 10-year bond yields spiked at the end of February and that sent Wall Street into a tail spin. The two phenomena are actually connected but not in an obvious way.

President Biden and his team are making great inroads into vaccinating all US adults who want the vaccine sooner than many expected. That was the bad news! Such was the glee at starting to put an end to the pandemic (or so many think – but more of that later) investors and analysts started to think about a rapid recovery for the US economy.

If/when the US economy fully recovers, that will/might bring with it inflation – a problem that the US has not struggled with for more than a decade. Significant inflation means that the US Federal Reserve ("The Fed") will have to start raising its federal funds rates from almost zero up to something a bit more in line with historical norms.

With participants suddenly confronted with the possibility of tighter monetary policy, the yields on longer-dated US Treasuries started to rise – and quickly. The next piece in the jigsaw is that 10-year yields are just about up to dividend yields on the S&P 500. At long last there seemed to be some alternative to investing in shares!

While this sequence of events seems logical, we think the argument is flawed. And the Fed chairman, Jay Powell, agrees.

Markets react harshly when they are blinded-sided. The S&P 500 fell 2.5% on the last Thursday of February and then fell a further 0.5% the next day. Ouch!

For the US to achieve "herd immunity" where the virus dies out on its own, it is widely accepted that the US needs to vaccinate around 70% or more with an "efficacious" vaccine like the ones from Pfizer and Moderna they are using.

Biden has assured us that he will have 600m doses available by the end of July but that's a long way away from getting two jabs into well over 200m American arms. There are two major problems that Biden is not yet addressing.

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