



**Preston
Rowe
Paterson**

National Property Consultants

Economic *Report*

Australia

About This Report

The PRP Economic Report provides an analysis of the Australian Economy based on various economic indicators and information provided in the March 2013 Statistics from the Reserve Bank of Australia. Our report provides a summary of current figures as well as providing historical data to give an indication of movements in the economy over recent years and to determine possible future trends.

Highlights

- All Groups CPI was recorded at 102.4 in March 2013, an increase of 0.40% over the quarter.
- The 10 year bond rate as at June 2013 is 3.54% with 90 day bank bill rate at 2.80%.
- RBA lowered the cash rate to 2.75%.
- AUD\$ declined slightly to \$1.0191 US in June 2013.

June Quarter 2013

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Inflation and Investor Sentiment

Consumer Price Index

According to the Australian Bureau of Statistics category 6401.0 Consumer Price Index (June 2013), the Australia's All Groups CPI increased by 0.4% over the quarter to June 2013 from 102.4 to 102.8. Analysis of the 12 months to June 2013 has recorded growth of 2.4%.

The most significant price rises in the June quarter 2013 were for medical and hospital services (+3.4%), tobacco (+3.0%), new dwelling purchase by owner-occupiers (+0.9%), furniture (+4.8%) and rents (+1.1%). The most significant price declines were recorded by domestic holiday travel and accommodation (-4.0%) and automotive fuel (-3.1%).

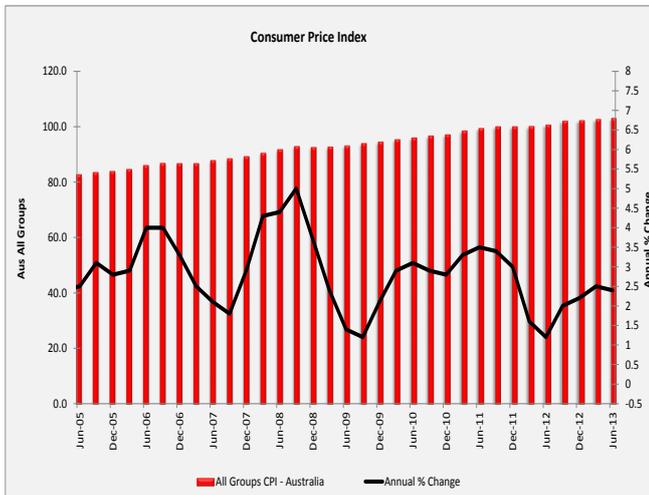


Chart 1 – CPI – Source ABS

The Housing Group recorded growth of 0.6% over the quarter to June 2013. The sub-groups which contributed to this increase were new dwelling purchase by owner-occupiers (+0.9%) and rents (+1.1%). Over the twelve months to June, the housing group recorded a 5.3% increase, with main contributors being electricity (+17.2%), new dwelling purchase by owner-occupiers (+3.6%) and rents (3.4%).

The clothing and footwear group also increased over the June quarter, by 2.7% due to a rise in garments for men (+7.1%), garments for infants and children (+6%). Despite quarterly growth, over the year, the clothing and footwear group declined by 0.3%. The main contributor to the decline was garments for women (-3.1%).

The alcohol and tobacco group also recorded an increase over the quarter of 1.3% with tobacco being the main contributor increasing by 3%. This was due in part to a tax increase which took effect from 1 February 2013. The group recorded annual growth to June 2013 of 4%, with tobacco increasing 9% over the twelve months.

Consumer Sentiment

The Consumer Sentiment Index increased by 4.7% in June from 97.6 in May to 102.2 in June. Over the quarter this was the only increase in sentiment. From March 2013 to May 2013 the index fell by 11.7% from 110.5 to 97.6. In the twelve months to June 2013, the index has recorded growth of 7.25% increasing from 95.6 to 102.2.

With the index over the 100 level again this indicates that optimists outnumber pessimists despite consumer sentiment sitting 7.56% below its peak of 110.5 in March 2013.

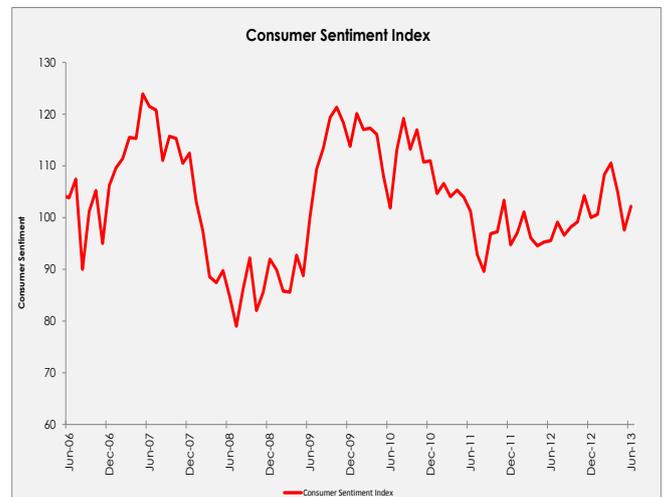


Chart 2—Consumer Sentiment Index—Source—Westpac Melbourne Institute Survey

NAB Business Confidence

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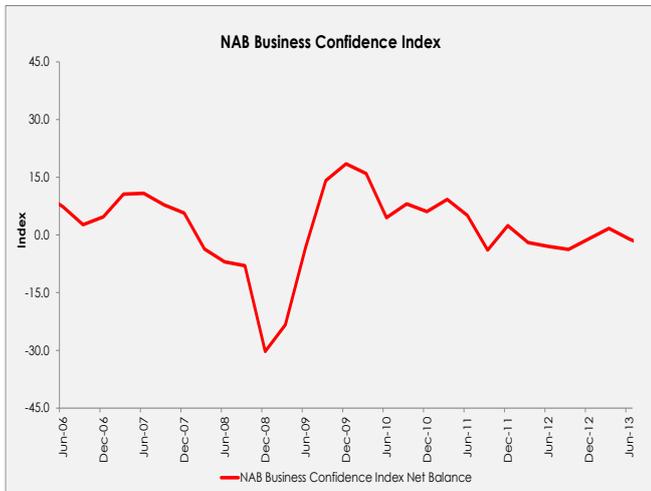


Chart 3 – NAB Business Confidence Index – Source RBA

Bond Market

10 Year Bond & 90 Day Bill Rate

In the twelve months to June 2013, the 10 year Bond rate has increased by 54 basis points to 3.54%. Conversely, the 90 Day Bill Rate has decreased by 69 basis points from 3.49% to 2.80%. Over the June 2013 quarter, 10 Year Government Bonds gained three basis points due to declines in both April and May of 26 basis points and 2 basis points respectively.

The 90 Day Bill Rate recorded monthly declines throughout the June quarter with decreases of 3 basis points in April 20 basis points in May followed by 2 basis points in June. Year on year analysis has revealed that the 90 Day Bill Rate has declined a total of 69 basis points since June 2012.

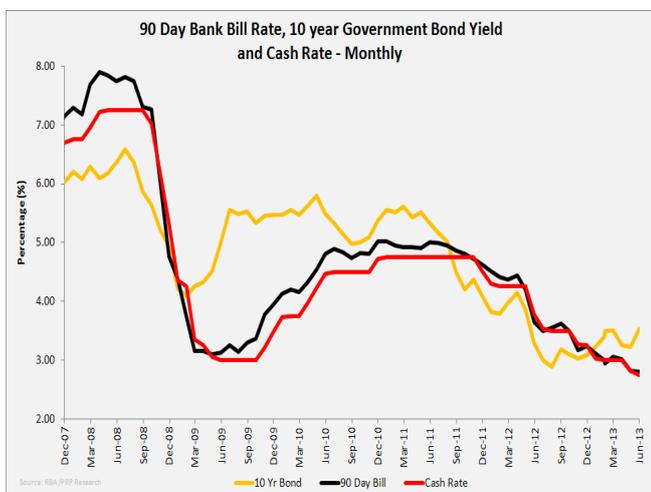


Chart 4 –90 Day Bill, 10 year bond and cash rate - MONTHLY – Source RBA

Analysis of 10 year Government Bonds has revealed an increase of 36 basis points over the month of June 2013 with the 10 year bond rate currently at 3.76%. 90 Day Bill rates revealed growth of 4 basis points over the month of June. The changes in both 10 year bonds and the 90 day bill rate reflect a yield spread of 74 basis points.

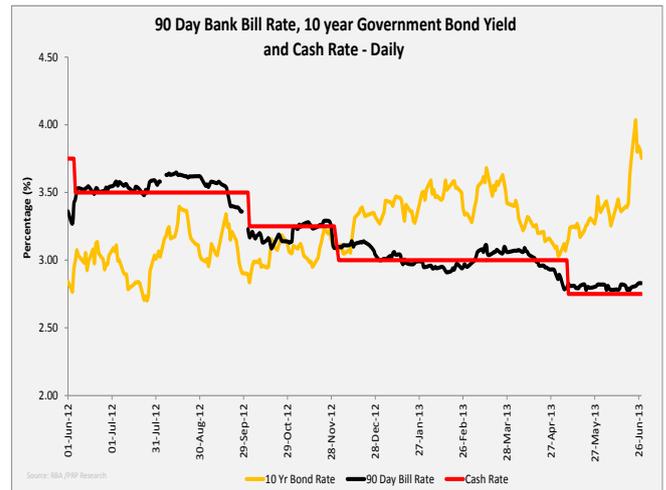


Chart 5 –90 Day Bill, 10 year bond and cash rate – DAILY – Source RBA

Interest Rates

Interest Rate Movements

At the date of publishing, the official Cash Rate over the June quarter 2013 declined by 25 basis points to 2.75%. The decline took place in May and remained unchanged for the months of April and June. The Media Release from the RBA's Glenn Stevens for May 2013 provided the Board's reasoning for a reduction in the cash rate;

"The board has previously noted that the inflation outlook would afford scope to ease further, should that be necessary to support demand. At today's meeting the Board decided to use some of that scope. It judged that a further decline in the cash rate was appropriate to encourage sustainable growth in the economy, consistent with achieving the inflation target".

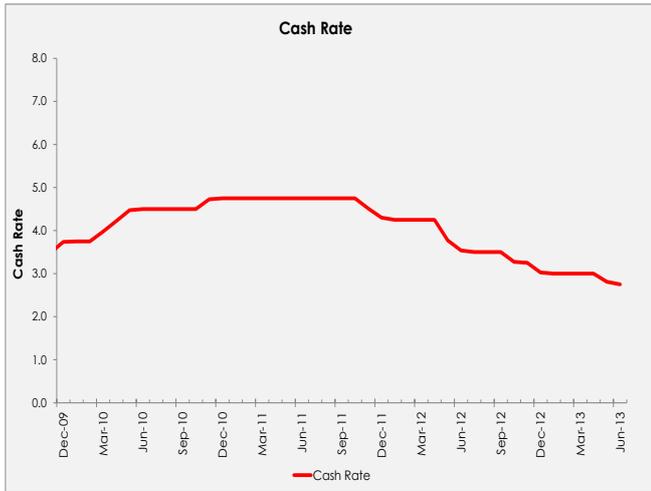


Chart 6 –Cash Rate – Source RBA

Analysis of home loan lending rates has revealed that in line with the RBA's decision of a 25 basis point reduction in the official cash rate, the banks passed this decision on in full to mortgage holders, with the standard variable rate now at 6.2% as at June 2013. Year on year analysis has revealed that home loan rates have been reduced by 60 basis points since June 2012.

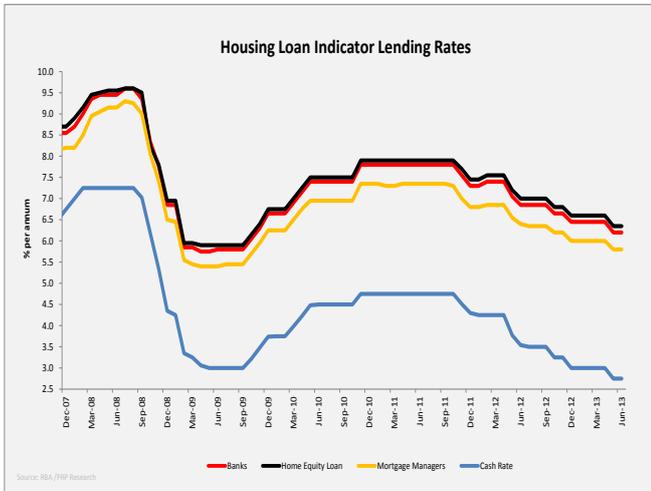


Chart 7 –Housing Loan Indicator Lending Rates – Source RBA

The Small Business Residential Secured Loans also recorded a reduction of 25 basis points to 7.35% due to the RBA's decision to lower the cash rate in April. Small Business Residential Secure Loans are recording the lowest level since October 2009 when the rate was 7.35%. Year on year comparison has revealed a decline of 65 basis points from 8.0% to 7.35%.

Small Business Fixed 3 Year Interest Rates recording a decline of 15 basis points over the quarter to June 2013 to 6.20%. Year on year analysis to June 2013 has shown a significant decline of 40 basis points from 6.60% to 6.20%.

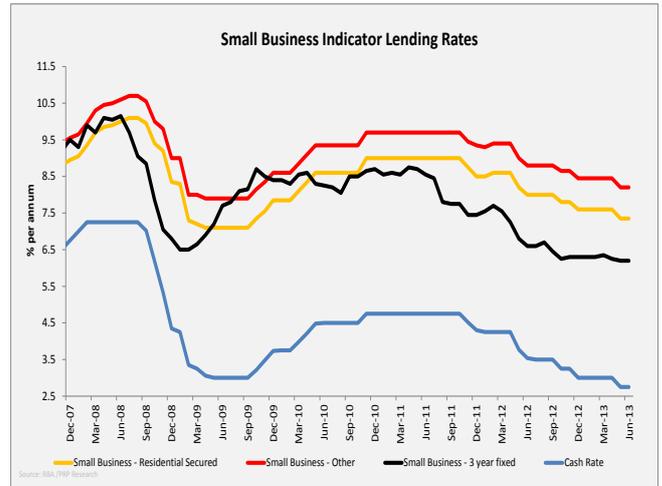


Chart 8 –Small Business Indicator Lending Rates – Source RBA

Exchange Rates & Equity Markets

Australian Exchange Rates

Over the month of June 2013, the Australian Dollar declined across all currencies analysed. A decrease of 3.9% was recorded against the US Dollar, from 0.9649 to 0.9275 reflecting an annual loss of 11%.

The Australian Dollar recorded further monthly decline against other currencies of; Euro, Pound Sterling and Japanese Yen, with the greatest monthly loss attributed to the Japanese Yen with 5.9%. This was followed by the Pound Sterling and Euro with equal decline of 4.2%.

June 2012 figures recorded 1 Australian Dollar buying 1.0191 US\$, 0.6529 Pound, 0.8092 Euro and 80.89 Japanese Yen. These figures reflect a decline in the value of the Australian Dollar of 11% against the US Dollar, 11.90% against the Pound, 13% against the Euro and 6.6% for the Japanese Yen. As at June 2013, 1 Australian Dollar buys 0.9275 US Dollars, 0.6075 Pound, 0.7095 Euro and 91.64 Japanese Yen.

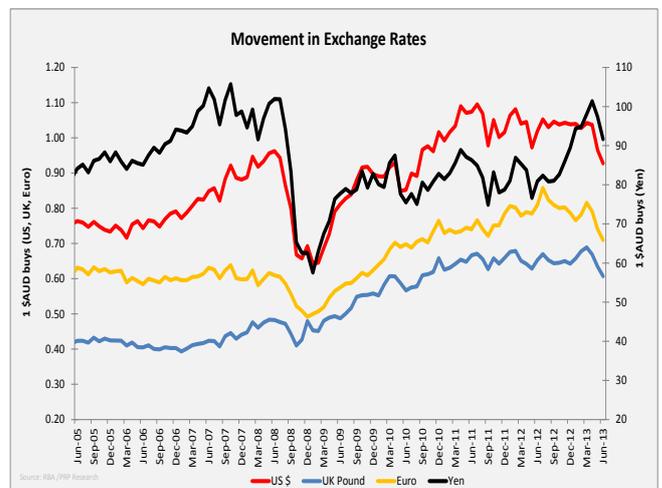


Chart 9 –Movement in Exchange Rates – Source RBA

Share price Indices

The S&P ASX 200 has recorded a decline over the three months to June 2013, with the Index currently at 375.3, a decrease of 3.3% from the March 2013 quarter when the index recorded 388.1.

In the twelve months to June 2013, the S&P ASX 200 has recorded an annual growth of 17.3% increasing by 55.4 points. Over the twelve months positive growth was recorded, despite a trough in June 2012 of 319.9. In the June 2013 quarter the Index experienced its highest level since 2007 with 405.6 index points in April.

The US S&P 500 recorded a growth of 2.36% over the three months to June 2013 as the Index reached 486.4. Year on year analysis revealed a growth of 73.9 Index points reflecting an increase of 17.9%.

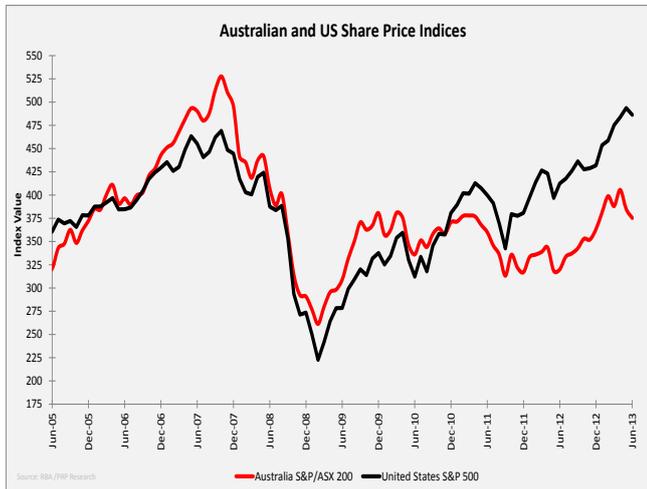


Chart 10 – Australian and US Share Price Indices – Source RBA

Industrials, All Ordinaries and Property Trust Index Values

The June 2013 quarter saw the All Ordinaries Index decline by 4.11% from 4979.87 Index Points in March 2013 to 4775.41 in June 2013, a decrease of 204.41 Index Points. Year on year analysis revealed a 15.5% growth to June 2013, with the Index gaining 639.91 Index Points.

The Industrial Index recorded an annual growth of 10.6% despite a decline over the quarter to June 2013 of 7.3%. This reflected an annual gain of 343.55 Index points to close at 3584.65. Month on month analysis revealed a decline of 3.3%, a loss of 121.08 Index Points.

The ASX Property Trust Index recorded significant growth over the 12 months to June 2013 to close at 1029.75 Index Points. Analysis of the June quarter revealed growth of 1.61%, and month on month recorded a decline of 2.41% reflecting a loss of 25.43 Index Points.

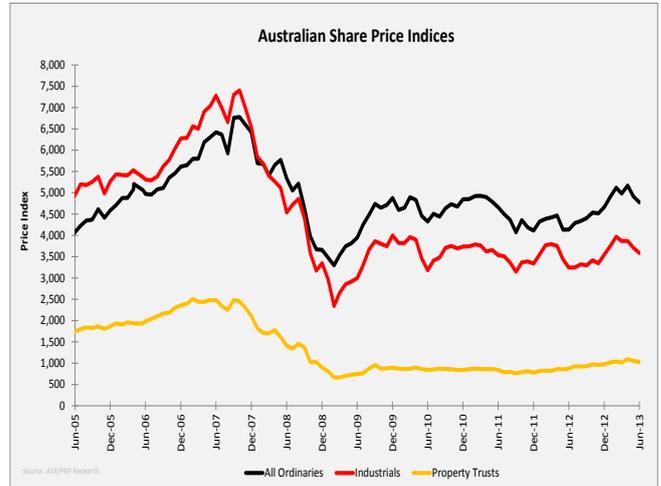


Chart 11 – Australian Share Price Indices – Source ASX

Gross Domestic Product

GDP

GDP figures for the June quarter are not available until the 4th September 2013 however PRP research over the March 2013 quarter revealed that the Australian economy recorded growth of 0.55% which brings annual growth to 1.9%

In seasonally adjusted terms, the main contributors to expenditure on GDP were Net exports which increased by 1% and Final Consumption expenditure increasing by 0.4 percentage points. The main declines were total gross fixed capital formation and changes in inventories with declines of 0.7 percentage points and 0.4 percentage points respectively.

Total public gross fixed capital formation (GFCF) measures the value of acquisitions of new or existing fixed assets by the business, government and household sectors less the disposals of fixed assets. GFCF is a component of GDP expenditure and reflects how much of the new value added in the economy is invested rather than consumed

In seasonally adjusted terms, the main contributors to GDP were Agriculture, forestry and fishing which increased by 2.6%. Transport, postal and warehousing increased by 2.4%, followed by financial and insurance services which recorded growth of 2.2%. Retail trade and mining also recorded growth of 2.1% and 1.5% respectively.

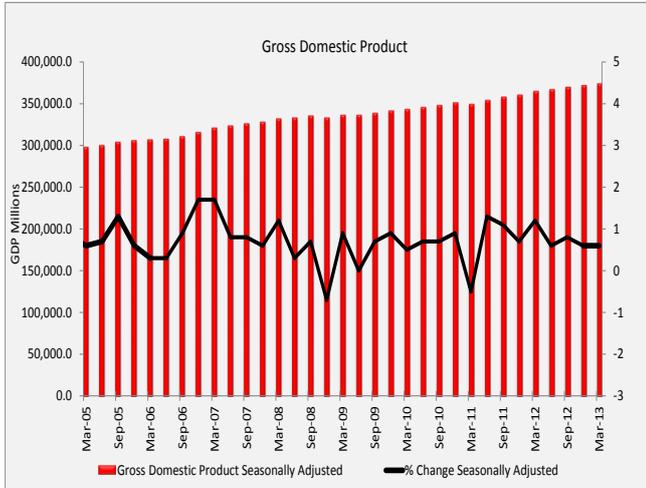


Chart 12 – GDP– Source ABS

Over the March 2013 quarter, Dwelling Investment recorded a 0.79% increase which reflects annual growth of 4.4%. Building and structures investment data revealed that over the March 2013 quarter there was a decline of 4.26% to \$35,540 million seasonally adjusted.

GDP over the quarter to March 2013 recorded growth of 1.33% which brings total GDP over the quarter to \$379,555. Household Consumption for Private Dwellings over the March 2013 quarter revealed growth of 1.01% reflecting annual growth of 4.88%.

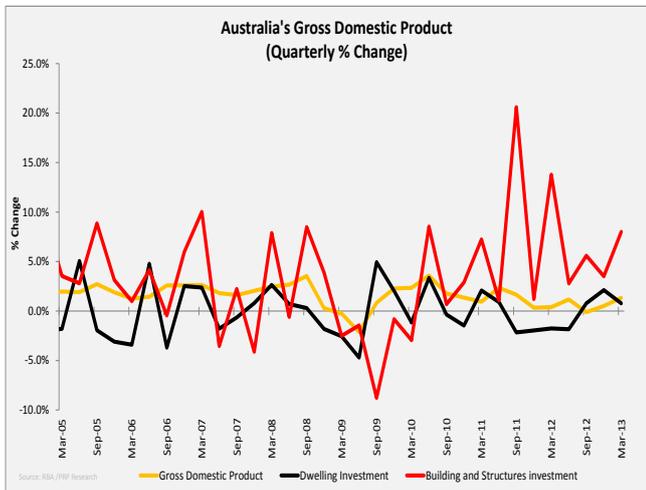


Chart 13 – Australia's GDP (Quarterly % Change) - Source ABS

Labour Force

Unemployment

Over the month to June 2013, the number of unemployed people rose by 23,732 from 685,554 in May 2013 to 709,287 in June 2013 which is a percentage increase over the month of 3.46%.

Employment over the month to June 2013 recorded an increase of 10,334 persons from 11,658,199 in May 2013 to 11,668,533 In June 2013 a percentage increase of 0.089%. Over the year to June 2013 employment in Australia recorded a growth of 1.39% increasing by 160,446 persons.

Full time employment to June 2013 has declined by 0.54 percentage points from 8,148,882 to 8,144,459, a decline of 4,422 persons. Part time employment recorded growth of 0.42% to 3,524,074 persons an increase of 14,757 persons over the month to June 2013. Year on year comparison recorded growth of 0.793% for full time employment and growth of 2.81% for part time employment.

The unemployment rate increased over the month to June by 0.1 percentage points to 5.7% reflecting an increase of 23,732 unemployed to 709,287. Year on year analysis revealed a percentage increase of 11.88% reflecting an increase of 75,316 unemployed persons over the twelve months to June 2013.

The number of unemployed seeking full time employment increased over the month by 16,926 to 525,918, which reflects a percentage increase of 3.33%. Similarly the number of unemployed persons seeking part time employment increased by 6,806 to 183,367, which is a percentage increase of 3.85%.

The participation rate recorded a slight increase of 0.1 percentage points to 65.3% as at June 2013, with year on year comparison revealing a 0.1% increase.

Over the month of June 2013 aggregate number of hours worked increased by 8.82 million hours to a total of 1,638.6 million hours seasonally adjusted.

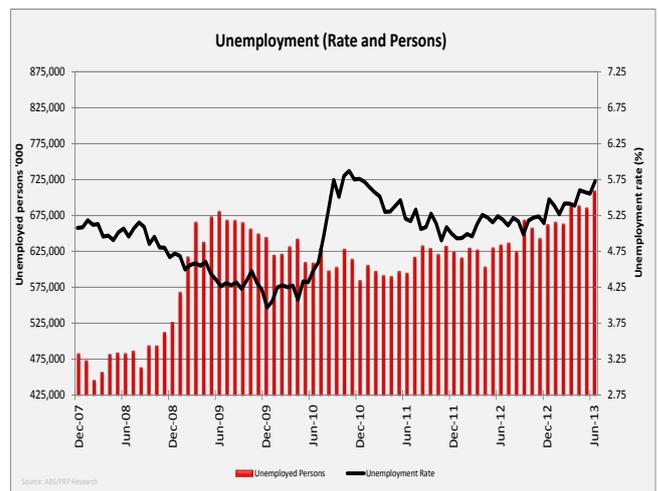


Chart 14 – Unemployment (Rate and Persons) - Source RBA

Wage Price Index

Data for the June quarter is not available as at the date of publishing, however according to the Australian Bureau of Statistics the Wage Price Index rose by 0.7 percentage points over the March quarter 2013, bringing the total annual growth to 3.23%. Private sector and public sector wages increased over the quarter by 0.7% and 0.6% respectively reflecting annual growth of 3.2% and 3% respectively.

State and Territory Wage Price Index analysis revealed that South Australia and Western Australia recorded the largest overall quarterly growth with 0.9%. The lowest growth was experienced by the Australian Capital Territory with a rise of 0.3%.

In the private sector, Western Australia recorded the most significant quarterly growth of 1%, while Victoria and Tasmania recorded the smallest growth with 0.4%. In the public sector, South Australia recorded largest growth over the quarter with a rise of 1.4%. The Northern Territory and Australian Capital Territory recorded the smallest rise of 0.1%.

Year on year analysis of the States and Territories revealed that in the private sector annual growth ranged from 2.7% for the Australian Capital Territory to 3.6% for Western Australia. In the public sector Western Australia recorded the largest annual growth with 4%. The smallest growth was experienced by New South Wales and Queensland with 2.8%.

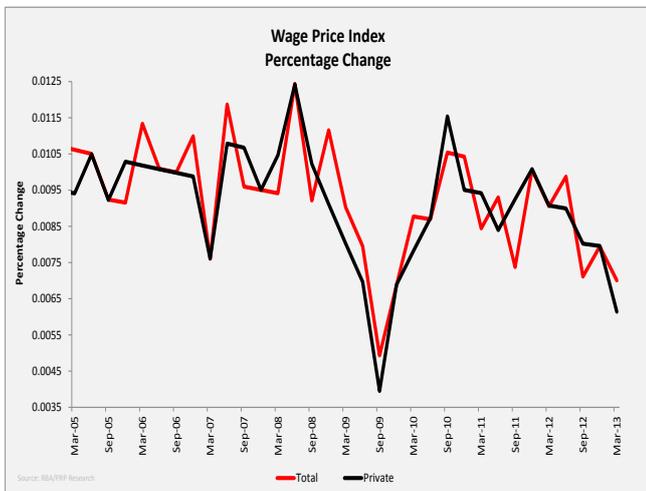


Chart 15 – Wage Price Index - Source RBA

Balance of Payments

Current Account Balance

Data for the June 2013 quarter is not currently available however over the March 2013 quarter, Australia's Current Account Deficit decreased by \$6.249 billion to current account balance of \$8.510 billion as at March 2013 which reflects a 42% decline. Over the twelve months to March 2013, the current account deficit has decreased by 39%.

Export earnings increased by 3.6%, to \$63.349 billion over the March quarter 2013, whilst year on year recorded a growth of 1.7%. Imports declined over the March 2013 quarter by 4.7% to a total figure of \$60.253 billion.

In seasonally adjusted terms, the balance on goods and services was a surplus of \$8.028 billion which was an 84% rise when compared to the December quarter 2012. The net deficit on services dropped by 3 percentage points which reflects a \$127 million decrease. The increase in the balance of goods and services surplus is expected to contribute 1% to growth in the March 2013 quarter GDP.

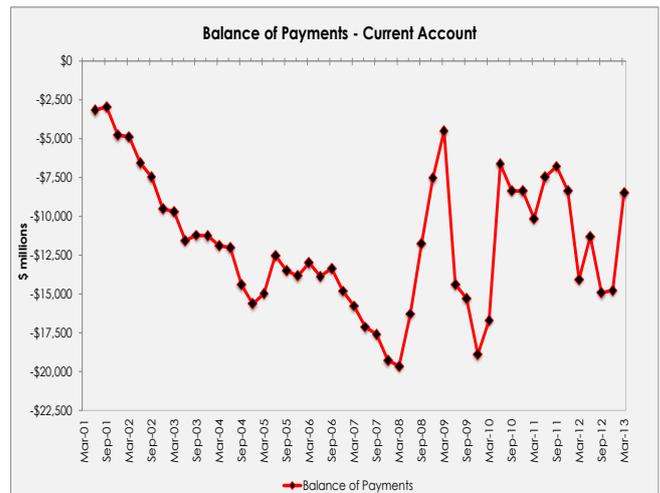


Chart 16 – Balance of Payment Current Account Deficit - Source RBA

International Investment Position

Data for the March quarter is not currently available however over the March 2013 quarter Net Foreign Debt increased by \$6.294 billion to \$763.578 billion, this reflected a year on year percentage increase of 4.62%. Net Equity Liabilities also increased over the quarter by 6.08%, a \$6.501 billion increase, bringing total international investment (NFD + NFL) to \$877.075 billion, reflecting an annual percentage increase of 2.48%.

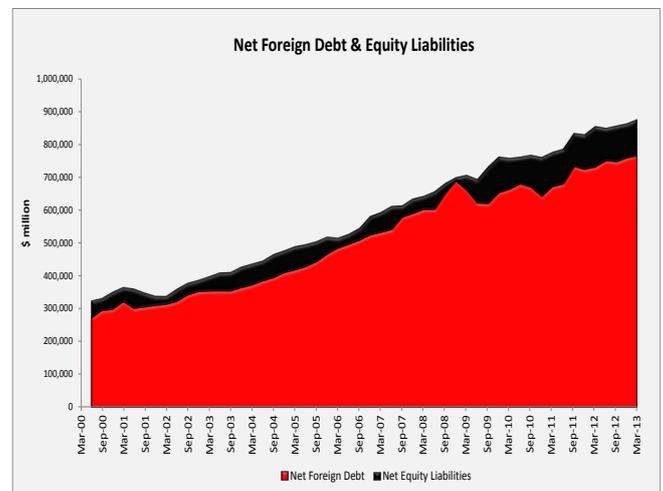


Chart 17 –NFD & Equity Liabilities – Current Account—Source RBA

Our Research

At Preston Rowe Paterson, we pride ourselves on the research which we prepare in the market sectors within which we operate. These include Commercial, Retail, Industrial, Hotel & Leisure and Residential.

Our Corporate Property Services

We have *property* covered

- Investment
- Development
- Asset
- Corporate Real Estate
- Mortgage
- Government
- Insurance
- Occupancy
- Sustainability
- Research
- Real Estate Investment Valuation
- Real Estate Development Valuation
- Property Consultancy and Advisory
- Transaction Advisory
- Property and Asset Management
- Listed Fund, Property Trust, Super Fund and Syndicate Advisors
- Plant & Machinery Valuation
- General and Insurance Valuation
- Economic and Property Market Research

Types of Real Property

We have all *real estate* types covered

We regularly provide valuation, property and asset management, consultancy and leasing services for all types of Real Estate including:

- CBD and Metropolitan commercial office buildings
- Retail shopping centres and shops
- Industrial, office/warehouses and factories
- Business parks
- Hotels (accommodation) and resorts
- Hotels (pubs), motels and caravan parks
- Residential development projects
- Residential dwellings (individual houses and apartments/units)
- Rural properties
- Special purpose properties such as: nursing homes; private hospitals, service stations, oil terminals and refineries, theatre complexes; etc.

Types of Plant & Machinery

We have all types of *plant & machinery* covered

We regularly undertake valuations of all forms of plant, machinery, furniture, fittings and equipment including:

- Mining & earth moving equipment/road plant
- Office fit outs, equipment & furniture
- Agricultural machinery & equipment
- Heavy, light commercial & passenger vehicles
- Industrial manufacturing equipment
- Wineries and processing plants
- Special purpose plant, machinery & equipment
- Extractive industries, land fills and resource based enterprises
- Hotel furniture, fittings & equipment

Our Clients

We have all *client profiles* covered

Preston Rowe Paterson acts for an array of clients with all types of real estate, plant, machinery and equipment interests such as:

- Accountants
- Banks, finance companies and lending institutions
- Commercial and Residential non bank lenders
- Co-operatives
- Developers
- Finance and mortgage brokers
- Hotel owners and operators
- Institutional investors
- Insurance brokers and companies
- Investment advisors
- Lessors and lessees
- Listed and private companies corporations
- Listed Property Trusts
- Local, State and Federal Government Departments and Agencies
- Mining companies
- Mortgage trusts
- Overseas clients
- Private investors
- Property Syndication Managers
- Rural landholders
- Solicitors and barristers
- Stock brokers
- Trustee and Custodial companies

Our Service Area

We have all *locations* covered

From our central office location within the Sydney Central Business District we serve our clients' needs throughout the Sydney CBD, greater Sydney metropolitan area, throughout the state of New South Wales. For special purpose real estate asset classes, infrastructure, and plant & machinery we operate throughout Australia and globally either directly or through our relationship offices.

Reasons for our Services

We have *your needs* covered

Our clients seek our property (real estate, infrastructure, plant and machinery) services for a multitude of reasons including:

- Acquisitions & Disposals
- Alternative use & highest and best use analysis
- Asset Management
- Asset Valuations for financial reporting to meet ASIC, AASB, IFRS & IVSC guidelines
- Compulsory acquisition and resumption
- Corporate merger & acquisition real estate due diligence
- Due Diligence management for acquisitions and sales
- Facilities management
- Feasibility studies
- Funds management advice & portfolio analysis
- Income and outgoings projections and analysis
- Insurance valuations (replacement & reinstatement costs)
- Leasing vacant space within managed properties
- Listed property trust & investment fund valuations & revaluations
- Litigation support
- Marketing & development strategies
- Mortgage valuations
- Property Management
- Property syndicate valuations and re-valuations
- Rating and taxing objections
- Receivership, Insolvency and liquidation valuations and support/advice
- Relocation advice, strategies and consultancy
- Rental assessments and determinations
- Sensitivity analysis
- Strategic property planning

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