



**Preston  
Rowe  
Paterson**

®  
National Property Consultants

# Economic Report

## Australia

### About This Report

The Preston Rowe Paterson Economic Report provides an analysis of the Australian Economy based on various economic indicators and information provided in the December 2014 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 106.6 in December 2014, an increase of 0.2% over the quarter.
- The 10 year bond rate as at December 2014 is 2.96% with 90 day bank bill rate at 2.75%.
- Cash rate remain unchanged at 2.50% in December 2014.
- AUD\$ increased to \$0.8202 US in December 2014.

### December Quarter 2014

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## Inflation and Investor Sentiment

### Consumer Price Index

According to the Australian Bureau of Statistics (December 2014), the Australia's All Groups CPI increased by 0.2% over the December quarter from 106.4 to 106.6. The annual CPI change to December 2014 recorded a growth of 1.7%.

The most significant price rises over the December quarter were for Holiday travel and accommodation (+5.8%), Tobacco (+4.8%) and new dwelling purchases by owner-occupiers (+1.1%). The greatest price fall over the December quarter was attributed to Automotive fuel (-6.8%) and Audio, visual and computing equipment (-5.2%).

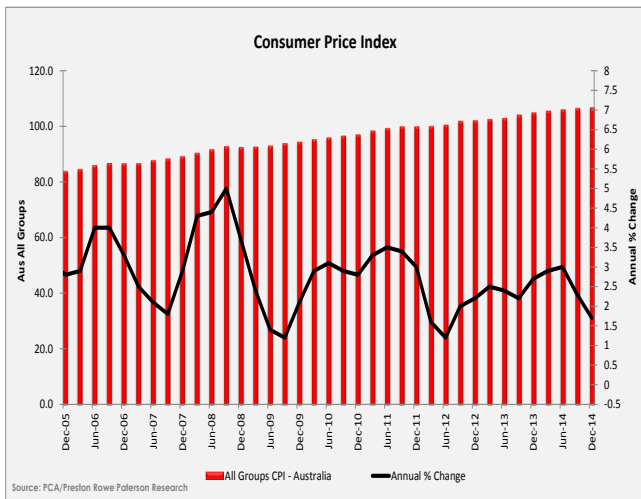


Chart 1 – CPI – Source ABS

The Housing Group increased by 0.5% over the December quarter. The main contributors to the price rise were in new dwelling purchase by owner-occupiers and rents recording a growth of 1.1% and 0.5% respectively. Over the twelve months to December 2014, the housing group recorded growth of 2.4% which was backed by the 4% annual growth in new dwelling purchases by owner-occupiers.

The furnishings, household equipment and services group recorded a growth of 0.5% over the December quarter 2014. The main contributors to the growth was non-durable household products (+2.5%).

The insurance and financial services group increased by 1% over the December quarter 2014. There was recorded growth in other financial services (+1.1%) and insurance (+1.3%). Through the year to December 2014 the insurance and financial services group rose 2%, with other financial services contributing to the growth by a 2.6% increase.

### Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index fell by 5.7% in December from 96.6 index points in November to 91.1 index points in December. Over the quarter the index has decreased by -2.9 points, a 3.09% fall. Over the twelve months to December the index declined by -13.9 index points, reflecting a percentage decline of -13.24%.

The Index has fell below the August 2011 record low. Westpac's Chief Economist, Bill Evans stated; "This is a very disturbing result... the economy had been limping along at a 1.6% annualised growth pace for the last six months, with national incomes declining and overall activity contracting in the quarter in every state except New South Wales. (Survey) Respondents may have been particularly unnerved by media references to an 'income recession'."

Major concerns in December were about the economic outlook of the economy, job security, housing market as well as the ongoing disillusionment of the May Budget 2014.

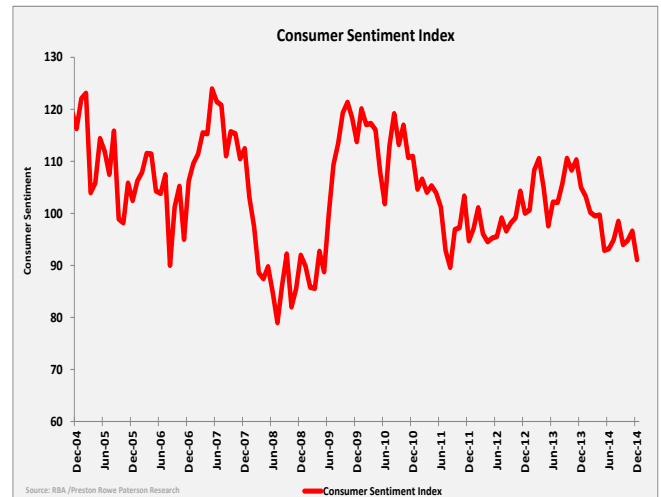


Chart 2—Consumer Sentiment Index—Source—Westpac Melbourne Institute Survey

### NAB Business Confidence

Business Confidence increased by 1 point to +2 points in the month of December. According to the NAB Monthly Business Survey:

"Confidence remains at its lowest level since the pre election jump in mid 2013. The index movements reflected two major differing movements. On the negative side there were large declines in mining and fin/prop/bus (down 34 and 10 points). On the positive side transport/utilities improved significantly (up 14), to be the most optimistic industry (oil price related) and service sectors improved somewhat. Elsewhere most sectors were flat. Trend confidence in construction is highest (+9) followed by recreation and personal services (+5). In contrast, mining is lowest by a significant margin (-18). The higher than expected budget deficit in the Government's MYEFO did not seem to have a big impact on confidence."

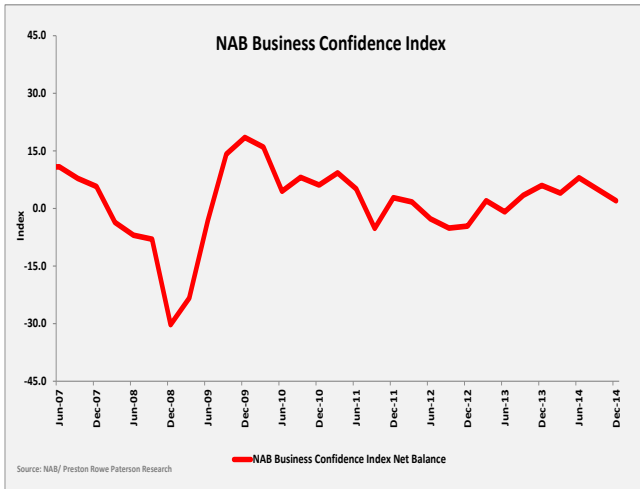


Chart 3 – NAB Business Confidence Index – Source NAB

## Bond Market

### 10 Year Bond & 90 Day Bill Rate

In the twelve months to December 2014, the 10 Year Bond Rate has decreased by 128 basis points to 2.96%. Conversely, the 90 Day Bill Rate increased by 14 basis points to 2.75%.

Over the December 2014 quarter, 10 Year Government Bonds recorded a decline of 59 basis points from 3.55%. The 90 Day Bill Rate recorded a steady increase over the December quarter of 9 basis points. Year on year analysis has revealed that the 90 Day Bill Rate has increased by 147 basis points since December 2013.

Analysis of 10 Year Government Bonds has revealed an increase of 30 basis points over the month of December 2014 with the 10 year bond rate currently at 2.96%. 90 day bill rates experienced no changes in the December month, remaining at 2.75%. The changes in both 10 year bonds and the 90 day bill rate reflect a yield spread of 4 basis points.

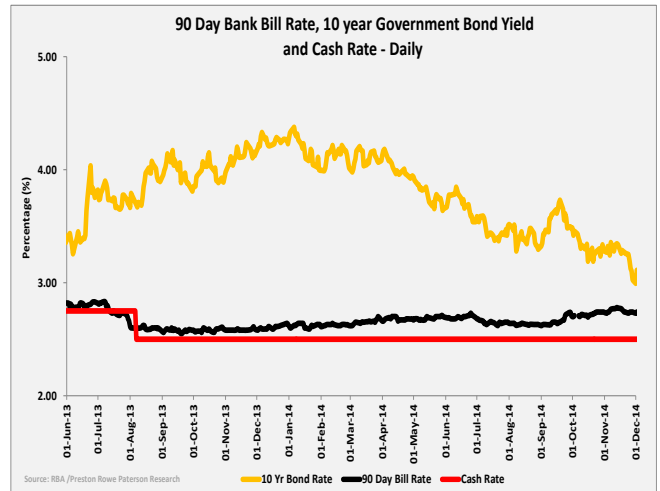


Chart 5 –90 Day Bill, 10 year bond and cash rate – DAILY – Source RBA

## Interest Rates

### Interest Rate Movements

As at the date of publishing, the official Cash Rate over the December quarter 2014 remained unchanged at 2.50%. The Reserve Bank of Australia's Media Release for December 2014, released 2nd December 2014 explained that;

*"In Australia, most data are consistent with moderate growth in the economy. Resources sector investment spending is starting to decline significantly, while some other areas of private demand are seeing expansion, at varying rates. Public spending is scheduled to be subdued. Overall, the Bank still expects growth to be a little below trend for the next several quarters."*

The media release also stated that inflation is as expected to be consistent with its 2%-3% target over the next two years. The cash rate has remained unchanged since September 2013.

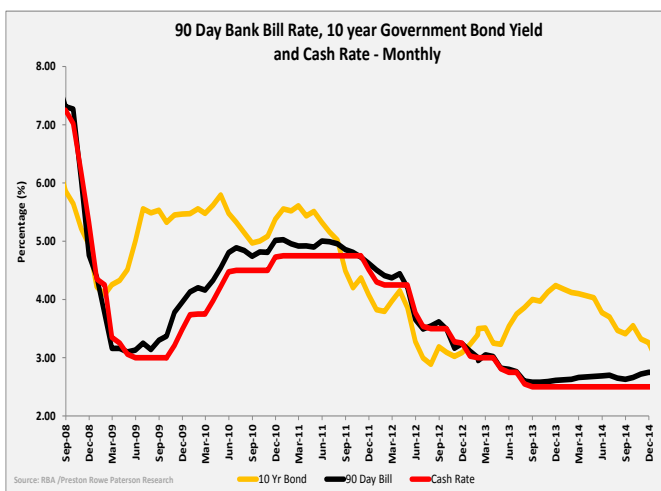


Chart 4 –90 Day Bill, 10 year bond and cash rate - MONTHLY – Source RBA

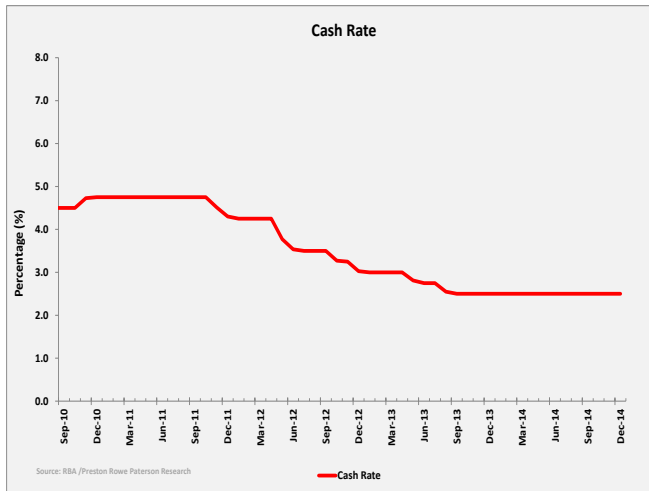


Chart 6 –Cash Rate – Source RBA

Since August 2013, home loan interest rates have remained steady at 5.95% to December 2014 in line with the unchanged cash rate decision by the RBA at 2.5%. Over the December quarter there were no interest rate cuts, resulting in bank interest rates remaining unchanged at 6.10%.

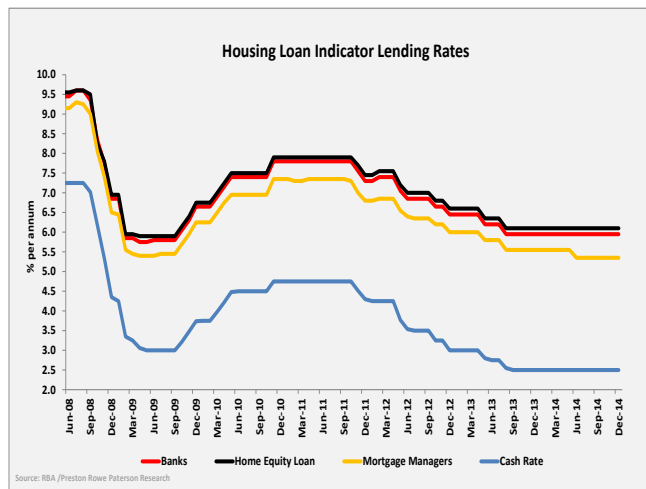


Chart 7 –Housing Loan Indicator Lending Rates – Source RBA

The small business residential securing loans remained unchanged over the December quarter at 7.10%. Over the past twelve months there has no changes to the residential secured loans interest rates which is in line with the RBA's unchanged rate. Small Business Fixed 3 Year Interest Rates decreased by 0.25 percentage points over the December quarter. In comparison to December 2013, 3 year fixed rates have decreased by 0.40 percentage points, from 6.10% to 5.85%.

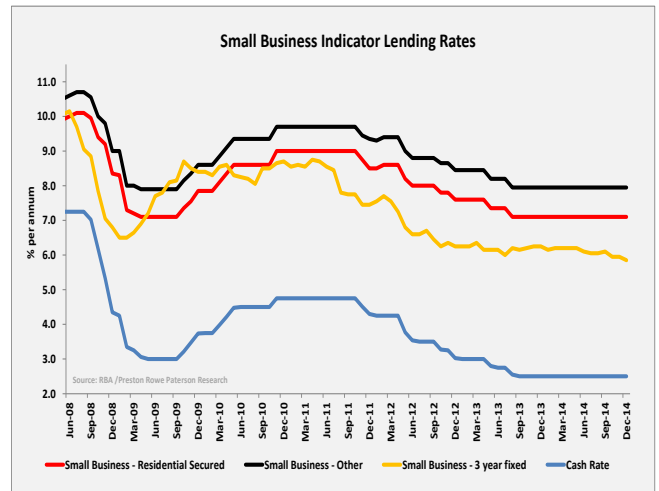


Chart 8 –Small Business Indicator Lending Rates – Source RBA

## Exchange Rates & Equity Markets

### Australian Exchange Rates

Over December quarter 2014, the Australian Dollar fell significantly against the US Dollar, decreasing from \$0.8752 in September to \$0.8202 in December. Over the twelve months to December, the Australian dollar has decreased by 8.34% from \$0.8948 US.

The Australian Dollar also recorded decline against other major currencies of UK Pound Sterling and Euro. The Australian Dollar exchange rates against the UK currency fell 6.3% and Euro at 2.1% respectively in the December quarter. The Australian Dollar rose by 2.4% against the Japanese Yen.

Year on year analysis saw the Australian Dollar decline in the British Pound of 8.34% to £0.5271. The Australian Dollar experienced an annual increase against the Euro of 4.02% €0.6898 and the Yen of 4.35% to ¥98.04.

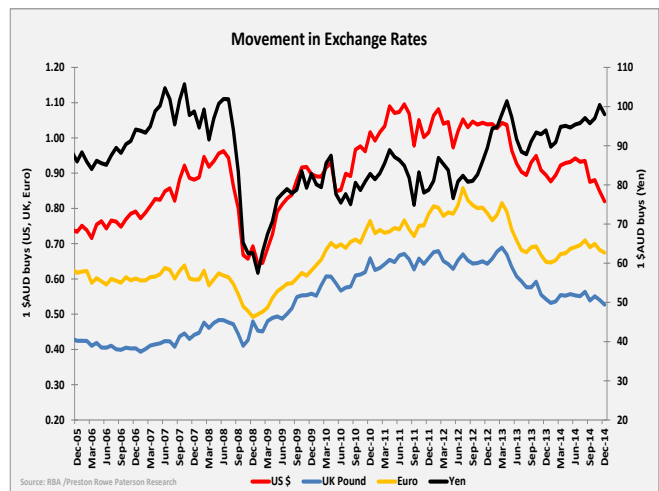


Chart 9 –Movement in Exchange Rates – Source RBA

## Share price Indices

Over the December quarter, the S&P ASX 200 Index recorded an increase of 2.22% from 413.6 in September to 422.8 in December. Over the twelve months to December 2014, the S&P ASX 200 Index has recorded growth of 1.1% increasing by 4.6 index points.

The US S&P 500 Index recorded a growth of 4.39% over the three months to December 2014 as the index reached 623.5. Year on year analysis to December revealed a growth of 63.8 index points, reflecting an increase of 11.4%.

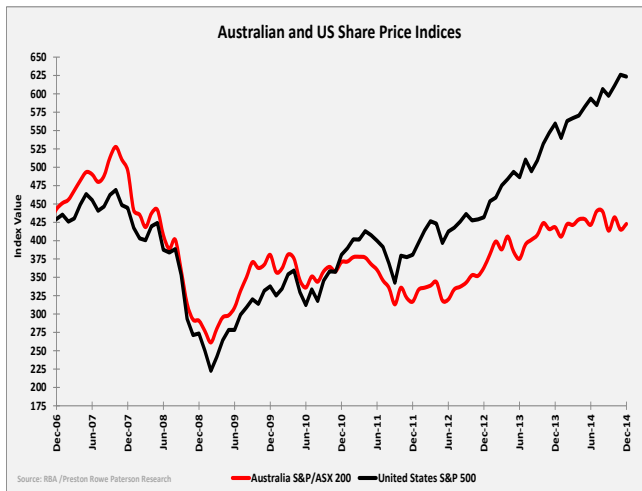


Chart 10 – Australian and US Share Price Indices – Source RBA

## Industrials, All Ordinaries and Property Trust Index Values

The December 2014 quarter saw the All Ordinaries Index increase by 1.73% from 5296.75 in September to 5388.60 in December. The year on year analysis has revealed the All Ordinaries Index increasing by 0.7%, reflecting an increase of 35.52 index points.

The Industrial Index recorded a growth of 7.80% over the December quarter and reflected an annual growth of 8.9%. Since December 2013, there has been an increase of 352.92 index points.

The ASX Property Trusts followed with an increase of 9.81% over the quarter. Similarly it experienced a significant growth of 20.4% over the twelve months to December 2014 which reflected an increase of 201.26 index points.

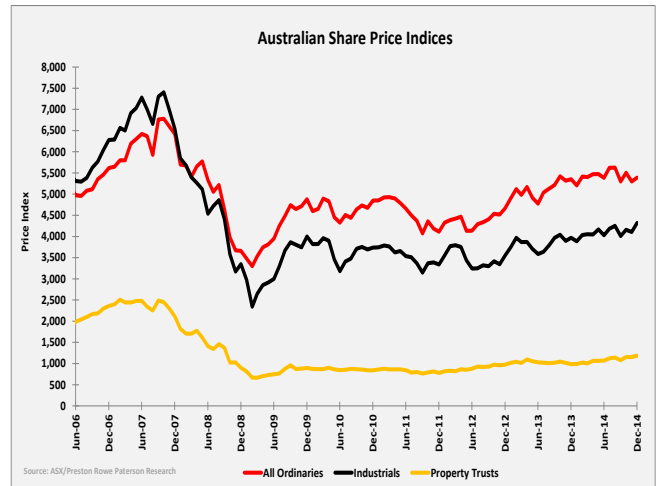


Chart 11 – Australian Share Price Indices – Source ASX

## Gross Domestic Product

### GDP

GDP figures for the December quarter are not available until the 4th March 2015 however Preston Rowe Paterson Research over the September 2014 quarter revealed that the Australian economy recorded growth of 0.3% seasonally adjusted which reflected growth of 2.7% seasonally adjusted over the twelve months to September 2013.

The main contributors to expenditure on GDP were Net exports which increased by 0.8% and Final consumption expenditure which increased by 0.4% which was offset by the decrease in Private gross fixed capital formation at -0.5% and Public gross fixed capital formation at -0.2% respectively.

Gross fixed capital formation (GFCF) measures the value of acquisition of new or existing 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 industry gross value added contributors to GDP were Financial and insurance services which increased by 0.2%, Mining and Information media and telecommunications each increased by 0.1% to the increase in GDP.

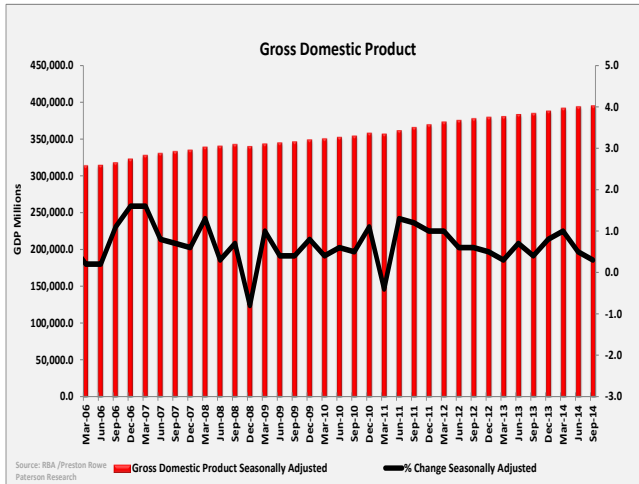


Chart 12 – GDP– Source ABS

The terms of trade decreased by 3.5% in seasonally adjusted terms over the September quarter. Over the twelve months to September, the terms of trade has declined by 8.9%. The terms of Trade represent the relationship between the prices of exports and imports. An increase/decrease in the terms of trade reflects export prices increasing/decreasing at a faster rate than import prices.

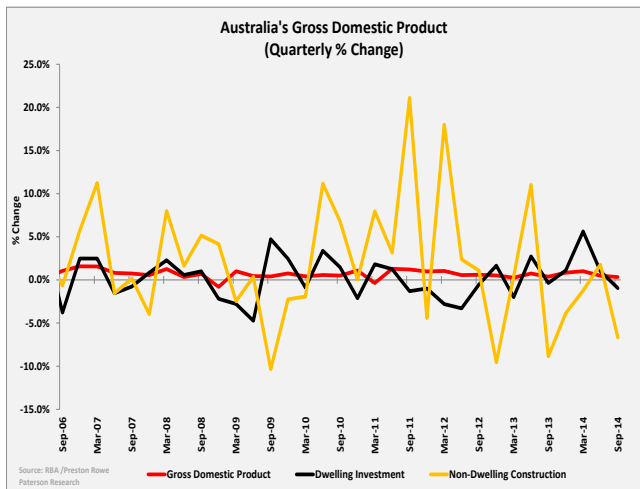


Chart 13 – Australia's GDP (Quarterly % Change) - Source ABS

## Labour Force

### Unemployment

Over the month to December 2014, the number of unemployed people decreased by 16,220 from 775,377 in November to 759,156 in December which is a 2.09% decrease. In comparison to December 2013, the number of unemployed people has increased by 40,135 which reflected an annual increase of 5.58%. The unemployment rate as at December 2014 is 6.1%.

Full time employment increase by 41,600 persons to 8,105,300 persons in the month of December 2014. Part time employment recorded a decrease of 4,100 persons over the month to December to 3,574,100 persons.

The number of unemployed seeking full time employment recorded an increase over the month of December by 6,048 to 551,459 persons, reflecting a growth of 1.11%. The number of unemployed seeking part time employment recorded a decreased over the month by 22,269 to 207,697 persons, reflecting a growth of 2%.

The participation rate recorded a marginal increase of 0.1 points to 64.8% as at December 2014, with year on year comparison revealing a 0.2 percentage point increase.

The aggregate monthly hours worked had decreased by 7.7 million hours to 1,597.8 million hours at a 0.5% growth over December.

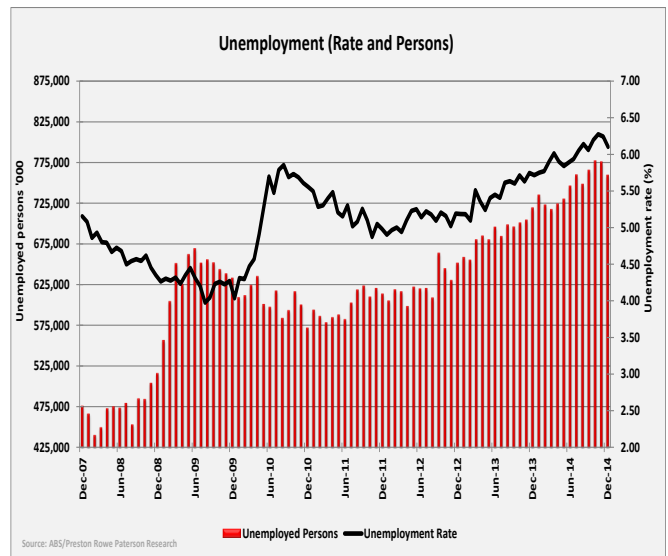


Chart 14 – Unemployment (Rate and Persons) - Source ABS

## Wage Price Index

Data for the December quarter is not currently available, however according to the Australian Bureau of Statistics the Wage Price Index rose by 0.6 percentage points seasonally adjusted over the September 2014 quarter, reflecting growth of 2.6% seasonally adjusted in comparison to September 2013. The public and private sectors increased over the quarter by 0.6% and 0.5% respectively, with through the year rises of 2.5% and 2.7%.

Over the September 2014 quarter, Tasmania was the only state or territory to record the highest annual wage growth at 1.1% as well as in annual comparison to 2013.

In the private sector, the Tasmania experienced the most marked quarterly growth of 1.4% whilst New South Wales, Western Australia and the Northern Territory recorded the smallest rise with 0.8%. Through the year rises in the private sector ranged from 2.1% for the Western Australia to 2.8% for Northern Territory.

New South Wales and Northern Territory recorded the most significant quarterly growth in the public sector with a growth of 1.2%. The Queensland experienced the smallest rise of 0.3%. In comparison to September 2013 the most marked growth in the public sector was recorded by Victoria with 3.1%. The smallest rise was in the Australian Capital Territory with 1.2% growth.

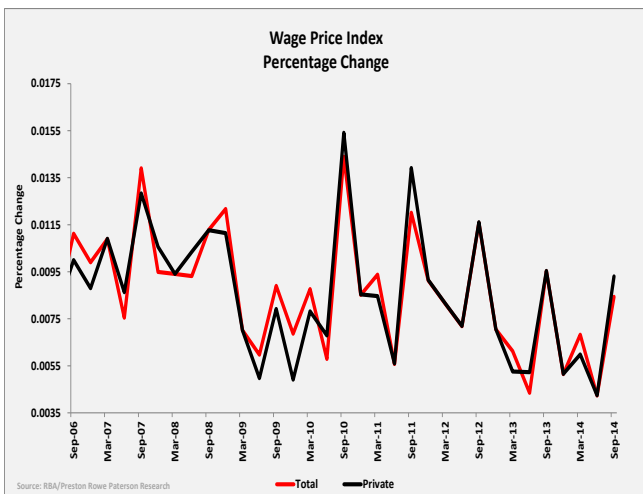


Chart 15 – Wage Price Index - Source ABS

## Balance of Payments

### Current Account Balance

Data for the December quarter 2014 is not currently available however over the September quarter 2014, Australia's Current Account Deficit decreased by \$1.423 billion to current account balance of \$12.525 billion in the September quarter 2014 seasonally adjusted which reflects a 10% decrease over the quarter. In comparison to September 2013, the current account balance deficit has decreased by 7.8%.

Balance of goods and services saw a surplus of \$3.021 billion over the September quarter 2014 and recorded a significant increase of 193% from \$1.565 billion in June 2014 to \$4.586 billion in September. The primary net income deficit fell by 14% to \$7.606 billion in the June quarter.

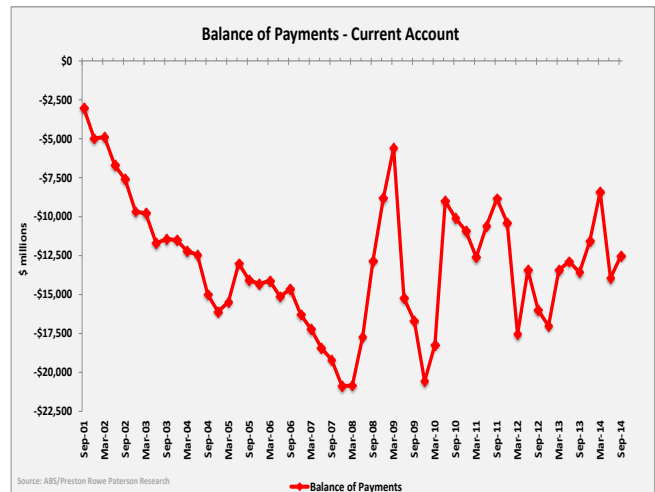


Chart 16 – Balance of Payment Current Account Deficit - Source ABS

## International Investment Position

Data for the December quarter is not currently available however over the September 2014 quarter Net Foreign Debt increased by 2.2% to \$882.871 billion. In comparison to September 2013, this is an 8.6% increase. Net Equity Liabilities recorded a significant decline over the quarter of 121.2%, a \$7.617 billion decline, bringing total international investment (NFD + NFL) to \$875.254 billion, reflecting an annual percentage increase of 3.1%.

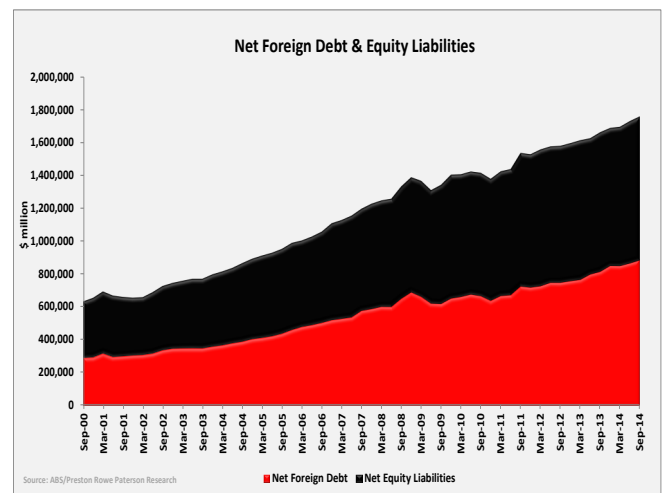


Chart 17 –NFD & Equity Liabilities – Current Account—Source RBA

## 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 property markets as well as infrastructure, capital and plant and machinery markets

## 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

## 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.
- Infrastructure including airports and port facilities

## 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

## 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
- Self managed super funds
- Solicitors and barristers
- Sovereign wealth funds
- Stock brokers
- Trustee and Custodial companies



## **We have all *locations* covered**

From our capital city and regional office locations we serve our client's needs throughout Australia. Globally, we operate directly or via our relationship offices or special purpose real estate asset classes, infrastructure and plant & machinery.

## **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 & re-valuations
- 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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**Cairns**

**Central Coast/Gosford**

**Geelong**

**Gold Coast**

**Gippsland**

**Griffith**

**Horsham**

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**Newcastle**

**Wagga Wagga**

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