



**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 September 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 104.0 in September 2013, an increase of 1.20% over the quarter.
- The 10 year bond rate as at June 2013 is 4.00% with 90 day bank bill rate at 2.58%.
- RBA lowered the cash rate to 2.50% .
- AUD\$ declined increased slightly to \$0.9309 US in September 2013.

September 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 (September 2013), the Australia's All Groups CPI increased by 1.2% over the quarter to September 2013 from 102.8 to 104.0. Over the 12 months to September 2013, growth of 2.2% has been recorded.

The most marked price rises over the September quarter were for water & sewerage (+9.9%), property rates and charges (+7.9%), automotive fuel (+7.6%), international holiday travel and accommodation (+6.1%), electricity (+4.4%) and domestic holiday travel and accommodation (+3.5%). Over the quarter the most significant price fall was attributed to vegetables, declining by 4.5%.

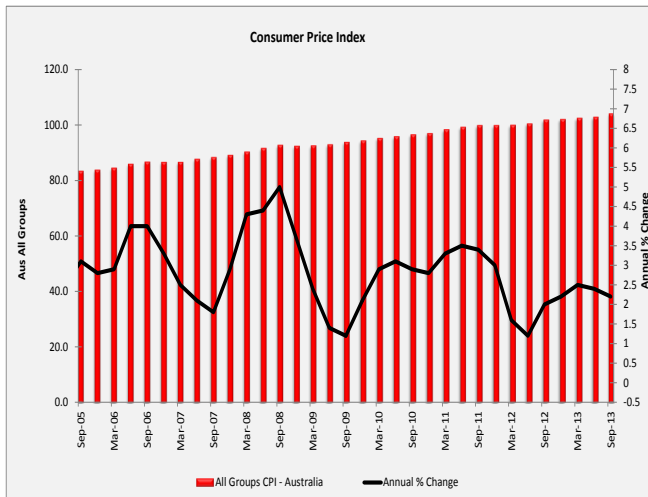


Chart 1 – CPI – Source ABS

The Housing group increased by 2% over the September quarter, with electricity, property rates and charges and water and sewerage recording the most marked growths of 4.4%, 7.9% and 9.9% respectively. Property rates and charges increased due to annual reviews of rates charged by local councils. Over the 12 months to September 2013, the housing group recorded growth of 4% with the main contributors being new dwelling purchase by owner-occupiers (+3.2%), rents (+3.2%) and electricity (+6.1%).

The furnishings, household equipment and services group recorded growth of 1% over the September quarter 2013. The main contributors were child care, household textiles and other non-durable household products with increases of 3.4%, 3.8% and 1.2% respectively.

The Insurance and financial services group recorded marginal growth of 0.4% over the September quarter 2013, with the main contributor to the rise being other financial services, increasing by 1.3%. Through the year to September 2013 the insurance and financial services group rose by 2.9% with sub categories of other financial services and insurance recording the most marked growth of 3% and 4% respectively.

Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index increased by 4.7% in September from 105.7 in August to 110.6 in September. Over the quarter the index has increased by 8.4 points, an increase of 8.24%. Over the twelve months to September the Index increased by 12.4 Index points, reflecting a percentage increase of 12.64%.

The Index has now reached its highest level since December 2010, when it was recorded at 111 Index Points. Westpac's Chief Economist, Bill Evans, stated "Confidence is also high around the housing market. The sub-index tracking assessments of 'whether now is a good time to buy a dwelling' jumped 6.5% to its highest level since August 2009".

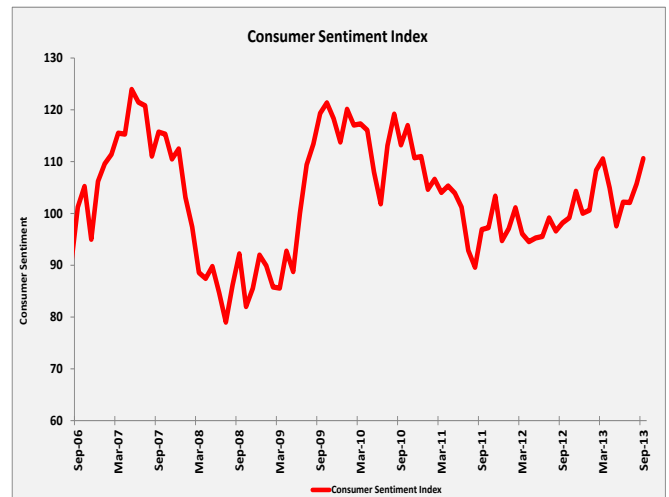


Chart 2—Consumer Sentiment Index—Source—Westpac Melbourne Institute Survey

NAB Business Confidence

Business Confidence increased by 8 points in the month of September to reach its highest level in 3 ½ years at +12, to be 17 points higher than its most recent trough in July.

According to the NAB Monthly Business Survey, 'business confidence has reached its highest level in 3 ½ years. Business conditions are still subdued, with poor unemployment. However there are signs of better conditions in the finance, business, property and construction industries'.

Business confidence recorded positive results across the majority of industries, the first time in 2 ½ years. The most marked gains in September attributed to recreation and personal services by 15 points to +15. Mining and retail firms also rose by 11 points each. Transport and utilities was the only industry to record a decline over the month of 2 points.

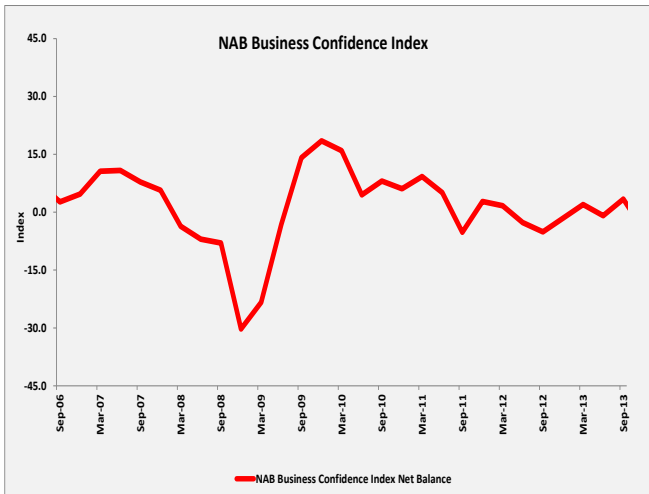


Chart 3 – NAB Business Confidence Index – Source RBA

Bond Market

10 Year Bond & 90 Day Bill Rate

In the twelve months to September 2013, the 10 year Bond rate has increased by 91 basis points to 4.00%. Conversely, the 90 Day Bill Rate has decreased by 91 basis points from 3.49% to 2.58%. Over the September 2013 quarter, 10 Year Government Bonds gained 25 basis points due to declines in both July and August of 11 basis points and 14 basis points respectively.

The 90 Day Bill Rate recorded monthly declines throughout the September quarter with decreases of 16 basis points in July and 2 basis points in August. Year on year analysis has revealed that the 90 Day Bill Rate has declined a total of 91 basis points since September 2012.

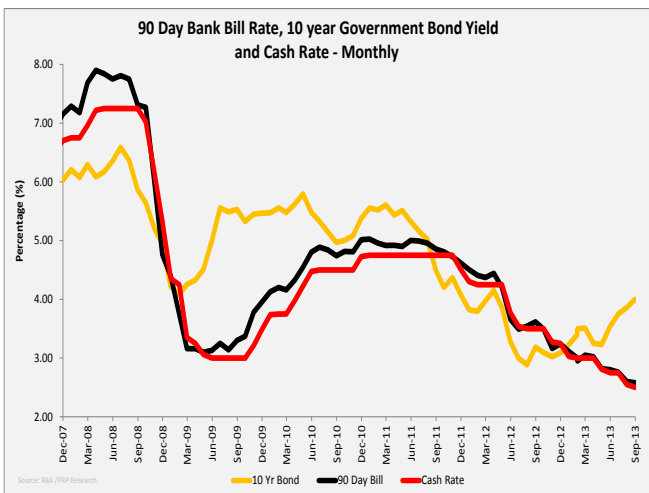


Chart 4 –90 Day Bill, 10 year bond and cash rate - MONTHLY – Source RBA

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.

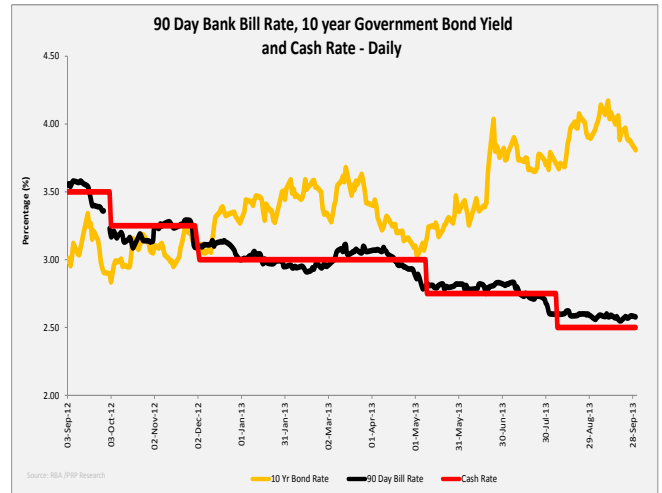


Chart 5 –90 Day Bill, 10 year bond and cash rate – DAILY – Source RBA

Interest Rates

Interest Rate Movements

At the date of publishing, the official Cash Rate over the September quarter 2013 declined by 25 basis points to 2.50%. The decline took place in May and remained unchanged for the months of April and June. The Reserve Bank of Australia's Media Release for August 2013 explained that;

"In Australia, the economy has been growing a bit below trend over the past year. This is expected to continue in the near term as the economy adjusts to lower levels of mining investment. The unemployment rate has edged higher. Recent data confirm that inflation has been consistent with the medium-term target. With growth in labour costs moderating, this is expected to remain the case over the next one to two years, even with the effects of the recent depreciation of the exchange rate."

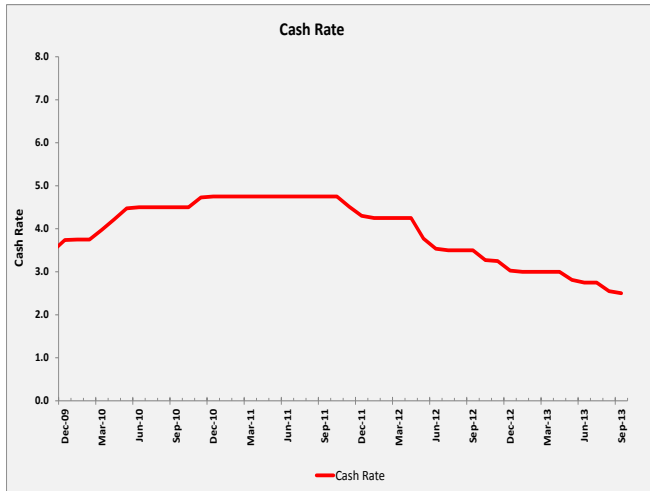


Chart 6 –Cash Rate – Source RBA

Since September 2012, home loan interest rates have declined 0.90 percentage points to 6.95% to September 2013 in line with the unchanged cash rate decision by the RBA at 2.5%. Over the September quarter there was 1 interest rate cut in August from 2.75% to 2.5% resulting in home loan interest rates to be reduced from 6.20% to 5.90%.

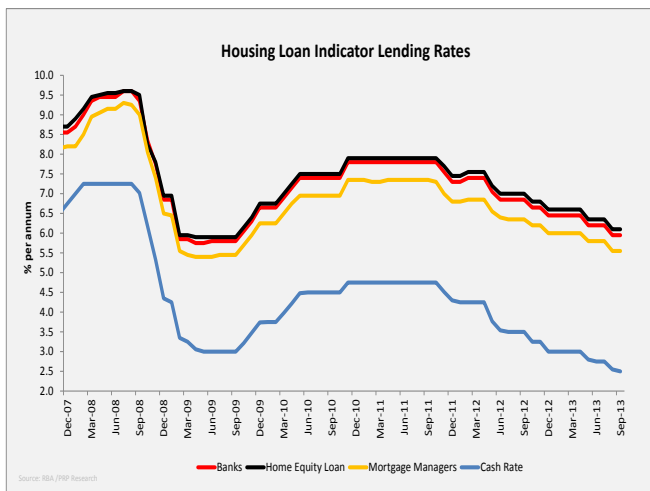


Chart 7 –Housing Loan Indicator Lending Rates – Source RBA

The small business residential secured loans declined by 25 basis points over the September quarter from 7.35% in June to 7.10% in September. Over the past twelve months there has been a decline of 0.90 percentage points in the residential secured loans interest rates which is in line with the RBA's rate cuts. Small Business Fixed 3 Year Interest Rates remained unchanged over the quarter at 6.15%. Year on year analysis to September 2013 has shown a decline of 30 basis points from 6.45% to 6.15%.

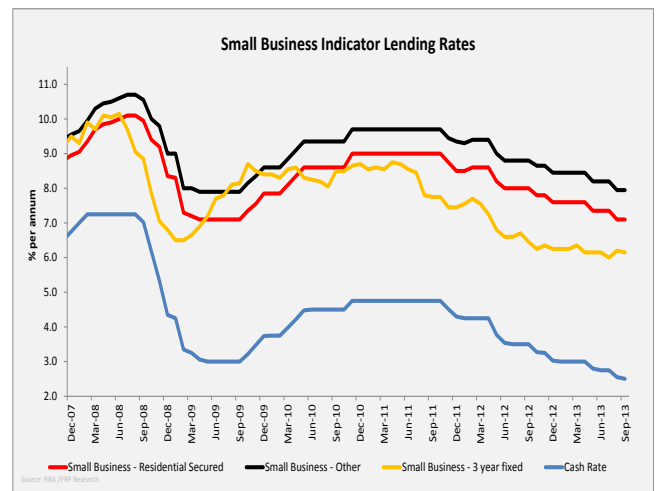


Chart 8 –Small Business Indicator Lending Rates – Source RBA

Exchange Rates & Equity Markets

Australian Exchange Rates

Over the month of September 2013, the Australian Dollar grew slightly against the US Dollar, increasing from \$0.8947 in August 2013 to \$0.9309 in September 2013. Over the past twelve months the Australian dollar has declined by \$0.1155 from \$1.0464 in September 2012 to \$0.9309 in September 2013, an annual decline of 11.4%.

The Australian Dollar recorded further positive growth against other currencies of; Euro, and Japanese Yen with monthly increases of 2.13% and 3.75%. The UK Pound Sterling was the only major currency analysed that recorded a decline over the month of September by 0.10%.

Year on year results saw the Australia dollar only increase with the Japanese Yen by 12.44% against the Australian dollar, increasing from 81.05 in September 2012 to 91.13 in September 2013.

The other major currencies; Euro and UK Pound Sterling recorded declines over the twelve months to September 2013 with 14.74% and 10.52% respectively. One Australian dollar now purchases 0.69 Euro and 0.576 UK Pound Sterling.

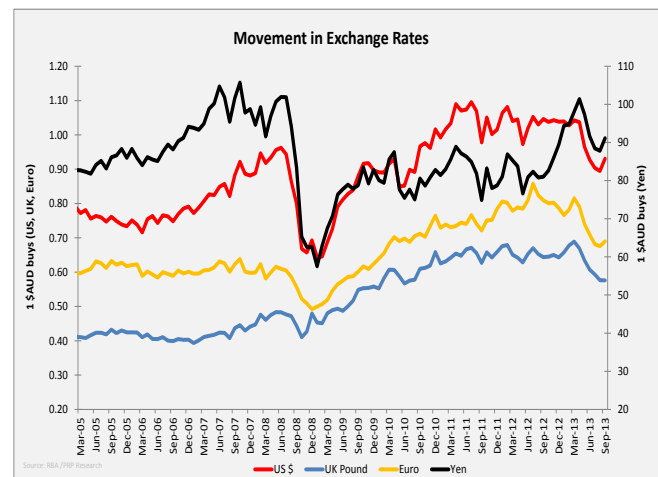


Chart 9 –Movement in Exchange Rates – Source RBA

Share price Indices

Data for the S&P ASX 200 has not been released for the month of September by the RBA, however over the three months to August the index recorded 401.2, an increase of 4.23% from May when the Index recorded 384.9.

Over the twelve months to August 2013, the S&P ASX 200 has recorded growth of 18.98% increasing by 64 Index points. Positive growth was recorded in majority of months, reaching a high of 405.6 in April, the indexes highest level since 2007.

The US S&P 500 recorded a growth of 0.14% over the three months to August 2013 as the Index reached 494.5. Year on year analysis to August revealed a growth of 68.5 Index points reflecting an increase of 16.08%.

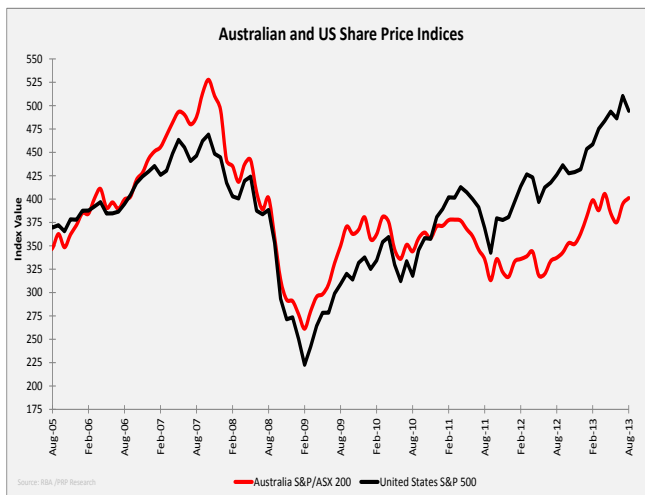


Chart 10 – Australian and US Share Price Indices – Source RBA

Industrials, All Ordinaries and Property Trust Index Values

The September 2013 quarter saw the All Ordinaries Index increase by 8.47% from 4775.41 Index Points in June 2013 to 5217.74 in September 2013, an increase of 442.33 Index Points. As at the 7th October 2013 the All Ordinaries Index has recorded annual growth of 12.76% with the Index gaining 658.64 Index Points.

The Industrial Index recorded growth of 9.65% over the September quarter, and as at the 7th October 2013 there was annual growth of 14.78%. This reflected an annual gain of 343.55 Index points to close at 3890.70. The ASX Property Trust Index as at the 7th October 2013 recorded significant annual growth over to close at 1028 Index Points. Analysis of the September quarter revealed a marginal decline of 0.17 percentage points.

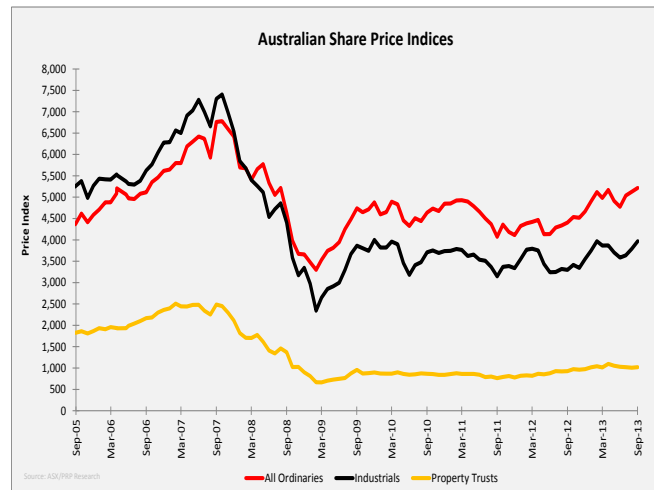


Chart 11 – Australian Share Price Indices – Source ASX

Gross Domestic Product

GDP

GDP figures for the September quarter are not available until the 4th December 2013 however PRP research over the June 2013 quarter revealed that the Australian economy recorded growth of 0.6% seasonally adjusted which reflected growth of 2.6% seasonally adjusted over the twelve months to June 2013.

The main contributors to expenditure on GDP were Final Consumption Expenditure which increased by 0.4%, private gross fixed capital formation, which increased by 1.4%. The main detractor to expenditure on GDP was public gross fixed capital formation which declined by 1.4 percentage points.

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 Financial and Insurance Services which increased by 2.1% and Construction which increased by 1.9%. Financial and Insurance Services accounted for 0.2% of the total increase in GDP and construction accounted for 0.1%.

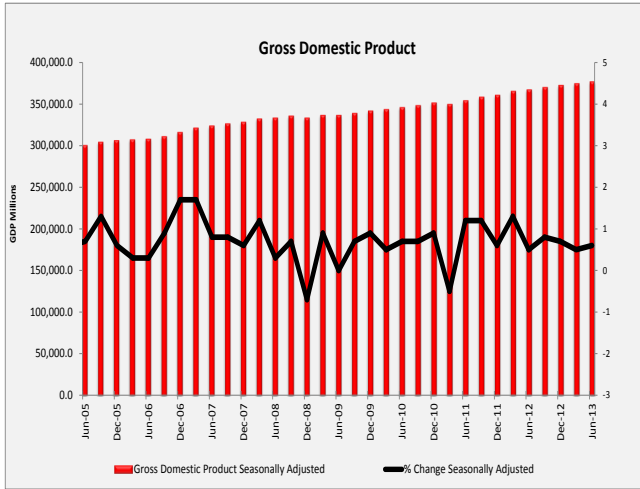


Chart 12 – GDP– Source ABS

The Terms of Trade over the quarter rose by a marginal 0.1% following a 3.1% increase in the March quarter. Over the twelve months to June 2013 the Terms of Trade has fallen 4.9% signalling that export prices are declining at a faster rate than import prices.

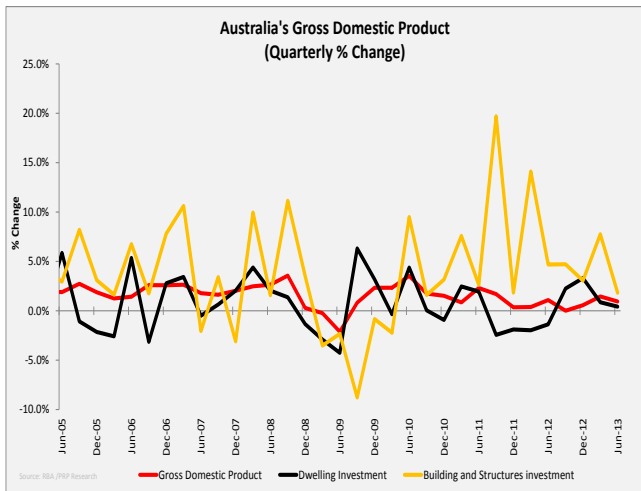


Chart 13 – Australia's GDP (Quarterly % Change) - Source ABS

Labour Force

Unemployment

Over the month to September 2013, the number of unemployed people declined by 14,734 from 711,854 in August to 697,121 in September which is a percentage decline over the month of 2.07%. In comparison to September 2012, the number of unemployed people has increased by 28,549 which reflected a percentage increase of 4.27%.

Employment over the month to September 2013 recorded an increase of 9,106 persons from 11,636,716 in August to 11,645,822 in September a percentage increase of 0.08%. In comparison to September 2012, employment in Australia recorded growth of 95,478 persons reflecting a percentage increase of 0.83%.

Full time employment over the month to September increased by 0.06 percentage points from 8,128,742 to 8,133,731 an increase of 4,989 persons. Part time employment recorded growth of 0.12% over the month to September to 3,512,091 persons. In comparison to September 2012, there was a 2.95% growth which is an increase of 100,691 persons.

The unemployment rate declined over the month to September by 0.2 percentage points to 5.6% reflecting a decline of 14,734 unemployed to 697,121. In comparison to September 2012 the unemployment rate has declined 0.1%.

The number of unemployed seeking full time employment recorded a decline over the month of 4,961 to 509,196 persons, reflecting a percentage decline of 0.96%. The number of unemployed seeking part time employment recorded a decline over the month by 9,772 to 187,924 persons, reflecting a percentage decline of 4.94%.

The participation rate recorded a marginal decline of 0.1 percentage points to 64.9% as at September 2013, with year on year comparison revealing a 0.5 percentage point decline.

Over the month of September 2013 the aggregate number of hours worked declined by 6.43 million hours to a total of 1.64 billion hours seasonally adjusted. This reflects a percentage decline of 0.39%.

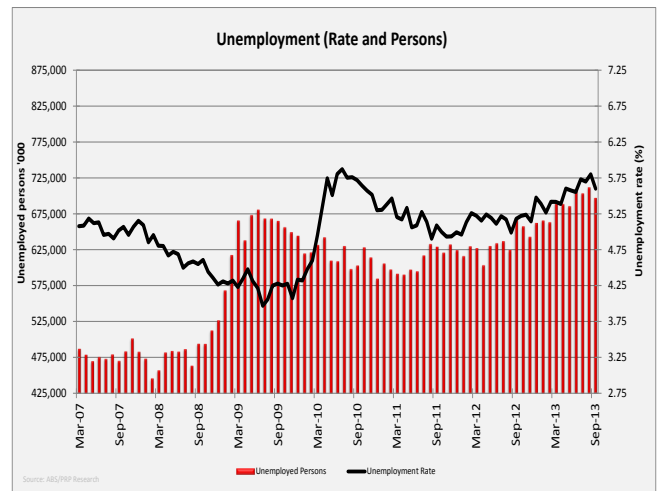


Chart 14 – Unemployment (Rate and Persons) - Source RBA

Wage Price Index

As at the date of publishing, data for the September quarter is not currently available, however according to the Australian Bureau of Statistics the Wage Price Index rose by 0.7 percentage points over the June quarter 2013, and recording growth of 2.93% in comparison to the June quarter 2012. Both the public sector and private sector recorded quarterly growth of 0.3% and 0.5% respectively, with a through the year rise to the June quarter of 2.9% and 3% respectively.

Analysis of the States and Territories Wage Price Index saw Western Australia record the largest quarterly rise of 0.6%. with Tasmania, Northern Territory and the Australian Capital Territory recording the smallest rise of 0.3%.

Over the June quarter, the private sector saw Victoria record the most significant rise of 0.7%, while Western Australia, Tasmania and the Australian Capital Territory recorded the smallest rise of 0.4%. Private sector rises for states and territories through the year to the June quarter ranged from 2.8% for New South Wales and Queensland to 3.4% for Western Australia.

In the public sector, Western Australia recorded the largest quarterly rise over the June quarter of 1.3%, with South Australia and the Northern Territory recording a mere 0.1% rise. The largest through the year rise in the public sector was recorded by Western Australia with 4.2% and smallest rise attributed to Victoria with 2.5%.

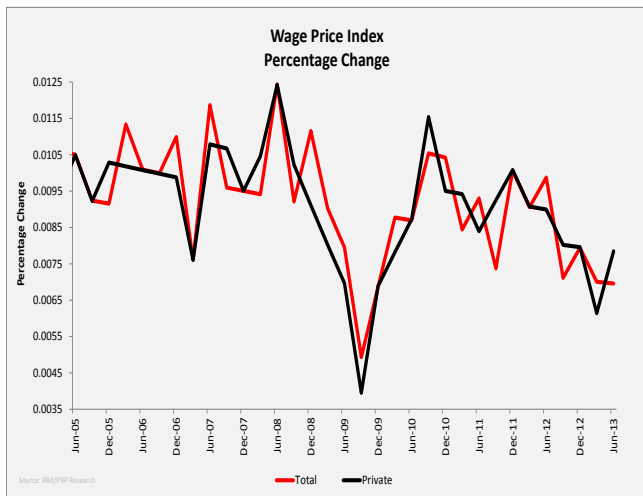


Chart 15 – Wage Price Index - Source RBA

Balance of Payments

Current Account Balance

Data for the September quarter is not currently available however over the June 2013 quarter, Australia's Current Account Deficit increased by \$610 million to current account balance of \$9.35 billion as at June 2013 which reflects a 7% increase. Over the twelve months to June the current account balance deficit has declined by 16% from \$11.136 billion to \$9.35 billion.

Export earnings increased by 2.4% to \$63.74 billion over the June quarter 2013, whilst year on year recorded a marginal decline of 0.5 percentage points. Total Imports recorded growth over the September 2013 quarter by 2.8% to \$61.853 billion. This reflected an annual decline of 4.4% in comparison to September 2012.

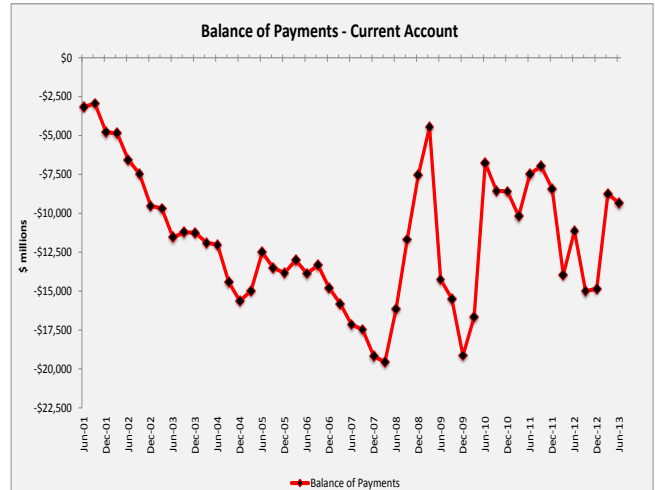


Chart 16 – Balance of Payment Current Account Deficit - Source RBA

International Investment Position

Data for the September quarter is not currently available however over the June 2013 quarter Net Foreign Debt increased by \$23.089 billion to \$762.173 billion, this reflected a year on year percentage increase of 3.95%. Net Equity Liabilities recorded a significant decline over the quarter of 50.04%, a \$54.85 billion decline, bringing total international investment (NFD + NFL) to \$816.937 billion, reflecting an annual percentage decline of 3.74%.

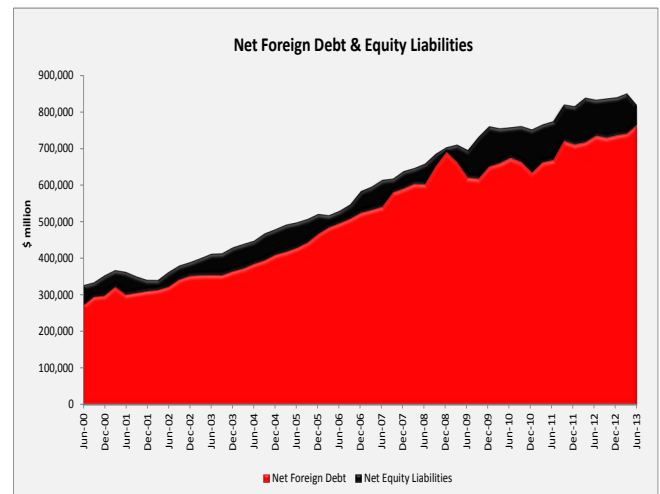


Chart 17 –NFD & Equity Liabilities – Current Account—Source RBA

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

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 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.

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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