



**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 June 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 105.9 in June 2014, an increase of 0.5% over the quarter.
- The 10 year bond rate as at June 2014 is 3.70% with 90 day bank bill rate at 2.70%.
- Cash rate remain unchanged at 2.50% in June 2014.
- AUD\$ increased to \$0.9420 US in June 2014.

### June Quarter 2014

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## Inflation and Investor Sentiment

### Consumer Price Index

According to the Australian Bureau of Statistics (June 2014), the Australia's All Groups CPI increased by 0.5% over the quarter to June 2014 from 105.4 to 105.9. The annual CPI change to June 2014 recorded a growth of 3%.

The most significant price rises over the June quarter were for medical and hospital services (+4.6%), tobacco (+3.1%) and new dwelling purchase by owner-occupiers (+1.6%). The greatest price fall over the June quarter was attributed to domestic holiday travel and accommodation (-3.8%), followed by automotive fuel (-2.7%) and telecommunication equipment and services (-1.6%).

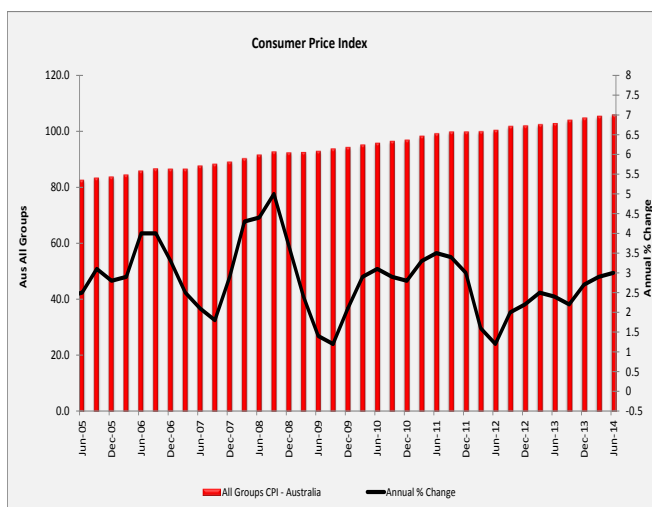


Chart 1 – CPI – Source ABS

The Housing Group increased by 0.8% over the June quarter. The main contributors to the price rise was in electricity and rents recording a growth of 5.2% and 2.4% respectively. Over the twelve months to June 2014, the housing group recorded growth of 1.1% which was backed by the 1.6% annual growth in new dwelling purchases by owner-occupiers.

The furnishings, household equipment and services group recorded a growth of 1.1% over the June quarter 2014. The main contributors to the growth was furniture (4.8%).

The insurance and financial services group remain unchanged over the June quarter 2014, however, there was recorded growth in financial services (0.6%) which was offset by the decline in insurance (-1.3%). Through the year to June 2014 the insurance and financial services group rose 1%, with other financial services recording the most marked growth of 2.7%.

### Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index increased by 0.3% in June from 92.9 index points in May to 93.2 index points in March. Over the quarter the index has declined by 6.3 points, a decline of 6.33%. Over the twelve months to June the index declined by 9 index points, reflecting a percentage decline of 8.79%.

The Index has risen from its lowest in May and is expected to continue to do so. Westpac's Senior Economist, Matthew Hassan stated; "Sentiment has stabilised after registering a sharp fall in the wake of the Federal Budget last month. The Index is still in firmly pessimistic territory however, down 6.6% from its pre-Budget level in April and 15.6% below its post-election high in November last year".

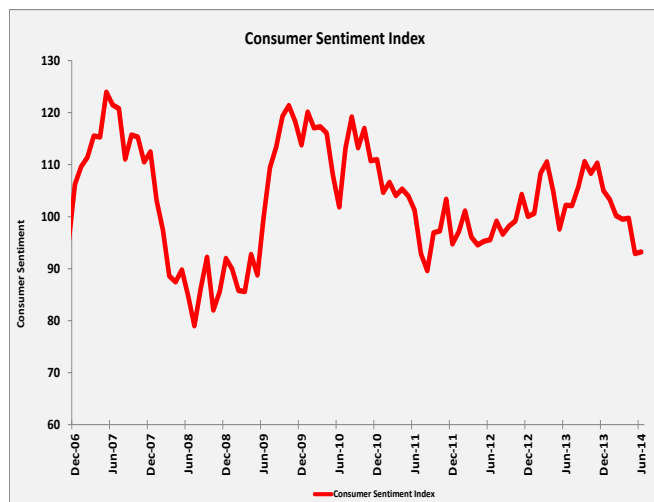


Chart 2—Consumer Sentiment Index—Source—Westpac Melbourne Institute Survey

### NAB Business Confidence

Business Confidence rose by 1 point to +8 points in the month of June. According to the NAB Monthly Business Survey, "Business confidence showing no ill effects from the government's 'tough budget', rather improving in line with better business conditions (reflecting sales and profits) – albeit conditions remain sub trend. Most industries showed better outcomes but heavy lifting done by surge in construction. Employment and capacity utilisation, however, weakened significantly." The forecast of rates is expected to be unchanged until late 2015.

Several industries recorded declines in business confidence, with the most marked declines in manufacturing industry at -16 index points. Increases in business confidence over the month were recorded in retail, wholesale and transport and utilities (+7, 5, 4 points respectively). The greatest rise is in the recreation and personal services at +19 points, followed by the construction industry at +10 points.

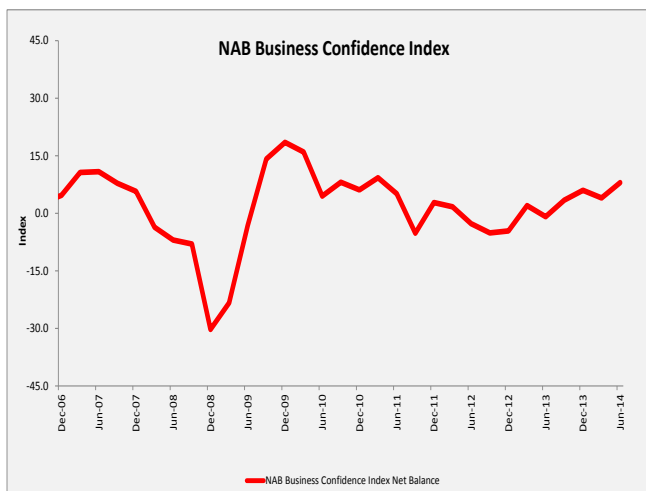


Chart 3 – NAB Business Confidence Index – Source RBA

## Bond Market

### 10 Year Bond & 90 Day Bill Rate

In the twelve months to June 2014, the 10 Year Bond Rate has increased by 16 basis points to 3.70%. Conversely, the 90 Day Bill Rate has declined by 10 basis points from 2.80% to 2.70%. Over the June 2014 quarter, 10 Year Government Bonds recorded a steady decline of 40 basis points from 4.10%.

The 90 Day Bill Rate recorded a steady increase over the June quarter by 4 basis points. Year on year analysis has revealed that the 90 Day Bill Rate has declined a total of 10 basis points since June 2013.

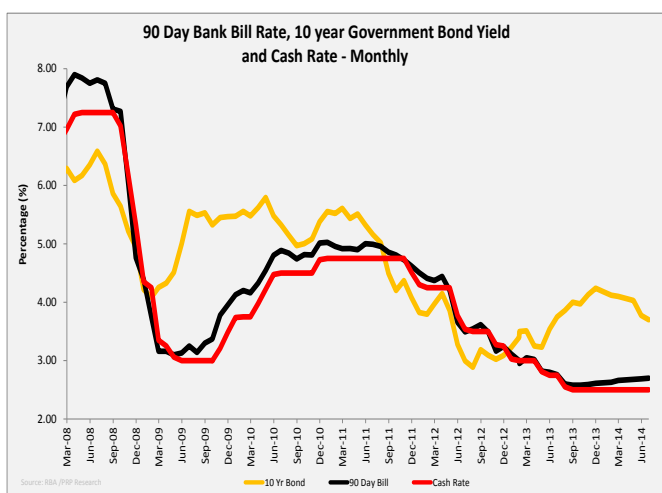


Chart 4 –90 Day Bill, 10 year bond and cash rate - MONTHLY – Source RBA

Analysis of 10 Year Government Bonds has revealed an increase of 16 basis points over the month of June 2014 with the 10 year bond rate currently at 3.88%. 90 day bill rates remained relatively no changes over the month of June at 2.69%. The changes in both 10 year bonds and the 90 day bill rate reflect a yield spread of 100 basis points.

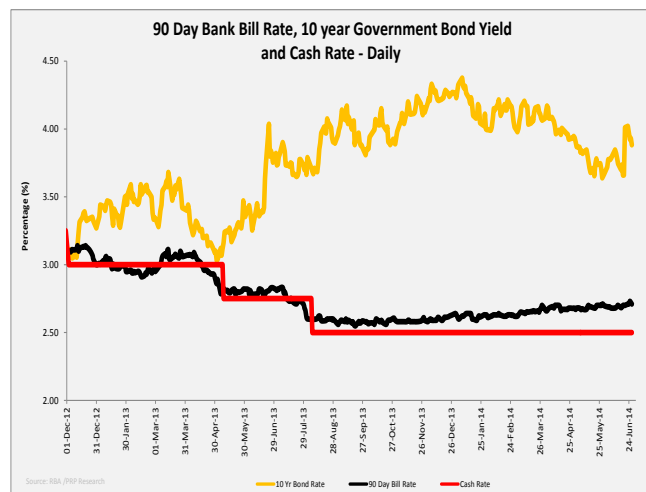


Chart 5 –90 Day Bill, 10 year bond and cash rate – DAILY – Source RBA

## Interest Rates

### Interest Rate Movements

As at the date of publishing, the official Cash Rate over the June quarter 2014 remained unchanged at 2.50%. The Reserve Bank of Australia's Media Release for July 2014, released 1st July 2014 explained that;

*"In Australia, recent data indicate somewhat firmer growth around the turn of the year, but this resulted mainly from very strong increases in resource exports as new capacity came on stream; smaller increases in such exports are likely in coming quarters. Moderate growth has been occurring in consumer demand. A strong expansion in housing construction is now under way. At the same time, resources sector investment spending is starting to decline significantly. Signs of improvement in investment intentions in some other sectors are emerging, but these plans remain tentative as firms wait for more evidence of improved conditions before committing to significant expansion. Public spending is scheduled to be subdued. Overall, the Bank still expects growth to be a little below trend over the year ahead."*

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

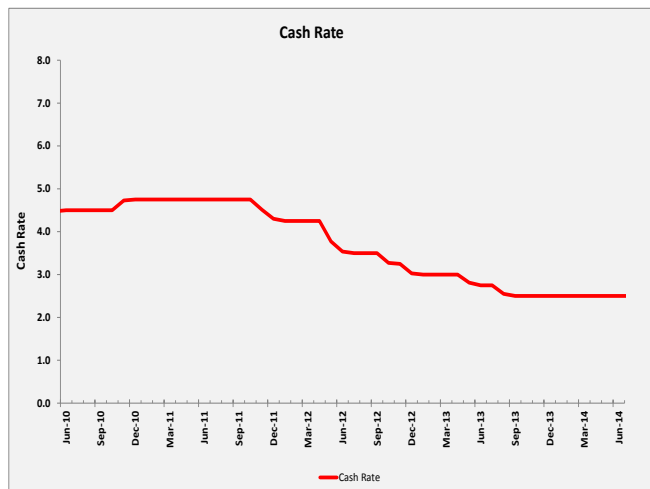


Chart 6 –Cash Rate – Source RBA

Since June 2013, home loan interest rates have declined by 0.25 percentage points to 5.95% to June 2014 in line with the unchanged cash rate decision by the RBA at 2.5%. Over the June quarter there were no interest rate cuts, resulting in bank interest rates remaining unchanged since August 2013.

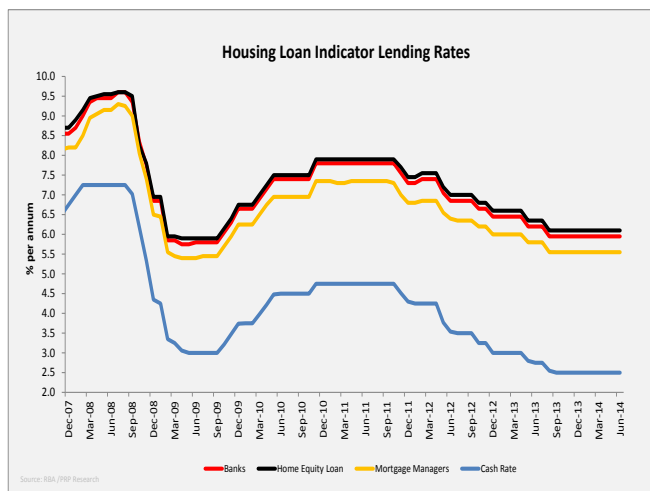


Chart 7 –Housing Loan Indicator Lending Rates – Source RBA

The small business residential securing loans remained unchanged over the June quarter at 7.10%. Over the past twelve months there has been a decline of 0.25 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 increased by 0.1% over the June quarter. In comparison to June 2013, 3 year fixed rates have increased by 0.05 percentage points, from 6.15% to 6.20%.

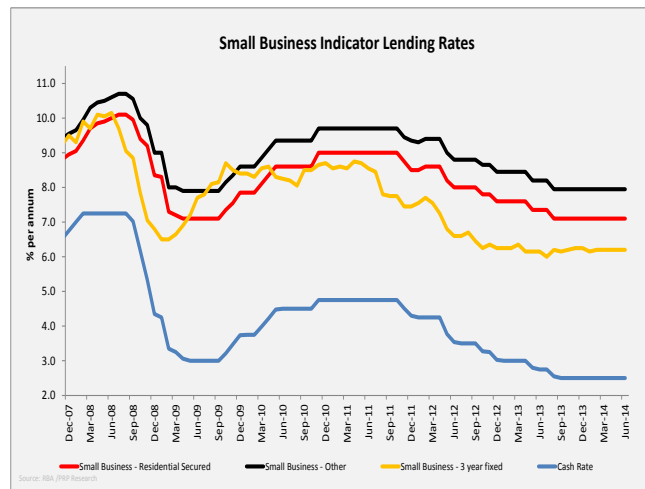


Chart 8 –Small Business Indicator Lending Rates – Source RBA

## Exchange Rates & Equity Markets

### Australian Exchange Rates

Over the month of June 2014, the Australian Dollar grew against the US Dollar, increasing from \$0.9319 in May to \$0.9420 in June, its highest level since September 2013. Over the twelve months to June, the Australian dollar has increased by 1.56% from \$0.928 to \$0.9420.

The Australian Dollar recorded further growth against other major currencies of Euro and Japanese Yen and the with monthly increases of 0.8% each. The exchange rate between the Australian Dollar against the UK Pound Sterling had decreased by 0.7% in the past month.

Year on year analysis saw the Australian Dollar decline across the UK and Euro currencies, with the most marked decline attributed to the British Pound, with 8.91% to £0.5531 followed by the Euro with a 2.66% decline to €0.6906. The Australian Dollar experienced an increase against the Yen of 4.14% to ¥95.43.

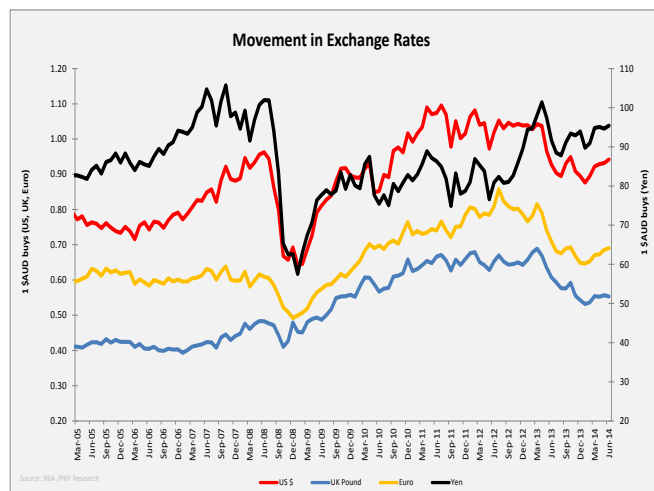


Chart 9 –Movement in Exchange Rates – Source RBA



## Share price Indices

Over the June quarter, the S&P ASX 200 Index recorded a marginal increase of 0.02% from 421.5 in March to 421.6 in June. Over the twelve months to June 2014, the S&P ASX 200 Index has recorded growth of 12.3% increasing by 46.3 index points.

The US S&P 500 Index recorded a growth of 4.69% over the three months to June 2014 as the index reached 593.6, the index's highest level recorded. Year on year analysis to June revealed a growth of 107.2 index points, reflecting an increase of 22%.

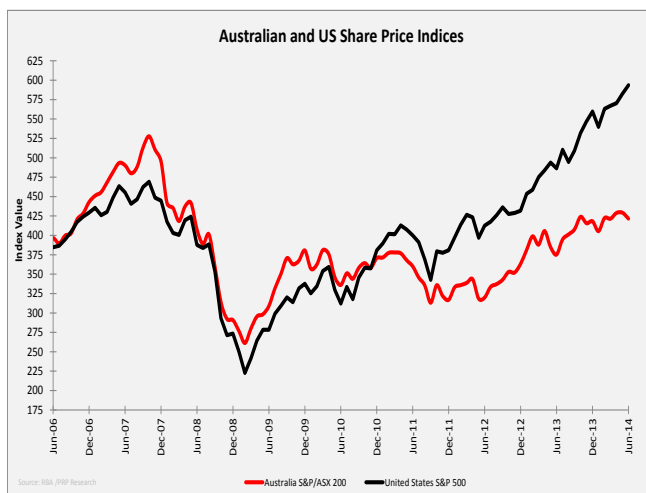


Chart 10 – Australian and US Share Price Indices – Source RBA

## Industrials, All Ordinaries and Property Trust Index Values

The June 2014 quarter saw the All Ordinaries Index fell 0.39% from 5402.99 in March to 5382.03 in June. The year on year analysis has revealed the All Ordinaries Index increasing by 12.7%, reflecting an increase of 606.62 index points.

The Industrial Index recorded a marginal fall of 0.62% over the June quarter, however, it reflected an annual growth of 12.4%. Since June 2013, there has been an increase of 443.91 index points.

The ASX Property Trusts followed, with growth of 6.4% over the quarter and similarly experienced a growth of 3.9% over the twelve months to June 2014 which reflects an increase of 39.9 index points.

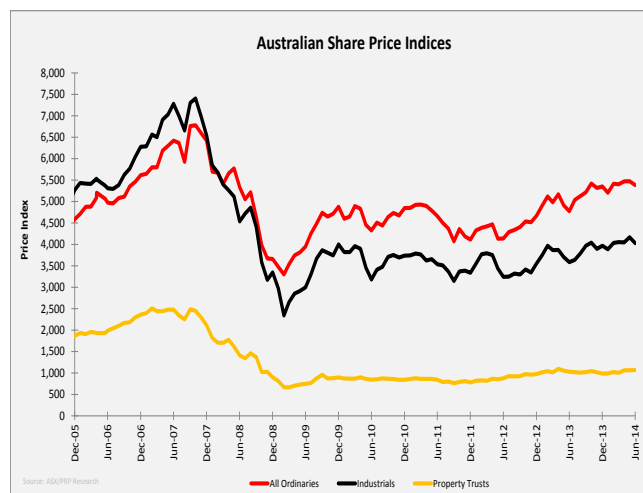


Chart 11 – Australian Share Price Indices – Source ASX

## Gross Domestic Product

### GDP

GDP figures for the June quarter are not available until the 3rd September 2014 however PRP Research over the March 2014 quarter revealed that the Australian economy recorded growth of 1.1% seasonally adjusted which reflected growth of 3.5% seasonally adjusted over the twelve months to March 2013.

The main contributors to expenditure on GDP were Net Exports which increased by 1.4%, final consumption expenditure, which increased by 0.3%. The expenditure on GDP was private gross fixed capital formation, increased by 0.2 percentage points.

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 contributors to GDP were Mining which increased by 8.6%, Financial and insuring services increasing by 2.8% and Construction (up 3%). Each of these industries accounted for 0.2% of the total increase in GDP.

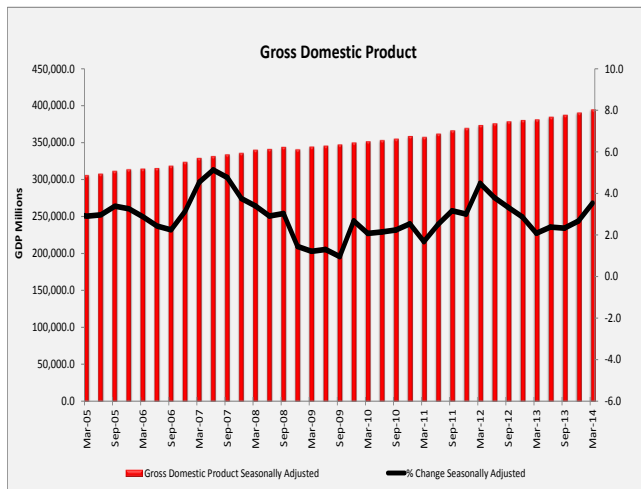


Chart 12 – GDP– Source ABS

The terms of trade decreased by 1.2% in seasonally adjusted terms over the March quarter. Over the twelve months to March, the terms of trade has declined by 3.8%. 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.

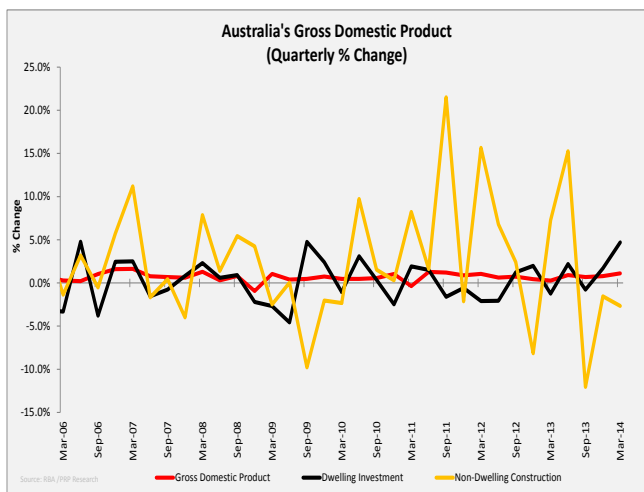


Chart 13 – Australia's GDP (Quarterly % Change) - Source ABS

## Labour Force

### Unemployment

Over the month to June 2014, the number of unemployed people increased by 20,322 from 721,330 in May to 742,652 in June which is a percentage decline over the month of 2.82%. In comparison to June 2013, the number of unemployed people has increased by 49,772 which reflected a percentage increase of 7.2%. The unemployment rate is 6%.

Employment over the month to June 2014 recorded an increase of 20,300 persons from 11,562,300 in May to 11,578,200 in June, a percentage increase of 0.14%. In comparison to June 2013, employment in Australia recorded growth of 100,259 reflecting a percentage increase of 0.9%.

Full time employment over the month to June declined by 0.05% from 8,066,300 to 8,062,500, a decline of 3,800 persons. Part time employment recorded growth of 0.6% over the month to June to 3,515,700. In comparison to June 2013, there was growth of 1.7% which is an increase of 57,260 persons employed part-time.

The number of unemployed seeking full time employment recorded an increase over the month of June by 10,000 to 543,000 persons, reflecting a growth of 1.8%. The number of unemployed seeking part time employment recorded a increased over the month by 10,300 to 198,600 persons, reflecting a growth of 4.9%.

The participation rate recorded a marginal increase of 0.1 points to 64.7% as at June 2014, with year on year comparison revealing a 0.4 percentage point decline.

The aggregate monthly hours worked had increased to 15,1 million hours to 1,629.1 million hours at a 0.9% growth over May.

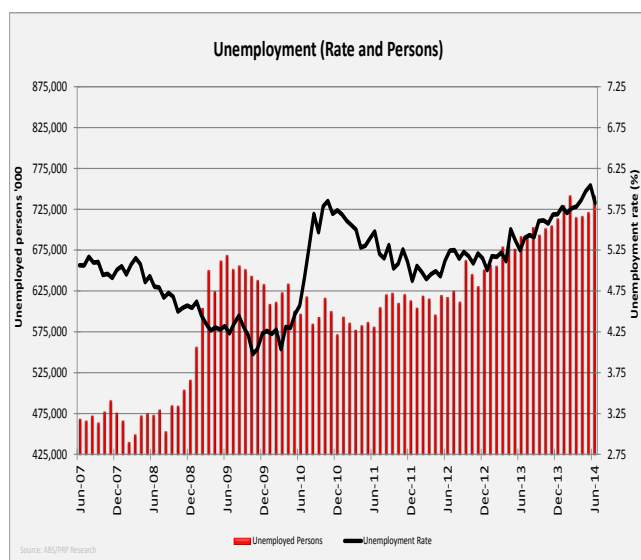


Chart 14 – Unemployment (Rate and Persons) - Source ABS

## Wage Price Index

Data for the June quarter is not currently available, however according to the Australian Bureau of Statistics the Wage Price Index rose by 0.7 percentage points seasonally adjusted over the March 2014 quarter, reflecting growth of 2.6% seasonally adjusted in comparison to March 2013. Both the public and private sectors increased over the quarter, by 0.8% and 0.7% respectively, with through the year rises of 2.6% and 2.9%.

Over the March 2014 quarter, Northern Territory recorded the most significant rise in the wage price index of 0.9% and the Australian Capital Territory recorded the smallest with 0.2%. In the private sector, the Northern Territory experienced the most marked quarterly growth of 0.8% and the Australian Capital Territory recorded the smallest rise with 0.3%. Through the year rises in the private sector ranged from 2.2% for the Australian Capital Territory to 3.4% for South Australia.

Northern Territory recorded the most significant quarterly growth in the public sector with 1.2%. The Australian Capital Territory experienced the smallest rise of 0.2%. In comparison to March 2013 the most marked growth in the public sector was recorded by Western Australia with 4.1%. The smallest rise was in the Northern Territory and the Australian Capital Territory with 2.2% growth.

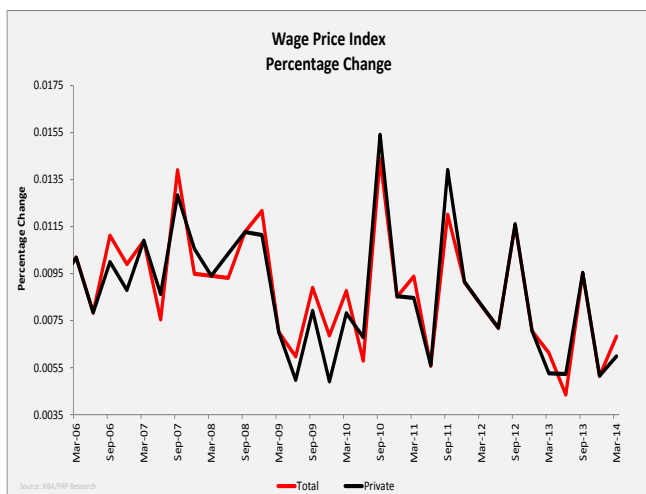


Chart 15 – Wage Price Index - Source ABS

## Balance of Payments

### Current Account Balance

Data for the June quarter 2014 is not currently available however over the March quarter 2014. Australia's Current Account Deficit declined by \$6.034 billion to current account balance of \$5.672 billion in the March quarter 2014 seasonally adjusted which reflects a 51.55% decline over the quarter. In comparison to March 2013, the current account balance deficit has declined by a significant 54.20%.

Balance of goods and services saw a surplus of \$3.591 billion over the March quarter 2014 and recorded an increase of 54% from \$9.803 billion in December 2013 to \$15.118 billion in March. The primary income deficit fell by 17% to \$8.781 billion over the March quarter, whilst year on year recorded growth of 17%.

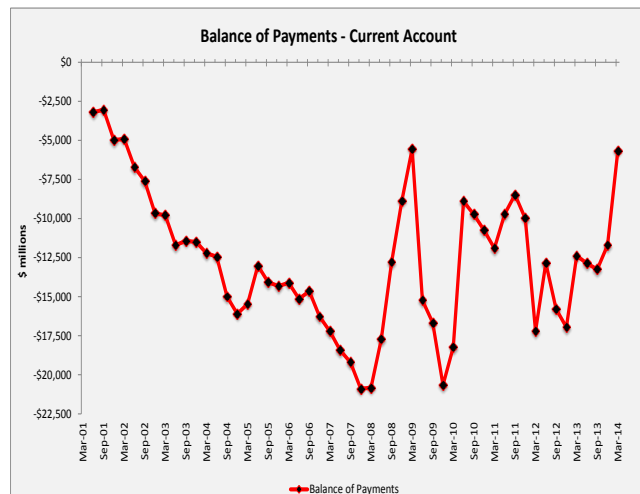


Chart 16 – Balance of Payment Current Account Deficit - Source ABS

## International Investment Position

Data for the June quarter is not currently available however over the March 2014 quarter Net Foreign Debt increased by 4.9% to \$855.649 billion. In comparison to March 2013, this is a 13.7% increase. Net Equity Liabilities recorded a significant decline over the quarter of 173.3%, a \$8.375 billion decline, bringing total international investment (NFD + NFL) to \$850.411 billion, reflecting an annual percentage increase of 1.2%.

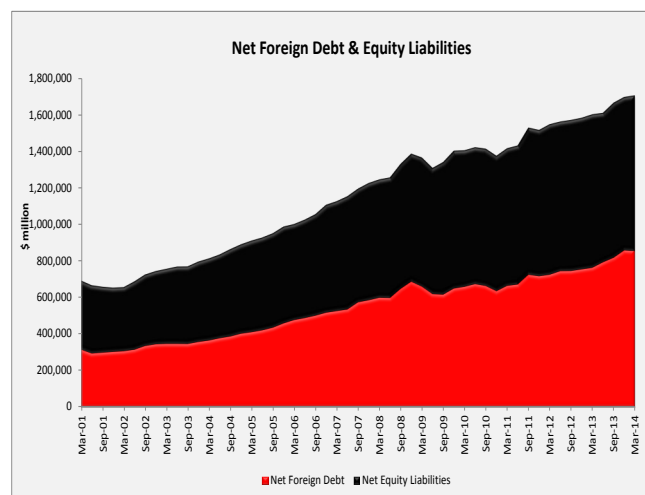


Chart 17 –NFD & Equity Liabilities – Current Account—Source RBA

## 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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## Capital City Offices

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Brisbane

Hobart

Melbourne

Sydney

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Cairns

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Griffith

Horsham

Mornington

Newcastle

Wagga Wagga

Warrnambool

## Relationship Offices

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Darwin

Perth

Other regional areas