



**Preston
Rowe
Paterson**

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International Property Consultants

Economic Report

Australia

June Quarter 2015

Highlights

- All Groups CPI was recorded at 107.5 in June 2015, an increase of 0.7% over the quarter.
- The monthly 10 year bond rate as at June is 2.98% with 90 day bank bill rate at 2.15%.
- Cash rate fell by 25bp to 2% in May and remained the same in June.
- AUD\$ exchange rate has increased to \$0.7680 US in June.
- The latest figures on the Australian GDP has revealed a 0.93% quarterly growth, reflecting a 2.31% growth over the year to March 2015.

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Inflation and Investor Sentiment

Consumer Price Index

According to the Australian Bureau of Statistics (June 2015), the Australia's All Groups CPI increased by 0.7% over the June quarter from 106.8 to 107.5. The annual CPI change to June 2015 recorded a growth of 1.5%.

The most significant price rises over the June quarter were automotive fuel (+12.2%), medical and hospital services (+4.5%) and new dwelling purchases by owner-occupiers (+1.5%). The greatest price fall over the quarter was attributed to are domestic holiday travel and accommodation (-5.4%) and pharmaceutical products (-1.8%).

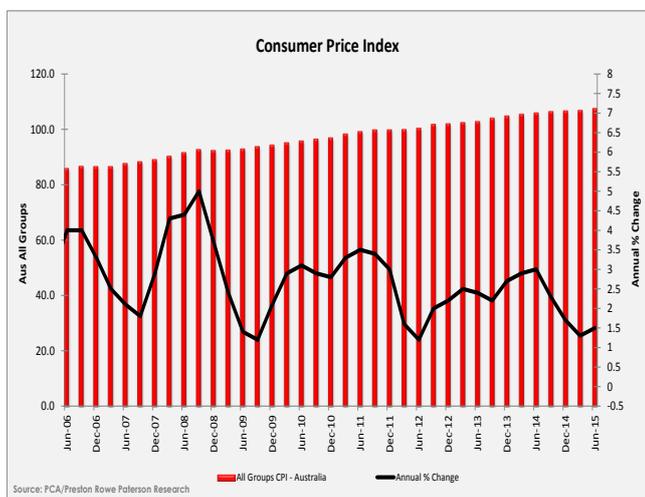


Chart 1 – CPI – Source ABS

The housing group has increased by 0.7% over the June quarter. The main contributors to the price rise were in new dwelling purchase by owner-occupiers and rents recording a growth of 1.5% and 0.4% respectively. Over the twelve months to June, the housing group recorded growth of 2.5% which was backed by the 4.8% annual growth in new dwelling purchases by owner-occupiers and a 1.9% rise in Rents.

The Furnishings, household equipment and services group recorded an increase of 1% over the quarter. The main contributors to the growth was furniture (+3.5%).

The Insurance and financial services group increased by 0.3% over the quarter. The main contributor to the rise was other financial services (+0.5%). Through the year to June the insurance and financial services group rose 2.1%, with other financial services contributing to the growth by a 2.2% increase.

Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index fell by 6.9% in June from 102.4 index points in May to 95.3 index points in June. Over the quarter the index has decreased by -4.2 points. Over the twelve months to June 2015 the index recorded a 2.25% growth.

The Index is now below to its pre-budget level in May. Westpac's Senior Economist, Matthew Hassan commented; "Several factors are likely to have refocussed attention...further falls in the share market...ongoing uncertainty in Europe; more signs of soft conditions in labour markets; and added nervousness about the outlook for house prices."

Other factors that contributed to the softening in sentiment include economic conditions, budget and taxation, international conditions, interest rates and job security.

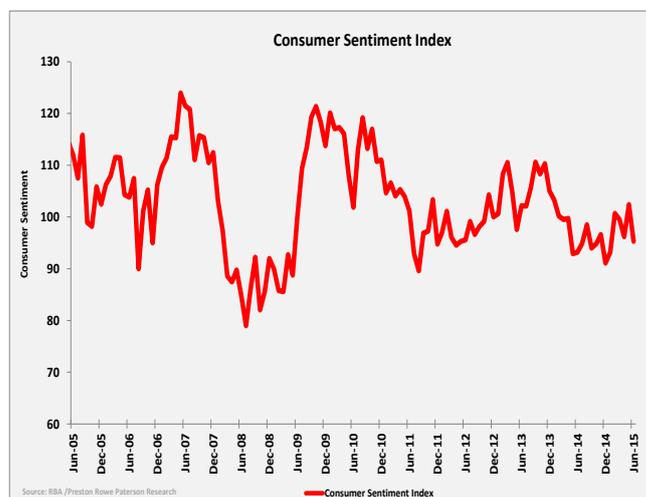


Chart 2—Consumer Sentiment Index—Source—Westpac Melbourne Institute Survey

NAB Business Confidence

Business Confidence increased by 2 points to +10 points in the month of June. According to the NAB Monthly Business Survey:

"Confidence is now positive in all industries except mining, which is currently zero. Business conditions improved even more, lifting 5 points to +11 index points in June - the highest level since last October. Improvements in both confidence and conditions over recent months are starting to suggest a more convincing turnaround in the non-mining sectors is underway. The more sluggish rise of employment component is a concern...Conditions still vary greatly across industries as the service sectors continue to outperform. The 'bellwether' wholesale industry eased a little and remains at weak levels. Nonetheless, it is encouraging to see leading indicators improve, including forward orders and capacity utilisation."

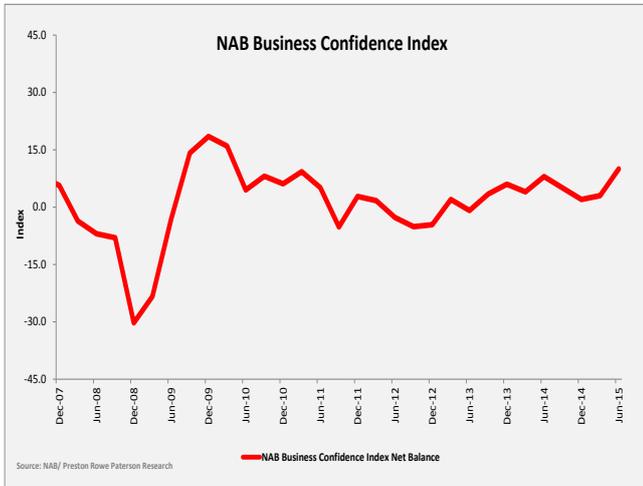


Chart 3 – NAB Business Confidence Index – Source NAB

Bond Market

10 Year Bond & 90 Day Bill Rate

In the twelve months to June 2015, the monthly 10 Year Bond Rate has decreased by 72 basis points to 2.98%. Similarly, the monthly 90 Day Bill Rate fell by 55 basis points to 2.15%.

Over the June 2015 quarter, the 10 Year Government Bonds recorded a growth of 50 basis points from 2.48%. The 90 Day Bill Rate recorded a 15 basis points decrease over the quarter from 2.30%.

Analysis of the daily 10 Year Government Bonds has revealed an increase of 10 basis points over the month of June with the 10 year bond rate currently at 2.48%. 90 day bill rates experienced a remained stable in June at 2.30%. The changes in both 10 year bonds and the 90 day bill rate reflect a yield spread of 68 basis points.

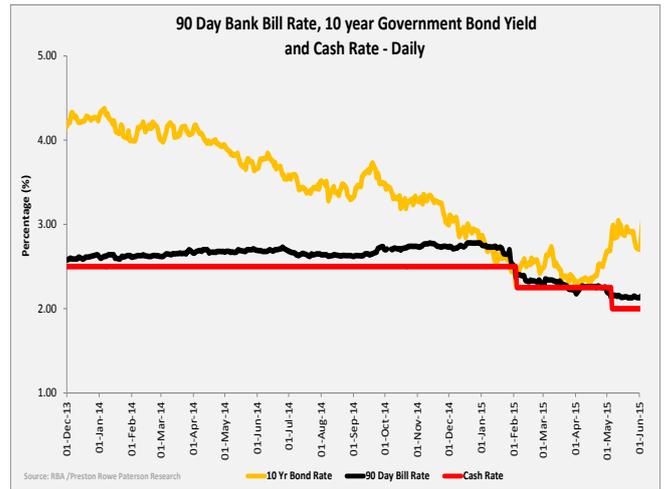


Chart 5 –90 Day Bill, 10 year bond and cash rate – DAILY – Source RBA

Interest Rates

Interest Rate Movements

As at the date of publishing, the official Cash Rate over the June quarter 2015 has decreased by 25 basis points to 2%. The Reserve Bank of Australia's Media Release for June 2015, released 2nd June 2015 explained that;

"In Australia the available information suggests the economy has continued to grow, but at a rate somewhat below its long-term average. Household spending has improved, including a large rise in dwelling constructions, and exports are rising. But the key drag on private demand is weakness in business capital expenditure in both mining and non-mining sectors and this is likely to persist over the coming year. Public spending is also scheduled to be subdued. Overall, the economy is likely to be operating with a degree of spare capacity for some time yet...Low interest rates are acting to support borrowing and spending...Dwelling prices continue to rise strongly in Sydney, though trends have been more varied in a number of other cities...In other asset markets, prices for equities and commercial property have been supported by lower long-term interest rates."

The media release also stated that inflation is as expected to be consistent with its 2%-3% target over the next two years, even with a lower interest rate.

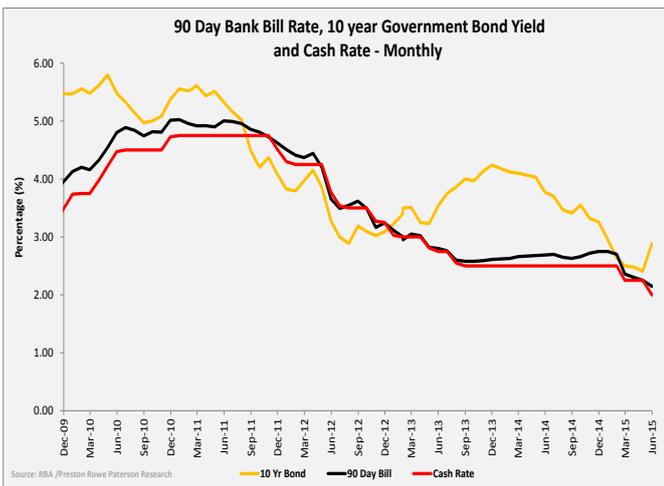


Chart 4 –90 Day Bill, 10 year bond and cash rate - MONTHLY – Source RBA

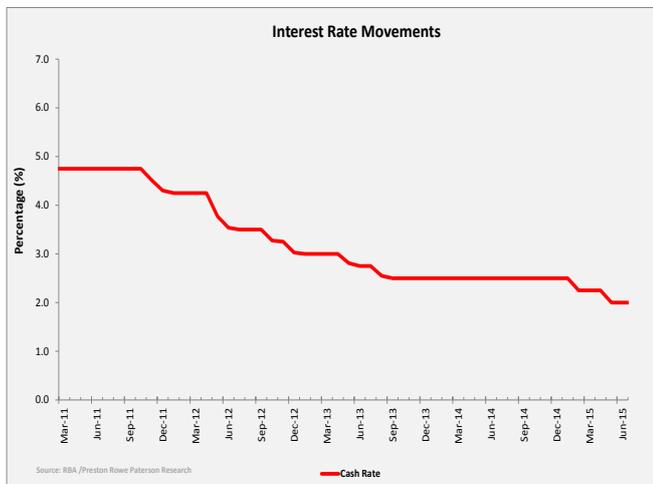


Chart 6 – Cash Rate – Source RBA

In accordance to the May interest rate cut, the home equity loan rate fell to 5.60%. Over the June quarter the banks' lending rates fell by 20 basis points to 5.45% whilst the mortgage managers loan rates decreased by 30 basis points to 4.80%.

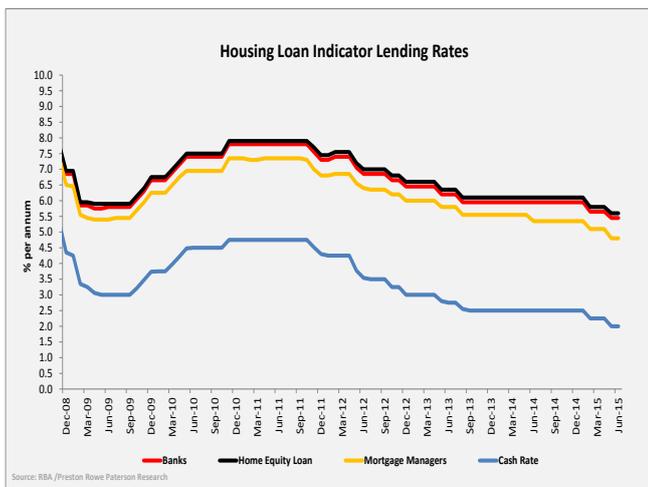


Chart 7 – Housing Loan Indicator Lending Rates – Source RBA

The small business residential securing loans have decreased by 0.25 percentage points to 6.60%. The decline is in line with the RBA's decreased interest rate. Small Business Fixed 3 Year Interest Rates increased by 10 basis points over the June quarter to 5.40%. In comparison to June 2014, the 3 year fixed rates have decreased by 0.70 percentage points from 6.10%.

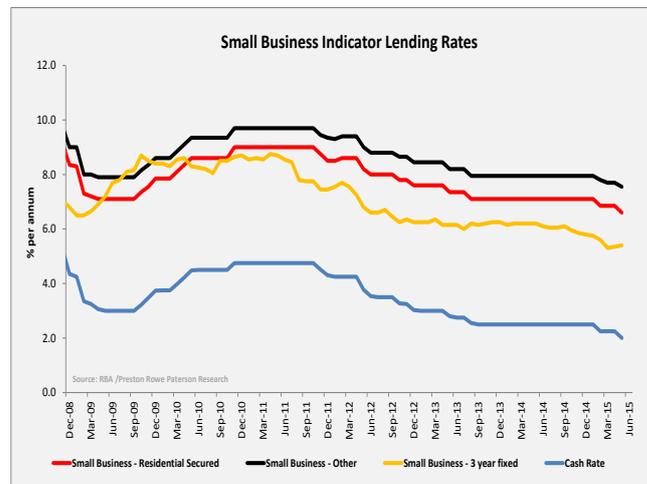


Chart 8 – Small Business Indicator Lending Rates – Source RBA

Exchange Rates & Equity Markets

Australian Exchange Rates

Over June quarter 2015, the Australian Dollar increased slightly against the US Dollar, increasing from \$0.7634 in March to \$0.7680 in June. Over the twelve months to June, the Australian dollar has decreased by -18.47% from \$0.9420 USD.

The Australian Dollar also recorded a quarterly decline against the British Pound, Euro and the Japanese Yen. The Australian Dollar exchange rates against the Pound, Euro and Yen fell by -2.30%, -1.90% and -1.10% respectively.

Year on year analysis saw the Australian Dollar decline against the British Pound by -5.40% to £0.4885 and -2.90% in the Euro to €0.6866. The Australian Dollar experienced an annual increase against the Yen of 2.40% to ¥93.92.

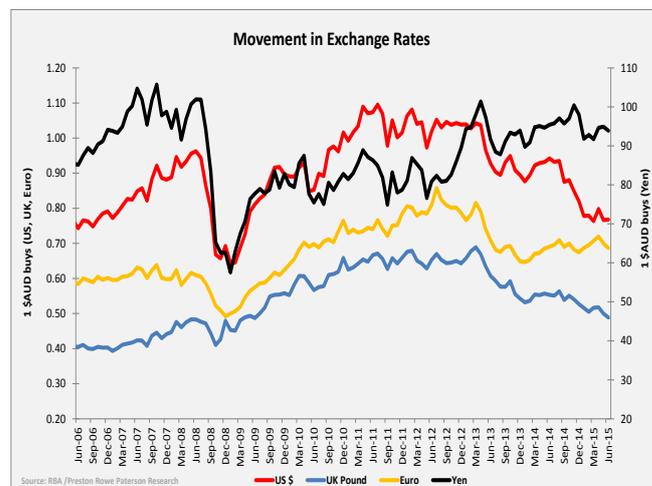


Chart 9 – Movement in Exchange Rates – Source RBA

Share price Indices

Over the June quarter, the S&P ASX 200 Index recorded a decrease of -7.34% from 460.3 in March to 426.5 in June. Over the twelve months to June 2015, the S&P ASX 200 Index has recorded growth of 1.2% increasing by 4.9 index points.

The US S&P 500 Index recorded a decline of -0.22% over the three months to June 2015 as the index reached 624.8. Year on year analysis to June revealed a growth of 31.2 index points, reflecting an increase of 5.30%.

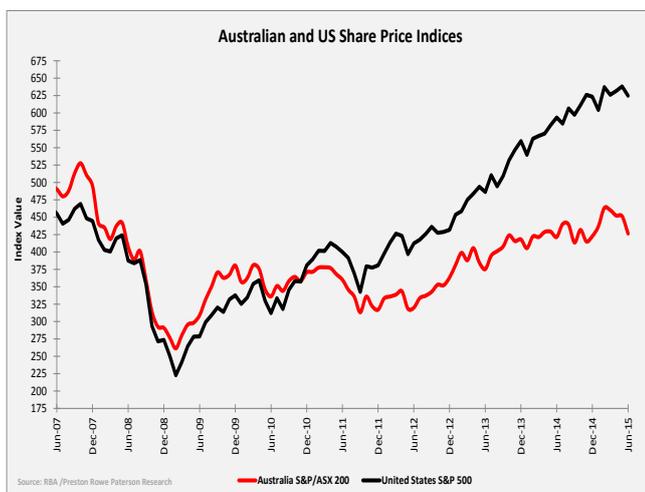


Chart 10 – Australian and US Share Price Indices – Source RBA

Industrials, All Ordinaries and Property Trust Index Values

The June 2015 quarter saw the All Ordinaries Index decrease by -7.01% from 5861.92 in March to 5451.2 in June. The year on year analysis has revealed the All Ordinaries Index increasing by 1.30%, reflecting an increase of 69.17 index points.

The Industrial Index recorded a decline of -2.98% over the June quarter and reflected an annual growth of 12.40%. Since June 2014, there has been an increase of 500.02 index points to 4528.58.

The ASX Property Trusts followed with an decrease of -4.10% over the quarter. Similarly it experienced a growth of 15.50% to 165.86 over the twelve months to June 2015.

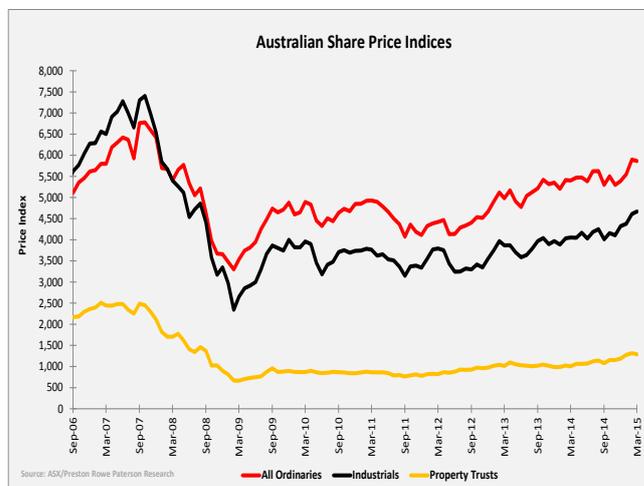


Chart 11 – Australian Share Price Indices – Source ASX

Gross Domestic Product

GDP

GDP figures for the June quarter 2015 are not available until the 2nd September 2015, however, over the March 2015 quarter revealed that the Australian economy recorded growth of 0.93% seasonally adjusted which reflected growth of 2.31% seasonally adjusted over the twelve months to March 2014.

The main contributors to expenditure on GDP were Net exports which increased by 0.5% and Final consumption expenditure which increased by 0.4% which was offset by the decrease in Changes in inventories at -0.3% .

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 Mining (+0.5%), Financial and insurance services (+0.5%), Information media and telecommunications (+0.3%) and Healthcare and social assistance (+0.3%). In trend terms, the largest detractor were the Professional, scientific and technical services (-0.4%) and Construction (-0.2%).

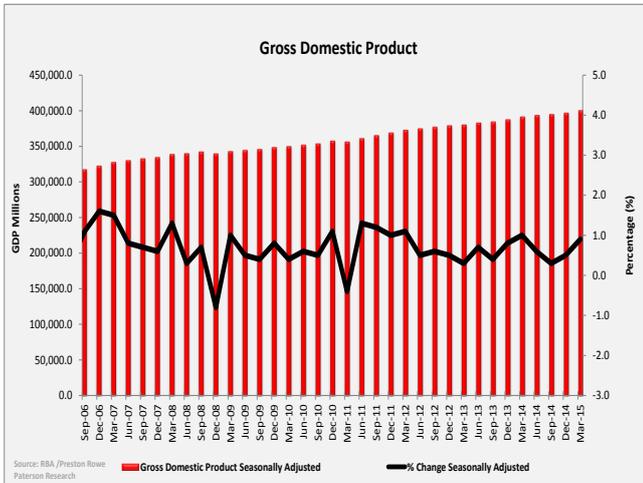


Chart 12 – GDP– Source ABS

The terms of trade decreased by 2.90% in seasonally adjusted terms over the quarter. Over the twelve months to March, the terms of trade has declined by -11.40%. 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.

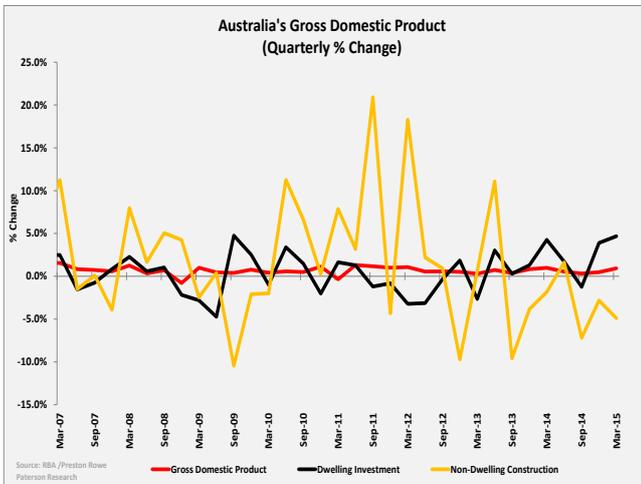


Chart 13 – Australia's GDP (Quarterly % Change) - Source ABS

Labour Force

Unemployment

Over the month to June 2015, the number of unemployed people increased by 12,791 from 743,358 in May to 756,149 in June which is a 1.72% increase. In comparison to June 2014, the number of unemployed people has increased by 10,451 which reflected an annual increase of 1.40%. The unemployment rate as at June 2015 is 6%.

Full time employment increase by 24,500 persons to 8,156,200 persons in the month of June. Part time employment recorded a decrease of 17,200 persons over the month to 3,612,400 persons.

The number of unemployed seeking full time employment recorded an increase in June by 27,200 to 541,200 persons. The number of unemployed seeking part time employment recorded a decrease over the month by 14,500 to 214,900 persons.

The participation rate recorded a marginal increase of less than 0.1 points to 64.8%, with year on year comparison revealing a 0.1 percentage point increase.

The aggregate monthly hours worked had increased by 5.1 million hours to 1,636.9 million hours at a 0.3% growth.

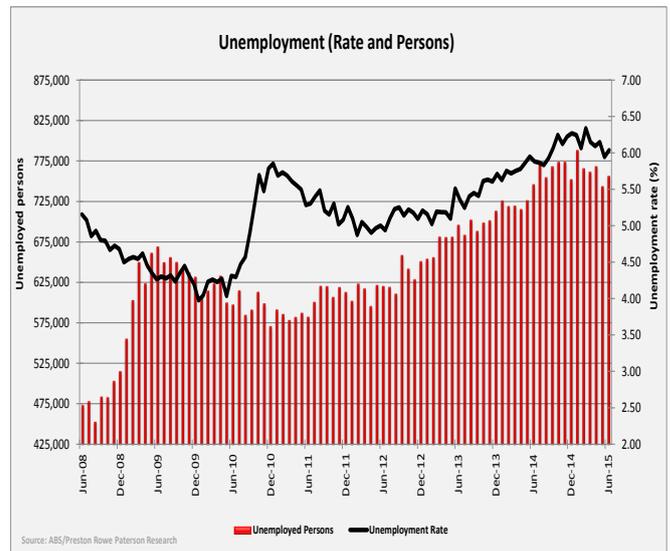


Chart 14 – Unemployment (Rate and Persons) - Source ABS

Wage Price Index

Data for the June quarter 2015 is not currently available, however according to the Australian Bureau of Statistics the total Wage Price Index rose by 0.5 percentage points seasonally adjusted over the March 2015 quarter, reflecting growth of 2.3% seasonally adjusted in comparison to March 2014. The public and private sectors increased over the quarter by 0.5% and 0.6%, with through the year rises of 2.3% and 2.5% respectively.

Over the March 2015 quarter, South Australia and Tasmania to record the highest annual wage growth at 0.6%. Western Australia and the Australian Capital Territory recorded the smallest rise of 0.3%.

In the private sector, the Tasmania experienced the most marked quarterly growth of 0.5% whilst Northern Territory recorded the smallest rise with 0.1%. Through the year rises in the private sector ranged from 1.9% for the Western Australia to 2.6% for Tasmania.

Victoria recorded the most significant quarterly growth in the public sector with a growth of 1%. Australian Capital Territory experienced the smallest rise of 0.1%. Similarly, the largest annual rise in the public sector was in Victoria at 3.2% and the smallest growth was recorded in Australian Capital Territory at 1.3%.

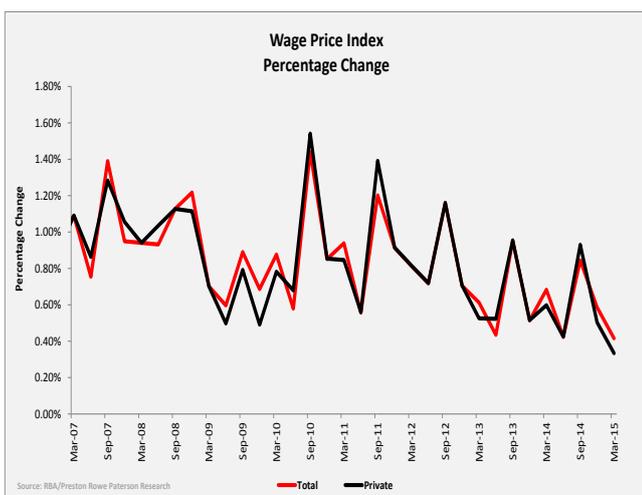


Chart 15 – Wage Price Index - Source ABS

Balance of Payments

Current Account Balance

Data for the June quarter 2015 is not currently available however over the March quarter 2015, Australia's Current Account Deficit increased by \$502 million to current account balance of \$10,741 million in the March quarter 2015 seasonally adjusted which reflects a 5% increase. In comparison to March 2014, the current account balance deficit has increased by 40.53%.

Balance of goods and services saw to a surplus of \$7.273 billion over the March quarter and recorded an increase of 24% from \$7.457 billion in December 2014. The primary net income deficit decreased by 7% to \$6.52 billion in the March quarter 2015.

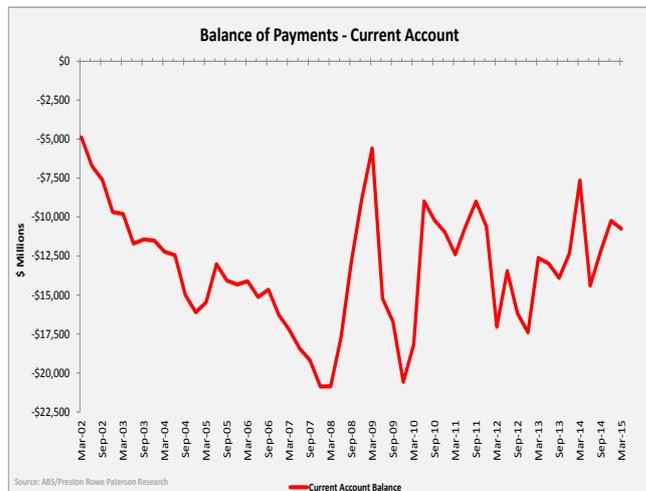


Chart 16 – Balance of Payment Current Account Deficit - Source ABS

International Investment Position

Data for the June quarter 2015 is not currently available however over the March 2015 quarter Net Foreign Debt increased by 3% to \$954.672 billion. In comparison to March 2014, this is an 12.7% increase. Net Equity Liabilities recorded an increase of 26.3% over the quarter to \$76.296 billion, bringing total international investment (NFD + NFL) to \$878.376 billion, reflecting an annual percentage increase of 3.9%.

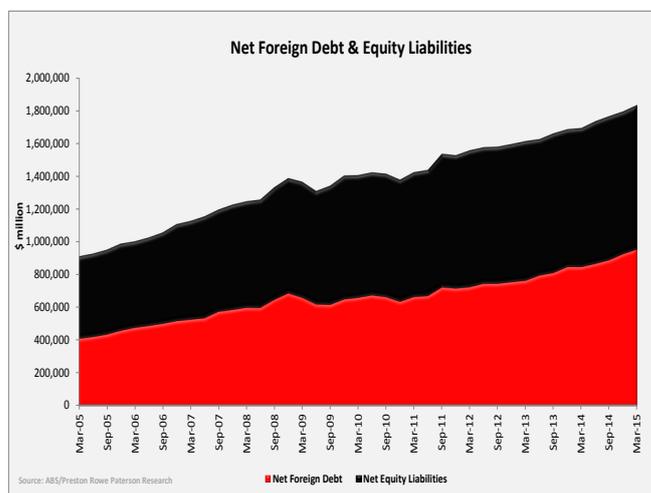


Chart 17 – Net Foreign Debt & Equity Liabilities – Current Account – Source RBA

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

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 June 2015 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.

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