



**Preston  
Rowe  
Paterson**

National Property Consultants

# Economic *Report*

## Australia

### About This Report

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

### Highlights

- All Groups CPI was recorded at 102.4 in March 2013, an increase of 0.40% over the quarter.
- The 10 year bond rate as at March 2013 is 3.51% with 90 day bank bill rate at 3.05%.
- RBA kept the cash rate unchanged at 3.0% as at March 2013 .
- AUD\$ declined slightly to \$1.0368 US in March 2013.

### March quarter 2013

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## Inflation and Investor Sentiment

### Consumer Price Index

According to the Australia Bureau of Statistic category 6401.0 Consumer Price Index (March 2013), the Australia's All Groups CPI grew by 0.4% over the quarter to March 2013 from 102.0 to 102.4. Year on year analysis records a 2.50% growth, compared to 2.20% over the year to December 2012.

The most significant price rises over the quarter were by pharmaceutical products by 7.60%, tertiary education by 6.50%, followed by tobacco and new dwelling purchase by owner-occupiers which recorded growth of 3.70% and 1.70% respectively. The most significant offsetting price falls over the quarter to March 2013 were recorded by fruit which declined by 7.0%, furniture and international holiday travel and accommodation which declined by 6.80% and 5.20% respectively.

Year on year analysis of the Housing Group revealed growth of 5.10%. The main contributors to the rise were electricity which increased by 17.10%, rents which increased by 3.50% and new dwelling purchase by owner-occupiers recording growth of 2.80% over the twelve months to March 2013.

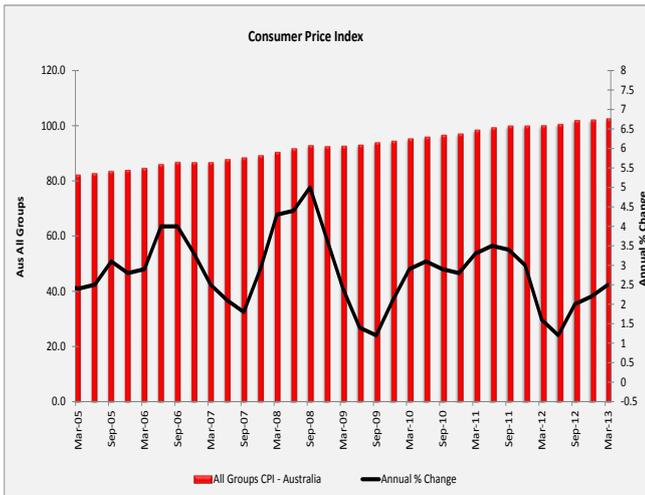


Chart 1 - CPI - Source ABS

Furthermore, the Furnishings, Household Equipment and Services Group fell in the March quarter 2013 by 1.30%. The main contributors to the fall were Furniture by 6.80%, Household Textiles by 6.70%, Glassware, Tableware and Household Utensils by 4.70%. Despite declines in majority of sub-categories, the fall was partially offset by a rise in Childcare of 3.30%. The Alcohol and Tobacco Group rose in the March quarter 2013, with Tobacco being the main contributor with a 3.70% increase, this is partially due to the effects of the Federal Excise Tax increase. The Federal Excise Tax is increased on 1 February and 1 August each year.

## Consumer Sentiment

The Consumer Sentiment Index increased by 2.0%, from 108.3 in February to 110.5 in March 2013. Over the quarter the most marked increase in sentiment was 7.0% over the month of February with the index recording 108.3, despite the Reserve Bank of Australia hold on interest rates. In the twelve months to March 2013, the Index was recorded at 96.1 which is an increase of 15% over the year.

Westpac Chief Economist Bill Evans stated that *"This is a strong result. It follows the 7.7% jump in the Index which printed in February and marks the fifth consecutive month that the Index has registered above 100. That follows a period of 16 months when the Index was below 100 on 14 of those 16 months"*.

Since December, the 'Time to buy a dwelling' Index increased by 1.6% from 142.2 in December to 144.5 in March. This Index is now recording an increase of 19.6% over the last 12 months according to the Media Release dated 13 March 2013.

According to Westpac - Melbourne Institute Survey of Consumer Sentiment, there were improvements in economic outlooks, with the sub-indices of economic conditions over 12 months and 5 years with both revealing growth of 0.80%.



Chart 2 - Consumer Sentiment - Source Westpac-Melbourne Institute Survey

## NAB Business Confidence

During March 2013 the National Bank of Australia (NAB) Business Confidence Index recorded an increase of 7 Index points from -5 to +2. According to NAB monthly Business Survey in March 2013 *"Business conditions fall to weakest level in almost four years but confidence steady."*

Business confidence was resilient in March, lifting marginally despite reignited worries about a European crisis and political uncertainty at home. It is possible that relatively higher equity prices and lower borrowing rates are keeping firms somewhat optimistic according to the Monthly Business Survey March 2013.

Business confidence across the industries was split between increases and decreases, with the mining industry falling to -25 points, its lowest level in four years. Wholesale recorded an increase of 8 points to -1 point, construction and recreation & personal services both increased by 5 points and the finance / business and property industry was down 7 points to +4 points. The construction industry seems optimistic about the outlook for dwellings investment due to an improving housing market according to the NAB Monthly Business Survey March 2013.

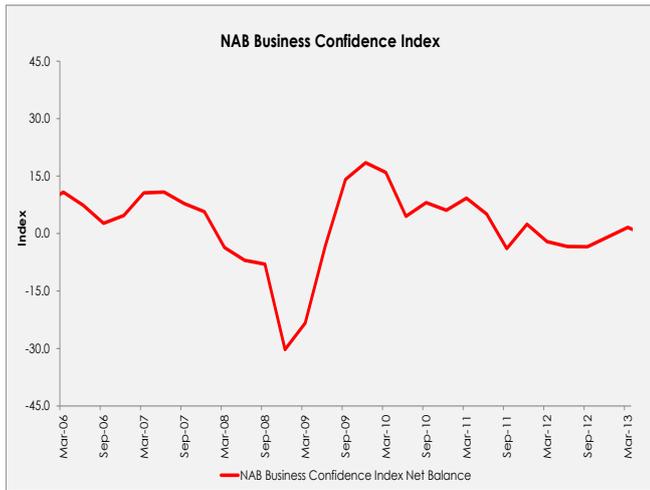


Chart 3 – NAB Business Confidence Index – Source RBA

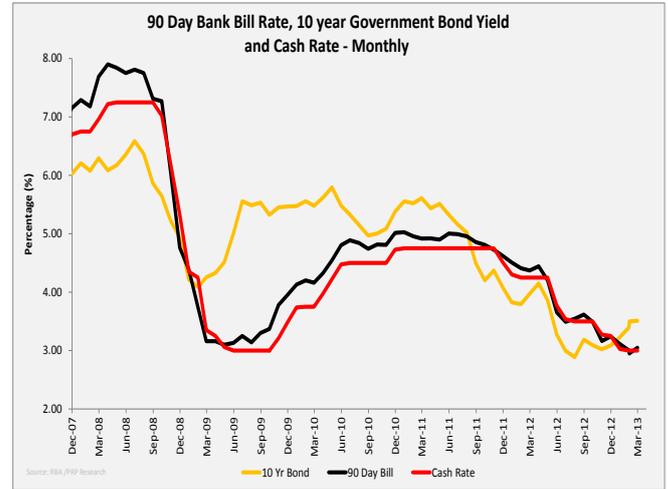


Chart 4 – 90 Day Bill, 10 year bond and cash rate - MONTHLY – Source RBA

Recent analysis of 10 year government bonds has revealed a decline by 26 basis points over the month of March 2013 to April 2013 with the 10 year bond rate currently at 3.25%, this decline may be attributed to the RBA's decision to keep interest rates unchanged and uncertainty in the global economy. 90 Day bank bill rates recorded a decline of 3 basis points over the month to April 2013 with the bill rate now at 3.02%. This decline in 10 year bonds and 90 day bill rates reflects a yield spread of 23 basis points.

## Bond Market

### 10 Year Bond & 90 Day Bill Rate

In the 12 months to March 2013, the 10 Year Bond rate has decreased by 64 basis points to 3.51%. The 90 Day Bill rate has also fallen significantly over the year to March by 139 basis points from 4.44% to 3.05% at the date of publishing.

Over the March quarter 2013, the 10 year Bond yield reported 0.46 percentage points higher than the 90 day bill rate. This 0.46 percentage difference reflects a growth of 0.35 percentage points when compared to the December quarter 2012. March is the fourth consecutive month that 10 year Government Bond yield has been higher than the Cash Rate and 90 Day Bills potentially indicating a decrease in consumer confidence in Government Bonds.

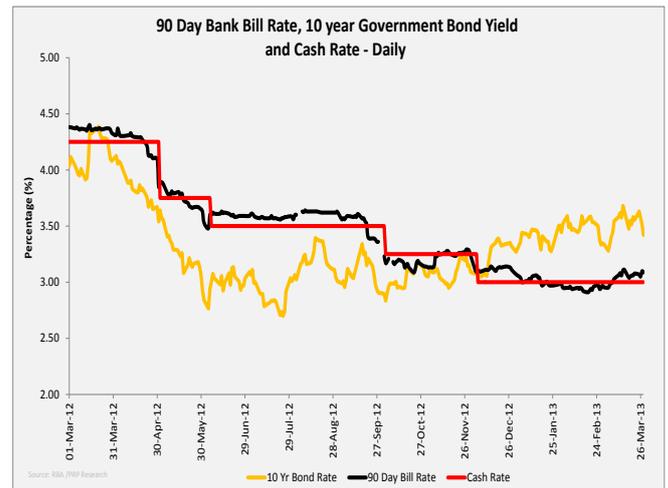


Chart 5 – 90 Day Bill, 10 year bond and cash rate – DAILY – Source RBA

## Interest Rates

### Interest Rate Movements

At the date of publishing, the official Cash Rate remained unchanged for the month of March 2013 at 3.0%. The Media Release statement from the RBA's Glenn Stevens stated;

*"Global growth is forecast to be a little below average for a time, but the downside risks appear to be reduced. While Europe remains in recession, the United States is experiencing a moderate expansion and growth in China has stabilised at a fairly robust pace. Around Asia generally, growth was dampened by the earlier slowing in China and the weakness in Europe, but again there are signs of stabilisation. Commodity prices have declined somewhat recently, but are still at historically high levels".*

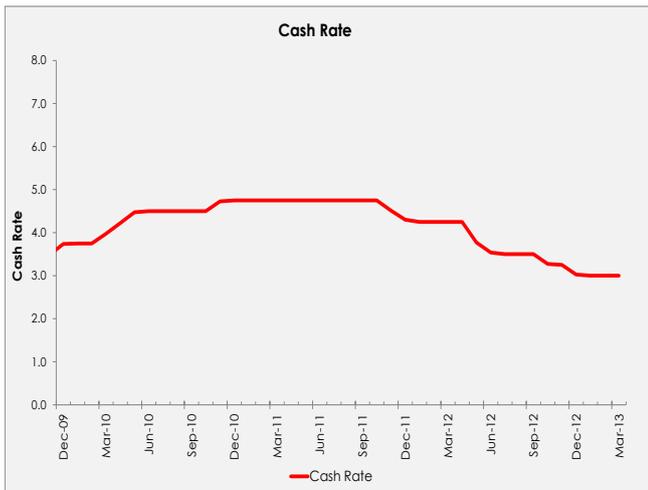


Chart 6 –Cash Rate – Source RBA

The RBA board noted that dwelling investment is slowly increasing, with rising dwellings prices and high rental yields. On review, Home Loan Interest Rates remained steady at 6.45% as at March 2013, in line with RBA's decision to keep the cash rate on hold. Year on year analysis has revealed home loan interest rates decline by 0.95 percentage points.

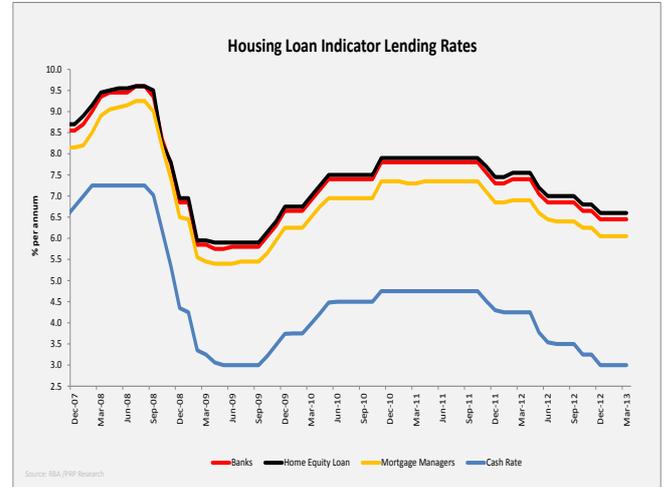


Chart 7 –Housing Loan Indicator Lending Rates – Source RBA

The Small Business Residential Secured Loans also remained steady on 7.60% due to the RBA keeping the cash rate unchanged. Small Business Residential Secure Loans are recording the lowest level since November 2009 when the rate was 7.55%. Small Business Fixed 3 Year Interest Rates recording a slight increase over the quarter of 0.05 percentage points to 6.35%. Year on year analysis to March 2013 has shown a significant decline of 1.20 percentage points from 7.55% to 6.35%.

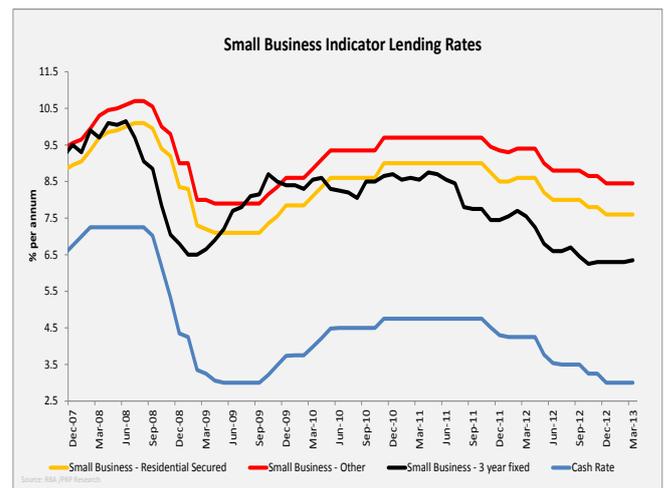


Chart 8 –Small Business Indicator Lending Rates – Source RBA

The RBA Board's view is "that with inflation likely to be consistent with the target, and with growth likely to be a little below trend over the coming year, an accommodative stance of monetary policy is appropriate. The inflation outlook, as assessed at present, would afford scope to ease policy further, should that be necessary to support demand".

## Exchange Rates & Equity Markets

### Australian Exchange Rates

Over the month of March 2013, the Australian Dollar recorded positive growth against the US Dollar, increasing from \$1.0275 in February 2013 to \$1.0426 in March 2013, reflecting a positive annual growth of 0.40%

The Australian Dollar recorded further positive growth against other currencies of; Euro, Pound Sterling and Japanese Yen, with the greatest monthly increase attributed to the Euro with 4.30%. This was followed by the Yen with 3.50% and finally the Pound Sterling to 1.70%.

March 2012 figures recorded 1 Australian Dollar buying 1.0402 US\$, 0.6507 Pound, 0.7788 Euro and 85.34 Japanese Yen. These figures reflect growth of 0.23% for the US Dollar, 5.90% for the Pound, 4.70% for the Euro and a 14.90% for the Japanese Yen. As at March 2013, 1 Australian Dollar buys 1.0426 US Dollars, 0.689 Pound, 0.8155 Euro and 98.08 Japanese Yen.

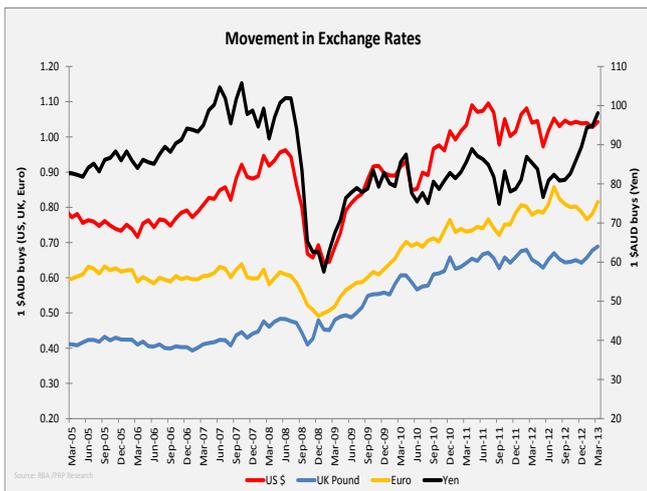


Chart 9 – Movement in Exchange Rates – Source RBA

### Share price Indices

The S&P ASX 200 has recorded considerable growth over the three months to March 2013, with the Index currently at 388.1, an improvement of 6.83% from the December quarter 2013 when the index recorded 363.3.

In comparison to 12 months prior the Index was recorded at 338.7. This year on year analysis reflected a growth of 14.60% an increase of 49.4 index points to March 2013. Over the past 12 months to March 2013, the S&P ASX 200 Index was relatively positive showing significant growth with the exception of the trough in May and June 2012 when it reached a low of 318.5 Index Points.

The US S&P 500 recorded a growth of 10.03% over the three months to March 2013 as the Index reached 475.2. Year on year analysis revealed a growth of 48.4 Index Points reflecting an increase of 11.40%. The US S&P 500 Index is experiencing its highest price on record since May 2000.

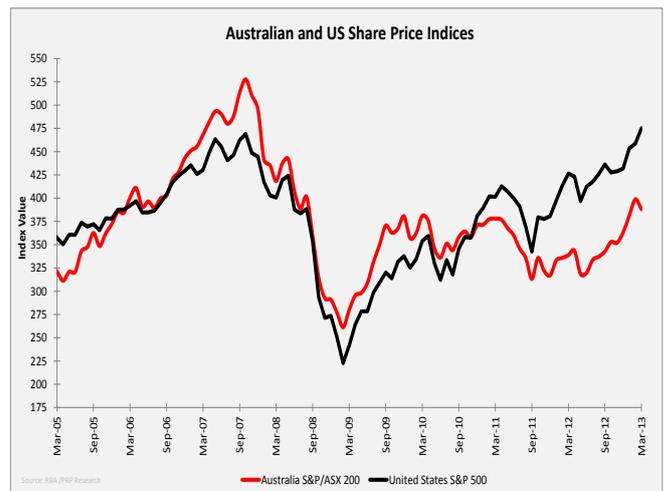


Chart 10 – Australian and US Share Price Indices – Source RBA

### Industrials, All Ordinaries and Property Trust Index Values

The March 2013 quarter saw the All Ordinaries Index grow by 6.80% from 4664.59 Index Points in December 2012 to 4979.87 in March 2013, an increase of 315.28 Index Points.

Year on year analysis revealed a 12.7% growth to March 2013, with the Index gaining 559.9 Index Points. Despite positive results over the quarter and the year for the All Ordinaries Index, over the month of March there was a decline of 140.51 Index Points from 5120.38 to 4979.87.

The Industrial Index recorded a growth over the quarter to March 2013 of 8.90% and a year on year growth of 1.90%, reflecting an annual gain of 73.5 Index Points and to close at 3866.77. Month on month analysis revealed a decline of 2.60%, a loss of 103.7 Index Points.

The ASX Property Trust Index saw significant growth over the 12 months to March 2013 to close at 1013.44 Index Points. Analysis of the March quarter revealed growth of 4.10%, and month on month recorded a decline of 27.87 Index Points reflecting a decline percentage of 2.75%.

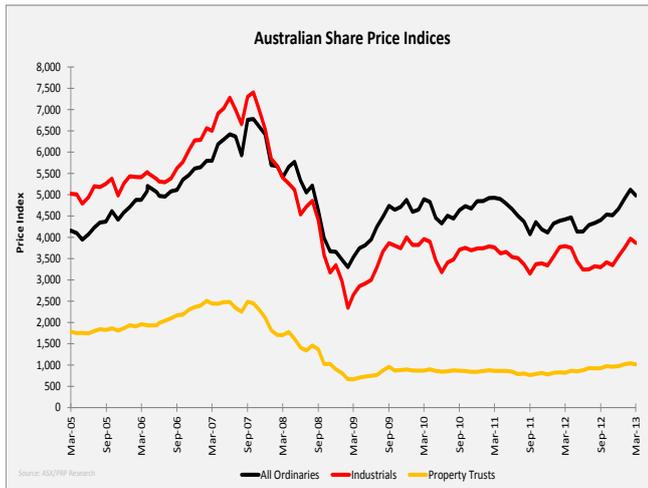


Chart 11 –Australian Share Price Indices – Source ASX

## Gross Domestic Product

### GDP

GDP figures for the March quarter are not available until the 5<sup>th</sup> June 2013 however PRP research over the December 2012 quarter revealed that the Australian economy recorded steady growth, with GDP over the quarter increasing by 0.6% taking annual growth to 3.10%.

In seasonally adjusted terms, the main contributors to expenditure on GDP were Total public gross fixed capital formation increasing by 1.10% over the quarter to December 2012 and Net exports increasing by 0.6 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.

The main declines were Total private gross fixed capital formation, decreasing 0.9 percentage points and Changes in Inventories decreasing by 0.4 percentage points. In seasonally adjusted terms, the main contributors to GDP were Manufacturing, Health care and social assistance, Financial and Insurance services and Mining with increases of 2.10%, 1.80%, 1.30% and 0.80% respectively. The Terms of Trade over the December quarter 2012 recorded a decline by 2.70% seasonally adjusted.

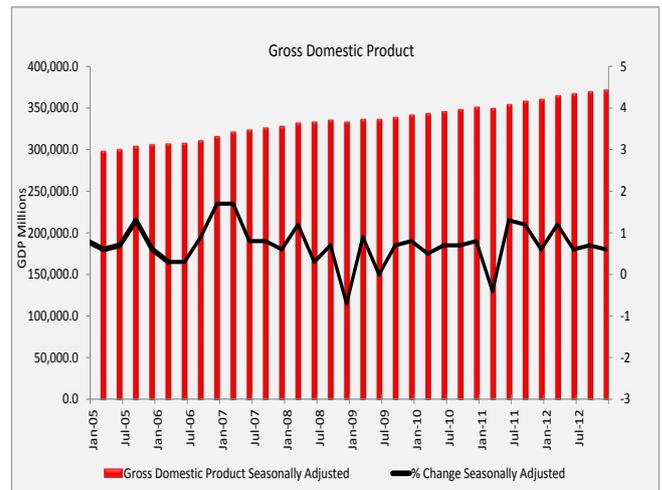


Chart 12 – GDP – Source ABS

Over the December 2012 quarter, Dwelling Investment recorded an increase of 2.11% seasonally adjusted, which brings total annual dwelling investment down by 0.75 percentage points to December 2012. The RBA's decision to leave rates unchanged at 3.0% is expected to increase consumer confidence.

Building and Structures Investment data for the December 2012 quarter has not been released, however over the September quarter an increase of 5.60% to \$34,982 million seasonally adjusted.

GDP over the quarter to December 2012 recorded slight growth of 0.52% which brings total GDP over the December 2012 quarter to \$374,403 million.

Household Consumption for Private Dwellings over the quarter to December 2012 saw an increase of 0.73% which brings the annual increase to 5.28%. Conversely, Household Saving for Private Dwellings experienced a decrease of 1.82% over the quarter and an annual decline of 3.18%.

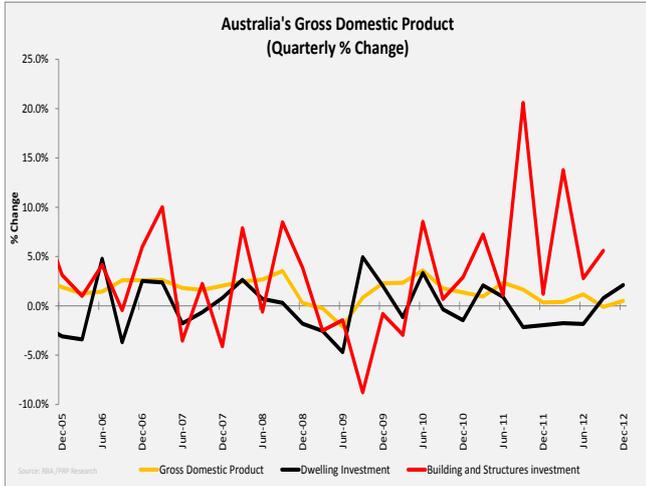


Chart 13 – Australia's GDP (Quarterly % Change) - Source ABS

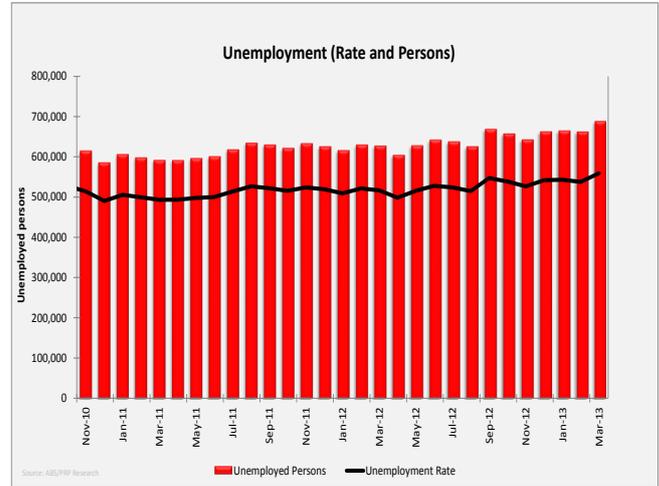


Chart 14 – Unemployment (Rate and Persons) - Source RBA

## Labour Force

### Unemployment

Over the month to March 2013 the number of unemployed people rose by 25,917 from 661,010 in February 2013 to 686,927 in March 2013 reflecting a percentage increase over the month of 3.92%.

Employment over the month to March 2013 experienced a decrease by 36,131 persons from 11,628,869 in February 2013 to 11,592,738 persons in March 2013 a percentage decline of 0.311%. Over the year to March 2013 employment in Australia has recorded a growth of 0.948% increasing by 108,814 persons.

Analysis of data made available by the ABS has revealed that full time employment to March 2013 has declined by 0.091% from 8,118,689 to 8,111,282, a decline of 7,407 persons. Part time employment recorded a decline of 0.818% to 3,481,455 persons a decrease of 28,724 persons over the month to March 2013. Year on year comparison recorded growth of 0.45%.

The unemployment rate increased by 0.2 percentage points to 5.6% at March 2013 reflecting an increase of 25,917 unemployed, to 686,926 unemployed persons. Year on year analysis recorded a percentage increase of unemployed persons of 9.70% reflecting an increase of 60,967 unemployed persons over the twelve months to March 2013. The number of full time job seekers over the month increased by 30,934 to 501,885, however part time job seekers decreased by 5,017 to 185,041 persons.

The participation rate recorded a slight decline of 0.2 percentage points to 65.1% as at March 2013, with the year on year analysis revealing a 0.3 percentage point decline. Over the month of March 2013 aggregate number of hours worked decreased by 5 million hours to a total of 1,627.3 million hours seasonally adjusted.

### Wage Price Index

Data for the March quarter is not available, however according to the Australian Bureau of Statistics the Wage Price Index rose 0.8% over the December quarter 2012, bringing the total annual pace to 3.4%. Both the Public Sector and Private Sector wages increased by 0.8%, bringing annual Public Sector wage inflation to 3.2% and 3.4% for Private Sector annual wage inflation.

State and Territory Wage Price Index saw the Northern Territory recorded the most significant quarterly rise in all sectors by 1.1%, whilst New South Wales recorded the smallest growth by 0.4%. The Private Sector over the December quarter saw Victoria recorded the most significant rise by 1.0%, whilst Tasmania recorded the smallest growth by 0.4%. Year on year the Private Sector rises ranged from 2.7% in the Australian Capital Territory to 4.3% in Western Australia.

Northern Territory recorded the largest quarterly rise in Public Sector over all states and territories by 1.5%, whilst New South Wales recorded the smallest quarterly growth by 0.3%. Year on year the Australia Capital Territory recorded the most significant Public Sector rise by 5.2%. According to the Australia Bureau of Statistics commentary dated 20<sup>th</sup> February 2013 *"The large through the year rise to the December quarter 2012 reflects the change in timing of pay increases due to the introduction of new Enterprise Agreements for some Australian Government agencies during the previous twelve months."*

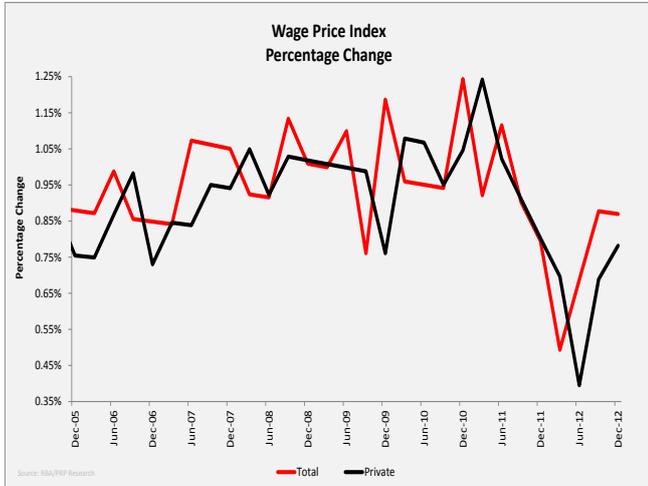


Chart 15 – Wage Price Index - Source RBA

## Balance of Payments

### Current Account Balance

Data for the March 2013 quarter is not currently available however over the December 2012 quarter Australia's Current Account Deficit narrowed from \$15.048 billion to \$14.678 billion. Year on year saw an increase in debt by 61.1% from the December quarter 2011 which recorded a CAD of \$9.082 billion, an increase in debt by \$5.596 billion.

Export earnings increased by 1.1%, to \$61.197 billion over the December quarter 2012, whilst year on year recorded a decline by 10.5%. Imports gained 1.3% in the December quarter 2012 to record a total figure of \$63.308 billion. Net trade (Export and Import) increased by 1.1% in the December quarter 2012, to record a negative \$211.2 billion. In the December quarter 2012 Australia's Net Income position reduced from \$9.659 billion to \$9.125 billion in deficit, lowest recorded deficit since March quarter 2006.

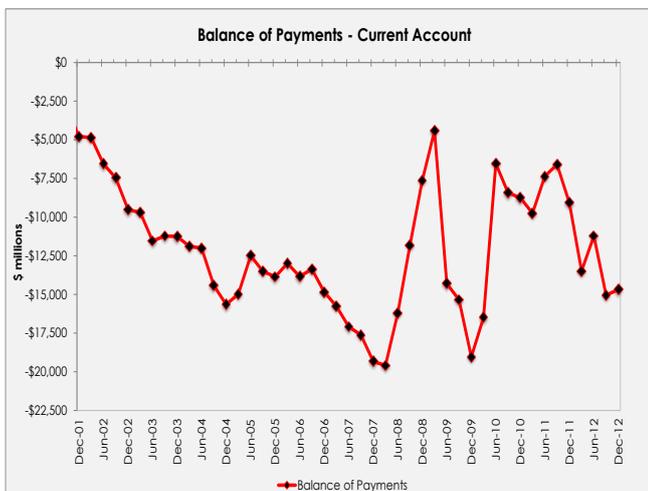


Chart 16 – Balance of Payment Current Account Deficit - Source RBA

## International Investment Position

Data for the March quarter is not currently available however over the December 2012 quarter Net Foreign Debt grew slightly increasing by \$12.355 billion to \$759.825 Billion, year on year percentage increase of 5.1%. Net Equity Liabilities decreased over the quarter by 5.3%, a \$6.165 billion reduction, bringing total international investment (NFD + NFL) to \$870 billion, reflecting an annual percentage increase of 4.4%.

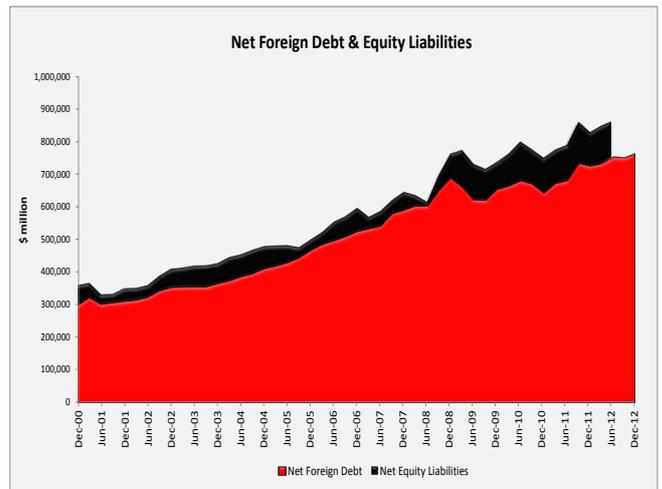


Chart 17 – Net Foreign Debt & Equity Liabilities – Current Account—

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.

## Our Corporate Property Services

### We have *property* covered

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

## Types of Real Property

### We have all *real estate* types covered

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

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

## Types of Plant & Machinery

### We have all types of *plant & machinery* covered

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

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

## Our Clients

### We have all *client profiles* covered

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

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

## Our Service Area

### We have all *locations* covered

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

## Reasons for our Services

### We have *your needs* covered

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

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

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## Capital City Offices

**Melbourne**

**Adelaide**

**Brisbane**

## Regional Offices

**Albury Wodonga**

**Ballarat**

**Bendigo**

**Cairns**

**Central Coast/Gosford**

**Geelong**

**Gold Coast**

**Gippsland**

**Mornington**

**Newcastle**

**Wagga Wagga**

## Relationship Offices

**Canberra**

**Perth**

**Hobart**

**Darwin**

**Other regional areas**