



**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 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 105.4 in March 2014, an increase of 0.6% over the quarter.
- The 10 year bond rate as at March 2014 is 4.10% with 90 day bank bill rate at 2.66%.
- RBA lowered the cash rate to 2.50% .
- AUD\$ increased to \$0.9221 US in March 2014.

March Quarter 2014

INSIDE THIS ISSUE:

Inflation and Investor Sentiment	2
Bond Market	3
Interest Rates	3
Exchange Rates & Equity Markets	4
Gross Domestic Product (GDP)	5
Labour Force	6
Balance of Payments	7
About Preston Rowe Paterson	8
Contact Us	10



Phone: +61 2 9292 7400

Fax: +61 2 9292 7403

Address: Level 11, 80 Clarence Street Sydney NSW 2000

Email: mailroom@prpsydney.com.au

Follow us: Visit www.prpsydney.com.au to follow us

© Copyright Preston Rowe Paterson NSW Pty Limited

Inflation and Investor Sentiment

Consumer Price Index

According to the Australian Bureau of Statistics category 6401.0 Consumer Price Index (March 2014), the Australia's All Groups CPI increased by 0.6% over the quarter to March 2014 from 104.8 to 105.4. Over the 12 months to March 2014, growth of 2.9% has been recorded.

The most marked price rises over the March quarter were for tobacco (+6.7%), pharmaceutical products (+6.1%), secondary education (+6.0%), tertiary education (+4.3%), automotive fuel (+4.1%) and medical and hospital services (+1.9%). Over the quarter the most significant price fall was attributed to furniture (-4.3%), followed by maintenance and repair of motor vehicles (-3.3%) and international & domestic holiday travel, both declining by 2.4%.

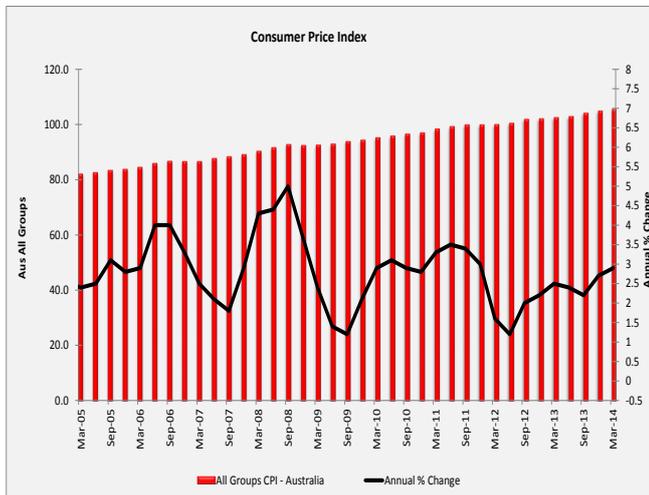


Chart 1 – CPI – Source ABS

The Housing Group increased by 0.6% over the March quarter, with electricity and rents recording the most marked growth of 1.4% and 0.7% respectively. Over the twelve months to March 2014, the housing group recorded growth of 3.6% with the main contributors; new dwelling purchase by owner-occupiers (+2.4%), rents (+2.9%) and electricity (+5.2%). The furnishings, household equipment and services group recorded a decline of 1.5% over the March quarter 2014. The main contributors to the fall were furniture and personal care products, declining by 4.3% and 1.9% respectively.

The insurance and financial services group recorded growth of 0.4% over the March quarter 2014, with the main contributor to the rise being other financial services, increasing by 0.4%. Through the year to March 2014 the insurance and financial services group rose 1.3%, with other financial services recording the most marked growth of 2.6%.

Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index declined by 0.7% in March from 100.2 index points in February to 99.5 index points in March. Over the quarter the index has declined by 5.5 points, a decline of 5.24%. Over the twelve months to March the index declined by 11 index points, reflecting a percentage decline of 9.99%.

The Index has now reached its lowest level since May 2013, when it was recorded at 97.6 index points. Westpac's Senior Economist, Matthew Hassan stated; "The index has now fallen 10.9% from its November peak of 110.3 and is at its lowest level since May last year. The initial declines in December-January looked to be mainly the unwinding of the election-related sentiment boost".

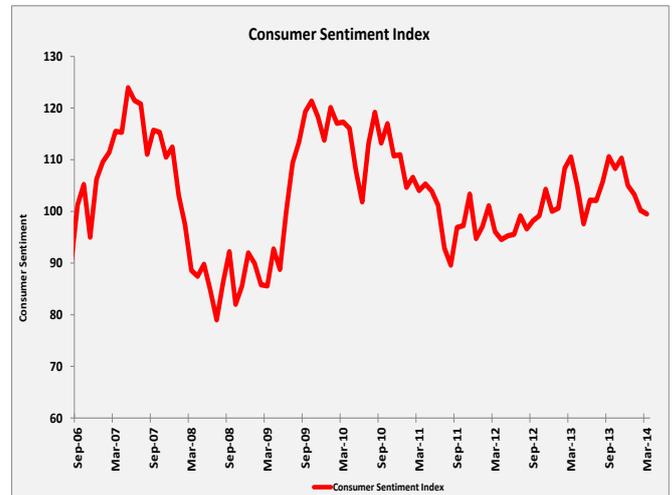


Chart 2—Consumer Sentiment Index—Source—Westpac Melbourne Institute Survey

NAB Business Confidence

Business Confidence declined by 3 points in the month of March to reach its lowest post-election level of +4 index points. According to the NAB Monthly Business Survey, 'business confidence was pared back in the month to its lowest post-election level, which is also below its long-run average'. The high Australian Dollar along with uncertainty in the global economy are potential factors which may have contributed.

Several industries recorded declines in business confidence, with the most marked declines in mining (-12 points) and finance/property/business (-11 points). Increases in business confidence over the month were recorded in transport and utilities (+3) points and construction (+2 points). According to the NAB Business Survey 'the improvement in construction is a reflection of the low interest rate environment, which has fed into higher real estate transactions and strong increases in property prices'.

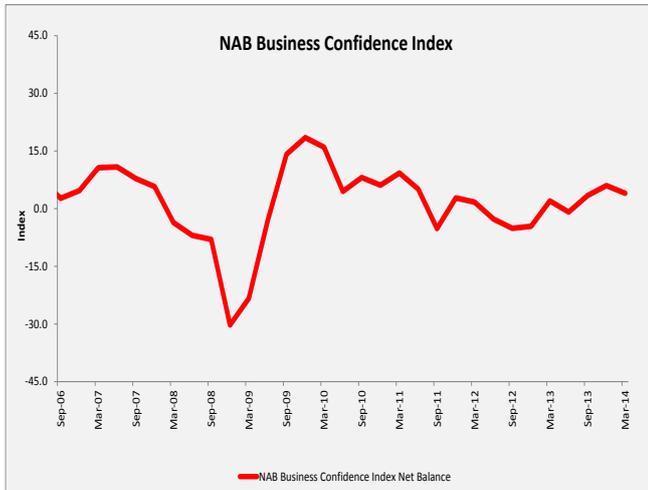


Chart 3 – NAB Business Confidence Index – Source RBA

Bond Market

10 Year Bond & 90 Day Bill Rate

In the twelve months to March 2014, the 10 Year Bond Rate has increased by 60 basis points to 4.10%. Conversely, the 90 Day Bill Rate has declined by 29 basis points from 2.95% to 2.66%. Over the March 2014 quarter, 10 Year Government Bonds recorded a decline of 14 basis points due to declines in January (-6 basis points), February (-6 basis points) and March (-2 basis points).

The 90 Day Bill Rate recorded an increase over the March quarter of 5 basis points. A 1 basis point increase in January and February and a 3 basis point increase in March. Year on year analysis has revealed that the 90 Day Bill Rate has declined a total of 29 basis points since March 2013.

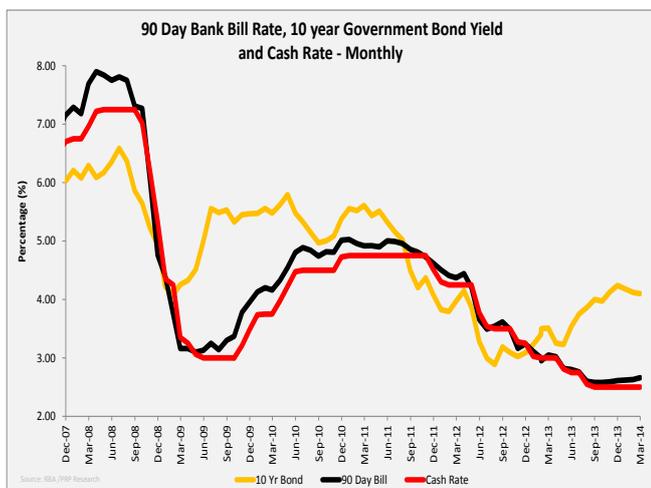


Chart 4 – 90 Day Bill, 10 year bond and cash rate - MONTHLY – Source RBA

Analysis of 10 Year Government Bonds has revealed a decline of 2 basis points over the month of March 2014 with the 10 year bond rate currently at 4.10%. 90 day bill rates revealed a 3 basis point increase over the month of March. The changes in both 10 year bonds and the 90 day bill rate reflect a yield spread of 144 basis points.

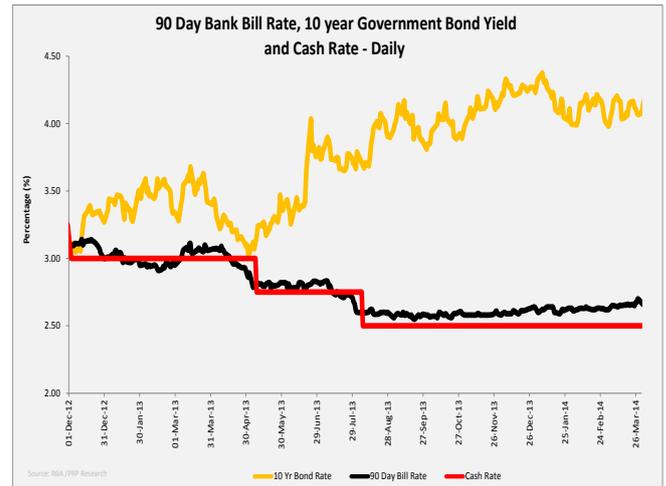


Chart 5 – 90 Day Bill, 10 year bond and cash rate – DAILY – Source RBA

Interest Rates

Interest Rate Movements

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

"In Australia, the economy grew at a below trend pace in 2013. Recent information suggests slightly firmer consumer demand over the summer and foreshadows a solid expansion in housing construction. Some indicators of business conditions and confidence have improved from a year ago and exports are rising. But at the same time, resources sector investment spending is set to decline significantly and, at this stage, signs of improvement in investment intentions in other sectors are only tentative, as firms wait for more evidence of improved conditions before committing to expansion plans. Public spending is scheduled to be subdued".

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.

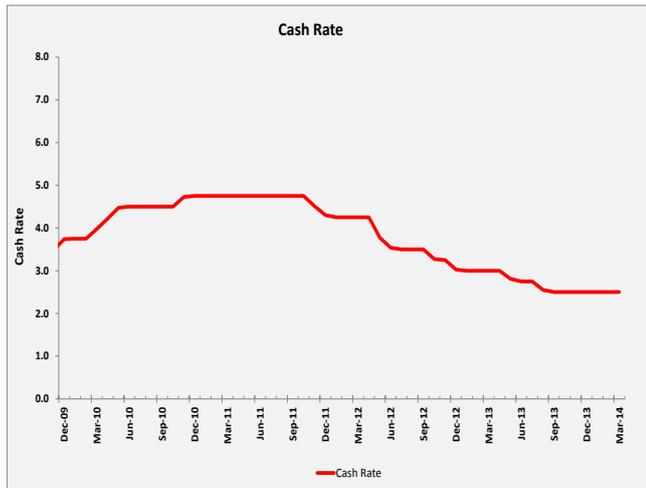


Chart 6 -Cash Rate - Source RBA

Since March 2013, home loan interest rates have declined by 0.50 percentage points to 5.95% to March 2014 in line with the unchanged cash rate decision by the RBA at 2.5%. Over the March quarter there were no interest rate cuts, resulting in bank interest rates remaining unchanged since August 2013.

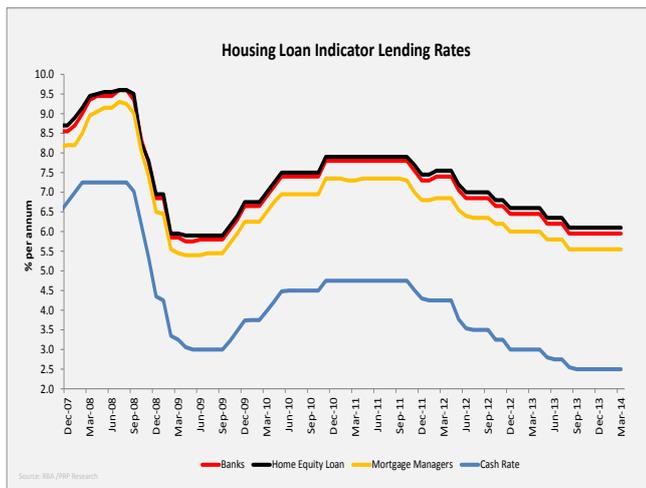


Chart 7 -Housing Loan Indicator Lending Rates - Source RBA

The small business residential securing loans remained unchanged over the March quarter at 7.10%. Over the past twelve months there has been a decline of 0.50 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 0.10% over the March quarter. In comparison to March 2013, 3 year fixed rates have declined by 0.15 percentage points, from 6.35% to 6.20%.

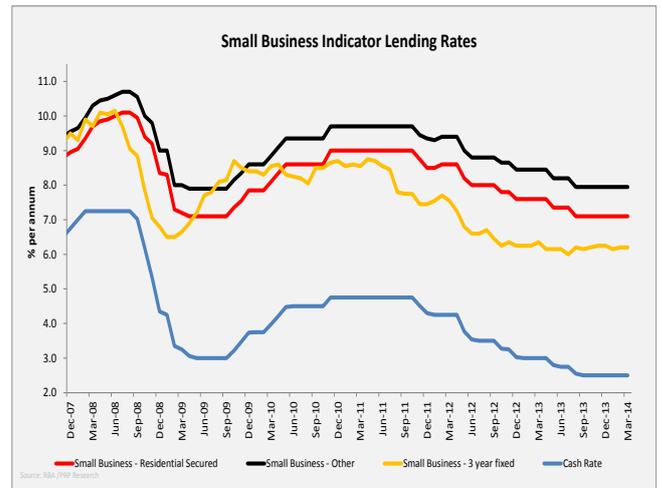


Chart 8 -Small Business Indicator Lending Rates - Source RBA

Exchange Rates & Equity Markets

Australian Exchange Rates

Over the month of March 2014, the Australian Dollar grew against the US Dollar, increasing from \$0.8947 in February to \$0.9221 in March, its highest level since September 2013. Over the twelve months to March, the Australian dollar has declined by 11.56% from \$1.0426 to \$0.9221.

The Australian Dollar recorded further growth against other major currencies of; Euro, Japanese Yen and the UK Pound Sterling with monthly increases of 3.7%, 4.3% and 3.4% respectively.

Year on year analysis saw the Australian Dollar decline across all other major currencies, with the most marked decline attributed to the UK Pound, with 19.54% to £0.5544. The Euro followed, with a 17.76% decline to €0.6707 and the Yen with a 3.31% decline to ¥94.83.

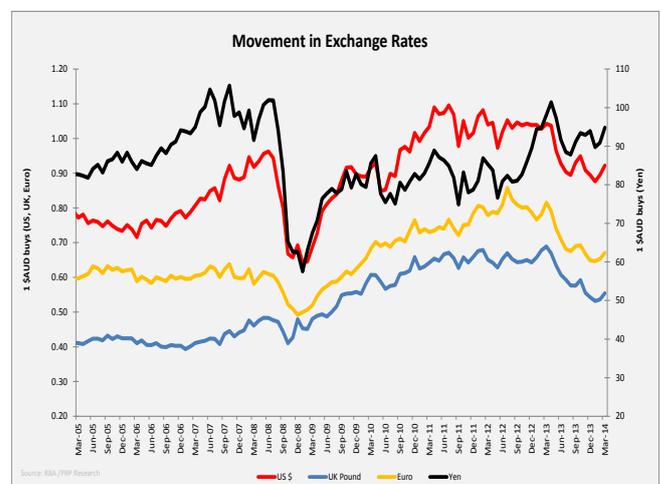


Chart 9 -Movement in Exchange Rates - Source RBA

Share price Indices

Over the March quarter, the S&P ASX 200 Index recorded 421.5, an increase of 0.79% from December when the index recorded 418.2. Over the twelve months to March 2014, the S&P ASX 200 Index has recorded growth of 8.6% increasing by 33.4 index points.

The US S&P 500 Index recorded a growth of 0.69% over the three months to March 2014 as the index reached 567, the indexes highest level recorded. Year on year analysis to March revealed a growth of 91.8 index points, reflecting an increase of 19.3%.

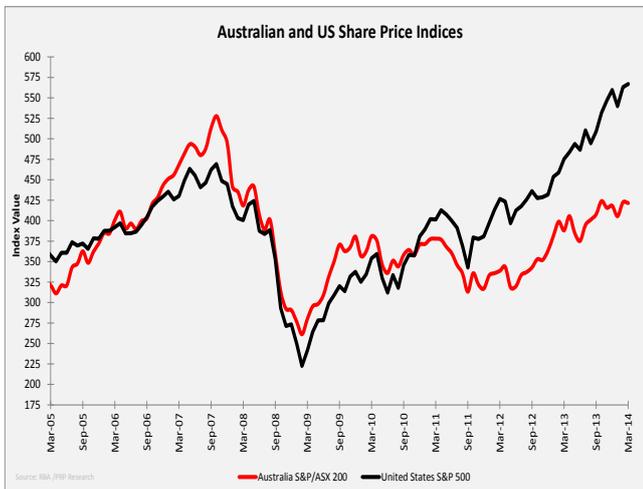


Chart 10 – Australian and US Share Price Indices – Source RBA

Industrials, All Ordinaries and Property Trust Index Values

The March 2014 quarter saw the All Ordinaries Index increase by 0.93% from 5353.08 in December to 5402.99 in March, an increase of 49.91 index points. Year on year analysis has revealed the All Ordinaries Index increasing by 8.5%, reflecting an increase of 423.1 index points.

The Industrial Index recorded growth of 8.9% over the March quarter, reflecting annual growth of 4.8%. Since March 2013, there has been an increase of 186.88 index points. The ASX Property Trusts followed, with growth of 2.07% over the quarter, however experienced a slight decline of 0.8% over the twelve months to March which reflects a decrease of 8.11 index points.

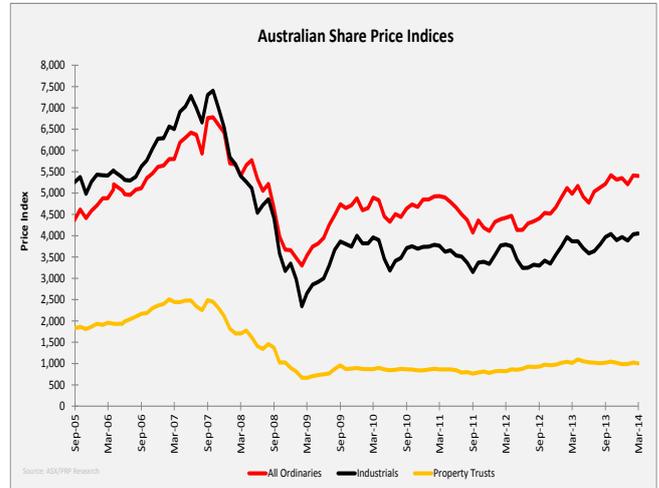


Chart 11 – Australian Share Price Indices – Source ASX

Gross Domestic Product

GDP

GDP figures for the March quarter are not available until the 4th June 2014 however PRP Research over the December 2013 quarter revealed that the Australian economy recorded growth of 0.8% seasonally adjusted which reflected growth of 2.8% seasonally adjusted over the twelve months to December 2013.

The main contributors to expenditure on GDP were Net Exports which increased by 0.6%, final consumption expenditure, which increased by 0.5%. The main detractor to expenditure on GDP was private gross fixed capital formation, declining by 0.5 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 1.2%, Rental, Hiring and Real Estate Services increasing by 4.2% and Manufacturing (up 1.5%). Each of these industries accounted for 0.1% of the total increase in GDP.

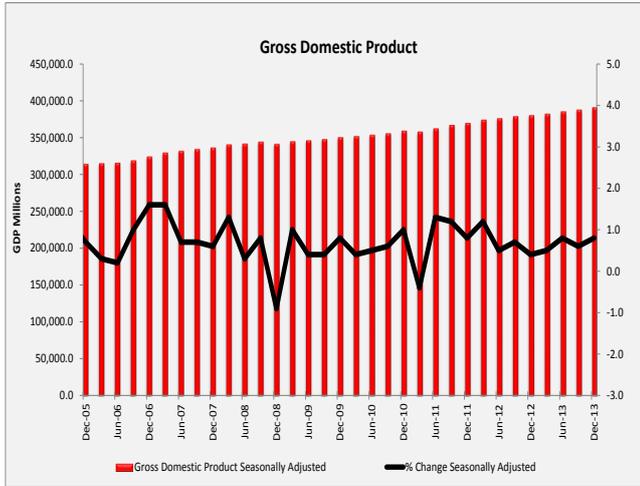


Chart 12 – GDP– Source ABS

The terms of trade increased by 0.6% in seasonally adjusted terms over the December quarter. Over the twelve months to December, the terms of trade has declined by 1.2%. "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.

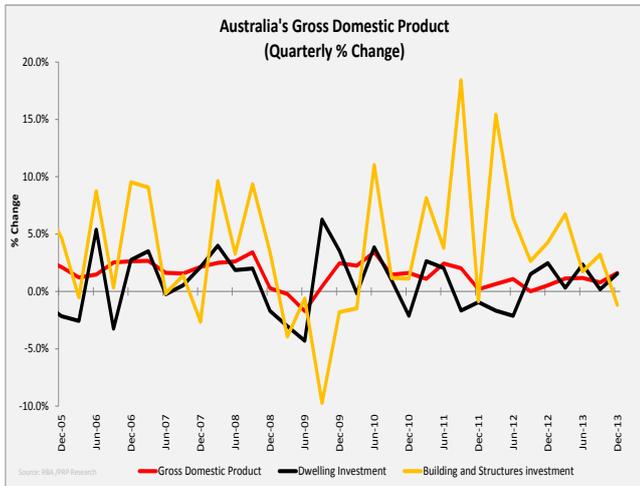


Chart 13 – Australia's GDP (Quarterly % Change) - Source

Labour Force

Unemployment

Over the month to March 2014, the number of unemployed people declined by 29,900 from 743,100 in February to 713,200 in March which is a percentage decline over the month of 4.03%. In comparison to March 2013, the number of unemployed people has increased by 36,100 which reflected a percentage increase of 5.33%.

Employment over the month to March 2014 recorded an increase of 18,100 persons from 11,535,000 in February to 11,553,200 in March, a percentage increase of 0.16%. In comparison to March 2013, employment in Australia recorded growth of 122,000 reflecting a percentage increase of 1.07%.

Full time employment over the month to March declined by 0.27 percentage points from 8,051,200 to 8,029,100 a decline of 22,100 persons. Part time employment recorded growth of 1.12% over the month to March to 3,524,000. In comparison to March 2013, there was growth of 2.88% which is an increase of 98,600 persons employed part-time.

The unemployment rate declined over the month to March by 0.3 percentage points to 5.8% reflecting a decline of 29,900 unemployed to 713,200. In comparison to March 2013 the unemployment rate has increased by 0.2 percentage points.

The number of unemployed seeking full time employment recorded a decline over the month of 16,700 to 509,800 persons, reflecting a percentage decline of 3.17%. The number of unemployed seeking part time employment recorded a decline over the month of 13,300 to 203,400 persons, reflecting a percentage decline of 6.12%.

The participation rate recorded a marginal decline of 0.2 percentage points to 64.9% as at March 2014, with year on year comparison revealing a 0.3 percentage point decline.

Over the month of March 2013 the aggregate number of hours worked increased by 8 million hours to a total of 1,617.2 million hours seasonally adjusted. This reflects a percentage increase of 0.5%.

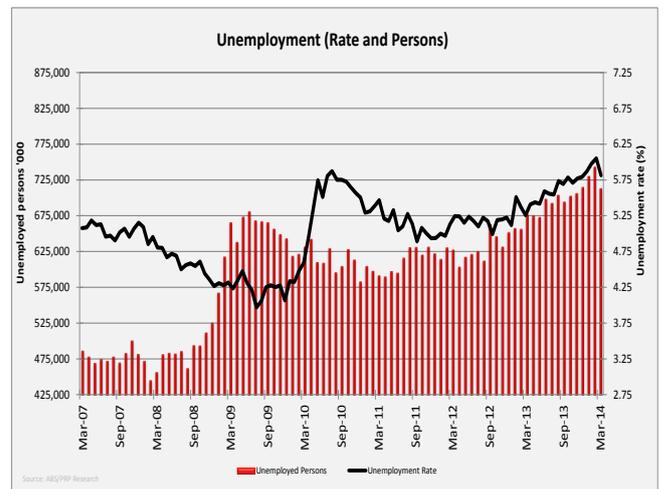


Chart 14 – Unemployment (Rate and Persons) - Source RBA

Wage Price Index

Data for the March 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 December quarter 2013, reflecting growth of 2.6% seasonally adjusted in comparison to December 2012. Both the public and private sectors increased over the quarter, by 0.9% and 0.6% respectively, with through the year rises of 2.7% and 2.5%.

Over the December 2013 quarter, South Australia recorded the most significant rise in the wage price index of 0.9% and Tasmania recorded the smallest with 0.3%. In the private sector, the Northern Territory experienced the most marked quarterly growth of 0.7% and Tasmania recorded the smallest rise with 0.2%. Through the year rises in the private sector ranged from 2.1% for Tasmania to 3.4% for South Australia.

South Australia recorded the most significant quarterly growth in the public sector with 1.4%. Tasmania and the Australian Capital Territory experienced the smallest rise of 0.3%. In comparison to December 2012 the most marked growth in the public sector was recorded by South Australia with 3.8%. The smallest rise was in the Northern Territory with 1.6% growth.

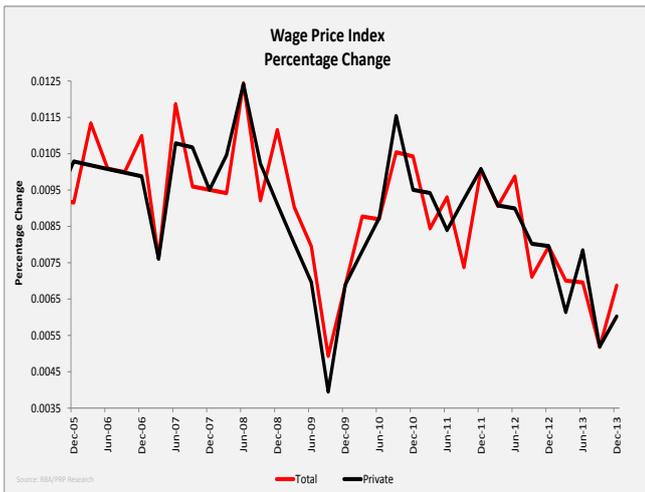


Chart 15 – Wage Price Index - Source RBA

Balance of Payments

Current Account Balance

Data for the March 2014 quarter is not currently available however over the December 2013 quarter, Australia's Current Account Deficit declined by \$2.4 billion to current account balance of \$10.139 billion seasonally adjusted which reflects a 19.14% decline over the quarter. In comparison to December 2012, the current account balance deficit has declined by a significant 39.89%.

Import earnings over the December quarter 2013 recorded a decline of 0.2%, decreasing from \$66.59 billion in September to \$66.443 billion in December. In comparison to December 2012, a 1.8% increase has been recorded. Export earnings increased by 3.6% to \$69.425 billion over the December quarter, whilst year on year recorded growth of 13.5%.

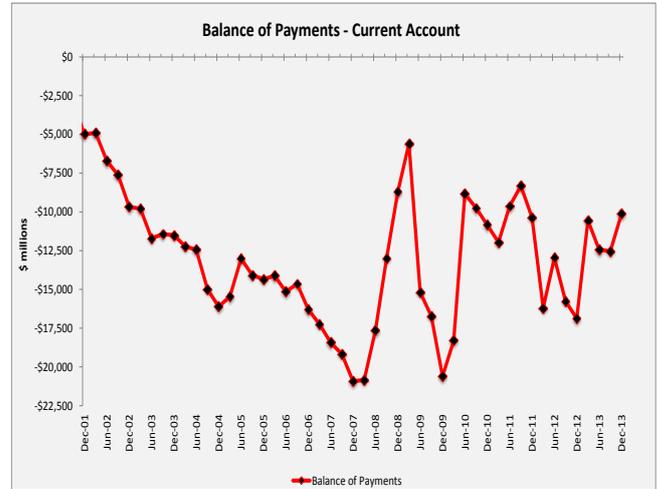


Chart 16 – Balance of Payment Current Account Deficit - Source RBA

International Investment Position

Data for the March quarter is not currently available however over the December 2013 quarter Net Foreign Debt increased by 4.2% to \$852.871 billion. In comparison to December 2012, this is a 12.9% increase. Net Equity Liabilities recorded a significant decline over the quarter of 185.6%, a \$50.042 billion decline, bringing total international investment (NFD + NFL) to \$829.797 billion, reflecting an annual percentage decline of 0.2%.

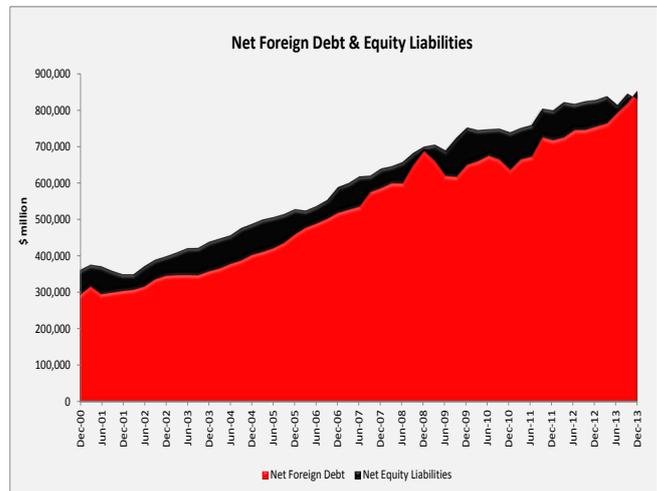


Chart 17 – NFD & Equity Liabilities – Current Account—Source RBA

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

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

Sydney (Head Office)

Level 11, 80 Clarence Street
Sydney NSW 2000

PO BOX 4120, Sydney NSW 2001

P: 02 9292 7400

F: 02 9292 7403

E: mailroom@prpsydney.com.au

W: www.prpsydney.com.au

Follow us:



Preston Rowe Paterson NSW Pty Ltd

ACN: 61 003 139 188

The information provided within this publication should be regarded solely as a general guide. We believe that the information herein is accurate however no warranty of accuracy or reliability is given in relation to any information contained in this publication. Nor is any responsibility for any loss or damage whatsoever arising in any way for any representation, act or omission, whether expressed or implied (including responsibility to any person or entity by reason of negligence) accepted by Preston Rowe Paterson NSW Pty Ltd or any of its associated offices or any officer, agent or employee of Preston Rowe Paterson NSW Pty Limited.

Directors

Greg Preston

M: 0408 622 400

E: greg.preston@prpsydney.com.au

Greg Rowe

M: 0411 191 179

E: greg.rowe@prpsydney.com.au

Associate Directors

Ben Greenwood

M: 0448 656 103

E: ben.greenwood@prpsydney.com.au

Neal Smith

M: 0448 656 647

E: neal.smith@prpsydney.com.au

Michael Goran

M: 0448 757 134

E: michael.goran@prpsydney.com.au

Ben Toole

M: 0448 886 335

E: ben.toole@prpsydney.com.au

Capital City Offices

Adelaide

Brisbane

Melbourne

Sydney

Regional Offices

Albury Wodonga

Ballarat

Bendigo

Cairns

Central Coast/Gosford

Geelong

Gold Coast

Gippsland

Mornington

Newcastle

Wagga Wagga

Relationship Offices

Canberra

Darwin

Hobart

Perth

Other regional areas