



**Preston  
Rowe  
Paterson**

®  
International Property Consultants

# Economic Report

## Australia

### 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 March 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.

### Highlights

- All Groups CPI was recorded at 106.8 in March 2014, an increase of 0.2% over the quarter.
- The 10 year bond rate as at March 2015 is 2.48% with 90 day bank bill rate at 2.30%.
- Cash rate fell by 25bp to 2.25% in February 2015 and remained the same in March.
- AUD\$ decreased to \$0.7634 US in March 2015.

### March Quarter 2015

#### 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



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## Inflation and Investor Sentiment

### Consumer Price Index

According to the Australian Bureau of Statistics (March 2015), the Australia's All Groups CPI increased by 0.2% over the March quarter from 106.6 to 106.8. The annual CPI change to March 2015 recorded a growth of 1.3%.

The most significant price rises over the March quarter were for Domestic holiday travel and accommodation (+3.5%), Tertiary education (+5.7%) and Medical and hospital services (+2.2%). The greatest price fall over the March quarter was attributed to Automotive fuel (-12.2%) and Fruit (-8%).

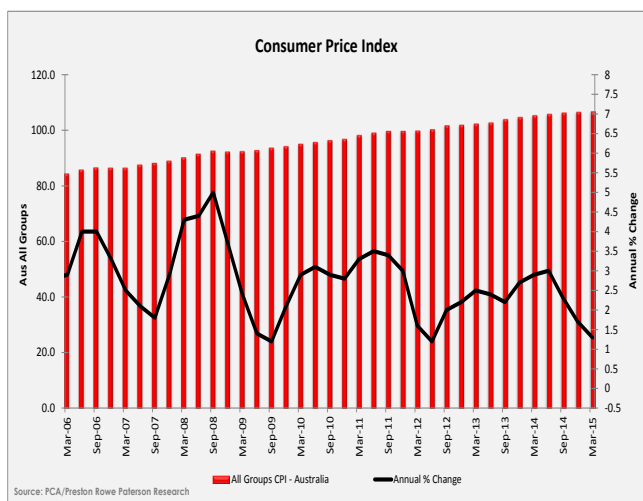


Chart 1 – CPI – Source ABS

The Housing Group increased by 0.8% over the March quarter. The main contributors to the price rise were in new dwelling purchase by Owner-occupiers and Electricity recording a growth of 0.9% and 1.9% respectively. Over the twelve months to March 2015, the housing group recorded growth of 2.7% which was backed by the 4.8% annual growth in new dwelling purchases by Owner-occupiers and a 2.1% rise in Rents.

The Furnishings, household equipment and services group recorded a decline of 0.5% over the March quarter 2015. The main contributors to the growth was Childcare (+8.5%).

The Insurance and financial services group increased by 0.2% over the March quarter. The main contributor to the rise was Insurance (+0.4%). Through the year to March 2015 the Insurance and financial services group rose 1.8%, with other financial services contributing to the growth by a 2.3% increase.

### Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index fell by 1.2% in March from 100.7 index points in February to 99.5 index points in March. Over the quarter the index has increased by 8.4 points, a 9.22% growth. Over the twelve months to March 2015 the index recorded no annual change.

The Index is returning to its pre-budget level in May 2014. Westpac's Senior Economist, Matthew Hassan commented; *"Some softening in sentiment was always likely in March given the big lift (in February) following the RBA's surprise 25bp rate cut... The overall message seems to be that while consumers remain very concerned about the outlook for the economy and job security, they are less concerned than they were in December and acknowledge the more positive situation around interest rates."*

Other factors that contributed to the softening in sentiment include the sharp petrol price rise in February, weak economy growth highlighted in the December quarter 2014 national accounts.

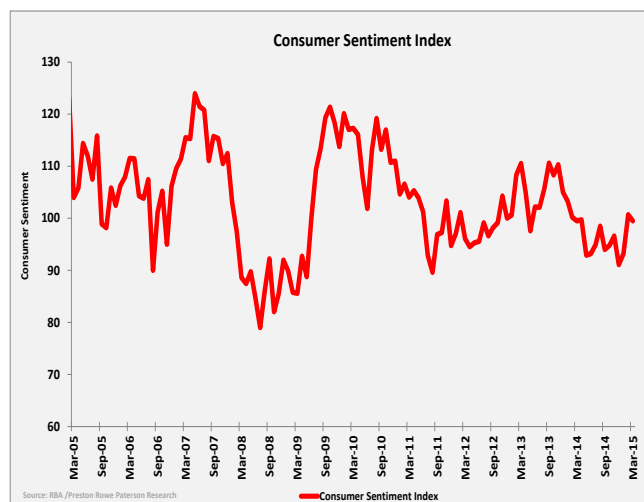


Chart 2—Consumer Sentiment Index—Source—Westpac Melbourne Institute Survey

### NAB Business Confidence

Business Confidence increased by 3 points to +3 points in the month of March. According to the NAB Monthly Business Survey:

*"Business conditions are improving although it remains largely confined to those industries that were already outperforming...positive impacts of the February rate cuts was likely eroded by offsetting factors - such as the Governments leadership spill - but, some of these factors have begun to fade...However much of the improvements was driven by a particularly large jump in mining confidence. Confidence deteriorated in retail...consistent with NAB's survey of consumer anxiety, which showed that uncertainty over government policy, in addition to cost of living pressures, made consumers more anxious in Q1 2015 and affected their discretionary spending. Trend confidence is still highest in construction (+8) and lowest in mining by a significant margin (-27)."*

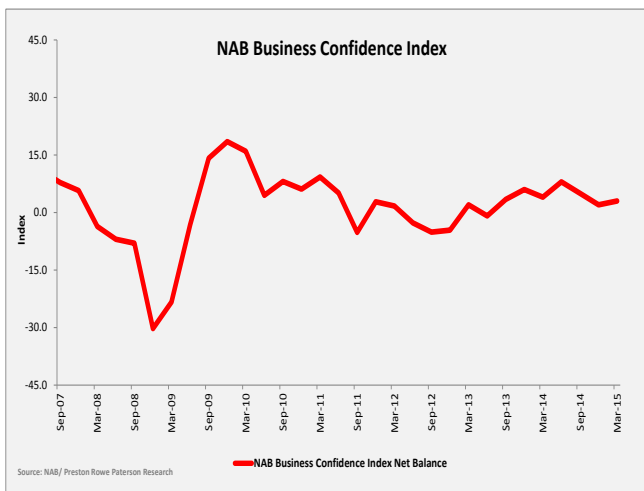


Chart 3 – NAB Business Confidence Index – Source NAB

## Bond Market

### 10 Year Bond & 90 Day Bill Rate

In the twelve months to March 2015, the monthly 10 Year Bond Rate has decreased by 162 basis points to 2.48%. Similarly, the monthly 90 Day Bill Rate fell by 36 basis points to 2.30%.

Over the March 2015 quarter, the 10 Year Government Bonds recorded a decline of 48 basis points from 2.96%. The 90 Day Bill Rate recorded a 45 basis points decrease over the March quarter from 2.75%.

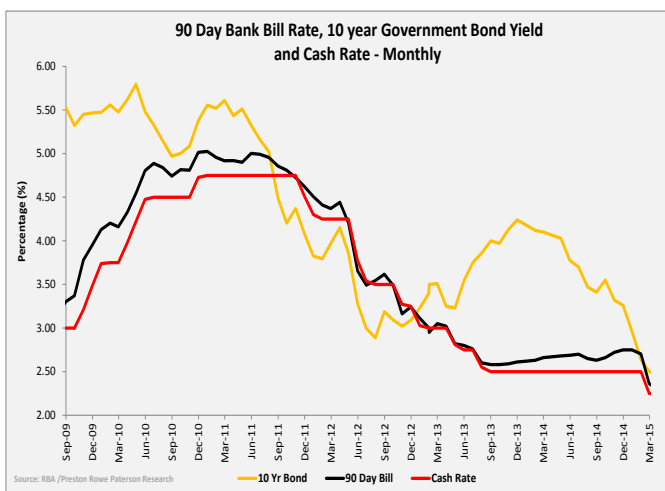


Chart 4 –90 Day Bill, 10 year bond and cash rate - MONTHLY – Source RBA

Analysis of the daily 10 Year Government Bonds has revealed an increase of 2 basis points over the month of March 2015 with the 10 year bond rate currently at 2.48%. 90 day bill rates experienced a 6 basis point decrease in March to 2.30%. The changes in both 10 year bonds and the 90 day bill rate reflect a yield spread of 13 basis points.

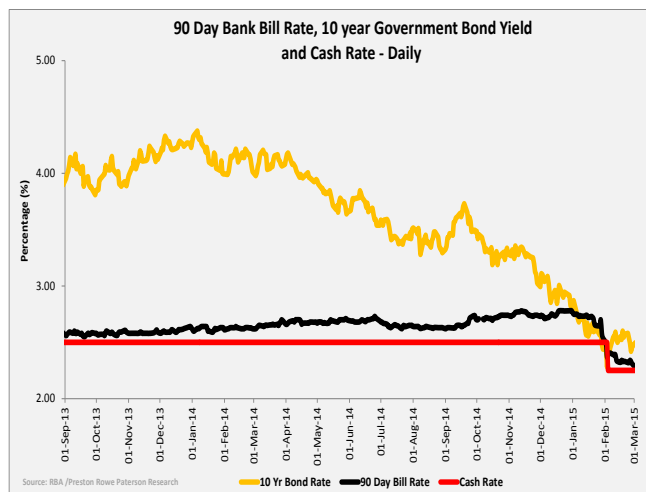


Chart 5 –90 Day Bill, 10 year bond and cash rate – DAILY – Source RBA

## Interest Rates

### Interest Rate Movements

As at the date of publishing, the official Cash Rate over the March quarter 2015 has decreased by 25 basis points to 2.25%. The Reserve Bank of Australia's Media Release for March 2014, released 3rd March 2014 explained that;

*"In Australia the available information suggests that growth is continuing at a below-trend pace, with domestic demand growth overall quite weak. As a result, the unemployment rate has gradually moved higher over the past year. The economy is likely to be operating with a degree of spare capacity for quite some time yet...Credit is recording moderate growth overall, with stronger growth in lending to investors in housing assets...The Bank is working with other regulators to assess and contain risks that may arise from the housing market. In other asset markets, prices for equities and commercial property have risen, in part as a result of declining 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. This is the first interest rate movement since September 2013.

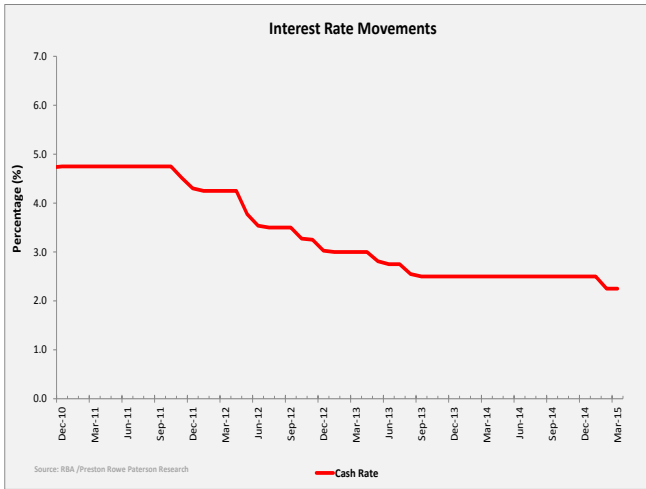


Chart 6 –Cash Rate – Source RBA

In accordance to the February interest rate cut, the home equity loan interest rate fell to 5.80%. Over the March quarter there was a 25 basis point interest rate cut, resulting in bank interest rates fell by 30 percentage points to 5.65%.

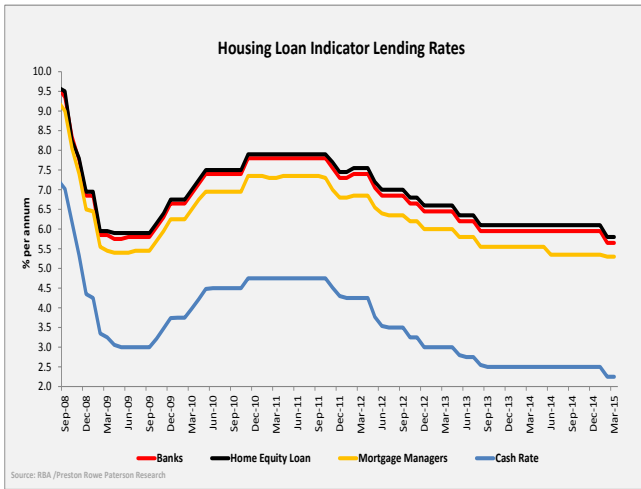


Chart 7 –Housing Loan Indicator Lending Rates – Source RBA

The small business residential securing loans have decreased by 0.25 percentage points to 6.85%. The decline is in line with the RBA's decreased interest rate. Small Business Fixed 3 Year Interest Rates decreased by 0.45 percentage points over the March quarter to 5.35%. In comparison to March 2014, the 3 year fixed rates have decreased by 0.85 percentage points from 6.20%.

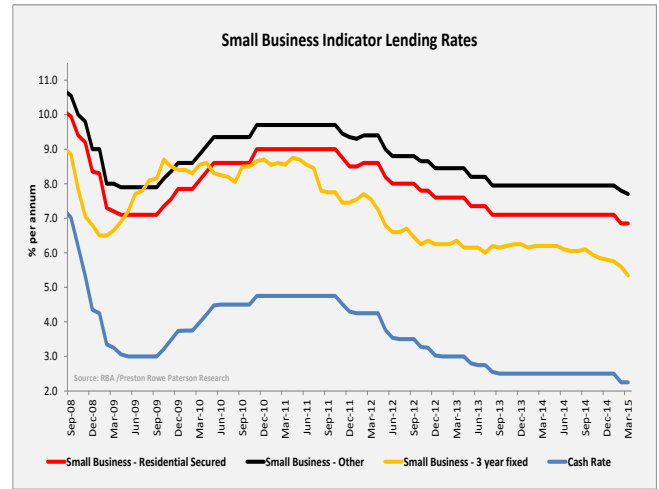


Chart 8 –Small Business Indicator Lending Rates – Source RBA

## Exchange Rates & Equity Markets

### Australian Exchange Rates

Over March quarter 2015, the Australian Dollar fell significantly against the US Dollar, decreasing from \$0.8202 in December to \$0.7634 in March. Over the twelve months to March, the Australian dollar has decreased by 17.21% from \$0.9221 USD.

The Australian Dollar also recorded a quarterly decline against the British Pound and the Japanese Yen. The Australian Dollar exchange rates against the Pound and Yen fell by 2% and 6.4% respectively. The Australian Dollar rose against the Euro by 4.80%.

Year on year analysis saw the Australian Dollar decline against the British Pound by 6.85% to £0.5164 and 3.28% in the Yen to ¥91.72. The Australian Dollar experienced an annual increase against the Euro of 5.41% to €0.7070.

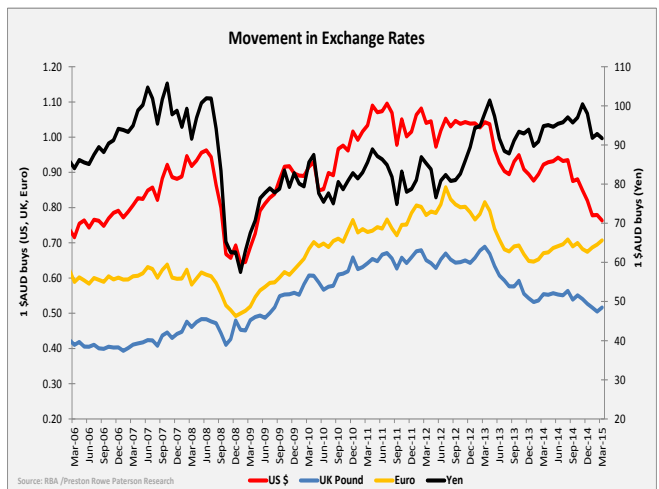


Chart 9 –Movement in Exchange Rates – Source RBA

## Share price Indices

Over the March quarter, the S&P ASX 200 Index recorded an increase of 8.87% from 422.8 in December to 460.3 in March. Over the twelve months to March 2015, the S&P ASX 200 Index has recorded growth of 9.2% increasing by 38.8 index points.

The US S&P 500 Index recorded a growth of 0.43% over the three months to March 2015 as the index reached 626.2. Year on year analysis to March revealed a growth of 59.2 index points, reflecting an increase of 10.4%.

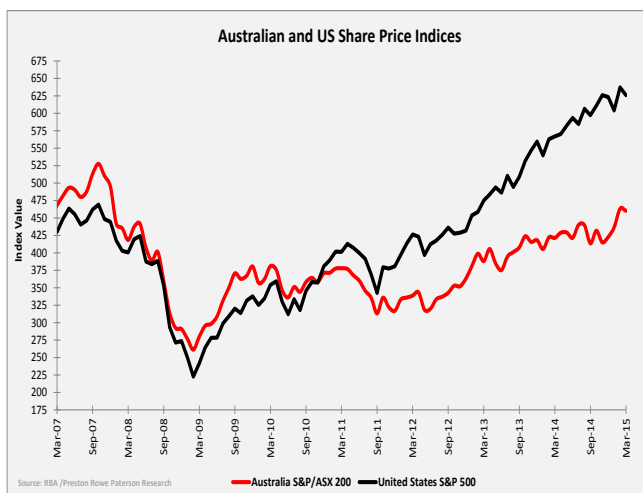


Chart 10 – Australian and US Share Price Indices – Source RBA

## Industrials, All Ordinaries and Property Trust Index Values

The March 2014 quarter saw the All Ordinaries Index increased by 8.78% from 5388.60 in December to 5861.92 in March. The year on year analysis has revealed the All Ordinaries Index increasing by 8.50%, reflecting an increase of 458.93 index points.

The Industrial Index recorded a growth of 8.01% over the March quarter and reflected an annual growth of 15.20%. Since March 2013, there has been an increase of 614.02 index points to 4667.88.

The ASX Property Trusts followed with an increase of 8.61% over the quarter. Similarly it experienced a significant growth of 28.10% to 1288.31 over the twelve months to March 2015.

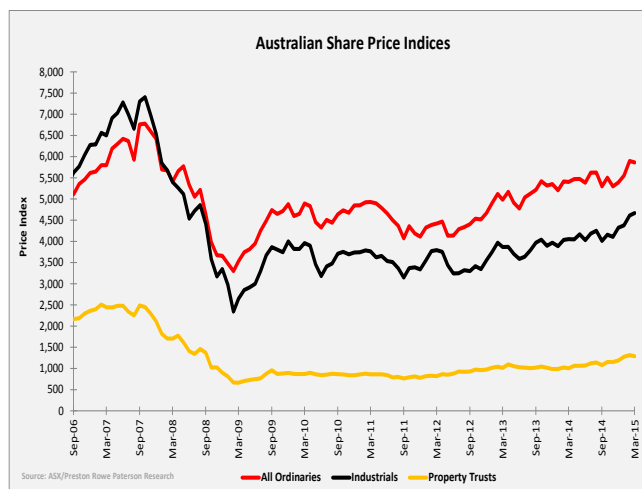


Chart 11 – Australian Share Price Indices – Source ASX

## Gross Domestic Product

### GDP

GDP figures for the March quarter 2015 are not available until the 3rd June 2015, however, over the December 2014 quarter revealed that the Australian economy recorded growth of 0.55% seasonally adjusted which reflected growth of 2.47% seasonally adjusted over the twelve months to December 2013.

The main contributors to expenditure on GDP were Net exports which increased by 0.7% and Final consumption expenditure which increased by 0.6% which was offset by the decrease in Changes in inventories at -0.6%.

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%) and Healthcare and social assistance (+0.3%). In trend terms, the largest detractor was the Professional, scientific and technical services (-0.5%).

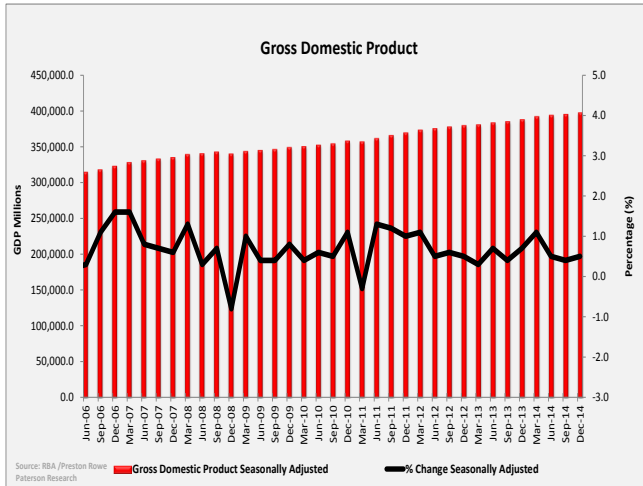


Chart 12 – GDP– Source ABS

The terms of trade decreased by 1.70% in seasonally adjusted terms over the December quarter. Over the twelve months to December, the terms of trade has declined by 10.80%. 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.

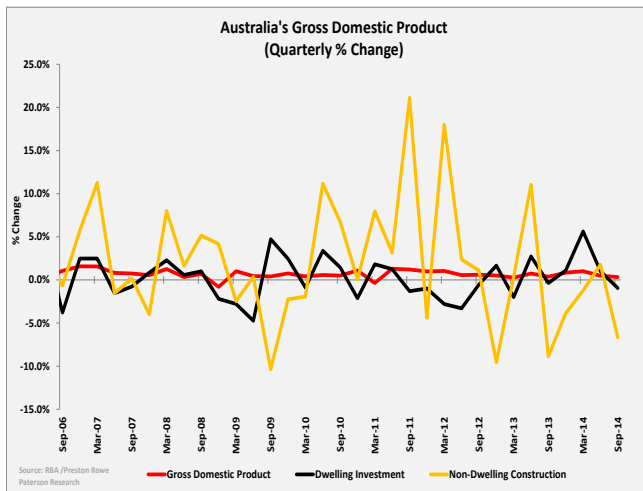


Chart 13 – Australia's GDP (Quarterly % Change) - Source ABS

## Labour Force

### Unemployment

Over the month to March 2015, the number of unemployed people decreased by 1,530 from 766,038 in February to 759,156 in March which is a 0.20% decrease. In comparison to March 2014, the number of unemployed people has increased by 42,327 which reflected an annual increase of 5.90%. The unemployment rate as at March 2015 is 6.2%.

Full time employment increase by 31,500 persons to 8,131,400 persons in the month of March 2015. Part time employment recorded a decrease of 6,100 persons over the month of March to 3,588,900 persons.

The number of unemployed seeking full time employment recorded an increase over the month of March by 700 to 546,800 persons, reflecting a growth of 0.13%. The number of unemployed seeking part time employment recorded a decrease over the month by 2,200 to 217,700 persons, reflecting a decrease of 1.05%.

The participation rate recorded a marginal increase of 0.1 points to 64.8% as at March 2015, with year on year comparison revealing a 0.1 percentage point increase.

The aggregate monthly hours worked had increased by 4.8 million hours to 1,630.4 million hours at a 0.3% growth over March.

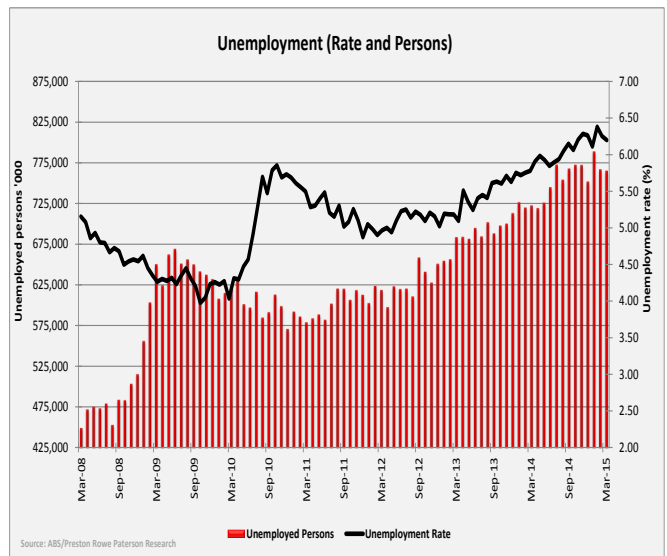


Chart 14 – Unemployment (Rate and Persons) - Source ABS

## Wage Price Index

Data for the March quarter 2015 is not currently available, however according to the Australian Bureau of Statistics the total Wage Price Index rose by 0.59 percentage points seasonally adjusted over the December 2014 quarter, reflecting growth of 2.56% seasonally adjusted in comparison to December 2013. The public and private sectors increased over the quarter by 0.7% and 0.6%, with through the year rises of 2.7% and 2.4% respectively.

Over the December 2014 quarter, Victoria, South Australia and Western Australia to record the highest annual wage growth at 0.7%. Tasmania recorded the smallest rise of 0.3%.

In the private sector, the South Australia experienced the most marked quarterly growth of 0.7% whilst Tasmania and Australian Capital Territory recorded the smallest rise with 0.3%. Through the year rises in the private sector ranged from 2% for the Western Australia to 2.7% for Victoria, South Australia and Tasmania.

Western Australia recorded the most significant quarterly growth in the public sector with a growth of 1.5%. Tasmania experienced the smallest rise of 0.2%. In comparison to December 2013 the most marked growth in the public sector was recorded by both Western Australia and Northern Territory with 3.5% rise. The smallest rise was in Australian Capital Territory with 1.4% growth.

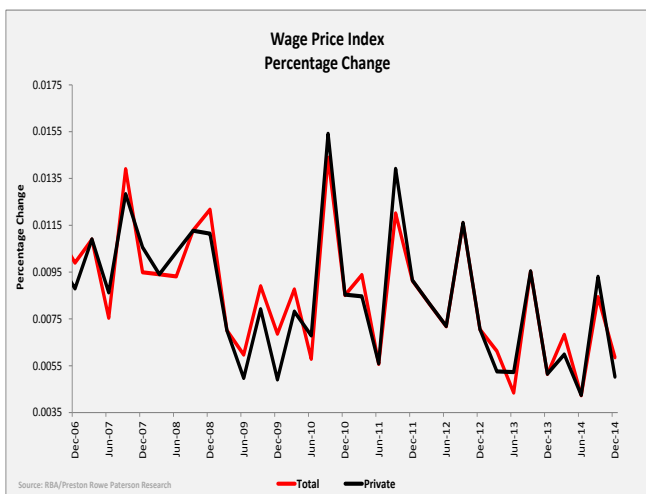


Chart 15 – Wage Price Index - Source ABS

## Balance of Payments

### Current Account Balance

Data for the March quarter 2015 is not currently available however over the December quarter 2014, Australia's Current Account Deficit decreased by \$2.542 billion to current account balance of \$9.588 billion in the December quarter 2014 seasonally adjusted which reflects a 21% decrease over the quarter. In comparison to December 2013, the current account balance deficit has decreased by 19.63%.

Balance of goods and services saw a surplus of \$2.814 billion over the December quarter 2014 and recorded an increase of 54% from \$5.177 billion in September 2014 to \$7.991 billion in December. The primary net income deficit decreased by 11% to \$6.832 billion in the December quarter.

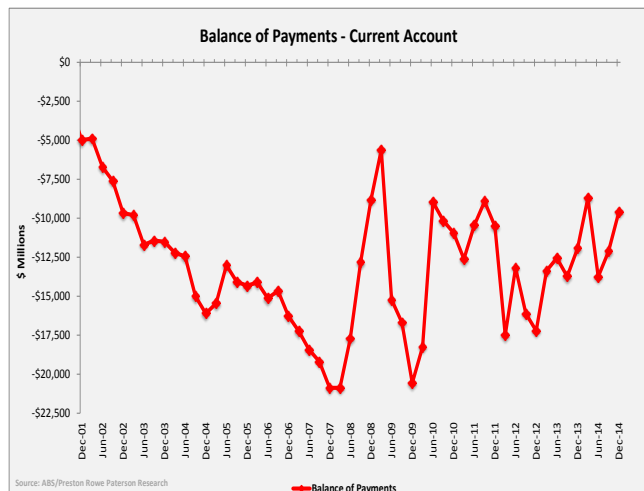


Chart 16 – Balance of Payment Current Account Deficit - Source ABS

## International Investment Position

Data for the March quarter 2015 is not currently available however over the December 2014 quarter Net Foreign Debt increased by 4.30% to \$924.834 billion. In comparison to December 2013, this is an 9% increase. Net Equity Liabilities recorded a significant decline over the quarter of 356.10%, a \$45.818 billion decline, bringing total international investment (NFD + NFL) to \$866.149 billion, reflecting an annual percentage increase of 3.40%.

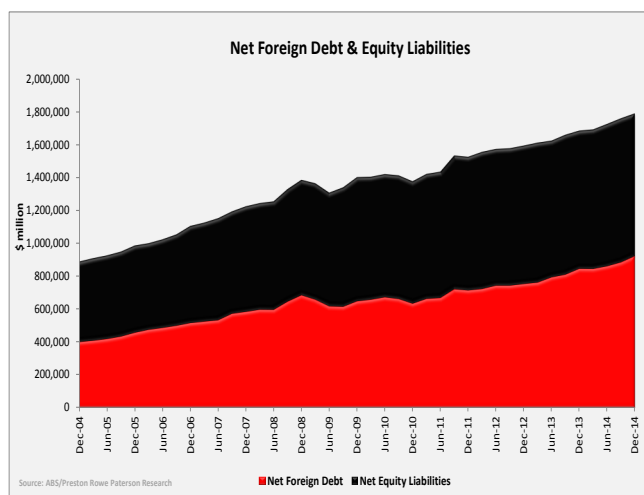


Chart 17 –NFD & Equity Liabilities – Current Account—Source RBA

## 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
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- Asset
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- 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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