



Preston  
Rowe  
Paterson

®  
National 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 September 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 106.4 in September 2014, an increase of 0.5% over the quarter.
- The 10 year bond rate as at September 2014 is 3.55% with 90 day bank bill rate at 2.66%.
- Cash rate remain unchanged at 2.50% in September 2014.
- AUD\$ increased to \$0.8752 US in September 2014.

### September Quarter 2014

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## Inflation and Investor Sentiment

### Consumer Price Index

According to the Australian Bureau of Statistics (September 2014), the Australia's All Groups CPI increased by 0.5% over the September quarter from 105.9 to 106.4. The annual CPI change to September 2014 recorded a growth of 2.3%.

The most significant price rises over the September quarter were for fruit (+14.7%), property rates and changes (6.3%), and other services in respect of motor vehicles (+5.8%). The greatest price fall over the September quarter was attributed to electricity (-5.1%) and automotive fuel (-2.5%).

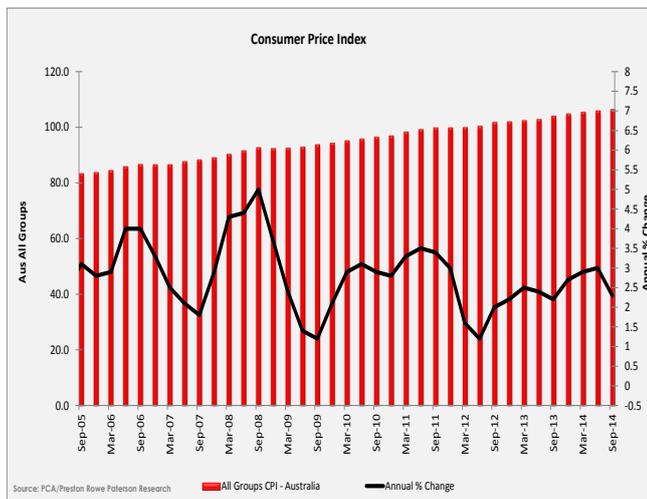


Chart 1 – CPI – Source ABS

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

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

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

### Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index fell by 4.6% in September from 98.5 index points in August to 94 index points in September. Over the quarter the index has increased by 0.8 points, a growth of 0.86%. Over the twelve months to June the index declined by 16.6 index points, reflecting a percentage decline of 15.01%.

The Index has fell below the June quarter's recovery and is expected to continue to do so. Westpac's Chief Economist, Bill Evans stated; "This is a surprising and disappointing result. Following the 6.8% plunge in the Index in the aftermath of the Commonwealth Budget in May the Index had stabilised and was gaining ground. From June to August the Index had lifted by 5.9% to find it only 1.3% below the pre-Budget level. The Index is now 5.8% below the pre-budget level and only 1.1% above the post-Budget print."

Major news concerns in September were budget and taxation, economic conditions, employment and interest rates.

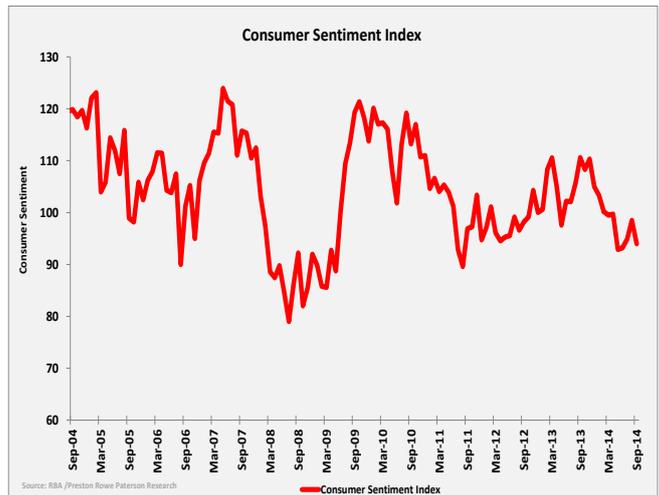


Chart 2—Consumer Sentiment Index—Source—Westpac Melbourne Institute Survey

### NAB Business Confidence

Business Confidence dropped by 2 point to +5 points in the month of September. According to the NAB Monthly Business Survey:

*"Despite remaining positive, confidence fell the most in construction during the month (down 20), possibly reflecting slower growth in new approvals (orders also fell) and increasing speculation that authorities may introduce measure to address speculation in residential property markets. Looking through the monthly volatility, trend confidence was down 1 point (to +7), with construction highest (+15) and mining the lowest by a large margin (-14)."*

The only industries recording negative business confidence were in mining and wholesale industry at -22 and -3 index points respectively.

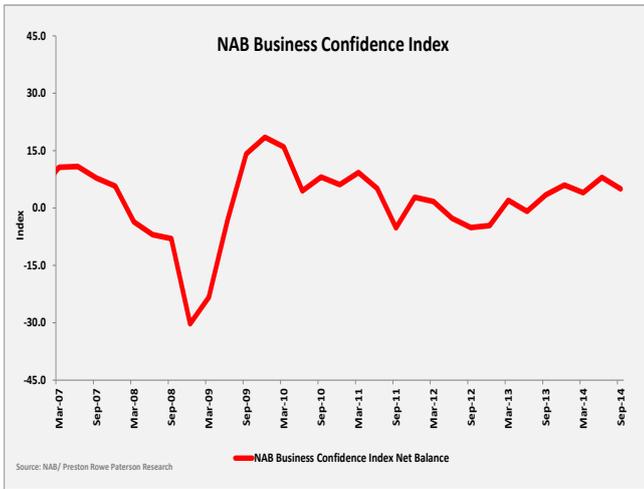


Chart 3 – NAB Business Confidence Index – Source RBA

## Bond Market

### 10 Year Bond & 90 Day Bill Rate

In the twelve months to September 2014, the 10 Year Bond Rate has decreased by 45 basis points to 3.55%. Conversely, the 90 Day Bill Rate has increased by 8 basis points from 2.58% to 2.66%.

Over the September 2014 quarter, 10 Year Government Bonds recorded a decline of 15 basis points from 3.70%. The 90 Day Bill Rate recorded a steady decrease over the September quarter by 4 basis points. Year on year analysis has revealed that the 90 Day Bill Rate has increased by 8 basis points since September 2013.

Analysis of 10 Year Government Bonds has revealed an increase of 16 basis points over the month of September 2014 with the 10 year bond rate currently at 3.48%. 90 day bill rates experienced a 9 basis point growth over the month of September to 2.71%. The changes in both 10 year bonds and the 90 day bill rate reflect a yield spread of 56 basis points.

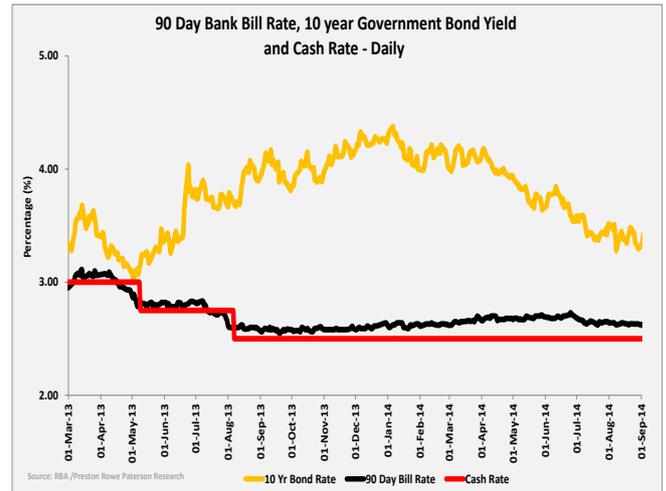


Chart 5 – 90 Day Bill, 10 year bond and cash rate – DAILY – Source RBA

## Interest Rates

### Interest Rate Movements

As at the date of publishing, the official Cash Rate over the September quarter 2014 remained unchanged at 2.50%. The Reserve Bank of Australia's Media Release for October 2014, released 7th October 2014 explained that;

*"In Australia, most data are consistent with moderate growth in the economy. Resources sector investment spending is starting to decline significantly, while some other areas of private demand are seeing expansion, at varying rates. Public spending is scheduled to be subdued. Overall, the Bank still expects growth to be a little below trend for the next several quarters."*

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.

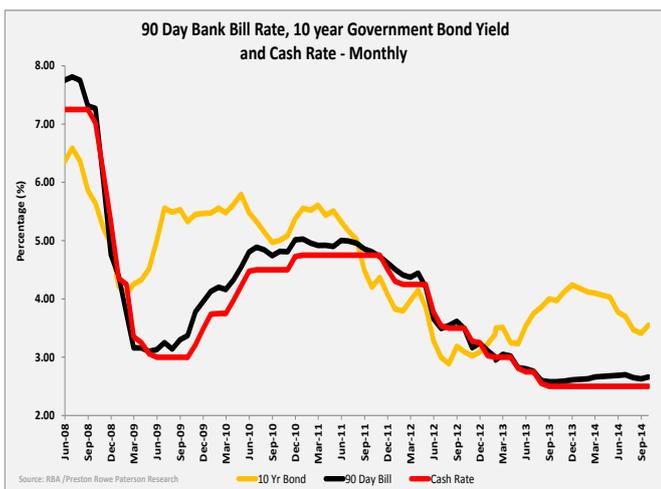


Chart 4 – 90 Day Bill, 10 year bond and cash rate - MONTHLY – Source RBA

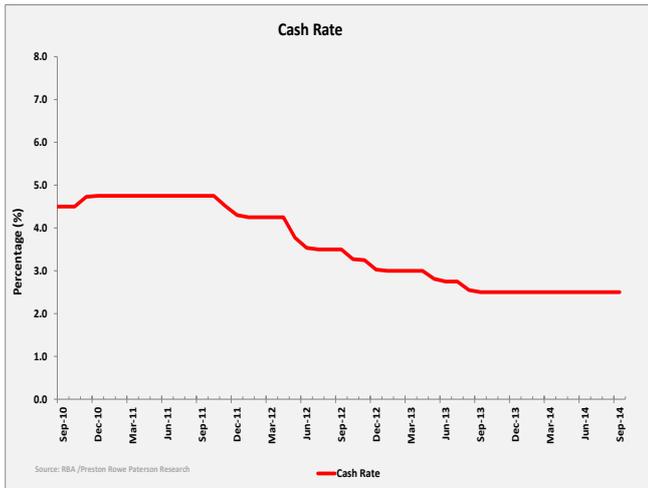


Chart 6 –Cash Rate – Source RBA

Since August 2013, home loan interest rates have remained steady at 5.95% to September 2014 in line with the unchanged cash rate decision by the RBA at 2.5%. Over the September quarter there were no interest rate cuts, resulting in bank interest rates remaining unchanged at 6.10%.

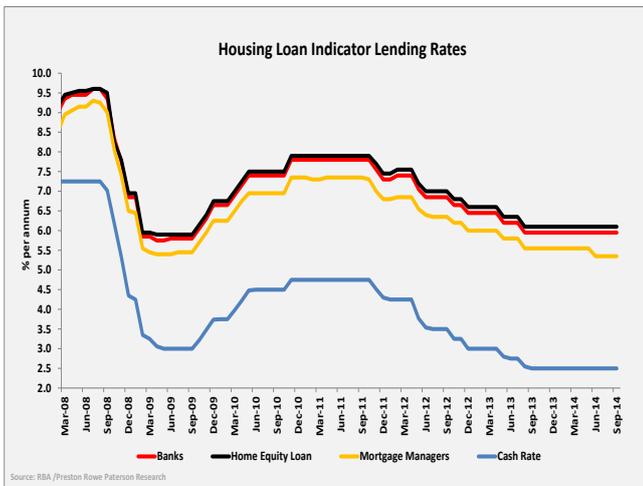


Chart 7 –Housing Loan Indicator Lending Rates – Source RBA

The small business residential securing loans remained unchanged over the September quarter at 7.10%. Over the past twelve months there has no changes to the residential secured loans interest rates which is in line with the RBA's unchanged rate. Small Business Fixed 3 Year Interest Rates decreased by 0.05 percentage points over the September quarter. In comparison to September 2013, 3 year fixed rates have decreased by 0.1 percentage points, from 6.15% to 6.05%.

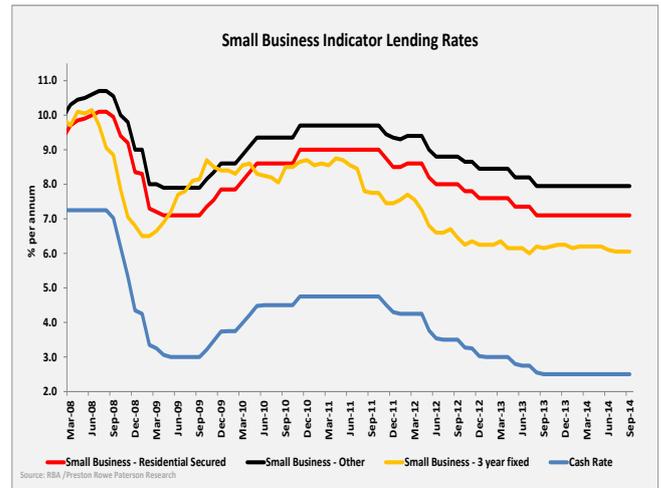


Chart 8 –Small Business Indicator Lending Rates – Source RBA

## Exchange Rates & Equity Markets

### Australian Exchange Rates

Over the month of September 2014, the Australian Dollar fell significantly against the US Dollar, decreasing from \$0.9420 in June to \$0.8752 in September, the largest fall in 2014. Over the twelve months to September, the Australian dollar has decreased by 5.98% from \$0.9309.

The Australian Dollar also recorded decline against other major currencies of UK Pound Sterling, Euro and Japanese Yen. The Australian Dollar exchange rates against the UK currency fell 2.7%, Euro at 0.1% and Yen at 0.3% respectively in the September quarter.

Year on year analysis saw the Australian Dollar decline across the UK and Euro currencies, with the most marked decline attributed to the British Pound of 6.53% to £0.5384 followed by the Euro with a 0.03% decline to €0.6898. The Australian Dollar experienced an increase against the Yen of 5.05% to ¥95.73.

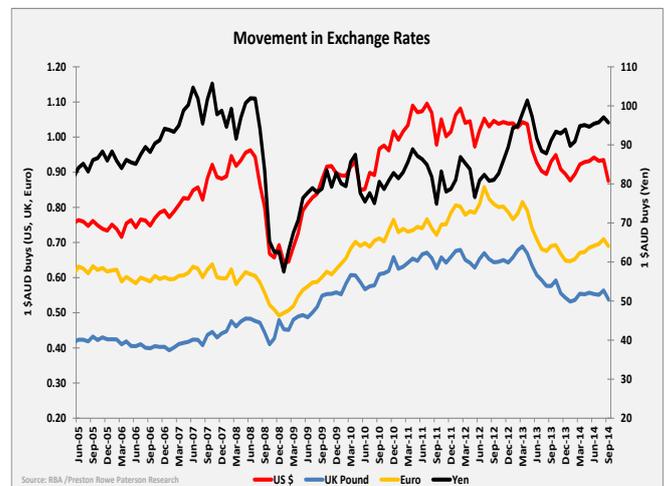


Chart 9 –Movement in Exchange Rates – Source RBA

## Share price Indices

Over the September quarter, the S&P ASX 200 Index recorded a marginal decrease of 1.90% from 421.6 in June to 413.6 in September. Over the twelve months to September 2014, the S&P ASX 200 Index has recorded growth of 1.4% increasing by 5.8 index points.

The US S&P 500 Index recorded a growth of 0.62% over the three months to September 2014 as the index reached 597.3. Year on year analysis to June revealed a growth of 88.1 index points, reflecting an increase of 17.3%.

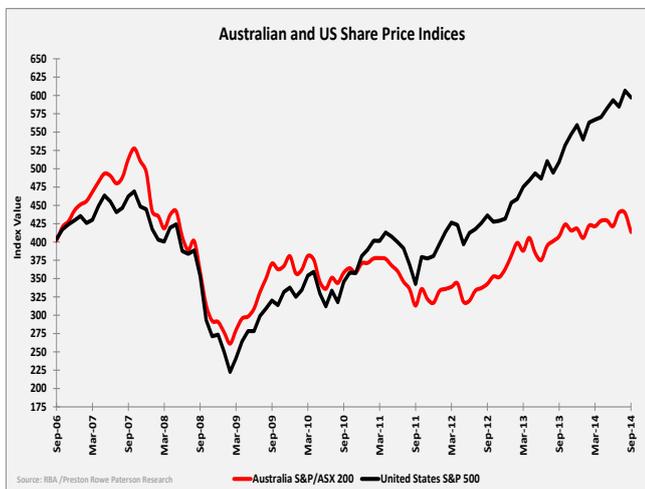


Chart 10 – Australian and US Share Price Indices – Source RBA

## Industrials, All Ordinaries and Property Trust Index Values

The September 2014 quarter saw the All Ordinaries Index fell 1.58% from 5382.03 in June to 5296.75 in September. The year on year analysis has revealed the All Ordinaries Index increasing by 1.5%, reflecting an increase of 79.01 index points.

The Industrial Index recorded a marginal fall of 0.48% over the September quarter, however, it reflected an annual growth of 1%. Since September 2013, there has been an increase of 41.38 index points.

The ASX Property Trusts followed with a growth of 0.98% over the quarter. Similarly it experienced a growth of 6% over the twelve months to September 2014 which reflected an increase of 61.57 index points.

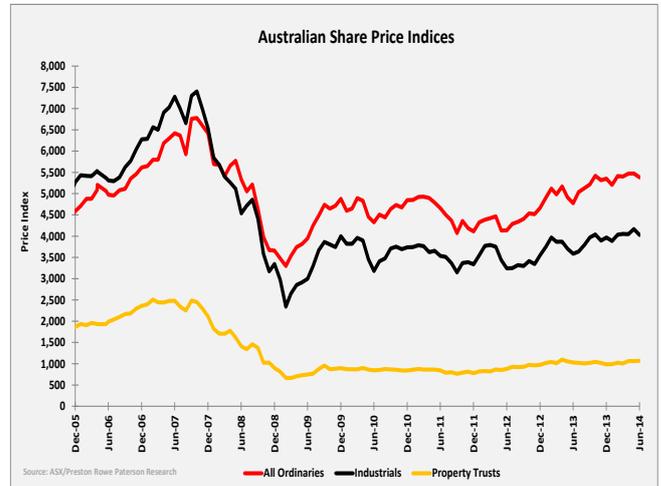


Chart 11 – Australian Share Price Indices – Source ASX

## Gross Domestic Product

### GDP

GDP figures for the September quarter are not available until the 3rd December 2014 however Preston Rowe Paterson Research over the June 2014 quarter revealed that the Australian economy recorded growth of 0.7% seasonally adjusted which reflected growth of 3.2% seasonally adjusted over the twelve months to June 2013.

The main contributors to expenditure on GDP were Changes in inventories which increased by 0.9%, Final consumption expenditure which increased by 0.3% and Private gross fixed capital formation up by 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 Manufacturing which increased by 2.1%, Construction which increased by 1.4% and Accommodation and food services up by 4.5%. Each of these industries accounted for 0.1% of the total increase in GDP.

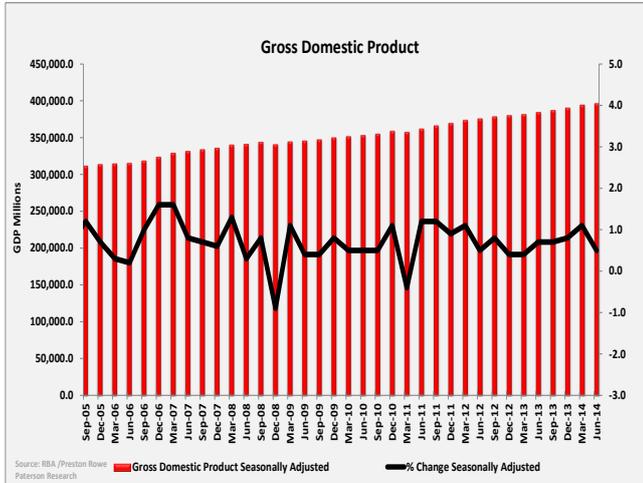


Chart 12 – GDP– Source ABS

The terms of trade decreased by 4.1% in seasonally adjusted terms over the March quarter. Over the twelve months to March, the terms of trade has declined by 7.9%. 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.

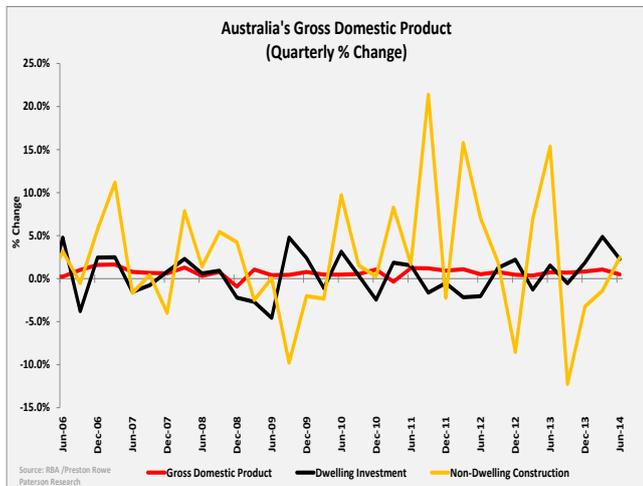


Chart 13 – Australia's GDP (Quarterly % Change) - Source ABS

## Labour Force

### Unemployment

Over the month to September 2014, the number of unemployed people increased by 11,027 from 735,530 in August to 746,557 in September which is a 1.50% increase. In comparison to September 2013, the number of unemployed people has increased by 52,306 which reflected a percentage increase of 7.53%. The unemployment rate is 6.1%.

The number of employment over the month to September 2014 recorded a decrease of 29,700 persons from 11,622,200 in August to 11,592,500 in September. In comparison to September 2013, employment in Australia recorded growth of 126,130 reflecting a percentage increase of 1.1%.

Full time employment over the month to September increase by 21,600 persons to 8,028,900 persons. Part time employment recorded a decrease of 1.42% over the month to September to 3,563,600 persons.

The number of unemployed seeking full time employment recorded an increase over the month of September by 6,600 to 525,700 persons, reflecting a growth of 1.26%. The number of unemployed seeking part time employment recorded an increase over the month by 4,400 to 220,800 persons, reflecting a growth of 2%.

The participation rate recorded a marginal increase of 0.2 points to 64.5% as at September 2014, with year on year comparison revealing a 0.2 percentage point decline.

The aggregate monthly hours worked had increased to 15 million hours to 1,591.3 million hours at a 0.9% growth over September.

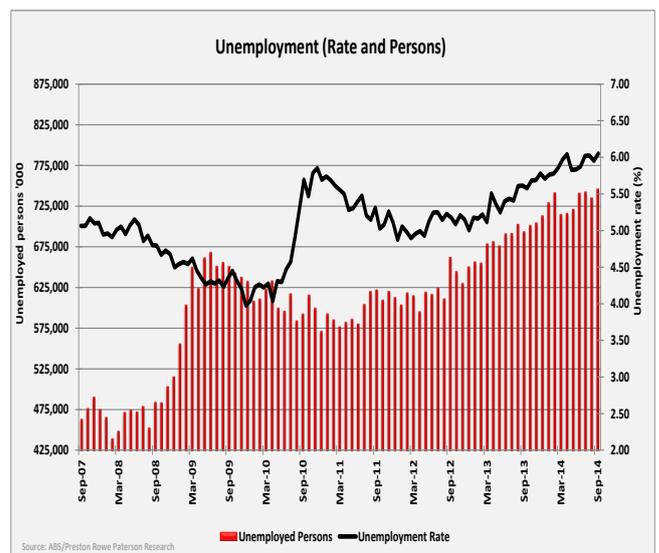


Chart 14 – Unemployment (Rate and Persons) - Source ABS

## Wage Price Index

Data for the September quarter is not currently available, however according to the Australian Bureau of Statistics the Wage Price Index rose by 0.6 percentage points seasonally adjusted over the June 2014 quarter, reflecting growth of 2.6% seasonally adjusted in comparison to June 2013. Both the public and private sectors increased over the quarter by 0.6%, with through the year rises of 2.4% and 2.8% respectively.

Over the June 2014 quarter, South Australia had recorded the highest annual wage growth at 3.1% followed by both Tasmania and the Australian Capital Territory rising by 2.3%.

In the private sector, the Victoria experienced the most marked quarterly growth of 0.6% whilst Queensland, South Australia, Western Tasmania and the Australian Capital Territory recorded the smallest rise with 0.3%. Through the year rises in the private sector ranged from 2.1% for the Australian Capital Territory to 3.1% for New South Wales.

Queensland and Victoria recorded the most significant quarterly growth in the public sector with a growth of 0.4%. The Western Australia experienced the smallest rise of 0.1%. In comparison to June 2013 the most marked growth in the public sector was recorded by South Australia with 3.4%. The smallest rise was in the Tasmania and the Australian Capital Territory with 2.3% growth.

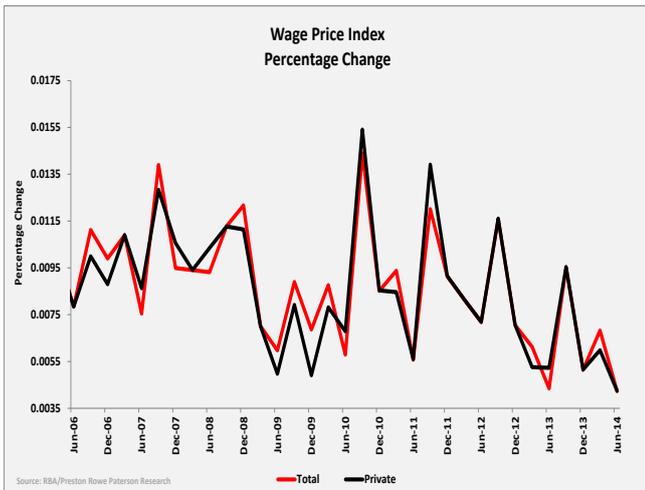


Chart 15 – Wage Price Index - Source ABS

## Balance of Payments

### Current Account Balance

Data for the September quarter 2014 is not currently available however over the June quarter 2014, Australia's Current Account Deficit increased by \$5.938 billion to current account balance of \$13.742 billion in the June quarter 2014 seasonally adjusted which reflects a 76% increase over the quarter. In comparison to June 2013, the current account balance deficit has increased by 5.06%.

Balance of goods and services saw a surplus of \$3.624 billion over the June quarter 2014 and recorded an increase of 25% from \$14.281 billion in March 2014 to \$10.657 billion in June. The primary net income deficit fell by 13% to \$8.605 billion in the June quarter.

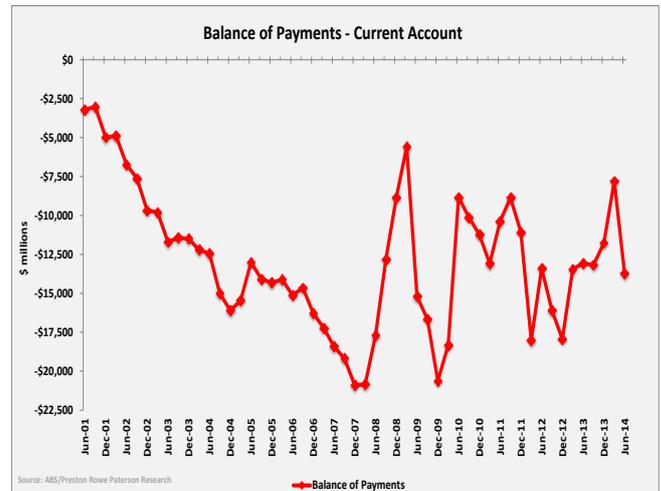


Chart 16 – Balance of Payment Current Account Deficit - Source ABS

## International Investment Position

Data for the September quarter is not currently available however over the June 2014 quarter Net Foreign Debt increased by 2% to \$865.462 billion. In comparison to June 2013, this is a 8.6% increase. Net Equity Liabilities recorded a significant decline over the quarter of 127%, a \$1,219 billion decline, bringing total international investment (NFD + NFL) to \$864.244 billion, reflecting an annual percentage increase of 2%.

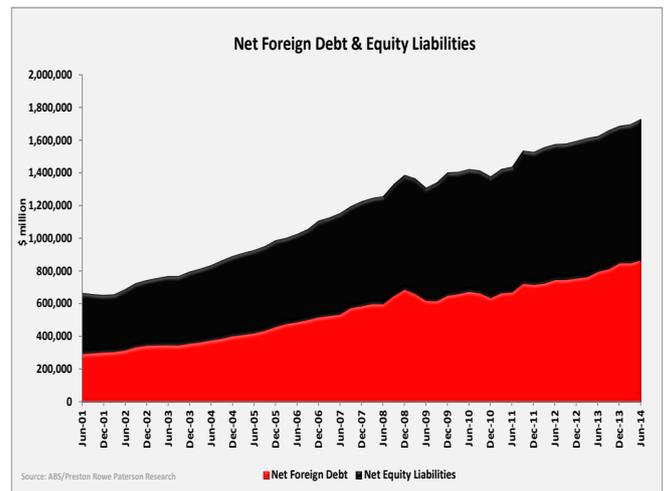


Chart 17 – NFD & Equity Liabilities – Current Account—Source RBA

## Our Research

At Preston Rowe Paterson, we pride ourselves on the research which we prepare in the market sectors within which we operate. These include Commercial, Retail, Industrial, Hotel & Leisure and Residential property markets as well as infrastructure, capital and plant and machinery markets

## We have *property* covered

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

## We have all *real estate* types covered

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

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

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

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

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

## We have all *client profiles* covered

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

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



## **We have all *locations* covered**

From our capital city and regional office locations we serve our client's needs throughout Australia. Globally, we operate directly or via our relationship offices or special purpose real estate asset classes, infrastructure and plant & machinery.

## **We have *your needs* covered**

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

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

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