



# 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 January 2012 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 history and to determine possible future trends.

### Highlights

- Annually All Groups CPI grew by 0.2% to 102.0 in December 2012.
- The 10 year bond yield as at December 2012 is 3.23% with 90 day bank bill rate at 3.11% reverting the cash position from the previous inverted yield curved since 25 July 2011.
- RBA reduce the official cash rate by 25 basis points to 3% as at 4th December 2012 .
- AUD\$ grew slightly to \$1.0378 US in December 2012.

### December quarter 2012

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# Inflation and Investor Sentiment

## Consumer Price Index

According to the Australia Bureau of Statistic category 6401.0 Consumer Price Index (December 2012), the Australia's All Groups CPI grew by a mere 0.2% over the quarter to December 2012 from 101.8 to 102.0. In comparison to 12 months prior, the CPI index recorded 2.2% growth.

Quarter on quarter results showed significant growth in CPI movements with the main contributors; Domestic Holiday Travel and Accommodation by 6.2%, followed by the Transport Group with Automotive Fuel by 2.6% and Rents by 0.8%.

The Transport Group on the whole rose over the December quarter 2012 with Automotive Fuel increasing by 2.6%, which was offset by a fall in Motor Vehicles by 0.9%. Automotive Fuel saw continually growth in 2012 month on month from August by 5.7%, September by 2.3%, October by 1.5%.

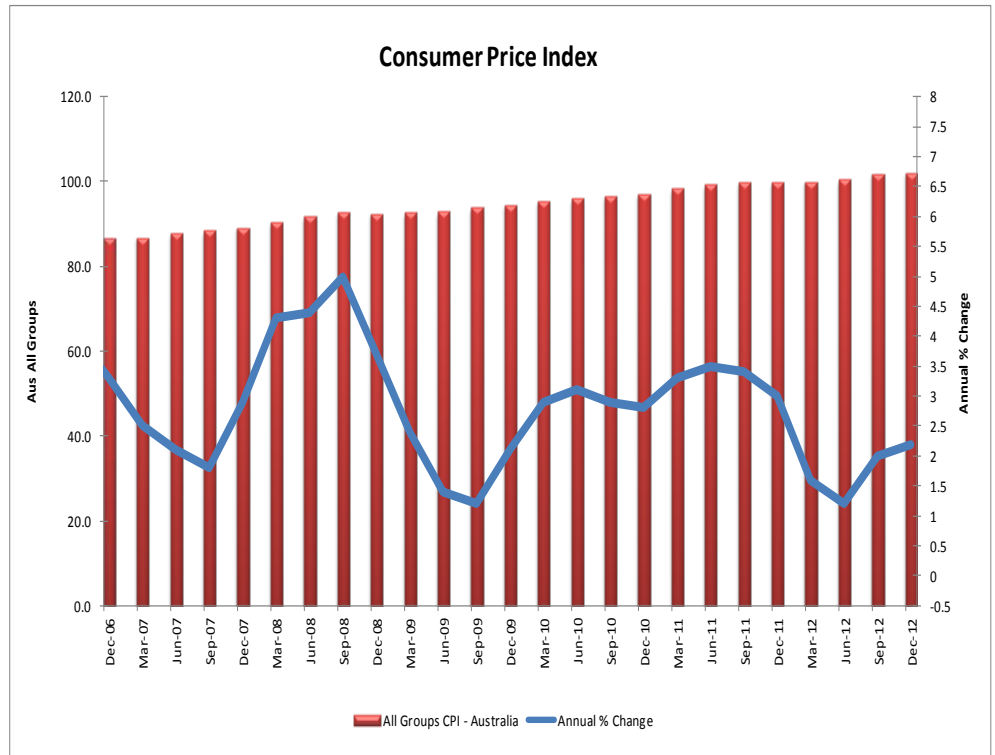


Chart 1 – CPI – Source ABS

The Insurance and Financial Services Group saw CPI movements rise over the December quarter 2012. The main sub-category contributors were the rise in Insurance by 2.9% and Other Financial Services by 1.1%.

Furthermore, CPI increases were experienced in the Recreational and Culture Group rising over the December quarter 2012. The main sub-category contributor was Domestic Holiday Travel & Accommodation by 6.2% which was partially offset by CPI declines in Audio, Visual & Computing Equipment and International Holiday Travel & Accommodation by 4.3% and 1.2% respectively.

The Housing Group rose for the second conservative quarter in December 2012 with the main sub-category contributors being the rise in Rents by 0.8% and the rise in Maintenance & Repair of the dwelling by 0.5%. Year on year comparison of the group rose by 4.4% with all categories increasing.

In terms of the Health Group CPI movements the December quarter 2012 experienced falls in Pharmaceuticals Products by 3.5% according to the Australia Bureau of Statistics the fall was "mainly as a result of a greater proportion of consumers exceeding the Pharmaceutical Benefits Scheme safety net compared to the September quarter 2012."



## Consumer Sentiment

The Consumer Sentiment Index fell by 4.1%, from 104.3 in November to 100.0 in December 2012. Over the quarter the most marked increase in sentiment was 5.2% in the November with the index recording 104.3, despite the Reserve Bank of Australia hold on interest rates.

The 12 months prior the Index was recorded at 94.7, which is an increase by 5.3% over the entire year to December 2012.

Westpac Chief Economist Bill Evans explained that the survey results revealed *"Households with a mortgage did respond positively to the rate cut with their confidence rising by 4.4%. However other respondents were quite downbeat. Confidence of those folks who are renting properties fell 9.1% while for those who wholly own their property confidence was down 10.9%."*



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

The RBA series of rate reductions saw the Index further boost confidence around purchasing a house with Index improving by 1.9% reaching its highest level since September 2009. Conversely ongoing pessimism around the economy and employment conditions is expected to limit the impact on the actually housing market activity.

The 4.1% decline in the Index can be attributed to the belief that respondents have received unfavourable media reporting's on international conditions; economic conditions and employment, according to the Westpac Media Release dated 12<sup>th</sup> December 2012.

According to Westpac – Melbourne Institute Survey of Consumer Sentiment of the five components recorded by the Index only one increased presumably because of the direct impact of the cash rate reduction, respondents were more confident around the outlook for their finance with the sub-index increasing by 4.6%, while the remaining sub-indices recorded a downturn, in particular the tracking of 1 and 5 year outlook for economic conditions saw a decline by 4.3% and 8.9%.



## NAB Business Confidence

During November 2012 the National Bank of Australia (NAB) Business Confidence Index recorded a sharp downturn, falling from -1 Index points to -9 Index points in the month of November 2012. The weakest level recorded since 2009.

According to NAB monthly Business Survey in November 2012 *"the slump in confidence is likely to in part reflect the businesses becoming depressed about the weak level of activity in the economy at present."*

Business confidence remains conservative in line with the speculatively concerns with the outlook for Australia mining sector and the uncertainties in the global economy in particular the European Debt Crisis and the American fiscal cliff along with the AUD dollar remaining persistently high.

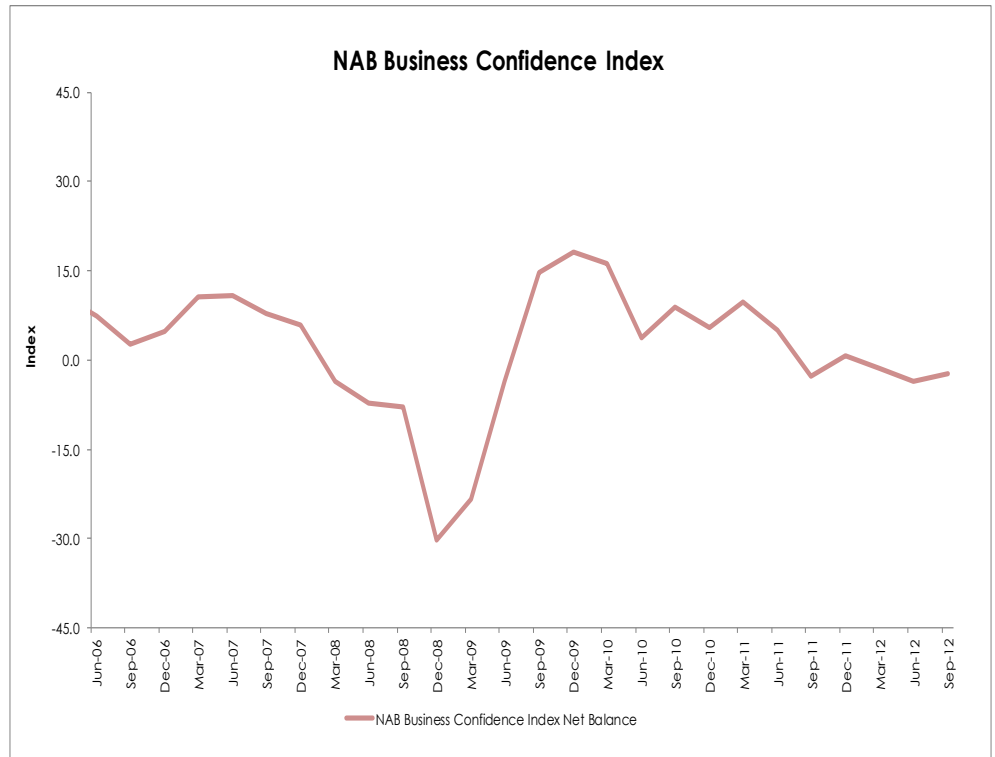


Chart 3 –NAB Business Confidence Index – Source ABS

Business confidence fell across all industries over the month of November excluding the Construction Industry which remained unchanged.

The Manufacturing Industry experienced the most significant decline, followed by, Transport & Utilities and Recreational & Personal Services. According to NAB month Business Survey *"there are no signs of near-term optimism, with all industries expecting activity to deteriorate further."*

Business confidence has fallen in the Mining sector *"reflecting concerns about the outlook for the Chinese economy and therefore commodities demand"* as quoted by the NAB Survey results for November 2012.

The NAB survey has indicated that the recent interest rate cuts by the Reserve Bank of Australia have appeared to do little to boost confidence as businesses are reluctant to borrow.



## Bond Market

### 10 Year Bond & 90 Day Bill Rate

In the 12 months to December 2012, the monthly 10 Year Bond rate has fallen by 0.6 of a percentage point to 3.23%. The monthly September 90 Day Bill rate has also fallen significantly over the same period by 1.40 of a percentage point to 3.11% reverting the cash position from the previous inverted yield curve.

Since July 2011 the Daily 90 Day Bill rate has been higher than the Daily 10 Year Bond rate, signifying a lack of confidence in the economy in the short to medium term, moderating inflation, risk perceptions and a general belief of economic downturn.

However, in December 2012 with the strong demand from foreign central banks the 10 Year Bond rate reversed from the recently inverted yield curve which is now 0.12 of a percentage point higher than the 90 day bill rate. Foreign central banks view Australia government bonds are now favoured and seen as a risk adverse option, increasing demand and placed downward pressure on yields.

The Monthly 10 year government bonds weakened over the annual year by 0.60 of a percentage point from 3.83% to 3.23%, seemingly as a result of lowered interest rates and risk aversion decreased.

In the long term a decline in the 10 year bond rate may be attributable from the cash rate and uncertainties in the global economies. Bond market remains sensitive to news about sovereign debt problems with concerns about headline risk from the European nations; the United States of America fiscal cliff uncertainties and the decline in commodity prices have kept downward pressure on the on yields.

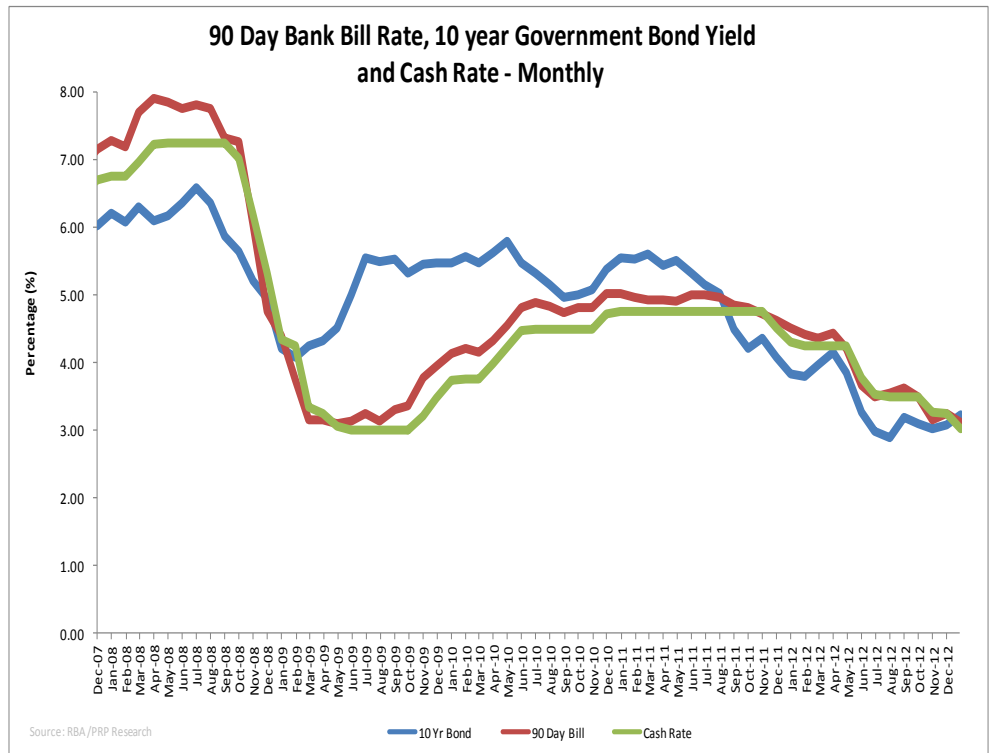


Chart 4 – Monthly 90 Day Bill Rate, 10 Year Bond & Cash Rate – Source RBA

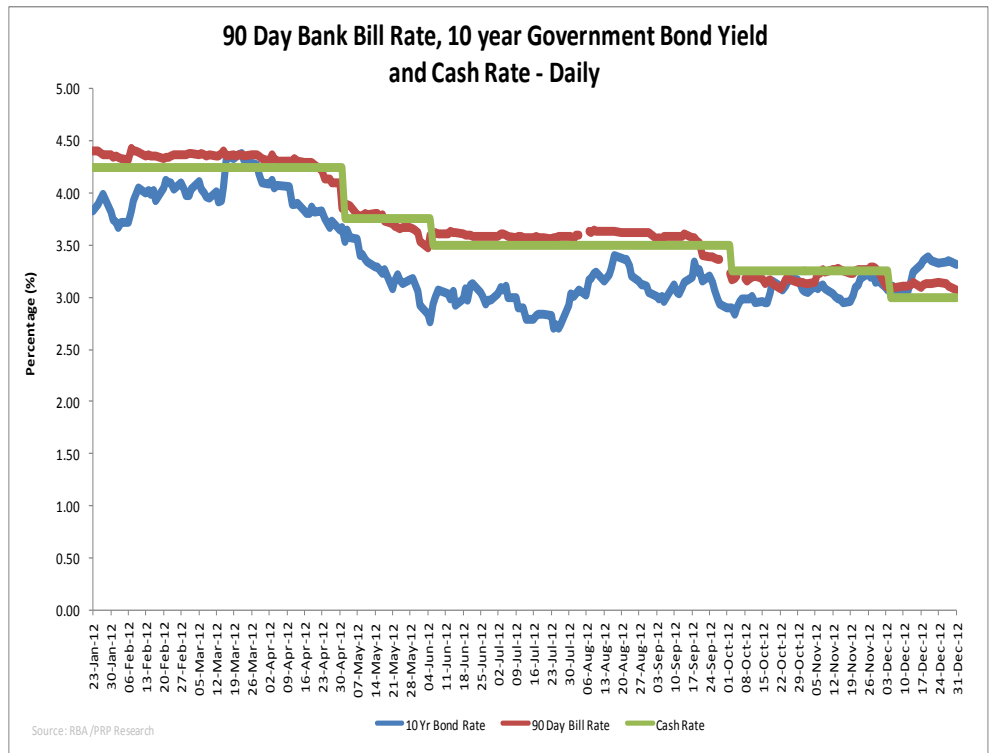


Chart 5 – Daily 90 Day Bill Rate, 10 Year Bond & Cash Rate – Source RBA



## Interest Rates

### Interest Rate Movements

The Official Cash Rate for the December quarter saw a reduction by 25 basis points to 3.0%. The Reserve Bank of Australia board members commented that;

*“At this meeting, the information on labour costs and softening labour market conditions suggested that the inflation outlook still afforded the Board some scope to provide additional support to demand. Further confirmation that the peak in resource sector investment was near, and that the short-term outlook for non-resource investment remained subdued, indicated that there was a case for the Board to provide that support. The Board considered whether to respond to this case in the near term or wait for further information. On balance, members saw merit in reducing the cash rate at this meeting.”*

The RBA board noted the introduction of the carbon price has seemingly started to affect consumer prices in the September quarter and will continue in the forthcoming quarters.

An annual review Home Loan Interest Rates declined by 0.85 of a percentage point to 6.45% as at December 2012, in line with the reduction by the RBA reducing the cash rate by 130 basis points to 3% over the annual year to December 2012.

Subsequently, the Standard Home Loan Rate decline over the quarter to 6.60%, a percentage change of 0.2%.

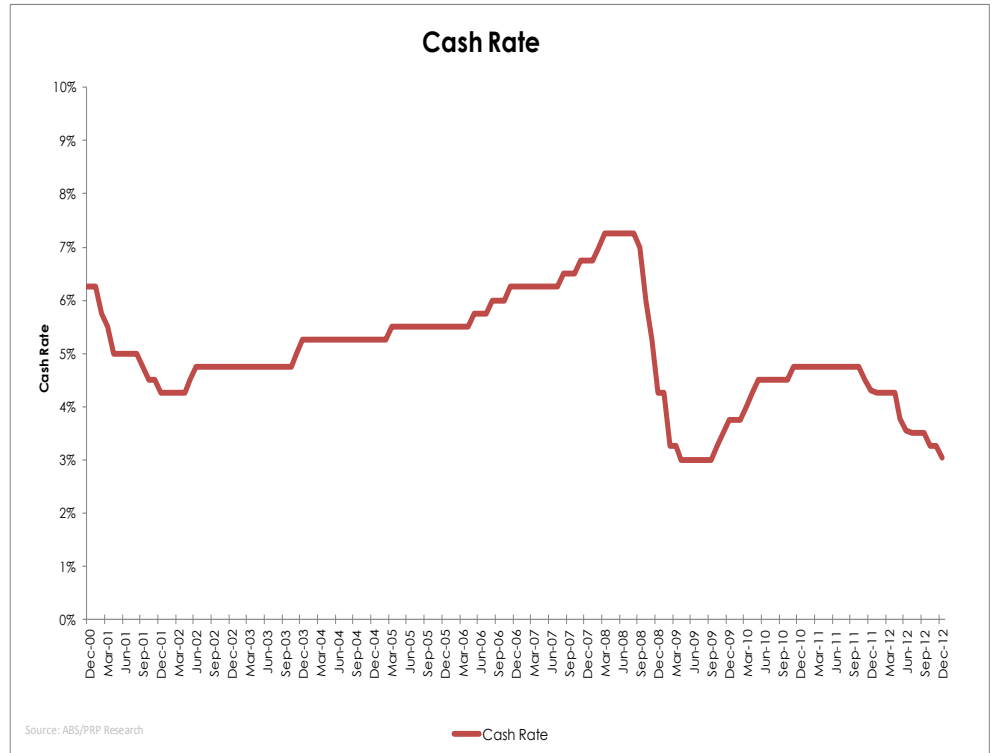


Chart 6 –Cash Rate – Source RBA

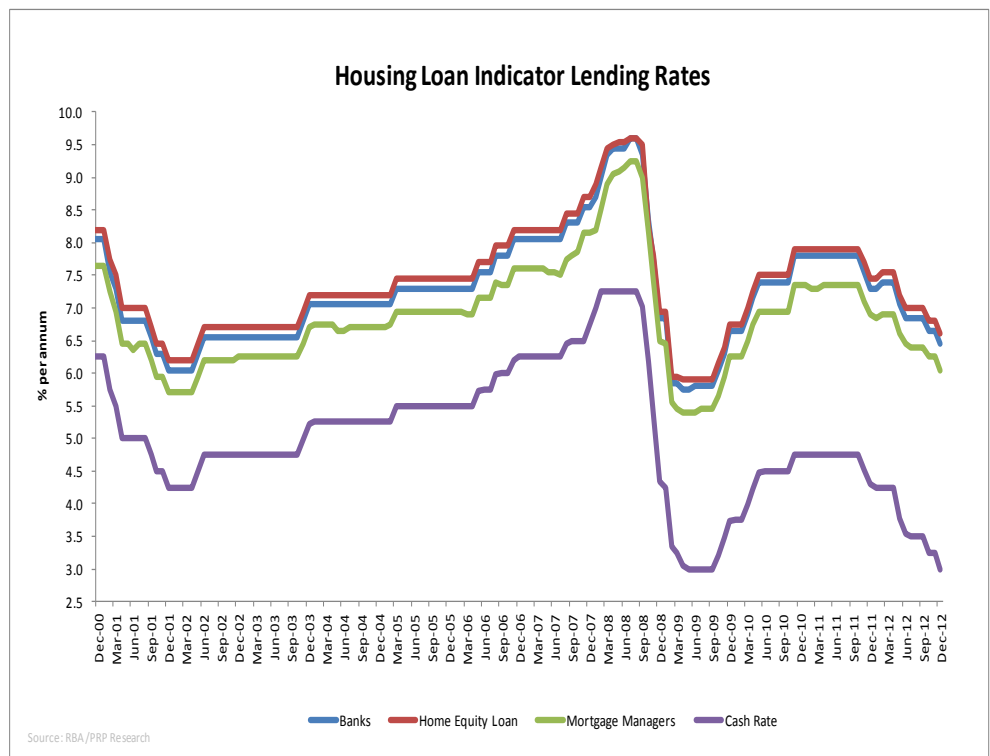


Chart 7 –Housing Loan Indicator Lending Rates – Source RBA



The Small Business Residential Secured Loans declined by 0.2 of a percentage point to 7.60% over the December quarter, remaining relatively responsive to the interest rate reductions from June 2012 with three conservative rate declines from 8.0%, 7.80% to 7.60% respectively, an overall decline by 0.4 of a percentage point.

Small Business Fixed 3 Year Interest Rates have seen the most volatility over the 12 months to December 2012, falling 115 basis points to 6.30%, with October 2012 recording the lowest rate on record since 1994 with 6.25%

The RBA Board judged at the meeting held on Tuesday 4th December 2012 *"that a further easing in the stance of monetary policy was appropriate now. This will help to foster sustainable growth in demand and inflation outcomes consistent with the target over time."*

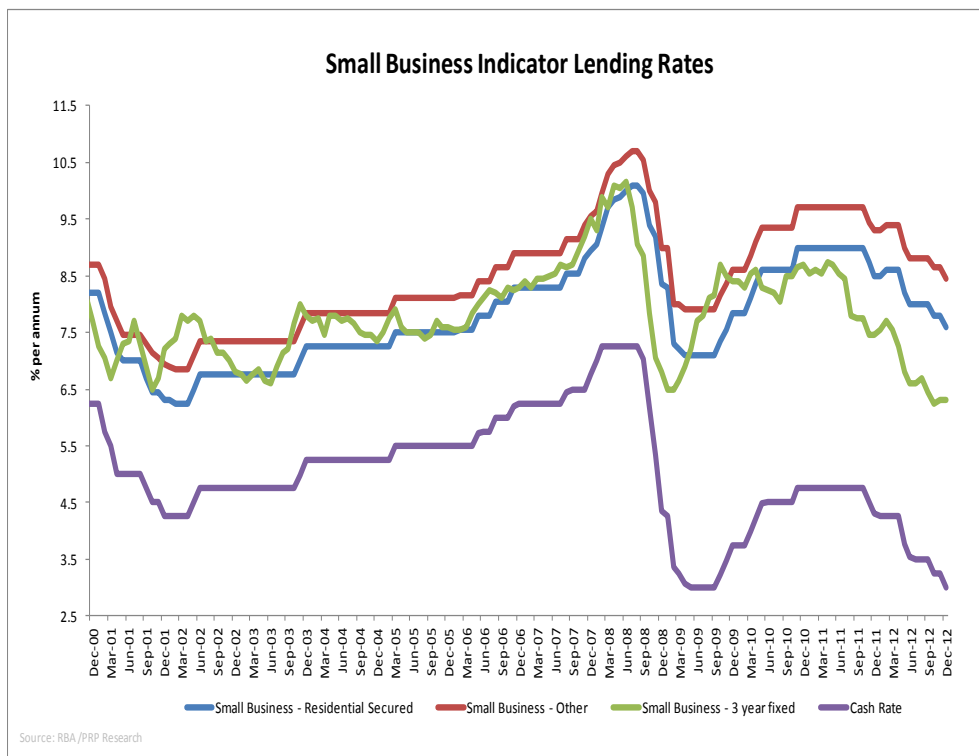


Chart 8 – Small Business Indicator Lending Rates – Source RBA



## Exchange Rates & Equity Markets

### Australian Exchange Rates

Over the month of December 2012, the Australian Dollar grew slightly against the US Dollar, increasing from \$1.0378 in November 2012 to \$1.0431 in December 2012, boosting an annual growth against the US Dollar by 2.71% as at December 2012.

The Australian Dollar declined against all other major currencies notably the UK & Euro during the month of December 2012. The Euro declined from the previous month by 2% to 0.8093 with further reductions over the quarter by 2.8%. Pound fell by 1.1% from the previous month and remained relatively unchanged over the quarter declining by 0.1% to 0.65.

The Japanese Yen saw robust growth by 4% from the previous month with a 10% growth over the quarter to 89.46 Yen for every Australian dollar.

Year on year results saw the Australia dollar increase with the Euro and Japanese Yen recording marked increases by 0.27% and 13.63% respectively against the Australian dollar, with one Australian dollar now purchases 89.46 Yen and 0.7868 Euros, in comparison to 78.73 Yen and 0.7847 Euros in December 2011.

### Share price Indices

The S&P ASX 200 has gained considerable ground in the three months to December 2012, with the Index currently at 363.3, an improvement of 5.98% from the previous quarter in September 2012 recording 342.8; the index has increased for the seventh consecutive month.

In comparison to 12 months

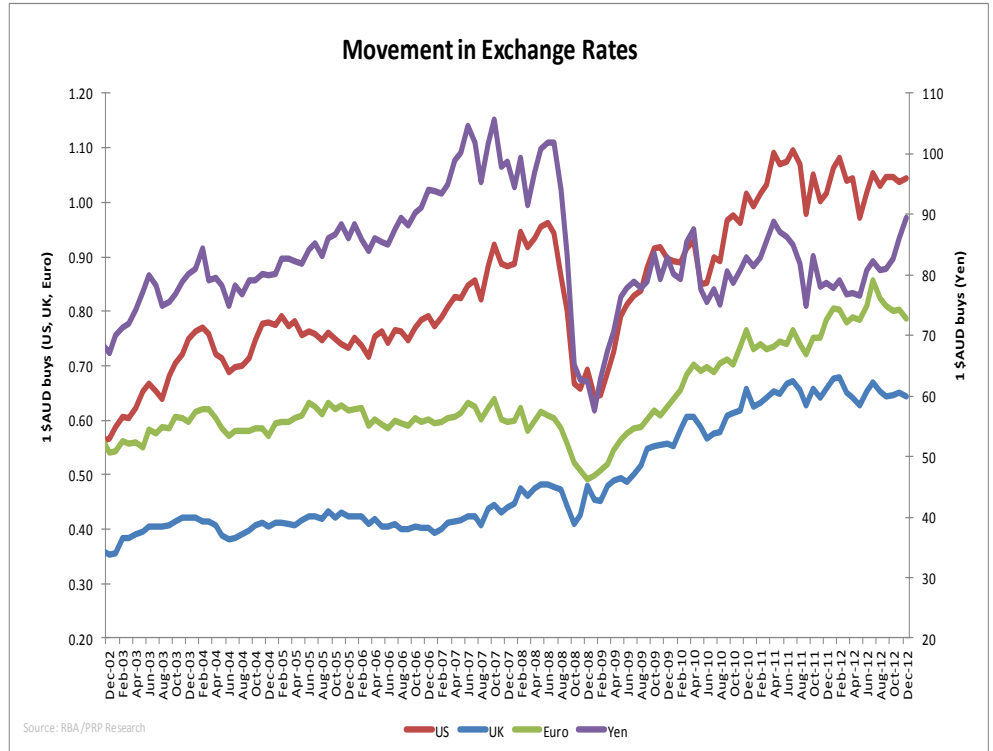


Chart 9 – Movement in Exchange Rates – Source RBA

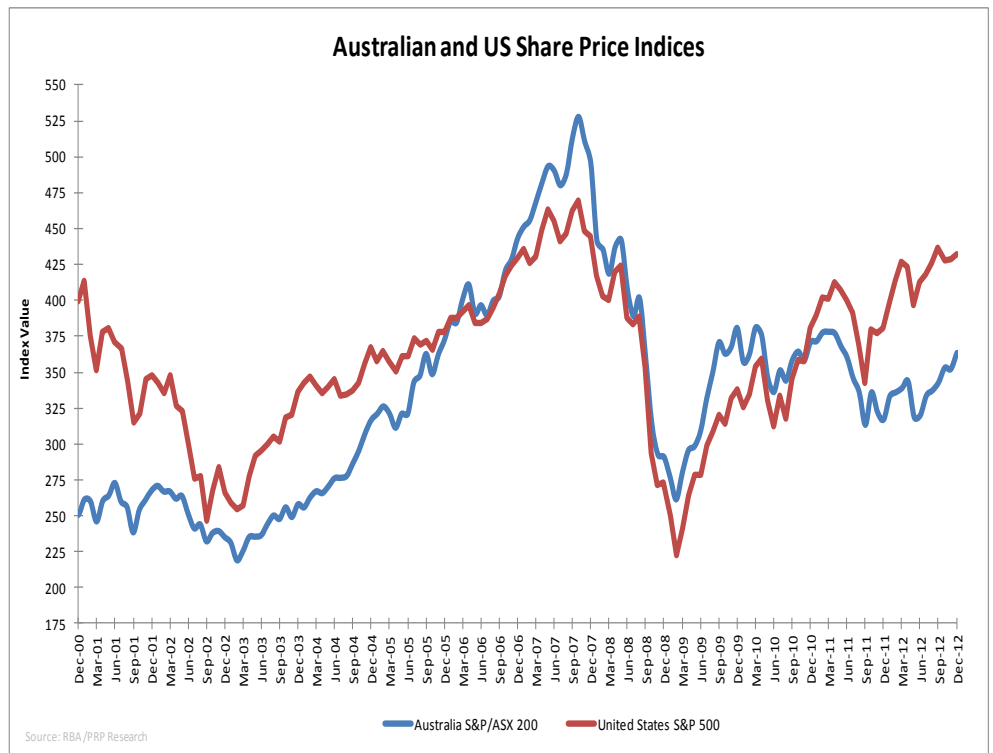


Chart 10 – Australian and US Share Price Indices – Source RBA





prior the Index was recorded at 317.0 which was the worst performance recorded over the annual year. Year on year saw a percentage rise of 14.6% a difference of 46.3 Index points to December 2012.

The S&P ASX 200 Index in the early 6 months of the year saw fluctuations on average by -0.1 percent in terms of the month on month percentage change to record consecutive growth in the latter half of 2012.

The most notable losses experienced were recorded in September 2011 where the index recorded 313.2. The Index has since recovered to 363.3 a marked improvement in December 2012, which is the highest on record since May 2011.

The US S&P 500 recorded a steady decline over the three months to December 12, as the Index fell by 1.01% to 431.9, which is the second highest price on record since December 2007 when the index was recorded at 444.4. Year on year saw a robust percentage growth of 13.34% recording a difference of 51.1 Index points.

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

December 2012 saw the All Ordinaries Index grow by 13.5% year on year to 4664.59, increasing by 553.59 Index points over a 12 month period from 4111.0 recorded at December 2011.

In the September to December quarter 2012, the All Ordinaries Index continued to grow consecutively over the quarter from 4406.3 in September 2012 to 4664.59 in December 2012, upward trajectory gains of 258.29 Index points from September 2012.

The Industrial Index saw marginal growth over the 12 months to December 2012 gaining 213.88 basis points to close at 3551.68. Month on month saw growth in the Industrial Index which increased by 6.2%.

The ASX Property Trust Index saw robust growth by 25.2% over the 12 months to December 2012 to close at 973.83. A consistent performing quarter with index recording 974.46 in October 2012 being the highest recorded index since November 2008 at 1025.4, signifying positive future prospects.

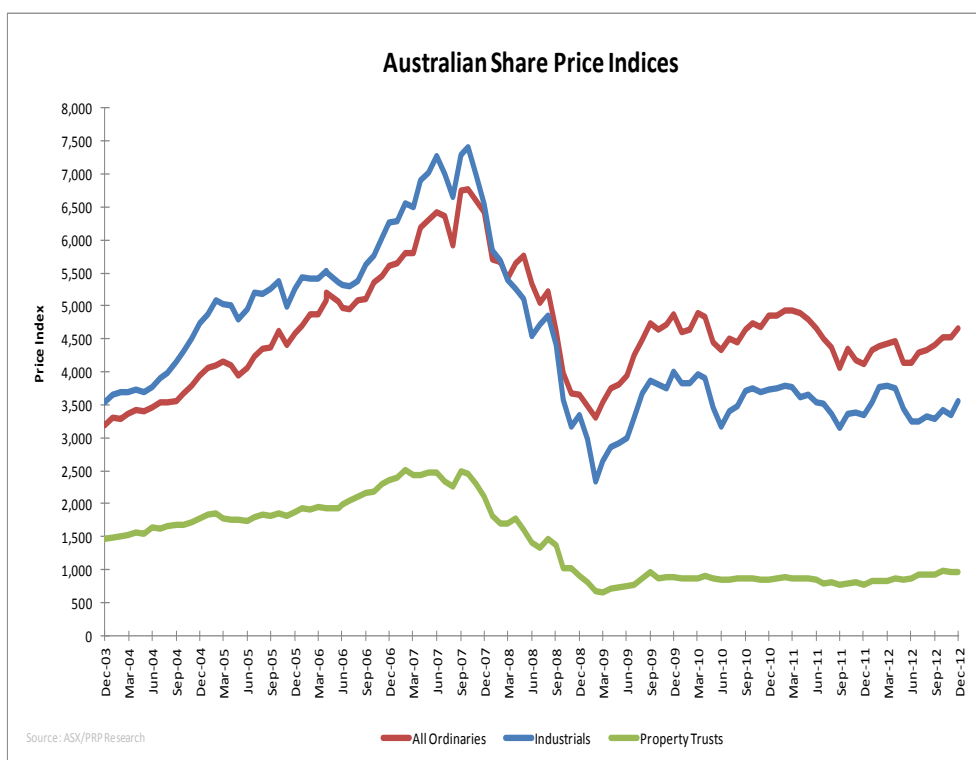


Chart 10 – Australian Share Price Indices – Source ASX



## GDP

### GDP

The Australian economy recorded a mere growth in the Gross Domestic Product (Change volume measure) seasonally adjusted by 0.5% over the September quarter 2012, bringing total GDP growth for the year to 3.07%.

Over the September quarter 2012 the main contributors to expenditure on GDP were total changes in inventories by 0.3 of a percentage point and household final consumption expenditure which increasing by 0.2 of a percentage point.

Expenditure on GDP annually from the September 2011 quarter to September 2012 quarter saw the Mining Sector increase by 0.8 of a percentage point and Health Care & Social Assistance by 0.4 of a percentage point, both Industries being the main contributors to the total trend growth of 3.4%.

Real Gross Domestic Income fell over the September 2012 quarter by 0.4%, which according to the Australia Bureau of Statistics (ABS) "reflects the real purchasing power of income generated by the domestic production is affect by the changes in import and export prices. The real gross domestic income adjusts the chain volume measures of GDP for the Terms of trade effect."

Industry Gross Value Added included; Mining by 4.5%, Manufacturing by 2.1% and Health Care & Social Assistance 1.8% whom were the main industries that contributed to GDP seasonally adjusted.

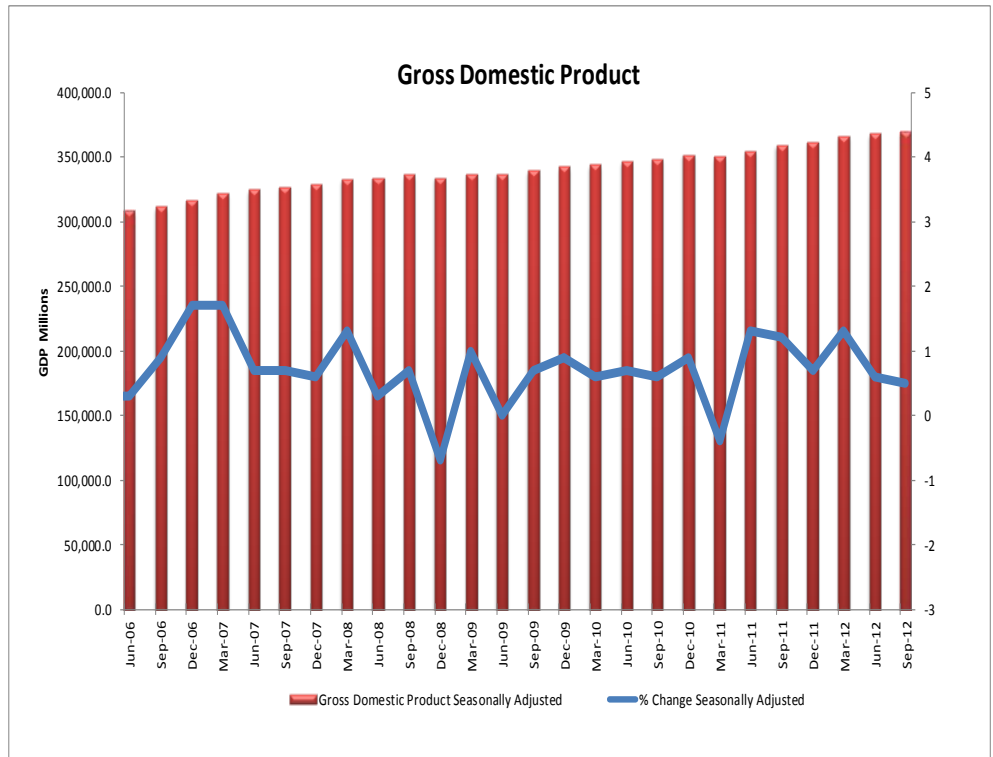


Chart 11 – GDP– Source RBA



Over the September 2012 quarter saw Real Net National Disposable Income declined by 0.7% seasonal adjusted, with the Household Saving Ratio recorded at 10.6% seasonally adjusted over the September quarter 2012.

Consumption expenditure saw Private Dwellings over the September quarter 2012 fall by 0.9%, bringing the annual decline to 6.6%.

Dwelling Investment over the three months to September 2012 remain unchanged at \$16,992 million seasonally adjusted, with the sector experiencing a subtraction over the annual year by 4.5%, a notable contraction for the fifth consecutive quarter. Non Dwelling Construction experienced growth of 5.1%, bring the annual growth to 34.8%

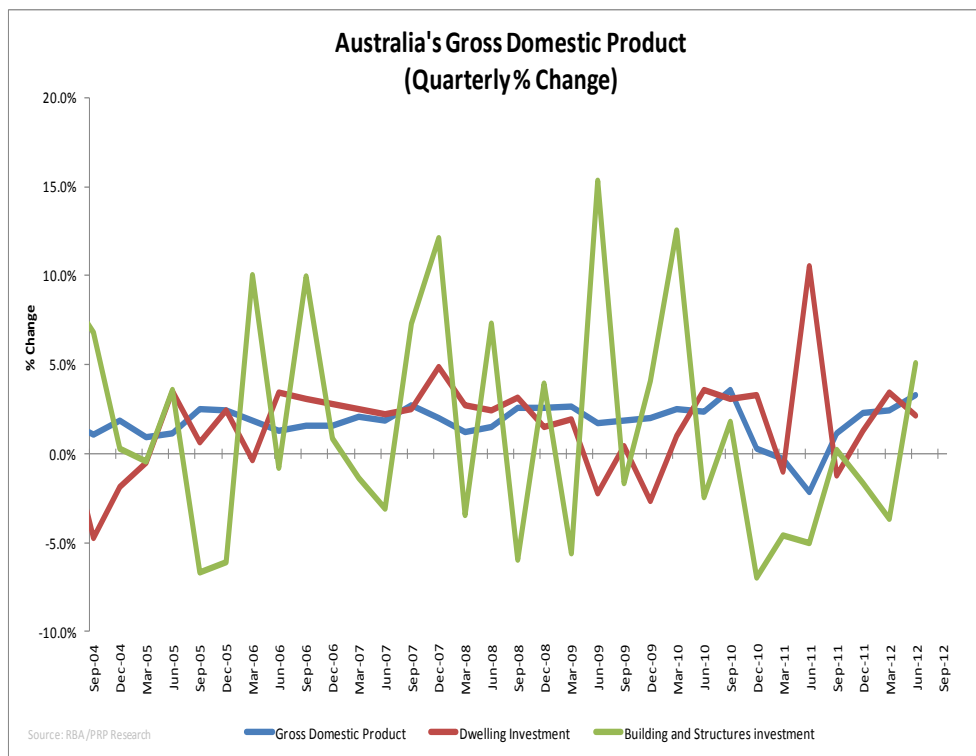


Chart 12 –Australia's Gross Domestic Product (Quarterly % Change) - Source RBA

Building & Structures Investment experienced growth over the September quarter 2012 by 1.3% to \$34,630 million seasonally adjusted.

The RBA reduction in rates and the move into expansionary monetary policy is expected ease the pressure and boost consumer confidence going forward.

The Terms of Trade during the September quarter 2012 recorded a decline by 4% seasonally adjusted, reflecting export prices are declining at a faster rate than import prices.



## Labour Force

### Unemployment

In November 2012 the monthly change saw an increase in employment by 13,900 persons from 11,532,500 employed persons in October 2012 to 11,546,400 employed persons, a percentage increase of 0.1% seasonally adjusted. The breakdown of the increased employed persons saw full-time employment decrease by 4,200 to 8,132,200 and part-time employment increase by 18,100 to 3,414,200 deriving a net figure of 13,900 employed persons to enter the work force. Year on year comparisons saw employment increase by 1.1%.

The unemployment rate fell by 0.1 percentage points to 5.2% at November 2012 and can be partially explained by the decline in job seeking. Unemployment decreased over the month falling by 16,300 persons to 637,400, a percentage change 2.5%.

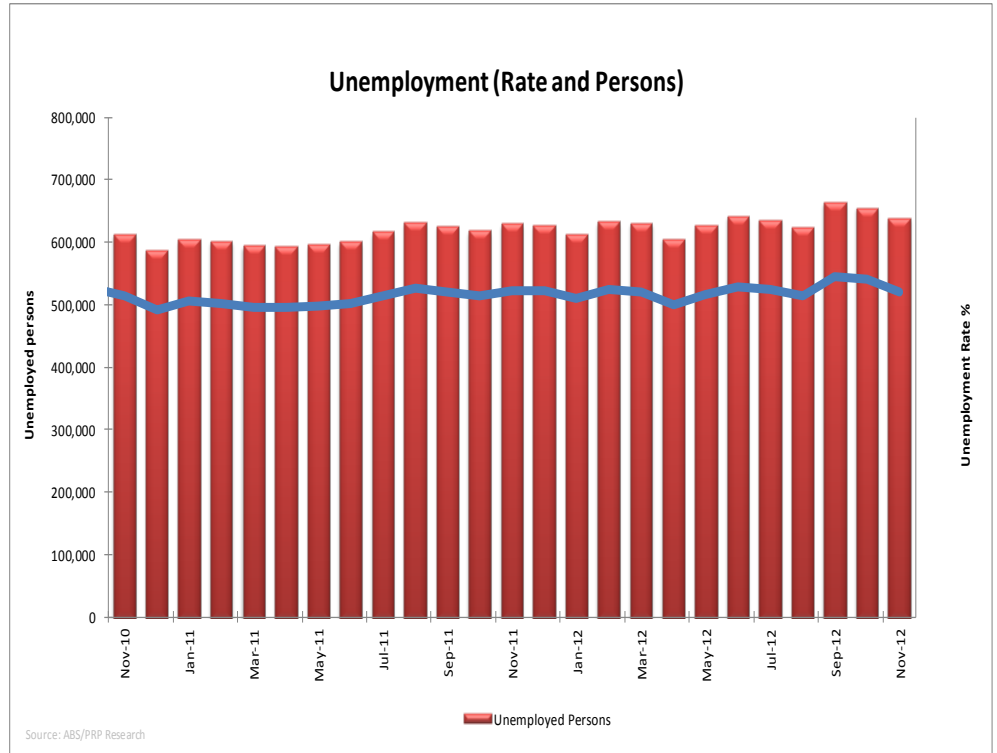


Chart 13 – Unemployment (Rate and Persons) - Source RBA

According to the Australia Bureau of Statistics, the number of persons seeking full-time employment decreased by 8,500 to 416,800 and part-time job seekers decreased by 7,800 to 175,500.

The participation rate held steady remaining unchanged over the month at 65.1% in November 2012 with year on year results recording a 0.3 percentage decline.

The labour underutilisation rate seasonally adjusted increase by 0.2 of a percentage point to 12.5% over the quarter to November 2012.

According to the Australia Bureau of Statistics the female labour force underutilisation rate over the quarter to November 2012 increased by 0.2 of a percentage point to 14.7%, followed by, the male labour force underutilisation rate slightly increasing by 0.1 of a percentage point to 10.7%.

Over the month of November 2012 aggregate number of hours worked increased by 1.3 million hours to a total of 1,6200.0 million hours.



## Wage Price Index

According to the Australia 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.

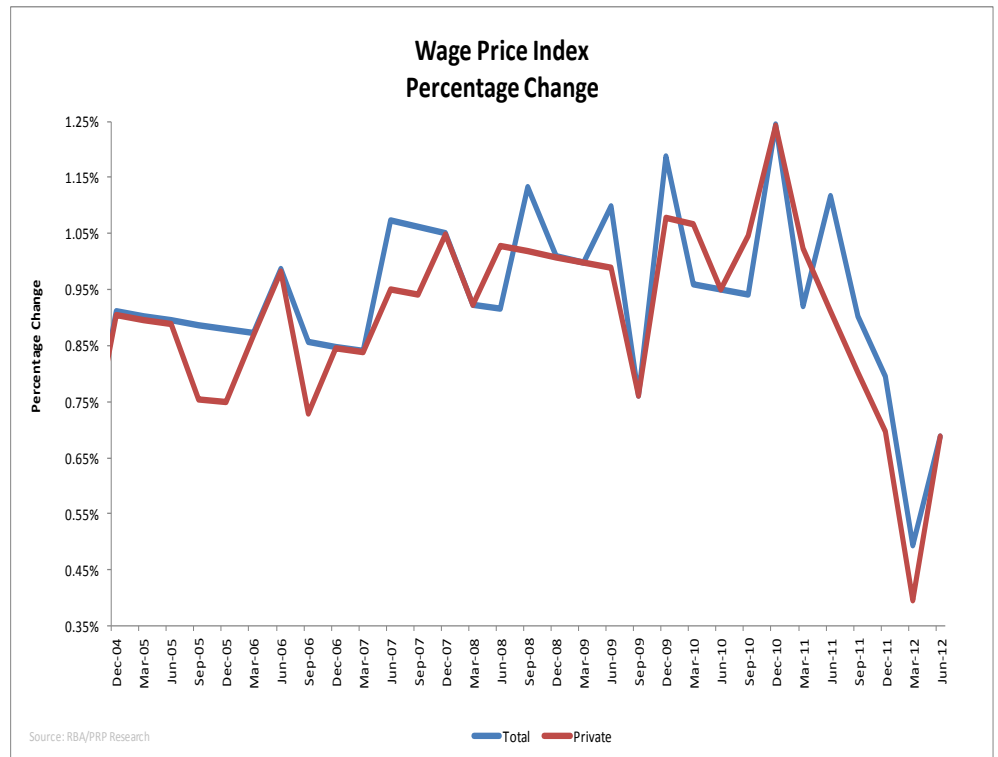


Chart 13 – Wage Price Index - Source RBA

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 Australian 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."



## Balance of Payments

### Current Account Balance

Australia's Current Account Deficit narrowed from \$15.048 billion to \$14.678 billion in the December quarter. 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 record deficit since March quarter 2006.

### International Investment Position

Net Foreign Debt grew slightly over the December quarter 2012 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%.

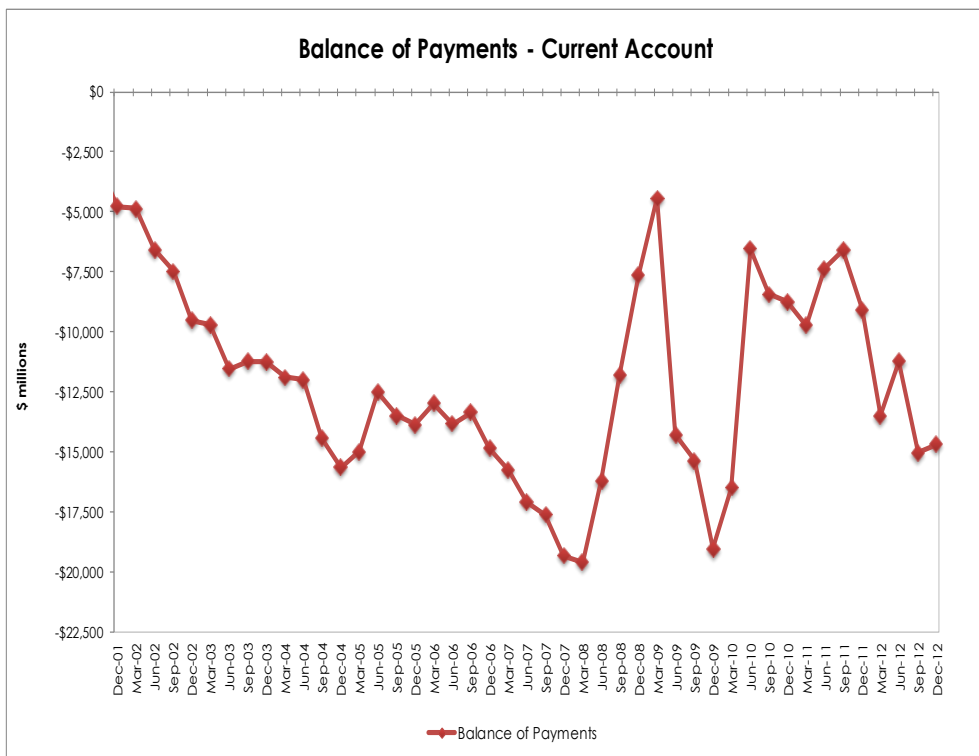


Chart 14 – Balance of Payment Current Account Deficit - Source RBA

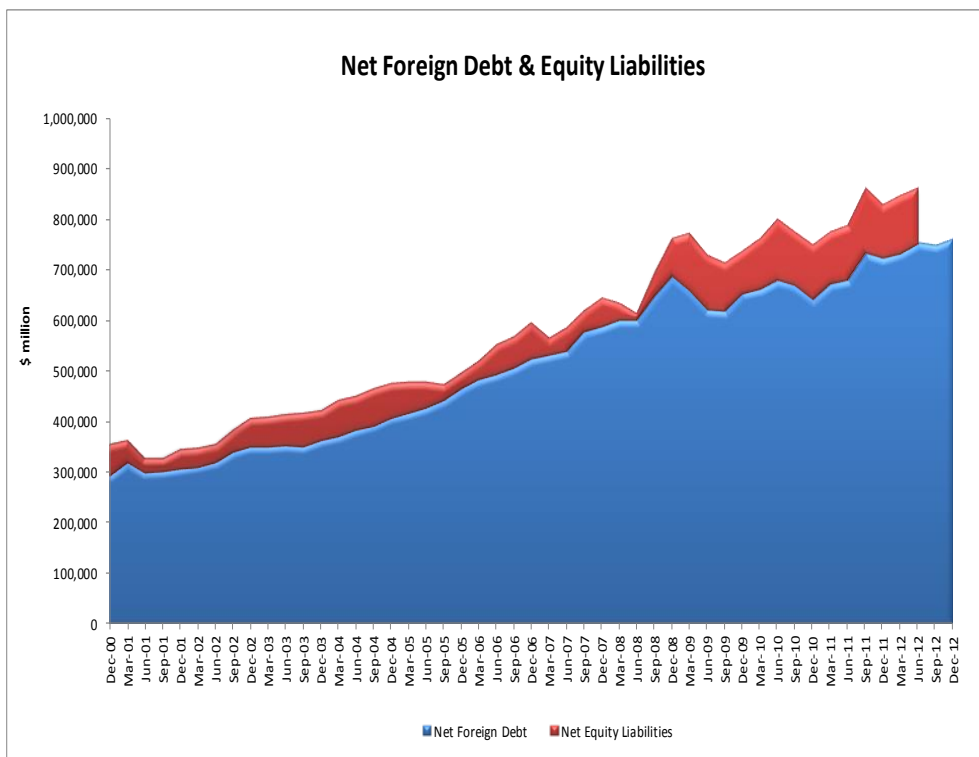


Chart 15 – Net Foreign Debt & Equity Liabilities - Source RBA



## 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

- 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 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.
- Extractive industries, land fills and resource based enterprises

## Types of Plant & Machinery

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
- Hotel furniture, fittings & equipment

## Our Clients

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



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