



**Preston**  
*Rowe*  
Paterson

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International Property Consultants

# Economic Report

## Australia

### HIGHLIGHTS

- All Groups CPI was recorded at 108.2 in March 2016, a decrease of 0.2% over the quarter.
- The monthly 10 year bond rate as at March is 2.57% with 90 day bank bill rate at 2.31%.
- Cash rate remain unchanged at 2%.
- AUD exchange rate has increased to \$0.7657 US in March.
- The latest figures on the Australian GDP has revealed a 0.6% quarterly growth, reflecting a 3% growth over the year to March 2016.

### March Quarter 2016

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## INFLATION AND INVESTOR SENTIMENT

### Consumer Price Index

According to the Australian Bureau of Statistics (March 2016), the Australia's All Groups CPI decreased by 0.2% over the March quarter from 108.4 to 108.2. The annual CPI change to March 2016 recorded a growth of 1.3%.

The most significant price rises over the March quarter were Pharmaceutical products (+4.8%), Secondary education (+4.6%), and Medical and hospital services(+1.6%). The greatest price fall over the quarter was attributed to are Fruit (-11.1%), Automotive fuel (-10%), and International holiday travel and accommodation (-2%).

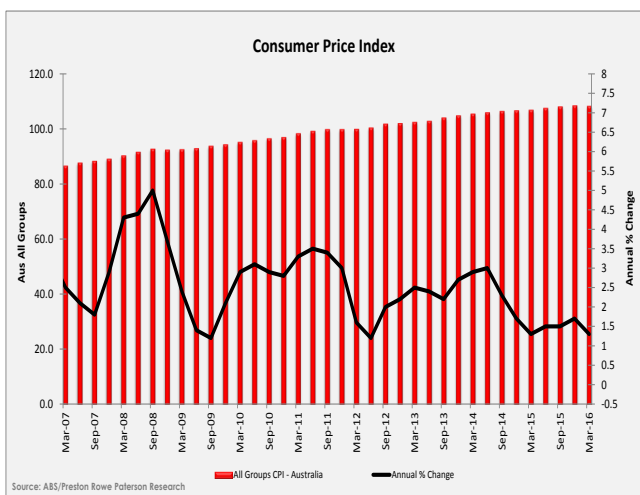


Chart 1 – CPI – Source ABS

The housing group has increased by 0.3% over the March quarter. The main contributors to the price rise were in Gas and other household fuels, and New dwelling purchase by owner-occupiers recording a growth of 3% and 0.2% respectively. Over the twelve months to March, the housing group recorded growth of 1.7% which was backed by the 2.5% annual growth in New dwelling purchases by owner-occupiers.

The Furnishings, household equipment and services group recorded a decrease of -0.4% over the quarter. The main contributors to the decline was Furniture (-1.6%) and Household textiles (-4.1%).

The Insurance and financial services group increased by 0.6% over the quarter. The main contributor to the rise was Insurance (+1.7%). Through the year to March the insurance and financial services group rose 2.3%, with Insurance contributing to the growth by a 5.2% increase.

### Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index fell by -2.2% from 101.3 index points in February to 99.1 index points in March. Over the March quarter the index has decreased by -1.7 points and recorded 0.4% annual decline.

Westpac's Economist, Bill Evans commented; "The Index is back to around its average reading over the last six months...the market volatility and unfavourable media coverage on property markets appears to have triggered a reassessment of risk preferences...risk averse preferences also saw a 4.5% increase in the proportion of respondents favoured fixed interest investments, including bank deposits with significant reductions in the proportion nominating real estate and shares...We expect growth in the Australian economy of 2.8% in 2016 with the genuine prospect for some stability in our terms of trade through the year laying a foundation for a lift in incomes and spending going into 2017."

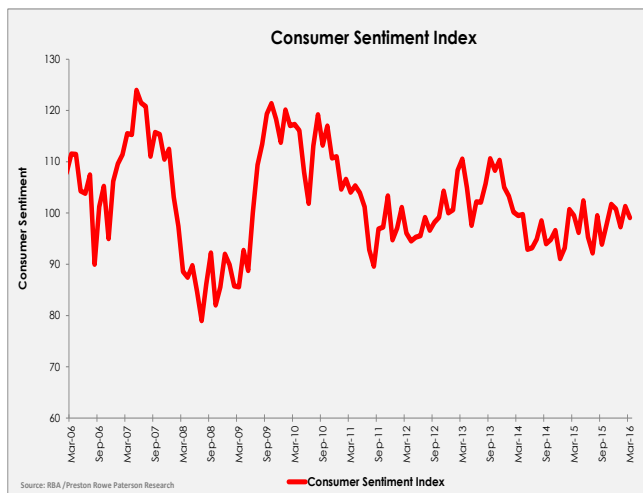


Chart 2—Consumer Sentiment Index—Source—Westpac Melbourne Institute Survey

### NAB Business Confidence

Business Confidence had decreased by 4 points to +12 points in the month of March. According to the NAB Monthly Business Survey:

"A jump in both business conditions and confidence this month provides more assurance that the Australia economy is weathering the global challenges well, and is successfully transitioning through the end of the mining boom. Business conditions lifted to their equal highest levels since 2008, while improvements are becoming more broad-based across the economy as the recovery gains traction....By industry, service industries remain the best performers, although construction also closed the gap in March, manufacturing is looking more upbeat, and transport appears to be responding positively to lower fuel prices...mining conditions remain extremely weak and retail was disappointing."

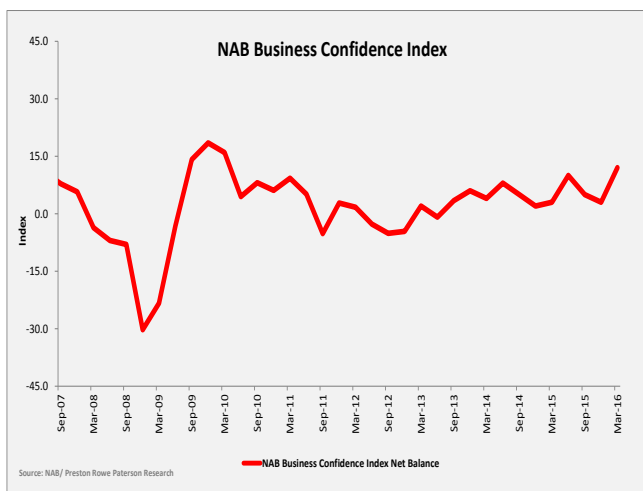


Chart 3 – NAB Business Confidence Index – Source NAB

## BOND MARKET

### 10 Year Bond & 90 Day Bill Rate

Analysis of the daily 10 Year Government Bonds has revealed a 9 basis point increase over the month of March to 2.57%. The 90 day bill rates had increased by 3 basis points to the month end of 2.31%. The changes in both 10 year bonds and the 90 day bill rate reflect a yield spread of -5 basis points.

Over the March 2016 quarter, the 10 Year Government Bonds recorded a decrease of -28 basis points from 2.85%. The 90 Day Bill Rate recorded a decline of -3 basis points over the quarter from 2.34%.

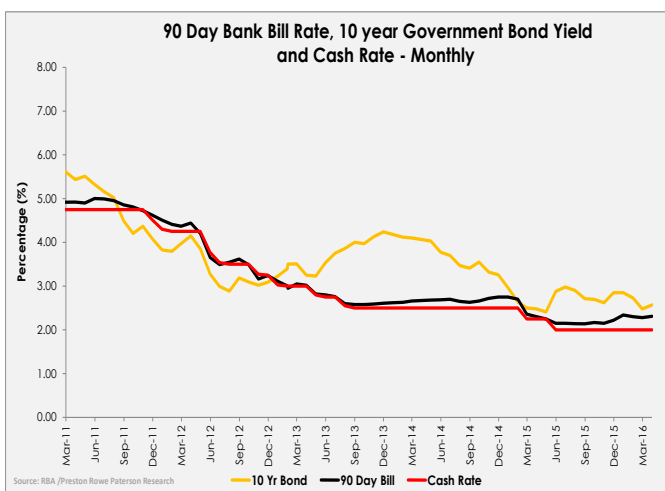


Chart 4 –90 Day Bill, 10 year bond and cash rate - MONTHLY – Source RBA

In the twelve months to March 2016, the monthly 10 Year Bond Rate has increased by 9 basis points from 2.48%. Similarly, the monthly 90 Day Bill Rate rose by 1 basis points from 2.30%.

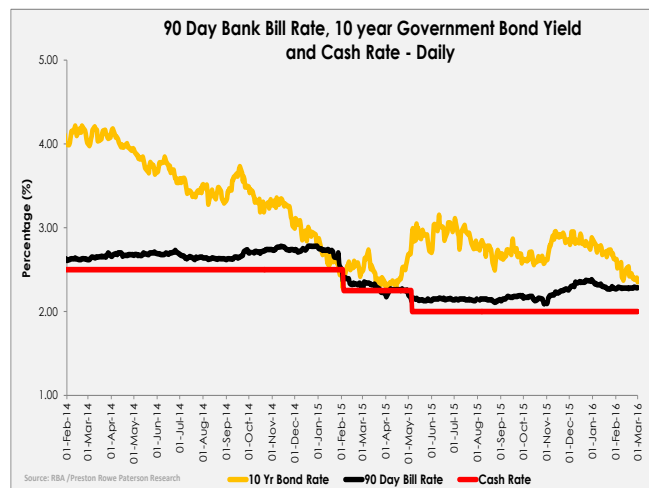


Chart 5 –90 Day Bill, 10 year bond and cash rate – DAILY – Source RBA

## INTEREST RATES

### Interest Rate Movements

As at the date of publishing, the official Cash Rate over the March quarter 2016 has remain steady at 2%. The Reserve Bank of Australia's Media Release for March 2016, released on 1st March explained that;

*"The global economy is continuing to grow, though at a slightly slower pace than expected. While several advanced economies have recorded improved growth over the past year, conditions have become more difficult for a number of emerging market economies. Commodity prices have declined very substantially over the past couple of years... The decline in Australia's terms of trade has continued... Financial markets have once again exhibited heightened volatility over recent months, as participants grapple with uncertainty about the global economic outlook and foreign policy settings among major jurisdictions... In Australia, the available information suggests that the expansion in the non-mining parts of the economy strengthened in 2015 despite contraction in spending in mining investments. This is reflected in improved labour market conditions. The pace of lending to businesses also picked up. Inflation is quite low. With growth in labour costs continuing to be quite subdued as well, and inflation restrained elsewhere in the world, inflation is likely to remain low over the next year or two."*

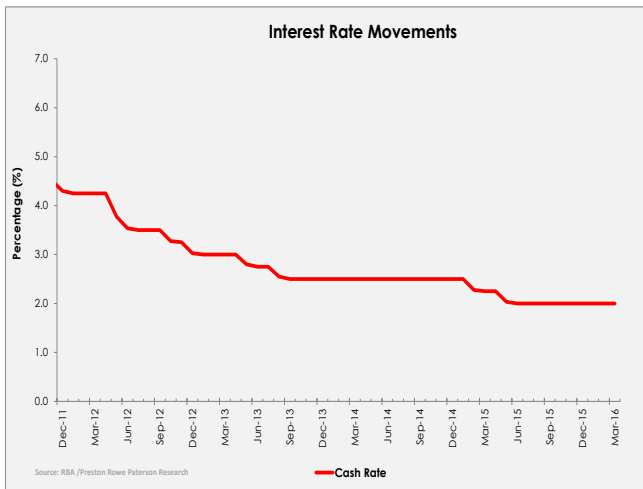


Chart 6 – Cash Rate – Source RBA

Over the March quarter, the Banks' housing loan variable rates and Mortgage managers loan rates remain unchanged at 5.65% and 5.25% respectively. The Home equity loan rates fell by -1.4 basis points to 4.45%.

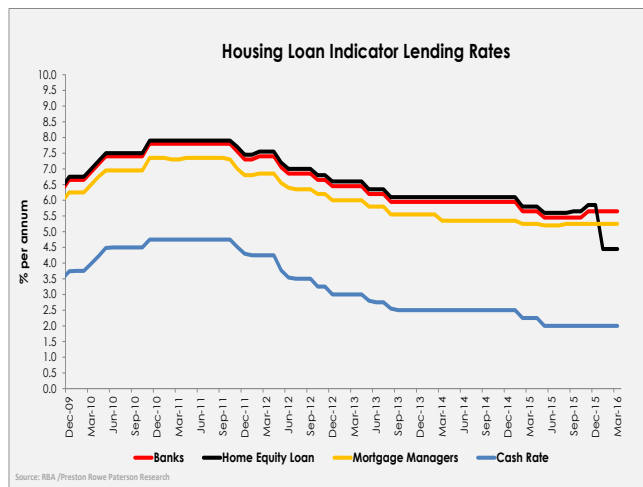


Chart 7 – Housing Loan Indicator Lending Rates – Source RBA

Over the March quarter the Small business residential secured and Small business other loans rates increased by 15 basis points to 6.75% and 7.60% respectively. The Small business fixed 3 year rates had increased by 5 basis points over the quarter to 5.45%.

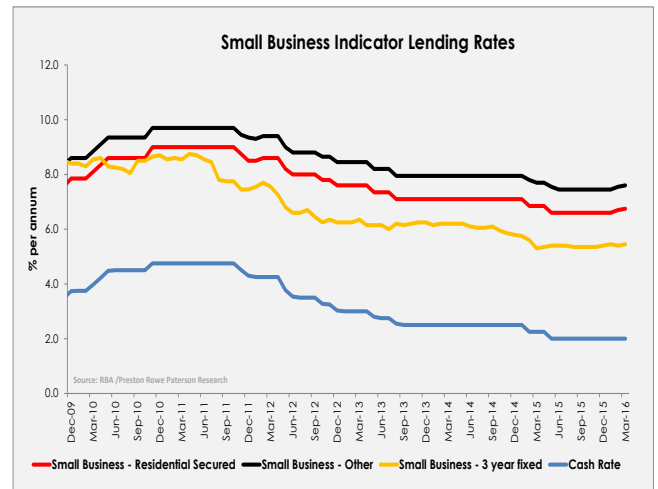


Chart 8 – Small Business Indicator Lending Rates – Source RBA

## EXCHANGE RATES & EQUITY MARKETS

### Australian Exchange Rates

Over March quarter 2016, the Australian Dollar increased against the US Dollar, inflating from \$0.7306 in December 2015 to \$0.7657 in March 2016. Over the twelve months to December, the Australian dollar grew by 0.3% from \$0.7634 USD.

The Australian Dollar exchange rates against the Pound and Euro increased by 8.3% and 1.2% respectively. The Australian Dollar fell against the Japanese Yen by -2.3% in the quarter.

Year on year analysis saw the Australian Dollar decline against the Euro by -4.31% to €0.6682 and -6.31% in the Yen to ¥85.93, whereas the exchange rate against the British Pound increased by 3.37% to £0.5338.

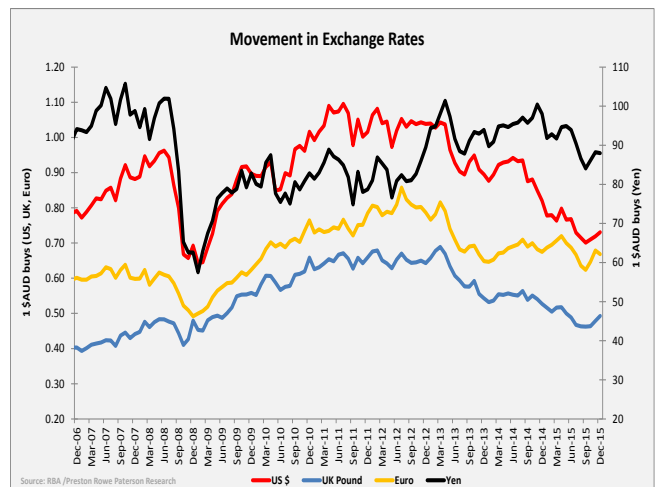


Chart 9 – Movement in Exchange Rates – Source RBA



## Share price Indices

Over the March quarter, the S&P ASX 200 Index recorded an -4% decline from 431.8 in December to 397.1 in March. Over the twelve months to March 2016, the S&P ASX 200 Index has recorded a decrease of -13.7% tightening by 63.2 index points.

The US S&P 500 Index recorded a growth of 0.76% over the three months to March 2016 as the index reached 623.7. Year on year analysis to March revealed a decline of 2.5 index points, reflecting a decrease of -0.4%.

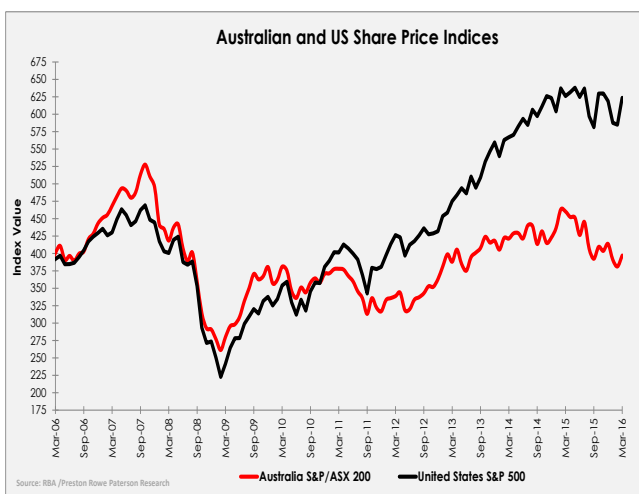


Chart 10 – Australian and US Share Price Indices – Source RBA

## Industrials, All Ordinaries and Property Trust Index Values

The March 2016 quarter saw the All Ordinaries Index decreased by -12.1% from 5344.56 in December 2015 to 5151.79 in March. The year on year analysis has revealed the All Ordinaries Index decreasing by -3.61%, reflecting a decline of 710.13 index points.

The Industrial Index recorded a growth of 9.1% over the March quarter and reflected an annual growth of 4.74%. Since March 2015, there has been an increase of 423.69 index points to 5091.57.

The ASX Property Trusts followed with an increase of 5.7% over the quarter. Similarly it experienced a growth of 5.49% to 1362.05 over the twelve months to March 2016.

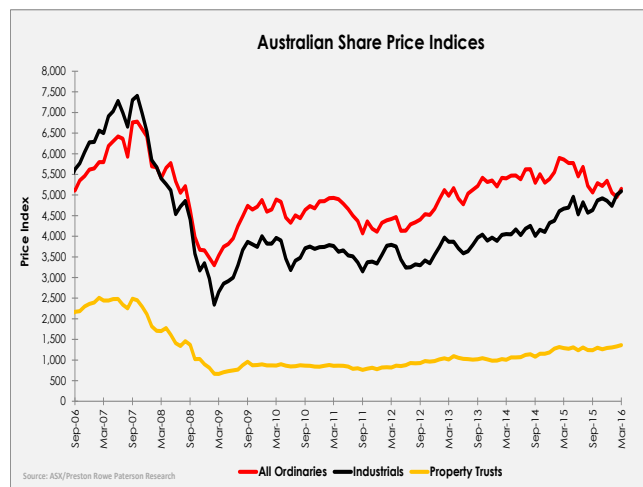


Chart 11 –Australian Share Price Indices – Source ASX

## GROSS DOMESTIC PRODUCT

### GDP

GDP figures for the March quarter 2016 are not available until the 1st June, however, over the December 2015 quarter revealed that the Australian economy recorded growth of 0.6% seasonally adjusted which reflected growth of 3% seasonally adjusted over the twelve months to December 2015.

The main contributors to expenditure on Final consumption expenditure which increased by 0.5% and Changes in inventory which increased by 0.2%. These were offset by the decrease in Total gross fixed capital formation of -0.2%.

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 (+0.4%), Finance and insurance services (+0.4%), Construction (+0.3%), Public administration and safety (+0.3%), and Healthcare and social assistance (+0.3%). In trend terms, the largest detractor was Manufacturing (-0.2%).

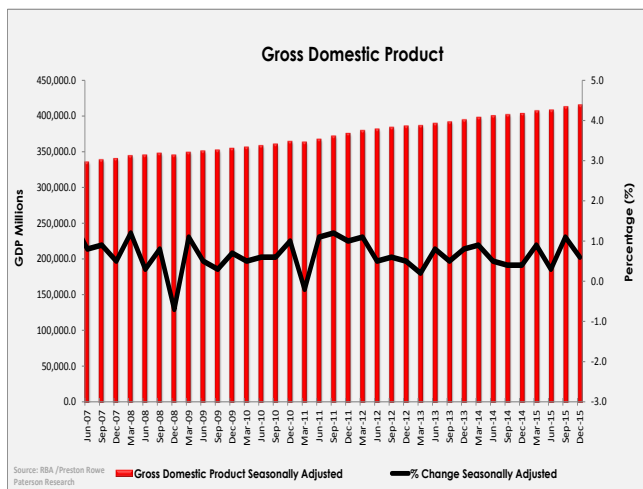


Chart 12 – GDP– Source ABS

The terms of trade had decreased by 3.2% in seasonally adjusted terms over the quarter. In the twelve months to September, the terms of trade has declined by -12%. 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.

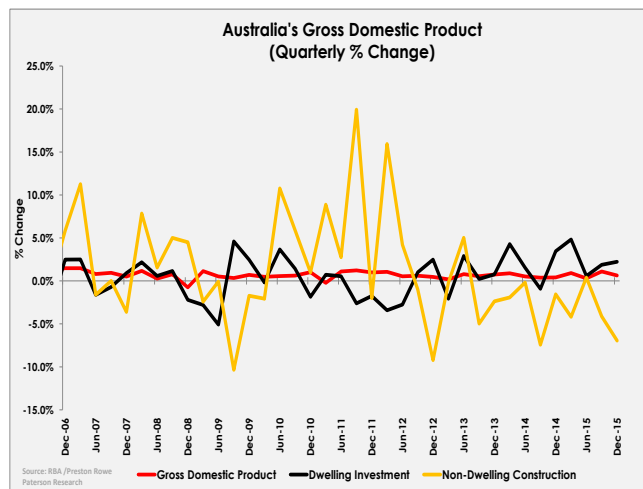


Chart 13 – Australia's GDP (Quarterly % Change) - Source ABS

## LABOUR FORCE

### Unemployment

Over the month to March 2016, the number of unemployed people has declined by 7,283 from 730,395 in February to 723,122 in March, reflecting a 1% decrease. In comparison to March 2015, the number of unemployed people had decreased by 42,903 reflecting an annual decline of -5.6%. The unemployment rate was 5.7% as at March 2016.

Full time employment had decreased by 8,800 persons to 8,180,400 persons in March. Part time employment recorded an increase of 34,900 persons over the month to 3,729,200 persons.

The number of unemployed seeking full time employment recorded a decrease in March by 7,900 to 515,900 persons. The number of unemployed seeking part time employment also decreased over the month by 1,800 to 208,400 persons.

The participation rate remained steady over the month at 64.9%, with year on year comparison revealing a 0.2 percentage point increase.

The aggregate monthly hours worked had decreased by 17.5 million hours to 1,632.3 million hours.

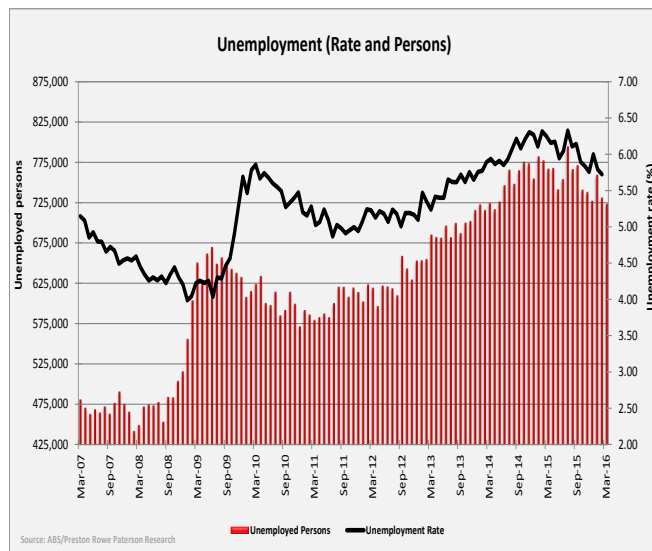


Chart 14 – Unemployment (Rate and Persons) - Source ABS

## Wage Price Index

Data for the March quarter 2016 is not currently available, however the December quarter 2015 the seasonally adjusted total Wage Price Index rose by 0.5%, reflecting a seasonally adjusted growth of 2.2% in comparison to December 2014. Both public and private sectors increased over the quarter by 0.5% with through the year rises of 2% and 2.6% respectively.

Over the December 2015 quarter, South Australia recorded the highest annual wage growth of 0.7%. The Tasmania recorded the smallest rise of 0.1%.

In the private sector, the Victoria experienced the highest quarterly growth of 0.5% whilst Tasmania and Northern Territory recorded the smallest rise of 0.2%. Through the year rises in the private sector ranged from 1.5% for Western Australia to 2.4% for Tasmania.

In the public sector, South Australia recorded the highest quarterly growth of 1.6%. Tasmania experienced the smallest rise of 0.1%. The largest annual rise in the public sector was in Tasmania at 3.5% and the smallest growth was recorded in Australian Capital Territory at 1.3%.

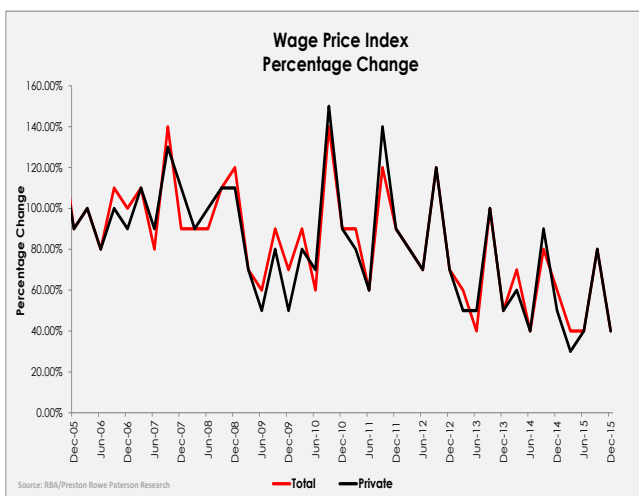


Chart 15 – Wage Price Index - Source ABS

## BALANCE OF PAYMENTS

### Current Account Balance

Data for the March quarter 2016 is not currently available however over the December quarter 2015, Australia's Current Account Deficit increased by \$2,258 million to current account balance of \$21,106 million in seasonally adjusted term which reflects a 12% quarterly increase. In comparison to December 2014, the current account balance deficit has increased by 80%.

The deficit on balance of goods and services surplus saw to an increase of \$2,592 million over the quarter (35%) to \$9,929 million. The primary net income deficit had increased by 3% to \$10,564 million in the December quarter.

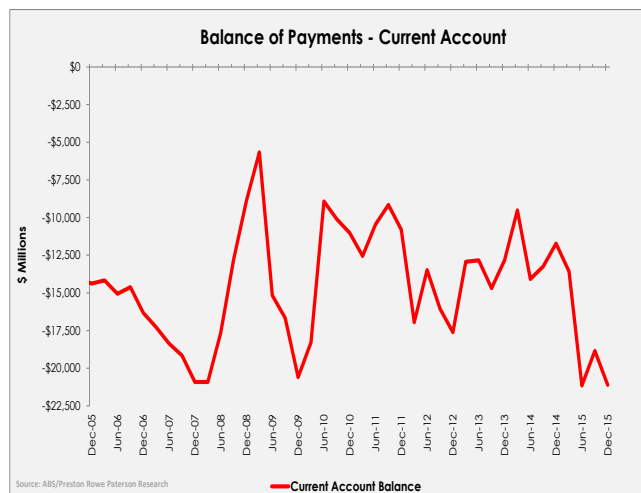


Chart 16 – Balance of Payment Current Account Deficit - Source ABS

## International Investment Position

Data for the March quarter 2016 is not currently available however over the December 2015 quarter Net Foreign Debt increased by 0.3% to \$1,005.57 billion. In comparison to December 2014, this is a 7% increase. Net Equity Liabilities recorded a decrease of -21% over the quarter to \$61.92 billion, bringing total international investment (NFD + NFL) to \$943.65 billion, reflecting an annual growth of 7.1%.

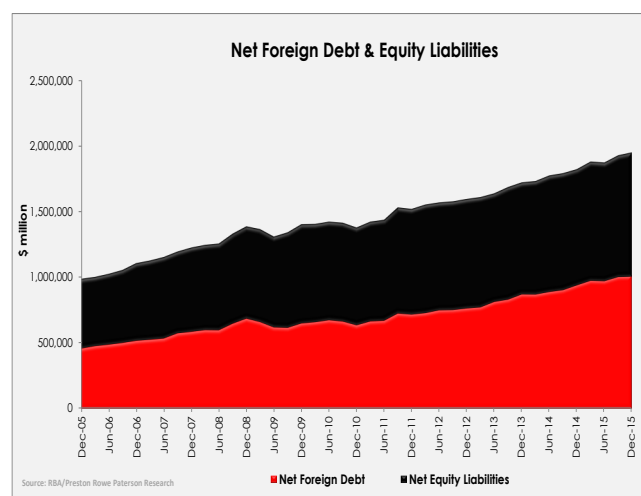


Chart 17 – Net Foreign Debt & Equity Liabilities – Current Account — Source RBA

## Our Research

At Preston Rowe Paterson, we pride ourselves on the research which we prepare in the market sectors within which we operate. These include Commercial, Retail, Industrial, Hotel & Leisure and Residential 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 & revaluations
- Litigation support
- Marketing & development strategies
- Mortgage valuations
- Property Management
- Property syndicate valuations and re-valuations
- Rating and taxing objections
- Receivership, Insolvency and liquidation valuations and support/advice
- Relocation advice, strategies and consultancy
- Rental assessments and determinations
- Sensitivity analysis
- Strategic property planning

## 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 2016 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.

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