



**Preston  
Rowe  
Paterson**

National Property Consultants

# Economic *Report*

## Australia

### About This Report

The PRP Economic Report provides an analysis of the Australian Economy based on various economic indicators and information provided in the December 2013 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 104.8 in December 2013, an increase of 0.80% over the quarter.
- The 10 year bond rate as at December 2013 is 4.24% with 90 day bank bill rate at 2.61%.
- RBA left the cash rate unchanged at 2.50% .
- AUD\$ declined slightly to \$0.8948 US in December 2013.

### December Quarter 2013

#### INSIDE THIS ISSUE:

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



Phone: +61 2 9292 7400

Fax: +61 2 9292 7403

Address: Level 11, 80 Clarence Street Sydney NSW 2000

Email: [mailroom@prpsydney.com.au](mailto:mailroom@prpsydney.com.au)

Follow us: Visit [www.prpsydney.com.au](http://www.prpsydney.com.au) to follow us

© Copyright Preston Rowe Paterson NSW Pty Limited

## Inflation and Investor Sentiment

### Consumer Price Index

According to the Australian Bureau of Statistics category 6401.0 Consumer Price Index (December 2013), the Australia's All Groups CPI increased by 0.8% over the quarter to December 2013 from 104.0 to 104.8 in comparison to December 2012, Australia's All Groups CPI has increased by 2.8 index points which reflects annual growth of 2.75%.

The most marked price rises over the December quarter were for fruit (+8.1%), vegetables (+7.1%), domestic holiday travel and accommodation (+6.9%), international holiday travel and accommodation (+2.6%), tobacco (+2.2%) and new dwelling purchase by owner-occupiers (+1.0%). The most significant price fall over the December 2013 quarter was attributed to automotive fuel, declining by 1.1%.

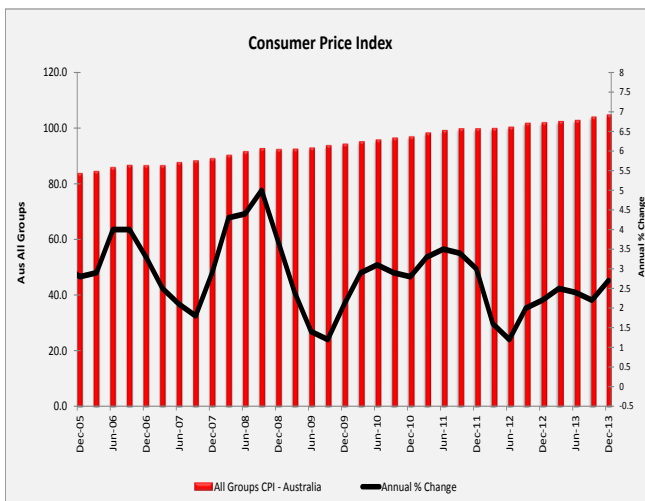


Chart 1 - CPI - Source ABS

The Housing Group increased by 0.5% over the December quarter, the new dwelling purchases by owner-occupiers contributing most to the growth with a 1% quarterly increase. In comparison to December 2012, the housing growth has recorded growth of 4.3%. The main contributors to this annual increase were electricity, new dwelling purchase by owner-occupiers and rents recording growth of 6.3%, 4.1% and 3% respectively.

The Recreation and Culture Group recorded the most significant quarterly growth of 2.1% over the December quarter. The main contributors to the rise were domestic holiday travel & accommodation and international holiday travel & accommodation with growth of 6.9% and 2.6% respectively. In comparison to December 2012, the recreation and culture group recorded growth of 2.4%.

The Insurance and financial services group recorded marginal growth of 0.2% over the December quarter 2013, with the main contributor to the rise being other financial services, increasing by 0.4%. In comparison to December 2012, the insurance and financial services group recorded growth of 1.6%, with other financial services and insurance recording the most marked growths of 2.3% and 1.0% respectively.

### Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index declined by 4.8% in December from 110.3 in November to 105.0 in December. Over the quarter the index has declined by 5.6 index points, a decline of 5.06%. In comparison to December 2012, the index has increased by 5 index points reflecting a 4.97% increase.

Over the year of 2013 the Consumer Sentiment index remained above 100 in all months apart from May, when it experienced the of 97.6. For the month of December, Westpac's Chief Economist, Bill Evans, commented that "This is the lowest level of the index since July this year. It is 4.3% below the average print for the last 3 months which covered the post-election period and the time of most euphoria around house prices".

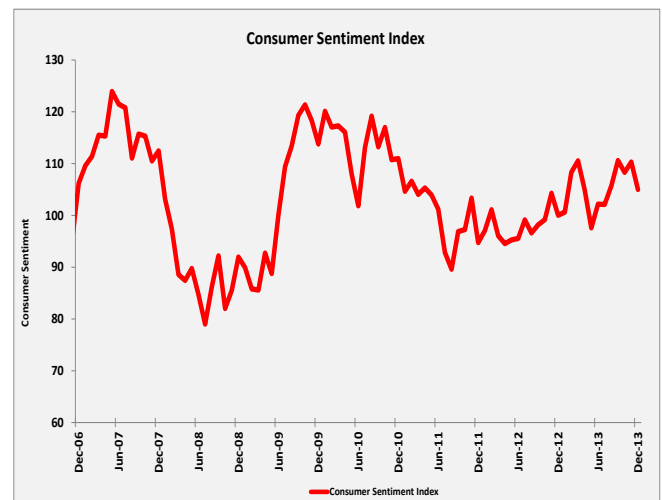


Chart 2—Consumer Sentiment Index—Source—Westpac Melbourne Institute Survey

### NAB Business Confidence

Business Confidence increased by 8 points in the month of September to reach its highest level in 3 ½ years at +12, to be 17 points higher than its most recent trough in July.

According to the NAB Monthly Business Survey, 'business confidence has reached its highest level in 3 ½ years. Business conditions are still subdued, with poor unemployment. However there are signs of better conditions in the finance, business, property and construction industries'.

Business confidence recorded positive results across the majority of industries, the first time in 2 ½ years. The most marked gains in September attributed to recreation and personal services by 15 points to +15. Mining and retail firms also rose by 11 points each. Transport and utilities was the only industry to record a decline over the month of 2 points.

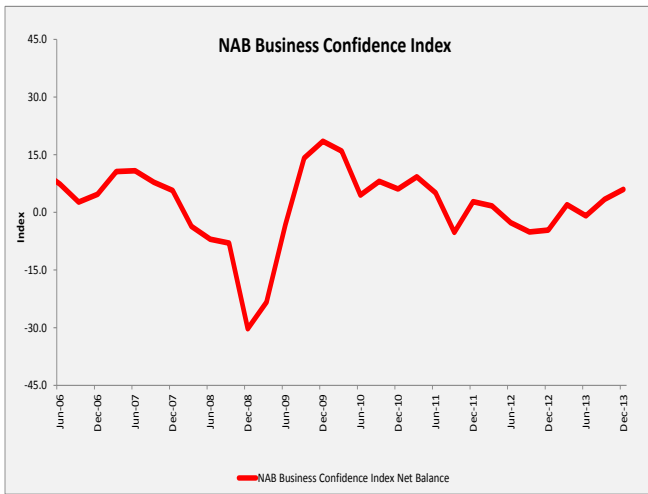


Chart 3 – NAB Business Confidence Index – Source RBA

## Bond Market

### 10 Year Bond & 90 Day Bill Rate

Over the twelve months to December 2013, the 10 year bond rate has increased by 99 basis points to 4.24%. The 90 Day Bill rate declined by 50 basis points from 3.11% to 2.61%. Over the December 2013 quarter, 10 year bonds increased by 24 basis points.

The 90 Day Bill Rate recorded marginal growth over the December quarter, remaining unchanged in October, increasing by 1 basis point in November and 2 basis points in December.

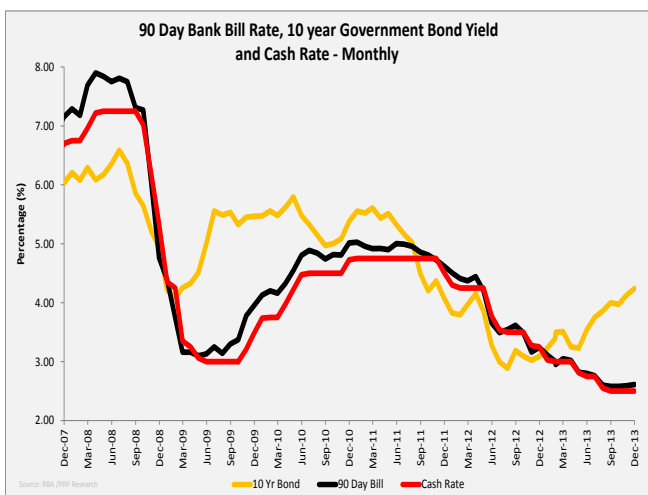


Chart 4 – 90 Day Bill, 10 year bond and cash rate - MONTHLY – Source RBA

Analysis of 10 year Government Bonds has revealed an increase of 11 basis points over the month of December 2013 with the 10 year bond rate currently at 4.24%. 90 Day Bill rates revealed an increase of 2 basis points over the month of December. The changes in both 10 year bonds and the 90 day bill rate reflect a yield spread of 163 basis points.

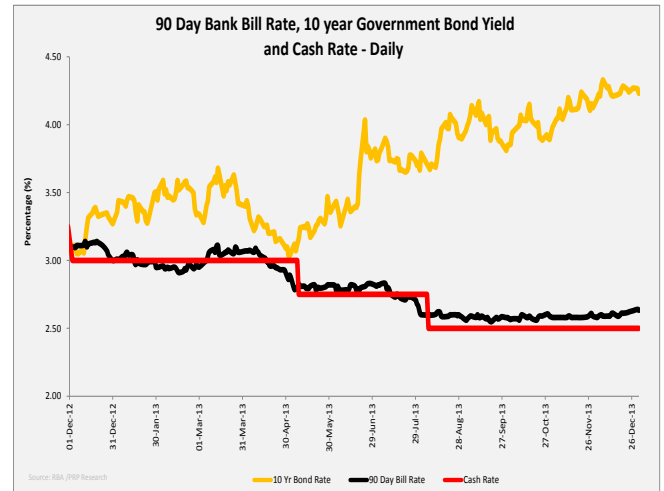


Chart 5 – 90 Day Bill, 10 year bond and cash rate – DAILY – Source RBA

## Interest Rates

### Interest Rate Movements

As at the date of publishing, the official Cash Rate over the December quarter 2013 remained unchanged at 2.50%. The cash rate has remained unchanged since September and is recording its lowest level since the RBA began recording data. At the Board's meeting in December, the RBA's Governor Glenn Stevens stated;

*"In Australia, the economy has been growing a bit below trend over the past year and the unemployment rate has edged higher. This is likely to persist in the near term, as the economy adjusts to lower levels of mining and investment. Further ahead, private demand outside the mining sector is expected to increase at a faster pace, though considerable uncertainty surrounds this outlook. There has been an improvement in indicators of household and business sentiment recently, but it is still unclear how persistent this will be. Public spending is forecast to be quite weak."*

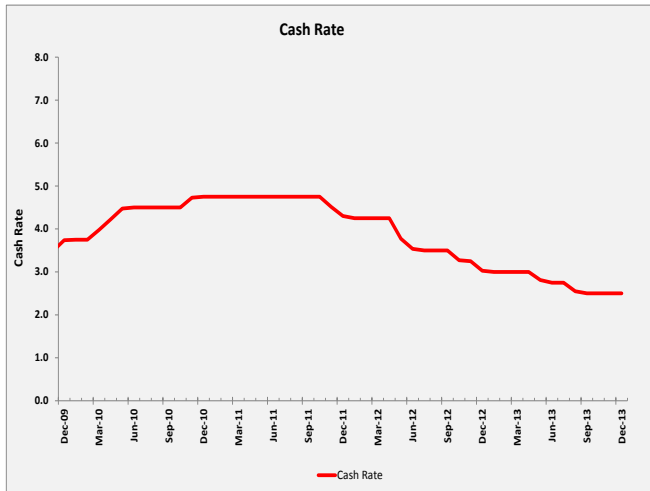


Chart 6 –Cash Rate – Source RBA

Since December 2012, home loan interest rates have declined by 0.5% to 5.95% at December 2013. The bank standard variable rate has remained unchanged at 5.95% since August 2013 in line with the cash rate, which has declined 0.05% since August. The cash rate remained unchanged over the December quarter which reflects banks leaving the variable rates unchanged.

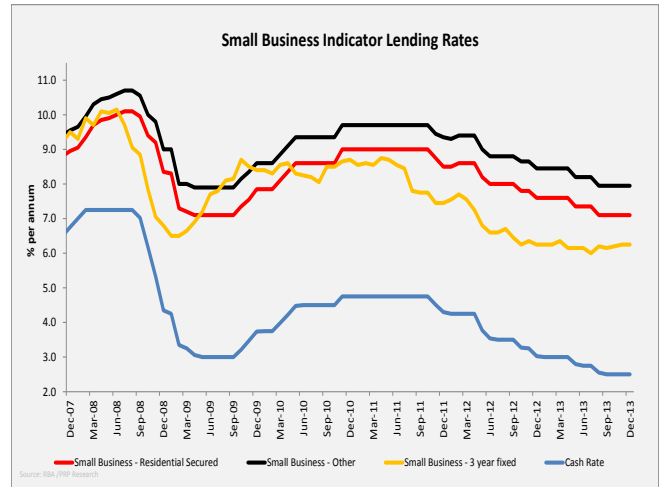


Chart 8 –Small Business Indicator Lending Rates – Source RBA

## Exchange Rates & Equity Markets

### Australian Exchange Rates

Over the month of September 2013, the Australian Dollar declined slightly against the US Dollar, from \$0.9087 in November 2013 to \$0.8948 in December 2013. Comparison of the month of December in 2012 revealed that the \$AUD has declined by \$0.144 from \$1.0384 to \$0.8948, reflecting an annual decline of 13.83%.

The Australian Dollar recorded similar results against other currencies of; Euro and UK Pound Sterling with monthly declines of 2.9% and 2.2% respectively. The Japanese Yen was the only major currency analysed which recorded an increase over the month of December of 1.1%.

Year on year results saw the Australian Dollar only increase with the Japanese Yen by 5.02%, increasing from 89.46 in December 2012 to 93.95 in December 2013. The other major currencies of USD, Euro and UK Pound Sterling recorded declines over the twelve months to December 2013 of 13.83%, 15.54% and 17.58% respectively.

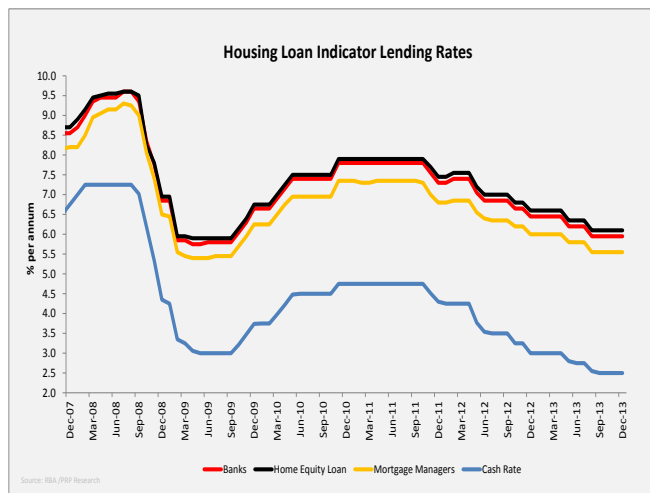


Chart 7 –Housing Loan Indicator Lending Rates – Source RBA

The small business residential secured loans remained unchanged over the December quarter at 7.10%. Over the past twelve months there has been a decline of 0.50 percentage points in the residential secured loans interest rates which is in line with the RBA's rate cuts. Small Business Fixed 3 Year Interest Rates increased by 0.05% over the December quarter to 6.25%. In comparison to December 2012, small business fixed 3 year interest rates remained unchanged.

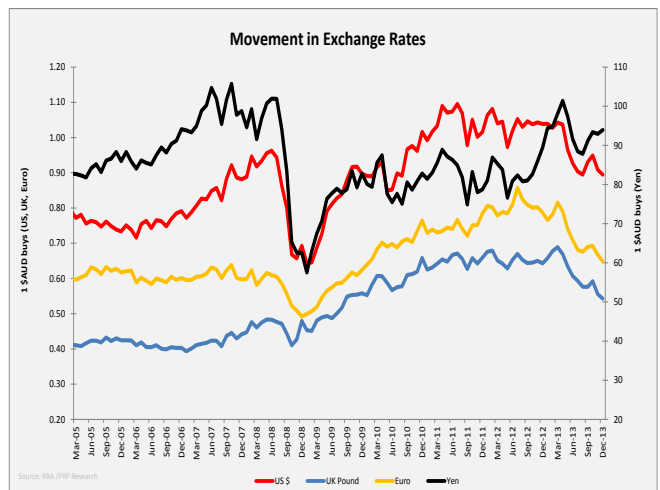


Chart 9 –Movement in Exchange Rates – Source RBA

## Share price Indices

The S&P ASX 200 Index recorded 418.2 Index Points at December 2013, a 0.6% increase over the month. Over the twelve months to December 2013, the S&P ASX 200 has recorded growth of 15.1% increasing by 54.9 Index Points. Over the year of 2013, the S&P ASX 200 recorded its highest level in the month of October (423.9) since 2007.

The US S&P 500 recorded a growth of 9.92% over the three months to December 2013 as the Index recorded 559.7 Index Points. Year on year analysis to December revealed growth of 127.8 index points reflecting a percentage increase of 29.6%.

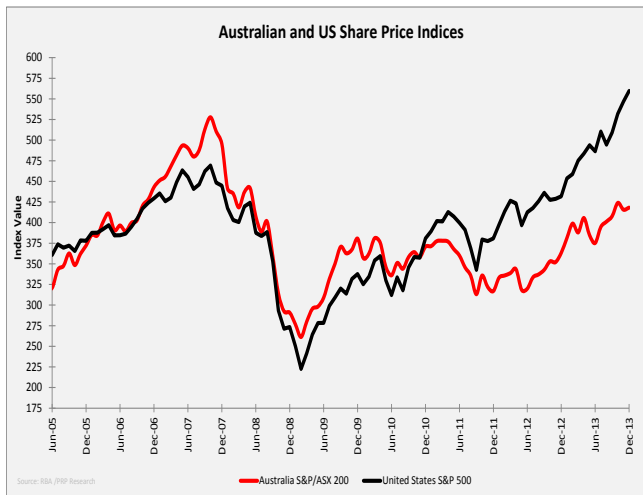


Chart 10 – Australian and US Share Price Indices – Source RBA

## Industrials, All Ordinaries and Property Trust Index Values

The December 2013 quarter saw the All Ordinaries Index increase by 2.59% from 5217.74 Index Points in September 2013 to 5353.08 in December 2013, an increase of 135.34 Index Points. The All Ordinaries Index has recorded annual growth to December of 14.8%, which reflects an increase of 688.49 Index Points.

The Industrial Index recorded growth over the December quarter of 0.02%, an increase of 0.99 index points. Over the year, there was annual growth of 11.7% which reflected an increase of 417.22 Index Points to close at 3,968.9 Index Points as at December 2013. The ASX Property Trust Index recorded 1.1% annual growth, increasing by 11.08 index points over the year, and experiencing a 3.31% decline over the December quarter, closing at 984.91 Index Points as at December 2013.

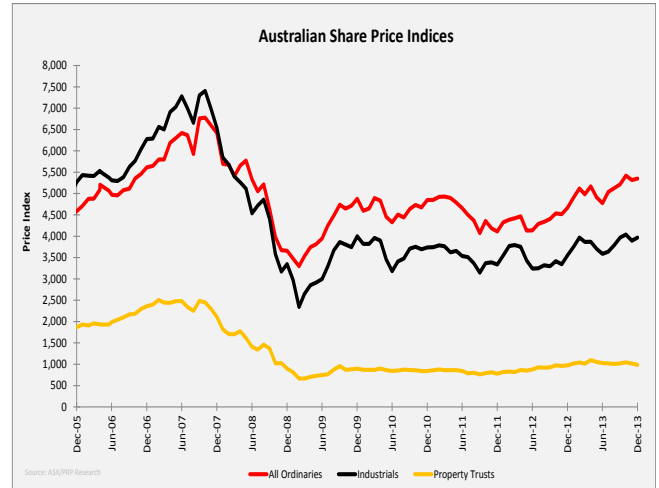


Chart 11 – Australian Share Price Indices – Source ASX

## Gross Domestic Product

### GDP

GDP figures for the December quarter are not available until the 5th March 2014 however PRP Research over the September 2013 quarter revealed that the Australian economy grew by 0.6% seasonally adjusted. In comparison to the September quarter 2012, growth of 2.3% was recorded.

Over the September quarter, the main contributors to expenditure on GDP were Public Gross fixed capital formation (1.3%), which measures the value of acquisitions of new or existing fixed assets by the business, government and household sectors less the disposals of fixed assets.

Gross fixed capital formation reflects how much of the new value added in the economy is invested rather than consumed. Net exports were also a main contributor, increasing by 0.7 percentage points over the quarter. The main contributors to GDP over the quarter, in seasonally adjusted terms, were mining which increased by 2.7% and construction, increasing by 1.1%.

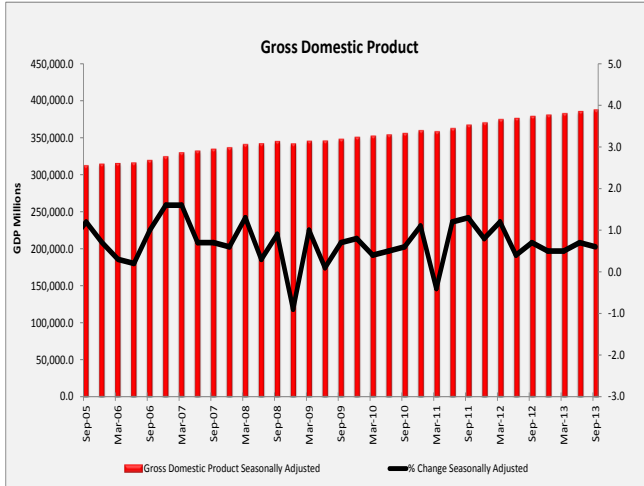


Chart 12 – GDP– Source ABS

According to the ABS September quarter GDP release, the Terms of Trade represent the relationship between the prices of exports and imports. An increase (decrease) will indicate that export prices are increasing (decreasing) at a faster rate than import prices. Over the September quarter 2013 the terms of trade declined by 3.3%, reflecting an annual decline of 3.6% in comparison to September 2012.

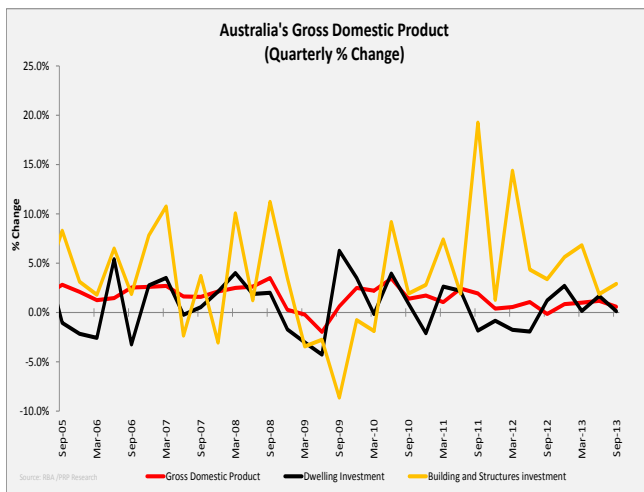


Chart 13 – Australia's GDP (Quarterly % Change) - Source ABS

## Labour Force

### Unemployment

Over the month to December 2013, the number of unemployed persons increased by 8,001 from 713,984 in November to 721,985 in December reflecting a 1.12% increase over the month. In comparison to December 2012, there was a 9.5% increase in unemployed persons, reflecting an increase of 62,615 people.

Employment over the month to December 2013 declined by 22,613 from 11,652,089 in November to 11,629,475 in December reflecting a percentage decline of 0.19%. Over the year to December 2013, the total number of employed persons increased by 54,565 reflecting a percentage growth of 0.47%.

Employment over the month to December recorded a decline of 31,571 persons from 8,099,264 in November to 8,067,693 in December, reflecting a percentage decline of 0.39%. In comparison to December 2012, there was growth of 0.44% which was an increase of 35,906 persons. The unemployment rate remained unchanged over the month of December at 5.8% due to the minor increase in unemployed persons. In comparison to December 2012, there has been a 0.4% increase.

The number of unemployed seeking full time employment increased over the month by 13,273 persons to 532,372, reflecting a percentage increase of 2.56%. The number of unemployed seeking part time employment declined by 5,273 persons over the month to December to 189,613 reflecting –2.71%.

The participation rate recorded a slight decline of 0.2 percentage points over the month to December to 64.6%, with year on year comparison revealing a 0.7% decline. In seasonally adjusted terms over the month to December 2013 the aggregate number of hours worked increased by 600,000 to a total of 1.634 billion hours. This reflects a percentage increase of 0.04%.

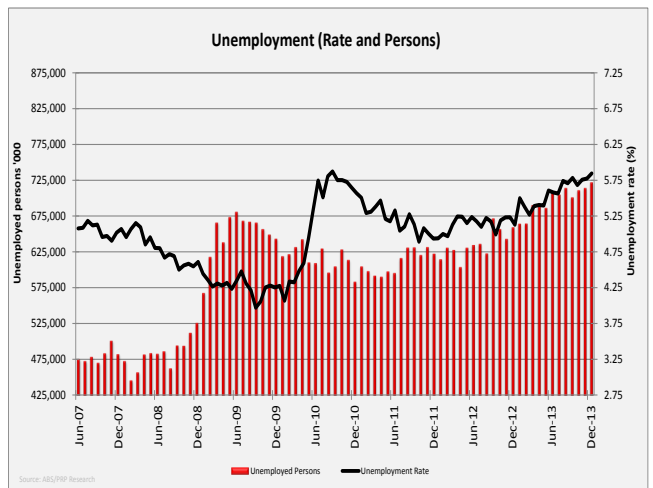


Chart 14 – Unemployment (Rate and Persons) - Source RBA

### Wage Price Index

As at the date of publishing, data for the December quarter is unavailable, however according to the Australian Bureau of Statistics the Wage Price Index rose by 0.52% over the September quarter, and reflects growth of 2.74% in comparison to the September quarter of 2012. Both the public and private sectors recorded growth over the quarter of 0.5% and 0.7% respectively. Comparison of the September 2012 quarter revealed growth in the public and private sectors wage price index of 2.6% and 2.8% respectively.

Analysis of the States and Territories Wage Price Index revealed the most marked growth in the private sector attributed to South Australia (1.6%), and New South Wales, Victoria, Western Australia and the Northern Territory recorded a quarterly rise of 0.9%. In comparison to September 2012, the private sector recorded rises ranging from 2.4% for Tasmania to 3.5% for South Australia.

In the public sector, the Australian Capital Territory recorded the largest quarterly rise in the wage price index over the quarter of 1.6%. The smallest rise over the quarter was experienced by Queensland with 0.4%. In comparison to the September quarter 2012, Western Australia recorded the most marked growth of 4.1%, with New South Wales recording the smallest annual growth of 2%.

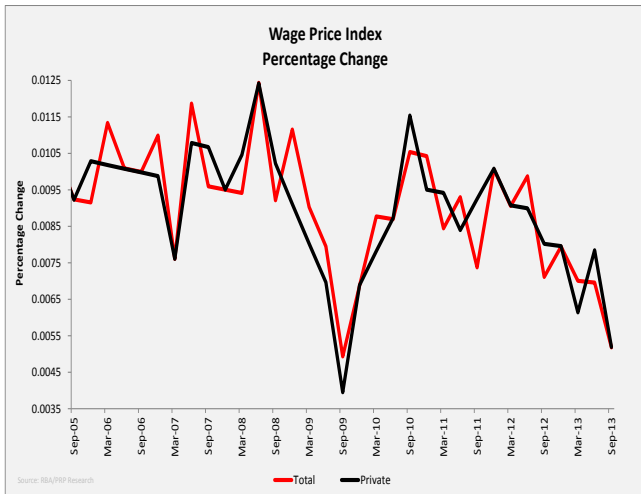


Chart 15 – Wage Price Index - Source RBA

## Balance of Payments

### Current Account Balance

Data for the December 2013 quarter is not available until the 4th March 2014, however over the September quarter, Australia's Current Account Deficit increased by \$619 million to current account balance of \$12.71 billion reflecting a percentage increase of 5.12%. In comparison to the September quarter of 2012, there has been a 22.5% decline in Australia's Current Account Deficit, reflecting a decrease of \$3.689 billion.

Export earnings increased by 3.5% over the September quarter to \$66.916 billion, whilst year on year analysis revealed growth of 10.9%. Total imports over the quarter recorded an increase of 3.8% to \$66.819 billion and in comparison to the September quarter of 2012, growth of 3.7% was experienced.

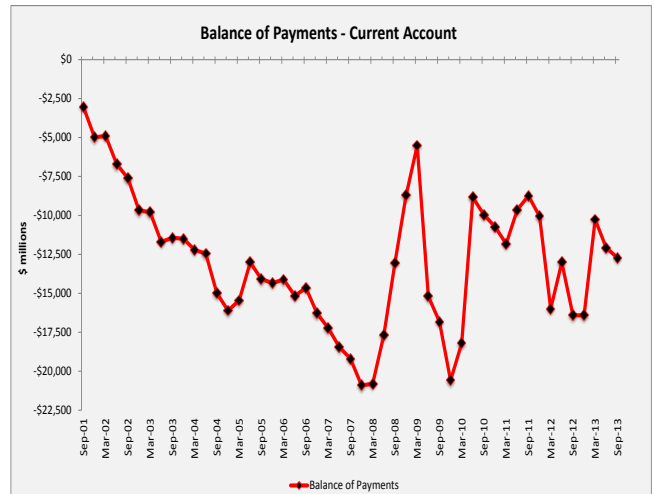


Chart 16 – Balance of Payment Current Account Deficit - Source RBA

## International Investment Position

Data for the December quarter is unavailable as at the date of publishing, however over the September 2013 quarter Net Foreign Debt increased by \$36.23 billion to \$829.062 billion. This growth reflected a quarterly percentage increase of 4.6%. In comparison to the September quarter 2012, Net Foreign Debt has increased by 11.1%.

Net Equity Liabilities recorded an increase over the quarter of \$6.632 billion, reflecting 34.5%. In comparison to the September 2012 quarter, Net Equity Liabilities have declined by 67.1% to \$25.084 billion. As at the September quarter 2013, total international investment (NFD + NFL) is now \$854.866 billion, reflecting increases of 5.3% over the quarter and 3.7% over the year.

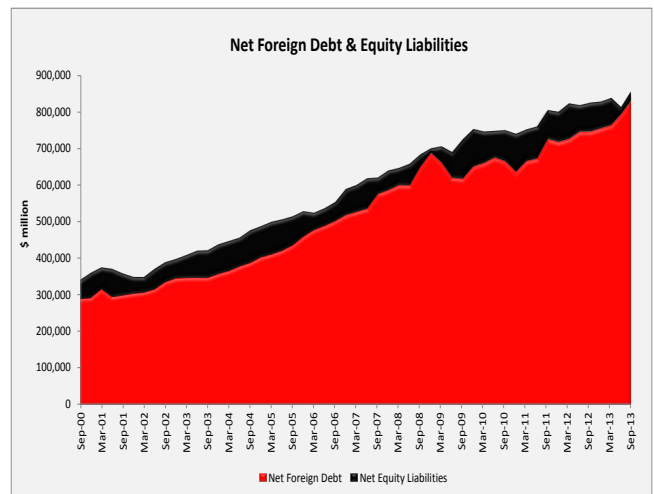


Chart 17 – NFD & Equity Liabilities – Current Account—Source RBA

## Our Research

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

## We have *property* covered

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

## We have all *real estate* types covered

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

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

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

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

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

## We have all *client profiles* covered

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

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



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

From our central office location within the Sydney Central Business District we serve our clients' needs throughout the Sydney CBD, greater Sydney metropolitan area, throughout the state of New South Wales. For special purpose real estate asset classes, infrastructure, and plant & machinery we operate throughout Australia and globally either directly or through our relationship offices.

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

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

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

### Sydney (Head Office)

Level 11, 80 Clarence Street  
Sydney NSW 2000

PO BOX 4120, Sydney NSW 2001

P: 02 9292 7400

F: 02 9292 7403

E: [mailroom@prpsydney.com.au](mailto:mailroom@prpsydney.com.au)

W: [www.prpsydney.com.au](http://www.prpsydney.com.au)

Follow us:



#### Preston Rowe Paterson NSW Pty Ltd

**ACN: 61 003 139 188**

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

### Directors

#### Greg Preston

M: 0408 622 400

E: [greg.preston@prpsydney.com.au](mailto:greg.preston@prpsydney.com.au)

#### Greg Rowe

M: 0411 191 179

E: [greg.rowe@prpsydney.com.au](mailto:greg.rowe@prpsydney.com.au)

### Associate Directors

Ben Greenwood

M: 0448 656 103

E: [ben.greenwood@prpsydney.com.au](mailto:ben.greenwood@prpsydney.com.au)

Neal Smith

M: 0448 656 647

E: [neal.smith@prpsydney.com.au](mailto:neal.smith@prpsydney.com.au)

Michael Goran

M: 0448 757 134

E: [michael.goran@prpsydney.com.au](mailto:michael.goran@prpsydney.com.au)

Ben Toole

M: 0448 886 335

E: [ben.toole@prpsydney.com.au](mailto:ben.toole@prpsydney.com.au)

### Capital City Offices

Adelaide

Brisbane

Melbourne

Sydney

### Regional Offices

Albury Wodonga

Ballarat

Bendigo

Cairns

Central Coast/Gosford

Geelong

Gold Coast

Gippsland

Mornington

Newcastle

Wagga Wagga

### Relationship Offices

Canberra

Darwin

Hobart

Perth

Other regional areas