



Preston
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International Property Consultants

Economic Report

Australia

HIGHLIGHTS

- All Groups CPI was recorded at 108 in September 2015, an increase of 0.5% over the quarter.
- The monthly 10 year bond rate as at September is 2.7% with 90 day bank bill rate at 2.17%.
- Cash rate remain unchanged at 2%.
- AUD\$ exchange rate has decreased to \$0.7010 US in September.
- The latest figures on the Australian GDP has revealed a 0.2% quarterly growth, reflecting a 2% growth over the year to June 2015.

September Quarter 2015

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INFLATION AND INVESTOR SENTIMENT

Consumer Price Index

According to the Australian Bureau of Statistics (September 2015), the Australia's All Groups CPI increased by 0.5% over the September quarter from 107.5 to 108. The annual CPI change to September 2015 recorded a growth of 1.5%.

The most significant price rises over the September quarter were International holiday travel and accommodation (+4.6%), Fruit (+8.2%) and Property rates and charges (+4.6%). The greatest price fall over the quarter was attributed to are Vegetables (-5.9%), Telecommunication equipment and services (-2%) and Automotive fuel (-1.7%).

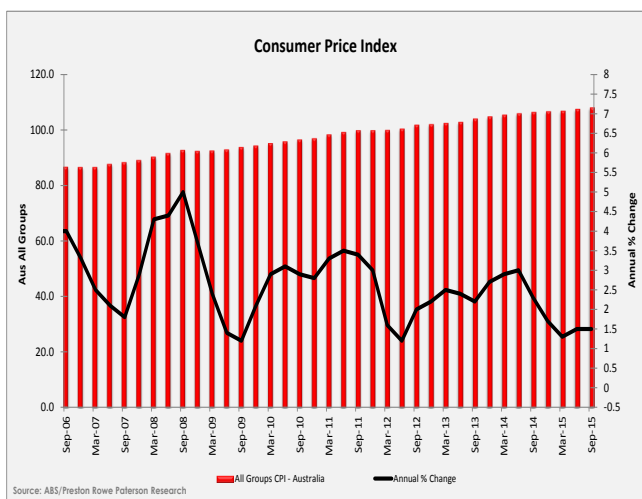


Chart 1 – CPI – Source ABS

The housing group has increased by 0.6% over the September quarter. The main contributors to the price rise were in Property rates and charges, and New dwelling purchase by owner-occupiers recording a growth of 4.6% and 0.7% respectively. Over the twelve months to September, the housing group recorded growth of 2.7% which was backed by the 4.3% annual growth in New dwelling purchases by owner-occupiers and a 1.5% rise in Rents.

The Furnishings, household equipment and services group recorded an increase of 0.8% over the quarter. The main contributors to the growth was Household textiles (+5.3%) and Childcare (+4%).

The Insurance and financial services group increased by 0.5% over the quarter. The main contributor to the rise was Insurance (+1.1%). Through the year to September the insurance and financial services group rose 2%, with Other financial services contributing to the growth by a 2% increase.

Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index fell by 5.6% from 99.5 index points in August to 93.9 index points in September. Over the quarter the index has decreased by -1.4 points and recorded a -0.11% annual decline.

Westpac's Economist, Bill Evans commented: "This solid fall comes as no surprise...violent gyrations in both Australian and overseas equity markets, poor economic data from China, disappointing report on Australia's growth rate and weakness in the Australian dollar were likely to have unnerved households."

Other factors that contributed to the low consumer sentiment include household finance, housing market, unemployment rate and interest rate.

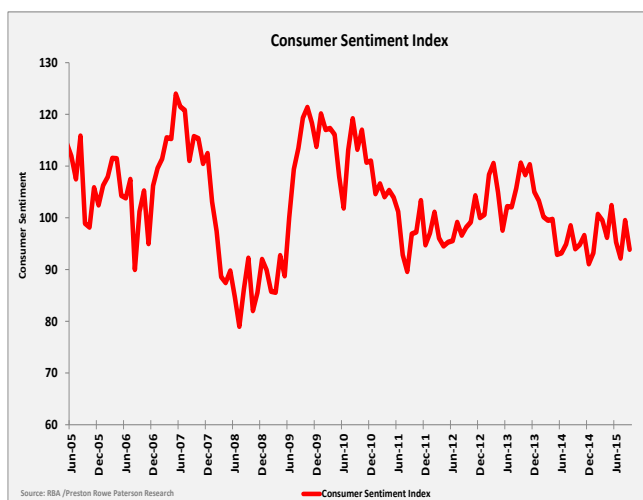


Chart 2—Consumer Sentiment Index—Source—Westpac Melbourne Institute Survey

NAB Business Confidence

Business Confidence had increased by 4 points to +5 points in the month of September. According to the NAB Monthly Business Survey:

"Business conditions held steady in September...employment is finally improving...in contrast trading conditions and profitability eased back although they remain at elevated levels. Service sectors continue to outperform while mining and manufacturing were the only industries to report negative business conditions...Business confidence recorded a partial recovery in September...It is not clear to what extent this reflects the change in leadership of the Liberal Party, as solid business conditions and some dissipation of financial market jitters may have also contributed to the result. Not all industries saw a lift in confidence, however, with the improvement largely concentrated in transport/ utilities and personal services...unsurprisingly mining firms were least confident."

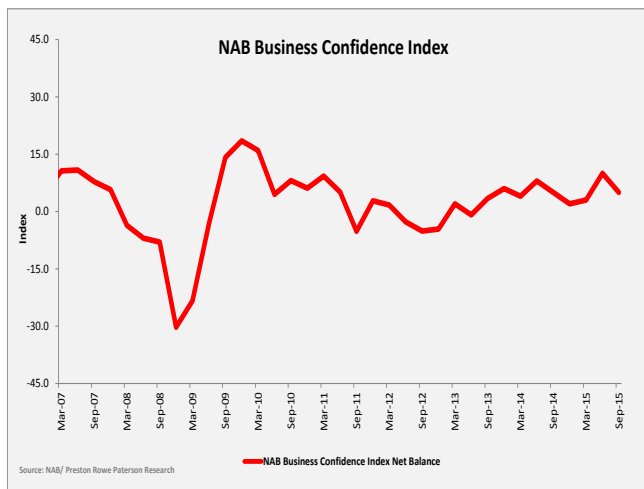


Chart 3 – NAB Business Confidence Index – Source NAB

BOND MARKET

10 Year Bond & 90 Day Bill Rate

Over the September 2015 quarter, the 10 Year Government Bonds recorded a decline of 29 basis points from 2.7%. The 90 Day Bill Rate recorded a 2 basis points growth over the quarter from 2.17%.

In the twelve months to September 2015, the monthly 10 Year Bond Rate has decreased by 86 basis points from 3.55%. Similarly, the monthly 90 Day Bill Rate fell by 49 basis points from 2.66%.

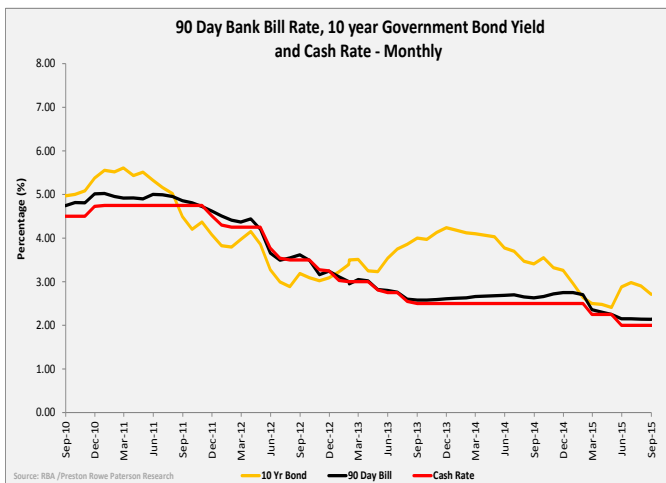


Chart 4 – 90 Day Bill, 10 year bond and cash rate - MONTHLY – Source RBA

Analysis of the daily 10 Year Government Bonds has revealed a decrease of 2 basis points over the month of September ending to 2.61%. The 90 day bill rates had increased by 3 basis points to the month end of 2.19%. The changes in both 10 year bonds and the 90 day bill rate reflect a yield spread of 23 basis points.

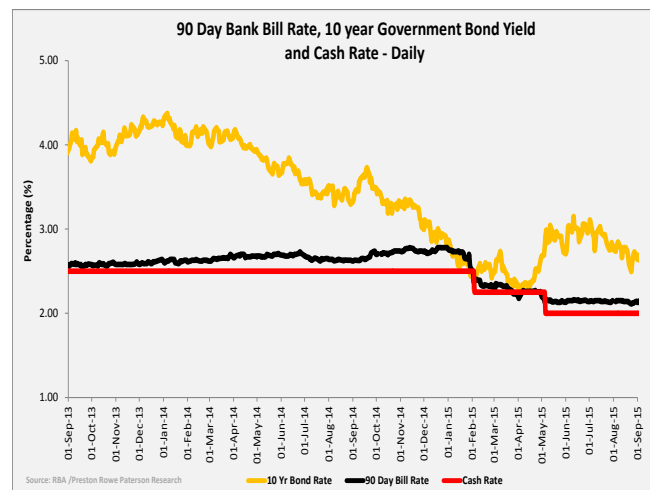


Chart 5 – 90 Day Bill, 10 year bond and cash rate – DAILY – Source RBA

INTEREST RATES

Interest Rate Movements

As at the date of publishing, the official Cash Rate over the September quarter 2015 has remain steady at 2%. The Reserve Bank of Australia's Media Release for September 2015, released 1st September 2015 explained that;

"The global economy is expanding in a moderate pace, with some further softening in conditions in China and east Asia of late, but stronger US growth. Key commodity prices are much lower than a year ago, in part reflecting increased supply, including Australia. Australia's terms of trade are falling...In Australia the available information suggests moderate expansion in the economy continues. While growth has been somewhat below long-term averages for some time, it has been accompanied with somewhat stronger growth of employment and steady rate of unemployment over the past year. Overall the economy is likely to be operating with a degree of spare capacity for some time yet, with domestic inflationary pressures contained. Inflation is thus forecast to remain consistent with the target over the next one to two years, even with a lower exchange rate."

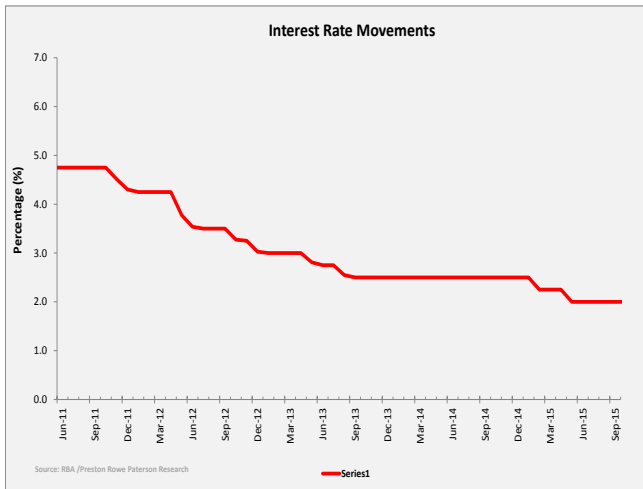


Chart 6 – Cash Rate – Source RBA

Over the September quarter The Banks' lending rates remain unchanged in line with the relatively stable cash rate since May at 5.45% whilst the Home equity loan and Mortgage managers loan rates increased by 5 basis points each to 5.65% and 5.25% respectively.

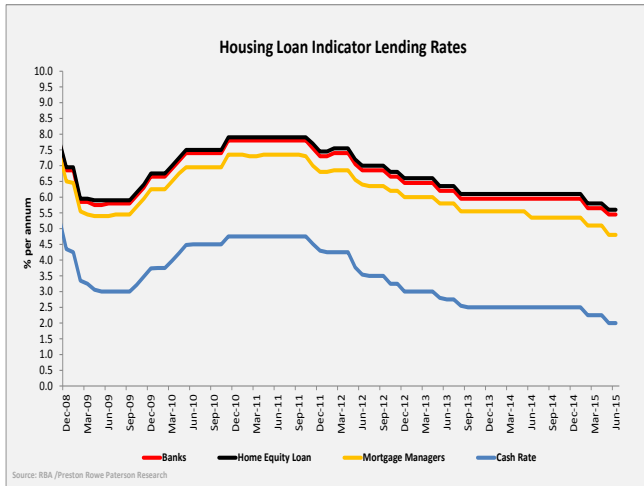


Chart 7 – Housing Loan Indicator Lending Rates – Source RBA

Over the September quarter the Small business residential secured and Small business other loans rates remain unchanged at 6.6% and 7.45% respectively. The Small business fixed 3 year rates had decreased by 5 basis points over the quarter to 5.35%.

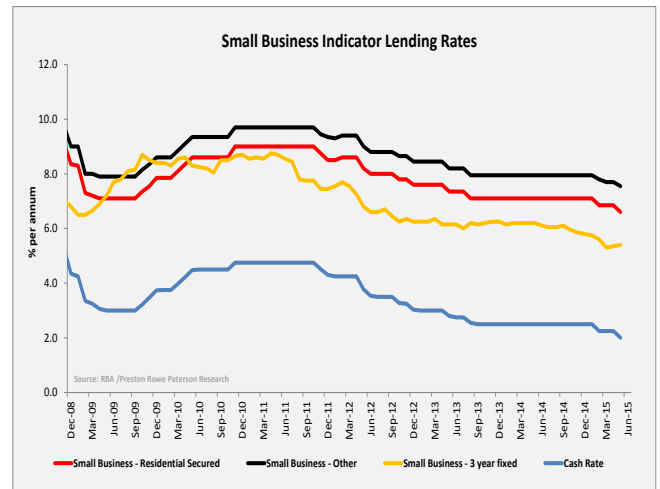


Chart 8 – Small Business Indicator Lending Rates – Source RBA

EXCHANGE RATES & EQUITY MARKETS

Australian Exchange Rates

Over September quarter 2015, the Australian Dollar decreased slightly against the US Dollar, falling from \$0.7149 in August to \$0.7010 in September. Over the twelve months to September, the Australian dollar has decreased by -19.9% from \$0.8752 USD.

The Australian Dollar also recorded a quarterly decline against the British Pound, Euro and the Japanese Yen. The Australian Dollar exchange rates against the Pound, Euro and Yen fell by -0.2%, -1.9% and -2.9% respectively.

Year on year analysis saw the Australian Dollar decline against the British Pound by -5.4% to £0.4623, -9.2% in the Euro to €0.6236 and -10.5% in the Yen to ¥84.05.

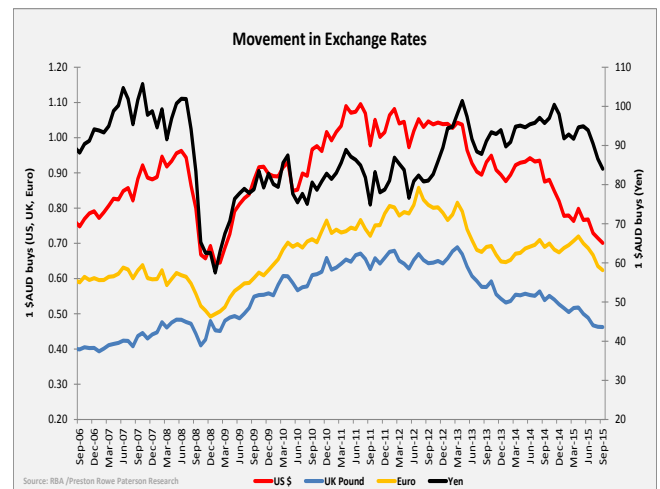


Chart 9 – Movement in Exchange Rates – Source RBA

Share price Indices

Over the September quarter, the S&P ASX 200 Index recorded an -8% decrease from 426.5 in June to 392.4 in September. Over the twelve months to September 2015, the S&P ASX 200 Index has recorded a decline of 5.1% tightening by -21.2 index points.

The US S&P 500 Index recorded a decline of -6.95% over the three months to September 2015 as the index reached 581.4. Year on year analysis to September revealed a decline of -15.9 index points, reflecting a decrease of -2.7%.

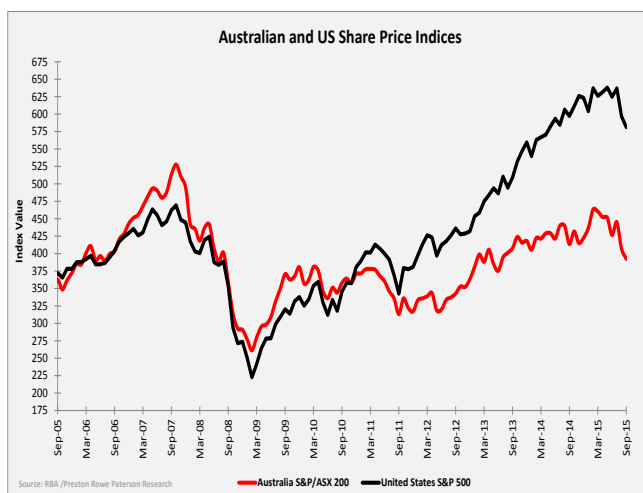


Chart 10 – Australian and US Share Price Indices – Source RBA

Industrials, All Ordinaries and Property Trust Index Values

The September 2015 quarter saw the All Ordinaries Index decrease by -7.2% from 5451.2 in June to 5058.6 in September. The year on year analysis has revealed the All Ordinaries Index decreasing by -4.5%, reflecting a decline of 238.15 index points.

The Industrial Index recorded a growth of 2.37% over the September quarter and reflected an annual growth of 15.6%. Since September 2014, there has been an increase of 626.48 index points to 4,635.77.

The ASX Property Trusts followed with an increase of 0.19% over the quarter. Similarly it experienced a growth of 14.6% to 1,237.82 over the twelve months to September 2015.

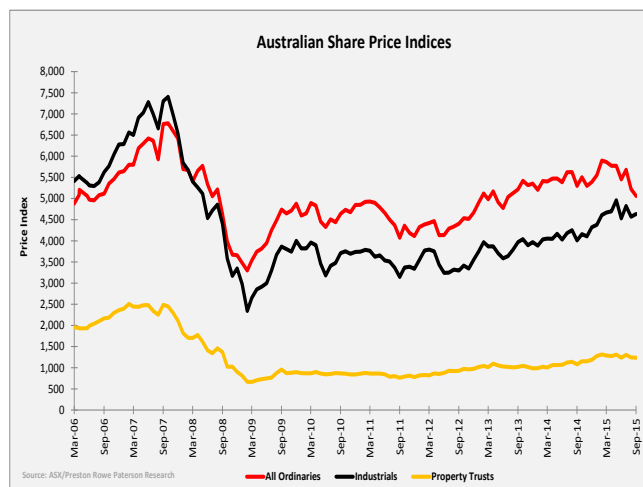


Chart 11 –Australian Share Price Indices – Source ASX

GROSS DOMESTIC PRODUCT

GDP

GDP figures for the September quarter 2015 are not available until the 2nd December 2015, however, over the June 2015 quarter revealed that the Australian economy recorded growth of 0.2% seasonally adjusted which reflected growth of 2% seasonally adjusted over the twelve months to June 2015.

The main contributors to expenditure on GDP were Final consumption expenditure which increased by 0.7% and Public gross fixed capital formation which increased by 0.2%. These were offset by the decrease in Net exports and Changes in inventories at -0.6% and -0.2% respectively.

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 Financial and insurance services (+0.6%), Information media and telecommunications (+0.3%) and Healthcare and social assistance (+0.3%). In trend terms, the largest detractor were the Professional, scientific and technical services (-0.1%) and Construction (-0.2%).

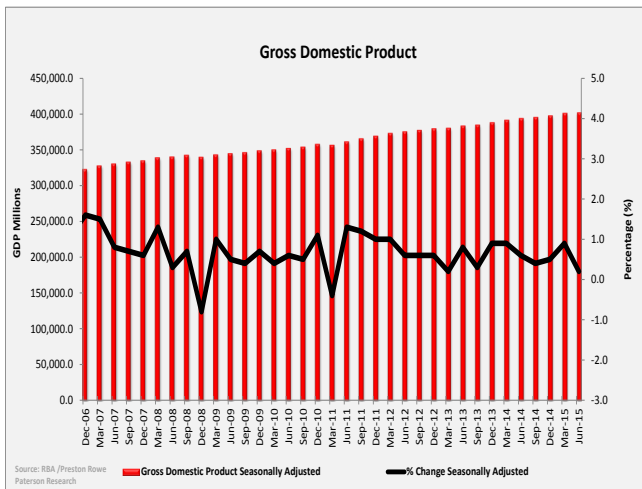


Chart 12 – GDP– Source ABS

The terms of trade had decreased by 3.4% in seasonally adjusted terms over the quarter. In the twelve months to September, the terms of trade has declined by -10.6%. 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.

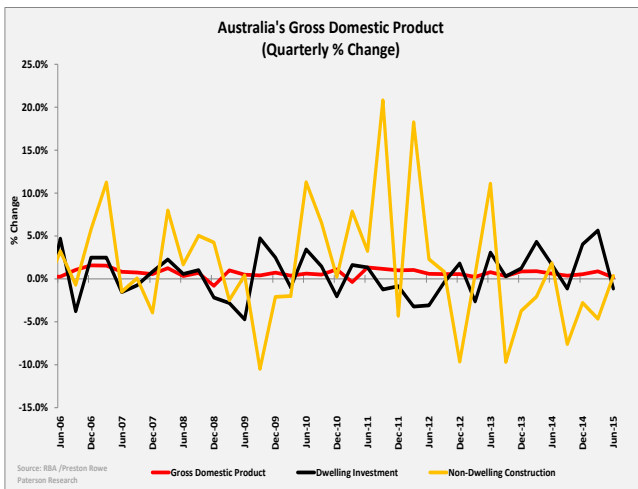


Chart 13 – Australia's GDP (Quarterly % Change) - Source ABS

LABOUR FORCE

Unemployment

Over the month to September 2015, the number of unemployed people has declined by 8,139 from 780,677 in August to 772,538 in September, reflecting a -1% decrease. In comparison to September 2014, the number of unemployed people had increased by 7,650 reflecting an annual increase of 1%. The unemployment rate was 6.2% as at September 2015.

Full time employment had decreased by 13,900 persons to 8,124,400 persons in September. Part time employment recorded an increase of 8,900 persons over the month to 3,645,500 persons.

The number of unemployed seeking full time employment recorded a decrease in September by 6,200 to 556,100 persons. The number of unemployed seeking part time employment recorded a decrease over the month by 2,200 to 216,500 persons.

The participation rate reported a marginal decrease of less than 0.2 points to 64.9%, with year on year comparison revealing a 0.3 percentage point increase.

The aggregate monthly hours worked had increased by 12.2 million hours to 1,638 million hours at a 0.7% growth.

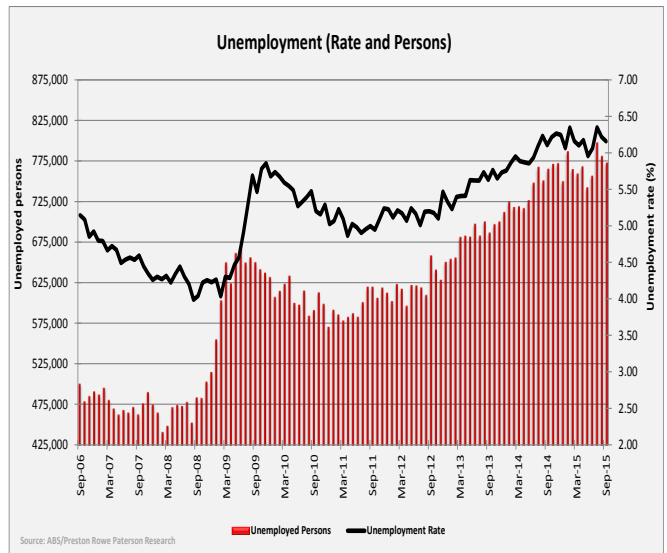


Chart 14 – Unemployment (Rate and Persons) - Source ABS

Wage Price Index

Data for the September quarter 2015 is not currently available, however the June quarter the seasonally adjusted total Wage Price Index rose by 0.6%, reflecting a seasonally adjusted growth of 2.3% in comparison to June 2014. The public and private sectors increased over the quarter by 0.5% and 0.7%, with through the year rises of 2.2% and 2.5% respectively.

Over the June 2015 quarter, Victoria recorded the highest annual wage growth of 0.7%. South Australia and Queensland recorded the smallest rise of 0.2%.

In the private sector, the Victoria and Western Australia experienced the highest quarterly growth of 0.7% whilst Queensland, South Australia and Western Australia recorded the smallest rise of 0.2%. Through the year rises in the private sector ranged from 1.8% for the Western Australia to 2.6% for Tasmania.

In the public sector, Tasmania and Western Australia recorded the highest quarterly growth of 0.6%. The Northern Territory experienced the smallest rise of 0.1%. The largest annual rise in the public sector was in Victoria at 3.3% and the smallest growth was recorded in Australian Capital Territory at 1.5%.

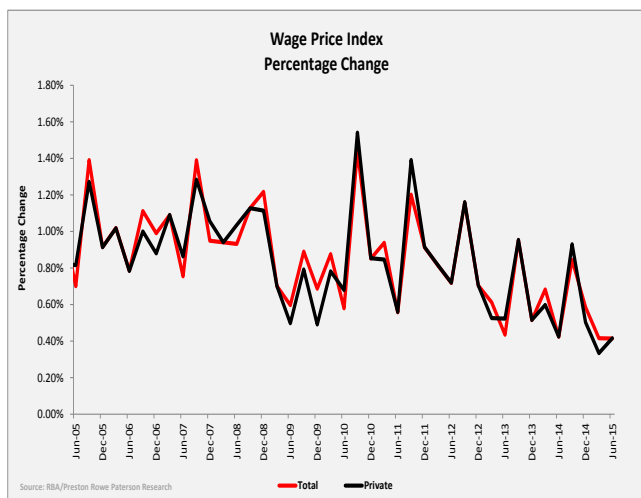


Chart 15 – Wage Price Index - Source ABS

BALANCE OF PAYMENTS

Current Account Balance

Data for the September quarter 2015 is not currently available however over the June quarter 2015, Australia's Current Account Deficit increased by \$5,532 million to current account balance of \$19,033 million in seasonally adjusted term which reflects a 41% quarterly increase. In comparison to June 2014, the current account balance deficit has increased by 33%.

Balance of goods and services surplus saw to a decrease of \$2,334 million over the June quarter and recorded a decline of 28% from \$8,321 million in March 2015. The primary net income deficit had increased by 9% to \$8,966 million in the June quarter.

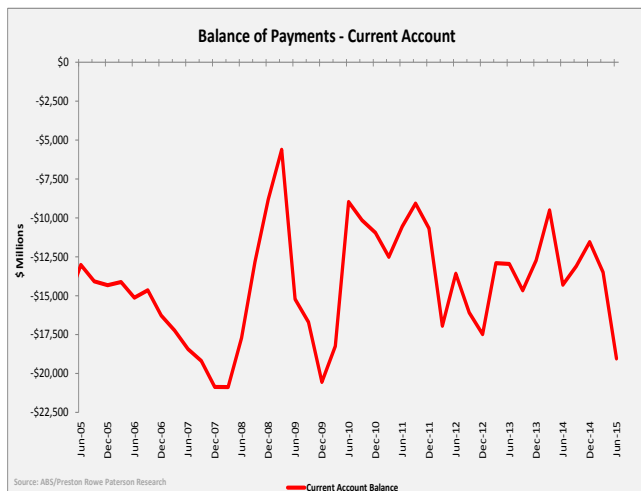


Chart 16 – Balance of Payment Current Account Deficit - Source ABS

International Investment Position

Data for the September quarter 2015 is not currently available however over the June 2015 quarter Net Foreign Debt decreased by -0.8% to \$976.056 billion. In comparison to June 2014, this is a 9.7% increase. Net Equity Liabilities recorded an increase of -4.5% over the quarter to \$70.060 billion, bringing total international investment (NFD + NFL) to \$905.996 billion, reflecting an annual percentage increase of 2.5%.

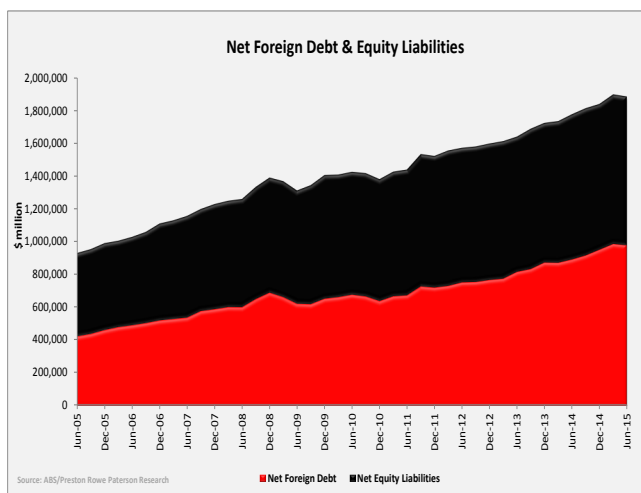


Chart 17 – Net Foreign Debt & Equity Liabilities – Current Account — Source RBA

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
- 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 & 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 September 2015 Statistics from the Reserve Bank of Australia. Our report provides a summary of current figures as well as providing historical data to give an indication of movements in the economy over recent years and to determine possible future trends.

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