



**Preston
Rowe
Paterson**

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International Property Consultants

Economic Report

Australia

HIGHLIGHTS

- Consumer Price Index (All Groups) was recorded at 108.6 in June 2016, reflecting an increase of 0.4% over the quarter.
- The monthly 10 year bond rate as at June is 2.12%, with 90 day bank bill rate at 1.99%.
- Cash rate decreased by 25 basis points to 1.75% in June.
- AUD exchange rate has depreciated to \$USD 0.7426 in June.
- Gross Domestic Product increased by 1.1% over the March quarter, reflecting an annual growth of 3.1% in year to March 2016.

June Quarter 2016

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INFLATION AND INVESTOR SENTIMENT

Consumer Price Index

According to the Australian Bureau of Statistics (June 2016), Australia's All Groups CPI increased by 0.4% over the June quarter from 108.2 to 108.6. The year to June 2016 saw an annual increase of 1.0%, the weakest annual growth in seventeen years (since June quarter 1999).

The most significant price rises over the June quarter were automotive fuel (+5.9%), hospital services (+4.2%), tobacco (+2.1%) and new dwelling purchases by owner-occupiers (+0.9%). The greatest price fall over the quarter derived from the decline in spending on domestic holiday travels and accommodation (-3.7%), motor vehicles (-1.3%), and telecommunication equipment and services (-1.5%).

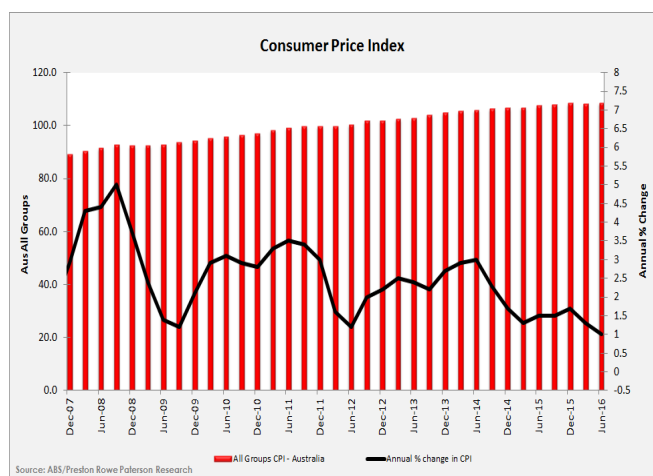


Chart 1 – CPI – Source ABS

The housing group increased by 0.4% over the June quarter. Notably, other major spending that contributed to this price rise stemmed from the health and clothing and footwear groups, which recorded a growth of 2.6% and 2.0% respectively. The twelve months to June saw an annual growth of 1.3% in the housing group, backed by the annual growth of 1.9% in new dwelling purchases by owner-occupiers.

Furnishings, household equipment and services recorded an increase of 0.6% over the quarter. Notably, index numbers on furniture recorded an increase of 2.4%, reflecting on its status as a strong contributor to the overall increase in the furnishings, household equipment and services group.

The June quarter also brought a quarterly increase of 0.5% in the insurance and financial services group, driven by the rise in the insurance subgroup (+1.2%). Year on year comparison sees an annual increase of 2.4% in the insurance and financial services group, with insurance contributing towards 6.2% of the group's overall growth.

Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index dropped by 1 index point, from 103.2 in May to 102.2 in June. The three months to March brought through an overall decrease of 1.7 points.

Westpac's Senior Economist, Matthew Hassan, commented:

"Coming after an 8.5% surge in May, the small decline in June most likely represents a consolidation at improved levels. Last month's surprise rate cut from the RBA was the main catalyst behind May's rally and although confidence has slipped back a touch in June this is a fairly common pattern following an interest rate driven bounce. At 102.2, the index is still in slightly 'positive' territory overall—recall that readings above 100 indicate optimists outnumber pessimists".
(Westpac Melbourne Institute Survey, 15 June 2016).

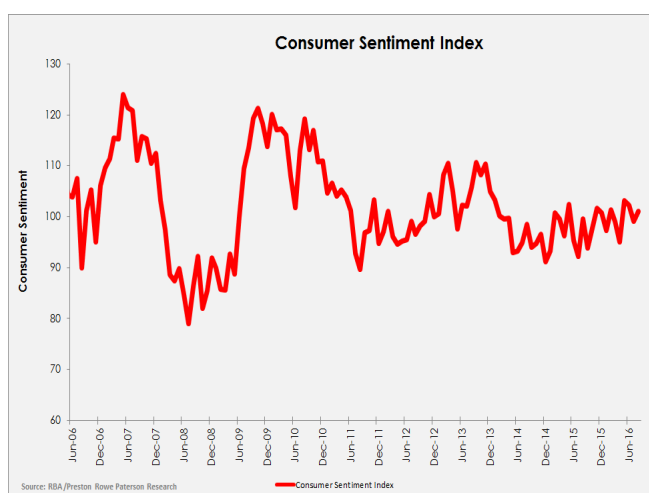


Chart 2—Consumer Sentiment Index—Source—Westpac Melbourne Institute Survey

NAB Business Confidence

Business confidence had decreased by 2 points to +2 points in the June quarter of 2016. According to the Alan Oster, NAB's Chief Economist:

"Firms are still quite upbeat about the outlook, albeit not as much as they were last quarter. Firms' expectations for business conditions in 3 and 12 months' time pared back a little, but are still quite positive. Optimism about the outlook should bode well for the labour market and business investment going forward" (NAB Quarterly Business Survey, 21 July 2016).

We need to note that economic and political uncertainties have been building up at the start of the year, which ultimately has led to the slight moderation in business confidence, though Mr. Oster reiterated that June's figure still reflected a good result and suggested that overall confidence had increased by the end of the June quarter.

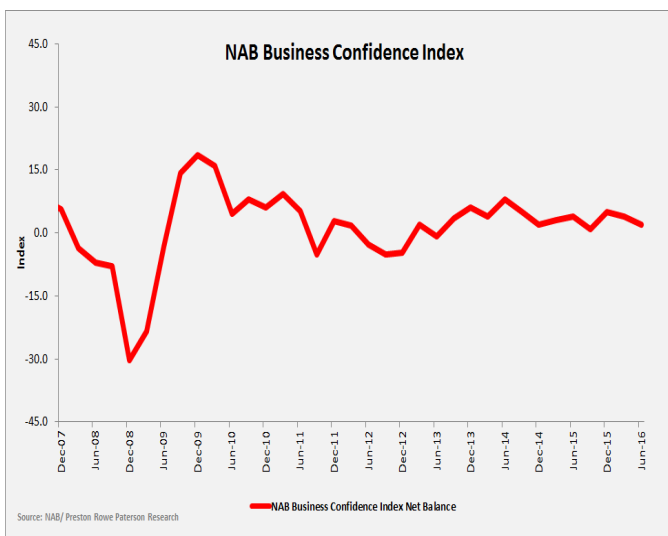


Chart 3 – NAB Business Confidence Index – Source NAB

BOND MARKET

10 Year Bond & 90 Day Bill Rate

Analysis of the daily 10-Year government bonds has revealed a decrease of 20 basis points over the month of June to 2.12%. The 90-day bill rates had decreased by 2 basis points to the month end rate of 1.99%. The changes in both 10-year bonds and the 90-day bill rate reflect a yield spread of (-)11 basis points.

Over the June 2016 quarter, the 10-Year government bonds recorded a decrease of 45 basis points from 2.57%. Correspondingly, the 90-Day Bill Rate recorded a decline of 32 basis points over the quarter from 2.31%.

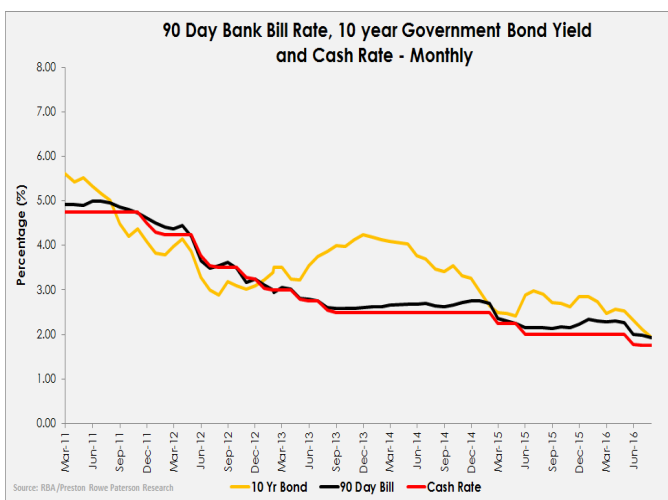


Chart 4 –90 Day Bill, 10 year bond and cash rate - MONTHLY – Source RBA

The twelve months to June 2016 saw the monthly 10-Year Bond Rate increase 86 basis points from 2.98%. During the same period, the monthly 90-Day Bill Rate increased by 16 basis points from 2.15%.

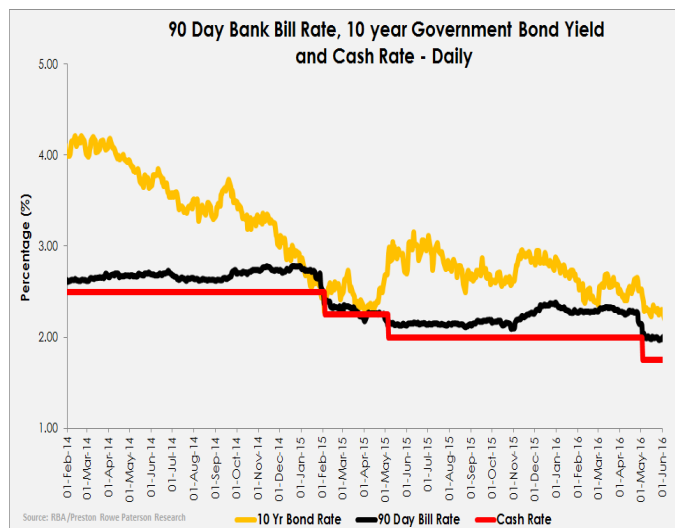


Chart 5 –90 Day Bill, 10 year bond and cash rate – DAILY – Source RBA

INTEREST RATES

Interest Rate Movements

As at the date of publishing, the official cash rate declined 24 basis points over the three months to June to 1.75%. The Reserve Bank of Australia's media release for June 2016 (as released on 7th June) reiterated that:

"The global economy is continuing to grow, at a lower than average pace. Several advanced economies have recorded improved conditions over the past year, but conditions have become more difficult for a number of emerging market economies. China's growth rate moderated further in the first part of the year, though recent actions by Chinese policymakers are supporting the near-term outlook. Commodity prices are above recent lows, but this follow very substantial declines over the past couple of years. Australia's terms of trade remain much lower than they had been in recent years... In Australia, recent data suggests overall growth is continuing, despite a very large decline in business investment. Other areas of domestic demand, as well as exports, have been expanding at a pace or above trend. Labour market indicators have been more mixed of late, but are consistent with continued expansion of employment in the near term."

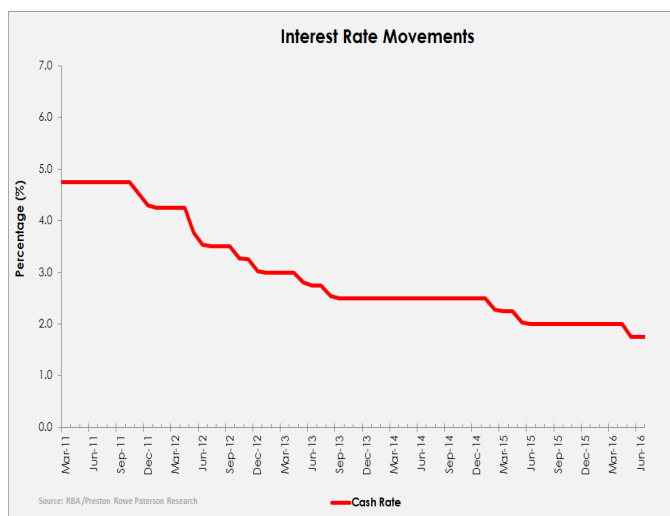


Chart 6 – Cash Rate – Source RBA

Housing loan variable rates and mortgage managers loan rates both decreased over the June Quarter, to 5.40% and 4.85% respectively. Correspondingly, the home equity loan rates fell by 25 basis points during the second quarter to 5.75%.

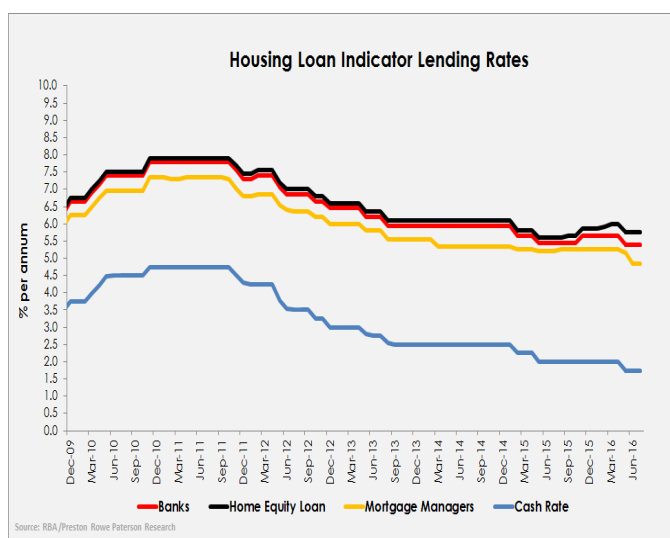


Chart 7 –Housing Loan Indicator Lending Rates – Source RBA

Over the quarter, both the small business residential secured rate and small business other loans rate decreased by 25 basis points, to 6.25% and 7.35% respectively. In contrast, the small business fixed 3 year rate had increased by 5 basis points to 5.40%.

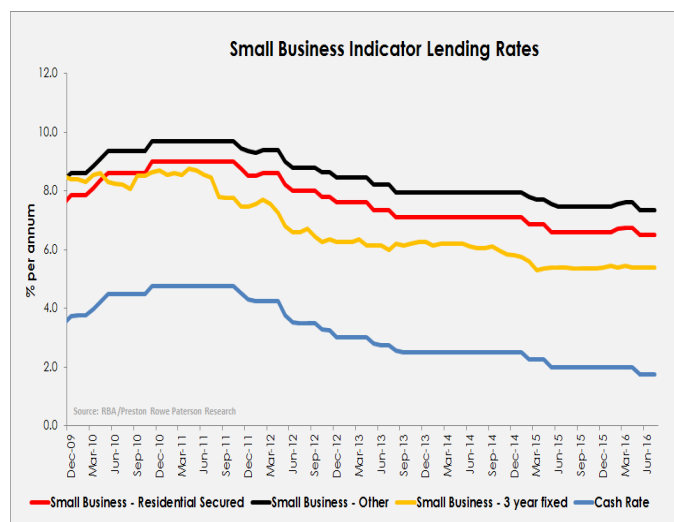


Chart 8 –Small Business Indicator Lending Rates – Source RBA

EXCHANGE RATES & EQUITY MARKETS

Australian Exchange Rates

In the three months to June, the Australian Dollar depreciated against the US Dollar, from \$0.7657 USD in March 2016 to \$0.7426 USD in June 2016. The year to June 2016 brought on an annual depreciation of 3.31% against the greenback.

During the quarter, the Australian Dollar exchange rates appreciated against the Pound by 4.0%, though depreciated against the Euro by 1.0%. The Australian Dollar also fell against the Japanese Yen by 11.3%.

Year on year analysis saw the Australian Dollar declined against the Euro by 2.43% to €0.6699 and 18.84% against the Yen to ¥76.23. Notably in the same period, the Australian Dollar increased 13.59% against the British Pound to £0.5549.

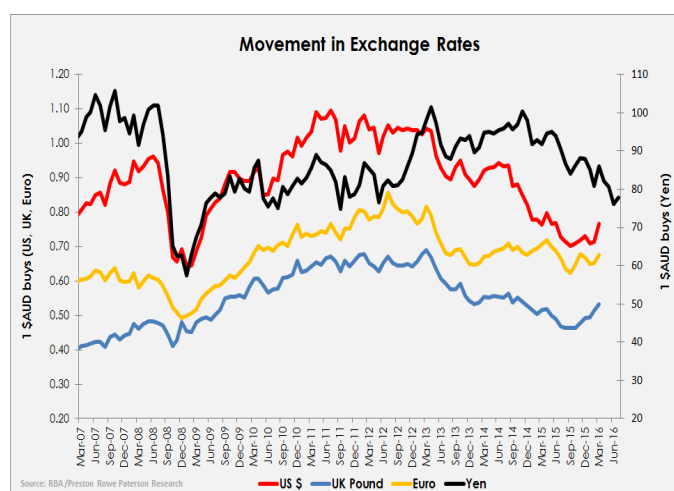


Chart 9 –Movement in Exchange Rates – Source RBA

Share price Indices

The S&P ASX 200 Index recorded an increase of 2.97% from 397.1 in March to 408.9 in June. Over the twelve months to June 2016, the S&P ASX 200 Index recorded a decrease of 4.1%, tightening by 17.6 index points.

The US S&P 500 Index recorded a growth of 1.91% over the three months to June 2016, as the index reached 635.6. Year on year analysis to June revealed an increase of 10.8 index points, reflecting an annual increase of 1.7%.

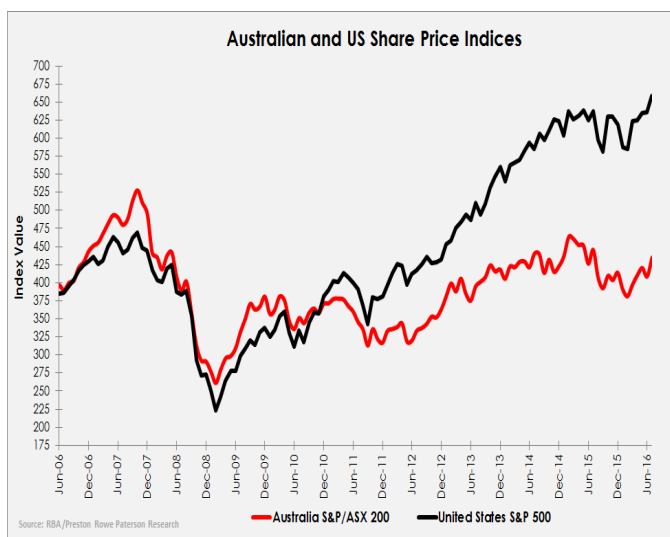


Chart 10 – Australian and US Share Price Indices – Source RBA

Industrials, All Ordinaries and Property Trust Index Values

The June 2016 quarter saw the All Ordinaries Index increase by 3.08% from 5151.79 (March) to 5310.4 (June). Year on year analysis revealed the All Ordinaries Index decreasing by 2.6%, reflecting an annual decline of 140.8 index points.

The Industrial Index recorded a growth of 2.41% over the June quarter and reflected an annual growth of 15.1%. Since June 2015, there has been an increase of 685.62 index points to 5214.2.

The ASX Property Trusts followed with an increase of 7.72% over the quarter. Correspondingly, it experienced a growth of 18.8% to 1467.2 during the twelve months to June 2016.

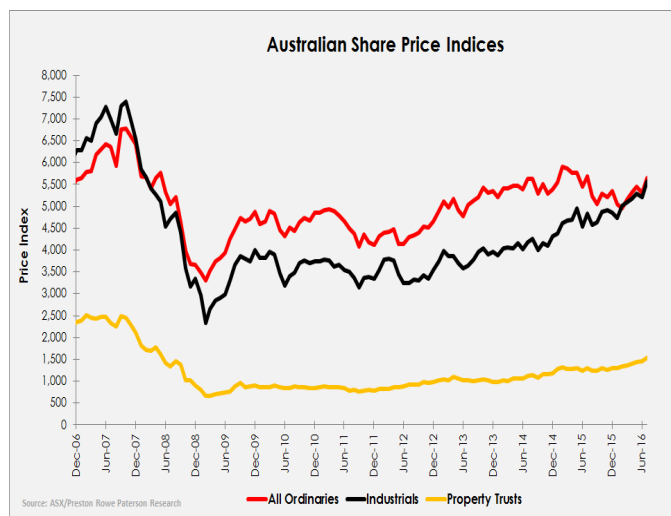


Chart 11 – Australian Share Price Indices – Source ASX

GROSS DOMESTIC PRODUCT

GDP

GDP figures for the June quarter 2016 are not available until the 7 September, however, March quarter figures revealed that the Australian economy recorded a seasonally adjusted quarterly growth of 1.1%. This quarterly growth has contributed to an annual seasonally adjusted growth of 3.1%.

The main contributors to economic growth in the first quarter of 2016 are Australian exports with a 1.0% contribution, as well as household final consumption expenditure, with a 0.4% contribution to growth. Conversely, private gross fixed capital formation have negated increases in growth, falling by 2.2% in the quarter. This decline was mainly influenced by falls in the subgroups new engineering construction (-6.4%) and new buildings (-6.9%).

In seasonally adjusted terms, year-on-year analysis to March quarter 2016 sees the main contributors to an increase in GDP being mining (0.9%), finance and insurance services (0.4%), public administration and safety (0.3%), construction (0.2%) and retail trade (0.2%). On the other hand, manufacturing was the main contributor to a decline in growth, with a yearly decrease of 0.2%.

LABOUR FORCE

Unemployment

Over the month to June, the number of unemployed people has declined by 199 (0.03%) from 726,135 in May to 725,935 in June. In comparison to June 2015, the number of unemployed people had decreased by 27,431 and ultimately reflects an annual decline of 3.64%. As of June 2016, the unemployment rate remains unchanged from the previous month at 5.7%.

On a seasonally adjusted basis, employment had increased by 7,900 persons to 11,939,600 from the previous month. Notably, full-time employment increased 38,400 to 8,198,900, with part time employment decreasing by 30,600 to 3,740,700 in the month of June.

The number of unemployed seeking full time employment recorded a decrease in June by 9,200 to 496,700 persons. However, the number of unemployed seeking part time employment increased over the month by 19,000 to 237,500 persons.

The participation rate remained steady over the month at 64.8%. However, the aggregate monthly hours worked in all jobs decreased 0.7 million hours to 1,635.1 million hours.

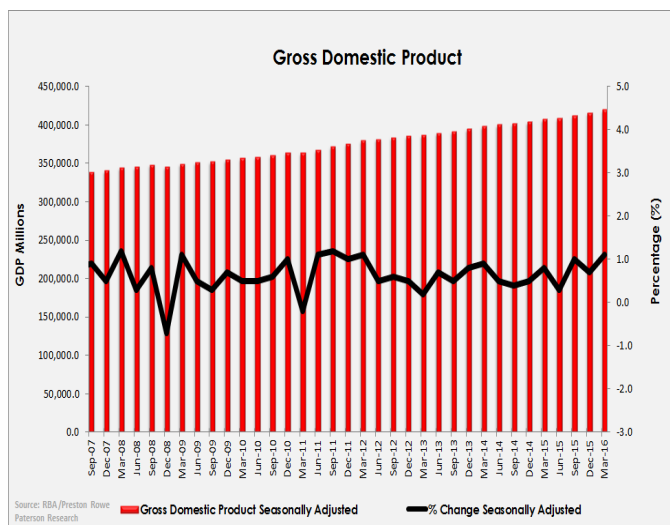


Chart 12 – GDP– Source ABS

The terms of trade decreased by 1.9% in seasonally adjusted terms over the March quarter, following a decrease of 3.3% in the December quarter of last year. The twelve months to March sees a steep decline of 11.5% in the terms of trade, reflecting the current trend whereby Australia's export prices falls at a steadily faster rate than our import prices.

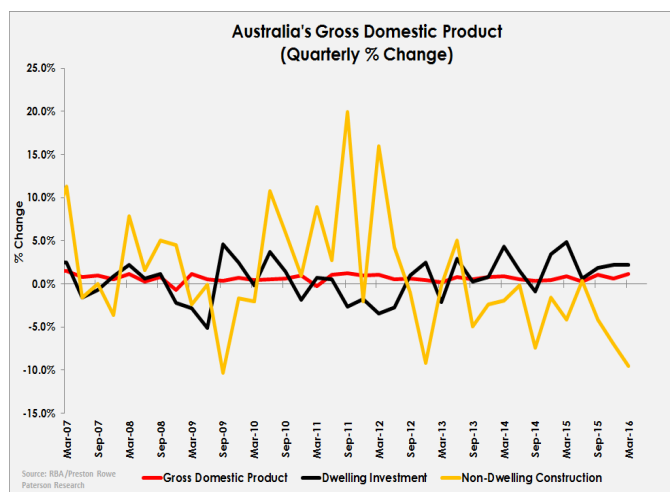


Chart 13 – Australia's GDP (Quarterly % Change) - Source ABS

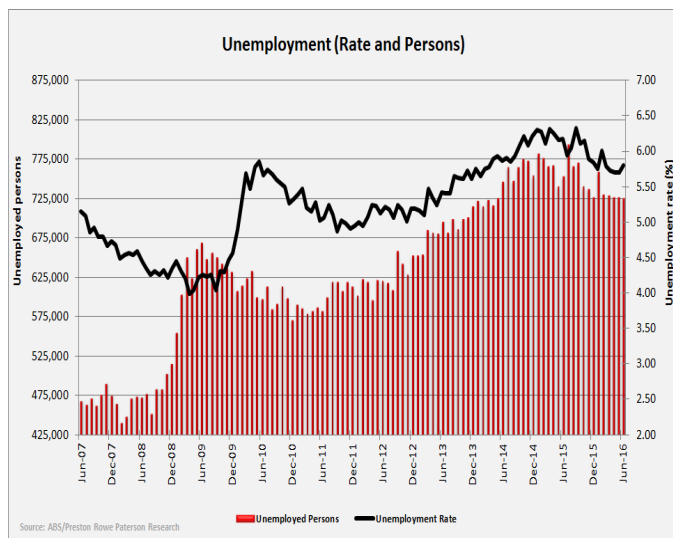


Chart 14 – Unemployment (Rate and Persons) - Source ABS

Wage Price Index

Data for the June quarter 2016 is not currently available, however the seasonally adjusted total Wage Price Index for the March quarter 2016 rose by 0.4%, reflecting an annual growth of 2.1% from March 2015. The private and public sector both recorded quarterly (yearly) growth, at 0.4% (1.9%) and 0.5% (2.5%) respectively.

This first quarter of 2016 saw Tasmania recording the highest quarterly increase of 0.7%, with the Northern Territory recording the lowest increase of 0.2%.

In the private sector, quarterly rises in South Australia, Western Australia and the Australian Capital Territory were the highest, each recording an increase of 0.7%. As with quarterly trend, the lowest growth came from the Northern Territory, with an increase of 0.2%. Through the year, increases in the wage price index of private sectors ranged from 1.6% (Western Australia) to 2.4% (Victoria).

In the public sector, both Queensland and Tasmania recorded the highest quarterly growth, each with 1.0%. South Australia and the Northern Territory experienced the smallest increase, both with 0.2%. The largest annual rise in the public sector came from Western Australia at 3.3%, with the Australian Capital Territory taking on the lowest rise for the seventh consecutive quarter at 1.7%.

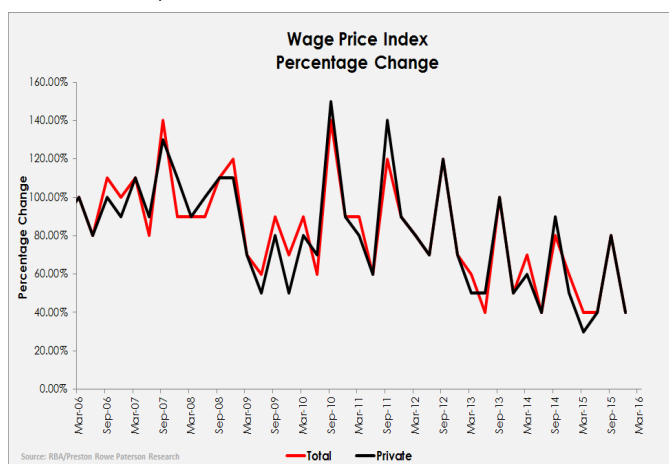


Chart 15 – Wage Price Index - Source ABS

BALANCE OF PAYMENTS

Current Account Balance

Data for the June quarter is not currently available. However over the March quarter 2016, Australia's Current Account Deficit decreased by \$1,837 million to a balance of -\$20,794 million in seasonally adjusted term. This reflects a quarterly decrease of 8.12%. In comparison to March 2015, the current account balance deficit has increased by 53.14%.

The deficit on balance of goods and services surplus increased by \$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 March quarter.

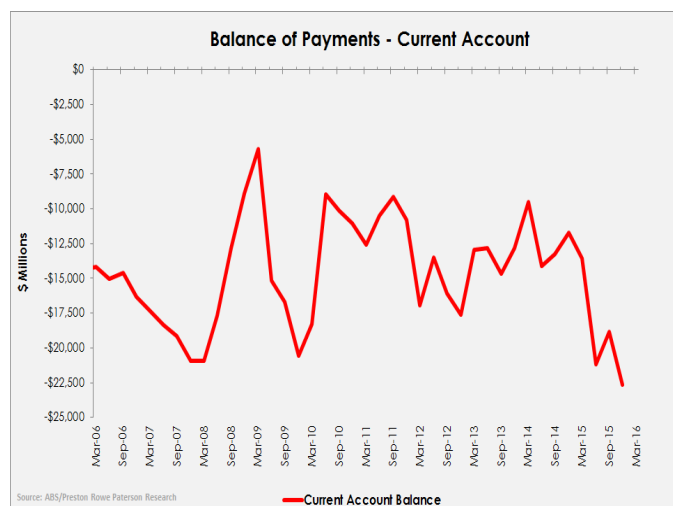


Chart 16 – Balance of Payment Current Account Deficit - Source ABS

International Investment Position

Data for the June quarter is not currently available, however over the March quarter, Net Foreign Debt increased by 2.2% to \$1,027.84 billion. In comparison to March 2015, this is a 5.5% increase. Net Equity Liabilities recorded a decrease of 75% over the quarter to \$15.70 billion, bringing the total international investment (NFD + NFL) to \$1012.15 billion and ultimately reflecting an annual growth of 11.9%.

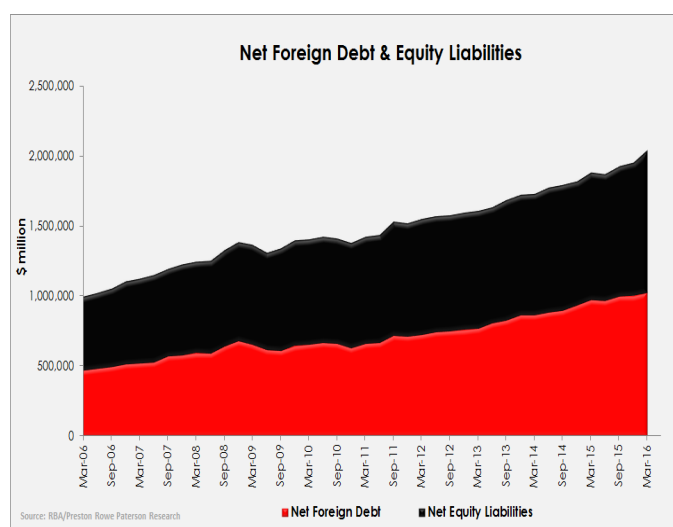


Chart 17 – Net Foreign Debt & Equity Liabilities – Current Account – Source RBA

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 June 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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