Preston Rowe Paterson®
International Property Consultants

Economic Report
Australia

June Quarter 2017
HIGHLIGHTS

- Consumer Price Index increased by 0.5% over the March quarter to bring annual change to 2.1%, the first time inflation has increased above 2% in more than two years.
- 10-year government bond yield in Australia declined by 0.14% to 2.41% over the month to June 2017. Over three months, the 10-year bond yields declined by 0.40%, though when compared to June 2016, yields had increased by 0.29%.
- The Board of the Reserve Bank left rates unchanged at 1.5% for the tenth consecutive month at their June meeting.
- Over the first quarter of 2017, Australia's gross domestic product (GDP) increased by a seasonally adjusted 0.3%- a relatively weak figure when compared to December 2016 quarterly increase of 1.1%.
- Over the month to May 2017, seasonally adjusted unemployment rate declined to 5.5%, the lowest level since February 2013.

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Inflation and Investor Sentiment

Consumer Price Index

The June quarter Consumer Price Index (CPI) figures will not be available until 27th July, hence March quarter figures will be used for the following analysis. CPI increased by 0.5% over the March quarter, following an increase of 0.5% in the December quarter 2016. The main contributor to this increase was the Housing group (+0.8% over the quarter), the Transport group (+1.5% over the quarter), the Health group (+2.0%), Education group (+3.1%) and the Alcohol and tobacco Group (+1.1%). In contrast, the main inhibitors to further increases in CPI were the Furnishing, household equipment & services group (-1.0%), Recreation & culture group (-0.7%), Clothing and footwear group (-1.4%), Communications group (-0.3%) and Food & alcoholic beverage group (-0.2%).

Over the year to March 2017, All Groups CPI increased across all eight capital cities in Australia, with Melbourne and Sydney recording the biggest yearly increase, of +2.5% and +2.4% respectively. In contrast, Darwin recorded the lowest increase, with an annual change of 0.5%. Over the March quarter, CPI increased in all capital cities, except for Darwin.

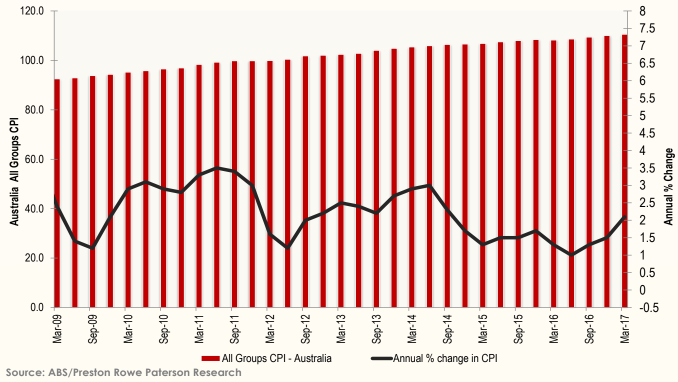

Chart 1—All Group CPI and Annual Percentage Change from March 2009 to March 2017—Source—ABS

	Percentage Change		
	Quarterly to March 2017	Yearly to March 2017	Index number, March 2017
Sydney	0.4	2.4	111.3
Melbourne	0.9	2.5	1109
Brisbane	0.3	1.8	110.5
Adelaide	0.4	2.0	109.1
Perth	0.0	1.0	109.0
Hobart	0.8	2.3	108.9
Darwin	-0.1	0.5	108.5
Canberra	0.6	2.3	108.6
Weighted Average of 8 Capital Cities	0.5	2.1	110.5

Table 1 — Quarterly and Yearly Percentage Changes in Australia's Capital Cities, including Weighted Average—Source— ABS

Business Sentiment

Both business conditions and business confidence declined over the month of May. Figures released by National Australia Bank indicate that business conditions dropped by 1 point, to +12 index points, whilst business confidence index fell by 6 points to +7 index points. In stating this, both indices remain slightly above their long-run average index (+5 for business conditions, +6 for business confidence), with leading indicators for both business condition and business confidence remaining relatively strong. NAB's chief economist, Alan Oster, noted that a disconnect is present when we look at evidence of solid business activity in conjunction with data that indicates a slowdown in consumer spending. With weak household data and wage growth remaining at record low, and a strong business sector, Mr Oster have noted how this 'disparity resolves itself will be critical to the outlook for growth'.

When we look at business conditions, the three measured components of profitability, employment conditions and trading conditions all performed strongly across all

	Net Balance		
	March 2017	April 2017	May 2017
Business confidence	7	13	7
Business conditions	14	13	12

Table 2 — Monthly Net Balance of Business confidence index and Business conditions index — Source— National Australia Bank

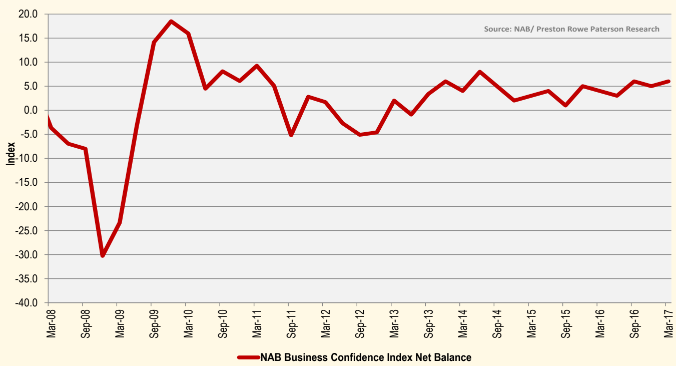

Chart 2—NAB Business Confidence Index, March 2008 to March 2017 Overview—Source—NAB Business Confidence Index

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industries, which reiterates that recovery in condition has 'become well entrenched'. Business conditions varied across the states, with New South Wales the only state to experience a decline over the month (-11) and South Australia and Tasmania the only states to experience improvement (both +10). Irrespective of these changes, business conditions in all states remain positive.

Business confidence varied across industries; though none are currently experiencing negative confidence. South Australia and Victoria both experienced substantial falls over the month (-10 and -9, respectively), though all mainland states are currently experiencing similarly positive confidence. Noticeably, all mainland states did not experience improvements in their confidence, with New South Wales and Western Australia remaining steady , whilst Queensland declined by 1 index point.

Consumer Sentiment

According to the Westpac Melbourne Institute Index of Consumer Sentiment, consumers over the month of June are feeling the most pessimistic since the Reserve Bank's 2016 rate cuts. The index fell 1.8% from 98.0 in May to 96.2 in June, with a reading below 100 indicating that the number of pessimists outweigh optimists in their outlook of the economy. The main contributor to the results stems from the March quarter GDP figures, which produced relatively weak results. Annual growth had declined to 1.7%, the slowest increase since the GFC prompting consumers' pessimistic responses during the June survey.

Job security remains a topic on most consumers' mind, with the Westpac Melbourne Institute Unemployment Expectations Index increasing from 135.5 to 140.3, with a lower number indicating that fewer consumers expect unemployment to rise over the next twelve months. In saying this, job figures have come out positive, with unemployment expectations showing a positive improvement, as average index figures for 2015 and 2016 were both at 144 points.

Consumer's expectations of house prices continue to decline, with the Westpac Melbourne Institute House Price Expectations Index falling 3.4% over June to 133.6, after May's decline of 8.7%. Despite this decline, the index remains well above its long run average of 126.9.

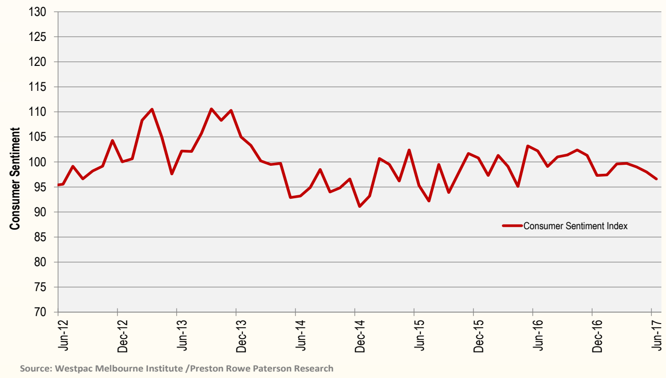

Chart 3—Consumer Sentiment Index—Source—Westpac Melbourne Institute Survey

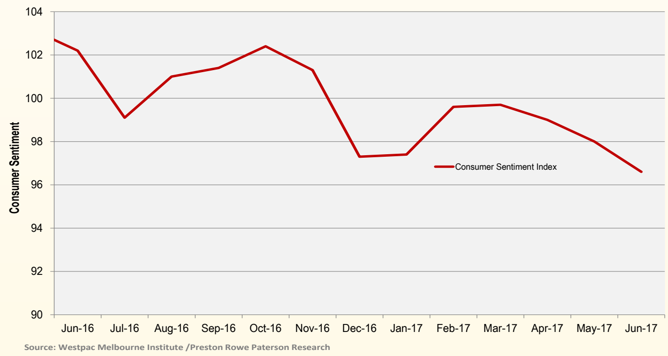

Chart 4—Consumer Sentiment Index, June 2016– June 2017—Source—Westpac Melbourne Institute Survey

	June 2016	May 2017	June 2017
Consumer Sentiment Index	102.2	98	111.3
Family finance vs. a year ago	90.3	82.6	81.4
Economic conditions next 12 months	97.9	95.9	91.3
Time to buy a dwelling	103.7	90.0	90.9

Table 3— Consumer Sentiment– June 2017 — Source— National Australia Bank

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Lending Rates

Interest Rates

The Board of the Reserve Bank left rates unchanged at 1.5% for the tenth consecutive month at their June meeting. The main concerns brought up at the board meeting included concerns surrounding Australia's low wage growth and the imbalance between the housing markets around various parts of Australia. Ultimately, the Reserve Bank strives to achieve financial stability by pursuing an inflation target of two to three percent over the medium term. As the nation transitions through the mining boom investment phase, interest rates were cut to its lowest historical levels in order to support economic growth within the country. Reserve Bank board members noted the importance of a prudent regulatory body in promoting financial stability, and noted the need for a strong relationship built between the Bank and banking regulators, especially Australia Prudential Regulatory Authority (APRA).

The Board's decision to keep interest rates unchanged stemmed from upbeat messages from world economic growth, in conjunction with the prospect of world-wide increase of wages and prices as the labour markets in many countries begin to improve. It was also noted that headline inflation in many countries have increased over the past twelve months, though core inflation remain relatively low. In the domestic economy, improvements in business conditions and business investments, in the parts of the economy that was not directly affected by the slowdown in mining investments contributed to the Board's interest rate decisions. Slow wage growth continue to highlighted, with members pointing out the low increase in income and high levels of household debts as being the main inhibitors to household consumption.

The Board reiterated the variation in housing market conditions around Australia, with mention of fast growth in some markets, whilst other markets have remained stagnant and/or declined over the same period. There was mention of an oversupply of apartments that is expected to flood Australia's eastern capital cities within the next two years. The Reserve Bank noted the concerns around the growth in household debts and the slowing growth in household incomes, which have prompted the increased financial supervisory measure to manage Australia's long-term management of rising debt levels.

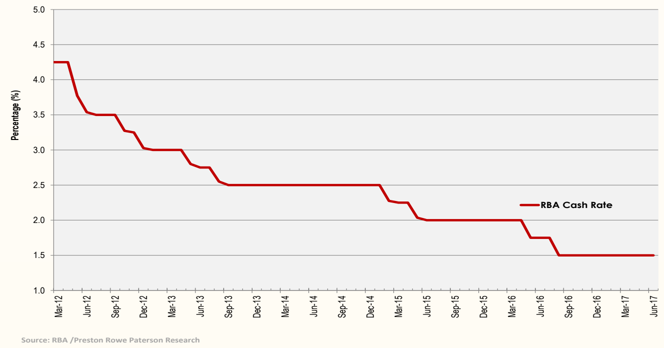

Chart 5— Reserve Bank of Australia Overnight Cash rate—Source: RBA

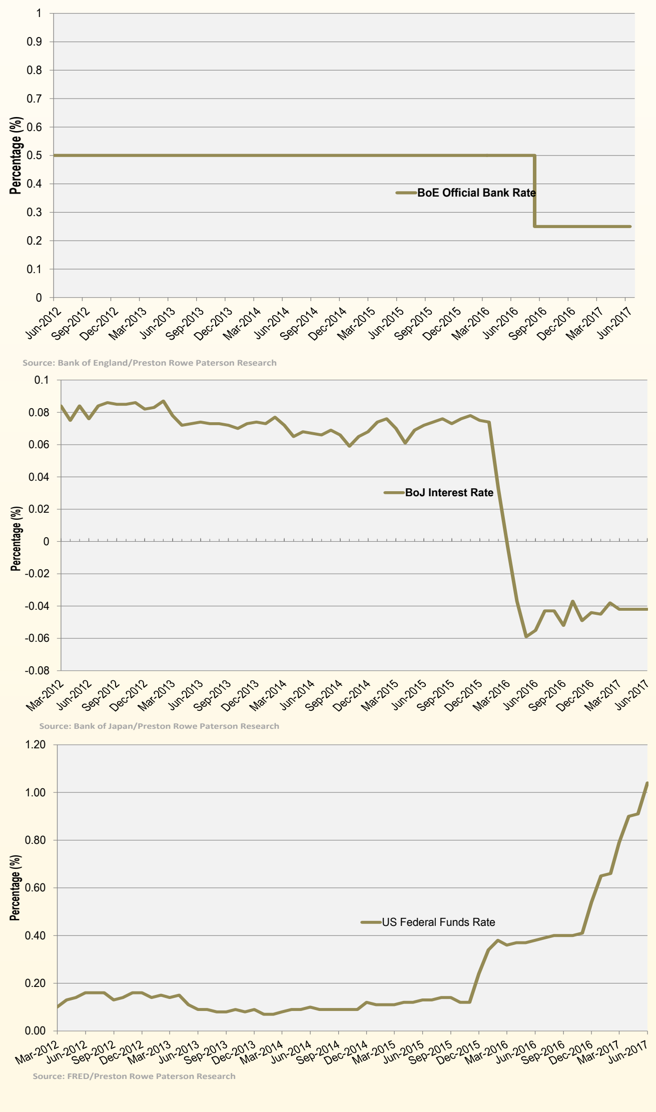

Chart 6— Movement of Central Bank's Cash Rate in England, Japan and US— Source: Bank of England; Bank of Japan; US Federal Reserve

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Australian Bond Yields and the Global Economy

The Australian bond market is influenced by a vast number of domestic and international factors, which means that the 10-year Australian bond yield is a reliable indicator of both Australian and global market conditions as well as their respective perceptions of economic and monetary conditions. There exists strong historical correlation between long-term Australian and US government bonds, though we note that the spread between the two have narrowed considerably, declining from more than 200 basis points at the beginning of 2011, to the current spread of 22 basis points as at end of June 2017. Bond spreads are important in driving long term capital inflows and outflows from a country, and when a spread narrows to a level that is below what investors see as fair value, capital outflows would often follow- which then puts downward pressure on the domestic currency. Historically, the Australian dollar has followed yield differentials with a lagged effect, and when the spread narrowed to the current level back in February 2001, the Australian currency depreciated to less than $US0.50. Nevertheless, despite declining yield spreads since 2010, the Australian currency has steadied itself in a tight trading band of between $US0.70 and $0.US80 since 2015.

Moreover, the recent acceleration in the declining yield spread is partly influenced by the US Federal Reserve's focus on lifting interest rates whilst Australia kept its interest rate unchanged for the tenth consecutive month in June. In saying this, the Reserve Board's minutes released in early July stated interest rates need to increase to the neutral nominal level of 3.5% (given medium-term inflation expectations were anchored around 2.5%) by the end of 2019 if economic forecasts were to remain on track. Interestingly, former RBA board member John Edwards, released a Lowy Institute paper three weeks prior to the release of the RBA board minutes, which stated that the Reserve Bank could increase interest rates eight times over 2018 and 2019. The notion behind this idea is that gradual 'policy normalisation' will not create major complications as Australia's current interest rate is relatively higher than most other developed countries', in addition to the belief that higher interest rates in the future expected to be offset by stronger economic growth.

We note that the current low interest rate environment has been a contributor to Australia's historically high household debt-to-income ratio, which as at June stands at 189%. According to the Bank for International Settlements (BIS), economies with historically high household debts become very vulnerable should there be a considerable increase in interest rates. Currently, Australia is experiencing a low-interest rate fuelled housing boom, though consumption remain weak, and when combined with high levels of debt, make it a challenge for the Reserve Bank to raise interest rates without deterring the already weak levels consumer spending. The BIS paper also stated that regardless of any sharp increase of interest rates, Australia's high debt-servicing ratio remains a drag on domestic growth.

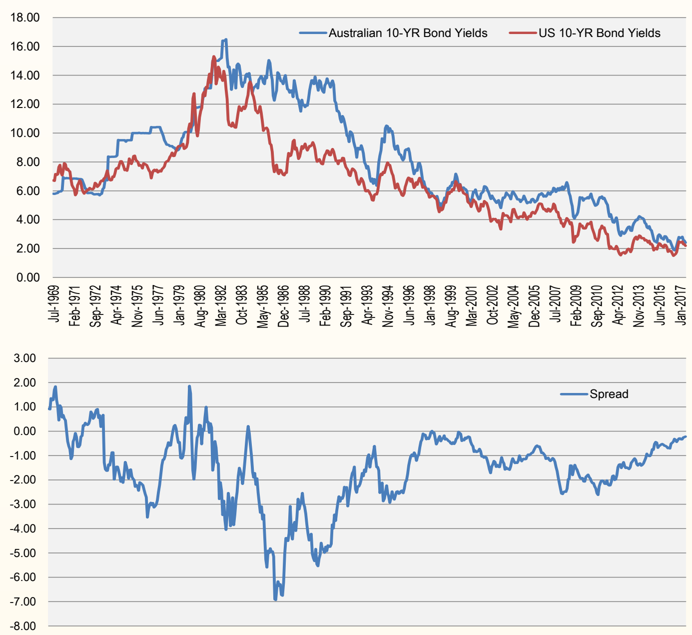

Chart 7— Australian and US 10-Yr Bond Yields and corresponding Yield Spreads—Source— RBA

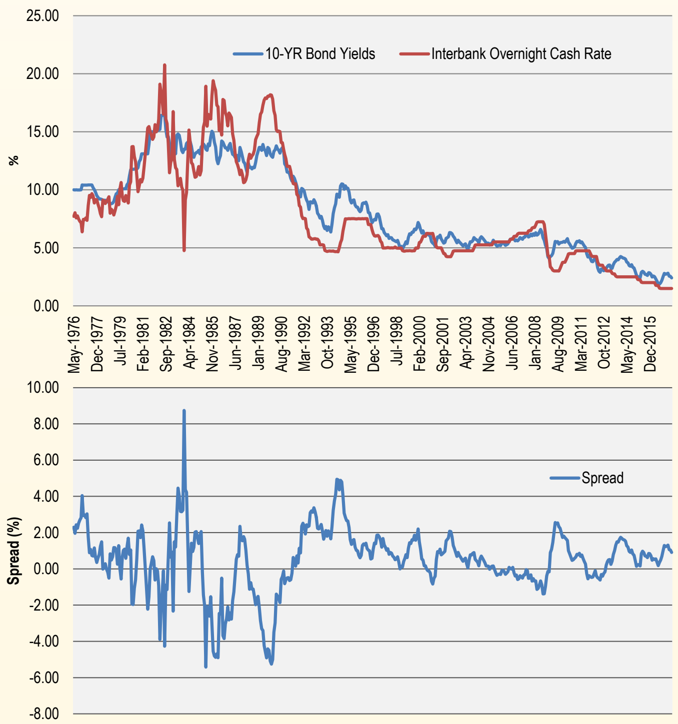

Chart 8— Australian 10 Year Bond Yields vs. Overnight Cash rate– Historical Spread—Source— RBA

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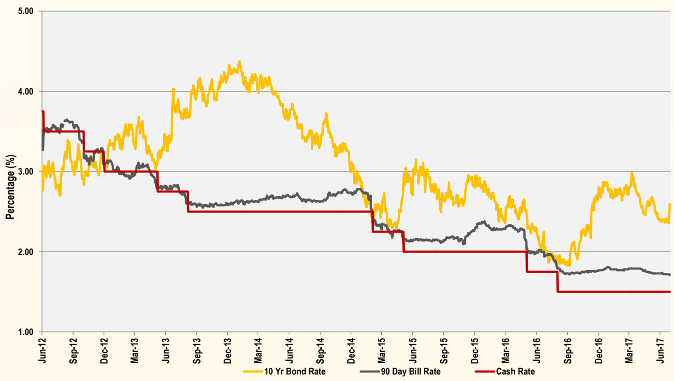
In a global environment whereby major central banks in the United States and Canada have begun to implement contractionary monetary policy for the first time since the Global Financial Crisis, it is inevitable that Australia will follow suit in the future. However, chief economist at a major bank in Australia has noted that discussions of a neutral cash rate can arguably be interpreted as something to lay the foundations for possible tightening policies, though with the current low level of wage increase, inflation, unsteady consumer spending and volatile housing market, it is something that should not be over interpreted. Nevertheless, upbeat job figures for June (unemployment rate held steady at 5.6%, with 14,000 new jobs added) have landed conveniently during when the RBA is preparing financial markets for future interest rate increases. The RBA also stated in its June minutes that business conditions were above average, contributions to growth from infrastructure investment would rise and the depreciation of the exchange rate since 2013 have helped the domestic economy to transition from the prior mining investment boom. However, appreciation of the Australian dollar following the RBA's neutral cash rate discussions may pose complications to the RBA's attempt to keep the economy accelerating.

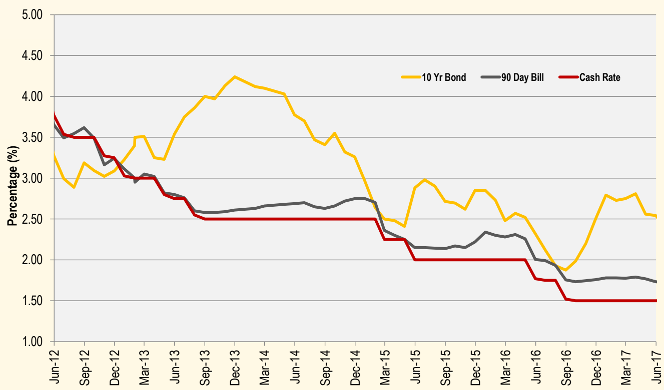
Long term government bond yields in most major financial markets appeared to have resumed to an uptrend movement, having recovered from multi-decade lows from August 2016. Australian 10-year yields subsequently increased following the election of President Donald Trump in November 2016, with the Australian 10 year bond yield having increased to 2.41%, and US 10 year yields to 2.19% as at June. Preston Rowe Paterson Research will continue to monitor the trajectory of cash rate in the next twelve months.



Source: RBA /Preston Rowe Paterson Research

Chart 9— Daily Movement of 90-day Bill, 10-year bond yields and Cash rate—Source: RBA

10-year government bond yield in Australia declined by 0.14% to 2.41% over the month to June 2017. Over three months, the 10-year bond yields declined by 0.40%, though when compared to June 2016, yields had increased by 0.29%. Australia's 90-day bill rate declined by 0.01% over the month, to 1.72%. This figure signifies a 0.07% decline over the quarter and a 0.27% decline over the year. Historically, Australian government yields are usually higher than that of the US government yields. However, the differential between Australian and US 10-year government bonds have narrowed to just 16 basis points at the end of June as global investors price in more monetary tightening by the Federal Reserve. We note that Australian 10-year bond yields, being influenced by the global increase in yields, had increased by 53 basis points since August last year, during which yields dropped to a historical low of 1.88%. Preston Rowe Paterson notes that long term bond yields have been declining gradually since the 1980's, and we consider the sharp increase in late December 2016 and the current elevated bond yields a normalisation of 10-year government bonds after it dropped to a record low in August 2016.



Source: RBA /Preston Rowe Paterson Research

Chart 10— Monthly Movement of 90-day Bill, 10-year bond yields and Cash rate—Source: RBA

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Housing and Business Loan Rates

Over the quarter, Residential secured and Other small business loan rates both increased by 0.5%, to 6.45% and 7.30% respectively. Three year fixed business loans remain unchanged at 5.25%. When we look at yearly changes, residential secured business loans, other business loans and 3-year fixed loans had all declined by 0.05%.

When we look at housing loans, both variable home loans as well as personal home equity loans experienced no change over the quarter, remaining at 5.30% and 5.80% respectively. Mortgage managers' variable loan increased by 0.05% to 3.95%. Over the year, variable home loans and mortgage managers' variable loan both declined by 0.10%, whilst personal home equity loan increased by 0.05%. After new restrictions brought out by the Australian Prudential Regulation Authority, which limits interest-only products to just 30% of new loans, Australian banks have responded by pushing through rate increases on interest-only loans. Preston Rowe Paterson notes that Australia currently has a large share of interest-only lending, accounting for more than forty percent of all loans. In light of these changes, banks have started lifted their interest-only mortgage rates in order to de-risk its lending portfolio and comply with new regulations.

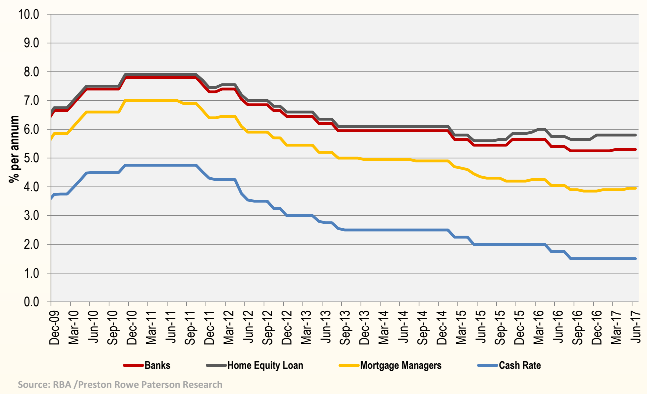

Chart 11— Housing Loan Indicator Lending Rates— Source: RBA

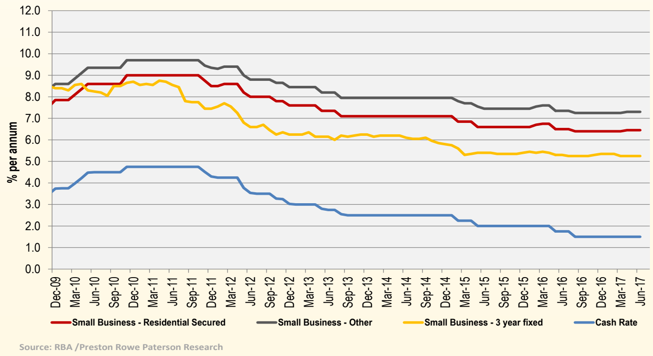

Chart 12— Small Business Indicator Lending Rates— Source: RBA

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Australian Exchange Rates

Over the month to June, the Australian Dollar appreciated against most major currencies, notably against the US Dollar, British Pound, Euro as well as the Japanese Yen. As at the end of June, $AUD1.00 bought $USD0.7692, up from $USD0.7450 from the previous month. This follows domestic data stemming from the Chinese and US economies, of which China posted an increase in their trade surplus figures for June and an increased in lending over the same month. Trade optimism was boosted, which then indirectly pushed up the Australian Dollar, given China is Australia's largest trading partner. In the US, the Federal Reserve Chair Janet Yellen stated that US interest rates could continue to increase moderately in the future, though there's not 'much further to go' until the country reaches the level at which further interest rate increases would cease to have a 'noticeable impact on national spending and investment'. Traders became concerned of this, which resulted in the depreciation of the US Dollar. When we look at percentage changes from the previous quarter and year, the Australian dollar appreciated against the US Dollar by 0.6% and 3.6% respectively.

The Australian Dollar appreciated against the British Pound over the month to June, increasing by 1.6% to buy £0.5913. Britain's trade deficit increased in May, whilst industrial and manufacturing production also contracted unexpectedly. Furthermore, spending contracted over the second quarter, from 0.8% to 0.0%. Collectively, these results have dampened the hopes of a rate increase from the Bank of England in the foreseeable future, especially during a time where political uncertainties stemming from ongoing Brexit negotiations still exist. When we compare changes made over the quarter, the Australian dollar depreciated against the British Pound by -3.5%, though over the year to June 2017, the Australia dollar recorded an appreciation of 6.6%.

The Australian dollar appreciated against the Euro, by 0.9% over the month to buy €0.673. Uncertainty exists around when the European Central Bank (ECB) will start to lift its quantitative easing measures, with ECB officials indicating that there is no urgent need to lighten its quantitative easing measures just yet. Due to this, the currency was not able to reap much benefit despite recent positive news of a continuous stream of solid Eurozone Ecostats. Over the quarter, the Australian dollar depreciated against the Euro by 6.0%, though over the year recorded an appreciation of 0.5%.

The Australian Dollar recorded an appreciation of 4.3% against the Japanese Yen over the month to buy ¥86.16 as at end of June 2017. No expectations of an interest rate increase by the Bank of Japan in the near future. Over the quarter, the Australian Dollar appreciated against the Yen by 0.6%, and over the year, recorded an appreciation of 13%. The Australian Dollar depreciated against the New Zealand Dollar by 0.2% to buy $NZ1.05. Over the quarter, the Australian Dollar depreciated by 4.11%,

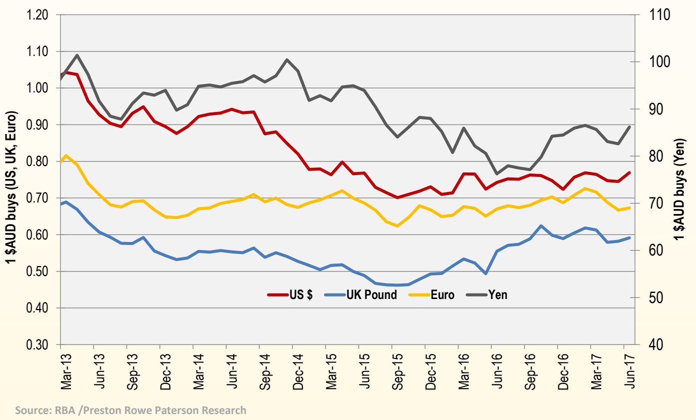

Chart 13— Movement in Exchange Rate over the year to June 2016— Source: RBA

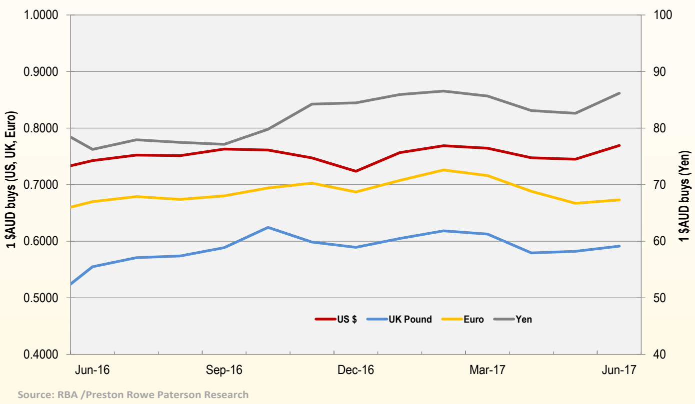

Chart 14— Movement in Exchange, from June 16 to June 2017— Source: RBA

Equity Markets

Share Price Indices

Over the second quarter, the Australia S&P/ASX200 Index declined by -2.4%, to 447.1. Over the year, however, the index recorded an increase of 9.3%, from June 2016's figure of 408.9, to the current June 2017 figure. Over the quarter, the US S&P 500 Index increased by 2.3%, From March 2017's figure of 715.5, to June 2017's figure of 733.9. Over the year, the Index recorded an increase of 15.5%, from June 2016's figure of 635.6.

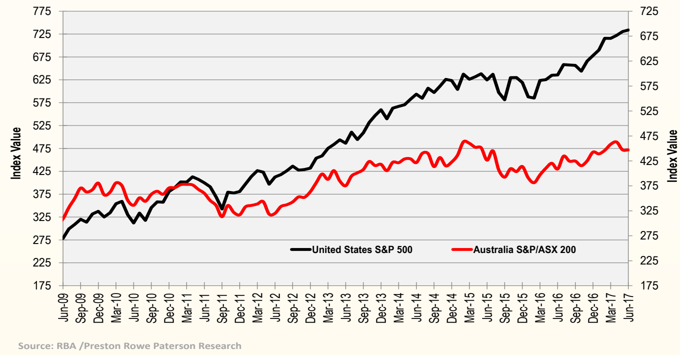

Chart 15— Australian and US Share Price Indices— Source: RBA

Industrials, All Ordinaries & Property Trust Index Values

When we look at the All Ordinaries, no significant change was recorded over the month to June, with the index stable at 5,764.00. Over the quarter, the index declined by -2.4%, though over the year recorded an increase of 9.4%. When we look at the Industrials Index, a month of month comparison indicates a decline of -1.3%, down to 5,702.4. Over the quarter, the Industrials Index recorded a 7.91% increase, whilst over the year, the Index recorded an increase of 9.4%.

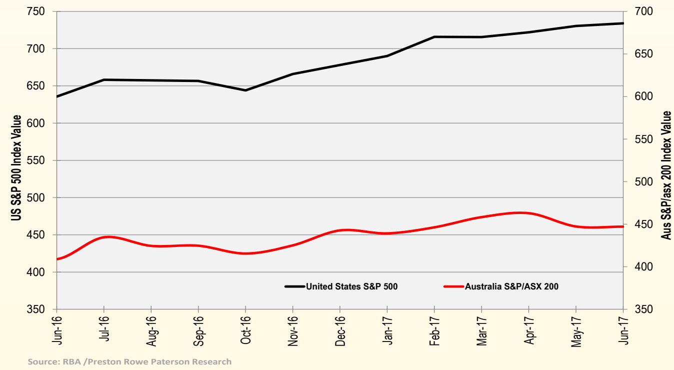

Chart 16— Australian and US Share Price Indices, Movement over the year to June 2017— Source: RBA

Notably, the Property Trust Index has experienced a more negative trajectory over the year to June 2017. Over the month, the Australian Property Trust Index declined by -6.3%, to 1,311.40. When compared to the previous quarter, the Index declined by -4.9%, and when compared to June 2016's figure, the current figure is 10.6% lower.

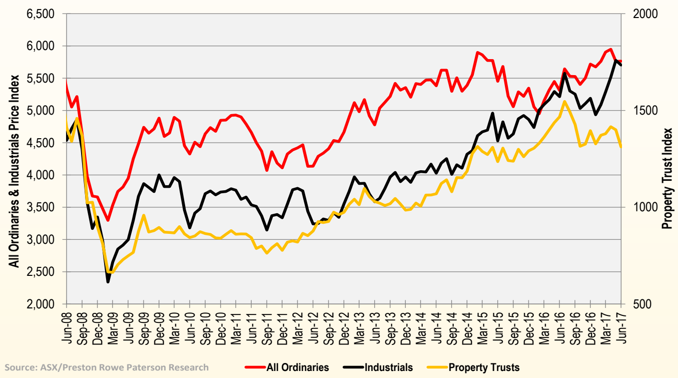

Chart 17— Australian Share Price Indices— Source: ASX

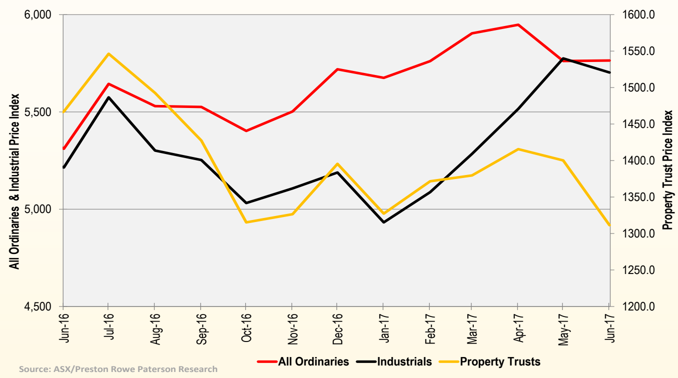

Chart 18— Australian Share Price Indices, over the year to June 2017— Source: ASX

Economic Growth

Gross Domestic Product

Over the first quarter of 2017, Australia's gross domestic product (GDP) increased by a seasonally adjusted 0.3%- a relatively weak figure when compared to December 2016 quarterly increase of 1.1%. Over the twelve months to March 2017, Australia's economy grew by 1.7%, relatively weaker than the 2.4% yearly increase in the fourth quarter 2016. Many economists had anticipated weaker growth over March quarter, after current account figures had indicated a dramatic slowdown in exports over the three months. However, the quarter's growth now means that Australia has experienced 103 quarters without a technical recession (defined as two consecutive quarters of negative growths).

We note that export of goods and services declined by a seasonally adjusted 1.6% over the quarter. The main influence was a decline in the export of mineral ores and coal, which contributed to a 2.6% decline in the export of goods. The export of services partially offset this decline by increasing by 2.5% over the quarter, though was not enough to stimulate an overall positive growth after the previous six quarters of growth. Moreover, terms of trade increased by 6.6% over the quarter, a decline from the 9.6% increase from last quarter.

Dwelling investments declined by 4.4% over the March quarter, though over the twelve months, dwelling investment has declined by 2.5%. Victoria was the only state to experience an increase in dwelling investment over the quarter, though at a national level, dwelling investment remains high.

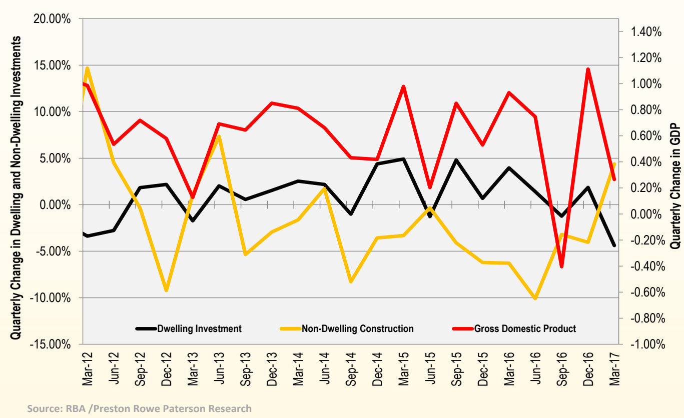

Chart 19— Percentage Change in Dwelling, Non-Dwelling Investments and GDP— Source: ABS

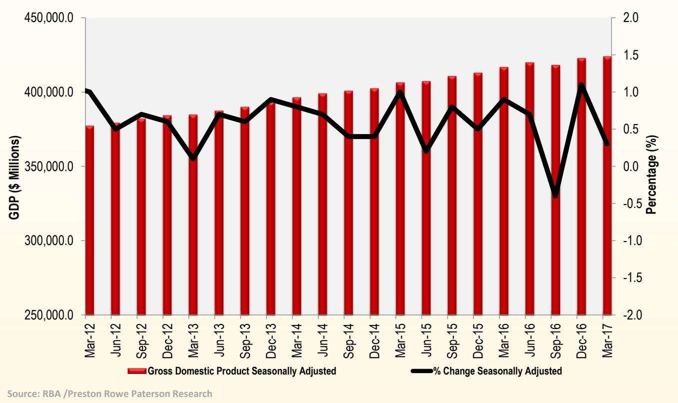

Chart 20— Seasonally Adjusted GDP and Seasonally Adjusted Change in GDP— Source: ABS

Labour Force

Unemployment

Over the month to May 2017, seasonally adjusted unemployment rate declined to 5.5%, the lowest level since February 2013. There were 52,100 new persons in full time employment, though the number of persons starting part-time roles declined by 10,100- bringing the net total number of employed persons to 42,000 over the month. Over the same period, the participation rate declined to 64.9% (-0.1%), underemployment rate declined to 8.8% (-0.1%) and the underutilisation rate declined to 14.4% (-0.4%).

New South Wales experienced the largest month-on-month increase in employment with 32,600 persons. Victoria and Queensland experienced the next largest increases, with 6,900 persons and 5,500 persons respectively. When we look at the unemployment rate around the country, South Australia and Western Australia experienced the largest decline, both by -0.4%. Tasmania experienced an increase of 0.2%, whilst New South Wales increased by 0.1%. Tasmania experienced an increase of 0.8% in their participation rate, whilst Western Australia experienced a decline of 0.1% in theirs.

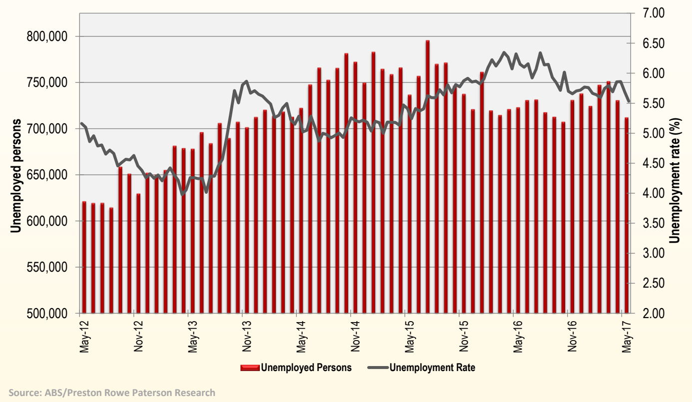

Chart 21— Unemployment Persons and Unemployment Rate, March 2011 to March 2017 — Source: ABS

	Unemployment Rate (%)			Participation Rate (%)		
	April	May		April	May	
Australia	5.7	5.5	▼	64.9	64.9	—
New South Wales	4.7	4.8	▲	65.3	65.2	▼
Victoria	6.1	6.0	▼	66.0	65.5	▼
Queensland	6.3	6.1	▼	69.0	68.1	▼
South Australia	7.3	6.9	▼	65.0	64.8	▼
Western Australia	5.9	5.5	▼	68.8	67.5	▼
Tasmania	5.9	6.1	▲	59.5	59.9	▲
Northern Territory*	3.3	3.2	▼	74.3	65.6	▼
Australian Capital Territory*	3.6	3.5	▼	67.8	66.1	▼

Table 2— Unemployment Rate and Participation Rate, February vs. March 2017 — Source: ABS
* Trend figures used for NT and ACT as seasonally adjusted data for both are not publicly available

Wage Price Index

First quarter 2017 wage growth remain relatively low, with the private sector index increasing by 0.5% and public sector index increasing by 0.6%. Over the twelve months to March, the Private sector experience a seasonally increase of 1.8% in wages, whilst the public sector experienced an increase of 2.4%.The yearly increase of 1.9% across all sectors reflects the lowest increase since the late 1990s, with quarterly figures remaining between 0.4% and 0.6% over the past three years.

In original terms, Victoria and Tasmania experienced the largest quarterly increase of 0.6% each, whilst the Northern Territory experienced the lowest rise of 0.2%. In the private sector, the Australian Capital Territory experienced the highest quarterly increase of 0.6%, whilst Western Australia experienced the lowest rise with 0.2%. Victoria recorded the highest quarterly increase in public sector wage prices, with 1.0%, whilst the Northern Territory experienced the lowest rise with 0.2%.

When we look at the industries in the private sector, Electricity, gas, water and waste services recorded the highest increase over the quarter with 0.7%, whilst Accommodation and Food services recorded the lowest increase over the quarter of 0.1%. In the public sector, Education and training recorded the highest increase of 1.0%, whilst Professional, scientific and technical services recorded the lowest increase over the quarter with 0.2%.

The governor of Australia's Reserve Bank, Philip Lowe, notes that low wage growth is holding back the economy from growing at its full potential. Though it is hard to pinpoint one singular factor influencing Australia's modest wage growth, we can point out several underlying structural features in the Australian economy that may cause it.

We note Australia's current labour force, with the recent improvement in Australia's unemployment rate overshadowed by an increase in underemployment. The Reserve Bank of Australia has suggested that underemployment is starting to have a greater impact on wage growth than unemployment, though its impact on wages is noted to be different to that caused by unemployment. Underemployed workers are inclined to take on more hours than ask for a pay rise, ultimately giving firms the advantage of increasing hours of work for their current employees instead of hiring new employees. Philip Lowe pointed out that if the trade-off of more hours versus better wages remains, then as underemployment increases wage growth will decrease.

*March quarter figures are currently not available and hence the December quarter's figures will be used for analysis.

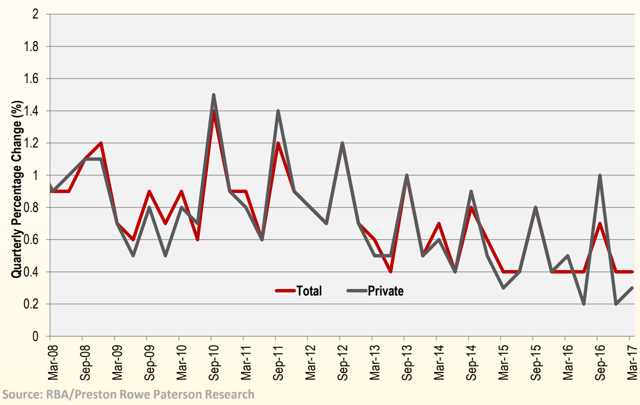

Chart 22— Wage Price Index from December 2007 to December 2016— Source: ABS

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Balance of Payments

Current Account Balance

The latest current account balance figures released by the ABS indicate a decline of $403 million (or -11%), seasonally adjusted, in Australia's current account deficit in March quarter 2017. The current account deficit narrowed down to $3,108 million, with the main contributor to this being higher export commodity prices over three consecutive quarters. Accordingly, the balance on goods and services experienced an increase of $3,129 million (or +51%) to reach a surplus of $9,242 million.

When we look at Australia's terms of trade- the ratio of export prices to import prices- an increase of 6.6% to 109.7 was recorded for the March quarter 2017. Year on year change was recorded at 24.8%, with the increased purchasing power pushing up real net national disposable income per capita (a proxy measure for increased living standards) by 0.8%.

International Investment Position

Australia experienced a decrease of $2.7 billion in net International Investment Position (IIP) liability, reaching $1,028.2 billion as at end of March 2017. Net foreign liability declined by $13.6 billion (or 1%), to $1,015.0 billion, whilst net foreign equity declined by $10.9 billion (from December's position at +$0.3 billion), to reach a net liability position of $10.6 billion at 31 March 2017. Australia's debt position has slowly increased over the years, though the Organisation of Economic Development notes that the nation's debt figures are still 'middle ranking in international comparison'. The Federal Budget papers (released May 2017) estimated net debt, as a share of Gross Domestic Product (GDP), to be at 19.5% in 2017-18, and peaking at 19.8% in 2018-19. By 2020-21, net debt is projected to decline as a share of GDP to 17.6%. Medium term prospects, as outlined by the Budget, indicate that net debt is projected to fall to an estimated 8.5% by 2027-28.

	Balance on Current Account	Balance on Goods & Services	Net Primary Income
December Quarter 2016	-$3,511m	$6,113m	-$9,228m
March Quarter 2017	-$3,108m	$9,242m	-$11,940

Table 3— Balance on Current Account, Balance on Goods & Services and Net Primary Income, Seasonally Adjusted, ($m– millions) — Source: ABS

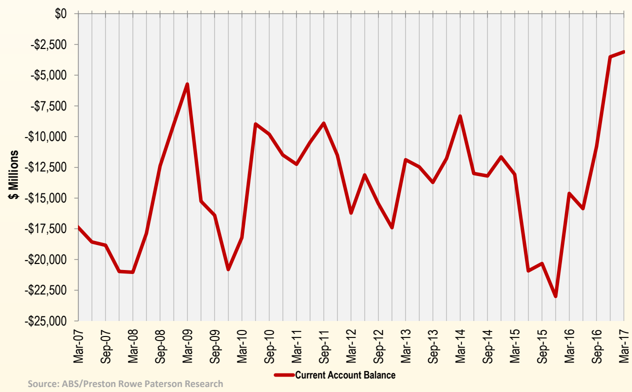

Chart 23— Current Account Balance, Seasonally Adjusted — Source: ABS

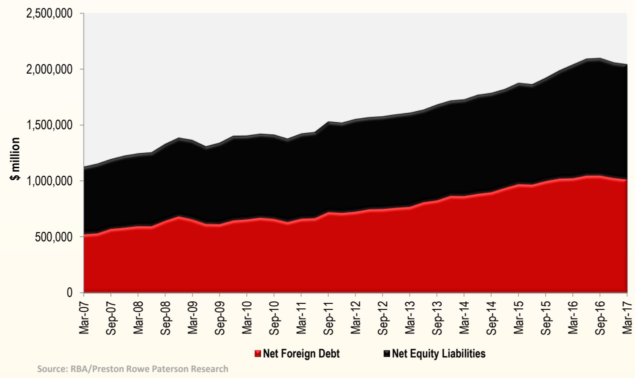

Chart 24— Net Foreign Debt and Net Equity Liability, December 2006 to December 2016— Source: ABS

	Net Foreign Debt ($ billions)			Net Foreign Equity ($ millions)		
	December Quarter 2016	March Quarter 2017		December Quarter 2016	March Quarter 2017	
Australia	$1,028.529	$1,014.963	▼	-$327	$10,557	▲

Table 4 — % Change over Quarter & Year of Net Foreign Debt and Net Equity Liability, December 2016 vs. March 2017 — Source: ABS

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

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- 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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