



Preston
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International Property Consultants

Economic Report

Australia

HIGHLIGHTS

- All Groups CPI was recorded at 108.4 in December 2015, an increase of 0.4% over the quarter.
- The monthly 10 year bond rate as at December is 2.85% with 90 day bank bill rate at 2.34%.
- Cash rate remain unchanged at 2%.
- AUD\$ exchange rate has increased to \$0.7306 US in December.
- The latest figures on the Australian GDP has revealed a 0.9% quarterly growth, reflecting a 2.5% growth over the year to December 2015.

December Quarter 2015

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INFLATION AND INVESTOR SENTIMENT

Consumer Price Index

According to the Australian Bureau of Statistics (December 2015), the Australia's All Groups CPI increased by 0.4% over the December quarter from 108 to 108.4. The annual CPI change to December 2015 recorded a growth of 1.7%.

The most significant price rises over the December quarter were Tobacco (+7.4), Domestic holiday travel and accommodation (+5.9%) and International holiday travel and accommodation (+2.4%). The greatest price fall over the quarter was attributed to are Automotive fuel (-5.7%), Telecommunication equipment and services (-2.4%) and Fruit (-2.6%).

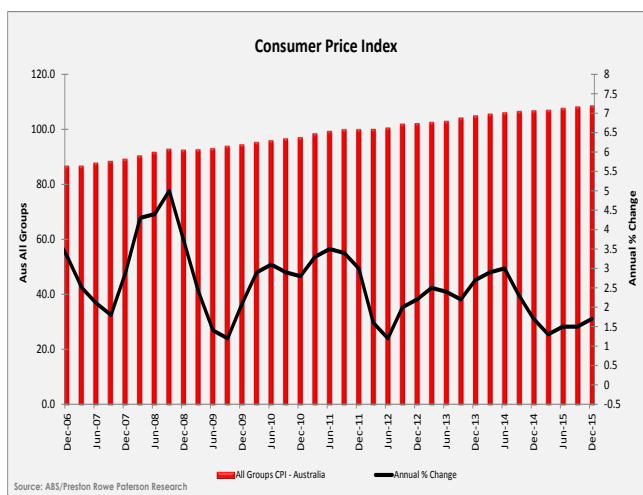


Chart 1 – CPI – Source ABS

The housing group has increased by 0.1% over the December quarter. The main contributors to the price rise were in Rents, New dwelling purchase by owner-occupiers and Maintenance and repair of dwelling recording a growth of 0.2%, 0.1% and 0.5% respectively. Over the twelve months to December, the housing group recorded growth of 2.2% which was backed by the 3.3% annual growth in New dwelling purchases by owner-occupiers and a 1.2% rise in Rents.

The Furnishings, household equipment and services group recorded an increase of 0.6% over the quarter. The main contributors to the growth was Furniture (+1%) and Household textiles (+2.2%).

The Insurance and financial services group increased by 0.8% over the quarter. The main contributor to the rise was Insurance (+2.1%). Through the year to September the insurance and financial services group rose 1.8%, with Insurance contributing to the growth by a 3.8% increase.

Consumer Sentiment

The Westpac Melbourne Institute of Consumer Sentiment Index fell by 0.8% from 101.7 index points in November to 100.8 index points in December. Over the December quarter the index has increased by 6.9 points and recorded a 10.65% annual growth.

Westpac's Economist, Bill Evans commented; "The Index has held on to most of the gains from (November's) 4% lift and is 10.7% above its levels this time last year...The most important (sentiment) change was around 'budget and taxation' with the proportion of respondents assessed as considerably less favourable. Presumably speculation around tax changes, particularly with respect to the GST...Confidence around the housing market continues to deteriorate...housing-related sentiment continues to show sharper falls and considerably weaker reads in NSW and VIC."

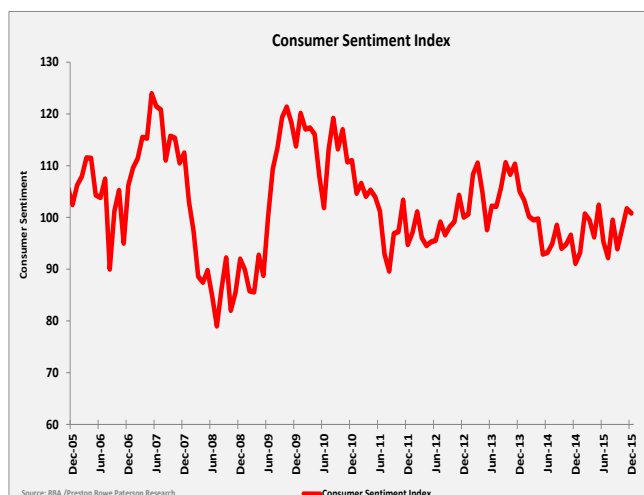


Chart 2—Consumer Sentiment Index—Source—Westpac Melbourne Institute Survey

NAB Business Confidence

Business Confidence had decreased by 2 points to +3 points in the month of December. According to the NAB Monthly Business Survey:

"Suggests a slight easing in business conditions in December...Service sectors remain the best performers, although disappointing to see a sharp moderation in retail conditions and very weak construction. Business confidence remains positive, despite pulling back on escalating concerns over the global economic outlook (particularly in China) and big declines in oil and equity markets since the start of the year...Positive business conditions in most industries suggest a relatively broad based recovery in the non-mining sector is underway...monetary policy is expected to remain on hold for an extended period."

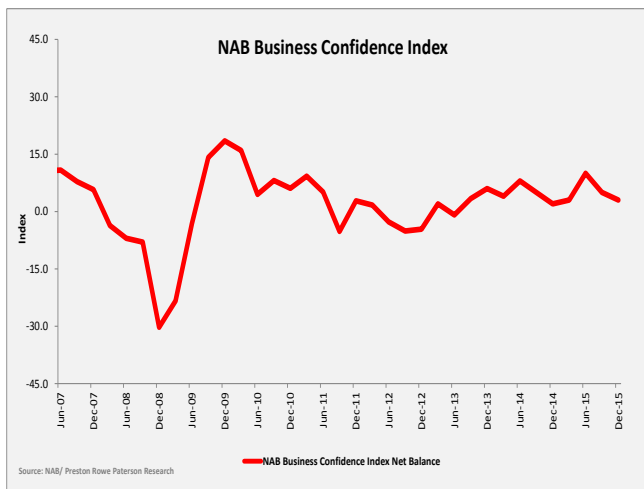


Chart 3 – NAB Business Confidence Index – Source NAB

BOND MARKET

10 Year Bond & 90 Day Bill Rate

Analysis of the daily 10 Year Government Bonds has revealed no changes to the rate over the month of December at 2.85%. The 90 day bill rates had increased by 12 basis points to the month end of 2.34%. The changes in both 10 year bonds and the 90 day bill rate reflect a yield spread of 17 basis points.

Over the December 2015 quarter, the 10 Year Government Bonds recorded an increase of 16 basis points from 2.7%. The 90 Day Bill Rate recorded a 17 basis points growth over the quarter from 2.34%.

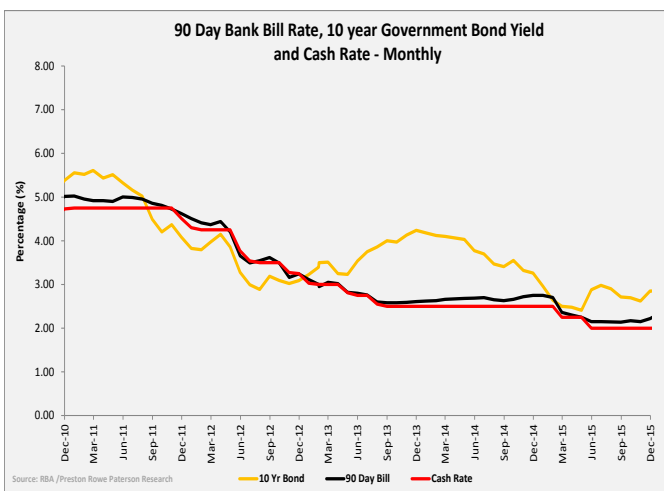


Chart 4 – 90 Day Bill, 10 year bond and cash rate - MONTHLY – Source RBA

In the twelve months to December 2015, the monthly 10 Year Bond Rate has decreased by 11 basis points from 2.96%. Similarly, the monthly 90 Day Bill Rate fell by 41 basis points from 2.75%.

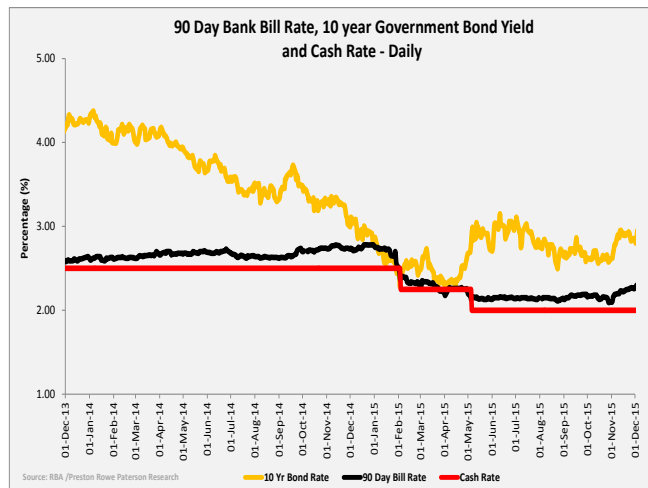


Chart 5 – 90 Day Bill, 10 year bond and cash rate – DAILY – Source RBA

INTEREST RATES

Interest Rate Movements

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

"The global economy is expanding in a moderate pace, with some further softening in conditions in Asia region, continuing growth in US and a recovery in Europe. Key commodity prices are much lower than a year ago, reflecting increased supply, including Australia, as well as weaker demand. Australia's terms of trade are falling...In Australia the available information suggests moderate expansion in the economy continues in the face of a large decline in capital spending in the mining sector. While GDP growth has been somewhat below long-term averages for some time, business surveys suggests a gradual improvement in conditions in non-mining sectors over the part year. This has been accompanied by stronger growth in employment and a steady rate of unemployment... Inflation is forecast to be consistent with the target over the next one or two years."

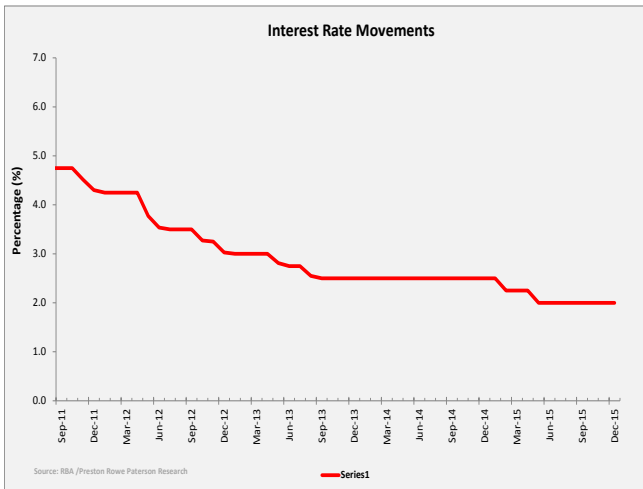


Chart 6 – Cash Rate – Source RBA

Over the December quarter, both the Banks' lending rates and the Home equity loan rates increased by 0.2 basis points to 5.65% and 5.85% respectively whilst the Mortgage managers loan rates remain unchanged at 5.25%.

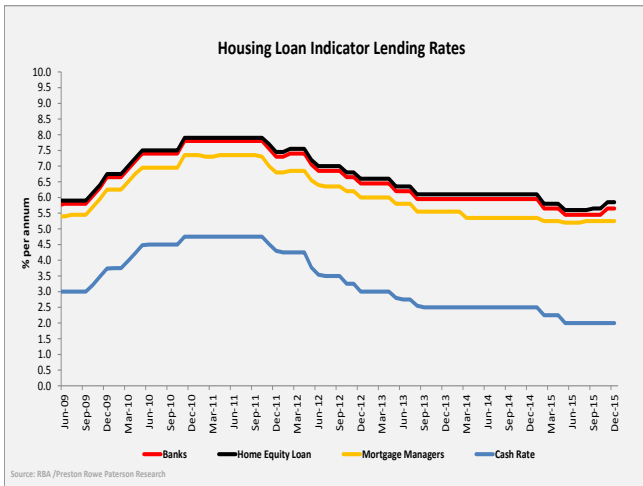


Chart 7 – Housing Loan Indicator Lending Rates – Source RBA

Over the December 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 increased by 5 basis points over the quarter to 5.40%.

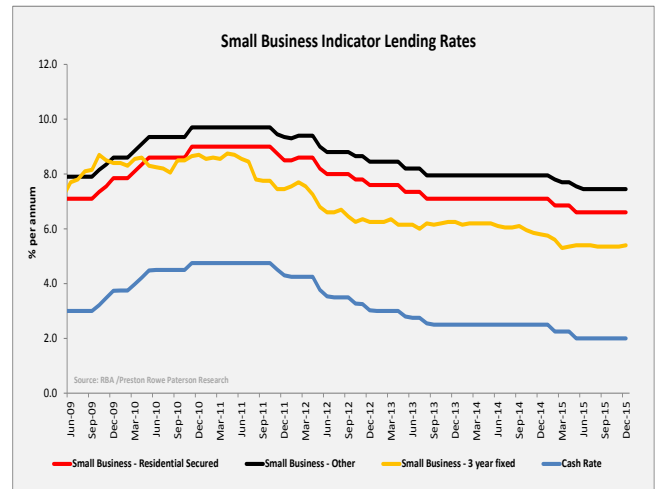


Chart 8 – Small Business Indicator Lending Rates – Source RBA

EXCHANGE RATES & EQUITY MARKETS

Australian Exchange Rates

Over December quarter 2015, the Australian Dollar increased against the US Dollar, inflating from \$0.7010 in September to \$0.7306 in December. Over the twelve months to December, the Australian dollar has fallen by -10.92% from \$0.8202 USD.

The Australian Dollar also recorded quarterly growth against the British Pound, Euro and the Japanese Yen. The Australian Dollar exchange rates against the Pound, Euro and Yen increased by 6.6%, 7.2% and 4.7% respectively.

Year on year analysis saw the Australian Dollar decline against the British Pound by -6.49% to £0.4929, -0.95% in the Euro to €0.6682 and -10.26% in the Yen to ¥87.98.

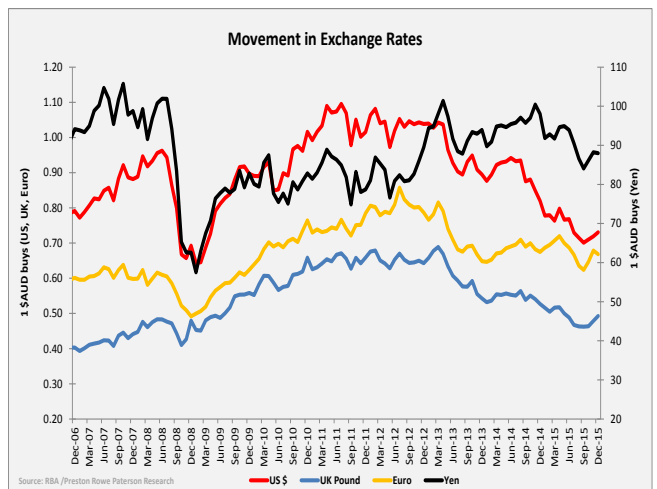


Chart 9 – Movement in Exchange Rates – Source RBA

Share price Indices

Over the December quarter, the S&P ASX 200 Index recorded an 10% growth from 392.4 in September to 431.8 in December. Over the twelve months to December 2015, the S&P ASX 200 Index has recorded an increase of 2.1% tightening by 9 index points.

The US S&P 500 Index recorded a growth of 6.47% over the three months to December 2015 as the index reached 619. Year on year analysis to September revealed a decline of -4.5 index points, reflecting a decrease of -0.7%.

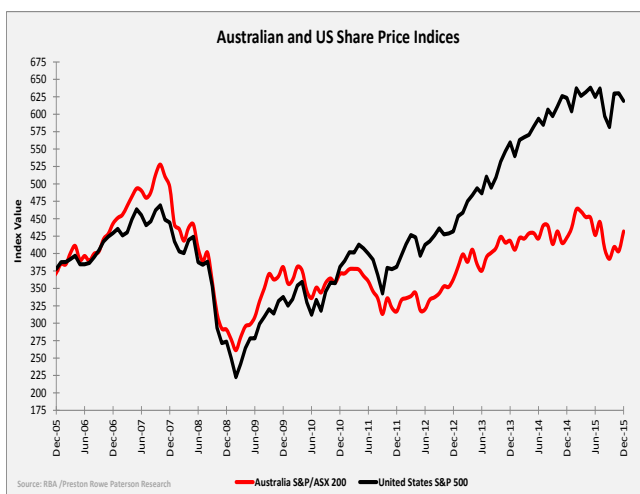


Chart 10 – Australian and US Share Price Indices – Source RBA

Industrials, All Ordinaries and Property Trust Index Values

The December 2015 quarter saw the All Ordinaries Index increased by 5.65% from 5058.6 in September to 5344.56 in December. The year on year analysis has revealed the All Ordinaries Index decreasing by -0.8%, reflecting a decline of 44.04 index points.

The Industrial Index recorded a growth of 4.87% over the December quarter and reflected an annual growth of 12.5%. Since December 2014, there has been an increase of 539.51 index points to 4861.33.

The ASX Property Trusts followed with an increase of 4.31% over the quarter. Similarly it experienced a growth of 8.9% to 1291.22 over the twelve months to December 2015.

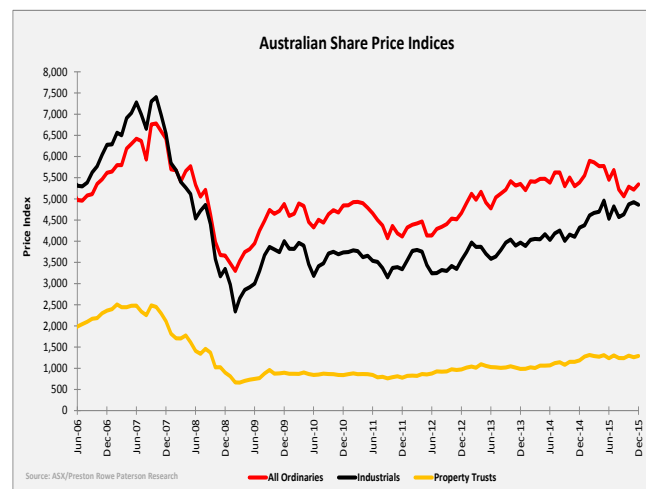


Chart 11 – Australian Share Price Indices – Source ASX

GROSS DOMESTIC PRODUCT

GDP

GDP figures for the December quarter 2015 are not available until the 2nd March 2016, however, over the September 2015 quarter revealed that the Australian economy recorded growth of 0.9% seasonally adjusted which reflected growth of 2.5% seasonally adjusted over the twelve months to September 2015.

The main contributors to expenditure on GDP were Net export which increased by 1.5% and Final consumption expenditure which increased by 0.5%. These were offset by the decrease in Total gross fixed capital formation of -1%.

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 (+0.5%), Healthcare (+0.3%) and Mining (+0.3%). In trend terms, the largest detractor was Manufacturing (-0.1%).

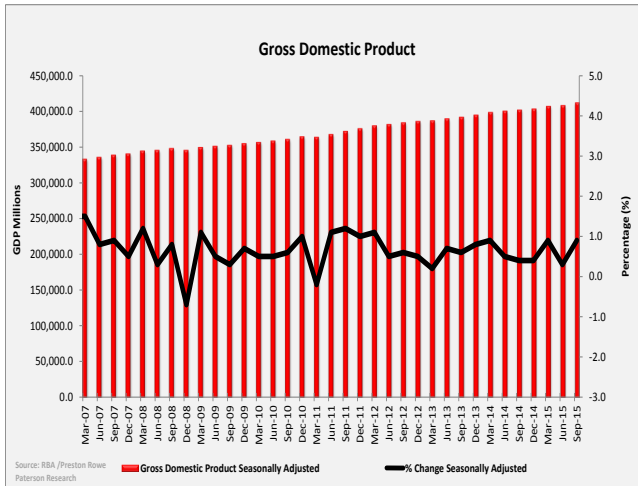


Chart 12 – GDP– Source ABS

The terms of trade had decreased by 2.4% in seasonally adjusted terms over the quarter. In the twelve months to September, the terms of trade has declined by -10.5%. 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.

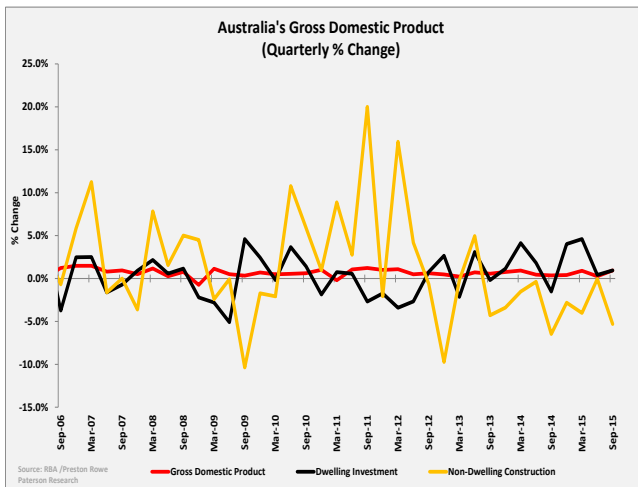


Chart 13 – Australia's GDP (Quarterly % Change) - Source ABS

LABOUR FORCE

Unemployment

Over the month to December 2015, the number of unemployed people has declined by 10,900 from 738,400 in November to 727,500 in December, reflecting a -0.1% decrease. In comparison to December 2014, the number of unemployed people had decreased by 27,300 reflecting an annual decline of -3.6%. The unemployment rate was 5.8% as at December 2015.

Full time employment had grew by 17,600 persons to 8,228,700 persons in December. Part time employment recorded a decrease of 18,500 persons over the month to 3,673,600 persons.

The number of unemployed seeking full time employment recorded a decrease in December by 2,600 to 515,000 persons. The number of unemployed seeking part time employment also decreased over the month by 8,400 to 212,500 persons.

The participation rate reported a marginal decrease of less than 0.1 points to 65.1%, with year on year comparison revealing a 0.5 percentage point increase.

The aggregate monthly hours worked had increased by 0.3 million hours to 1,645.2 million hours at a 0.1% growth.

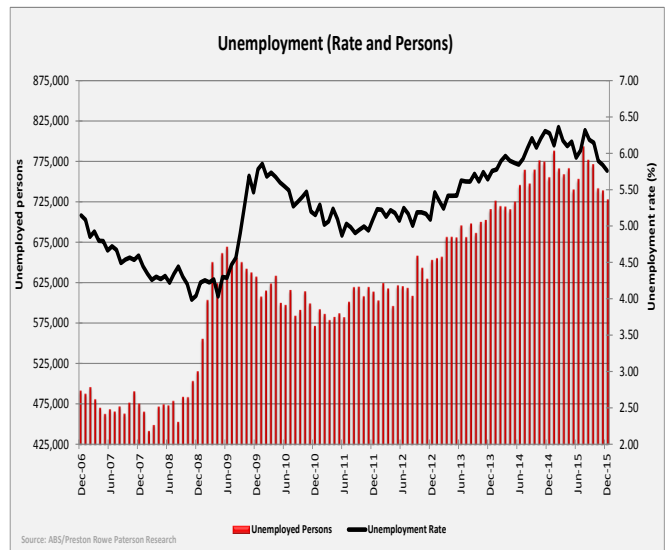


Chart 14 – Unemployment (Rate and Persons) - Source ABS

Wage Price Index

Data for the December quarter 2015 is not currently available, however the September quarter the seasonally adjusted total Wage Price Index rose by 0.6%, reflecting a seasonally adjusted growth of 2.3% in comparison to September 2014. Both public and private sectors increased over the quarter to 2.1% and 2.7%, with through the year rises of 2%.

Over the September 2015 quarter, New South Wales and Tasmania recorded the highest annual wage growth of 1%. The Australian Capital Territory recorded the smallest rise of 0.5%.

In the private sector, the South Australia and Tasmania experienced the highest quarterly growth of 1.2% whilst Western Australia recorded the smallest rise of 0.5%. Through the year rises in the private sector ranged from 1.6% for Western Australia to 2.4% for South Australia and Tasmania.

In the public sector, Western Australia recorded the highest quarterly growth of 1.5%. Tasmania and the Australian Capital Territory experienced the smallest rise of 0.2%. The largest annual rise in the public sector was in Western Australia at 4% and the smallest growth was recorded in Australian Capital Territory at 1.3%.

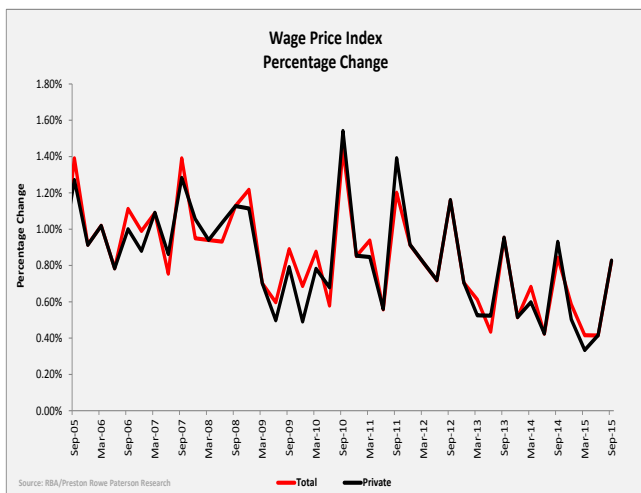


Chart 15 – Wage Price Index - Source ABS

BALANCE OF PAYMENTS

Current Account Balance

Data for the December quarter 2015 is not currently available however over the September 2015 quarter Net Foreign Debt increased by 2.6% to \$993.76 billion. In comparison to September 2014, this is a 9% increase. Net Equity Liabilities recorded an increase of 2.6% over the quarter to \$70.989 billion, bringing total international investment (NFD + NFL) to \$922.771 billion, reflecting an annual growth of 2.9%.

Balance of goods and services surplus saw to a decrease of \$3,508 million over the September quarter and recorded a decline of 32% to \$7.438 billion. The primary net income deficit had increased by 12% to \$10,054 million in the September quarter.

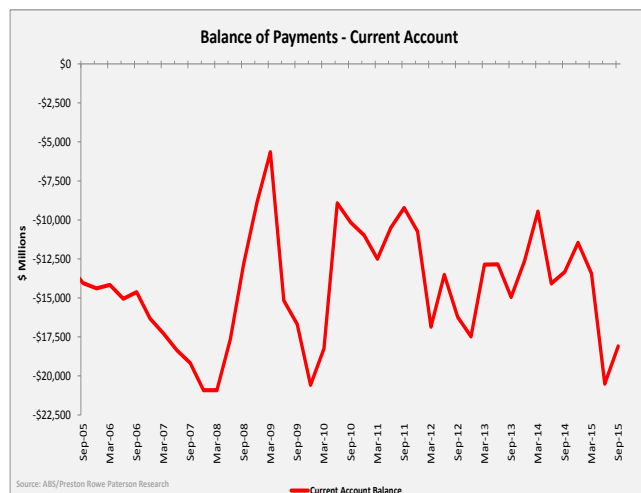


Chart 16 – Balance of Payment Current Account Deficit - Source ABS

International Investment Position

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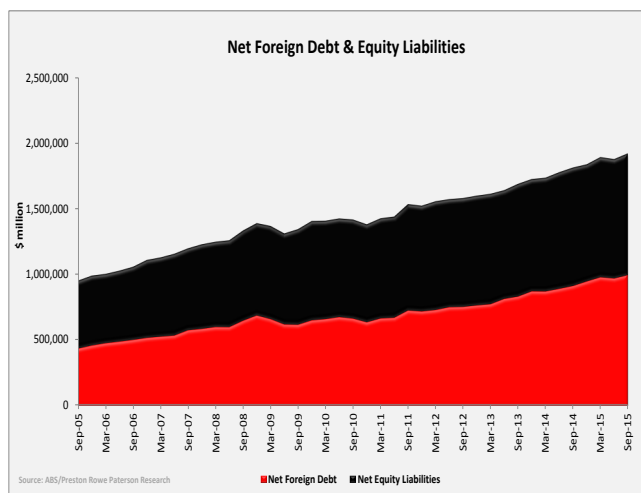


Chart 17 – Net Foreign Debt & Equity Liabilities – Current Account – Source RBA

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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