

A market recovery is well underway.  
Find all essential indicators here.

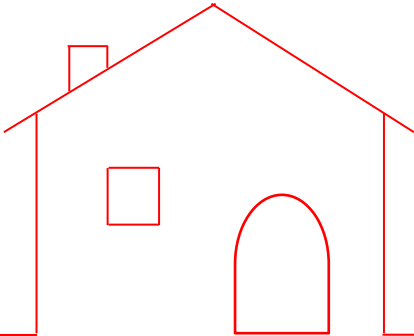
## QUARTERLY ECONOMIC & PROPERTY REPORT FOURTH QUARTER 2013

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# Economic and Property Overview

Australia appears to be facing headwinds, with various sectors of the economy benefiting from the low currency rate and cheaper money market, while other sectors continue to struggle.

In terms of the local economy, the recent pick up in exports of iron ore and coking coal is good news, suggesting that Australia's rising volume of supply is being absorbed by offshore buyers. The rise in consumer imports also implies expected rising consumption. However, neither of these developments will create substantial jobs in Australia. In fact, the recent depreciation of the dollar has not been all good news for Australian business. While a weaker dollar has helped raise returns in export markets and blunted some import competition, it has also raised input costs for some domestic industries that are in no position to pass them on. Around one-third of Australian businesses report adverse effects from the level of the Australian dollar, especially in wholesale, manufacturing, retail and mining. Businesses use a diverse range of strategies to deal with the level of the dollar, especially hedging, reducing overheads and downsizing.

Lower interest rates have yet to translate into increased capital expenditure in Australia which was 2.3 per cent lower, reflecting the trend of declining non-mining capital expenditure. While there still remain several very large projects under construction, as these are completed over the next three to four years, there are few projects of equal value scheduled to offset the decline in mining capital expenditure.

A result of this, while not popular opinion, could see the RBA cutting rates further to stimulate home building. This should also lead to a lower currency, which is positive for trade exposed sectors. A positive wealth effect driven by rises in equity and house prices will be a growing tailwind for growth from late 2013. The savings rate should also fall as rising wealth boosts consumers "passive savings".

Over the medium term the Bureau of Resources and Energy Economics (BREE) assumes Australia's GDP growth will moderate to 2.5 per cent from 2014 to 2015. Proposed government spending on infrastructure, increased housing construction and a rise in mineral exports are expected to partially offset the decline in mining capital expenditure.

Looking offshore, over the past few years global economic growth, although declining, has been supported by robust activity in emerging 'BRIC' economies (Brazil, Russia, India and China) as well as other nations in South-east Asia, South America and the Middle East. This growth in emerging economies offset low and, in some cases, negative growth rates in advanced OECD economies. However, in 2013 this pattern has begun to shift with recovering growth rates in OECD economies and declining growth rates among emerging economies. There are signs that the Eurozone is moving out of recession and that economic activity in the US and Japan has increased in response to expansionary monetary policies and stimulus measures. By comparison, growth rates have moderated in key emerging economies over the past two quarters along with significant fluctuations in their exchange rates, bond yields and equity markets.

The world economy is forecast to grow by three per cent in 2013, the lowest level since the global financial crisis in 2009 and 0.2 percentage points lower than 2012. Growth in advanced economies in 2013 is forecast to be slightly higher than in 2012 at 1.5 per cent as a result of improving economic conditions in the euro zone which is showing signs of recovery after a prolonged recession. Growth in emerging economies is forecast to moderate to 4.8 per cent in 2013, mainly due to expected lower growth in China, ASEAN economies and Russia.

The property market overall should continue to benefit from prolonged access to affordable cash. However, it will be worthwhile keeping an eye out on the changing economy, which could derail the fragile state of confidence.

## Key Facts:

CPI: 2.4 per cent

SVHL Rate: 5.95 per cent

AUS Unemployment Rate: 5.7 per cent

Average AUS Fuel Price: \$1.49pl

# Confidence

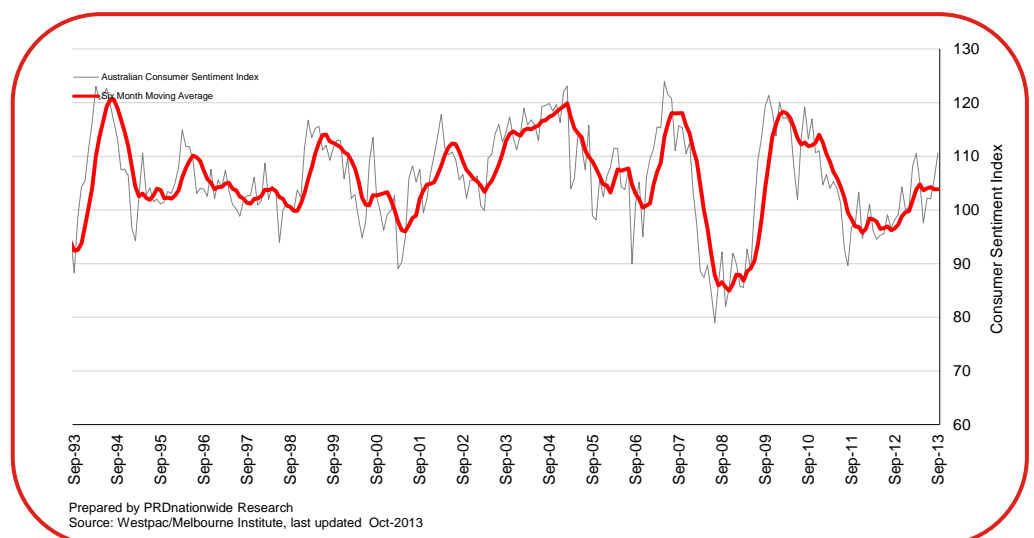
## Consumer sentiment strengthens in September

- The September quarter of 2013 registered an improvement of 8.3 per cent in the Australian Consumer Sentiment Index, recording a final Index score at 110.6 points. Compared to the previous year, the Index is now 12.7 per cent higher.
- The long-term six month moving average Index continues to remain above equilibrium, despite a slight softening over the quarter of 0.1 Index points. Over the September 2013 quarter the long-term Index registered 103.9 points, up from 96.6 points in the previous year.
- Optimism was more prevalent over the month of September, as consumer confidence rose again from 105.7 points established in August. Consumers downgraded their expectations on the future outlook (down 4.2 per cent), however the time to buy a major household item increased by 2.1 per cent.
- Early data released for the month of October shows that out of the five states measured sentiment increased the most in Queensland (up 3.9 per cent), followed by South Australia (up 0.5 per cent). Western Australia experienced the largest decline in sentiment, decreasing by 6.5 per cent to 104.7 Index points. Through an increase of 3.9 per cent in the Index, optimism is once again highest in Queensland, with an Index score of 110.7 points, followed by South Australia at 110.6 points and Victoria at 110.5 points.

### Australian Consumer Sentiment Graph (right):

- The Consumer Sentiment Index indicates short-run changes to consumer willingness to purchase goods in the forthcoming quarter.
- The Index is based on a monthly survey of 1,200 Australian households conducted by the Melbourne Institute and Westpac.
- It represents current and future perspectives of the broad economic climate and household financial state.

### Australian Consumer Sentiment

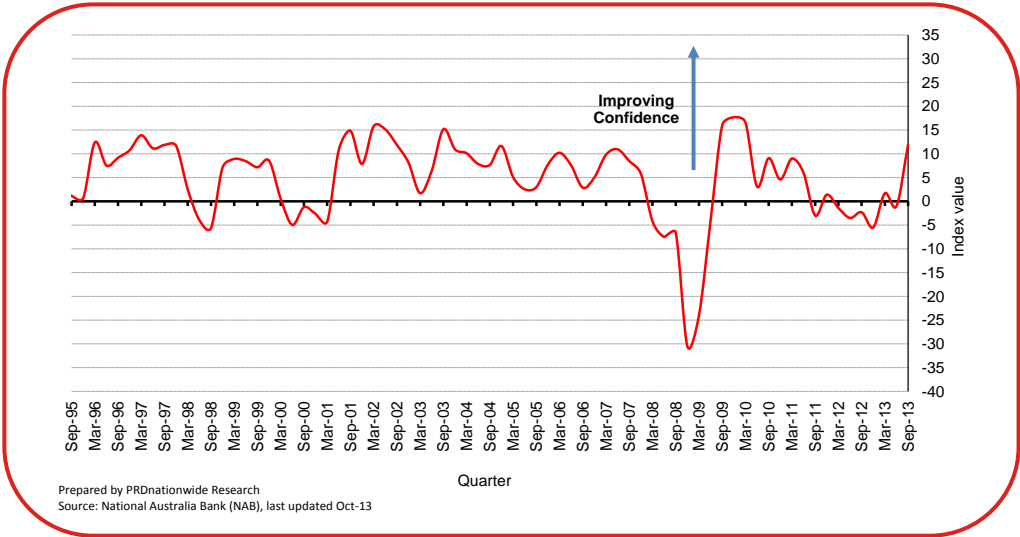


# Confidence cont.

## Business confidence soars in September

- Australian business confidence surged up over the September 2013 quarter to record an Index score of 12, equating to an increase 13 points from March. This is the largest two-monthly gain in confidence since June 2009 (during the immediate aftermath of the Global Financial Crisis). The recent turnaround in business confidence may reflect a number of factors, including recent strengthening in asset price growth, better consumer sentiment, the moderate improvement in business conditions and a lift in forward looking indicators.
- Recreation & personal services and retail became more confident over the month, aided by rising house and equity prices. Transport and utilities was the only industry to experience weaker confidence.
- Across the states confidence lifted, except in South Australia where it decreased marginally. Western Australia recorded the largest increase, up 17 points, followed by Victoria, up 10 points. Confidence is now strongest in Western Australia (at +16 points), followed by both Victoria and New South Wales (at +12 points). It is now softest in South Australia (at +8 points) then Queensland (+9 points).
- Business conditions improved modestly in September, rising three points to -4 points. The lift in conditions was largely driven by improvements in finance/ business/ property and construction, which appear to have benefited from better sentiment in the housing market. The NAB believes that with employment conditions still subdued, labour market conditions may remain challenging over the months ahead, restraining long-term confidence.
- For the first time in two and a half years, the Business Confidence Index reported positive Index scores for all industries. Recreation & personal services (up 15), mining and retail firms (both up 11) became much more optimistic in the month, while transport & utilities (down 2) was the only industry to report weaker sentiment.

### Business Confidence



### Business Confidence Graph (left):

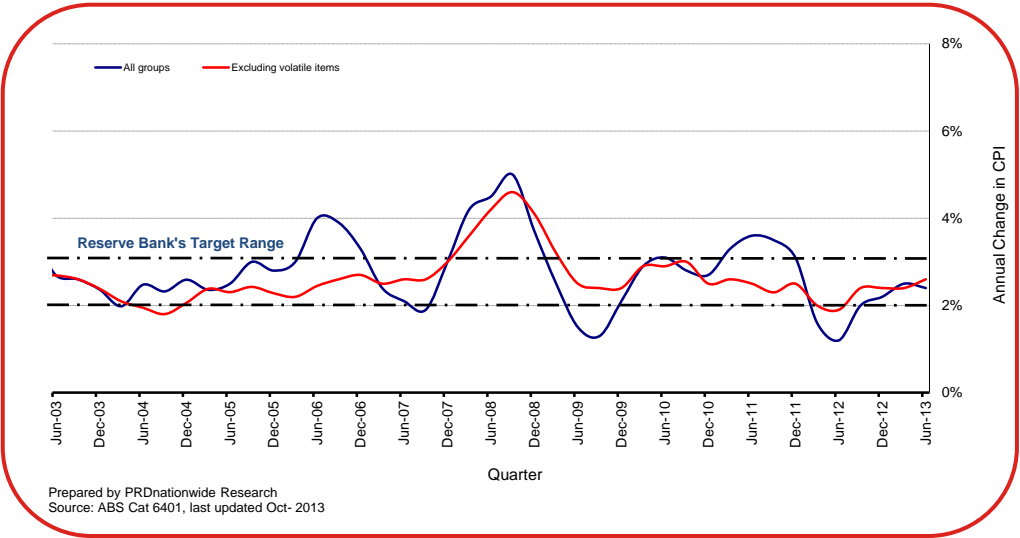
- The Business Confidence Index indicates expectations of business conditions for the upcoming quarter.
- The Index is based on a survey of approximately 900 small to large businesses in the non-farm sectors and is conducted by the National Australia Bank (NAB).

# Macroeconomic Climate

## Inflation remains within the RBA target range

- The June 2013 CPI figures recorded an annual change of 2.4 per cent, equating to an increase of 0.1 per cent from the March 2013 quarter, which continues to place the rate squarely in the middle of the RBA target range (between two to three per cent).
- The underlying inflation figure (as measured by the RBA) removes volatile items such as fruit and fuel, increased to 2.6 per cent, up from 1.9 per cent this time last year.

### Inflation

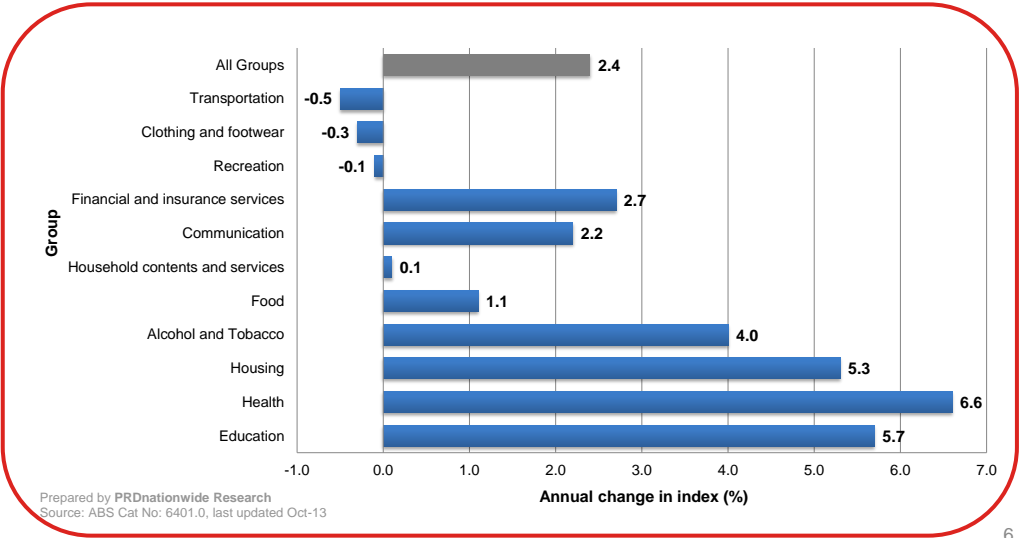


- When analysing changes in the CPI over the past 12 months by group, health increased the most at 6 per cent over the quarter, followed by education (up 5.7 per cent) and housing (up 5.3 per cent). Only three groups experienced a decline in prices, with transportation falling the most at 0.5 per cent.

### Inflation Graph (right):

- Inflation is measured as a change in the Consumer Price Index (CPI), calculated by the Australian Bureau of Statistics as the price of a weighted 'basket' of goods and services which account for a high proportion of expenditure by metropolitan households.
- The Reserve Bank of Australia (RBA) aims to constrain inflation in a long-run target range of 2-3 per cent through the setting of interest rates.

### Annual Change in CPI by Group

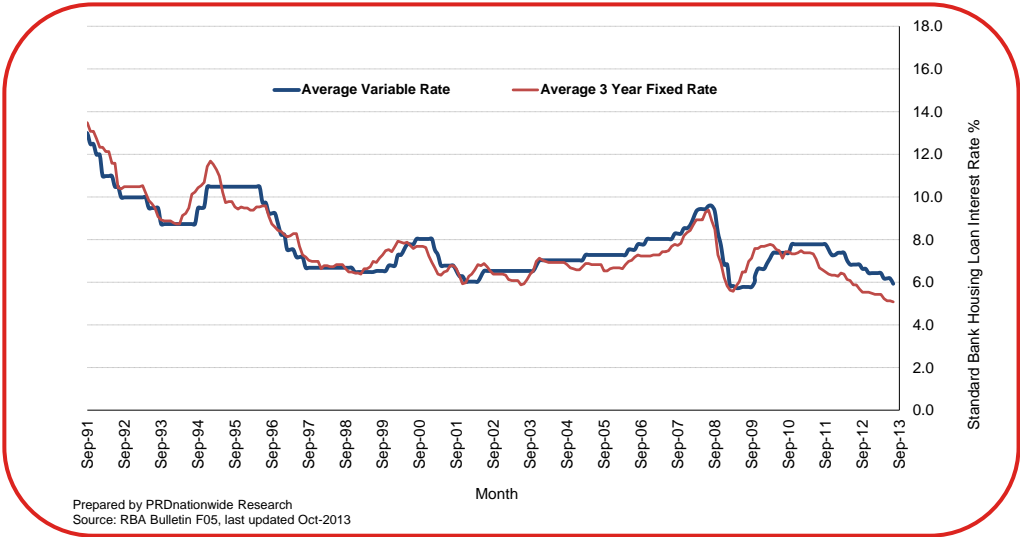


# Macroeconomic Climate cont.

## The average interest rate continues to fall

- Over October 2013, the Reserve Bank of Australia (RBA) held the official cash rate at 2.50 per cent. This rate has been left on hold since the recent rate cut in August 2013, and is now lower than the 'emergency rates' experienced during the Global Financial Crisis. The cash rate is now well below the 10 year average of 4.87 per cent.
- As a result of the decreasing Cash Rate, the standard variable housing loan interest rate has contracted to 5.95 per cent during August and has remained there over the month of September.
- The NAB predicts that due to the recent market raises, there is little chance of a rate hike by the RBA by the end of 2014. Two points to note are that business conditions are one of the single best guides to RBA policy and the RBA has never hiked when business conditions are negative (currently at -4). Secondly, while a rise in confidence may flow through into conditions it is noted that in March 1996 when the Howard Government won office business confidence improved but there was no immediate follow through to conditions.
- Fundamentally, the key reasons for the cash rate to remain on hold over the month of October were:
  - Overall, global financial conditions remain manageable.
  - The Australian economy has been growing at slightly below trend over the past year.
  - The easing in monetary policy since late 2011 has supported interest-sensitive spending and asset values.
  - A lower level of the currency than seen at present would assist in rebalancing growth in the economy.

Housing Loan Interest Rate



Housing Loan Interest Rate Graph (left):

- The housing loan interest rate is the average rate of interest being offered by housing lenders. It is higher than the RBA's target cash rate due to lending costs and profit margins.
- Interest rates are set by the RBA, who acts independently of government and sets interest rates with the goal of maintaining inflation in a long-run target range of 2 per cent and 3 per cent. The RBA meets monthly to review the current interest rate and is only required to justify its decision if it chooses to alter the rate.

# Foreign Exchange

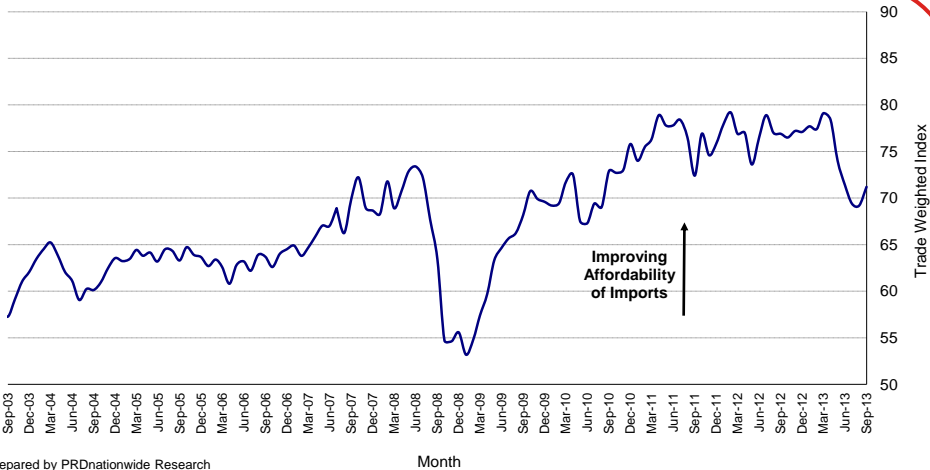
## AUD unexpectedly rises

- During the month of September 2013, the Australian Dollar Exchange Index increased for the first time since March this year, rising by 2.9 per cent to register an Index value of 71.2 points. Over the course of 12 months, the Index has declined by 7.4 per cent. The Australian Dollar (AUD) remains below parity to the US Dollar since May this year, providing much needed respite for Australian exports. Over a 12 month period ending September 2013 the AUD has decreased by 11.4 per cent against the US Dollar to reach 0.93 cents.
- Over the 12 month period ending September 2013, the Australian Dollar has appreciated the most against the Japanese Yen (up 12.4 per cent), while depreciating the most against the Euro (down 14.7 per cent) and the South Korean Won (down 14.0 per cent).
- The Australian dollar has depreciated against the US dollar over the past four months due to speculation over the US Quantitative Easing 3 (QE3) program, the RBA's decision to cut the official cash rate 25 basis points and concerns over growth in China. The exchange rate has dropped from as high as USD 1.05 in January to USD 0.91 in September 2013. The tapering of QE3, declining terms of trade and lower relative interest rates are expected to lead to the value of the Australian dollar down further. BREE expects an average exchange rate of USD 0.86 is assumed from 2014–15. However, a more rapid recovery in the US economy, a longer period of low interest rates in Australia and more rapid decline in the terms of trade could result in a lower exchange rate.

	Sep-12	Sep-13	% Change
EU Euro	0.81	0.69	-14.8%
JP Yen	81.05	91.13	12.4%
NZ Dollar	1.25	1.12	-10.4%
UK Pound	0.64	0.58	-9.4%
US Dollar	1.05	0.93	-11.4%

Source: RBA Bulletin F11

### Trade Weighted Exchange Rate Index



### Trade Weighted Exchange Rate Index (right):

- The trade weighted exchange rate index is compiled monthly by the Reserve Bank and ranks the Australian dollar against the currencies of our significant trading partners.
- Exchange rates directly affect the prices of our exports in foreign trade dollars.

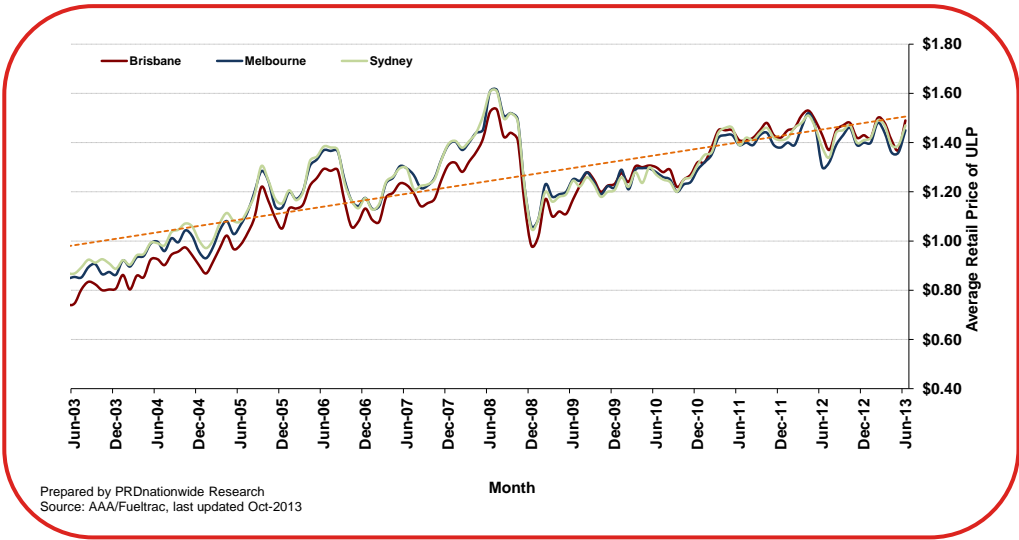


# Fuel Prices

## Petrol prices decrease over June 2013 quarter

- In dollar value terms, the nation experienced a decrease of 1.5 per cent to the average petrol price during the June 2013 quarter. The average price Australians pay at the pump is now \$1.49 per litre.
- For the month of June, Melbourne and Adelaide were the capital cities where motorists pay the least at \$1.45 per litre. Melbourne has experienced a 0.7 per cent increase over the quarter, while Adelaide remained unchanged. Four state capitals experienced a decrease in price over the quarter, with falls in Perth (down 0.7 per cent), Darwin (down 3.0 per cent), Hobart (down 4.4 per cent) and Canberra (down 4.6 per cent).
- In Darwin consumers continue to pay the most at \$1.61 per litre, followed by Hobart at \$1.51.
- Analysis by the Wall Street Journal suggests the US is set to overtake Russia as the world's largest producer of oil and natural gas by the end of this year.
- German paper Bild reported that luxury German carmaker Mercedes-Benz sold 142,000 cars in September, the most in one month in its history, driven by demand from China and the US.

### Retail Fuel Prices



### Retail Fuel Prices Graph (left):

- Sourced from Fueltrac, this chart tracks the average retail price for unleaded petrol across a broad range of suppliers in metro areas.

# Commodity Prices

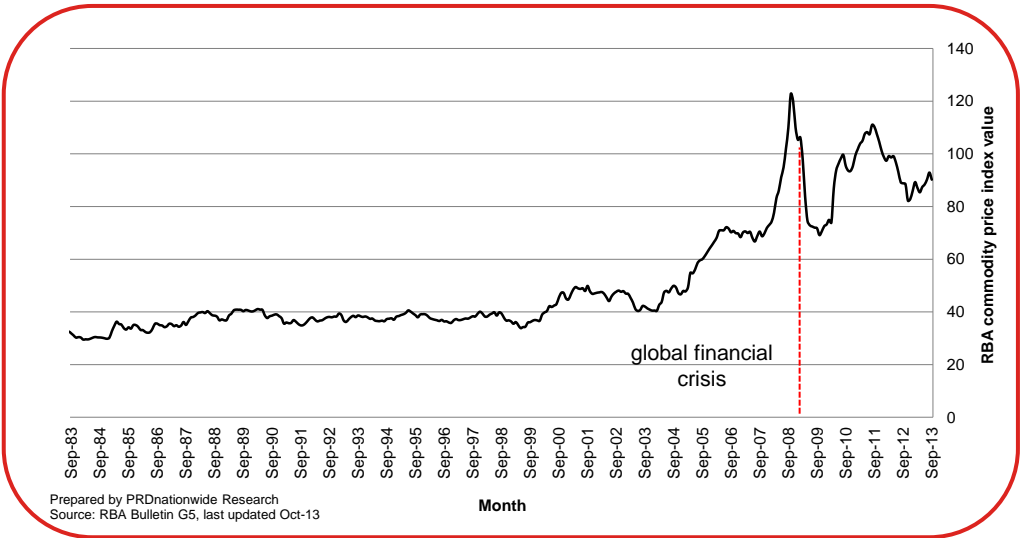
## Commodity prices slip further during September

- During the month of September 2013 the Commodity Price Index recorded a decrease of 2.9 per cent to reach 90.2 Index points. However when compared to the previous year, the Commodity Price Index has risen by 1.6 per cent. While commodity prices have declined recently, they are still above the longer-term 10 year average of 78.0 Index points.
- According to the NAB, international trade showed a rise in exports, notably of iron ore, but also stronger imports, particularly of consumer goods. That said, the shock was a big negative revision to the deficit for July which was raised from -\$765m to -\$1,375m. Exports rose by three per cent, boosted by a solid rise in metal ores and minerals of seven per cent. This more than offset a fall in coal exports, down four per cent. The latter was due to lower exports of thermal coal (used for electricity) to the Republic of Korea and Taiwan. Imports rose by one per cent, with a notable rise of five per cent for consumer goods. This in turn reflected significant rises in imports of cars, food & beverages and textiles, clothing & footwear.
- The Bureau of Resources and Energy Economics (BREE) Resources and Energy Quarterly details its latest year-ahead forecasts for the commodity export sector. According to BREE, Australia's mineral and energy export earnings totalled \$177 billion in 2012-13, an 8 per cent decrease from 2011-12. While the volume exported increased for most commodities, moderating prices as a result of increasing world supply resulted in lower export revenues for Australian producers. Over the period 2013-14 to 2017-18, BREE projects that Australian export revenues will grow at an annual average rate of 11 per cent to total \$294 billion in 2017-18. Growth in export revenue will be driven by two main factors: substantial growth in bulk commodity export volumes, particularly for LNG and iron ore; and a lower Australian dollar exchange rate.

### RBA Commodity Price Index Graph (right):

- Primary commodities account for more than half of Australia's export earning.
- The Reserve Bank's Commodity Price Index provides an indicator of primary commodity price movements. The index includes 17 commodities with separate weightings, the highest of which are coal, gold and iron ore.
- High commodity prices are one of the primary drivers behind Australia's robust economy, influencing real estate prices particularly in Western Australia, Northern Territory, Northern Queensland and as of late South Australia. Coupled with the resource industry boom, employment and population growth follow, which spurs demand for housing and rental accommodation, particularly in neighbouring resource rich regions.

RBA Commodity Price Index

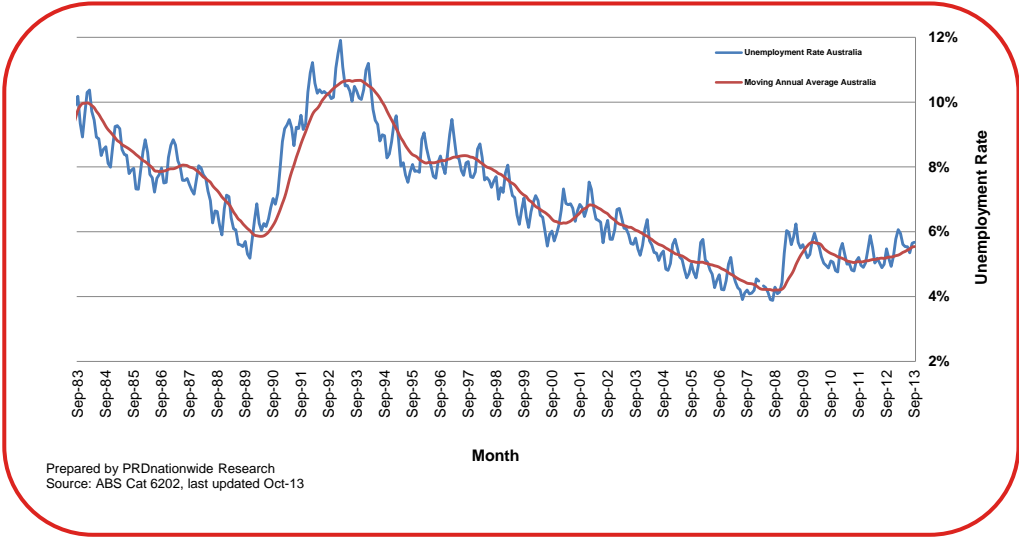


# Labour Market

## Unemployment rate sneaks up

- During the month of September 2013 unemployment increased marginally to 5.7 per cent, up from 5.6 per cent. The moving annual average rate remained at 5.5 per cent, since July 2013.
- Unemployment in New South Wales has decreased by 0.1 per cent over the month, to 5.6 per cent. Victorian unemployment increased by 0.2 per cent to 5.9 per cent. While due to the changing resource industry in Queensland, unemployment continued to increase by a further 0.3 per cent to 5.9 per cent.
- For the month of September 2013, the nation's lowest rate of unemployment occurred in the ACT at 4.5 per cent, despite recording a significant monthly increase of 0.8 per cent. Tasmania still has the highest rate of unemployment, at 8.1 per cent, but has decrease over the month by 0.1 per cent.
- The ABS has reported that the total job vacancies in August 2013 were 137,900, equating to a decrease of 3.7 per cent from May 2013. The number of job vacancies in the private sector was 126,500 in August 2013, resulting in a decrease of 4.1 per cent from May 2013. The number of job vacancies in the public sector was 11,400 in August 2013, an increase of 0.9 per cent from May 2013.

Unemployment Rate



- The ANZ job advertisements series rose 0.2 per cent over the month of September. Although effectively unchanged, this is technically the first monthly increase since February. While job ads had fallen for six consecutive months, the pace of monthly decline appears to have moderated in recent months. The level of job advertising remains quite low. In September, job ads were 15 per cent below year-ago levels and only six per cent above the lowest level reached during the Global Financial Crisis.
- The ANZ believes trends in job advertising appear to be stabilising. Along with a number of other leading indicators of the labour market, the rate of deterioration in ANZ job ads has moderated in recent months, with job advertising showing signs of improvement in a number of states and territories. This is consistent with ANZ's view that much of the rise in the unemployment rate may have already occurred and that it is likely to drift only modestly higher.

Unemployment Rate Graph (left):

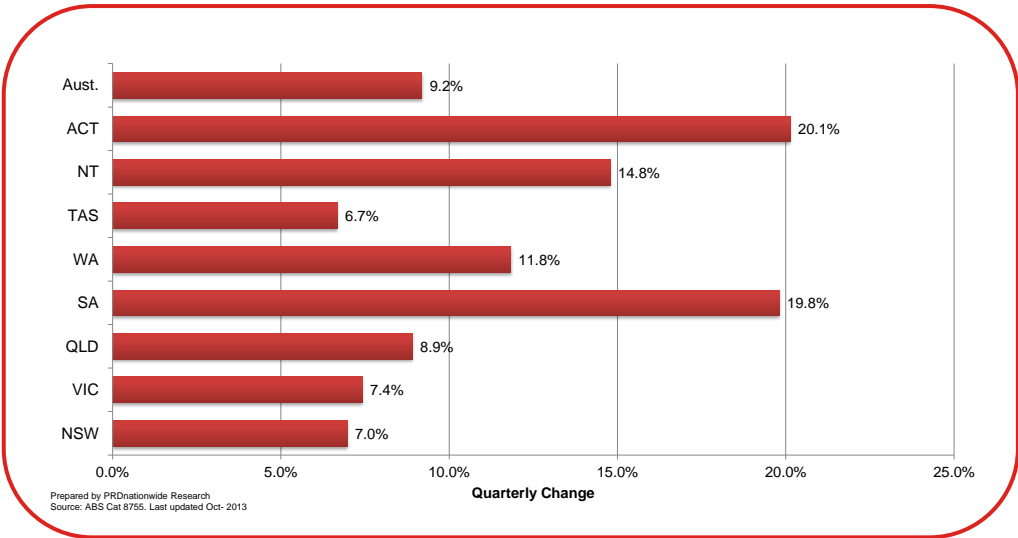
- Unemployment is calculated as the proportion of people in the labour force that were unemployed and actively seeking work during the survey period.
- The labour force is defined as the number of people aged between 16 and 55 who were either employed or actively looking for work during the survey period.
- This graph tracks the unemployment rate on a monthly and moving annual average basis over the last 30 years.

# Construction Market

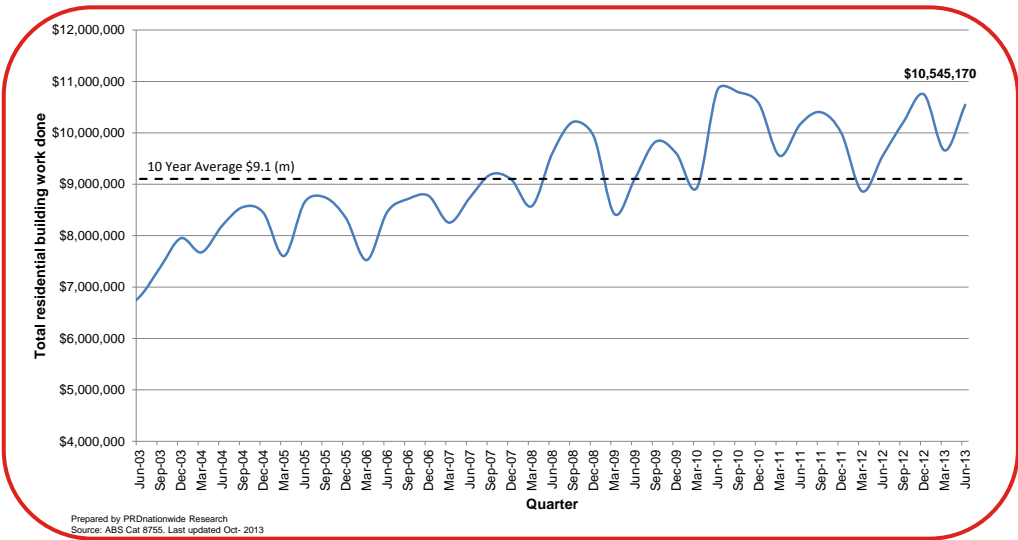
## New residential construction increases in all states

- During the June 2013 quarter, the national total value of residential construction work completed increased by 9.2 per cent to reach just over \$9.1 million. However when compared to the previous year, the rate has swelled by 10.4 per cent.
- On a state by state basis over the quarter, new residential construction increased in all states, lead by the ACT at 20.1 per cent. This was followed by South Australia, at an increase of 19.8 per cent. Residential construction increased the least over the quarter in Tasmania (at 6.7 per cent), followed by New South Wales (at 7.0 per cent).

Change in the Quarterly Value of Residential Construction by State



Total Quarterly Value of National Residential Construction



### National Residential Construction Graph (right):

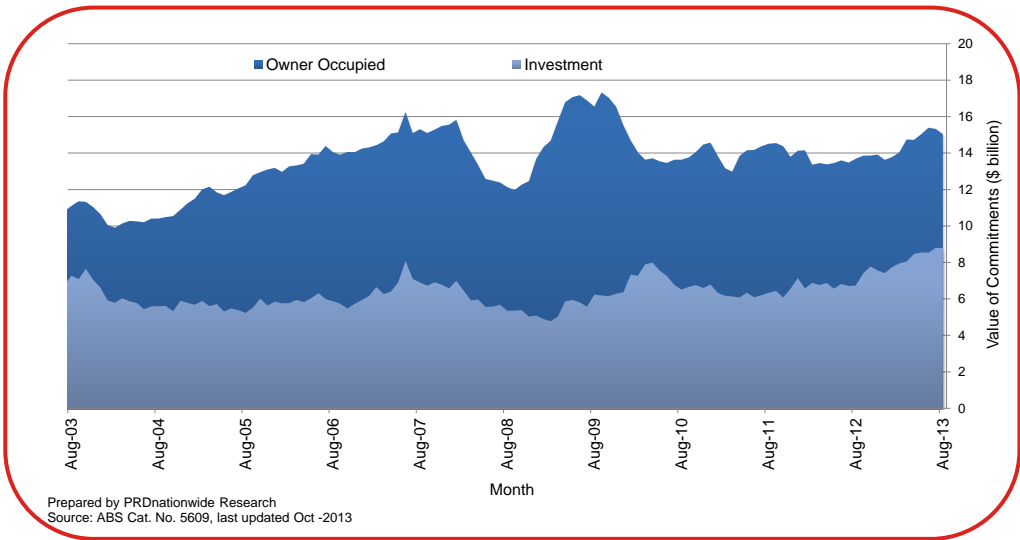
- This data provides an early indication of trends in building and engineering construction activity. The data are estimates based on a response rate of approximately 85 per cent of the value of both building and engineering work done during the quarter.

# House Finance

## Year on year housing finance improves

- The gross spend on housing finance was \$23.8 billion during the month of August 2013. Compared to the previous year, the total spend has increased by 16.7 per cent, equating to \$3.4 billion more. The ABS data showed in seasonally adjusted terms, the total value of dwelling finance commitments excluding alterations and additions fell 1.2% during the month of August.
- Compared to the previous year, investor spending continued to increase to \$8.8 billion (up \$2.1 billion) and is above the ten year long-term average of \$6.4 billion. For the month of August 2013, the level of investor financial commitments remained steady. The investor financed market now amounts to 36.9 per cent of the mortgage property market, equating to an increase of 3.9 per cent in 12 months.
- Owner occupier expenditure increased by \$1.4 billion from the previous year to \$15 billion.
- The purchase of new dwellings increased over August by 0.3 per cent, while the purchase of established dwellings increased by 0.7 per cent (sourced from seasonally adjusted figures released from the ABS).

Housing Finance Commitments



Housing Finance Commitments Graph (left):

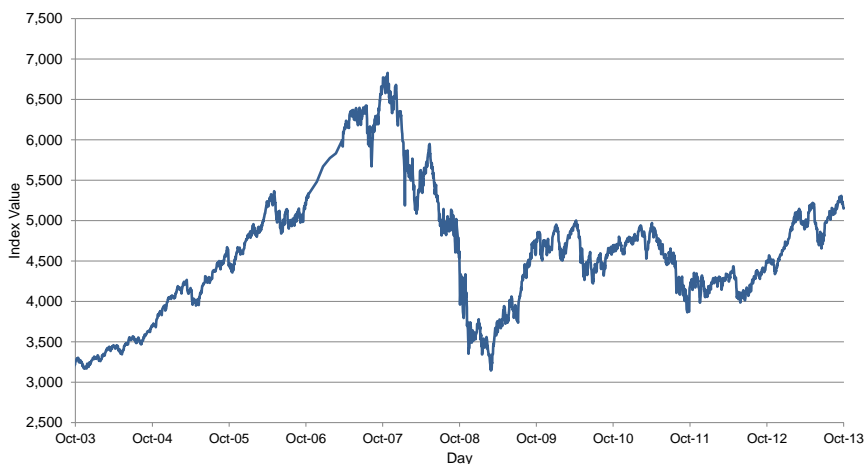
- Housing finance commitments track the volume of finance commitments made by significant lenders to individuals for the purchase of housing.
- This graph tracks the value of loans approved for both owner occupiers and investors.

# Stock Market

## Australian share market strengthens before US Govt. shutdown

- The month of September has seen the Standard & Poor's ASX 200 increase on the improvements made during August. The Index rose to an average 5,229 points during September, equating to an increase of 2.4 per cent from the average registered in August.
- Recently, it has been a tough period for global financial markets as the US budget impasse prompted a partial shutdown of the US government. More than 800,000 workers were affected as all non-essential government services went on hold. At the time of writing, the shutdown had continued for eight days and although negotiations continue daily, it appears no closer to a resolution. Traders are now showing concerns that the budget stall will extend beyond the October 17 deadline for the US to raise its debt ceiling or potentially default on its debt.
- The ASX managed to put the fiscal concerns of the United States to one side and focus on domestic issues. As expected, the Reserve Bank of Australia kept its key interest rates on hold at 2.5 per cent at its October board meeting and the accompanying statement said monetary policy would remain flexible to encourage growth.
- Looking ahead, analysts have speculated that if the US can't resolve its budget deadlock and ends up defaulting on its debt, the finance sector would be hardest hit, leading to pre-emptive selling by traders.

S&P / ASX 200



S&P / ASX 200 Graph (left):

- The S&P/ASX 200 is recognised as the primary investable benchmark in Australia. The index covers approximately 78 per cent of Australian equity market capitalisation. Index constituents are drawn from eligible companies listed on the Australian Stock Exchange. This index is designed to address investment managers' needs to benchmark against a portfolio characterized by sufficient size and liquidity.
- The S&P/ASX Australian Index is a real-time, market capitalisation weighted index that include the largest and most liquid stocks in the Australian equity market listed on the Australian Stock Exchange (ASX).

# Dwelling Market

## Dwelling approval rate increases only in New South Wales

- The total number of dwelling approvals declined during the month of August 2013 by 9.1 per cent, equating to 1,430 less approved dwellings. However when compared to the previous year, approvals have increased by 4.0 per cent.
- On a state-by-state basis, only New South Wales recorded an increase in dwelling approvals during the month of August, representing an increase of just 5.2 per cent from the previous month. All other states recorded a decrease in approvals, with the ACT recording the largest decrease in the number of dwelling approvals, at 55.7 per cent. Victoria registered the largest portion of dwelling approvals, amounting to 27.5 per cent of the total dwellings approved for the month.
- The seasonally adjusted estimate of the value of total building approved rose 0.2 per cent in August and has risen for two months. The value of residential building fell 2.3 per cent following a rise of 2.3 per cent in the previous month. The value of non-residential building rose 3.9 per cent and has risen for two months.
- According to the Housing Industry Association (HIA) New Home Sales report, a survey of Australia's largest volume builders, showed that total seasonally adjusted new home sales increased by 3.4 per cent in August 2013 following a decline of 4.7 per cent in July. The rise was driven by a 5.8 per cent increase in detached house sales. Conversely, multi-unit sales fell by 11.2 per cent in August. The HIA believes that current indications are that actual new dwelling construction will fall well short of the levels the Australian economy needs the sector to achieve in 2013/14. In the month of August 2013 private detached house sales increased by 10.2 per cent in Western Australia, 8.2 per cent in South Australia, 7.4 per cent in New South Wales, 3.6 per cent in Queensland, and 2.4 per cent in Victoria.

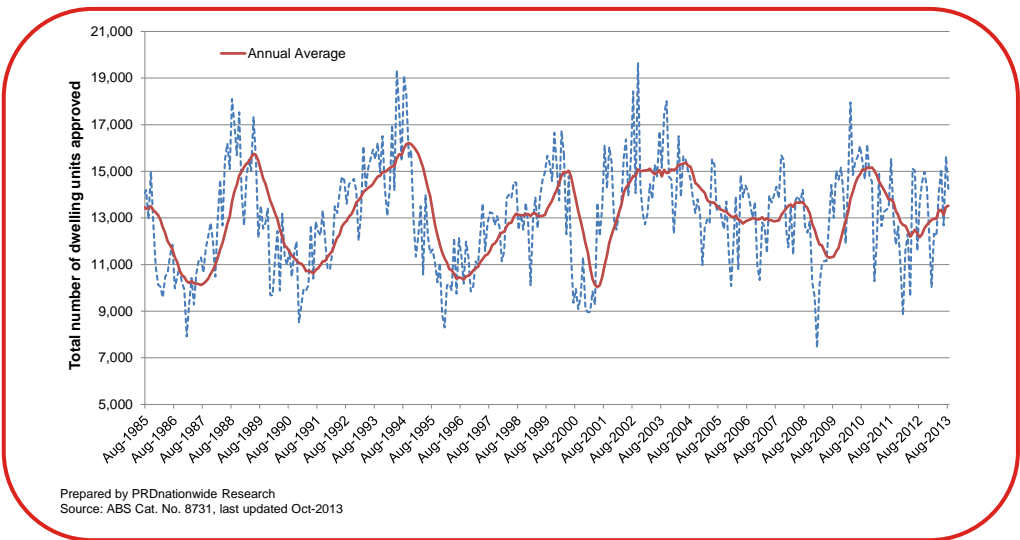
### Dwelling Approvals Graph (right):

Dwelling approvals indicate the number of new dwellings that have been approved for:

- construction of new buildings;
- alterations and additions to existing buildings;
- approved non-structural renovation and refurbishment work; and
- approved installation of integral building fixtures.

A moving yearly average is used to filter out seasonal fluctuations in the number of dwellings commenced.

### Dwelling Approvals

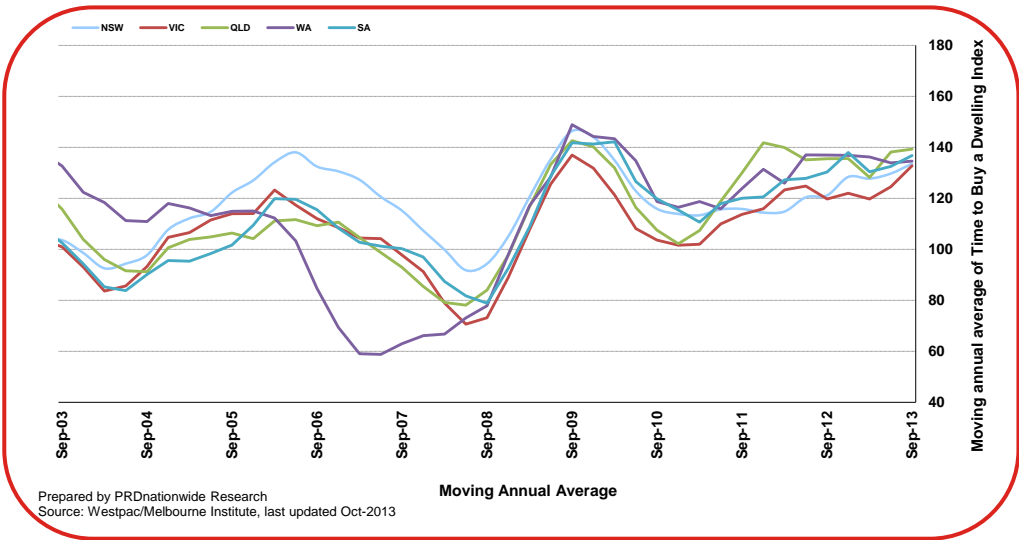


# Dwelling Market Cont.

## Best Time to Buy Index rises the most in South Australia

- Over the September 2013 quarter, the Time to Buy a Dwelling Index increased in three of the measured five states, with South Australia rising the most at 5.6 per cent, followed by New South Wales at 5.4 per cent and finally Western Australia at 4.0 per cent. Queensland experienced the largest decline at 1.8 per cent, while Victoria also softened by 1.3 per cent.
- Queensland maintained the highest Index value at 152.4 points, followed by South Australia at 150.4 points. The lowest Index score was registered in Western Australia at 140.4 points.
- According to the Westpac-Melbourne Institute Survey of Consumer Sentiment, family financial conditions improved in all states except New South Wales over the 12 month period ending October 2013. Conditions deteriorated in New South Wales by 10.4 per cent, to 76.2 points. The largest increase was felt in South Australia (up 31.7 per cent) followed by Queensland (up 22.3 per cent) and Victoria (up 18.8 per cent). Western Australia experienced the smallest increase of 0.2 per cent. Western Australia still has the best family financial conditions, at 95.8 Index points, followed by Victoria at 95.0 points. New South Wales has the worst conditions at 76.2 Index points.
- The latest Property Council of Australia-ANZ Property Industry Confidence Survey reveals that sentiment has increased to 120 during the September quarter (from 105 in the previous year). National confidence levels were boosted by New South Wales joining Western Australia as a driver for the national economy. New South Wales led the improvement in confidence, increasing by 24 points over the twelve month period. Meanwhile, confidence in Western Australia has eased from very high levels on the back of uncertainty about China's economic outlook and the end of the resources boom. The Property Council/ANZ survey revealed Tasmania and the Australian Capital Territory are the most pessimistic markets, with respondents signaling weak growth expectations over the coming 12 months.

Time to Buy a Dwelling Index



### Time to Buy a Dwelling Index Graph (left):

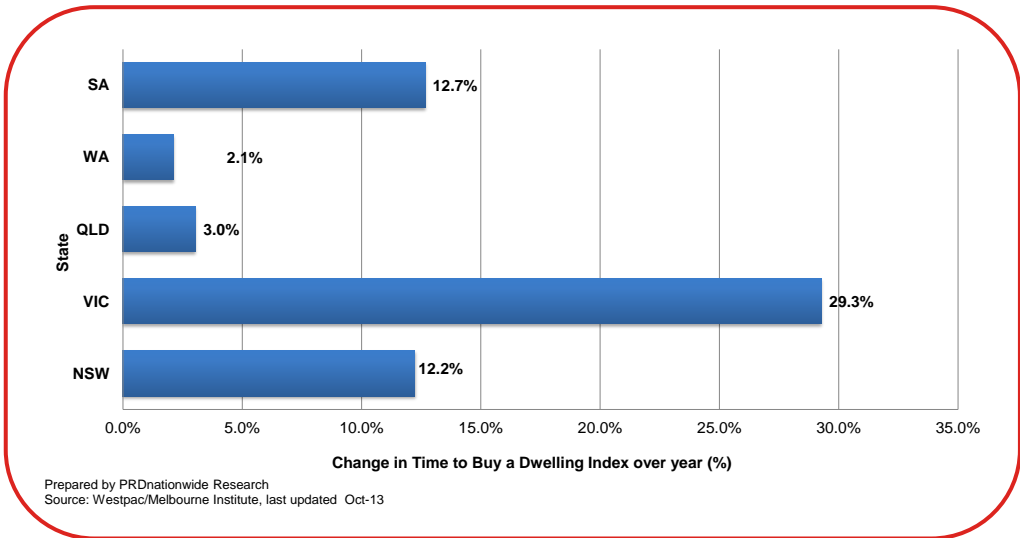
- The Time to Buy a Dwelling Index indicates short-run changes in consumer sentiment regarding whether it is a good time to buy a dwelling.
- It is a component of the Melbourne Institute's Consumer Sentiment Index which is undertaken monthly.



# Dwelling Market Cont.

## Victoria observes largest increase in Time to Buy Index over 12 months

Annual Percentage Change in Time to Buy a Dwelling Index



- According to the NAB Quarterly Australian Residential Survey of September 2013, housing market sentiment strengthened notably in the third quarter, underpinned by an acceleration in house price growth in all states (except for Western Australia). The Survey is pointing to faster price growth ahead (led by New South Wales and Queensland), but gains are expected to be relatively modest. Demand has improved for all types of new and established property. Property professionals continue to cite tight credit and employment security as the key obstacles to buying property.
- NAB's Residential Property Index rose 17 to +32 points in the third quarter (second best result since survey began). New South Wales (+47) saw the biggest improvement, with Victoria (+40) the next best state. A big improvement was also noted in Queensland (+31). Western Australia (+13) was the only state reporting weaker sentiment. Queensland (+79) and Victoria (+79) are set to emerge as the strongest states in the next two years. Sentiment was weakest in Western Australia (+71), but at relatively elevated levels.
- NAB's view of the market is slightly less optimistic than the survey, with rising unemployment expected to dampen house price growth over the outlook period. NAB sees capital city house prices rising by 3½% in the year to September 2014 and 3% in the year to September 2015.
- A combination of slow rental growth and faster capital appreciation suggest rental yields are eroding. Rents increased just 0.2 per cent in the September quarter. Rents fell in Western Australia (-1 per cent) and both South Australia and the Northern Territory (-0.3 per cent), but increased in New South Wales (0.9 per cent), Queensland (0.7 per cent) and Victoria (0.3 per cent). Queensland and New South Wales are expected to be the standouts for income growth in the next one to two years, with returns weakest in South Australia and the Northern Territory.

### Time to Buy a Dwelling Index Graph (right):

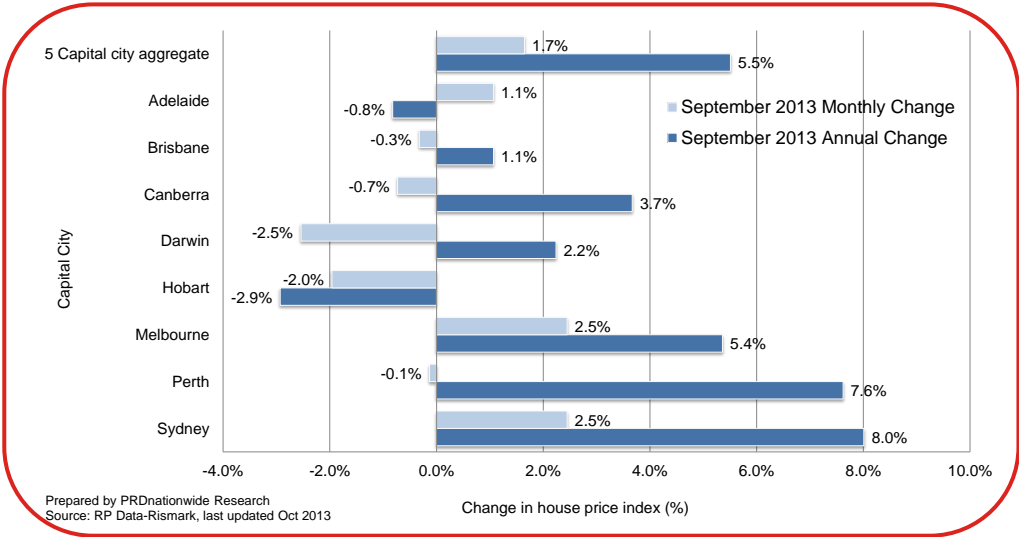
- The Time to Buy a Dwelling Index indicates short-run changes in consumer sentiment regarding whether it is a good time to buy a dwelling.
- It is a component of the Melbourne Institute's Consumer Sentiment Index which is undertaken monthly.

# Dwelling Prices

## Home values continue to rise during 2013

- According to the RP Data-Rismark Combined Capital Cities Index, the combined city aggregate experienced an annual change of 5.5 per cent to September 2013. Over the course of the quarter, the city aggregate rose 1.7 per cent. Over the course of the year, the largest improvement occurred in Sydney rising 8.0 per cent, followed by Perth, up 7.6 per cent and then Melbourne up 5.4 per cent. Hobart and Adelaide were the only capital cities to have recorded a contraction in home values, falling by 2.9 and 0.8 per cent respectively.
- On the whole, monthly changes in the Index were much more conservative, with the greatest increase occurring in both Sydney and Melbourne (through a rise of 2.5 per cent), followed by Adelaide (up 1.1 per cent).
- Value growth in Darwin continues to slide, as the month of September registered a decrease of 2.5 per cent, while another hot market Perth, recorded a monthly change of -0.13 per cent. Both were well below the registered growth in values over the past 12 months.
- According to RP Data, time on market for houses at private sale was 43 days in the latest monthly data from August and this was nine days lower than the five year average. The unit market was showing signs of larger supply with its time on market being 48 compared to the five year average of 50. If the market continues to perform to trend then October will see a new nominal peak in house prices reached.

RP Data – Rismark Dwelling Home Value Index Change by Capital City



RP Data – Rismark Dwelling Home Value Index Graph (left):

- The graph to the right measures an annual & monthly change in dwelling values of the capital cities.

# Home Affordability

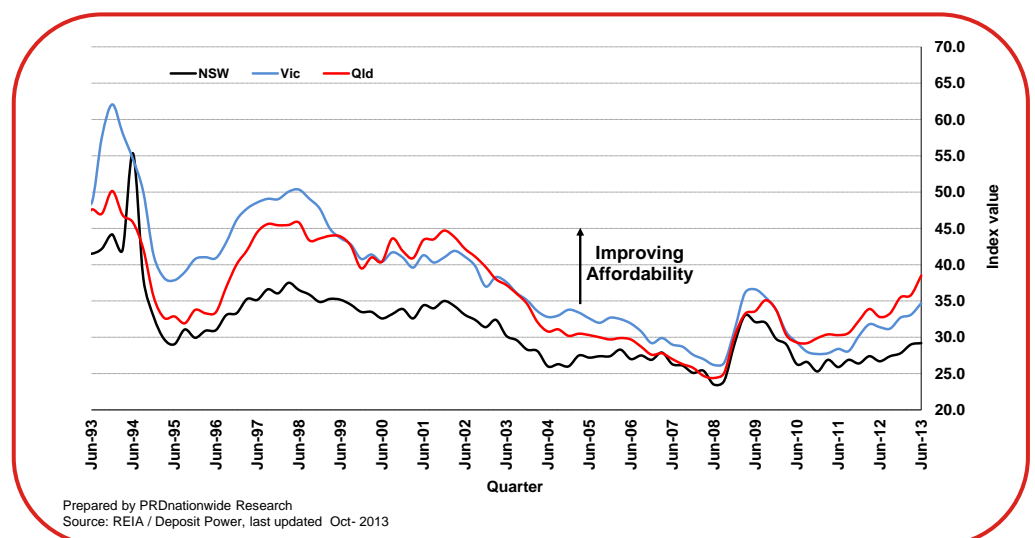
## Home loan affordability builds once again

- Home loan affordability has increased yet again, with the quarter ending June 2013 experiencing a rise of 3.9 per cent to 34.8 Index points. Looking longer-term, this equates to an improvement from the previous 12 month period by 10.8 per cent.
- The majority of measured states, except the Northern Territory, registered an improvement in the Index, with the largest increase occurring in Queensland, at 7.6 per cent, followed closely by Tasmania at 7.5 per cent. Western Australia increased by 6.5 per cent, while Victoria also improved by 4.8 per cent.
- Affordability continues to be highest in the ACT, with an Index score of 61.0, followed by the Northern Territory (recording 47.7), while the least affordable state is New South Wales (29.2 points) followed by South Australia (33.9 points).
- The average Australian household requires 28.79 per cent of the family income to service a home loan. Queensland families require approximately 26.0 per cent, while Victoria requires 28.8 per cent. The ACT requires the least amount, with 16.4 per cent and New South Wales requires the most, at 34.3 per cent of the average family income. According to the REIA, the proportion of family income required to meet the average rental payment has decreased during the June 2013 quarter to 23.7 per cent (down from 24.4 per cent in March).
- The number of new finance commitments to first home buyers increased 22.3 per cent during the June 2013 quarter. Compared to the previous year, new finance commitments to first home buyers decreased by 8.8 per cent. The average first home buyer loan decreased by 1.3 per cent over the quarter, compared to an increase of 0.6 increase during the previous year. First home buyers amounted to 14.6 per cent of the owner-occupier market, compared to 14.5 per cent during the March 2013 quarter. This figure remains persistently low compared to the long-term average of 20 per cent.

### Home Loan Affordability Index Graph (right):

- The Home Loan Affordability Index measures average loan repayments against median wages and tracks these values over time.
- Continued price growth in the property market without an accompanying rise in income saw a long period of decline in the home loan affordability index across the nation.
- The Home Loan Affordability index commenced its rapid descent during 2002. After a short leveling between 2004 and 2006, affordability levels have again continued to trend downwards.

### Home Loan Affordability Index

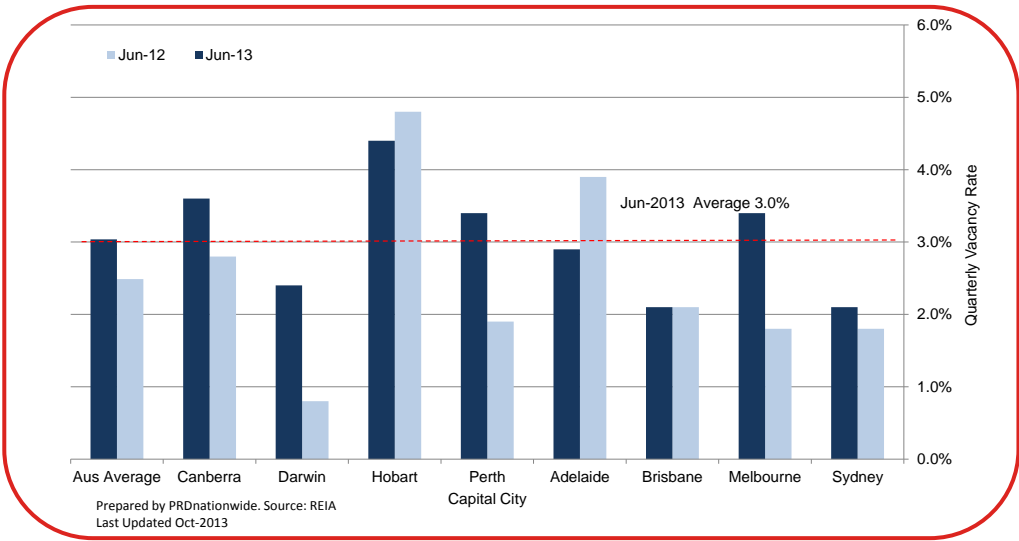


# Rental Market

## Vacancy rate steady

- The Australian average vacancy rate remained at 3.0 per cent over the most recent June 2013 quarter. Sydney is still the tightest rental market of all capital cities, but is joined by Brisbane, both with a 2.1 per cent vacancy rate.
- Over the quarter the average vacancy rate for a capital city rose the most in Melbourne by 0.6 per cent, while Darwin contracted the most by 1.2 per cent.
- Perth's unbelievably tight market has eased. The vacancy rate had lifted from a tight 1.9 per cent at the end of last year to around 3.4 per cent in July with current listings sitting at 3,850 dwellings. The REIWA chief claimed that there is 80 per cent more stock than the same time last year, with much of it being driven by tenants leaving their rental to buy a home of their own.

Quarterly Vacancy Rates



Quarterly Vacancy Rates Graph (left):

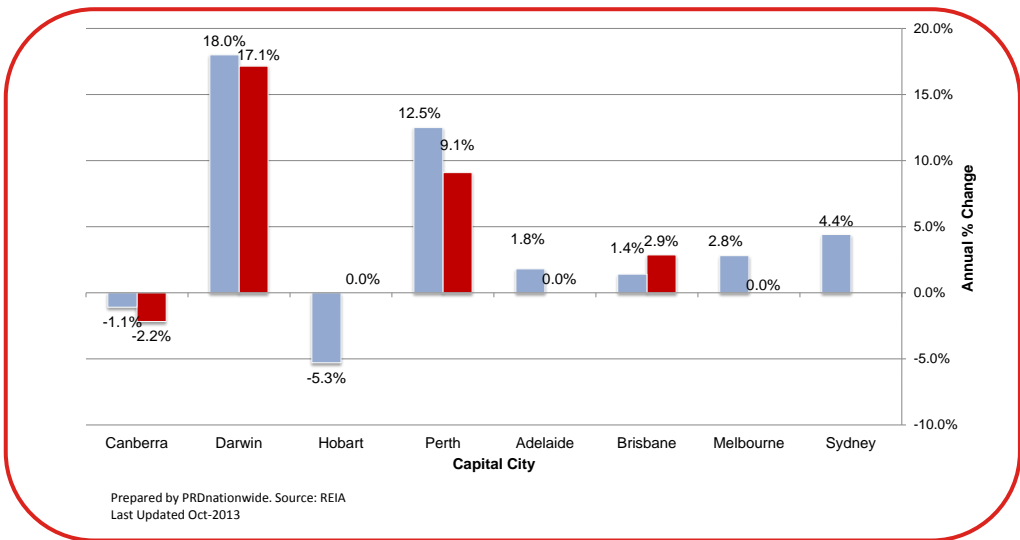
- An industry benchmark for vacancy rates is considered to be 3 per cent. Vacancy rates lower than 3 per cent indicate strong demand for rental accommodation, whilst rates higher than 3 per cent reflect an oversupply of rental accommodation.

# Rental Market cont.

## Large price increases to Darwin rents

- Over the quarter, weekly rental prices for a standard three bedroom house have remained steady in Perth (at \$480) and Hobart (at \$330) but have increased in Darwin (to \$656). The Australian capital city median decreased to \$420 per week, equating to a 4.3 per cent drop over the quarter.
- Darwin maintains the highest median rental price for a standard three bedroom house at a very high \$656 per week. Adelaide is now the most affordable city to rent in, with a median rental price of \$320 per week.

Annual Change to Median Rent Prices



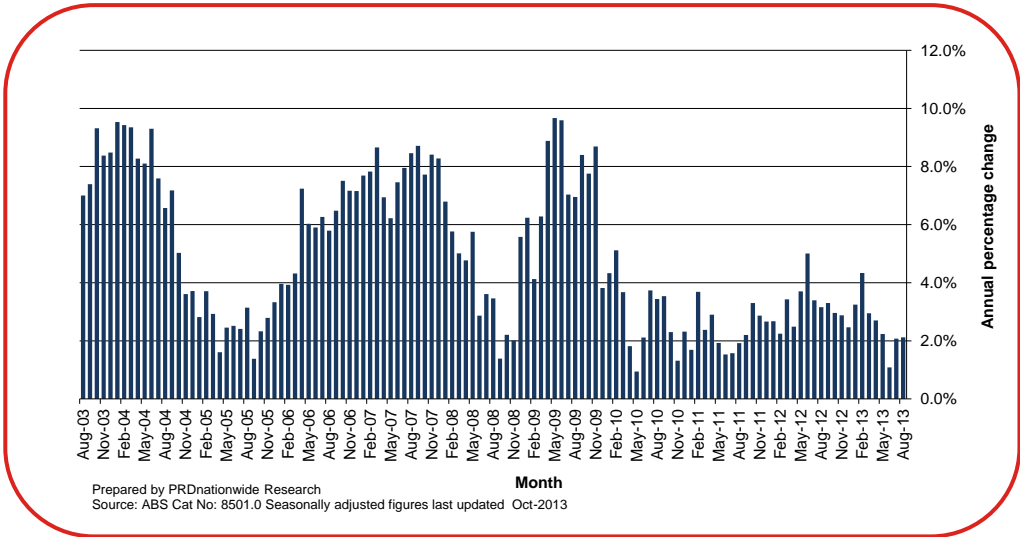
- According to the REIA, the median weekly rental price for a two bedroom unit is \$30 less than a three bedroom house. The Sydney average weekly unit price has remained steady over the quarter at \$470. While units in Sydney typically command a price premium due to a lack of supply and location, Darwin units are now hold the highest median weekly price, at \$485 through growth of 3.0 per cent over the second quarter of 2013. The median rental price for a unit in Perth also increased, at 2.2 per cent to \$460 per week.
- Both Melbourne and Brisbane experienced a contraction in the median weekly rental price for a unit, declining by 2.7 per cent each to \$360 per week.
- According to the REIA, the June 2013 quarter provided Melbourne with the largest annual net yield for detached houses, at 7.8 per cent. This was followed by Darwin at 4.5 per cent, while Hobart recorded the only loss, at -2.6 per cent. Darwin registered the largest net yield for two bedroom units, at 10.4 per cent, while Hobart recorded the largest loss at 4.7 per cent.

# Retail Trade

## Spending growth increases over August

- Retail expenditure increased over the month of August, up 0.4 per cent. On an annual basis, during the 12 month period ending August 2013, retail expenditure has increased by 2.12 per cent.
- The NAB's Online Retail Sales Index slowed during the month of August, down to a seasonally adjusted 224 points (from 232 points in July). In the year to August 2013, Australians spent \$14.2 billion on online retail. This level is equivalent to 6.3 per cent of spending with traditional bricks & mortar retailers (excluding cafés, restaurants and takeaway food to create a like-for-like comparison) in the year to July 2013.
- Growth rates for online retail sales slowed in August. In monthly terms, seasonally adjusted online sales contracted, however when a three month moving average trend is applied (to smooth out the volatility in monthly rates), month-on-month growth fell to -0.1 per cent (from +2.1 per cent in July) This is against the acceleration in growth seen in the past two months.

### Annual Change in Retail Expenditure



- Apple was named the world's most valuable brand in the Best Global Brands annual survey, demoting Coca-Cola from the top spot for the first time in 13 years.
- France's parliament passed a law preventing internet booksellers from offering free delivery to customers, in an effort to protect the country's independent bookshops from US online retailer Amazon.
- Sales growth for traditional bricks & mortar retail has also remained weak, increasing by just +0.1 per cent in July (on a seasonally adjusted, three month moving average basis).

### Annual Change in Retail Expenditure Graph (left):

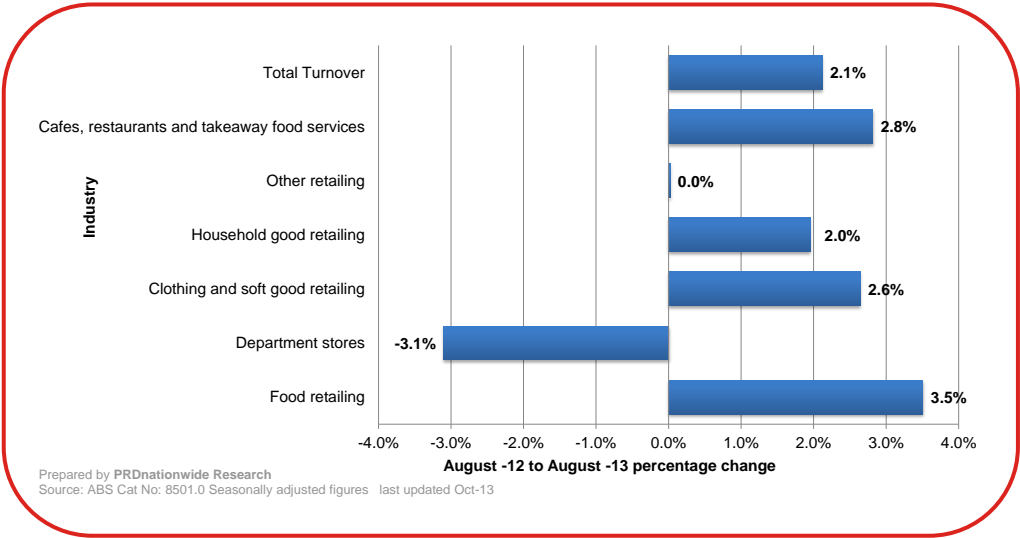
- Retail spending figures are estimated by the ABS based on the Retail Business Survey conducted monthly amongst 4,350 retail and selected service businesses.
- The annual change in retail spending indicates how active consumers are in the marketplace and the degree to which consumers are willing to spend.
- The seasonally adjusted figures are used to smooth out seasonal factors associated with this data.

# Retail Trade cont.

## Department stores suffer

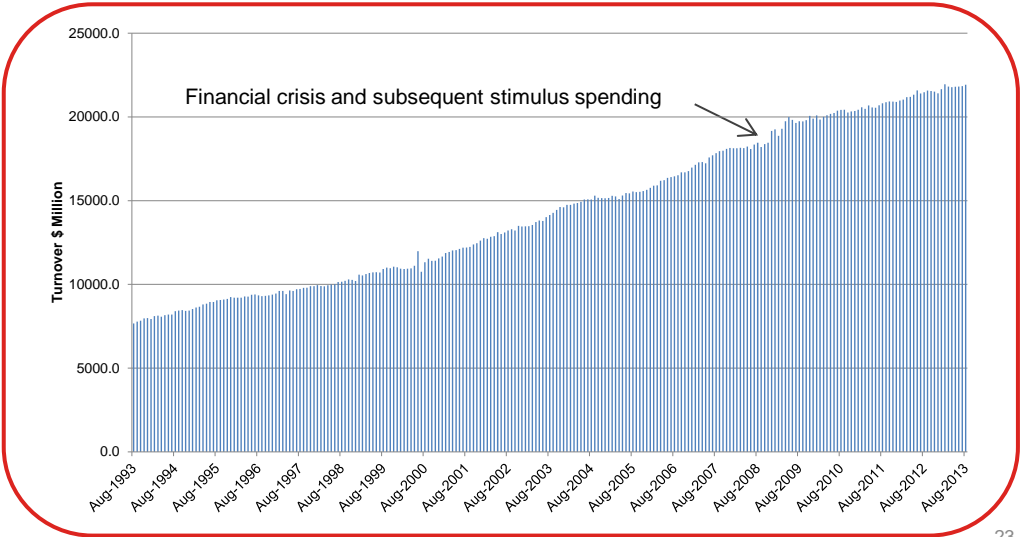
- Over the 12 month period, shoppers have been out in force in the Northern Territory and Queensland, with growth in expenditure of 4.5 and 3.5 per cent respectively. No states recorded a contraction in spending, while the ACT registered the smallest increase, at 0.8 per cent. Over the month ending August 2013, Australia's change in retail expenditure marginally increased by 0.4 per cent.
- Food retailing amounted to the largest increase in expenditure throughout the 12 month period ending August 2013, at 3.5 per cent. This was followed by Cafes, restaurants and takeaway food, recording an annual growth of 2.8 per cent. Contractions in expenditure were only felt in department store retailing (down 3.1 per cent).

Annual Change in Retail Expenditure by Group



- When observing the longer-term graph of Total Retail Expenditure, the amount of continual growth becomes evident over the past 20 years.
- The drop in expenditure growth is also clear during the financial crisis of late 2008, but so too is the quick pick up through the stimulus spending period that followed.

Total Retail Turnover

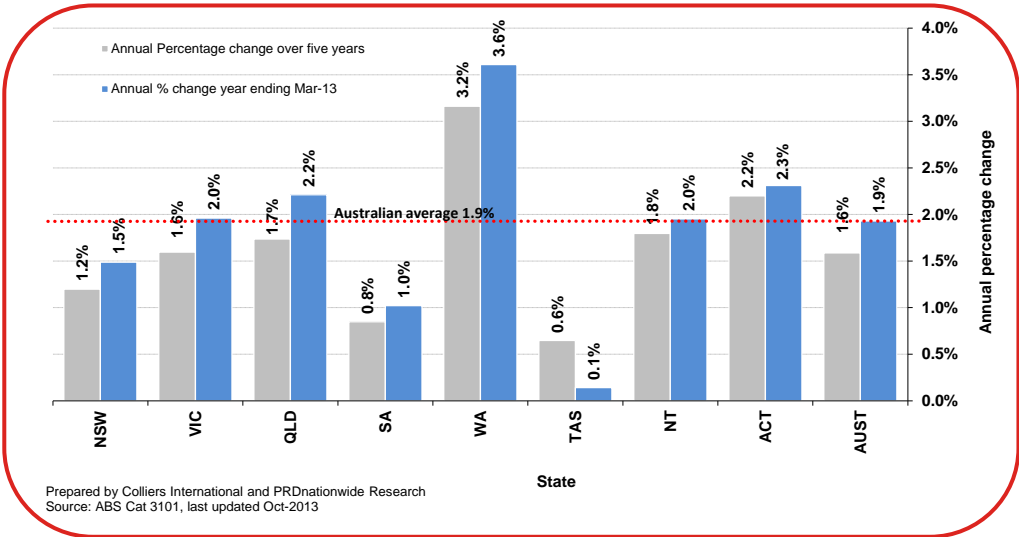


# Demographics

## Australian population reaches 23 million

- As at the first quarter of 2013, the estimated Australian population grew to just over 23 million residents, resulting through an increase of 1.93 per cent over a 12 month period. This equates to an increase of 547,406 new residents in the 12 months to March 2013 from the previous year. Throughout 2012, the rate of Australians growth in the population has continued to climb, and is now the highest it has been since March 2010.
- The rate of growth in Western Australia has continued at a feverish pace, as its population increased over 12 months by 3.61 per cent. The ACT followed with an increase of 2.31 per cent, while Queensland recorded growth of 2.21 per cent. Tasmania was the state/territory to have registered the smallest amount of growth, at 0.14 per cent. Both New South Wales and Victoria recorded stronger population growth than their longer-term five year averages, at 1.49 per cent and 1.96 per cent respectively.

### Population Growth



- The first quarter of 2013 observed the largest increase since June 2009 in net overseas migrants entering Australia. This rate rose to 57.3 per cent and equates to 73,398 new net residents from overseas. Victoria received the largest portion of overseas migrants over the quarter, with 27.2 per cent, followed by New South Wales with 26.6 per cent, then Western Australia at 20.1 per cent. Combined, the ACT, Northern Territory and Tasmania amount to only 3.6 per cent of the total new international migrants.
- Over the 12 month period ending March 2013, the natural increase of Australia rose by 3.1 per cent. The rate has increased the most in Queensland, up 19.6 per cent from the previous year, followed by South Australia, up 11.1 per cent. New South Wales, Victoria, Tasmania and the ACT all experienced a decline in the natural birth rate.

### Population Growth Graph (left):

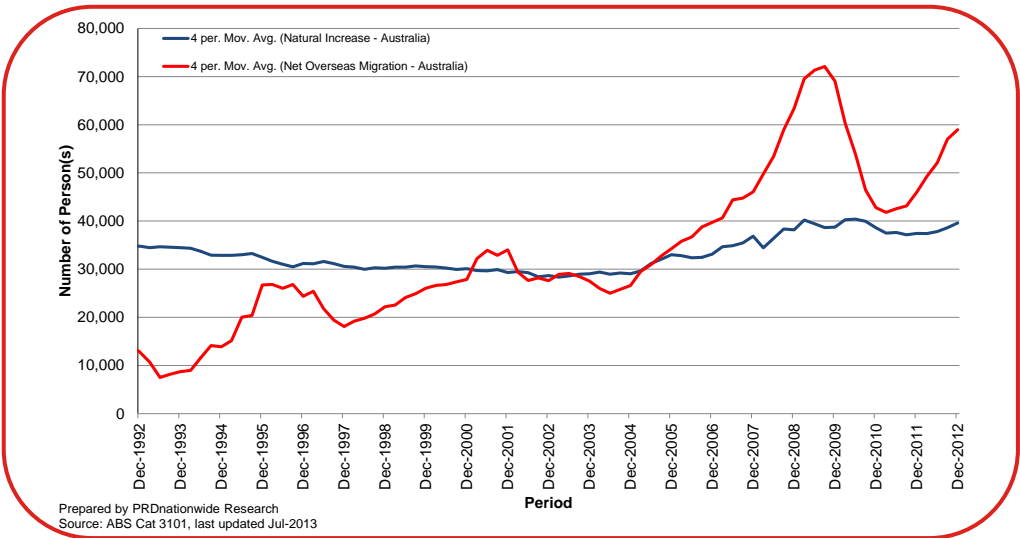
- Population change tracks the change in population across the states and territories of Australia. Population growth is seen as the key driver of demand for housing.



# Demographics Cont.

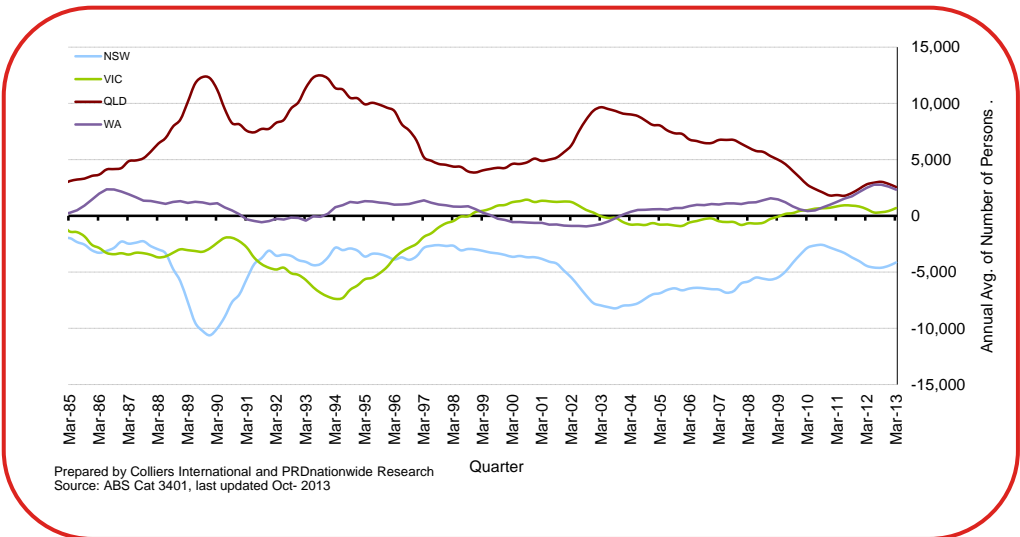
## Western Australia receives largest number of interstate migrants

### Components of Population Growth



- Over the March 2013 quarter, Western Australia received the largest number of net interstate migrants out of any state or territory, at 2,206 new net residents. Compared to the previous 12 month period, this has equated to an fall of 33.1 per cent. Queensland is the second largest growing state in terms of net residents moving into the state, at 2,054 new residents. New South Wales, South Australia, Tasmania and the Northern Territory continued to experience negative growth in the total net interstate migration. The state to experience the largest exodus of net migrants was New South Wales, at 3,772 migrants.
- Victoria improved on attracting new net migrants to the state, with 1,530 (up 224.2 per cent) over the March quarter. This is the largest net increase in Victoria since March 2002, where the state registered a net migration of 1,796 new net residents. South Australia experienced a net loss of 1,054 net residents departing during the quarter, while Tasmania decreased a net 420 interstate migrants.

### Net Interstate Migration



### Net Interstate Migration Graph (right):

- Net interstate migration tracks the net population change in each state attributable to interstate migration.
- Net interstate migration figures fluctuate with the seasons, so a moving yearly average is shown to filter out these changes.

"We set industry benchmarks when partnering with our clients to answer key questions and solve complex issues in the residential development arena."

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PRDNationwide's research division provides reliable, unbiased, and authoritative property research and consultancy to clients in metro and regional locations across Australia. Our extensive research capability and specialised approach ensures our clients can make the most informed and financially sound decisions about residential and commercial properties.

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Access to accurate and objective research is the foundation of all good property decisions. As the first and only truly knowledge based property services company, PRDNationwide shares experience and knowledge to deliver innovative and effective solutions to our clients. We have a unique approach that integrates people, experience, systems and technology to create meaningful business connections. We focus on understanding new issues impacting the property industry; such as the environment and sustainability, the economy, demographic and psychographic shifts, commercial and residential design; and forecast future implications around such issues based on historical data and fact.

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Our research team is made up of highly qualified researchers who focus solely on property analysis. Skilled in deriving macro and micro quantitative information from multiple credible sources, we partner with clients to provide strategic advice and direction regarding property and market performance. We have the added advantage of sourcing valuable and factual qualitative market research in order to ensure our solutions are the most well considered and financially viable.

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### Our services include:

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