

Leading Indicators

Key economic and financial metrics impacting property markets

Sharp drop in inflation provides more positive outlook

LOWER INFLATION WELCOME NEWS FOR PROPERTY MARKETS

Inflation in Australia has now fallen from a peak of 7.8% in Q4 2022 to 4.1% in Q4 2023 and an ongoing decline is expected in 2024 in line with the experience of other major economies. The RBA currently expects CPI to fall to 3.5% by end 2024 and to 2.9% by end 2025, although the fall in inflation during Q4 was slightly faster than the RBA expected, so these lower levels may be reached more quickly.

FOCUS SHIFTING TO POTENTIAL RATE CUTS IN H2 2024

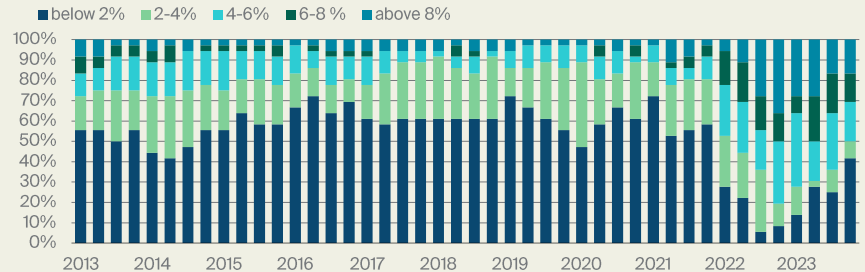
The fall in inflation has been welcome news for markets as it signals not only that we are most likely at peak interest rates, but also that there is increasing likelihood that central banks will step back from their restrictive stance later in the year. Equity markets have responded strongly, and property markets will also benefit from improving sentiment as the uncertainty and risk that has clouded the market since early 2022 begins to ease.

GROWTH HAS SLOWED TO A CRAWL

Meanwhile, economic growth is subdued, with sluggish retail spending the main culprit as households grapple with the rise in mortgage payments and reduced purchasing power owing to elevated inflation. Retail sales volumes have returned to growth, but consumer sentiment is at a low ebb and there is particular weakness in discretionary spending categories.

Breadth of inflation pressures narrowing across the CPI basket

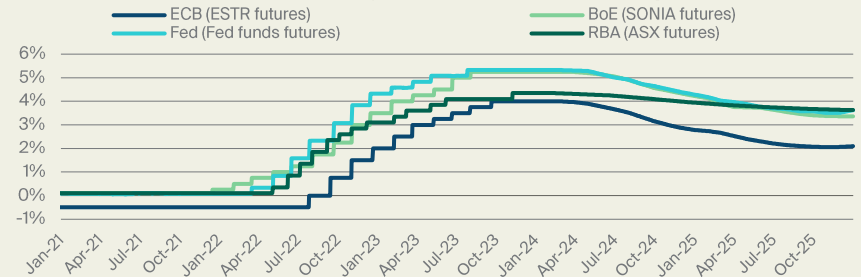
Proportion of categories within CPI basket in different inflation ranges



Source: Knight Frank Research, Macrobond

Policy rates expected to fall in 2024-25

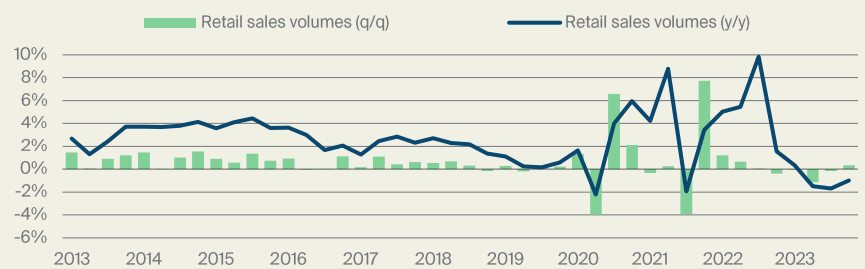
Implied forecasts of central bank policy rates based on market pricing



Source: Knight Frank Research, Macrobond

Retail sales volumes rise for the first time since mid 2022

Retail sales growth - annual and quarterly growth in total volumes



Source: Knight Frank Research, Macrobond

Australia key forecasts

	GDP growth (Q3 2023, y/y %)	Unemployment rate (December, %)	CPI inflation (Q4 2023, y/y %)	Cash rate target (February, %)	10 year bond yield (6 February, %)
Latest	2.1	3.9	4.1	4.35	4.2
Year-end 2024 (f)*	1.4	4.5	3.2	4.10	4.1

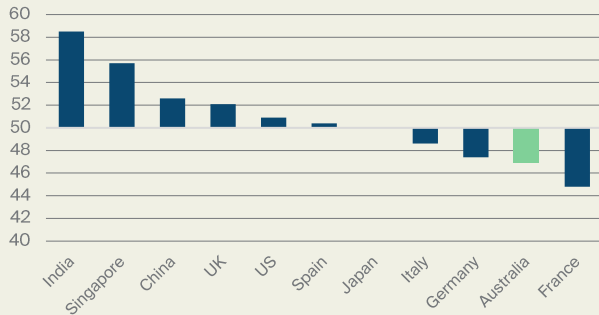
*Oxford economic forecasts

Business indicators

Business indicators suggest that the pace of economic growth remains sluggish

Business activity remains below trend

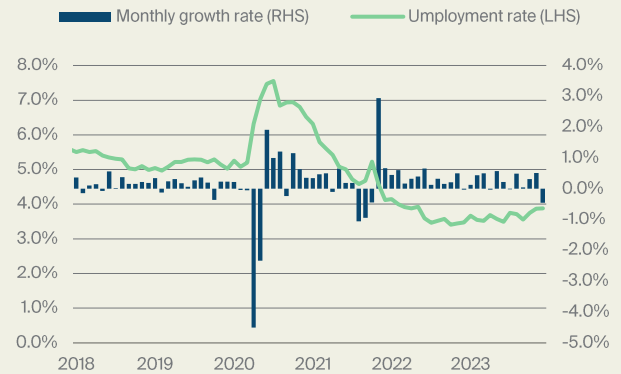
Composite PMI indicator (above 50 indicates expansion)



Source: Knight Frank Research, Macrobond

Labour market remains resilient

Per cent



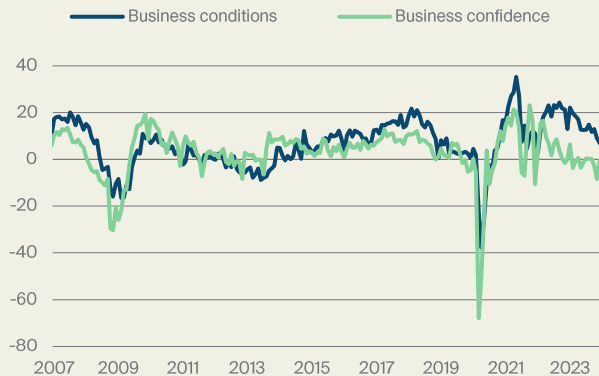
Source: Knight Frank Research, Macrobond

	Latest Dec-23	Last quarter Sep-23	Jun-23	Mar-23	1 year ago Dec-22
Australia	46.9	51.5	50.1	48.5	47.5
China	52.6	50.9	52.5	54.5	48.3
Euro Area	47.6	47.2	49.9	53.7	49.3
Japan	50.0	52.1	52.1	52.9	49.7
UK	52.1	48.5	52.8	52.2	49.0
US	50.9	50.2	53.2	52.3	45.0

	Dec-23	Sep-23	Jun-23	Mar-23	Dec-22
Monthly growth (%)	-0.5	0.0	0.2	0.5	0.0
Unemployment rate (%)	3.9	3.6	3.5	3.5	3.5

Slower growth has impacted business conditions

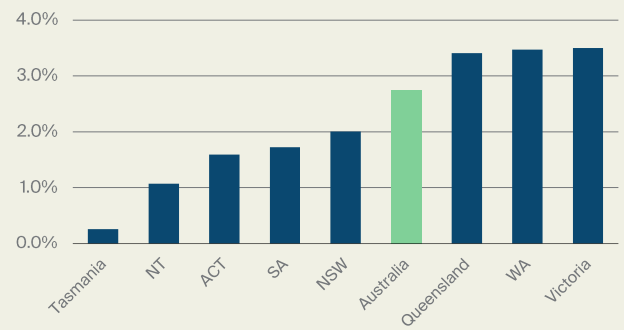
NAB business survey, balance of positive and negative responses



Source: Knight Frank Research, Macrobond

Fastest employment growth in VIC / WA

Per cent, annual change to Dec-23



Source: Knight Frank Research, Macrobond

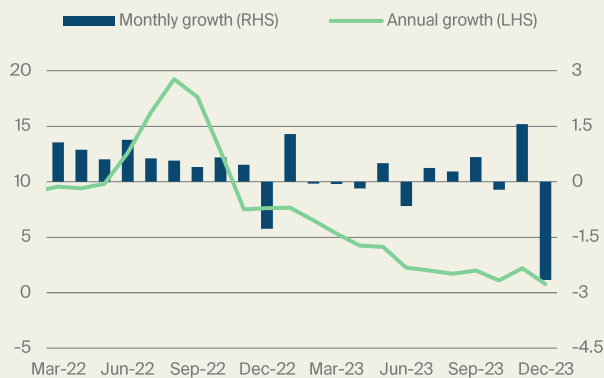
	TAS	NT	ACT	SA	NSW	Australia	QLD	WA	VIC
y/y growth (%)	0.3	1.1	1.6	1.7	2.0	2.8	3.4	3.5	3.5

Consumer indicators

Continued weakness in spending but changing seasonal pattern makes trend hard to read

Black Friday disrupting retail sales pattern

Annual and monthly growth rate (%)

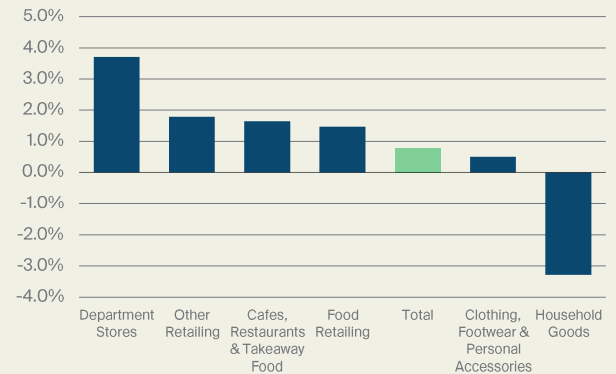


Source: Knight Frank Research, Macrobond

	Dec-23	Sep-23	Jun-23	Mar-22	Dec-22
m/m growth (%)	-2.7	0.7	-0.7	-0.1	-1.3
y/y growth (%)	0.8	2.0	2.3	5.3	7.6

Weakness in discretionary categories

Annual growth in retail sales



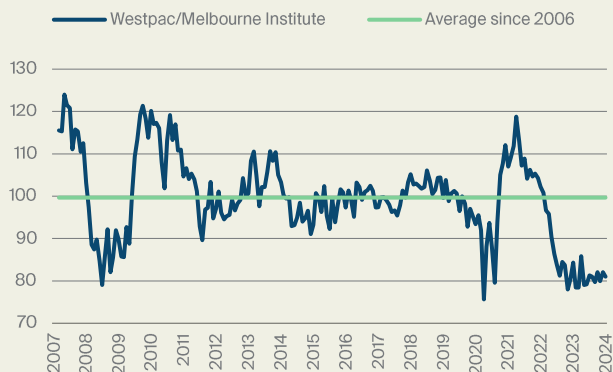
Source: Knight Frank Research, Macrobond

Latest in Dec-23

	m/m (%)	y/y (%)
Department stores	-8.1	3.7
Other retailing	-1.1	1.8
Cafes, restaurants, takeaway food	-1.1	1.6
Food retailing	0.1	1.4
Total	-2.7	0.8
Clothing, footwear & personal accessories	-5.7	0.5
Household goods	-8.5	-3.3

Consumer confidence remains subdued

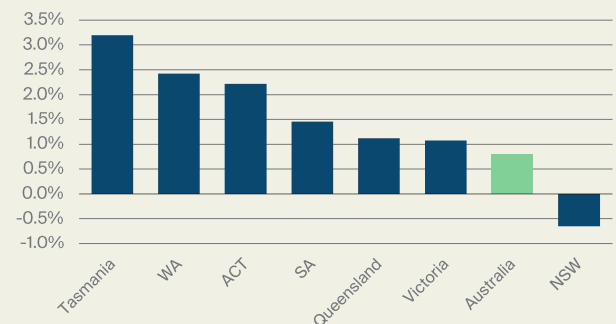
Confidence index, value above 100 signal optimism



Source: Knight Frank Research, Macrobond

Tasmania and WA lead the way

Annual growth in retail sales by state, per cent



Source: Knight Frank Research, Macrobond

Percentage change since

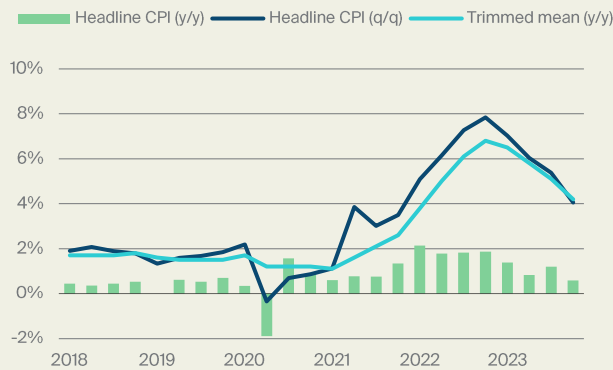
Latest in Dec-23	Sep-23	Jun-23	Mar-23	Dec-22
Tasmania	1.0	1.8	1.1	3.2
WA	-1.3	-1.1	0.0	2.4
ACT	-2.0	-0.7	-0.9	2.2
SA	-1.2	-0.6	-0.3	1.5
Queensland	0.2	1.2	1.1	1.1
Victoria	-2.2	-0.5	-0.8	1.1
Australia	-1.4	0.0	-0.4	0.8
NSW	-1.9	-0.1	-1.3	-0.7

Inflation & interest rates

Larger than expected drop in inflation in Q4

Inflation drops further in Q4

Annual and quarterly headline CPI growth (%)

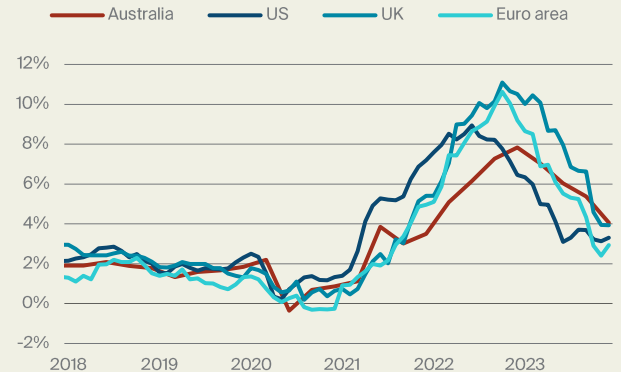


Source: Knight Frank Research, ABS

	Dec-23	Sep-23	Jun-23	Mar-22	Dec-22
Headline CPI (q/q, %)	0.6	1.2	0.8	1.4	1.9
Headline CPI (y/y, %)	4.1	5.4	6.0	7.0	7.8
Trimmed mean inflation (y/y, %)	4.2	5.1	5.8	6.5	6.8

US and EU inflation has dropped sharply

Headline CPI y/y

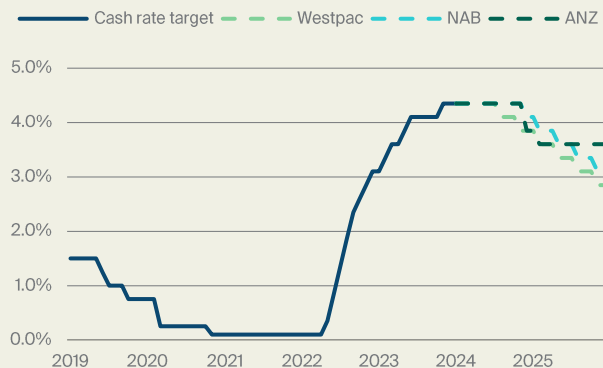


Source: Knight Frank Research, Macrobond

	Dec-23	Sep-23	Jun-23	Mar-22	Dec-22
Australia (y/y, %)	4.1	5.4	6.0	7.0	7.8
US (y/y, %)	3.3	3.7	3.1	5.0	6.4
UK (y/y, %)	3.9	6.6	8.0	10.1	10.5
Euro area (y/y, %)	2.9	4.3	5.5	6.9	9.2

Focus shifting to the potential for rate cuts

Historic rates and current forecasts of major banks

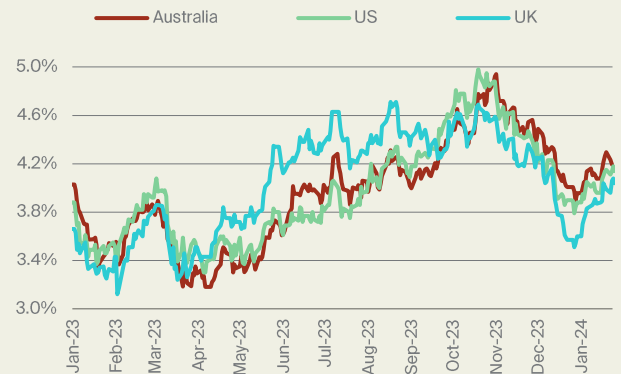


Source: Knight Frank Research, NAB, Rate City,

	Dec-23	Feb-24	Jun-24	Dec-24	Jun-25
Cash rate target	4.35				
Westpac		4.35	4.35	3.85	3.35
NAB		4.35	4.35	4.10	3.60
ANZ		4.35	4.35	3.85	3.60

Bond yields well down from October peaks

Ten year government bond yields



Source: Knight Frank Research, Macrobond

	Latest	Oct-23	May-23	Feb-23	Nov-22
Australia	4.10	4.48	3.96	3.32	4.03
US	4.10	4.69	3.86	3.43	3.88
UK	4.00	4.56	4.42	3.40	3.66

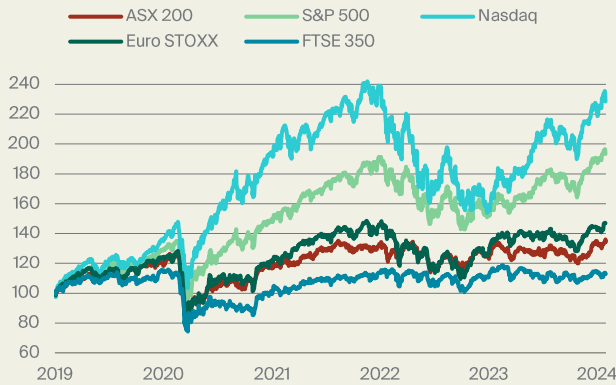
*as at the first business day of the month

Financial markets

Markets responding positively to improved prospects for soft landing and rate cuts

A strong start to 2024 for equity markets

Global equities, price indices, 1 Jan 2019 = 100



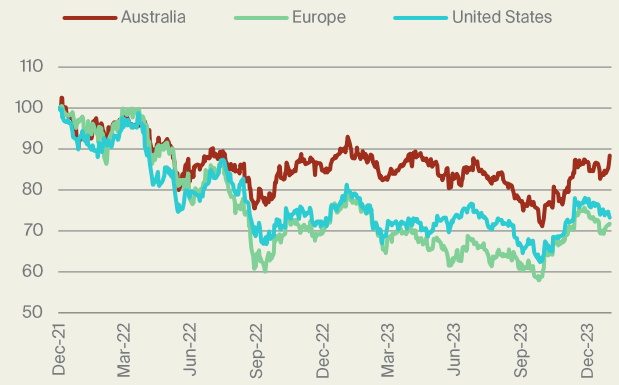
Source: Knight Frank Research, Macrobond

Index	Latest	Percentage change since				
		Jan-24	Oct-23	Jul-23	Apr-23	Jan-23
Original value and base						
ASX 200	7,681	13.3	3.6	5.1	2.7	
S&P 500	4,846	15.5	5.6	16.2	18.9	
Nasdaq	15,164	18.0	5.7	24.0	30.9	
Euro STOXX	4,648	13.4	2.7	4.7	7.9	
FTSE 350	4,214	5.4	-0.6	-2.7	-1.9	

* Latest 31st January

Global REIT indices are recovering

Price index, 31 Dec 2021 = 100



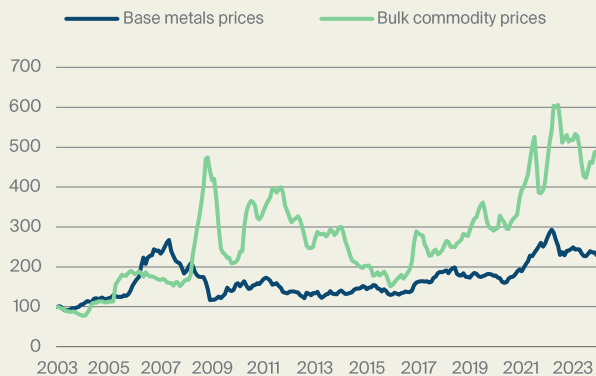
Source: Knight Frank Research, Macrobond

	Percentage change since			
	Oct-23	Jul-23	Apr-23	Jan-23
Australia	22.9	2.2	-0.1	-0.9
Europe	19.1	6.9	0.7	-5.5
United States	14.9	-2.3	0.2	-7.3

*Latest 31st January

Commodity price remain high

RBA commodity price index (Jan 2003 = 100)

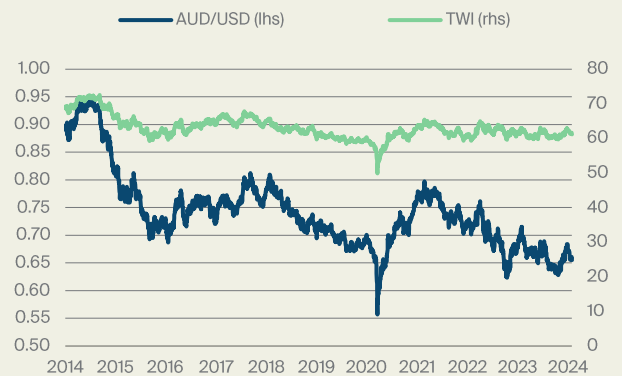


Source: Knight Frank Research, RBA

Index	Latest in Dec-23	Percentage change since			
		Jul-23	Sep-23	Jun-23	Dec-22
Base metals prices		-4.1	0.6	-6.2	-6.0
Bulk commodity prices		5.7	14.7	-7.2	-5.7

US dollar remains strong vs AUD

US\$ (lhs), index (rhs)



Source: Knight Frank Research, Macrobond

	Percentage change since				
	Feb-24	Nov-23	Aug-23	May-23	Feb-23
USD per AUD	0.66	0.63	0.67	0.66	0.71
Trade weighted index	61.1	1.5%	-0.5%	1.5%	-2.4%

*as at the first business day of the month

Recent research

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Australian Industrial Review



We like questions, if you've got one about our research, or would like some property advice, we would like to hear from you



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