

# Leading Indicators

Key economic and financial metrics impacting property markets

Jan-26

## Rising inflation prompts market pivot to rate hikes

### INFLATION EASES, BUT STILL HIGH

The ABS's November monthly CPI data came in marginally below expectations, with annual headline inflation rising 3.4% and trimmed mean inflation up 3.2%. Services inflation remains sticky, while goods inflation fell due to Black Friday discounting. Energy rebates continued to add volatility to headline inflation. Although the RBA will focus on the upcoming Q4 inflation data, these figures confirm inflation remains above the RBA's target band.

### RISE IN CASH RATE EXPECTATIONS

The sharp rise in inflation in the October and November 2025 prints has triggered a turnaround in market expectations. Markets are now pricing in interest rate hikes in 2026, with a 25% chance of a hike at the RBA's February meeting. The RBA's decision will hinge on Q4 inflation data, due later this month where it is expecting a trimmed mean inflation of 3.2%.

### AUD IS SLOWLY STRENGTHENING

The AUD steadily appreciated against the USD throughout 2025, rising from US61 cents to US67 cents. This largely reflected a weakening of the USD as investors re-considered its status as a safe haven and investors grew more concerned with US budget discipline. Looking ahead, the US Fed is forecast to cut interest rates while the RBA is expected to increase rates. If realised, this divergence will likely support a stronger AUD as Australian assets become more attractive to foreign investors. Higher global economic growth and commodity demand in 2026 may also support a higher AUD.

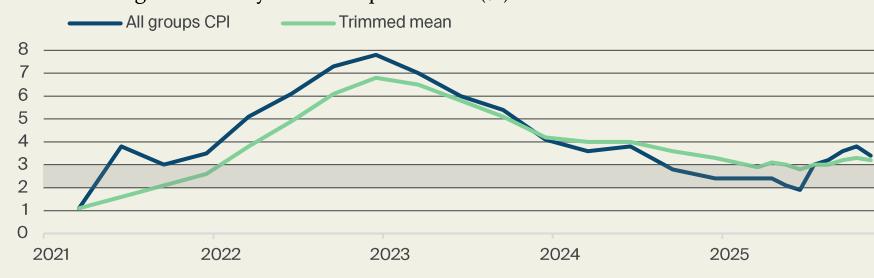
### Australia key forecasts

	Real GDP growth (Q3 2025, y/y %)	Unemployment rate (November 2025, %)	Core CPI inflation (November 2025, y/y %)	Cash rate target (November 2025, %)	10-year bond yield (31 December 2025, %)
Latest	2.1	4.3	3.2	3.60	4.8
Year-end 2026 (f)*	2.5	4.5	2.7	3.60	4.2

Source: Knight Frank Research, \*Oxford Economics, ABS, RBA

### Inflation tempers in November

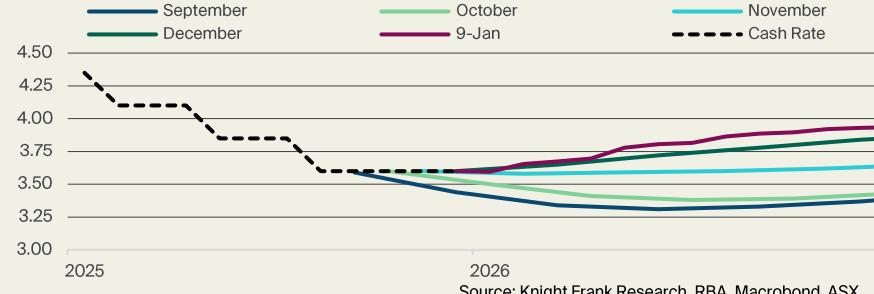
Annual change in monthly consumer price index (%)



Source: Knight Frank Research, ABS

### Market pricing indicates 1-2 rate hikes in 2026

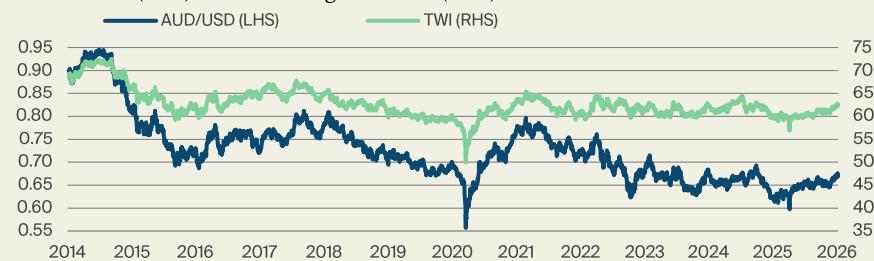
RBA cash rate implied by market pricing, end of each month (%)



Source: Knight Frank Research, RBA, Macrobond, ASX

### AUD is slowly gaining strength

AUD vs USD (LHS) and trade-weighted index (RHS)



Source: Knight Frank Research, Macrobond

# Business indicators

Business confidence dips in response to shift in interest rate expectations

## PMIs fall in December

Composite PMI Output Index (above 50 indicates expansion)

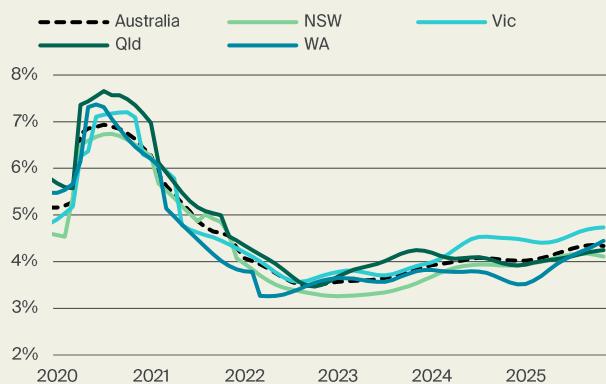


Source: Knight Frank Research, Macrobond

	Latest	Last quarter	1 year ago		
	Dec-25	Sep-25	Jun-25	Mar-25	Dec-24
Australia	51.0	52.4	51.6	51.6	50.2
China	51.3	52.5	51.3	51.8	51.4
Euro Area	51.5	51.2	50.6	50.9	49.6
Japan	51.1	51.3	51.5	48.9	50.5
UK	51.4	50.1	52.0	51.5	50.4
US	52.7	53.9	52.9	53.5	55.4

## Unemployment rate remains stable

Unemployment rate (trend adjusted)

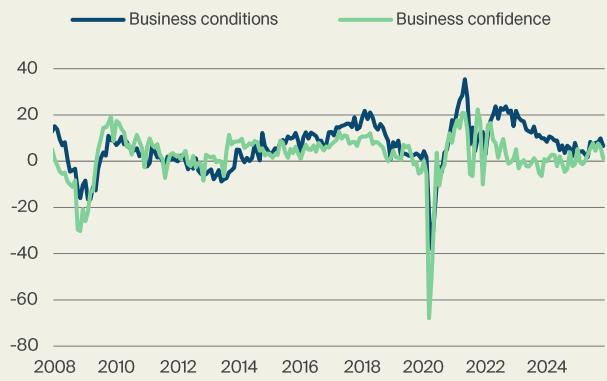


Source: Knight Frank Research, Macrobond

	Nov-25	Aug-25	May-25	Feb-25	Nov-24
Australia	4.3	4.3	4.2	4.0	4.0
NSW	4.1	4.2	4.1	4.0	3.9
Vic	4.7	4.6	4.4	4.4	4.5
Qld	4.2	4.2	4.1	4.0	3.9
WA	4.4	4.2	3.9	3.6	3.6

## Business confidence and conditions fall

NAB survey, balance of positive and negative responses



Source: Knight Frank Research, NAB, Macrobond

## Forward orders decline, but still trending up

Forward orders index, balance of positive and negative



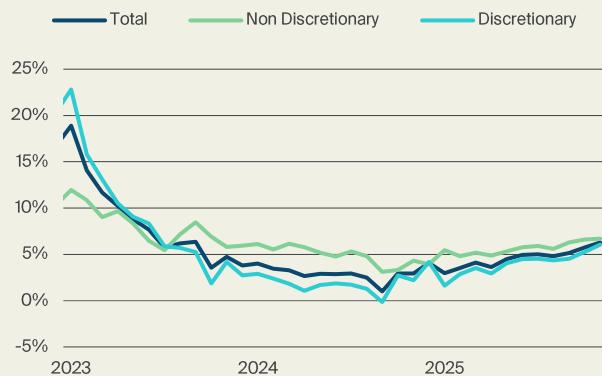
Source: Knight Frank Research, NAB

# Consumer indicators

Household spending continues to steadily improve

## Discretionary items drive spending growth

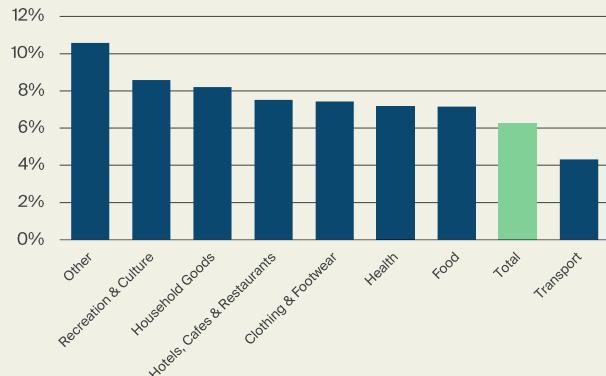
Annual growth in household spending by type (%)



Source: Knight Frank Research, Macrobond

## Broad-based rise in household spending

Annual growth in value of spending by category\* (%)



Source: Knight Frank Research, Macrobond

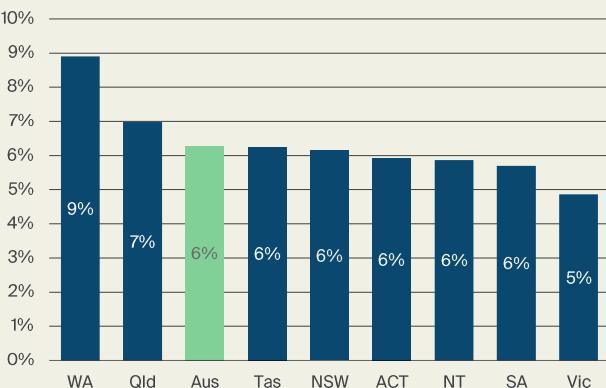
\*Excludes Alcoholic beverages and tobacco

## Latest in Nov-25

	m/m (%)	y/y (%)
Other	0.6	10.6
Recreation & Culture	1.7	8.6
Household Goods	2.2	8.2
Hotels, Cafes & Restaurants	1.2	7.5
Clothing & Footwear	2.0	7.4
Health	0.5	7.2
Food	0.7	7.2
Total	1.0	6.3
Transport	1.0	4.3
Alcohol & Tobacco	-1.8	-16.4

## WA and QLD drive household spending

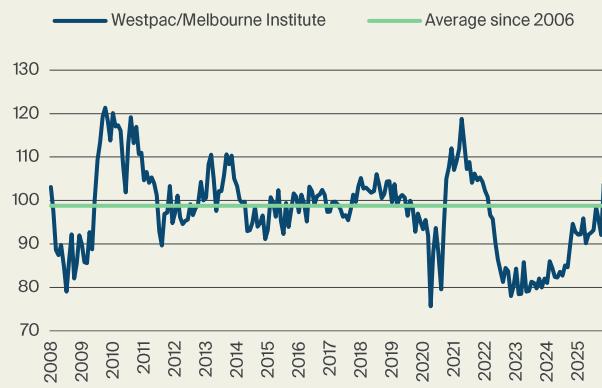
Annual growth in value of spending by state (%)



Source: Knight Frank Research, Macrobond

## Consumer sentiment falls as rates outlook shifts

Confidence index, value above 100 signal optimism



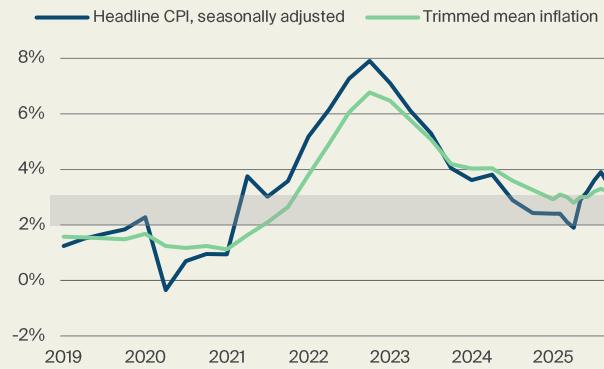
Source: Knight Frank Research, Macrobond

# Inflation & interest rates

Increased inflation risks have seen expectations shift towards rate hikes in 2026

## Inflation rises sharply to above RBA target

Annual growth in consumer price index (y/y %)

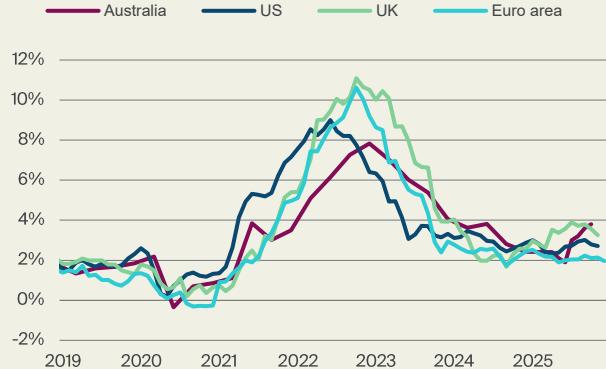


Source: Knight Frank Research, ABS

Note: Data transitions from quarterly to monthly in April 2025.

## Recent uptick in global inflation weakens

Headline CPI (y/y, %)



Source: Knight Frank Research, Macrobond

## Markets shift to expecting rate hikes

Historic rates and indicative RBA outlook (%)



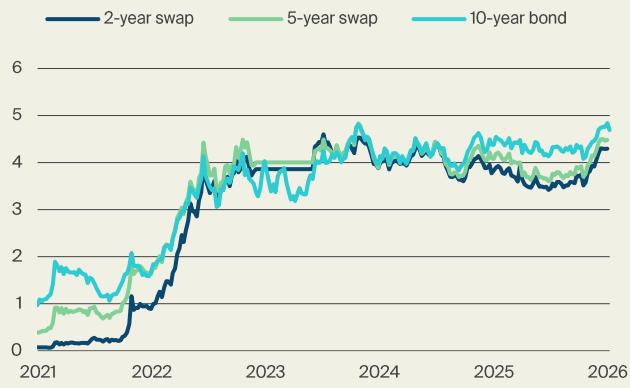
Source: Knight Frank Research, NAB, Oxford Economics, ASX

	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
Cash rate target	3.60				
Oxford Economics		3.60	3.60	3.60	3.60
NAB		3.85	4.10	4.10	4.10
Market pricing		3.68	3.81	3.89	3.93

Month-end

## Yields rise with higher cash rates expected

Yield by swap/bond duration (%)



Source: Knight Frank Research, Macrobond

	Dec-25	Sep-25	Jun-25	Mar-25	Dec-24
2-year swap	4.27	3.61	3.47	3.73	3.90
5-year swap	4.47	3.80	3.66	4.00	4.11
10-year bond	4.74	4.29	4.19	4.41	4.34

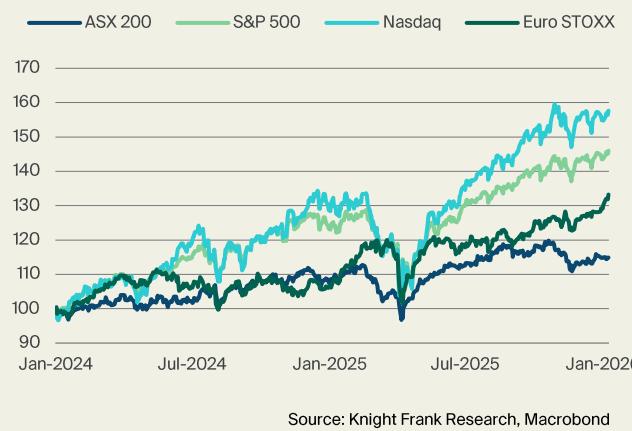
Monthly average

# Financial markets

Global financial markets demonstrate stability in December

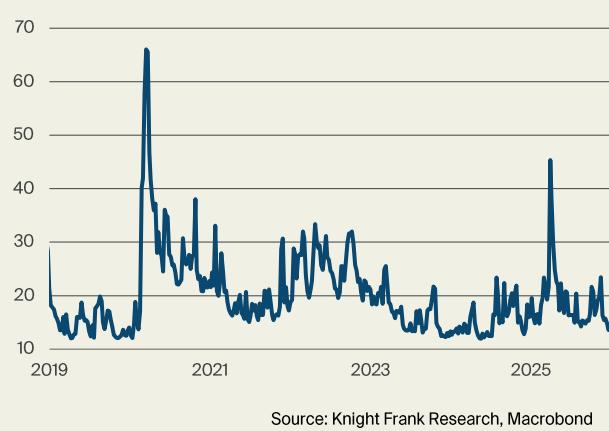
## Equities continue to push higher

Global equities, price indices, 1 Jan 2024 = 100



## Market volatility falls to lowest level in a year

US VIX index - measure of market volatility (Index)



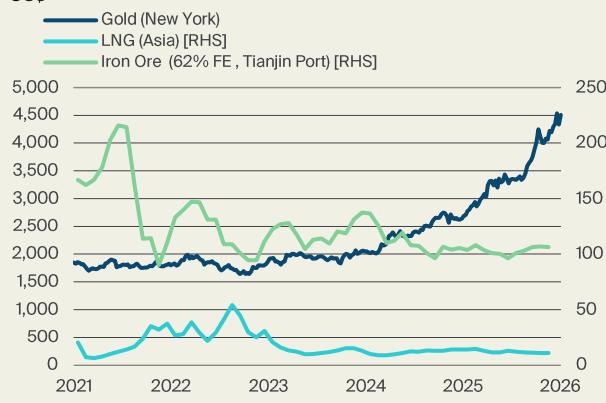
### Percentage change from

	Sep-25	Jun-25	Mar-25	Dec-24
ASX 200	-2.0	1.5	8.9	4.2
S&P 500	4.2	13.8	20.6	14.0
Nasdaq	5.6	18.9	31.2	18.4
Euro STOXX 50	5.6	7.6	8.2	19.3
FTSE 350	5.5	10.2	12.6	17.3

Monthly average

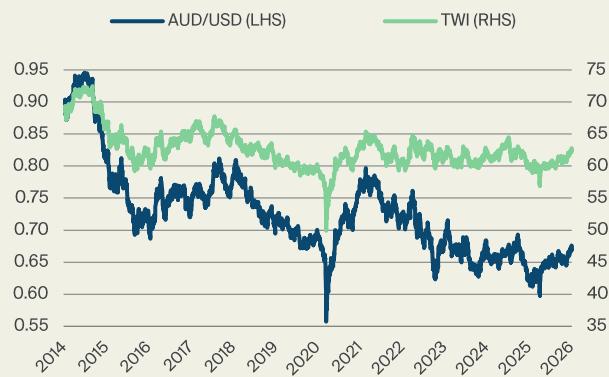
## Gold prices remain elevated in December

US\$



## AUD is slowly gaining strength

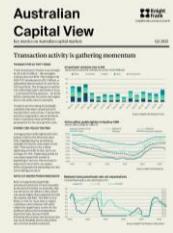
AUD vs USD (LHS) and trade-weighted index (RHS)



Source: Knight Frank Research, Macrobond

Index	Latest					Percentage change from				
	Nov-25	Aug-25	May-25	Feb-25	Nov-24	Dec-25	Sep-25	Jun-25	Mar-25	Dec-24
Gold	4,219	22.4	28.2	47.6	59.2	0.66	0.66	0.65	0.63	0.63
LNG	11.1	-3.9	-5.2	-24.8	-21.1	62.0	1.5	3.3	3.7	2.6
Monthly average	106.2	2.9	5.9	-1.8	2.2	Percentage change from				

Index	Latest					Percentage change from				
	Dec-25	Sep-25	Jun-25	Mar-25	Dec-24	Dec-25	Sep-25	Jun-25	Mar-25	Dec-24
USD per AUD	0.66	0.66	0.65	0.63	0.63	62.0	1.5	3.3	3.7	2.6
Trade weighted index	Monthly average					Monthly average				

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