

Leading Indicators

Key economic and financial metrics impacting property markets

July-25

Lower than expected inflation paves way for July rate cut

INFLATION IS COMFORTABLY WITHIN THE RBA'S TARGET BAND

Disinflationary pressures continued in May 2025 with the annual rate down to 2.1% (headline) and 2.4% (trimmed mean) according to the ABS monthly indicator. Trimmed mean inflation was at the lowest level since November 2021. Inflation in May was lower than expected which should provide the RBA with greater confidence that there is further room to ease monetary policy back to a more neutral setting.

Markets have priced in a 97% chance of the RBA cutting rates by 25bps at the July meeting. Markets then expect a further two cuts to 3.1% by the end of 2025.

GROWING DISPOSABLE INCOMES

Real disposable income grew by 3.6% in the year to Q1 2025 driven by strong growth in labour and other income and slowing inflation. This represents the fastest growth since Q2 2022 which is when the RBA started increasing interest rates.

RISING SAVINGS RATE

Despite rising real disposable incomes, household consumption growth – a key driver of GDP growth – remains subdued as households opt to save, rather than spend, additional income. The ratio of income saved has steadily risen, reaching 5.2% in Q1 which is around the pre-pandemic level of 5-6%.

With savings rates having now returned to average, consumer spending and household consumption is expected to improve over the coming months.

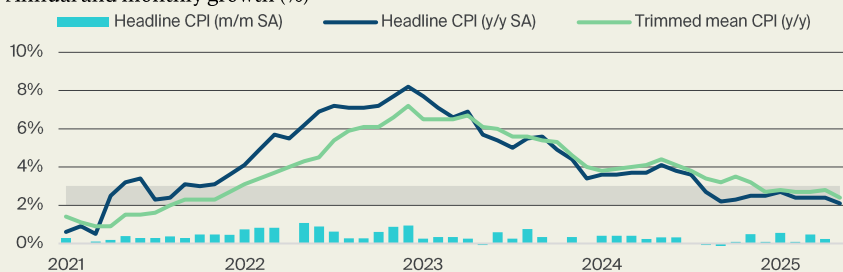
Australia key forecasts

	GDP growth (Q1 2025, y/y %)	Unemployment rate (April 2025, %)	Core CPI inflation (Q1 2025, y/y %)	Cash rate target (June 2025, %)	10-year bond yield (30 June 2025, %)
Latest	1.3	4.1	2.9	3.85	4.2
Year-end 2025 (f)*	1.8	4.5	2.5	3.35	4.2

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

Headline and core inflation are in the RBA target band

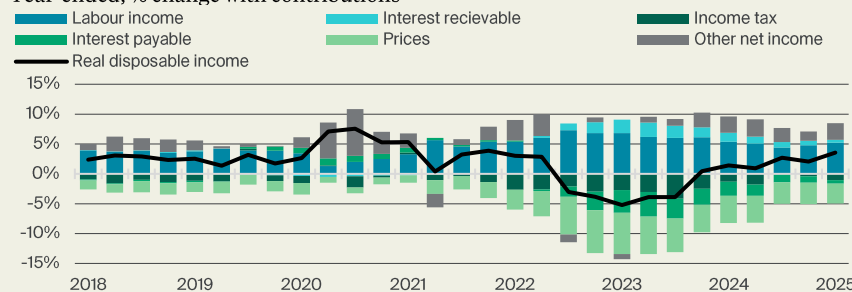
Annual and monthly growth (%)



Source: Knight Frank Research, ABS

Real disposable incomes continue to grow

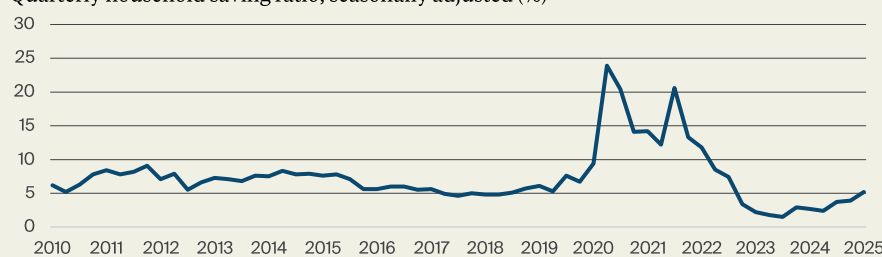
Year-ended, % change with contributions



Source: Knight Frank Research, ABS

Consumers are choosing to save their additional income

Quarterly household saving ratio, seasonally adjusted (%)



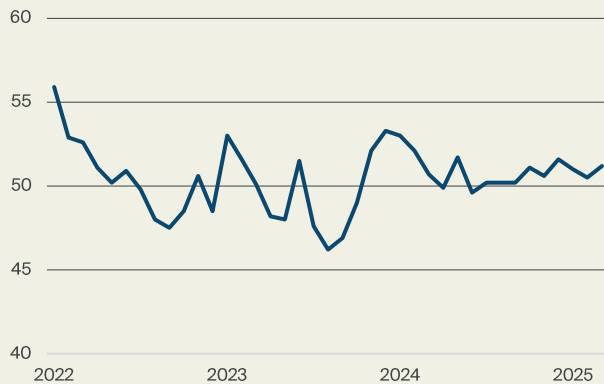
Source: Knight Frank Research, ABS

Business indicators

Business confidence has slightly improved with less frequent shifts in trade policy

PMI improved in June

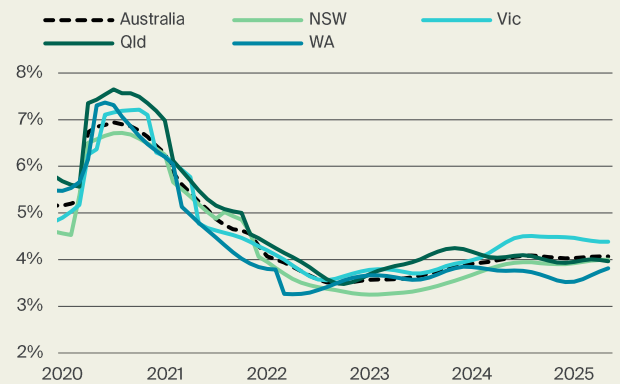
Composite PMI Output Index (above 50 indicates expansion)



Source: Knight Frank Research, Macrobond

Labour market remains resilient

Unemployment rate (trend)



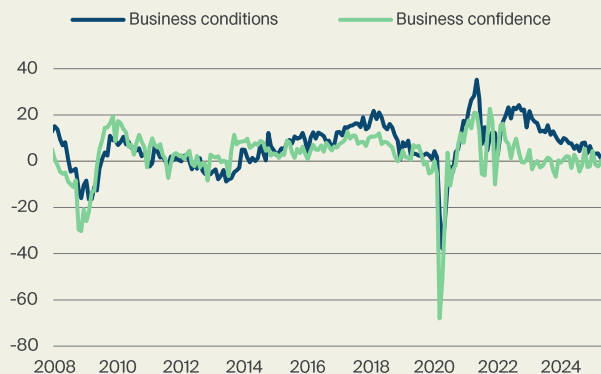
Source: Knight Frank Research, Macrobond

	Latest	Last quarter			1 year ago
	Jun-25	Mar-25	Dec-24	Sep-24	Jun-24
Australia	51.2	51.6	50.2	49.6	50.7
China	0.0	51.8	51.4	50.3	52.8
Euro Area	50.2	50.9	49.6	49.6	50.9
Japan	51.4	48.9	50.5	52.0	49.7
UK	50.7	51.5	50.4	52.6	52.3
US	52.8	53.5	55.4	54.0	54.8

	May-25	Feb-25	Nov-24	Aug-24	May-24
Australia	4.1	4.0	4.0	4.1	4.0
NSW	4.0	4.0	3.9	3.9	3.9
Vic	4.4	4.4	4.5	4.5	4.4
Qld	4.0	4.0	3.9	4.1	4.1
WA	3.8	3.6	3.6	3.7	3.8

Business conditions remain sluggish

NAB survey, balance of positive and negative responses



Source: Knight Frank Research, NAB, Macrobond

Forward orders are soft but improving

Forward orders index, balance of positive and negative



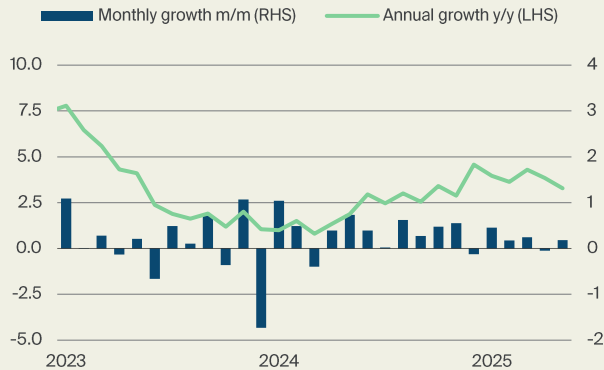
Source: Knight Frank Research, NAB

Consumer indicators

Consumer spending growth slows in June

Retail sales disappoint in May

Annual and monthly growth rate, %

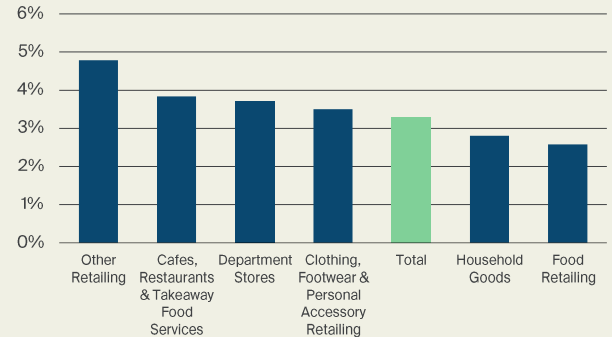


Source: Knight Frank Research, Macrobond

	May-25	Feb-25	Nov-24	Aug-24	May-24
Retail trade value (m/m, %)	0.2	0.2	0.6	0.6	0.7
Retail trade value (y/y, %)	3.3	3.6	2.9	3.0	1.9

Rebound in clothing and department stores

Annual growth in value of retail sales, %



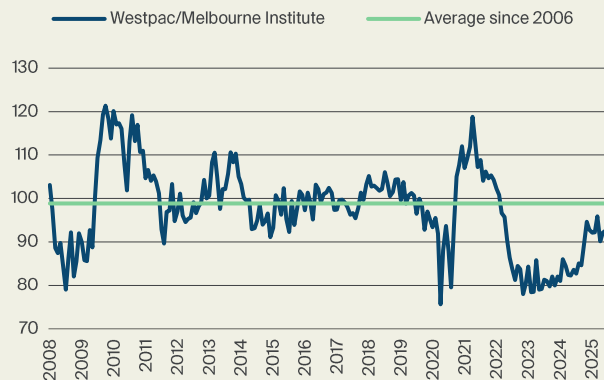
Source: Knight Frank Research, Macrobond

Latest in May-25

	m/m (%)	y/y (%)
Other Retailing	-0.2	4.8
Cafes, Restaurants & Takeaway Food Services	0.0	3.8
Department Stores	2.6	3.7
Clothing, Footwear & Personal Accessory Retailing	2.9	3.5
Total	0.2	3.3
Household Goods	0.0	2.8
Food Retailing	-0.4	2.6

Improving consumer sentiment has stalled

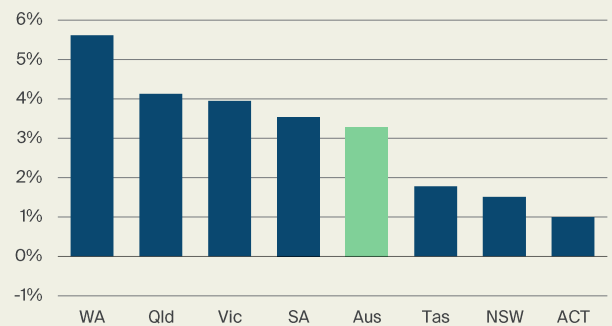
Confidence index, value above 100 signal optimism



Source: Knight Frank Research, Macrobond

Retail sales strongest in WA

Annual growth in value of retail sales, %



Source: Knight Frank Research, Macrobond

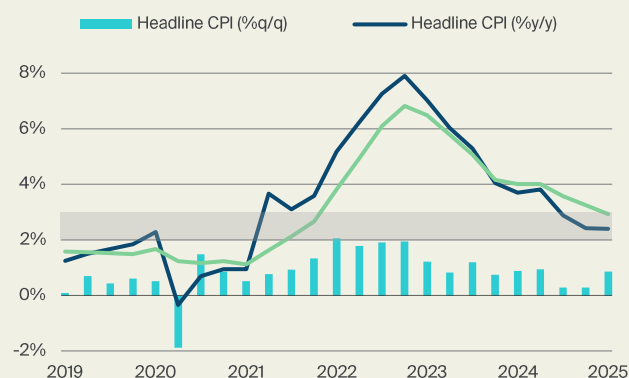
	Latest in May-25	Feb-25	Nov-24	Aug-24	May-24
WA	1.6%	3.3%	4.2%	5.6%	5.6%
Vic	1.2%	1.1%	2.6%	4.1%	4.1%
Qld	0.4%	1.1%	2.7%	3.9%	3.9%
Aus	0.1%	0.5%	3.1%	3.5%	3.5%
SA	0.4%	0.9%	2.2%	3.3%	3.3%
Tas	-0.1%	0.3%	1.7%	1.8%	1.8%
NSW	-0.5%	-0.1%	0.9%	1.5%	1.5%
ACT	0.2%	0.5%	0.5%	1.0%	1.0%

Inflation & interest rates

Inflation is now comfortably within the RBA target band, paving the way for further rate cuts

Core inflation back in the target band

Annual and quarterly growth (% seasonally adjusted)

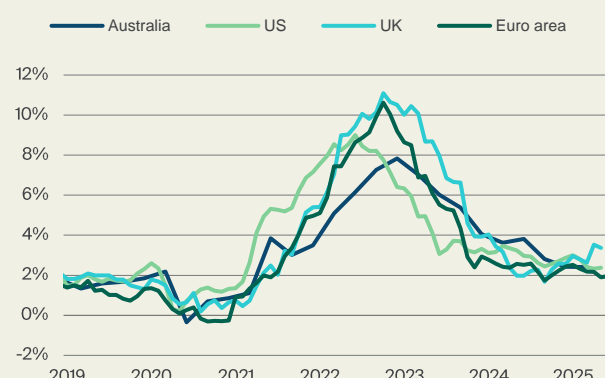


Source: Knight Frank Research, ABS

	Mar-25	Dec-24	Sep-24	Jun-24	Mar-24
Headline CPI (q/q, %)	0.9	0.2	0.2	1.0	1.0
Headline CPI (y/y, %)	2.4	2.4	2.8	3.8	3.6
Trimmed mean inflation (y/y, %)	2.9	3.3	3.6	4.0	4.0

Global inflation has largely stabilised

Headline CPI, y/y

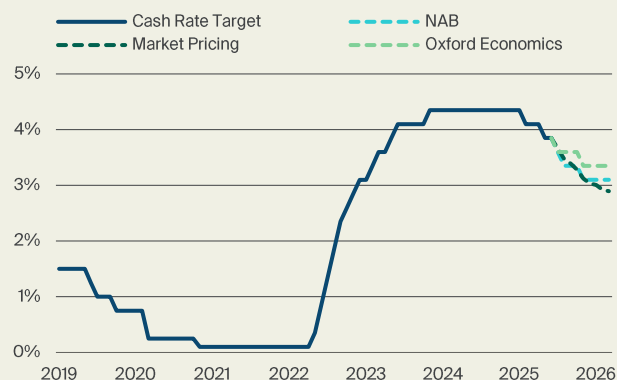


Source: Knight Frank Research, Macrobond

	May-25	Feb-25	Nov-24	Aug-24	May-24
Australia (y/y, %)	2.1	2.4	2.4	2.8	3.8
US (y/y, %)	2.4	2.8	2.7	2.6	3.2
UK (y/y, %)	3.4	2.8	2.6	2.3	2.0
Euro area (y/y, %)	1.9	2.3	2.2	2.2	2.6

Further rate cuts expected in 2025

Historic rates and indicative RBA outlook



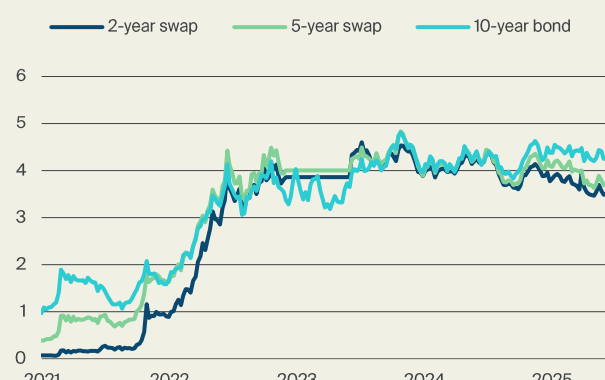
Source: Knight Frank Research, NAB, ASX

	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
Cash rate target	3.85				
Oxford Economics		3.60	3.35	3.35	3.35
NAB		3.35	3.10	3.10	3.10
Market pricing		3.39	3.04	2.90	2.86

Month-end

Borrowing rates continue to fall

Yield by swap/bond duration (%)



Source: Knight Frank Research, Macrobond

	Jun-25	Mar-25	Dec-24	Sep-24	Jun-24
2-year swap	3.47	3.73	3.90	3.66	4.24
5-year swap	3.66	4.00	4.11	3.74	4.29
10-year bond	4.19	4.41	4.34	3.92	4.25

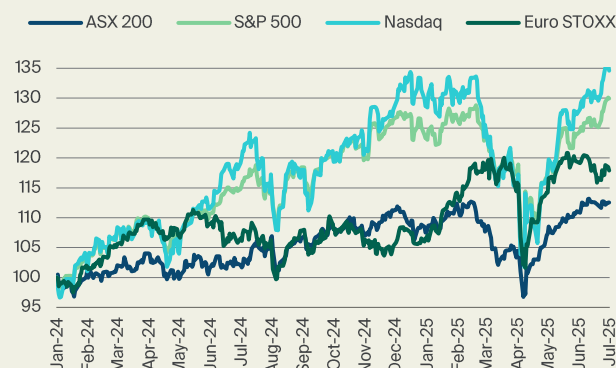
Monthly average

Financial markets

US equities rise to a record high despite continued uncertainty over trade policy

US equity markets hit a record high

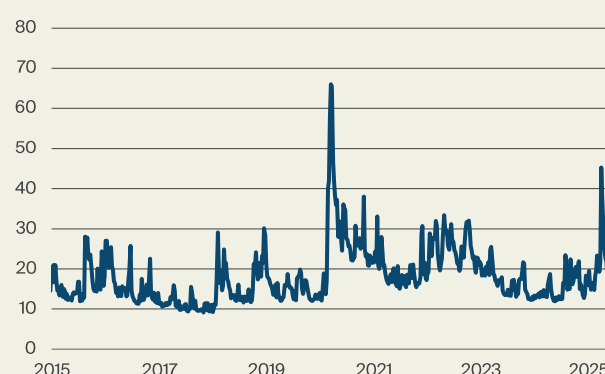
Global equities, price indices, 1 Jan 2024 = 100



Source: Knight Frank Research, Macrobond

Market volatility remains elevated

US VIX index - measure of market volatility (Index)



Source: Knight Frank Research, Macrobond

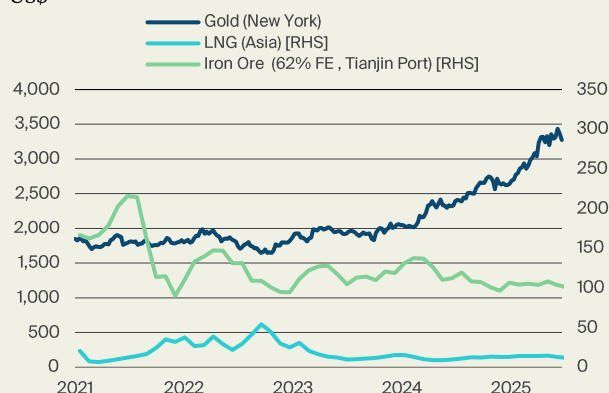
Percentage change from

	Mar-25	Dec-24	Sep-24	Jun-24
ASX 200	7.3%	2.7%	5.2%	9.7%
S&P 500	6.0%	0.3%	7.2%	11.2%
Nasdaq	10.3%	-0.4%	11.7%	12.3%
Euro STOXX 50	0.5%	10.8%	11.3%	10.2%
FTSE 350	2.2%	6.5%	5.9%	6.8%

Monthly average

Uncertainty supports record gold prices

US\$



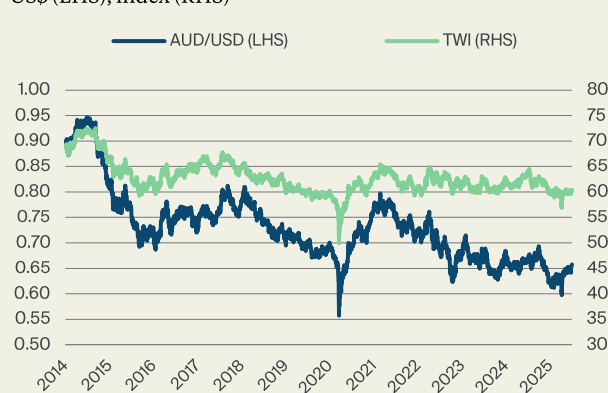
Source: Knight Frank Research, Macrobond

Index	Latest	Percentage change from			
	May-25	Feb-25	Nov-24	Aug-24	May-24
Gold	3,290	15.1%	24.1%	31.4%	41.3%
LNG	10.8	-26.6%	-23.0%	-18.2%	-0.4%
Iron Ore	100.3	-7.3%	-3.6%	-0.6%	-15.9%

Monthly average

AUD has strengthened against the USD

US\$ (LHS), index (RHS)



Source: Knight Frank Research, Macrobond

	Latest	Percentage change from			
	Jun-25	Mar-25	Dec-24	Sep-24	Jun-24
USD per AUD	0.65	0.63	0.63	0.68	0.66
Trade weighted index	60.0	0.4%	-0.7%	-3.3%	-5.2%

Monthly average

Recent research

Australian Capital View



Is now the time to develop?



Australian office indicators



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



Ben Burston
Chief Economist
+61 2 9036 6756
Ben.Burston@au.knightfrank.com



Alistair Read
Senior Economist
+61 450 831 899
Alistair.Read@au.knightfrank.com



Marco Mascitelli
Associate Director
+61 2 9036 6656
Marco.Mascitelli@au.knightfrank.com



Naki Dai
Senior Analyst
+61 2 9036 6673
Naki.Dai@au.knightfrank.com