Leading Indicators

Key economic and financial metrics impacting property markets

June-24

Global rates shift underway, but RBA will lag

MAJOR ECONOMIES STARTING TO CUT INTEREST RATES

Four central banks have now cut their policy rates, signalling that a global shift to lower interest rates is now underway. Switzerland was the first mover in March, followed by Sweden in May and the European Central Bank (ECB) and the Bank of Canada in June. After an aggressive hiking cycle since 2021 these recent downward movements across multiple economies are an encouraging sign for property markets, although the RBA is still expected to be among the last to move.

AUSTRALIA'S QUARTERLY GDP DATA POSITIVE, JUST

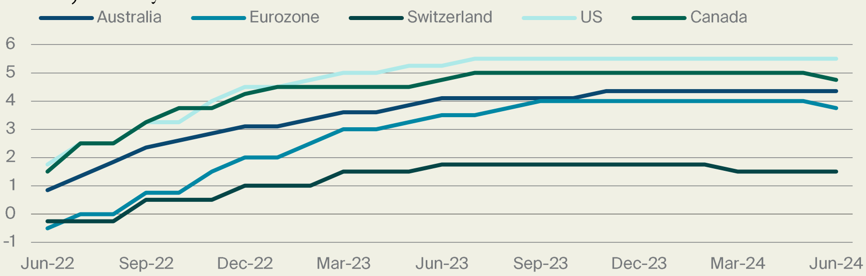
The RBA is torn between still-high inflation and sluggish economic growth, which was evidenced once again by the Q1 GDP print which showed slow growth of 0.1% for the quarter to be up by 1.1% y/y, again restricted by limited household spending. Looking ahead, the pressures on household incomes are set to ease in H2, enabling growth to pick up.

LABOUR MARKETS REMAIN STRONG

Slow economic growth contrasts with a very resilient labour market. Total employment continues to expand and as a result unemployment remains very low at 4.0%. Firms have been reluctant to cut hiring in the face of what many view as a temporary slowdown in household spending, and the extent of the resulting pressure on wages will be an important influence on inflation and hence the path of interest rates.

Several central banks now shifting gear

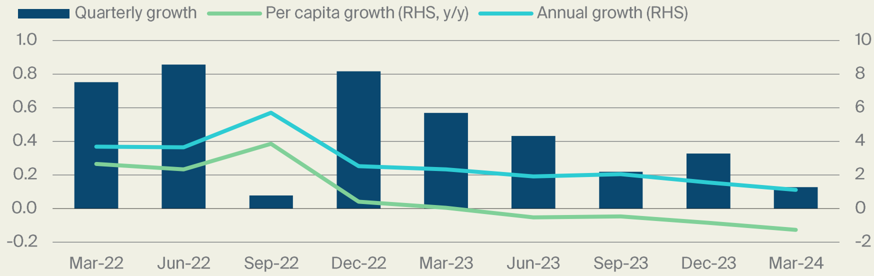
Per cent, monthly



Source: Knight Frank Research, Macrobond

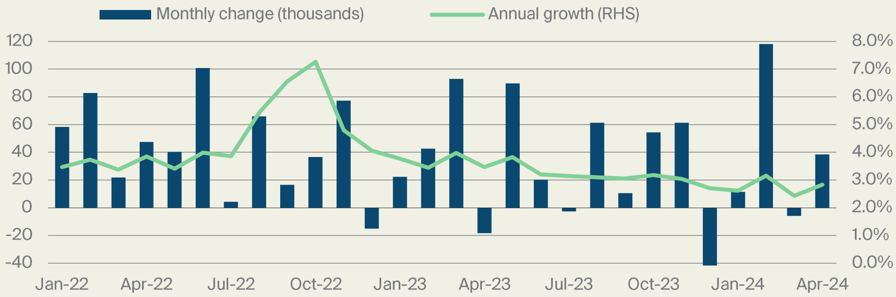
A slow start to the year

Quarterly and annual GDP growth (%)



Source: Knight Frank Research, Macrobond

Continued strong employment growth



Source: Knight Frank Research, Macrobond

Australia key forecasts

	GDP growth (Q1 2024, y/y %)	Unemployment rate (May, %)	CPI inflation (Q1 2024, y/y %)	Cash rate target (May, %)	10 year bond yield (1 May, %)
Latest	1.1	4	3.6	4.35	4.5
Year-end 2024 (f)*	1.3	4.2	3.3	4.35	4.1

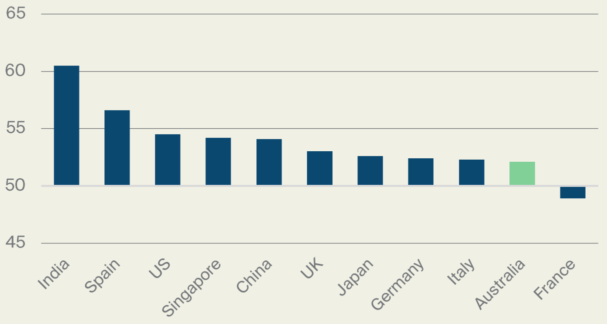
*Oxford economic forecasts

Business indicators

Business conditions remain solid and the labour market is proving resilient

Business conditions have improved globally

Composite PMI indicator (above 50 indicates expansion)

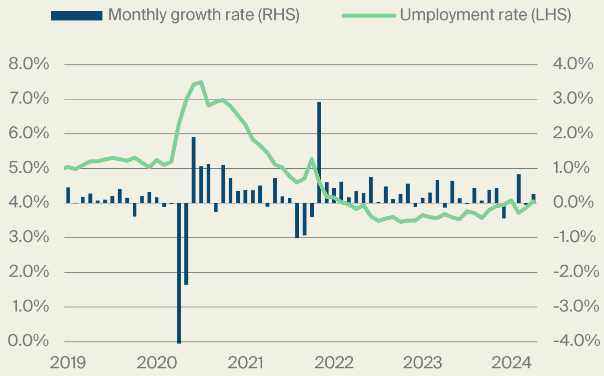


Source: Knight Frank Research, Macrobond

	Latest May-24	Last quarter Feb-24	Nov-23	Aug-23	1 year ago May-23
Australia	52.1	52.1	46.2	48.0	51.6
China	54.1	52.5	51.6	51.7	55.6
Euro Area	52.2	49.2	47.6	46.7	52.8
Japan	52.6	50.6	49.6	52.6	54.3
UK	53.0	53.0	50.7	48.6	54.0
US	54.5	52.5	50.7	50.2	54.3

Unemployment remains very low

Per cent

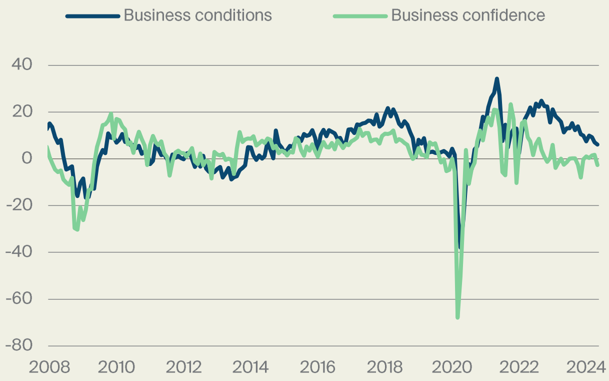


Source: Knight Frank Research, Macrobond

	Apr-24	Jan-24	Oct-23	Jul-23	Apr-23
Monthly growth (%)	0.3	0.1	0.4	0.0	-0.1
Unemployment rate (%)	4.1	4.1	3.8	3.8	3.7

But business sentiment is still subdued

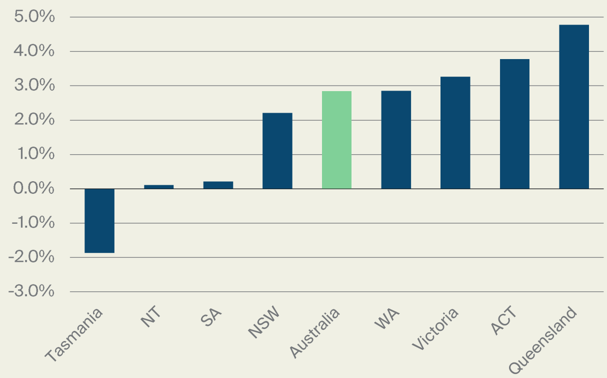
NAB survey, balance of positive and negative responses



Source: Knight Frank Research, NAB, Macrobond

Fastest employment growth in QLD

Per cent, annual change to May-24



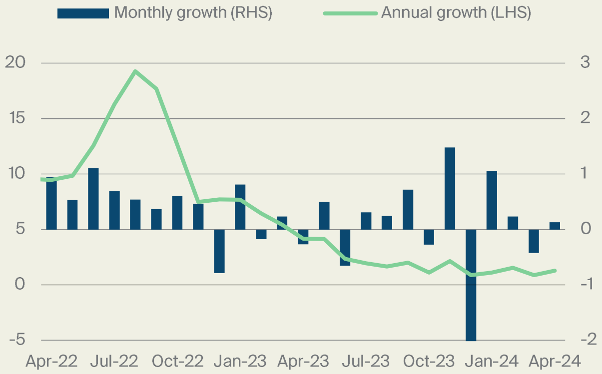
	TAS	NT	SA	NSW	Australia	WA	VIC	ACT	QLD
y/y growth (%)	-1.9	0.1	0.2	2.2	2.8	2.9	3.3	3.8	4.8

Consumer indicators

Continued weakness in retail spending but relief via tax cuts is close at hand

Retail sales still growing but volumes down

Annual and monthly growth rate (%)

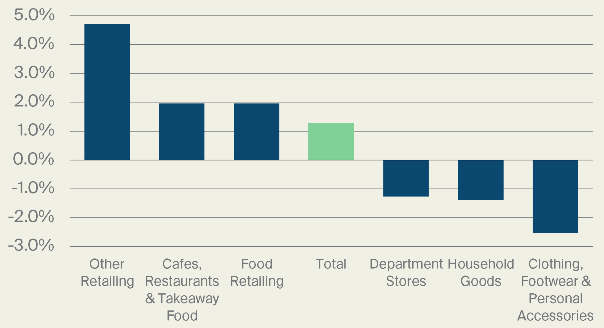


Source: Knight Frank Research, Macrobond

	Apr-24	Jan-24	Oct-23	Jul-23	Apr-23
m/m growth (%)	0.1	1.1	-0.3	0.3	-0.3
y/y growth (%)	1.3	1.1	1.1	2.0	4.2

Weakness in many discretionary categories

Annual growth in retail sales (values)

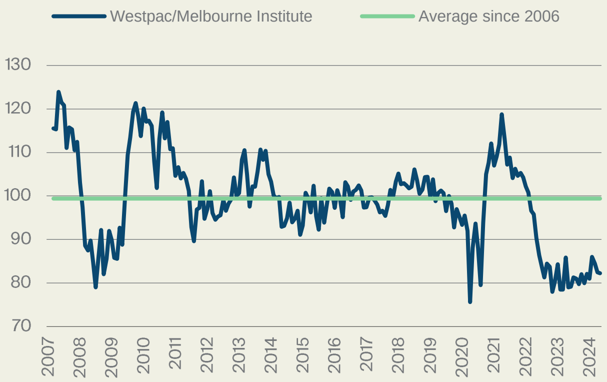


Source: Knight Frank Research, Macrobond

Latest in Apr-24	m/m (%)	y/y (%)
Other Retailing	1.6	4.7
Cafes, Restaurants & Takeaway Food	0.3	2.0
Food Retailing	-0.5	2.0
Total	0.1	1.3
Department Stores	0.1	-1.3
Household Goods	0.7	-1.4
Clothing, Footwear & Personal Accessories	-0.7	-2.5

Consumer confidence remains subdued

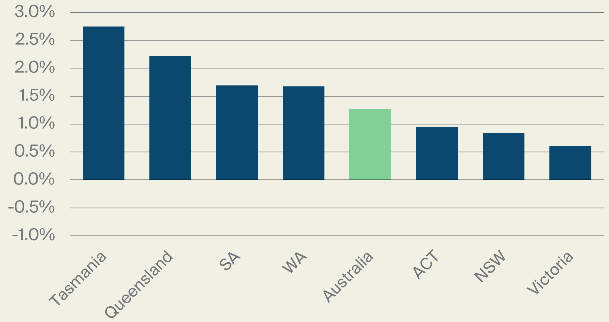
Confidence index, value above 100 signal optimism



Source: Knight Frank Research, Macrobond

TAS and QLD lead the way

Annual growth in retail sales, per cent



Source: Knight Frank Research, Macrobond

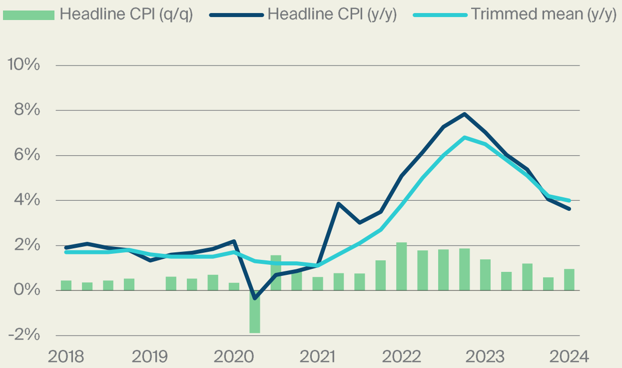
	Percentage change since			
Latest in Apr-24	Jan-24	Oct-23	Jul-23	Apr-23
Tasmania	-0.8	1.2	3.2	2.7
Queensland	-0.4	0.6	1.6	2.2
SA	0.2	1.2	1.8	1.7
WA	0.8	0.5	1.5	1.7
Australia	-0.1	0.4	1.1	1.3
ACT	0.2	0.1	0.3	0.9
NSW	0.2	0.4	1.0	0.8
Victoria	-0.5	0.0	0.4	0.6

Inflation & interest rates

Trajectory of inflation in service industries key to the interest rate outlook

Higher than expected inflation in Q1

Annual and quarterly headline CPI growth (%)

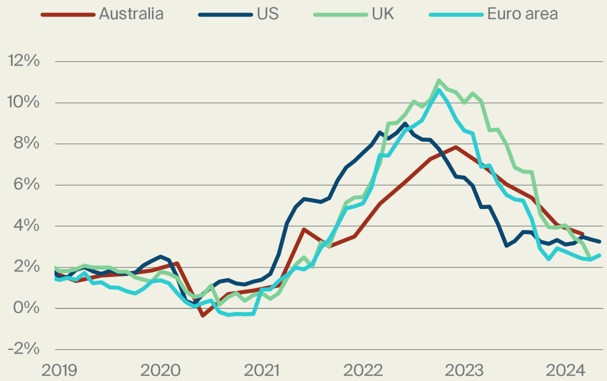


Source: Knight Frank Research, ABS

	Mar-24	Dec-23	Sep-23	Jun-23	Mar-23
Headline CPI (q/q, %)	1.0	0.6	1.2	0.8	1.4
Headline CPI (y/y, %)	3.6	4.1	5.4	6.0	7.0
Trimmed mean inflation (y/y, %)	4.0	4.2	5.1	5.8	6.5

Persistent inflation in the US also

Headline CPI y/y

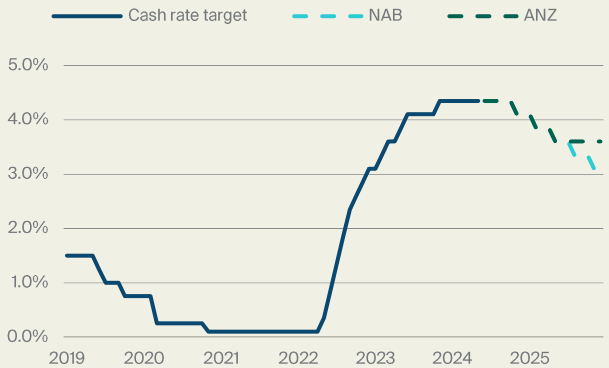


Source: Knight Frank Research, Macrobond

	Mar-24	Dec-23	Sep-23	Jun-23	Mar-23
Australia (y/y, %)	3.6	4.1	5.4	6.0	7.0
US (y/y, %)	3.5	3.3	3.7	3.1	4.9
UK (y/y, %)	3.2	3.9	6.6	8.0	10.1
Euro area (y/y, %)	2.4	2.9	4.3	5.5	6.9

Forecast timing of first cut may push out

Historic rates and current forecasts of major banks

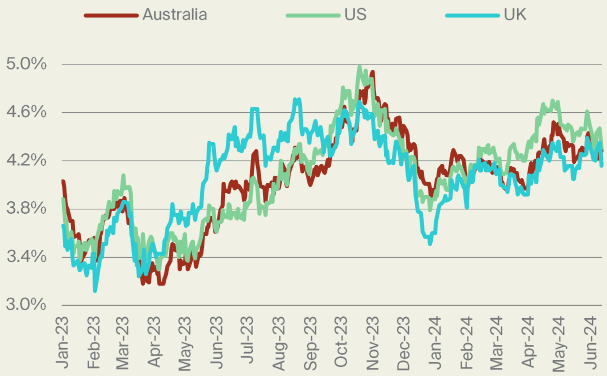


Source: Knight Frank Research, NAB, Rate City

	Jun-24	Sep-24	Dec-24	Jun-25	Dec-25
Cash rate target	4.35				
Oxford Economics		4.35	4.35	3.60	3.10
NAB		4.35	4.10	3.60	3.10
ANZ		4.35	4.10	3.60	3.60

Bond yield remain in the 4-4.5% range

Ten year government bond yields



Source: Knight Frank Research, Macrobond

	Jun-24	Mar-24	Dec-23	Sep-23	Jun-23
Australia	4.37	4.15	4.49	4.00	3.62
US	4.41	4.19	4.22	4.18	3.61
UK	4.26	4.09	4.24	4.42	4.12

*as at the first business day of the month

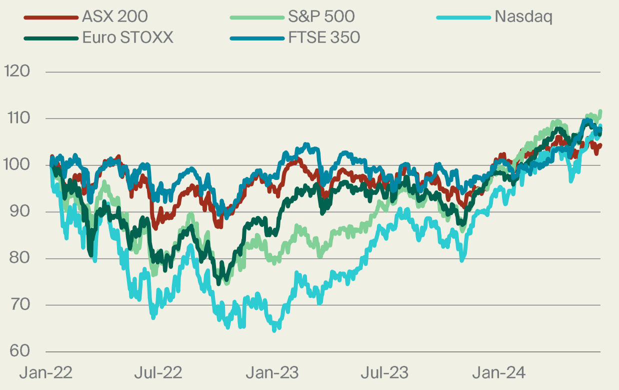
Financial markets

Knight Frank

Equity markets continue to move up despite shift in rates outlook

Equities back above 2021 peak levels

Global equities, price indices, 3 Jan 2022 = 100



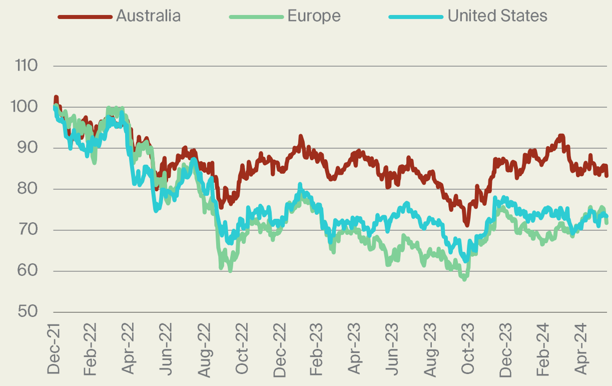
Source: Knight Frank Research, Macrobond

Index	Latest	Percentage change since			
Original value and base	Jun-24	Mar-24	Dec-23	Sep-23	Jun-23
ASX 200	7,755	0.7	7.7	7.8	8.9
S&P 500	5,375	5.0	16.3	19.8	23.9
Nasdaq	17,344	8.3	20.2	24.6	28.8
Euro STOXX	4,965	1.6	8.0	13.6	12.2
FTSE 350	4,488	5.9	8.0	8.8	7.3

* Latest 11th June

REIT prices down since March

Price index, 31 Dec 2021 = 100



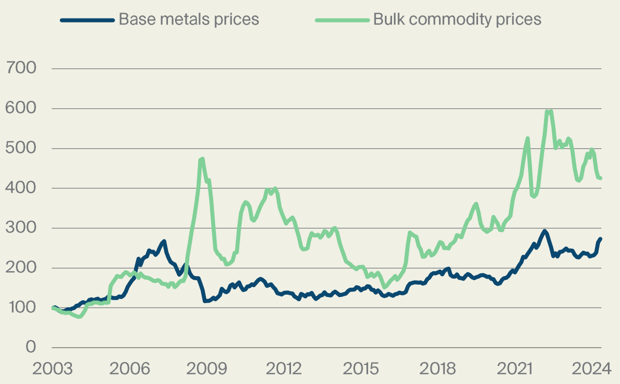
Source: Knight Frank Research, Macrobond

	Percentage change since			
	Mar-24	Dec-23	Sep-23	Jun-23
Australia	-6.9	0.2	2.2	-0.3
Europe	3.4	1.0	11.8	7.0
United States	-2.5	1.1	2.3	1.3

*Latest 11th June

Bulk commodity prices have moderated

RBA commodity price index (Jan 2003 = 100)

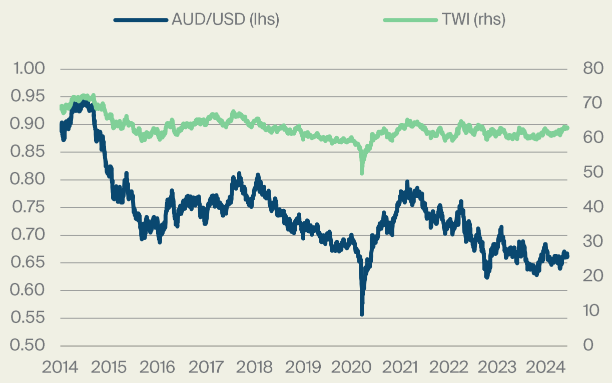


Source: Knight Frank Research, RBA

Index	Percentage change since			
Latest in May-24	Feb-24	Nov-23	Aug-23	May-23
Base metals prices	17.7	15.7	17.2	17.4
Bulk commodity prices	-12.6	-12.6	-0.1	-5.3

US dollar strong vs AUD

US$ (lhs), index (rhs)



Source: Knight Frank Research, Macrobond

	Jun-24	Mar-24	Dec-23	Sep-23	Jun-23
USD per AUD	0.66	0.66	0.66	0.64	0.67
	Latest	Percentage change since			
	Jun-24	Mar-24	Dec-23	Sep-23	Jun-23
Trade weighted index	62.8	2.1	3.0	4.0	1.9

* Latest 11th June

Recent research

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

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