

Leading Indicators

Key economic and financial metrics impacting property markets

Mar-24

Entering the last mile of the battle against inflation

PRESSURES ON THE CONSUMER WEIGH ON GDP GROWTH

Q4 data confirmed that the pace of growth has slowed to a crawl as households curb their spending in the face of multiple pressures on disposable income. Growth in government spending and strong export performance have supported the economy through this challenging period, with the pace of growth expected to improve in H2.

SLOWING PACE OF DECLINE IN GLOBAL INFLATION

Globally, inflation continues to fall but at a slower pace as goods disinflation abates and cost pressures in service industries persist. US inflation stands at 3.2%, unchanged since October, with core inflation measures still above this level. The slower pace of decline has pushed back market expectations of rate cuts in recent weeks and is a reminder that the 'last mile' of the battle against inflation will take longer than the early stages. The experience of past cycles shows that the quantum of cuts in Australia may surpass current market expectations when they eventually arrive.

AUSTRALIA AND JAPAN THE TOP INVESTMENT LOCATIONS

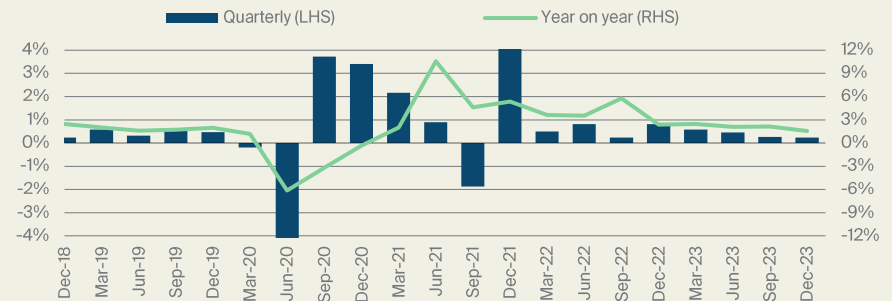
Meanwhile, real estate investors are looking ahead with much more confidence than a year ago. Australia and Japan are first in line to benefit from improving liquidity, as evidenced by the recent ANREV survey of investor intentions across the APAC region.

Australia key forecasts

	GDP growth (Q4 2023, y/y %)	Unemployment rate (January, %)	CPI inflation (Q4 2023, y/y %)	Cash rate target (February, %)	10 year bond yield (6 March, %)
Latest	1.6	4.1	4.1	4.35	4.0
Year-end 2024 (f)*	1.6	4.5	3.2	4.10	4.1

*Oxford economic forecasts

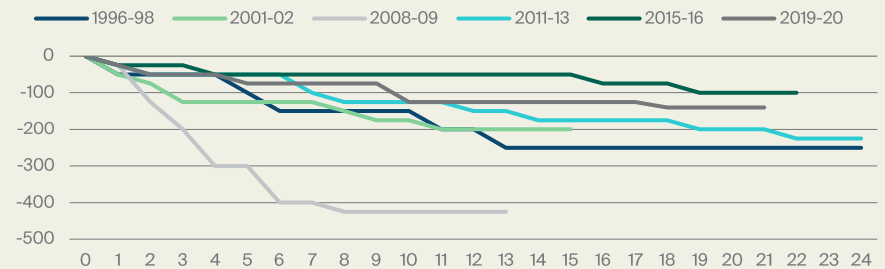
A further slowing in GDP growth



Source: Knight Frank Research, ABS

Comparing RBA rate cut cycles

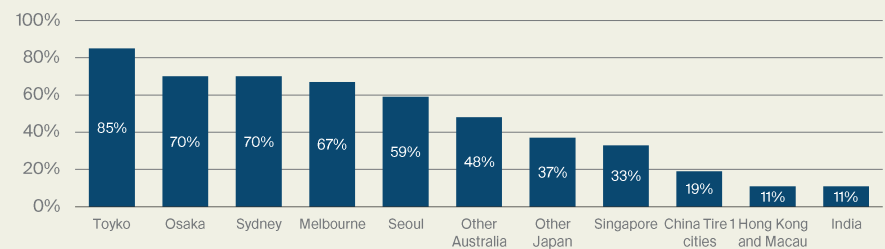
Number of basis points within two years from start of rate cuts



Source: Knight Frank Research, Macrobond

Preferred investment locations for 2024

% of respondents, ANREV survey of investment intentions



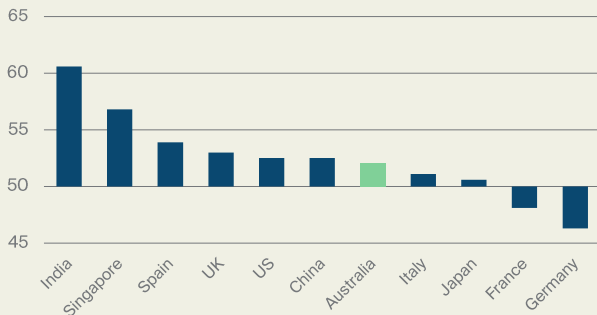
Source: Knight Frank Research, ANREV

Business indicators

Business conditions improve but confidence remains low

Business activity improves in February

Composite PMI indicator (above 50 indicates expansion)

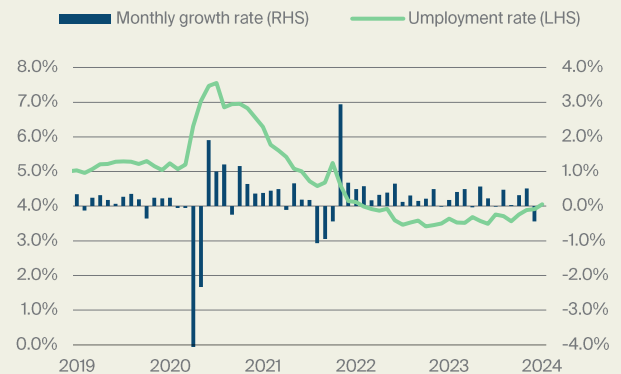


Source: Knight Frank Research, Macrobond

	Latest Feb-24	Last quarter Nov-23	Aug-23	May-23	1 year ago Feb-23
Australia	52.1	46.2	48.0	51.6	50.6
China	52.5	51.6	51.7	55.6	54.2
Euro Area	49.2	47.6	46.7	52.8	52.0
Japan	50.6	49.6	52.6	54.3	51.1
UK	53.0	50.7	48.6	54.0	53.1
US	52.5	50.7	50.2	54.3	50.1

Unemployment rate moves higher

Per cent

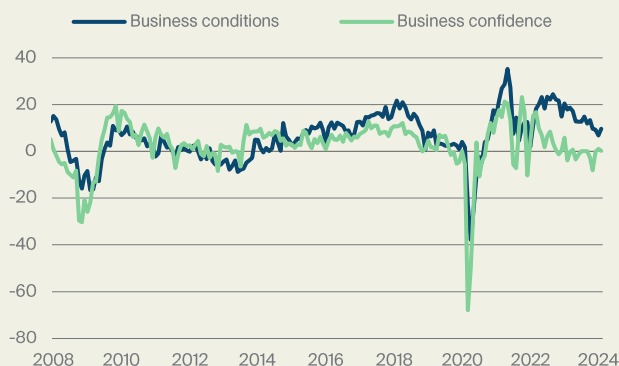


Source: Knight Frank Research, Macrobond

	Jan-24	Oct-23	Jul-23	Apr-23	Jan-23
Monthly growth (%)	0.0	0.3	0.0	0.0	0.2
Unemployment rate (%)	4.1	3.8	3.8	3.7	3.6

Business conditions improved in February

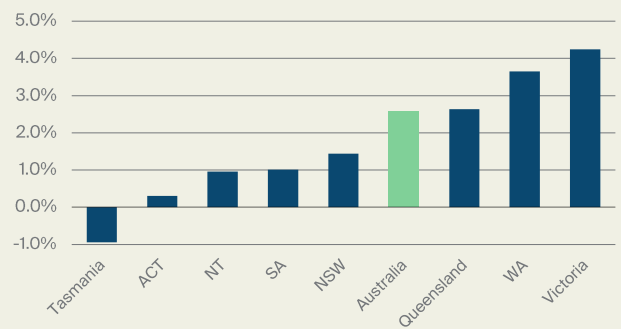
NAB survey, balance of positive and negative responses



Source: Knight Frank Research, NAB, Macrobond

Fastest employment growth in VIC / WA

Per cent, annual change to Jan-24



Source: Knight Frank Research, Macrobond

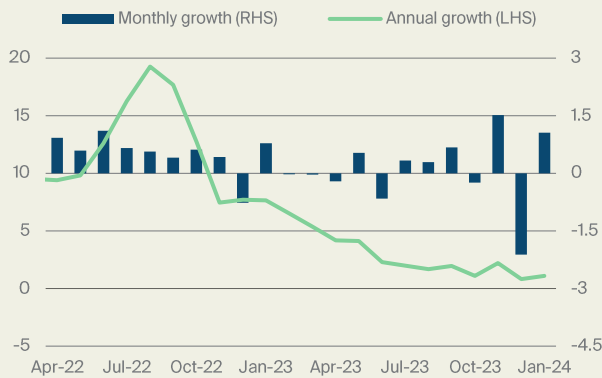
	TAS	ACT	NT	SA	NSW	Australia	QLD	WA	VIC
y/y growth (%)	-0.9	0.3	1.0	1.0	1.4	2.6	2.6	3.7	4.2

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 (%)

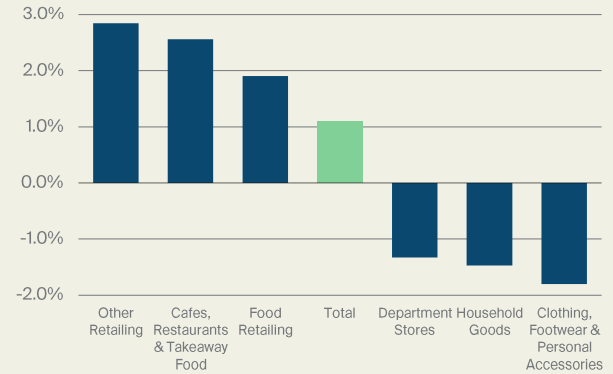


Source: Knight Frank Research, Macrobond

	Jan-24	Oct-23	Jul-23	Apr-23	Jan-23
m/m growth (%)	1.1	-0.2	0.3	-0.2	0.8
y/y growth (%)	1.1	1.1	2.0	4.2	7.7

Weakness in discretionary categories

Annual growth in retail sales (values)



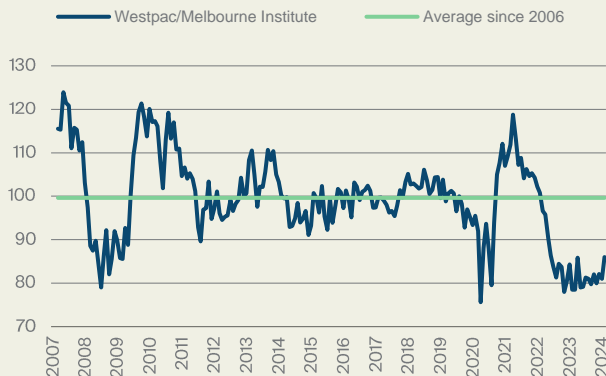
Source: Knight Frank Research, Macrobond

Latest in Jan-24

	m/m (%)	y/y (%)
Other retailing	1.7	2.8
Cafes, restaurants, takeaway food	1.3	2.6
Food retailing	-0.1	1.9
Total	1.1	1.1
Department stores	1.7	-1.3
Household goods	2.3	-1.5
Clothing, footwear & personal accessories	2.4	-1.8

Consumer confidence remains subdued

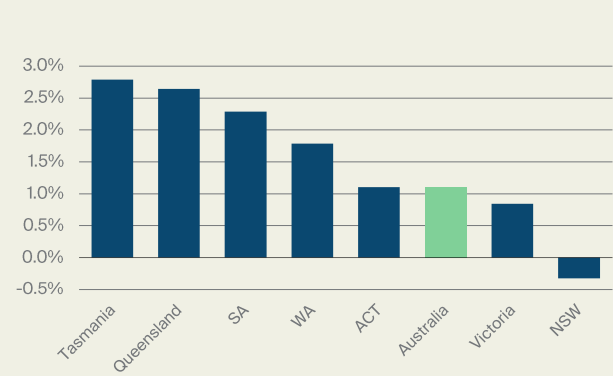
Confidence index, value above 100 signal optimism



Source: Knight Frank Research, Macrobond

Tasmania and Queensland lead the way

Annual growth in retail sales, per cent



Source: Knight Frank Research, Macrobond

Percentage change since

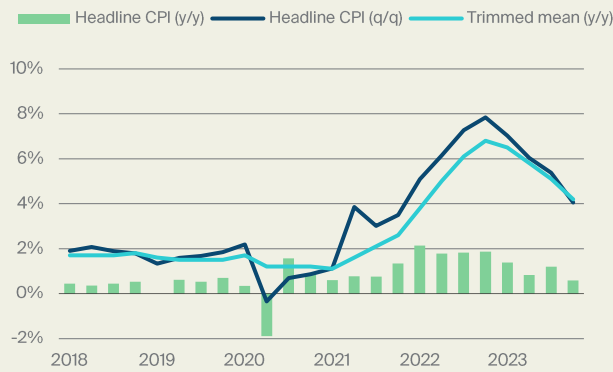
Latest in Jan-24	Oct-23	Jul-23	Apr-23	Jan-23
Tasmania	2.3	4.4	4.0	2.8
Queensland	1.1	2.1	2.8	2.6
SA	1.0	1.5	1.4	2.3
WA	-0.5	0.5	0.6	1.8
ACT	0.0	0.1	0.9	1.1
Australia	0.4	1.2	1.4	1.1
Victoria	0.4	0.9	1.3	0.8
NSW	0.1	0.8	0.6	-0.3

Inflation & interest rates

The pace of decline in inflation has slowed as we enter the last mile of the descent

Inflation drops further in Q4

Annual and quarterly headline CPI growth (%)

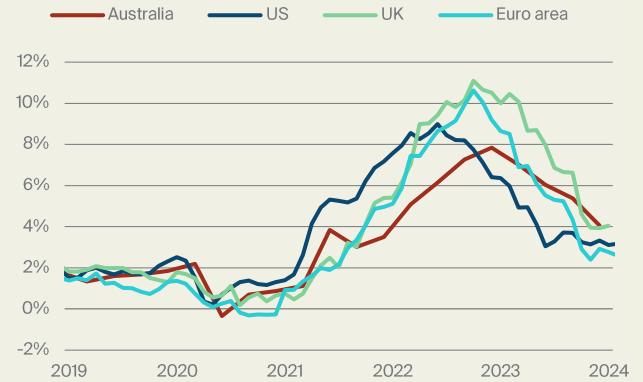


Source: Knight Frank Research, ABS

	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

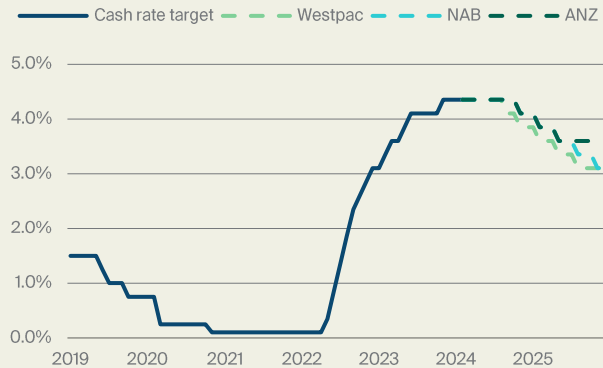


Source: Knight Frank Research, Macrobond

	Jan-24	Dec-23	Nov-23	Oct-23	Sep-23
Australia (y/y, %)	4.1	4.1	5.4	5.4	5.4
US (y/y, %)	3.1	3.3	3.1	3.2	3.7
UK (y/y, %)	4.0	3.9	3.9	4.6	6.6
Euro area (y/y, %)	2.8	2.9	2.4	2.9	4.3

Focus shifts to timing of potential rate cuts

Historic rates and current forecast of major banks

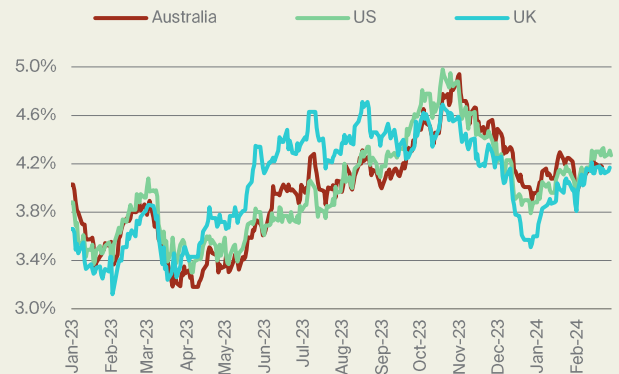


Source: Knight Frank Research, NAB, Rate City,

	Feb-24	Jun-24	Dec-24	Jun-25	Dec-25
Cash rate target	4.35				
Westpac		4.35	3.85	3.35	2.85
NAB		4.35	4.10	3.60	3.10
ANZ		4.35	3.85	3.60	3.60

Bond yields have edged higher in early 2024

Ten year government bond yields



Source: Knight Frank Research, Macrobond

	Feb-24	Nov-23	Aug-23	May-23	Feb-23
Australia	4.02	4.94	3.97	3.35	3.56
US	3.87	4.77	4.05	3.59	3.39
UK	3.81	4.57	4.37	3.72	3.43

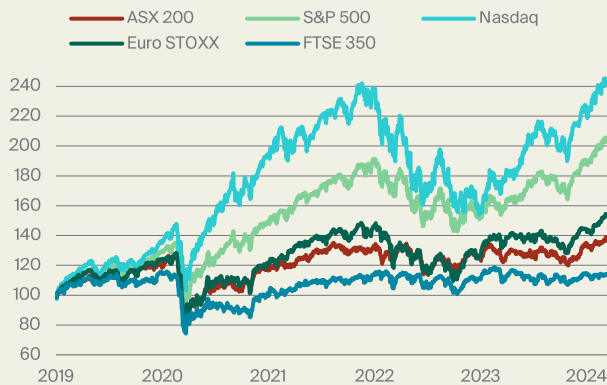
*as at the first business day of the month

Financial markets

Strong momentum as equity markets move up to record highs

Equities back above 2021 peak levels

Global equities, price indices, 1 Jan 2019 = 100



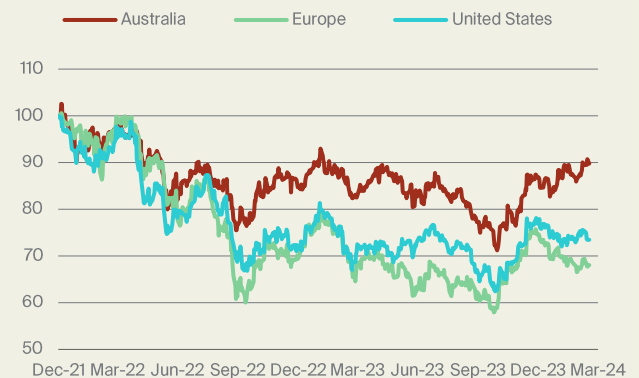
Source: Knight Frank Research, Macrobond

Index	Latest	Percentage change since				
		Original value and base	Feb-24	Nov-23	Aug-23	May-23
ASX 200	7,699		8.6	5.4	8.6	6.1
S&P 500	5,096		11.6	13.1	21.9	28.4
Nasdaq	16,092		13.1	14.7	24.4	40.5
Euro STOXX	4,878		8.4	9.4	11.9	9.3
FTSE 350	4,205		2.7	2.5	2.4	-3.3

* Latest 29th February

Global REIT indices have rebounded

Price index, 31 Dec 2021 = 100



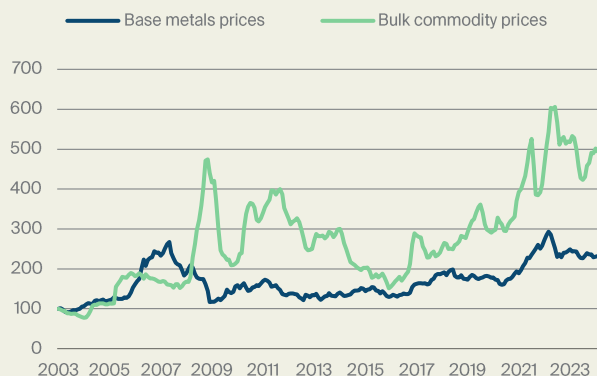
Source: Knight Frank Research, Macrobond

	Percentage change since			
	Dec-23	Sep-23	Jun-23	Mar-23
Australia	3.4	16.3	8.5	8.3
Europe	-8.8	9.2	7.8	-0.6
United States	-4.6	9.6	0.5	1.3

* Latest 18th March

Commodity prices remain high

RBA commodity price index (Jan 2003 = 100)

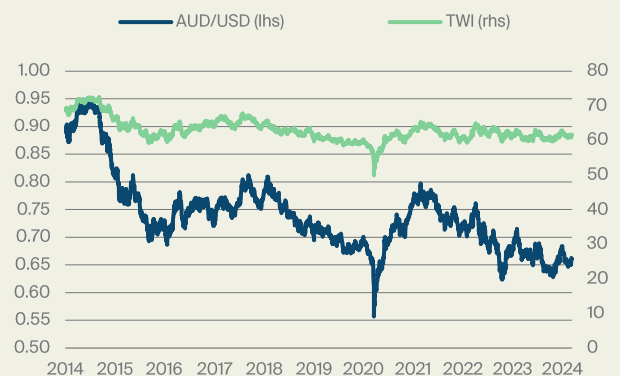


Source: Knight Frank Research, RBA

Index	Latest in Feb-24	Percentage change since			
		Nov-23	Aug-23	May-23	Feb-23
Base metals prices		-1.8	-0.5	-0.3	-4.7
Bulk commodity prices		0.4	14.7	8.3	-7.4

US dollar 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	0.65	0.66	0.65	0.65	0.67
Trade weighted index	61.1	-0.7%	0.8%	2.2%	-0.5%

* Latest 29th February

Recent research

Breaking the shackles: the rise of BTR



Australian Industrial Review



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