

Leading Indicators

Key economic and financial metrics impacting property markets

Mar-26

Capacity constraints keep inflation elevated

ECONOMY REMAINS CONSTRAINED

The ABS's January monthly CPI data came in slightly above expectations, annual headline inflation remained steady at 3.8% but trimmed mean inflation rose to 3.4%. Capacity utilisation – a leading indicator of inflation – remains above the long-term average indicating that the economy is supply constrained. Combined with a rise in aggregate demand following previous interest rate cuts, this has led to the recent rise in inflation.

Capacity constraints drive an uplift in inflation

Capacity utilisation rate relative to long-run average (3-month moving average), headline inflation and trimmed mean inflation (%)



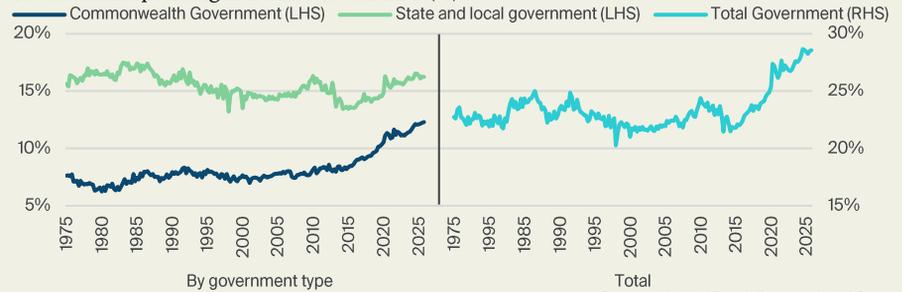
Source: Knight Frank Research, NAB, Macrobond
Note: COVID-19 period has been truncated.

INCREASED GOVERNMENT SPENDING

Government spending as a share of the economy has steadily risen since 2015, accounting for 28.6% of real GDP in Q4 2025. This reflects spending growth across all levels of government. Over the past three years, the biggest growth is in Commonwealth spending which has risen by 15.7% (\$11.6b) while State and local government spending has grown by 9.7% (\$10 billion). This is contributing to inflation by crowding out the private sector, increasing demand for common resources.

All levels of government are increasing spending

Government spending as a share of real GDP (%)



Source: Knight Frank Research, ABS

REAL GDP GROWTH RISES IN Q4

Australia's economy grew by a stronger than expected 0.8% in Q4 2025, increasing the real annual growth rate to 2.6%. This reflected both higher household and private investment which are now the key drivers of GDP growth. Public demand also grew as all levels of Government increased both expenditure and investment. Although total growth was higher than the RBA's forecasts, private demand was weaker than expected. This may see the RBA hold rates in March and wait for the release of Q1 inflation figures.

Private demand driving GDP growth

Year-ended, % change with contributions



Source: Knight Frank Research, ABS
Notes: Data for Q2 2020 and Q2 2021 have been truncated. *Other includes changes in inventories and statistical discrepancies

Australia key forecasts

	Real GDP growth (Q4 2025, y/y %)	Unemployment rate (January 2025, %)	Core CPI inflation (January 2025, y/y %)	Cash rate target (February 2025, %)	10-year bond yield (27 February 2026, %)
Latest	2.6	4.1	3.4	3.85	4.7
Year-end 2026* (f)	2.4	4.5	3.2	4.1	4.85

Business indicators

Business conditions remain resilient despite expectation of more rate hikes

PMIs are volatile recently

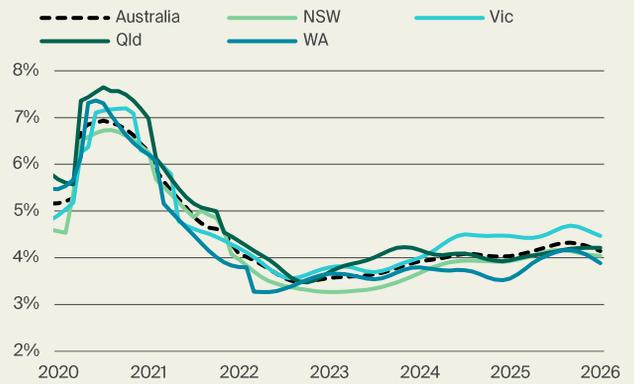
Composite PMI Output Index (above 50 indicates expansion)



Source: Knight Frank Research, Macrobond

Unemployment rate falls further

Unemployment rate (trend adjusted)



Source: Knight Frank Research, Macrobond

	Latest	Last quarter			1 year ago
	Feb-26	Nov-25	Aug-25	May-25	Feb-25
Australia	52.4	52.6	55.5	50.5	50.6
China	51.6	51.2	51.9	49.6	51.5
Euro Area	51.9	52.8	51.0	50.2	50.2
Japan	53.9	52.0	52.0	50.2	52.0
UK	53.9	51.2	53.5	50.3	50.5
US	52.3	54.2	54.6	53.0	51.6

*Jan-26

	Jan-26	Oct-25	Jul-25	Apr-25	Jan-25
	Australia	4.1	4.3	4.3	4.1
NSW	4.0	4.1	4.2	4.0	3.9
Vic	4.5	4.7	4.6	4.4	4.5
Qld	4.2	4.2	4.1	4.0	3.9
WA	3.9	4.1	4.1	3.9	3.6

Business conditions and confidence remain positive

NAB survey, balance of positive and negative responses



Source: Knight Frank Research, NAB, Macrobond

Forward orders improve in January

Forward orders index, balance of positive and negative



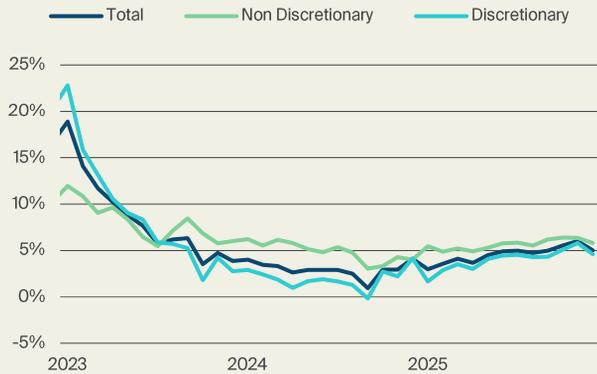
Source: Knight Frank Research, NAB

Consumer indicators

Household spending remains strong, but outlook for rate hikes weigh on confidence

Household spending falls in December

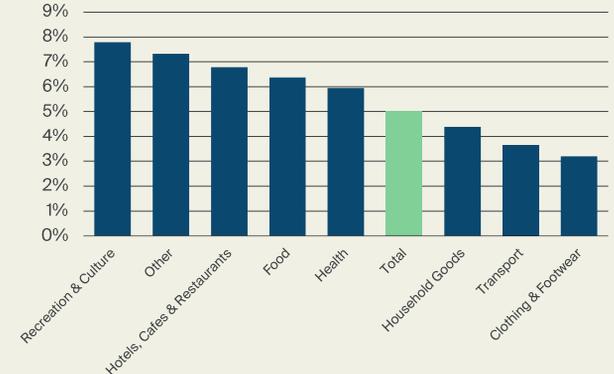
Annual growth in household spending by type (%)



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

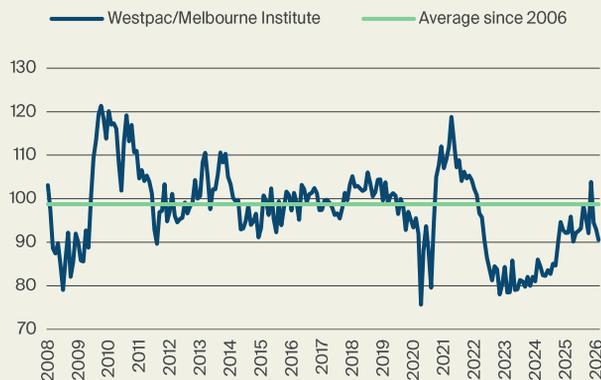
	Dec-25	Sep-25	Jun-25	Mar-25	Dec-24
Household spending, current prices (m/m)	-0.4	0.3	0.4	0.1	0.6
Household spending, current prices (y/y)	5.0	5.0	4.9	4.1	4.1

Latest in Dec-25

	m/m (%)	y/y (%)
Recreation & Culture	-0.5	7.8
Other	-0.9	7.3
Hotels, Cafes & Restaurants	0.5	6.8
Food	-0.4	6.4
Health	-1.3	5.9
Total	-0.4	5.0
Household Goods	-1.7	4.4
Transport	0.6	3.6
Clothing & Footwear	-2.4	3.2
Alcohol & Tobacco	2.0	-13.5

Interest rate hikes weigh on consumer sentiment

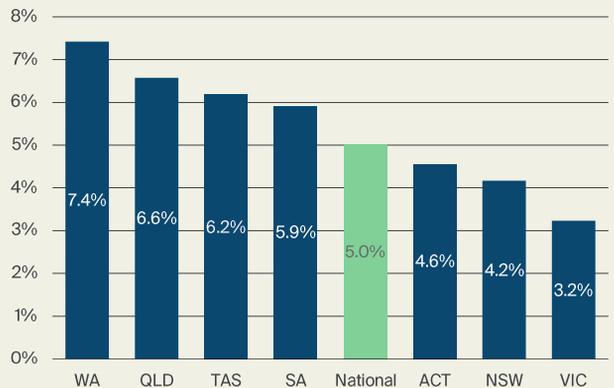
Confidence index, value above 100 signal optimism



Source: Knight Frank Research, Macrobond

WA and QLD drive household spending

Annual growth in value of spending by state (%)



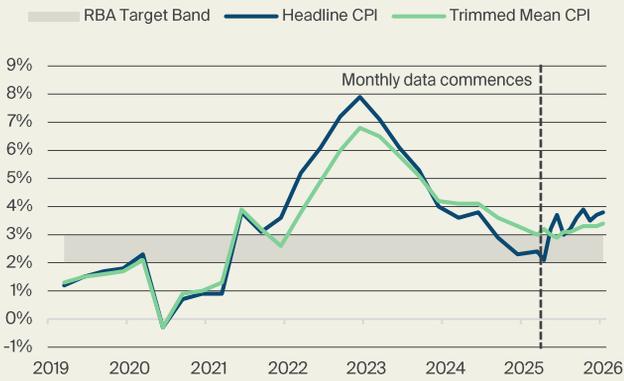
Source: Knight Frank Research, Macrobond

Inflation & interest rates

RBA expected to hold interest rates steady in March

Inflation remains above the RBA target

Annual growth headline and trimmed mean inflation (y/y %)

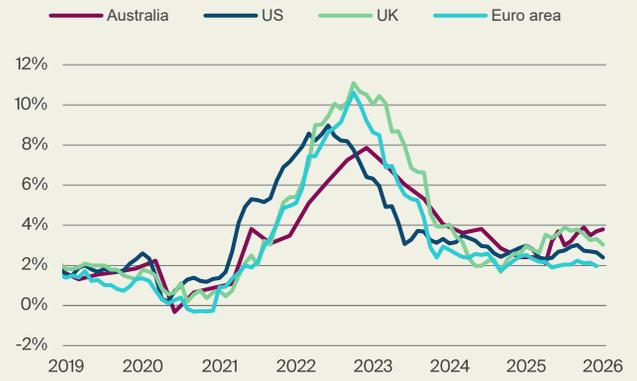


Source: Knight Frank Research, ABS
Note: Data transitions from quarterly to monthly in April 2025.

	Jan-26	Oct-25	Jul-25	Apr-25
Headline CPI (m/m, %)	0.5	0.4	0.9	0.3
Headline CPI (y/y, %)	3.8	3.9	3.0	2.1
Trimmed mean inflation (y/y, %)	3.4	3.3	3.1	3.2

Global inflation remains in check

Headline CPI (y/y, %)



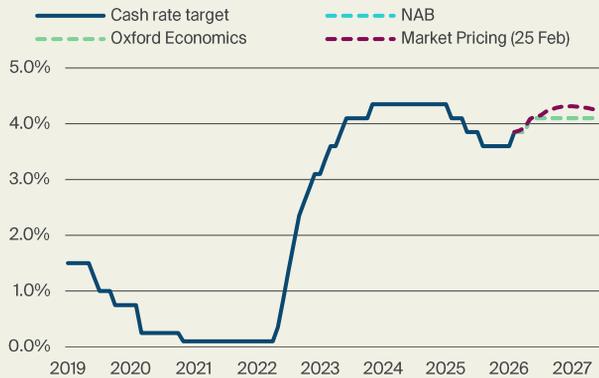
Source: Knight Frank Research, Macrobond

	Jan-26	Oct-25	Jul-25	Apr-25	Jan-25
Australia (y/y, %)	3.8	3.9	3.0	2.1	
US (y/y, %)	2.4	2.1	2.7	2.3	3.0
UK (y/y, %)	3.0	3.6	3.9	3.5	3.0
Euro area (y/y, %)	2.0*	2.1	2.0	2.2	2.5

*Dec-25

RBA expected to raise rates in May

Historic rates and indicative RBA outlook (%)



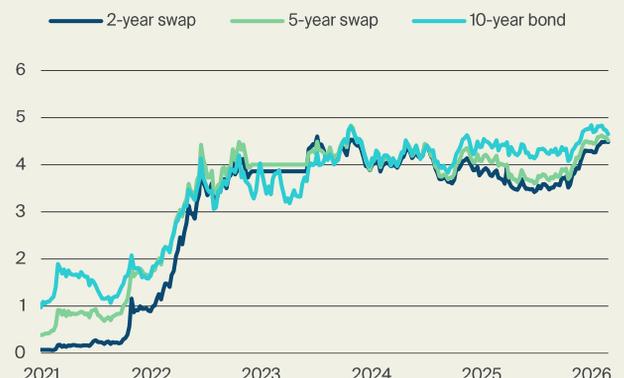
Source: Knight Frank Research, NAB, Oxford Economics, ASX

	Feb-26	May-26	Aug-26	Nov-26	Feb-27
Cash rate target	3.85				
Oxford Economics		4.10	4.10	4.10	4.10
NAB		4.10	4.10	4.10	4.10
Market pricing		4.09	4.22	4.31	4.31

Month-end

Yields remain steady in February

Yield by swap/bond duration (%)



Source: Knight Frank Research, Macrobond

	Feb-26	Nov-25	Aug-25	May-25	Feb-25
2-year swap	4.47	3.90	3.53	3.57	3.81
5-year swap	4.60	4.10	3.72	3.75	4.11
10-year bond	4.78	4.42	4.27	4.33	4.43

Monthly average

Financial markets

Global financial markets weighed down by uncertainty around both tech and Iran attacks

Tech and Iran strike weigh on equities

Global equities, price indices, 1 Jan 2024 = 100



Source: Knight Frank Research, Macrobond

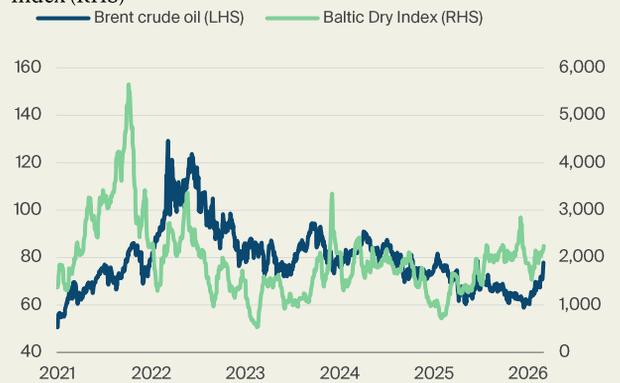
Percentage change from

	Nov-25	Aug-25	May-25	Feb-25
ASX 200	3.5	1.0	8.2	6.8
S&P 500	2.2	7.5	18.6	14.0
Nasdaq	-0.7	7.0	22.7	16.9
Euro STOXX 50	8.0	12.1	13.9	15.7
FTSE 350	8.6	13.8	20.7	20.1

Monthly average

Iran strike drives spike in oil prices

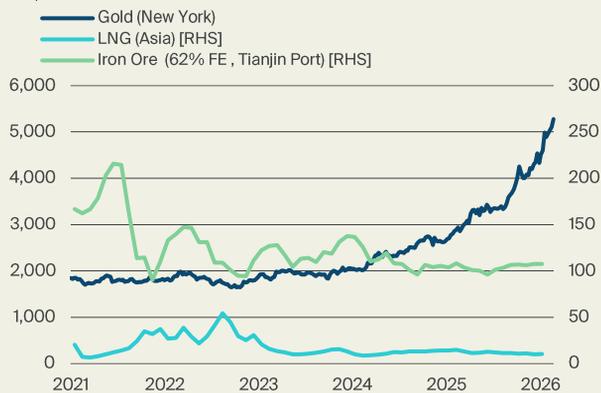
Brent crude \$US/b (LHS), Shipping rates - Baltic Exchange Dry Index (RHS)



Source: Knight Frank Research, Macrobond

Gold price rises, surpassing US\$5,000

US\$



Source: Knight Frank Research, Macrobond

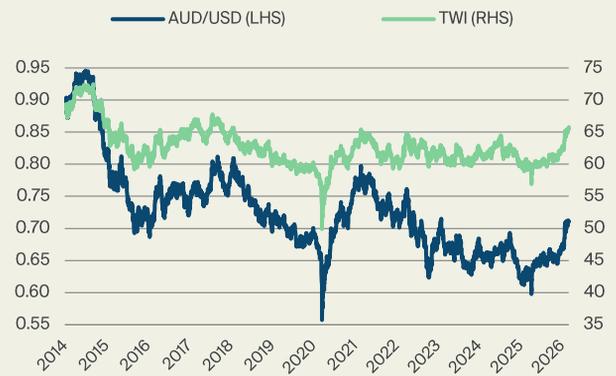
Percentage change from

	Jan-26	Oct-25	Jul-25	Apr-25	Jan-25
Gold (US\$/t.oz)	4,892	22.2	48.7	48.7	74.7
LNG (US\$/MMBtu)	10.4	-3.8	-14.9	-9.8	-26.1
Iron Ore (US\$/t)	107.4	0.5	6.2	6.5	3.5

Monthly average

AUD retains strength in February

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



Source: Knight Frank Research, Macrobond

Latest

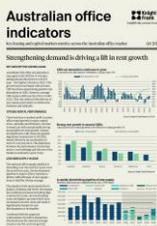
	Feb-26	Nov-25	Aug-25	May-25	Feb-25
USD per AUD	0.71	0.65	0.65	0.64	0.63

Percentage change from

	Feb-26	Nov-25	Aug-25	May-25	Feb-25
Trade weighted index	65.0	6.5	8.0	8.6	8.0

Monthly average

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