

# Leading Indicators

Key economic and financial metrics impacting property markets

May-24

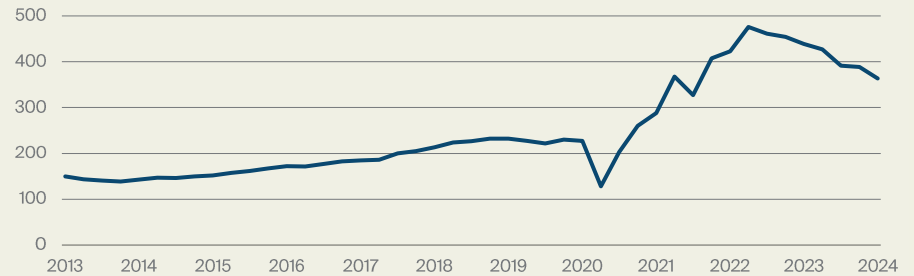
## Will the Budget reduce inflation?

### SIGNS OF A SOFTER LABOUR MARKET

Economists are poring over different measures of the health of the labour market to assess whether the long-anticipated cooling is coming to pass of the back of slower economic growth. While the unemployment rate has held firm, the number of job vacancies continues to slide and average hours worked has declined significantly over the past year reflecting the growth of part-time employment.

### Lower job vacancies signal softening labour market

Estimated number of vacancies nationally



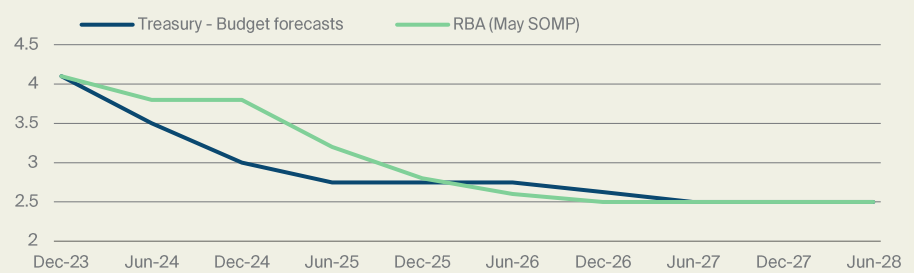
Source: Knight Frank Research, ABS

### CONTRASTING VIEWS ON INFLATION

The 2024-25 Budget included a number of measures geared towards helping households manage cost of living pressures. Central among these is the \$300 energy bill relief measure. This has been designed to lower measured inflation and as a result the Budget forecast anticipate a much more rapid decline in inflation than the latest RBA forecasts. However, the second-round effects of stimulating demand through a more expansionary budget overall may ultimately offset the direct impact on inflation.

### Contrasting Treasury and RBA inflation forecasts

Headline CPI forecasts (% v/y)



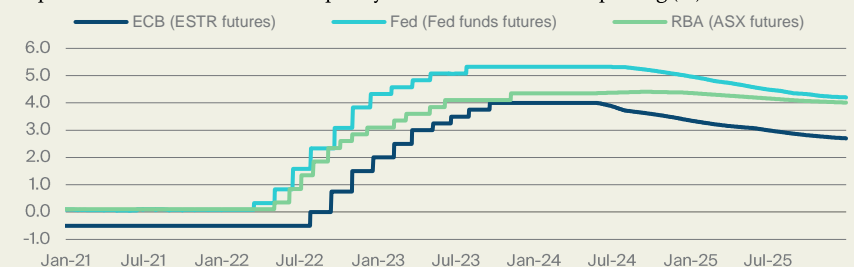
Source: Knight Frank Research

### MARKETS PUSH BACK EXPECTED TIMING OF RATE CUTS

Following higher than expected inflation readings in Q1, markets have pared back their expectations for rate cuts in 2024. Cuts are still expected in 2024 in Europe and the US, but current pricing suggest that Australia will not see cuts until 2025. This contrasts with the views of most economists, who expect more significant reductions starting in late 2024 or early 2025.

### Timing of rate cuts has been pushed out

Implied forecasts of central bank policy rates based on market pricing (%)



Source: Knight Frank Research, Macrobond

## Australia key forecasts

	GDP growth (Q4 2023, y/y %)	Unemployment rate (March, %)	CPI inflation (Q1 2024, y/y %)	Cash rate target (May, %)	10 year bond yield (1 May, %)
Latest	1.5	3.8	3.6	4.35	4.5
Year-end 2024 (f)*	1.3	4.2	3.3	4.10	4.1

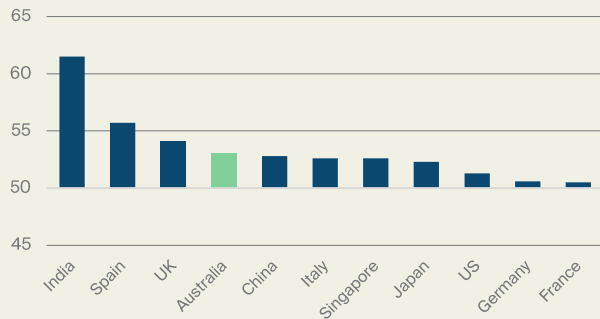
\*Oxford economic forecasts

# Business indicators

## Business conditions remain solid despite the weakness of consumer spending

### Business conditions have improved globally

Composite PMI indicator (above 50 indicates expansion)

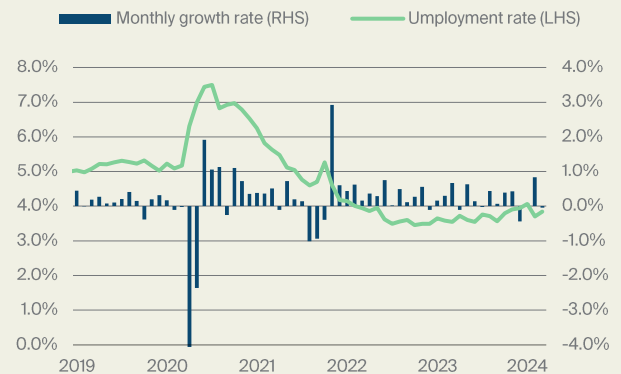


Source: Knight Frank Research, Macrobond

	Latest Apr-24	Last quarter Jan-23	Oct-23	Jul-23	1 year ago Apr-23
Australia	53.0	49.0	47.6	48.2	53.0
China	52.8	52.5	50.0	51.9	53.6
Euro Area	51.7	47.9	46.5	48.6	54.1
Japan	52.3	51.5	50.5	52.2	52.9
UK	54.1	52.9	48.7	50.8	54.9
US	51.3	52.0	50.7	52.0	53.4

### Unemployment rate remains low

Per cent

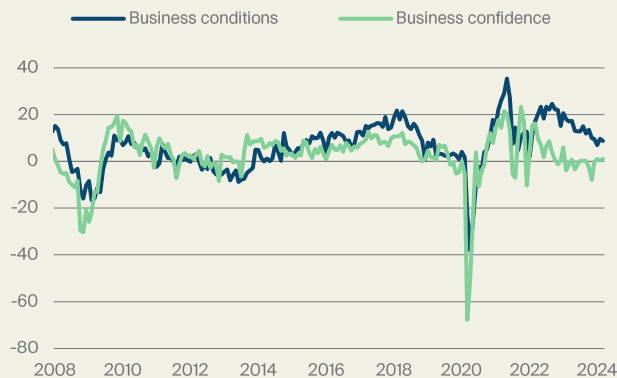


Source: Knight Frank Research, Macrobond

	Mar-24	Dec-23	Sep-23	Jun-23	Mar-23
Monthly growth (%)	0.0	-0.4	0.1	0.1	0.7
Unemployment rate (%)	3.8	3.9	3.6	3.5	3.6

### Business conditions improved in February

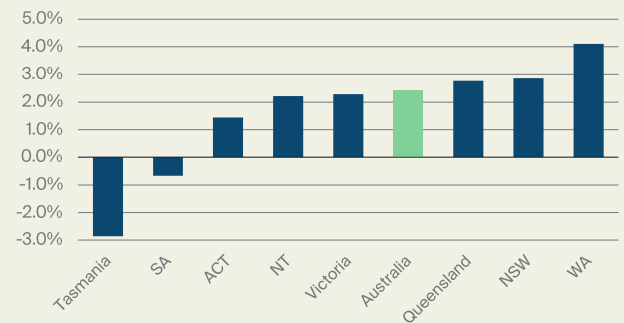
NAB survey, balance of positive and negative responses



Source: Knight Frank Research, NAB, Macrobond

### Fastest employment growth in NSW / WA

Per cent, annual change to Mar-24



Source: Knight Frank Research, Macrobond

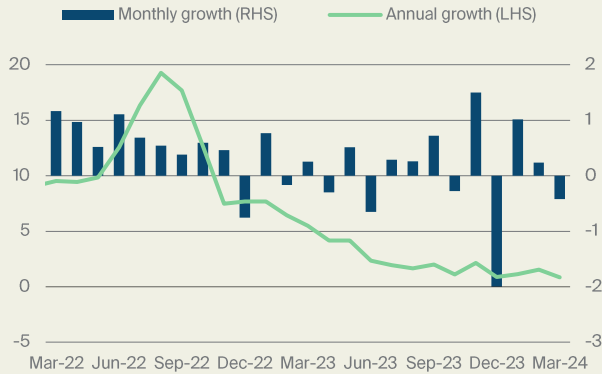
	TAS	SA	ACT	NT	VIC	Australia	QLD	NSW	WA
y/y growth (%)	-2.9	-0.7	1.4	2.2	2.3	2.4	2.8	2.9	4.1

# Consumer indicators

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

## Retail sales still growing but volumes down

Annual and monthly growth rate (%)

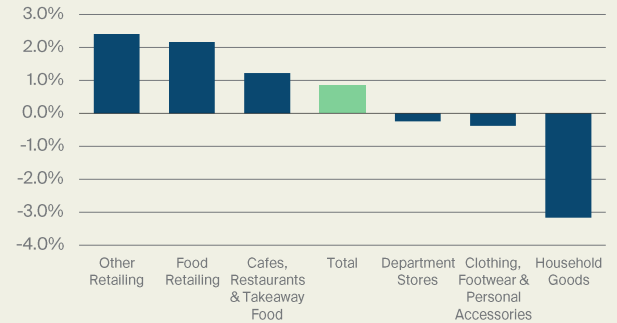


Source: Knight Frank Research, Macrobond

	Mar-24	Dec-23	Sep-23	Jun-23	Mar-23
m/m growth (%)	-0.4	-2.0	0.7	-0.7	0.3
y/y growth (%)	0.8	0.9	2.0	2.3	5.5

## Weakness in most discretionary categories

Annual growth in retail sales (values)



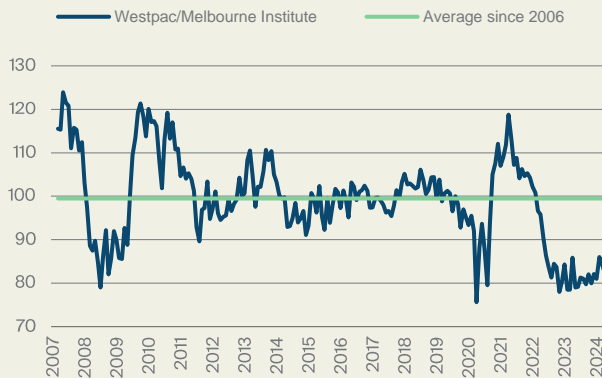
Source: Knight Frank Research, Macrobond

### Latest in Mar-24

	m/m (%)	y/y (%)
Other Retailing	-0.3	2.4
Food Retailing	0.9	2.2
Cafes, Restaurants & Takeaway Food	-0.2	1.2
Total	-0.4	0.8
Department Stores	-1.6	-0.2
Clothing, Footwear & Personal Accessories	-4.3	-0.4
Household Goods	-1.4	-3.2

## Consumer confidence remains subdued

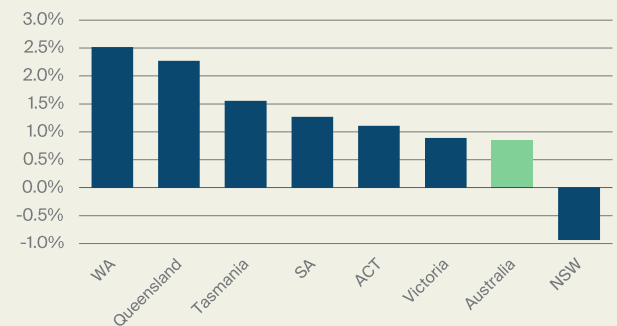
Confidence index, value above 100 signal optimism



Source: Knight Frank Research, Macrobond

## WA and QLD lead the way

Annual growth in retail sales, per cent



Source: Knight Frank Research, Macrobond

### Percentage change since

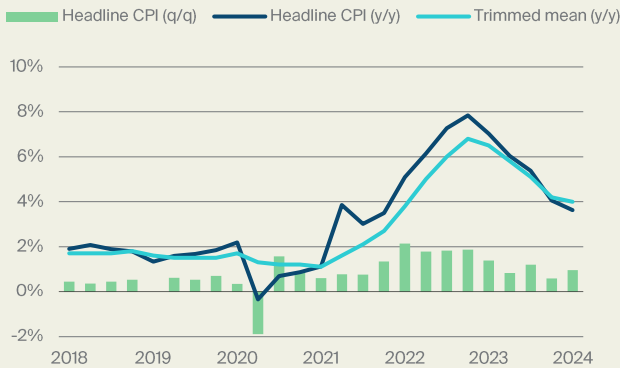
Latest in Mar-24	Dec-23	Sep-23	Jun-23	Mar-23
WA	1.7	1.1	1.3	2.5
Queensland	0.7	1.4	2.4	2.3
Tasmania	0.3	1.8	2.5	1.6
SA	1.4	0.5	1.0	1.3
ACT	1.9	0.2	1.4	1.1
Victoria	1.2	-0.3	1.4	0.9
Australia	0.8	0.0	1.3	0.8
NSW	0.0	-1.3	0.4	-0.9

# 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 (%)

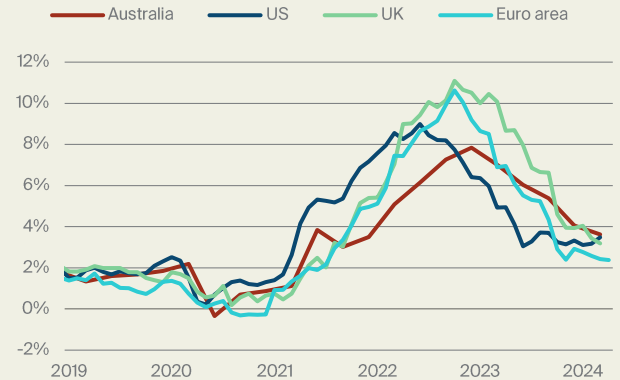


Source: Knight Frank Research, ABS

	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

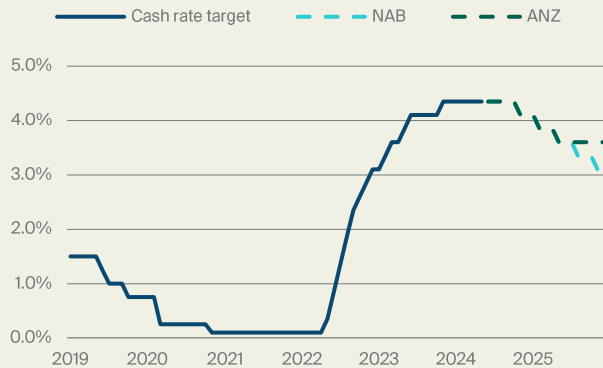


Source: Knight Frank Research, Macrobond

	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

### Most forecasts continue to tip rate cuts

Historic rates and current forecasts of major banks

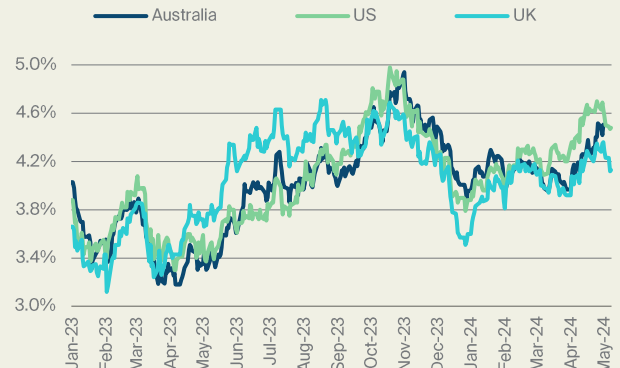


Source: Knight Frank Research, NAB, Rate City

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

### Bond yield hovering in 4-4.5% range

Ten year government bond yields



Source: Knight Frank Research, Macrobond

	May-24	Feb-24	Nov-23	Aug-23	May-23
Australia	4.51	4.02	4.94	3.97	3.35
US	4.63	3.87	4.77	4.05	3.59
UK	4.36	3.81	4.57	4.37	3.72

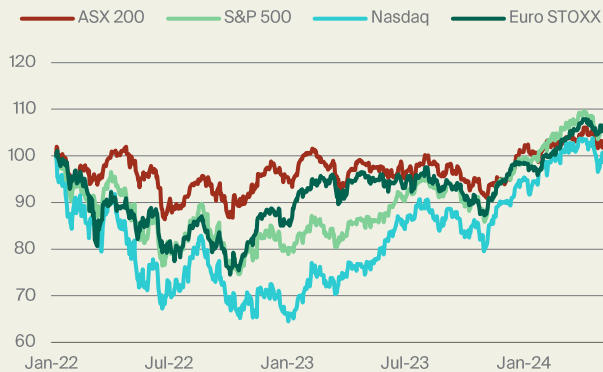
\*as at the first business day of the month

# Financial markets

## Equity markets continue to move up despite shift in rates outlook

### Equities back above 2021 peak levels

Global equities, price indices, 31 Jan 2022 = 100



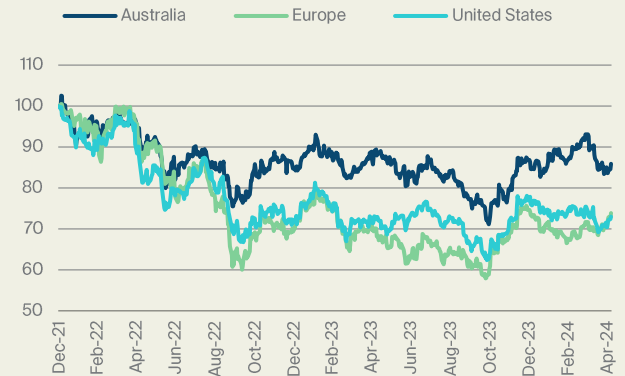
Source: Knight Frank Research, Macrobond

Index	Latest	Percentage change since				
		Original value and base	May-24	Feb-24	Nov-23	Aug-23
ASX 200	7,793		2.3	11.7	6.6	7.1
S&P 500	5,188		3.9	18.5	14.8	25.4
Nasdaq	16,333		3.7	19.7	16.7	33.3
Euro STOXX	5,016		7.3	18.7	13.1	12.6
FTSE 350	4,571		8.7	12.6	9.8	6.6

\* Latest 7<sup>th</sup> May

### REIT prices have moderated in recent weeks

Price index, 31 Dec 2021 = 100



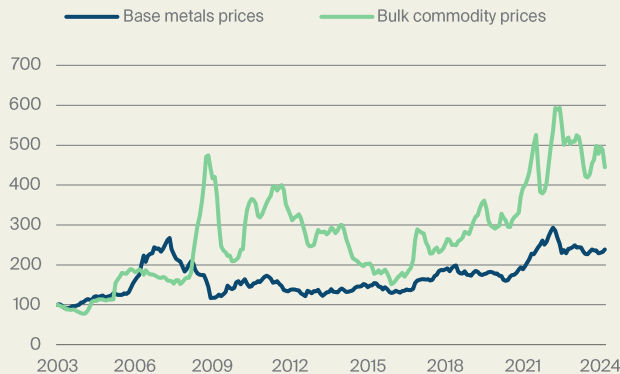
Source: Knight Frank Research, Macrobond

	Percentage change since				
	Latest	Feb-24	Nov-23	Aug-23	May-23
Australia		-2.0	12.5	1.1	-4.0
Europe		6.2	15.4	11.9	5.4
United States		0.2	11.0	-1.9	0.2

\* Latest 7<sup>th</sup> May

### Commodity prices remain high

RBA commodity price index (Jan 2003 = 100)

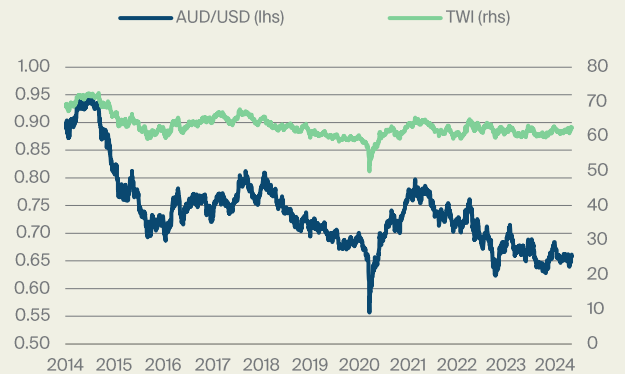


Source: Knight Frank Research, RBA

Index	Latest in Mar-24	Percentage change since			
		Dec-23	Sep-23	Jun-23	Mar-23
Base metals prices		4.0	-0.2	4.7	-2.4
Bulk commodity prices		-7.0	-2.1	5.4	-14.4

### US dollar strong vs AUD

US\$ (lhs), index (rhs)



Source: Knight Frank Research, Macrobond

	Percentage change since					
	Latest	May-24	Feb-24	Nov-23	Aug-23	May-23
USD per AUD		0.66	0.65	0.64	0.65	0.68
Trade weighted index		62.4	2.3	3.0	3.1	2.1

\* Latest 8<sup>th</sup> May

## Recent research

Breaking the shackles: the rise of BTR



Australian Industrial Review



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