

# Leading Indicators

Key economic and financial metrics impacting property markets

Oct-25

## Strong August inflation tempers rate cut expectations

### STRONGER THAN EXPECTED MONTHLY INFLATION IN AUGUST

Australia's monthly CPI indicator rose to 3.0% y/y in August. Although only slightly above consensus forecasts, a meaningful uptick in market services and housing construction inflation was evident in the detail. Given market services is a relatively persistent category, this rise signals the possibly of more inflationary pressure in the economy than previously expected. This partial data suggests that the important Q3 inflation data could come in above the RBA's 0.64% q/q forecast in the August SoMP.

### LESS RATE CUTS ARE EXPECTED

The upside surprise to inflation has seen markets unwind their rate cut expectations. The RBA sees the economy as being "slightly stronger" than forecast, which allows the RBA to place more emphasis on ensuring they meet the inflation side of their mandate. This means that the RBA may pause further rate cuts and wait for further data to better understand the inflationary risks to the economy.

### US FED FACES CONFLICTING GOALS

The US Fed is facing a growing conflict in meeting it's mandate as inflation rises and employment growth slows – which signals to possible emergence of 'stagflation'. Recently, the Fed has prioritised slowing growth, cutting rates by 25bps in September and signalling another cut by the end of 2025. But these if economic conditions continue, Fed policy decision making will become increasingly difficult as inflation pressure continues to build.

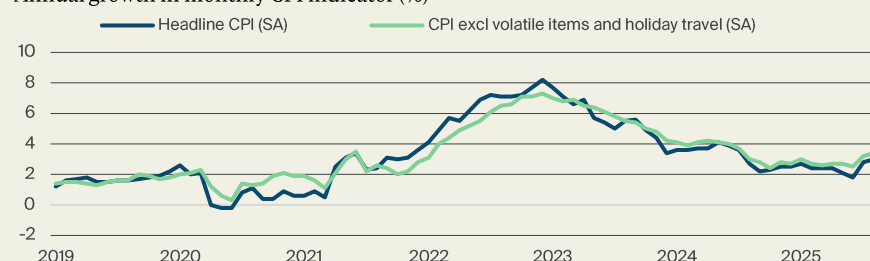
### Australia key forecasts

	Real GDP growth (Q2 2025, y/y %)	Unemployment rate (August 2025, %)	Core CPI inflation (Q2 2025, y/y %)	Cash rate target (September 2025, %)	10-year bond yield (30 September 2025, %)
Latest	1.8	4.3	2.7	3.60	4.3
Year-end 2025 (f)*	1.8	4.4	2.3	3.35	4.3

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

### Upside surprise in the August inflation data

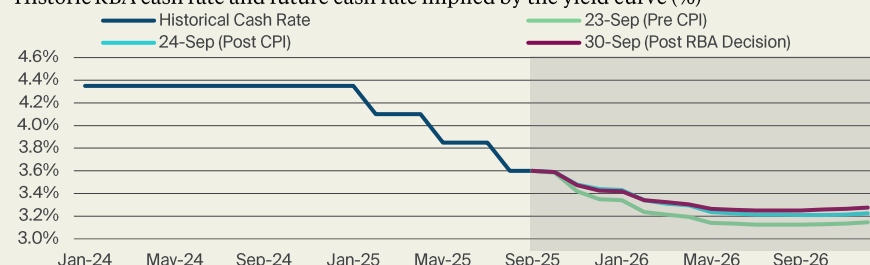
Annual growth in monthly CPI indicator (%)



Source: Knight Frank Research, ABS

### Higher than expected inflation sees rate cut expectations unwind

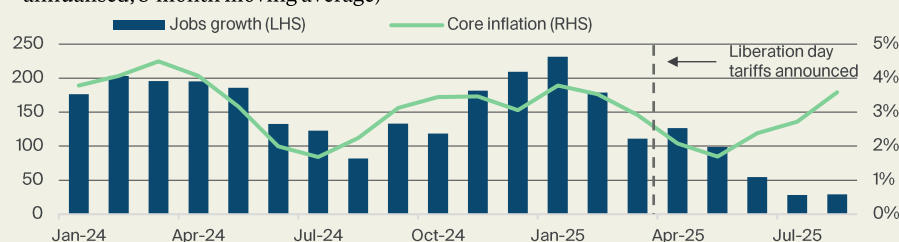
Historic RBA cash rate and future cash rate implied by the yield curve (%)



Source: Knight Frank Research, ASX

### US Fed's growing problem of higher inflation and falling jobs

Jobs growth ('000 people, m/m 3-month moving average), Core CPI inflation (% m/m annualised, 3-month moving average)



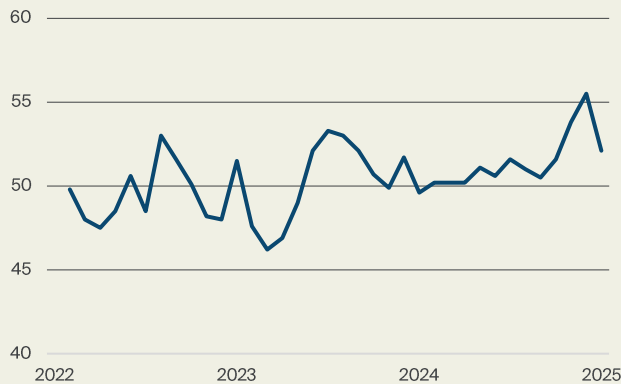
Source: Knight Frank Research, FRED

# Business indicators

## Business confidence and conditions continue show positive signs

### PMIs pullback in September

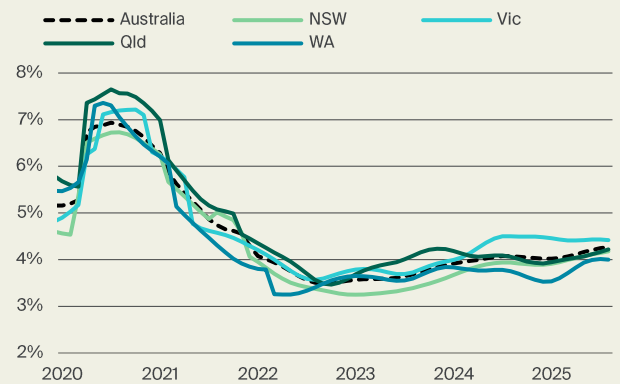
Composite PMI Output Index (above 50 indicates expansion)



Source: Knight Frank Research, Macrobond

### Unemployment rises again in August

Unemployment rate (trend adjusted)



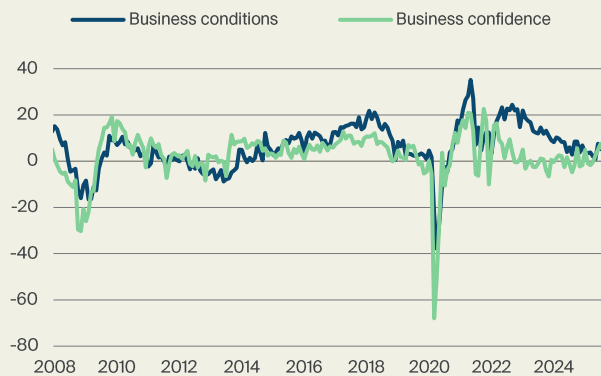
Source: Knight Frank Research, Macrobond

	Latest Sep-25	Last quarter Jun-25	Mar-25	Dec-24	1 year ago Sep-24
Australia	52.1	51.6	51.6	50.2	49.6
China	52.5	51.3	51.8	51.4	50.3
Euro Area	51.2	50.6	50.9	49.6	49.6
Japan	51.1	51.5	48.9	50.5	52.0
UK	51.0	52.0	51.5	50.4	52.6
US	53.6	52.9	53.5	55.4	54.0

	Aug-25	May-25	Feb-25	Nov-24	Aug-24
Australia	4.3	4.2	4.0	4.0	4.1
NSW	4.2	4.1	3.9	3.9	3.9
Vic	4.4	4.4	4.4	4.5	4.5
Qld	4.2	4.1	4.0	3.9	4.1
WA	4.0	3.9	3.6	3.6	3.8

### Business confidence remains positive

NAB survey, balance of positive and negative responses



Source: Knight Frank Research, NAB, Macrobond

### Forward orders continue trending up

Forward orders index, balance of positive and negative



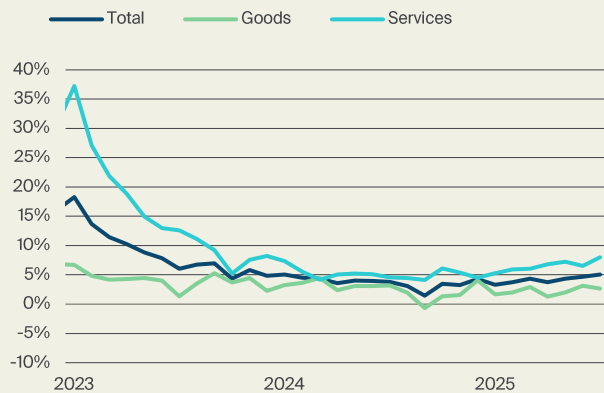
Source: Knight Frank Research, NAB

# Consumer indicators

## Increased household spending on services despite a dip in consumer confidence

### Households increase spending on services

Annual growth in value of household spending by type (%)



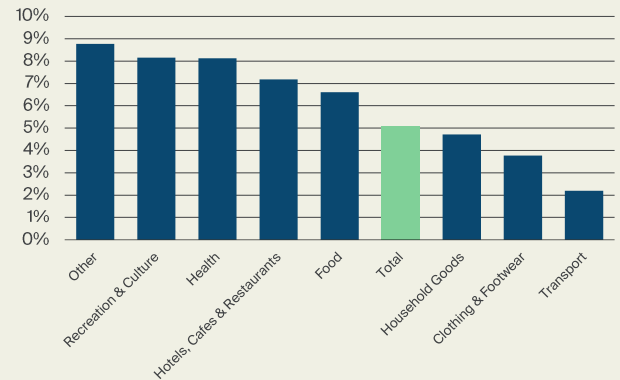
Source: Knight Frank Research, Macrobond

Percentage change from

	Jul-25	Apr-25	Jan-25	Oct-24	Jul-24
Household spending, current prices (m/m)	0.5	-0.1	0.7	1.2	0.2
Household spending, current prices (y/y)	5.1	3.8	3.3	3.4	3.8

### Households spend on fun and health

Annual growth in value of spending by category\* (%)



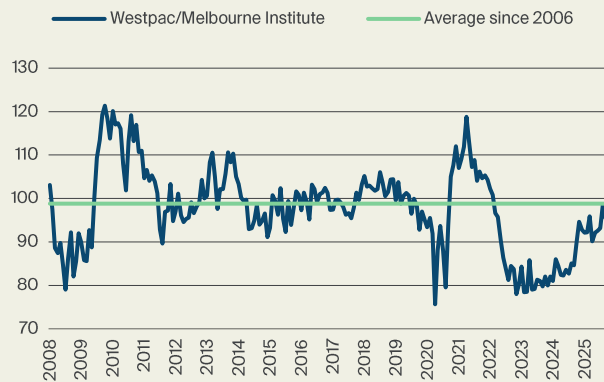
Source: Knight Frank Research, Macrobond  
\*Excludes Alcoholic beverages and tobacco

Latest in Jul-25

	m/m (%)	y/y (%)
Other	1.5	8.8
Recreation & Culture	0.2	8.2
Health	1.8	8.1
Hotels, Cafes & Restaurants	1.4	7.2
Food	-0.1	6.6
Total	0.5	5.1
Household Goods	-1.4	4.7
Clothing & Footwear	-1.2	3.8
Transport	1.5	2.2
Alcohol & Tobacco	-1.9	-18.3

### Consumer sentiment softens slightly

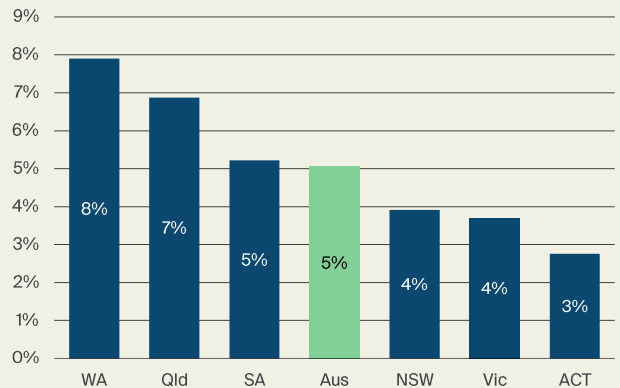
Confidence index, value above 100 signal optimism



Source: Knight Frank Research, Macrobond

### WA & QLD drive household spending

Annual growth in value of spending by state (%)



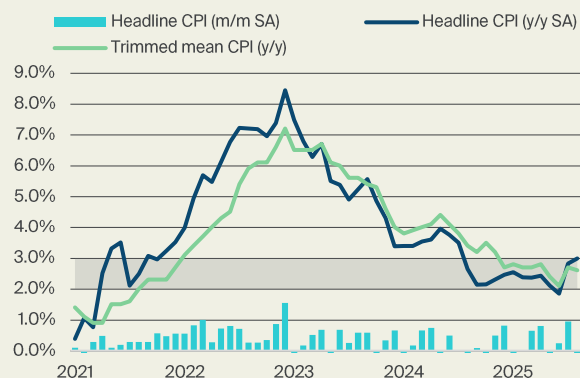
Source: Knight Frank Research, Macrobond

# Inflation & interest rates

## Increased inflation risks drive an unwinding of rate cut expectations

### Market services a risk in August inflation

Annual and monthly growth in CPI indicator (%)

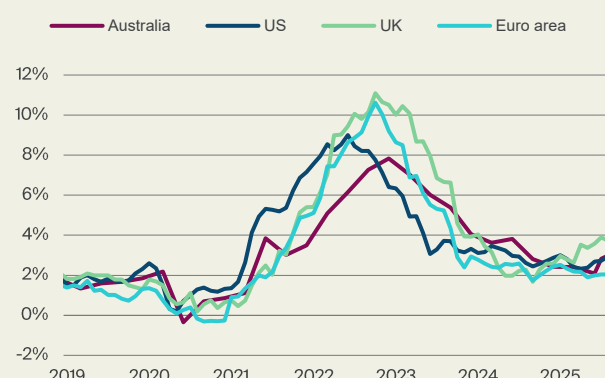


Source: Knight Frank Research, ABS

	Aug-25	May-25	Feb-25	Nov-24	Aug-24
Headline CPI (m/m, %)	3.0	2.1	2.4	2.3	2.7
Headline CPI (y/y, %)	-0.1	-0.4	0.0	0.5	-0.2
Trimmed mean inflation (y/y, %)	2.6	2.4	2.7	3.2	3.4

### Global inflation has crept up recently

Headline CPI (y/y, %)

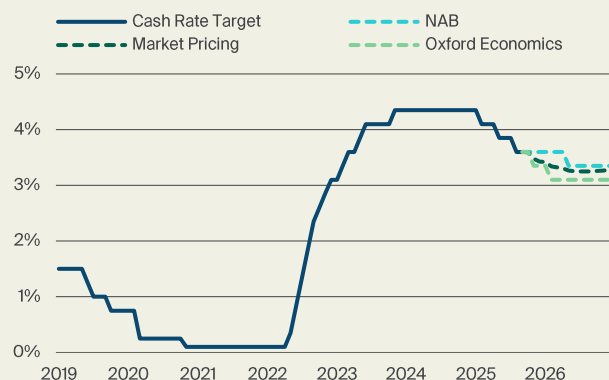


Source: Knight Frank Research, Macrobond

	Aug-25	May-25	Feb-25	Nov-24	Aug-24
Australia (y/y, %)	3.0	2.1	2.4	2.4	2.8
US (y/y, %)	2.9	2.1	2.8	2.7	2.6
UK (y/y, %)	3.7	3.4	2.8	2.6	2.3
Euro area (y/y, %)	2.0	1.9	2.3	2.2	2.2

### Shifting views on rate cut expectations

Historic rates and indicative RBA outlook



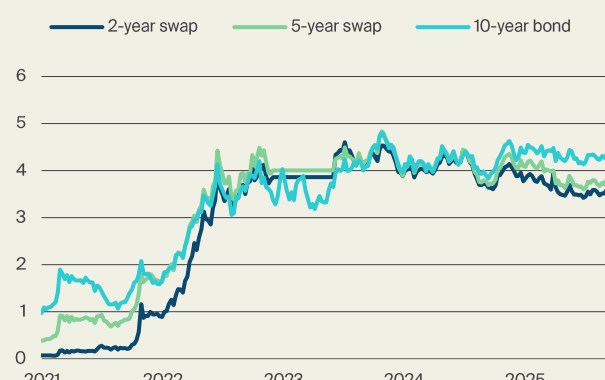
Source: Knight Frank Research, NAB, Oxford Economics, ASX

	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26
Cash rate target	3.60				
Oxford Economics		3.35	3.10	3.10	3.10
NAB		3.60	3.60	3.35	3.35
Market pricing		3.43	3.33	3.26	3.25

Month-end

### Yields rise with fewer rate cuts expected

Yield by swap/bond duration (%)



Source: Knight Frank Research, Macrobond

	Sep-25	Jun-25	Mar-25	Dec-24	Sep-24
2-year swap	3.61	3.47	3.73	3.90	3.66
5-year swap	3.80	3.66	4.00	4.11	3.74
10-year bond	4.29	4.19	4.41	4.34	3.92

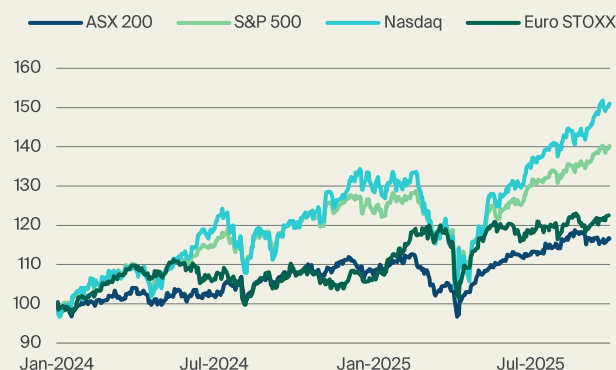
Monthly average

# Financial markets

Global financial markets are buoyed with optimism

## Equity prices continue to rally in September

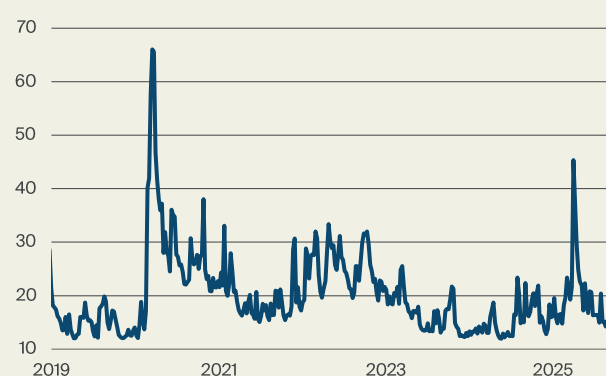
Global equities, price indices, 1 Jan 2024 = 100



Source: Knight Frank Research, Macrobond

## Market volatility near lowest in 2025

US VIX index - measure of market volatility (Index)



Source: Knight Frank Research, Macrobond

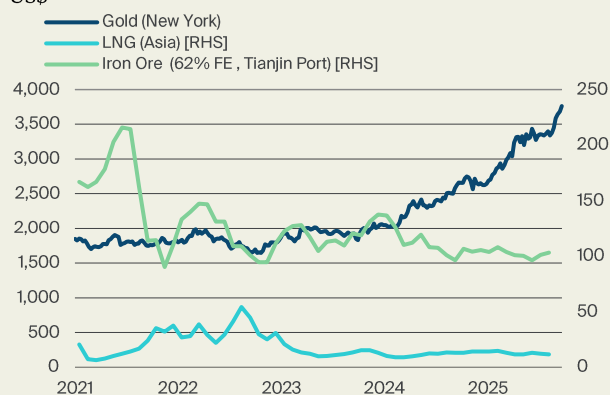
### Percentage change from

	Jun-25	Mar-25	Dec-24	Sep-24
ASX 200	3.5	11.1	6.3	8.9
S&P 500	9.1	15.7	9.4	17.0
Nasdaq	12.7	24.3	12.2	25.8
Euro STOXX 50	1.9	2.4	12.9	13.3
FTSE 350	4.5	6.8	11.2	10.7

Monthly average

## Gold continues to break record highs

US\$



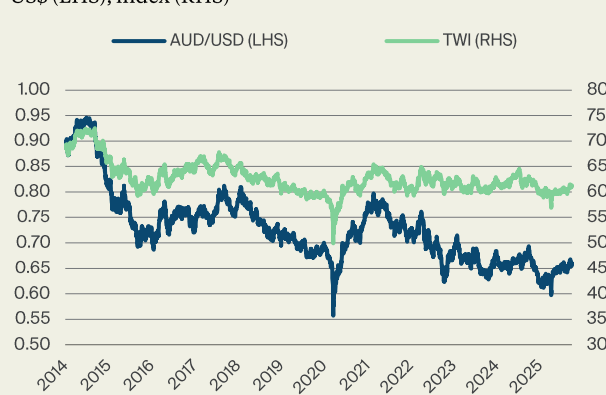
Source: Knight Frank Research, Macrobond

Index	Latest Aug-25	Percentage change from			
		May-25	Feb-25	Nov-24	Aug-24
Gold	3,448	4.8	20.6	30.1	37.7
LNG	11.5	-1.3	-21.7	-17.9	-12.8
Iron Ore	103.3	3.0	-4.5	-0.7	2.4

Monthly average

## AUD strengthens against USD to 2025 high

US\$ (LHS), index (RHS)



Source: Knight Frank Research, Macrobond

	Latest				
	Sep-25	Jun-25	Mar-25	Dec-24	Sep-24
USD per AUD	0.66	0.65	0.63	0.63	0.68
Trade weighted index	Percentage change from				
	Sep-25	Jun-25	Mar-25	Dec-24	Sep-24
Monthly average	61.0	1.8	2.1	1.0	-1.6

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