

Leading Indicators

Key economic and financial metrics, updated weekly

1st October 2024

Debt, lending and Labour's roadmap for 'national renewal'...

£1.3bn

Total net lending to UK CRE in August 2024, according to the Bank of England

1.5m

The number of new homes Labour aims to build over the next five years as part of its housing policy

35%

Of respondents in the latest ONS BIC survey had a high confidence in their business's ability to meet debt obligations

SHIFTING CORPORATE SENTIMENT?

Odds of a soft landing for the UK economy have increased, as recent PMI data signals ongoing growth, despite a slight cooling in output across both the manufacturing and services sectors. Meanwhile, corporate appetite for borrowing appears to be shifting. Net lending to UK commercial real estate rose sharply to £1.3 billion in August 2024, up from £525 million in July, matching June's high and marking its highest level this year. More generally, UK firms raised net external finance by £6.2bn m/m in August, primarily driven by increased bank borrowing and bond issuance. The y/y growth in borrowing by large businesses rose to +2.9% in August, up from +1.7% in July, the strongest since May 2023. With further interest rate cuts expected in the coming months, the environment for CRE lending and investment appears increasingly positive. Most economists expect a quarter-point rate cut at November's monetary policy meeting, bringing rates down to 4.75%.

CONFERENCE SEASON

Last week, the Labour Party held its first conference in government in over a decade, during which Sir Keir Starmer presented his vision for 'national renewal'. Starmer acknowledged that achieving Labour's key objectives - economic recovery, improvements in public services and enhanced infrastructure - would require making 'tough, long-term decisions'. Since taking office in early July, both Starmer and Chancellor Rachel Reeves have repeatedly highlighted the grim state of the UK's public finances, which face a reported £22 billion deficit.

Despite this, Labour seems to be positioning for increased public investment ahead of the upcoming Autumn budget, aligning with its borrowing to invest approach - a move that is hoped will boost the economy's long-term growth prospects. The party reaffirmed its commitment to building 1.5 million homes within five years and reforming planning laws to stimulate construction. Healthcare was a key focus, with Labour pledging to revitalise the NHS. Additionally, Labour reiterated its dedication to a green energy transformation, promising to establish a 'clean power system' by 2030.

WHERE WILL DEBT COSTS BITE HARDEST?

What impact is the current level of interest rates having on businesses? According to the latest ONS BIC survey of c. 10,000 UK companies, 35% reported having no debt obligations. Of the rest, however, 35% had a high level of confidence when it came to meeting their debt obligations, up from 24% a year ago. Interestingly, respondents from the fast-growing human health & social work, construction, and professional scientific & tech sectors were more positive about meeting their debt obligations, compared to the wider economy.

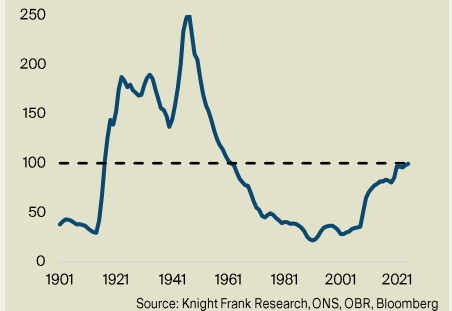
Net lending to UK CRE remains positive in August

Net lending to UK CRE, £ bn



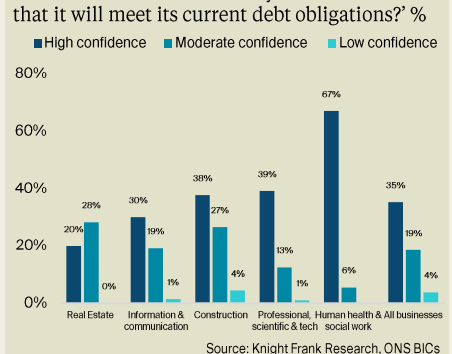
UK government debt is at levels last seen in 1961

Net debt excluding public-sector banks, % of GDP



Businesses are more confident in meeting their debt obligations

'How much confidence does your business have that it will meet its current debt obligations?'



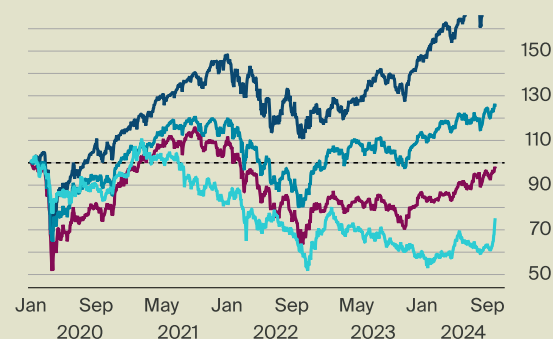
Sources: Bloomberg, Capital Economics, Bank of England, Macrobond, ONS, Knight Frank

Equities

Equity markets

Price return index, Jan 2020 = 100, US\$

— FTSE 250 — S&P 500 — STOXX 600 — Hang Seng

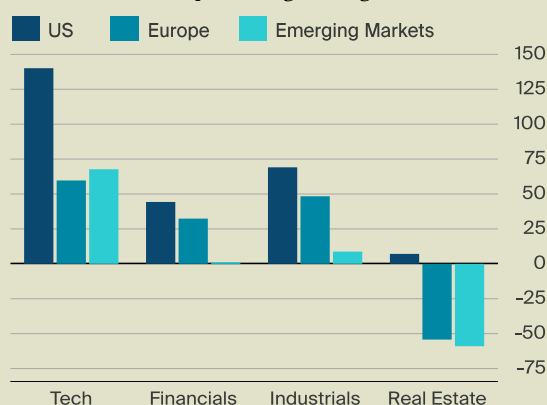


Source: Knight Frank, Macrobond

Index	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
DAX 30	8,286	0.4	3.4	3.0	25.2
FTSE 250	28,240	0.4	2.1	2.1	-2.6
Hang Seng	2,721	6.2	16.1	19.3	-24.8
IBEX 35	13,256	-0.7	1.2	5.4	23.7
MIB	38,086	-0.9	1.2	0.6	44.7
S&P 500	5,762	0.3	1.1	3.0	78.4
STOXX 600	584	-0.6	1.8	0.5	25.0
TOPIX	19	-2.0	2.7	1.5	19.1

Equity regional sectors

Price return index percentage change since Jan 2020



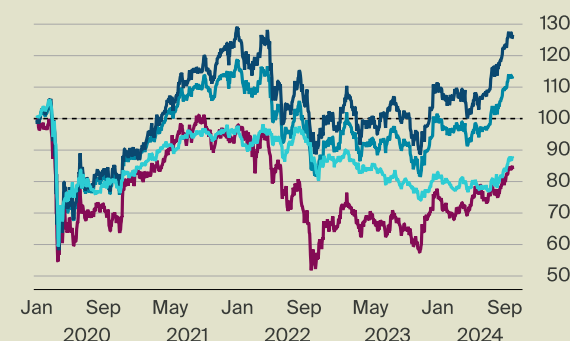
Source: Knight Frank, Macrobond

	Percentage change since Jan 2020		
	US	Europe	World
Tech	140.1%	59.7%	67.7%
Financials	44.3%	32.4%	1.3%
Industrials	69.1%	48.4%	8.7%
Real Estate	7.1%	-54.2%	-59.0%

REITs by region

EPRA/NAREIT total return index, Jan 2020 = 100, US\$

— World — Europe — US — Asia Pacific



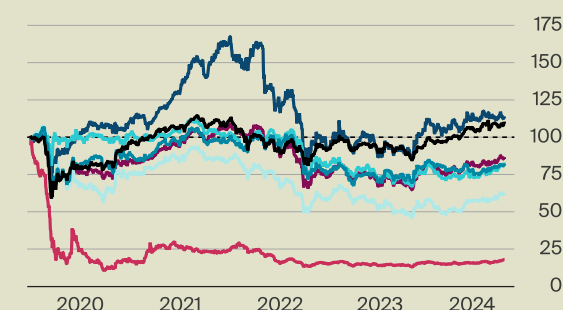
Source: Knight Frank, Macrobond

Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
US	3,026	0.9	0.5	3.8	26.6
Europe	2,393	-1.0	0.1	6.5	-16.1
World	3,644	0.6	0.6	4.3	13.4
Asia Pacific	3,435	0.2	0.8	4.2	-12.5

UK REITs by sector

UK EPRA gross total return index, Jan 2020 = 100, GBP£

— All REITs — Office — Industrial — Retail — Healthcare
— Residential — FTSE 250



Source: Knight Frank, Macrobond

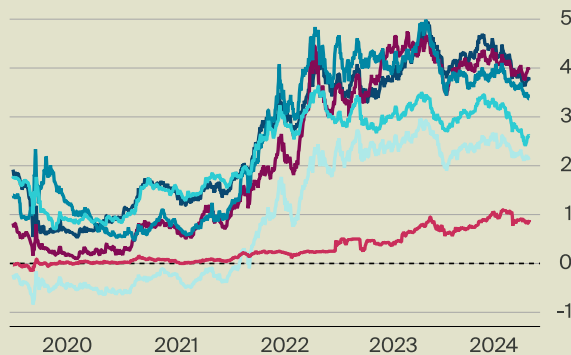
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
All REITs	874	-0.7	-0.7	3.8	-14.6
Office	1,813	-0.7	-2.3	6.1	-38.8
Industrial	1,396	-0.3	-0.2	1.6	12.6
Retail	64	0.0	1.8	9.4	-82.2
Healthcare	1,860	-0.1	0.9	6.7	-18.0
Residential	1,235	-0.6	0.0	2.4	-19.1
FTSE 250	18,612	0.2	1.1	0.3	9.2

Bonds & Rates

Government bond yields

10 year government bond yields, %

— US — UK — Germany — Italy — Japan — Singapore



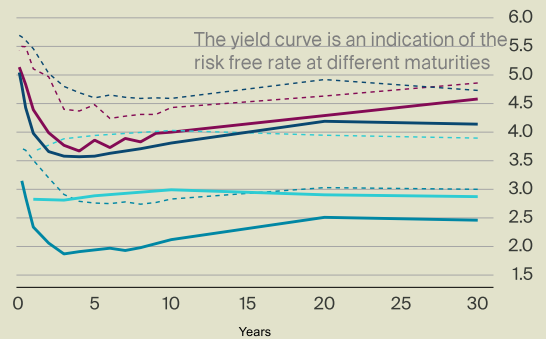
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Italy	3.37	3.37	3.39	3.67	1.40
Japan	0.89	0.85	0.87	0.89	-0.03
Singapore	2.62	2.62	2.60	2.71	1.74
UK	4.00	4.00	3.94	4.02	0.82
US	3.81	3.81	3.74	3.91	1.92

Yield curves

Latest nominal yield curves vs one year ago, %

Today — US — UK — Germany — S. Korea One year ago - - - US - - - UK - - - Germany - - - S. Korea

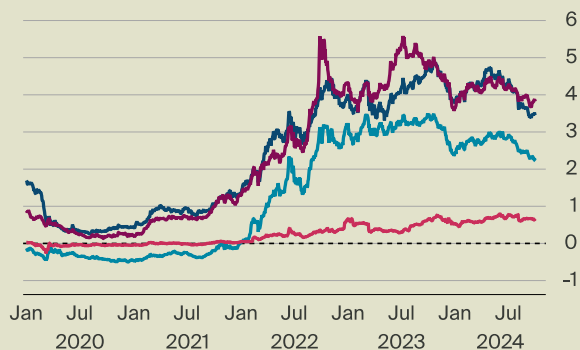


Source: Knight Frank, Macrobond

Interest rate swaps

5 year swap rates, %

— US — UK — Eurozone — Japan



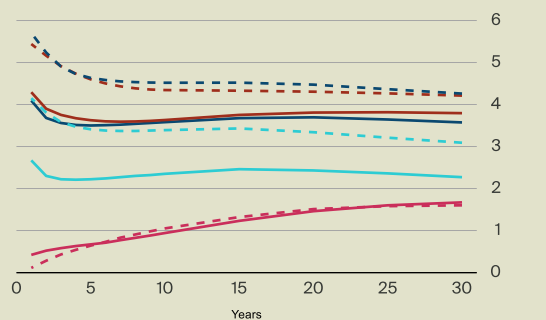
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Eurozone	2.22	2.23	2.28	2.49	-0.13
Japan	0.67	0.66	0.66	0.67	0.03
Singapore	3.66	n/a	n/a	n/a	1.50
UK	3.88	3.85	3.81	3.98	0.88
US	3.50	3.48	3.48	3.66	1.70

Swap curves

Latest swap curves vs one year ago, %

Today — US — UK — Euro Area — Japan One year ago - - - US - - - UK - - - Euro Area - - - Japan



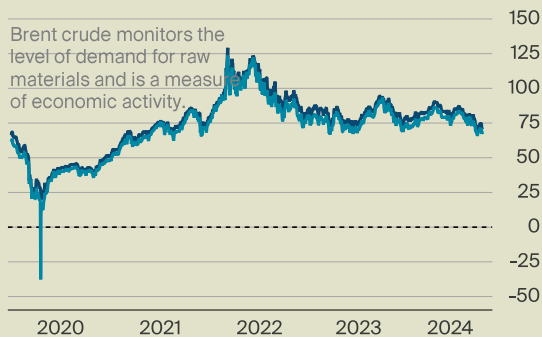
Source: Knight Frank, Macrobond

Commodities & Volatility

Energy

Oil spot prices, \$ per barrel

— Brent Crude — West Texas Intermediate (WTI)



Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Brent, \$ per barrel	72.0	72.0	74.2	77.0	66.0
WTI, \$ per barrel	68.1	68.5	70.5	72.5	61.1

Baltic dry index

Baltic Exchange, Shipping Dry index (BDI), US\$

— Baltic dry index



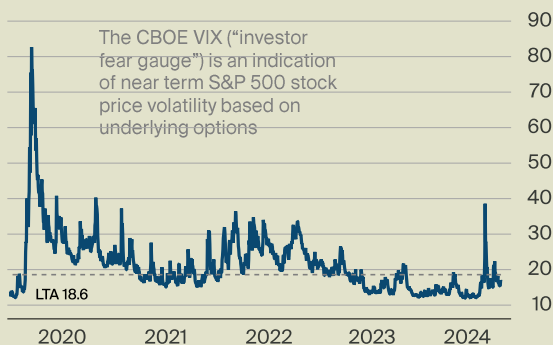
Source: Knight Frank, Macrobond

	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Baltic Dry	2084	-0.335	4.25	14.9	91.2

Volatility index

Near term stock price volatility indicator

— CBOE Volatility Index (VIX) --- Long term average



Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
CBOE VIX	16.7	16.7	15.4	15.0	13.8
Euro Stoxx 50 VIX	18.1	18.1	16.0	15.3	14.0
Nikkei VIX	24.8	28.2	26.6	21.3	14.8
KOSPI VIX	25.4	25.4	22.3	18.8	14.7

Systemic stress

Measures FX, money, sovereign and bond yield volatility

— New ECB Composite Indicator of Systemic Stress (CISS)

--- Long term average



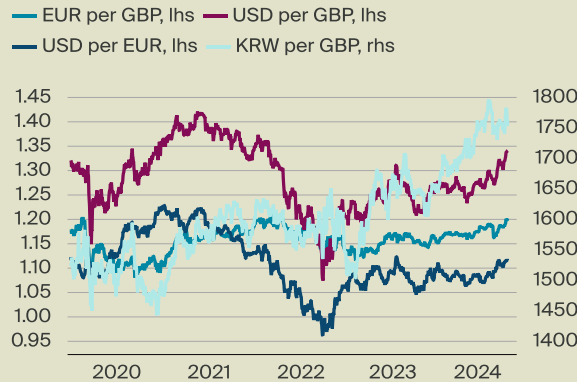
Source: Knight Frank, Macrobond

	Last	1 week	1 month	Jan '20
Systemic stress composite	0.086	0.079	0.058	0.023
Equity markets stress sub index	0.103	0.104	0.071	0.009
Bond markets stress sub index	0.058	0.047	0.040	0.02
FX markets stress sub index	0.054	0.031	0.027	0.004

Currencies & Monetary Policy

Currencies

Spot prices

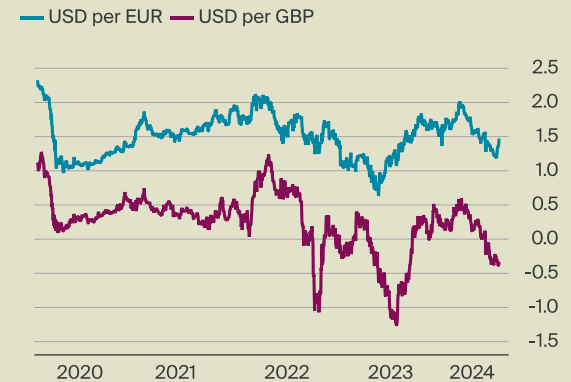


Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
EUR per GBP	1.202	1.199	1.199	1.188	1.177
KOR per GBP	1,762	1,754	1,783	1,755	1,525
USD per GBP	1.341	1.341	1.335	1.314	1.321
USD per EUR	1.116	1.116	1.113	1.106	1.123

Hedging benefits

Hedging benefit p.a. on a 5 year forward



Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
USD to EUR	1.47	1.39	1.33	1.32	2.32
USD to GBP	-0.33	-0.37	-0.33	-0.28	1.12

Inflation and monetary policy

Inflation rate (%)

	Sep	Aug	Jul	Jun
Australia	n/a	n/a	n/a	3.8
Canada	n/a	2.0	2.5	2.7
China	n/a	0.7	0.6	0.3
Euro Area	1.8	2.2	2.6	2.5
France	1.2	1.8	2.3	2.2
Germany	1.6	1.8	2.3	2.2
India	n/a	3.7	3.6	5.1
Italy	0.7	1.1	1.3	0.8
Japan	n/a	3.0	2.8	2.8
Saudi Arabia	n/a	1.6	1.5	1.5
South Korea	n/a	2.0	2.6	2.4
Spain	n/a	2.2	2.7	3.4
Sweden	n/a	1.9	2.6	2.6
UK	n/a	2.2	2.2	2.0
US	n/a	2.6	2.9	3.0

Interest rates (%)

	Last	Jan '21
	4.35	0.10
	4.25	0.25
	4.35	4.35
	3.65	0.00
	3.65	0.00
	3.65	0.00
	6.50	4.00
	3.65	0.00
	0.25	-0.10
	5.50	1.00
	3.50	0.50
	3.65	0.00
	3.50	0.00
	5.00	0.10
	5.00	0.25

Asset purchasing

	Latest (\$)	1m change (%)
	0.29 tn	-0.1
	215 bn	0.1
	6.16 tn	0.6
	7.15 tn	-0.4
	1.69 tn	1.0
	2.66 tn	-0.6
	439 bn	4.1
	1.28 tn	-0.3
	5.21 tn	-1.4
	512 bn	3.9
	391 bn	-4.2
	487 bn	0.3
	116 bn	-4.5
	1.27 tn	-1.2
	7.08 tn	-0.7

1. Australia Inflation rate is only available on a quarterly basis.

Source: Knight Frank, Macrobond



Quantifying Technology in Real Estate

Quantifying Technology in Real Estate explores how emerging technologies are transforming the real estate landscape. This report examines key trends across sectors, highlighting how technological integration is driving innovation and influencing real estate strategies for the future.

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UK Real Estate Navigator: Q2 2024

Is UK Real Estate at a turning point? Explore the current trends in UK commercial real estate with the latest edition of our UK Real Estate Navigator, available now.

We like questions, if you've got one about our research, or would like some property advice, we would like to hear from you



William Matthews
Partner
Head of Commercial Research
+44 20 3909 6842
william.matthews@knightfrank.com



Victoria Ormond, CFA
Partner
Head of Capital Markets Research
+44 20 7861 5009
victoria.ormond@knightfrank.com



Khadija Hussain
Analyst
Capital Markets Research
+44 20 8176 9671
khadija.hussain@knightfrank.com