

Leading Indicators

Key economic and financial metrics impacting property markets

December 2023

Falling inflation globally sends bond yields lower

BOND YIELDS EASE AS GLOBAL INFLATION DROPS SHARPLY

Over the past month, the mood in financial markets has improved markedly, with bond yields falling and equities rising across the board, reflecting sharp falls in inflation in major economies including the US (3.2%), Europe (2.4%), Canada (3.1%) and the UK (4.6%). As a result, markets are starting to price in the expectation of rate cuts in 2024.

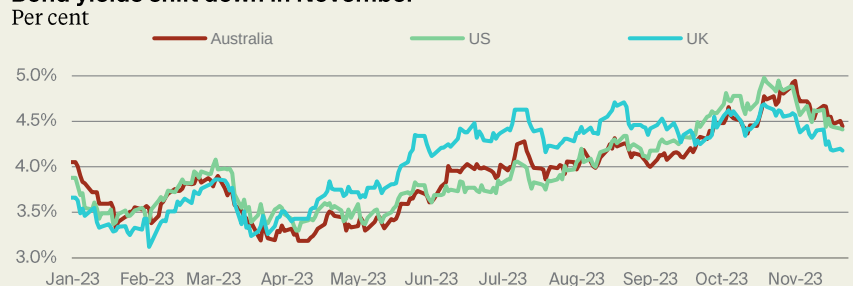
Australia is yet to see inflation fall to the same degree, but the latest monthly CPI indicator has dropped to 4.9% and markets have rallied in line with global trends with bond yields falling by approximately 50 bps in November, which will pass through to take pressure off the cost of funding.

RESILIENT LABOUR MARKET

Meanwhile, signs of resilient activity continue, with recent data pointing to continued employment growth (3.0% y/y), rising wages (4.0% y/y) and solid trading conditions for businesses. In contrast, retail sales have been a weak point, and the pace of growth has continued to trend down (1.2% y/y).

However, household spending has still held up better than expected in the face of the steep escalation in mortgage rates, and with savings buffers still at a high level the outlook is for sustained growth in 2024. The strength of discretionary spending over the Christmas period will provide a further gauge on prospects for a soft landing.

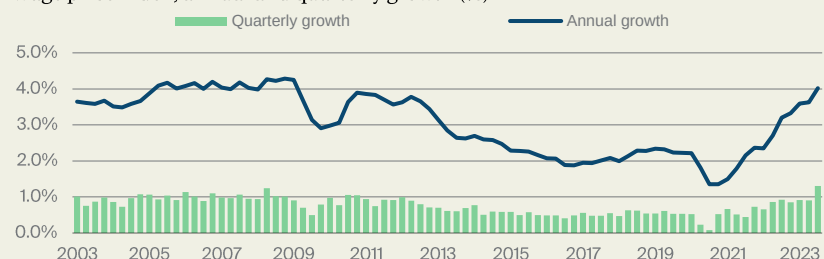
Bond yields shift down in November



Source: Knight Frank Research, Macrobond

Fastest wage growth since 2009

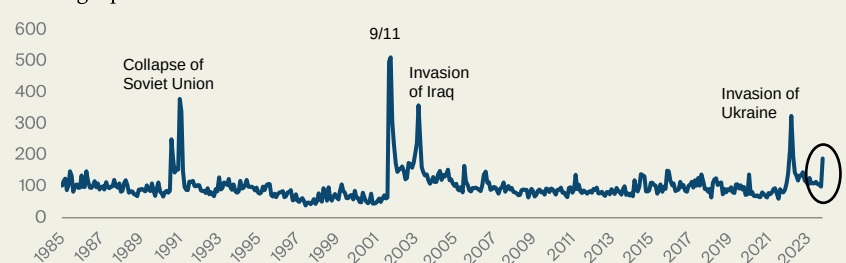
Wage price index, annual and quarterly growth (%)



Source: Knight Frank Research, ABS

Sharp rise in geopolitical risk

Global geopolitical risk index



Source: Knight Frank Research, Macrobond

Australia key forecasts

	GDP growth (Q2 2023, y/y %)	Unemployment rate (October, %)	CPI inflation (Q3 2023, y/y %)	Cash rate target (November, %)	10 year bond yield (30 November, %)
Latest	2.1	3.7	5.4	4.35	4.4
Year-end 2024 (f)*	1.8	4.4	3.2	4.35	4.2

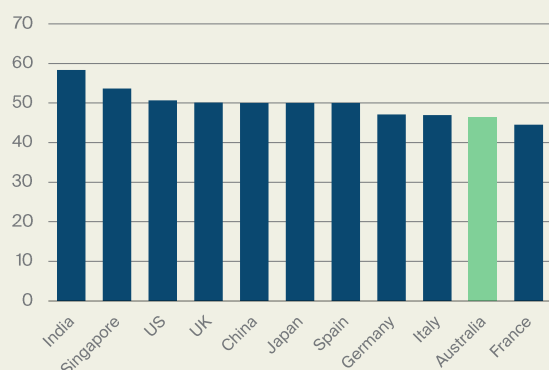
*Oxford economic forecasts

Business indicators

Mixed signals on sentiment but a resilient labour market attests to sustained activity

PMIs point to subdued economic activity

Composite PMI indicator, scores over 50 signal expansion

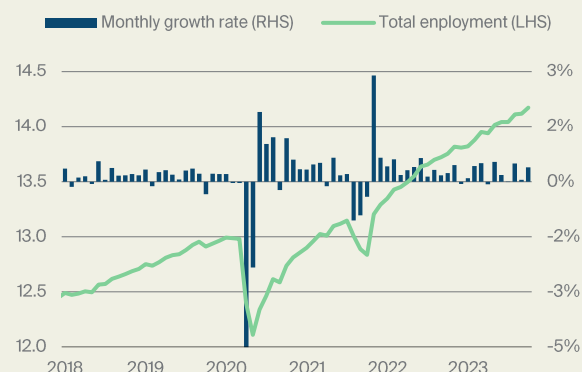


Source: Knight Frank Research, Macrobond

	Latest Nov-23	Last quarter Aug-23	May-23	Jan-23	1 year ago Nov-22
Australia	46.4	48.0	51.6	48.5	48.0
China	50.0	51.7	55.6	51.1	47.0
Euro Area	47.1	46.7	52.8	50.3	47.8
Japan	50.0	52.6	54.3	50.7	48.9
UK	50.1	48.6	54.0	48.5	48.2
US	50.7	50.2	54.3	46.8	46.4

Labour market remains resilient

Total employment (millions, LHS) and annual growth (RHS)

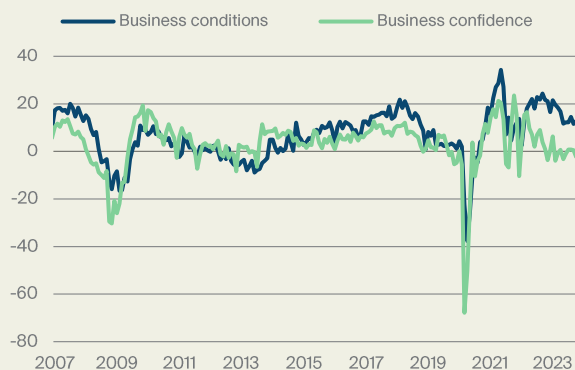


Source: Knight Frank Research, Macrobond

	Oct-23	Jul-23	Apr-23	Jan-23	Oct-22
Monthly growth (%)	0.4	0.0	-0.1	0.1	0.2
	Latest Oct-23	Jul-23	Apr-23	Jan-23	Oct-22
Total employment (million)	14.2	0.9	1.7	2.5	3.0

Solid trading conditions but confidence lower

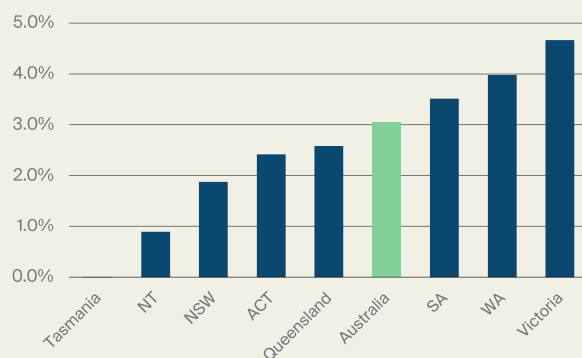
NAB business survey, balance of positive/negative responses



Source: Knight Frank Research, Macrobond

Fastest employment growth in VIC / WA

Per cent, annual change to Oct-23



Source: Knight Frank Research, Macrobond

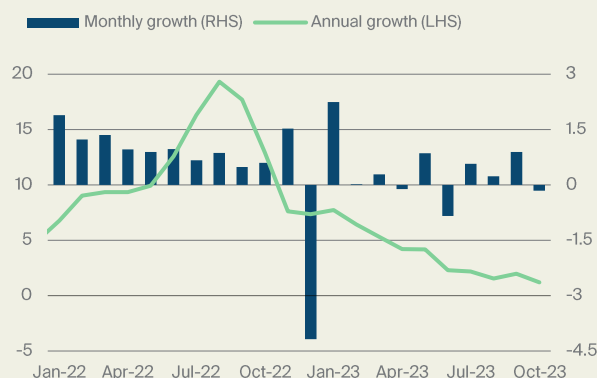
	TAS	NT	NSW	ACT	QLD	Australia	SA	WA	VIC
y/y growth (%)	0.0	0.9	1.9	2.4	2.6	3.0	3.5	4.0	4.7

Consumer indicators

Continued weakness in retail spending as cost-of-living pressures impact households

Retail sales growth edges lower

Annual and monthly growth rate (%)

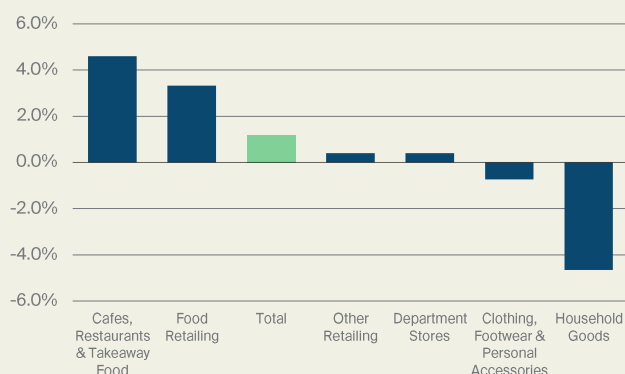


Source: Knight Frank Research, Macrobond

	Oct-23	Jul-23	Apr-23	Jan-22	Oct-22
m/m growth (%)	-0.2	0.6	-0.1	2.2	0.6
y/y growth (%)	1.2	2.2	4.2	7.7	12.9

Wide divergence in sales performance

Annual growth in retail sales, Oct-23

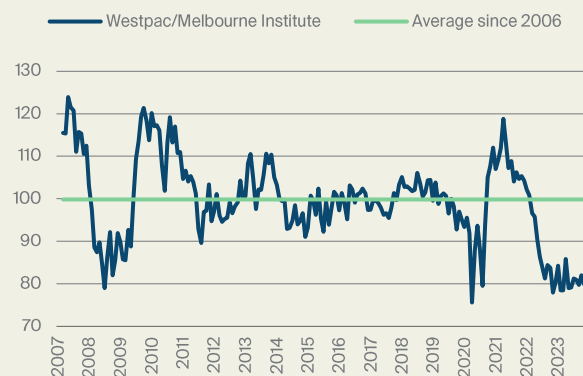


Source: Knight Frank Research, Macrobond

	m/m (%)	y/y (%)
Cafes, restaurants, takeaway food	-0.4	4.6
Food retailing	0.5	3.3
Total	-0.2	1.2
Other retailing	-0.4	0.4
Department stores	-0.6	0.4
Clothing, footwear & personal accessories	-1.0	-0.7
Household goods	-0.6	-4.7

Consumer confidence remains subdued

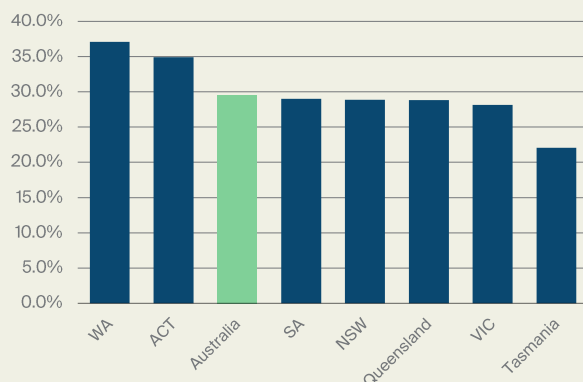
Confidence index, values above 100 signal optimism



Source: Knight Frank Research, Macrobond

WA out-performing since the pandemic

Total growth in retail sales since Jan 2020



Source: Knight Frank Research, Macrobond

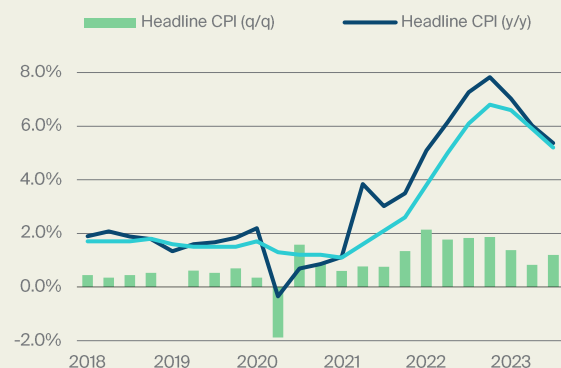
Latest in Oct-23	Percentage change since		
	Jul-23	Oct-22	Jan-20
WA	1.5	3.5	38.6
ACT	0.4	3.5	33.7
Australia	1.0	1.2	29.1
SA	0.6	2.9	28.7
NSW	0.8	0.3	27.9
Queensland	1.3	0.7	29.6
Victoria	0.8	1.0	26.9
Tasmania	1.7	0.7	22.3

Inflation & interest rates

Inflation on a downward trajectory globally, but Australia remains slightly behind the curve

Inflation gradually easing

Annual and quarterly headline CPI growth (%)

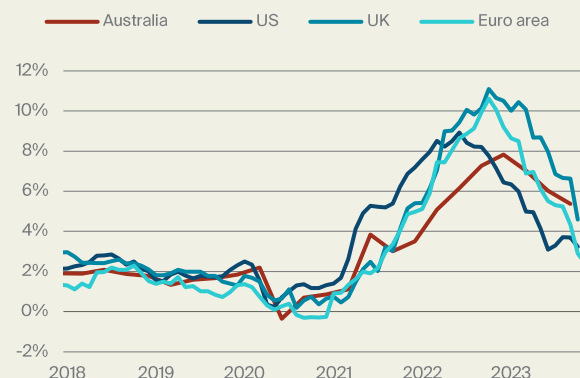


Source: Knight Frank Research, ABS

	Sep-23	Jun-23	Mar-23	Dec-22	Sep-22
Headline CPI (q/q, %)	1.2	0.8	1.4	1.9	1.8
Headline CPI (y/y, %)	5.4	6.0	7.0	7.8	7.3
Trimmed mean inflation (y/y, %)	5.2	5.9	6.6	6.8	6.1

US and EU inflation has dropped sharply

Headline CPI y/y

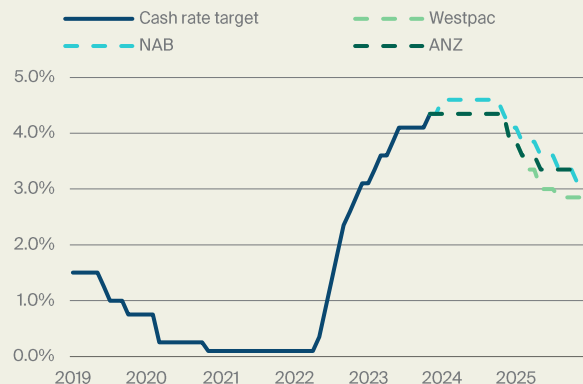


Source: Knight Frank Research, Macrobond

	Latest	Jun-23	Mar-23	Dec-22	Sep-22
Australia (y/y, %)	5.4	6.0	7.0	7.8	7.3
US (y/y, %)	3.2	3.1	5.0	6.4	8.2
UK (y/y, %)	4.6	8.0	10.1	10.5	10.1
Euro area (y/y, %)	2.4	5.5	6.9	9.2	9.9

Close to (or at) the peak cash rate

Historic cash rate and current forecasts of major banks

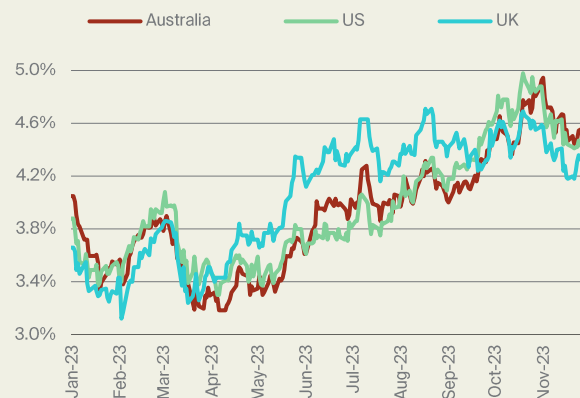


Source: Knight Frank Research, NAB, Rate City,

	Nov-23	Feb-24	Jun-24	Dec-24	Jun-25
Cash rate target	4.35	-	-	-	-
Westpac	-	4.35	4.35	3.85	3.35
NAB	-	4.60	4.60	4.10	3.60
ANZ	-	4.35	4.35	3.85	3.35

Bond yield edge down from recent highs

Ten year government bond yields



Source: Knight Frank Research, Macrobond

	Latest	Oct-23	May-23	Feb-23	Nov-22
Australia	4.41	4.93	3.35	3.57	3.76
US	4.37	4.88	3.59	3.39	4.07
UK	4.25	4.59	3.72	3.43	3.45

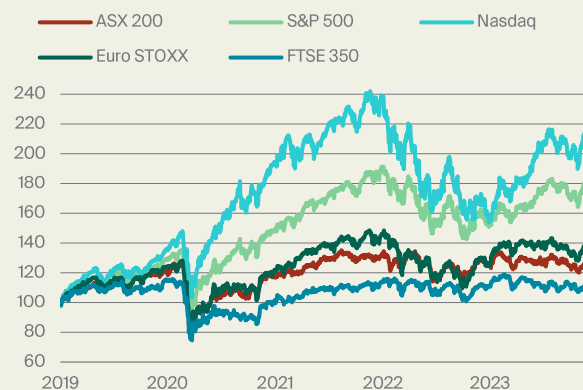
*as at the first business day of the month

Financial markets

Bounce in global equity markets as lower inflation triggers speculation on rate cuts

Equities responding to falling inflation

Global equities, price indices, 1 Jan 2019 = 100



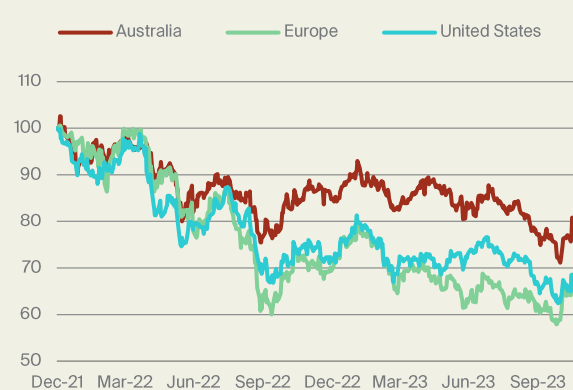
Source: Knight Frank Research, Macrobond

Index	Latest	Percentage change since				
Original value and base	Nov-23	Oct-23	May-23	Feb-23	Nov-22	
ASX 200	7,068	4.3	-2.6	-3.3	-1.5	
S&P 500	4,560	8.7	8.7	14.2	13.8	
Nasdaq	14,304	11.0	12.1	24.0	27.7	
Euro STOXX	4,354	6.9	-1.6	0.0	7.8	
FTSE 350	4,109	2.8	-3.9	-5.9	-0.5	

* Latest 22 November

Global REIT indices recover in November

Price index, 31 Dec 2021 = 100



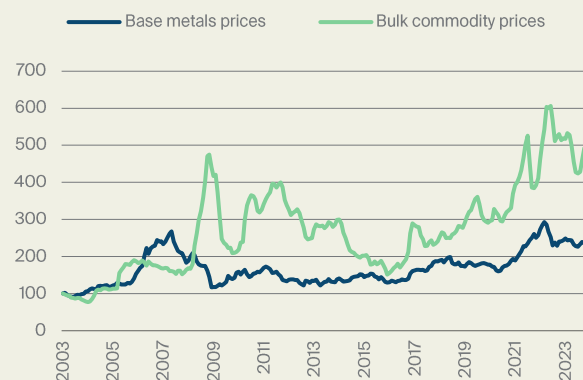
Source: Knight Frank Research, Macrobond

	Percentage change since			
	Oct-23	May-23	Feb-23	Nov-22
Australia	-1.1	-14.0	-15.7	-10.9
Europe	9.5	-5.1	-11.1	-2.2
United States	4.8	-4.9	-13.3	-5.0

*as at the first business day of the month

Commodity prices remain high

RBA commodity price index (Jan 2003 = 100)

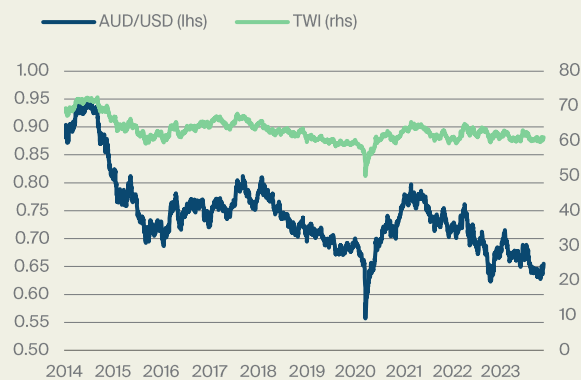


Source: Knight Frank, RBA

Index	Percentage change since			
Latest in Oct-23	Jul-23	Apr-23	Jan-23	Oct-22
Base metals prices	4.4	-2.8	-5.0	-1.4
Bulk commodity prices	16.1	-1.6	-4.9	-7.2

Australian dollar edging up

US\$ (lhs), index (rhs)



Source: Knight Frank Research, Macrobond

	Nov-23	Aug-23	May-23	Feb-23	Nov-22
USD per AUD	0.63	0.67	0.66	0.71	0.64
	Latest	Percentage change since			
	Nov-23	Aug-23	May-23	Feb-23	Nov-22
Trade weighted index	60.2	-2.0	0.0	-3.8	-2.1

*as at the first business day of the month

Recent research

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Australian Industrial Review



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