

Leading Indicators

Key economic and financial metrics impacting property markets

Feb-25

Drop in inflation prompts rate cut speculation

SHARP DROP IN INFLATION

Modest inflation in Q4 has brought down the annual rate to 2.4% (headline) and 3.2% (core). The headline rate is now comfortably within the target band but only because of the impact of temporary energy rebates. The RBA is naturally more focussed on the higher core rate, but the low q/q rise of 0.5% indicates that underlying pressures have eased significantly, opening the door to rate cuts in coming months.

CONSUMER SPENDING PICKING UP

Meanwhile, consumer spending continues to recover. Monthly data are volatile, but the quarterly trend reveals a clear upward trend, with retail sales up 3.7% y/y in nominal terms and sales volumes recording solid growth for the first time since 2022. Given the importance of household spending, the rise foreshadows an improving economic outlook for 2025 and beyond.

TARIFF ANNOUNCEMENTS BRINGS NEW UNCERTAINTY

The announcement of sweeping 25% tariffs on Canadian and Mexican exports, quickly followed by an announcement that they would be delayed, plus a 10% tariff on Chinese exports described as ‘an opening salvo’ signalled a rise in economic uncertainty. Next up, a 25% tariff on steel and aluminium exports could impact Australia unless an exemption is negotiated. Implementation, impact and duration remain highly uncertain, but downside risks to growth will have central banks watching closely.

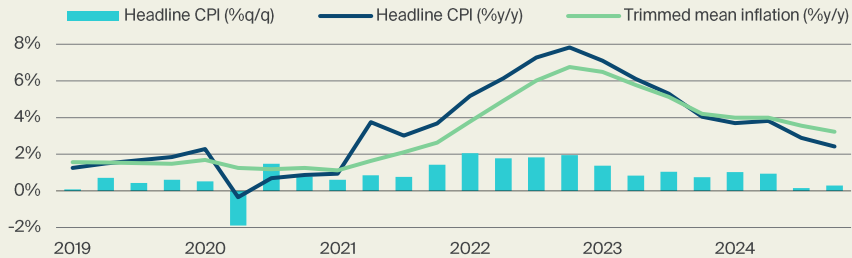
Australia key forecasts

	GDP growth (Q3 2024, y/y %)	Unemployment rate (December 2024, %)	Core CPI inflation (Q4 2024, y/y %)	Cash rate target (December 2024, %)	10 year bond yield (3 February 2025, %)
Latest	0.8	4.0	3.2	4.35	4.4
Year-end 2025 (f)*	2.4	4.5	2.7	3.85	4.2

Source: Oxford Economics, RBA

Have we now tamed inflation?

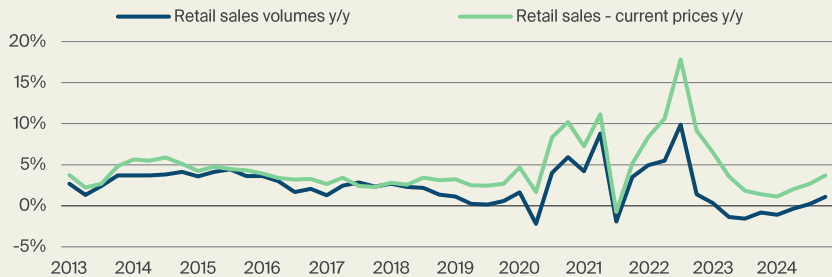
% annual and quarterly (seasonally adjusted)



Source: Knight Frank Research, ABS

Retail sales growth trending upward

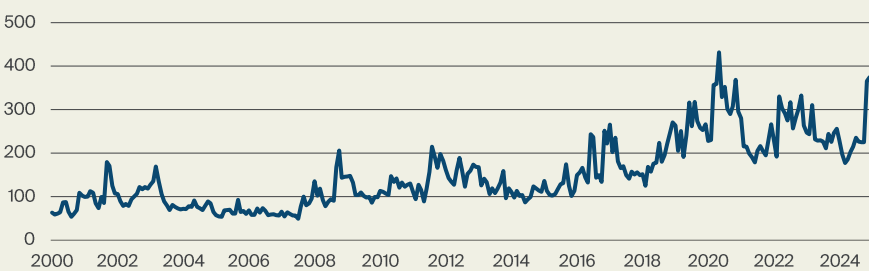
Retail sales growth - total volumes and in current prices



Source: Knight Frank Research, Macrobond

Tariff speculation drives a spike in economic policy uncertainty

Global economic policy uncertainty index



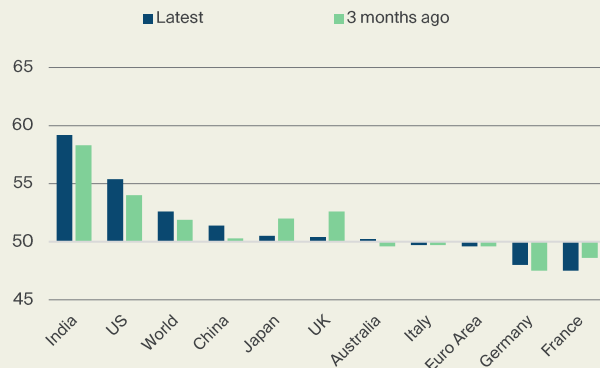
Source: Knight Frank Research, Economic Policy Uncertainty

Business indicators

Business confidence responding to improving rates outlook

PMIs still show sluggish growth momentum

Composite PMI indicator (above 50 indicates expansion)

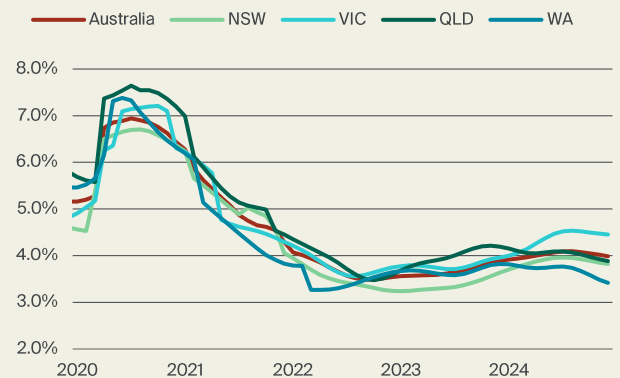


Source: Knight Frank Research, Macrobond

	Latest Dec-24	Last quarter Sep-24	Jun-24	Mar-24	1 year ago Dec-23
Australia	50.2	49.6	50.7	53.3	46.9
China	51.4	50.3	52.8	52.7	52.6
Euro Area	49.6	49.6	50.9	50.3	47.6
Japan	50.5	52.0	49.7	51.7	50.0
UK	50.4	52.6	52.3	52.8	52.1
US	55.4	54.0	54.8	52.1	50.9

Labour market remains resilient

Unemployment rate (trend)

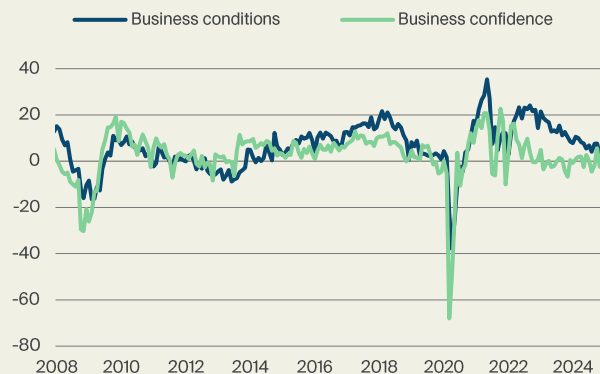


Source: Knight Frank Research, Macrobond

	Dec-24	Sep-24	Jun-24	Mar-24	Dec-23
Australia	4.0	4.1	4.1	4.0	3.9
NSW	3.8	3.9	3.9	3.8	3.6
VIC	4.5	4.5	4.5	4.1	4.0
QLD	3.9	4.0	4.1	4.1	4.2
WA	3.4	3.7	3.8	3.7	3.8

Business confidence trending up

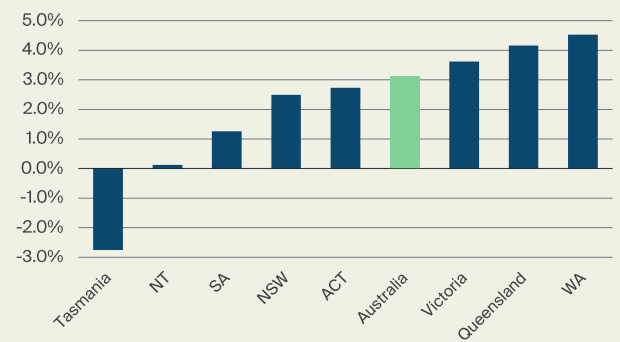
NAB survey, balance of positive and negative responses



Source: Knight Frank Research, NAB, Macrobond

Strong employment growth in WA and QLD

Per cent, annual change to Dec-24



Source: Knight Frank Research, Macrobond

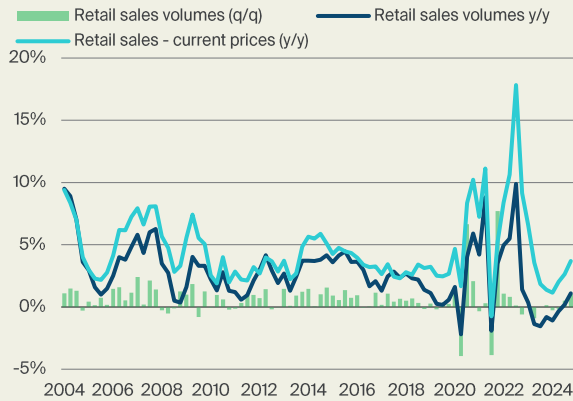
	TAS	NT	SA	NSW	ACT	Australia	VIC	QLD	WA
y/y growth (%)	-2.8	0.1	1.3	2.5	2.7	3.1	3.6	4.2	4.5

Consumer indicators

Retail sales improving off the back of a return to growth in disposable incomes

Retail sales picking up

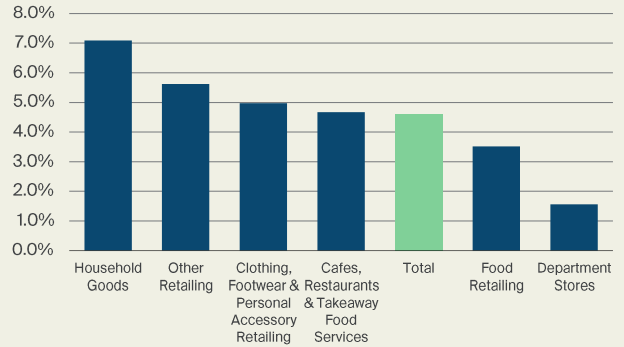
Retail sales growth - total volumes and in current prices



Source: Knight Frank Research, Macrobond

Discretionary spending improving

Annual growth in retail sales (values)



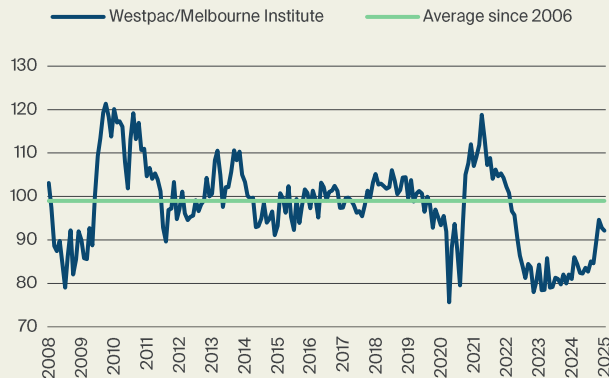
Source: Knight Frank Research, Macrobond

	Dec-24	Sep-24	Jun-24	Mar-23	Dec-23
Retail sales volume (q/q, %)	1.0	0.5	-0.2	-0.3	0.1
Retail sales volume (y/y, %)	1.1	0.2	-0.3	-1.1	-0.8
Retail current prices (y/y, %)	3.7	2.6	2.0	1.1	1.4

Latest in Dec-24		
	m/m (%)	y/y (%)
Household Goods	1.6	7.1
Other Retailing	-1.4	5.6
Clothing, Footwear & Personal Accessories	-1.8	5.0
Cafes, Restaurants & Takeaway Food	-0.5	4.7
Total	-0.1	4.6
Food Retailing	0.1	3.5
Department Stores	0.4	1.6

Consumer pessimism easing

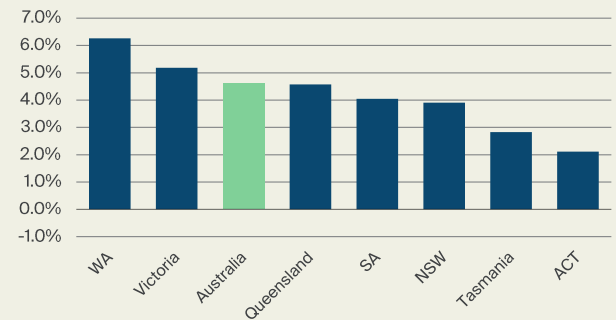
Confidence index, value above 100 signal optimism



Source: Knight Frank Research, Macrobond

Retail sales strongest in WA and Vic

Annual growth in retail sales, per cent



Source: Knight Frank Research, Macrobond

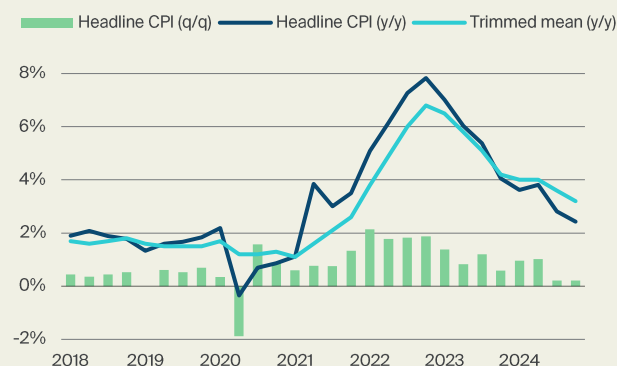
Percentage change since				
Latest in Dec-24	Dec-24	Jun-24	Mar-24	Dec-23
WA	1.1	1.9	4.2	6.3
Victoria	1.3	2.5	3.9	5.2
Australia	1.1	2.1	3.5	4.6
Queensland	0.9	2.4	3.5	4.6
SA	1.9	2.0	2.9	4.0
NSW	0.9	2.0	3.4	3.9
Tasmania	1.7	1.6	2.4	2.8
ACT	-0.5	-0.8	0.5	2.1

Inflation & interest rates

Falling inflation paving the way for rate cuts

Core inflation falls to 3.2%

Annual and quarterly growth (%)

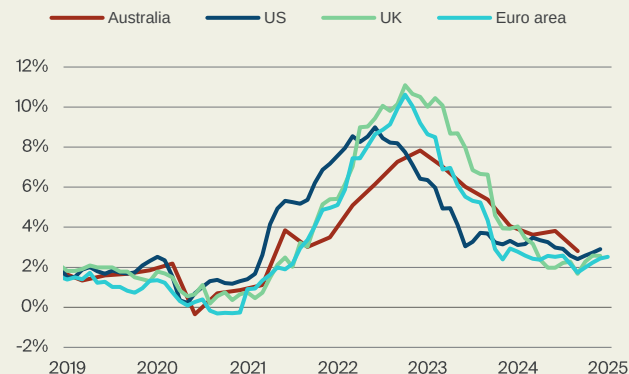


Source: Knight Frank Research, ABS

	Dec-24	Sep-24	Jun-24	Mar-24	Dec-23
Headline CPI (q/q, %)	0.2	0.2	1.0	1.0	0.6
Headline CPI (y/y, %)	2.4	2.8	3.8	3.6	4.1
Trimmed mean inflation (y/y, %)	3.2	3.6	4.0	4.0	4.2

Inflation has eased globally

Headline CPI y/y

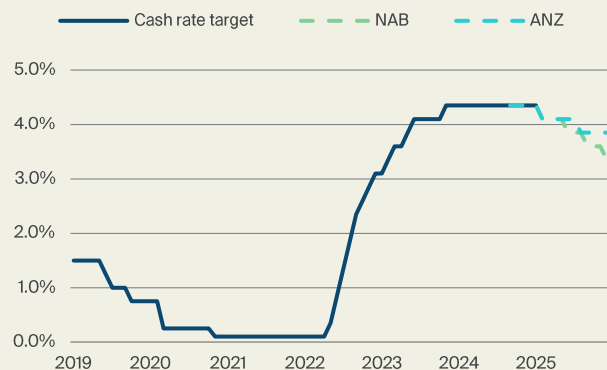


Source: Knight Frank Research, Macrobond

	Dec-24	Sep-24	Jun-24	Mar-24	Dec-23
Australia (y/y, %)	2.4	2.8	3.8	3.6	4.1
US (y/y, %)	2.9	2.4	3.0	3.5	3.3
UK (y/y, %)	2.6	1.7	2.0	3.2	3.9
Euro area (y/y, %)	2.4	1.7	2.5	2.4	2.9

Rate cuts imminent

Historic rates and current forecasts of major banks

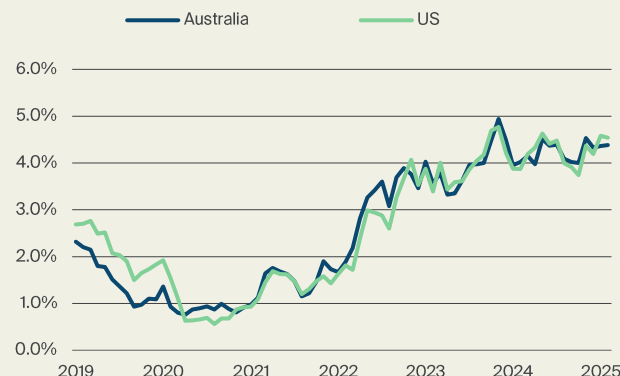


Source: Knight Frank Research, NAB, Rate City

	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Cash rate target	4.35				
Oxford Economics		4.35	4.10	3.85	3.85
NAB		4.10	3.85	3.60	3.35
ANZ		4.10	4.10	3.85	3.85

Bond yields steady in recent weeks

Ten year government bond yields



Source: Knight Frank Research, Macrobond

	Feb-25	Nov-24	Aug-24	May-24	Feb-24
Australia	4.38	4.53	4.09	4.51	4.02
US	4.54	4.37	3.99	4.63	3.87
UK	4.48	4.45	3.89	4.36	3.81

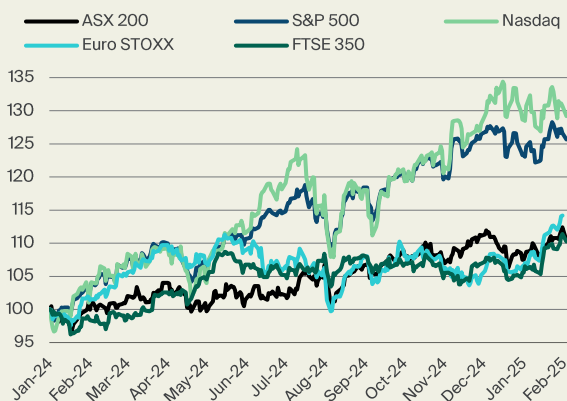
*as at the first business day of the month

Financial markets

Equity markets responding to rate cuts globally

Equities continue to march higher

Global equities, price indices, 1 Jan 2024 = 100



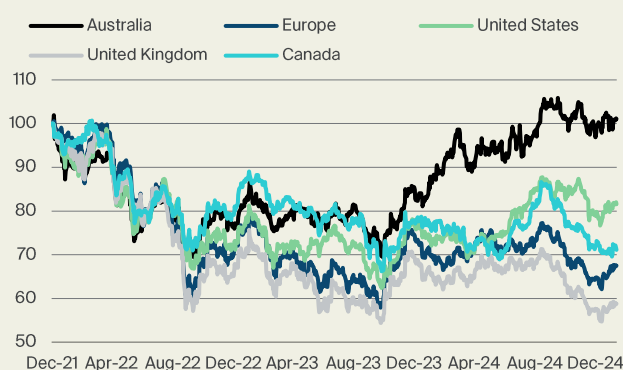
Source: Knight Frank Research, Macrobond

Index	Latest	Percentage change since			
		Feb-25	Nov-24	Aug-24	May-24
ASX 200	8,511	5.1	5.1	12.7	12.4
S&P 500	6,026	5.4	10.9	20.4	23.1
Nasdaq	19,523	7.6	14.2	25.8	27.8
Euro STOXX	5,325	7.4	9.7	6.7	12.6
FTSE 350	4,769	5.6	3.7	6.6	13.3

* Latest 07th February

Australia has led the public market recovery

Global REIT price indices, 31 Dec 2021 = 100



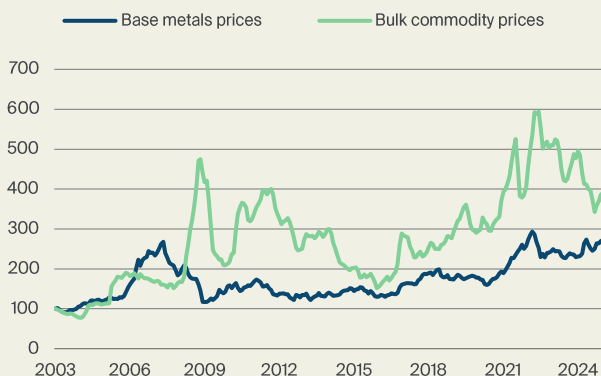
Source: Knight Frank Research, Macrobond

Latest in Jan-25	Percentage change since			
	Oct-24	Jul-24	Apr-24	Jan-24
Australia	0.1	2.6	8.9	4.7
Europe	-3.6	-6.8	-4.9	-6.1
United States	-3.1	1.1	14.8	10.4

* Latest 31st January

China slowdown weighing on commodities

RBA commodity price index (Jan 2003 = 100)

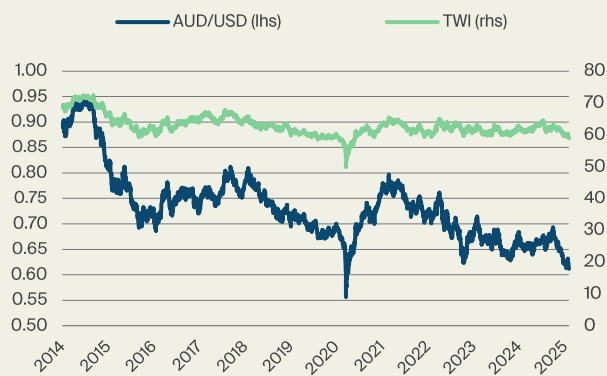


Source: Knight Frank Research, RBA

Index	Latest in Jan-25	Percentage change since			
		Oct-24	Jul-24	Apr-24	Jan-24
Base metals prices	3.3	8.8	3.4	18.2	
Bulk commodity prices	9.1	-1.1	-5.5	-21.2	

AUD has weakened vs USD

US\$ (lhs), index (rhs)



Source: Knight Frank Research, Macrobond

USD per AUD	Feb-25	Nov-24	Aug-24	May-24	Feb-23
0.61	0.66	0.65	0.66	0.66	
Trade weighted index	Feb-25	Nov-24	Aug-24	May-24	Feb-23
58.9	-4.2	-3.8	-5.5	-4.1	

* Latest 3rd February

Recent research



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



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