

Leading Indicators

BoE: Recession averted, but growth to remain subdued

+0.50%

Bank of England UK GDP growth forecast, 2023

6,342

Number of UK insolvencies, Q2 23

£22bn

UK public R&D expenditure target by 2026/27

DIVERGENCE IN THE UK GROWTH OUTLOOK

Released last week, the Bank of England's (BoE) August Monetary Policy Report predicts the UK economy will expand by +0.50% in 2023, better than +0.25% forecast in May. The outlook for 2024, however, has been downgraded, with GDP growth expected to remain at +0.50% (previously +0.75%), as higher borrowing costs begin to take their toll on activity.

Amidst a higher profile for interest rates, the BoE predicts CPI inflation will fall to 5% by the end of this year, before returning to its 2% target by Q2 2025.

The bigger picture is that the range of forecast outcomes remains wide. For instance, the most optimistic contributors to the Treasury's latest consensus forecasts predict a +0.50% rise in GDP this year, whilst the most pessimistic a fall of -0.40%. Predictions – even about the relatively near term – are proving divisive.

THE NUMBER OF INSOLVENCIES IS ON THE RISE

6,342 UK companies were declared insolvent in Q2 23, the highest level since the GFC. In addition to inflation, interest rates and energy costs, the rise likely reflects a delayed impact from the pandemic. Governments globally offered subsidies and loans to keep businesses afloat. In the UK, an £80bn business loan programme and a temporary bar on court-ordered liquidations resulted in a record low number of insolvencies during 2020-21, as the survival of some businesses was temporarily prolonged.

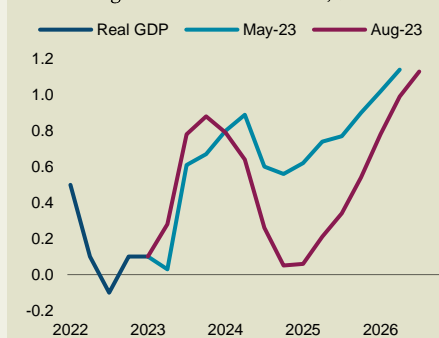
A hallmark of the current economic backdrop is divergence, and the picture for business health is no different. Last week's ONS Business Survey found that while conditions remain challenging, 24% of firms reported having no concerns at all. Equally, while the UK labour market is gradually easing, unemployment remains at a relatively low 4%. Online job adverts – arguably a more high frequency indicator – are still running at levels seen before the pandemic.

THE PRACTICALITIES OF FOSTERING INNOVATION

Our research has long highlighted the power of innovation to drive economic growth – but fostering it can be easier to say than do. Boosted by public R&D expenditure that is set to reach £22bn by 2026/27, the UK's aim to become a "science superpower" is undoubtedly a bright spot for the economy. However, there are practical issues to contend with, not least a shortage of laboratory space in the "Golden Triangle" (between Oxford, Cambridge and London). Here lies an opportunity, particularly for those investors that can quickly bring lab space to the market.

Recession averted... but growth to stagnate

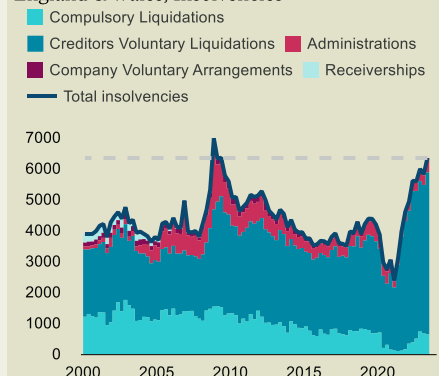
Bank of England Real GDP Forecast, %



Source: Knight Frank Research, Bank of England

Insolvencies on the rise from a record low

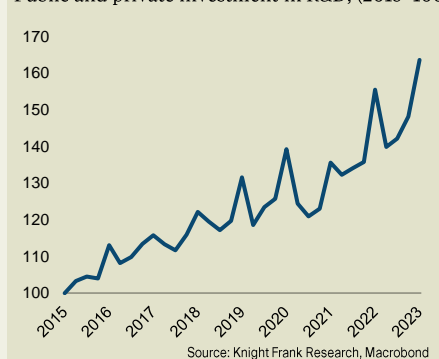
England & Wales, Insolvencies



Sources: Knight Frank Research, Macrobond, U.K. Insolvency Service

UK R&D investment on an upward trend

Public and private investment in R&D, (2015=100)



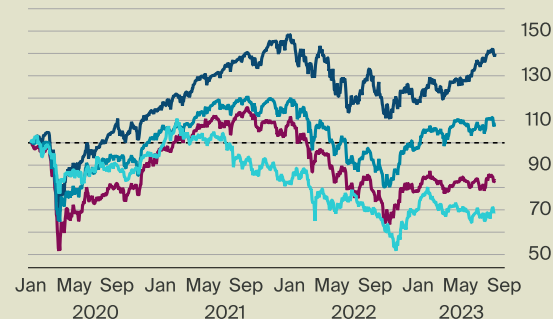
Sources: Macrobond, Oxford Economics, HM Treasury Consensus, Reuters, Financial Times, ONS, Knight Frank

Equities

Equity markets

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

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



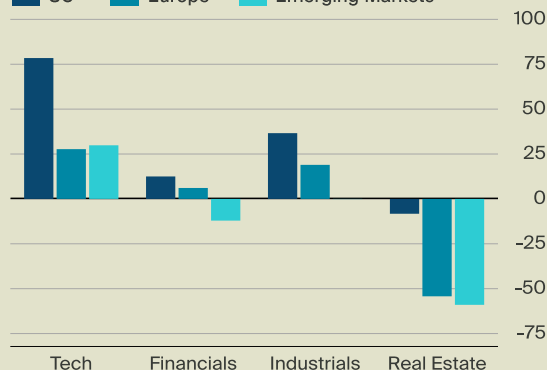
Source: Knight Frank, Macrobond

Index	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
DAX 30	6,941	0.9	-3.5	3.9	4.9
FTSE 250	24,080	0.6	-2.1	5.9	-16.9
Hang Seng	2,503	0.6	-2.0	5.6	-30.8
IBEX 35	10,292	1.1	-3.7	2.0	-4.0
MIB	31,395	0.0	-3.6	5.0	19.3
S&P 500	4,518	0.4	-1.4	2.4	39.9
STOXX 600	506	0.9	-2.7	4.0	8.3
TOPIX	16	0.3	-1.6	2.0	1.9

Equity regional sectors

Price return index percentage change since Jan 2020

■ US ■ Europe ■ Emerging Markets



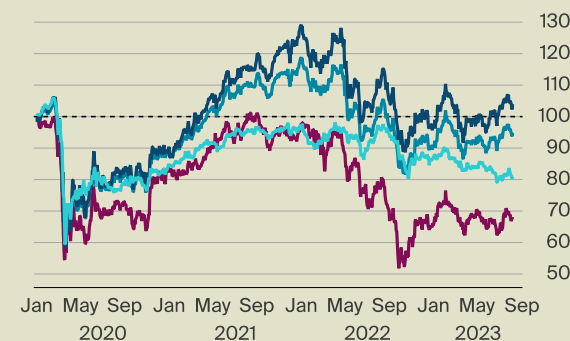
Source: Knight Frank, Macrobond

	Percentage change since Jan 2020		
	US	Europe	World
Tech	78.4%	27.7%	29.9%
Financials	12.5%	6.1%	-12.1%
Industrials	36.6%	19.0%	-0.1%
Real Estate	-8.3%	-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

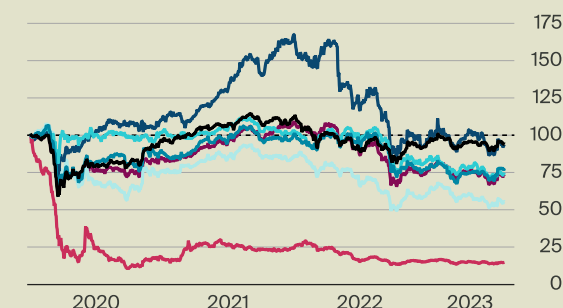
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
US	2,485	0.7	-0.5	1.2	4.0
Europe	1,926	0.5	-1.4	5.9	-32.4
World	3,048	0.7	-1.0	1.7	-5.1
Asia Pacific	3,173	-0.2	-2.4	0.4	-19.2

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

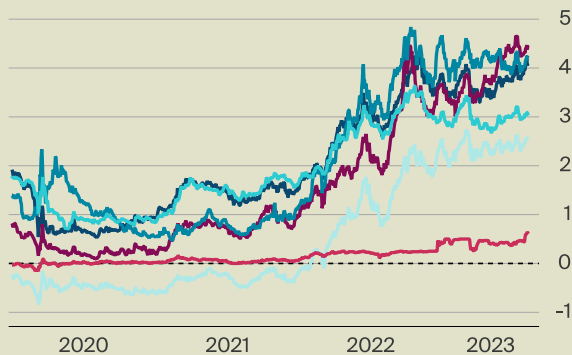
Index, total return	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Original value and base					
All REITs	739	-0.4	-0.5	6.6	-27.7
Office	1,644	0.6	0.7	4.7	-44.5
Industrial	1,144	-0.3	-0.8	5.3	-7.7
Retail	53	0.9	0.8	8.0	-85.3
Healthcare	1,665	-1.0	-0.6	2.8	-26.6
Residential	1,162	-1.4	-1.4	8.9	-23.8
FTSE 250	16,026	0.1	-1.3	5.5	-5.9

Bonds & Rates

Government bond yields

10 year government bond yields, %

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



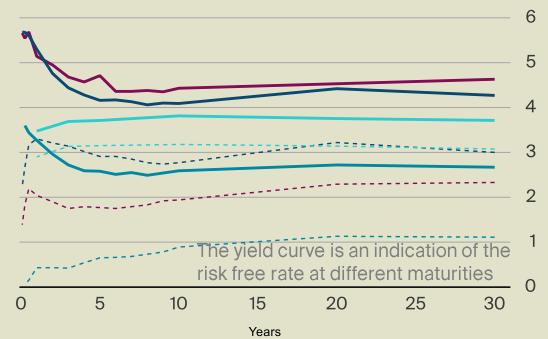
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Italy	4.25	4.25	4.16	4.28	1.40
Japan	0.61	0.63	0.60	0.41	-0.03
Singapore	3.03	3.06	3.03	3.20	1.74
UK	4.46	4.46	4.40	4.65	0.82
US	4.09	4.09	4.05	4.06	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

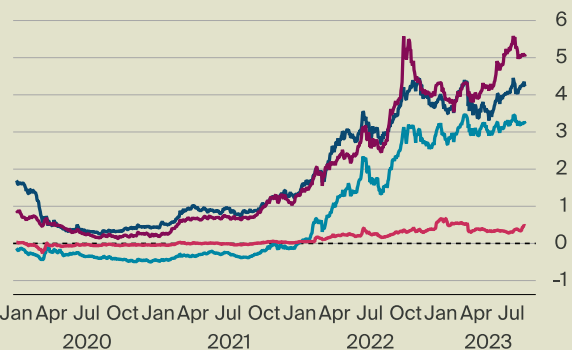


Source: Knight Frank, Macrobond

Interest rate swaps

5 year swap rates, %

— US — UK — Eurozone — Japan



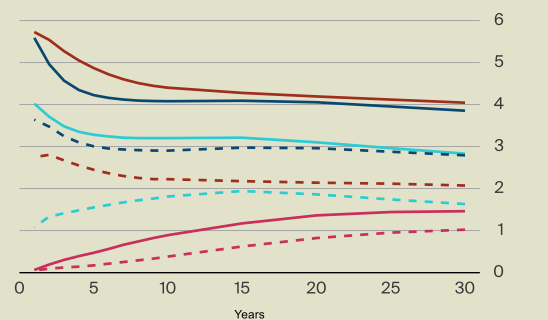
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Eurozone	3.28	3.25	3.20	3.45	-0.13
Japan	0.47	0.48	0.44	0.35	0.03
Singapore	3.66	n/a	n/a	n/a	1.50
UK	5.09	5.04	5.04	5.52	0.88
US	4.22	4.25	4.24	4.38	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



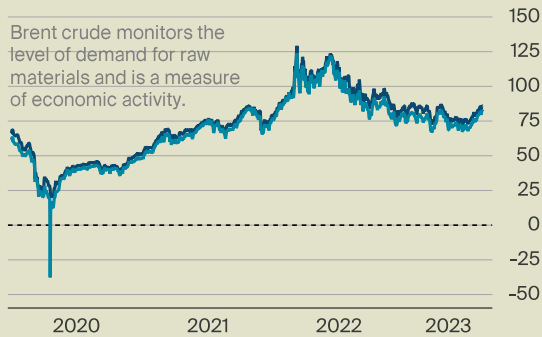
Source: Knight Frank, Macrobond

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	85.8	86.0	85.2	78.2	66.0
WTI, \$ per barrel	81.9	82.8	81.8	73.9	61.1

Baltic dry index

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

— Baltic dry index



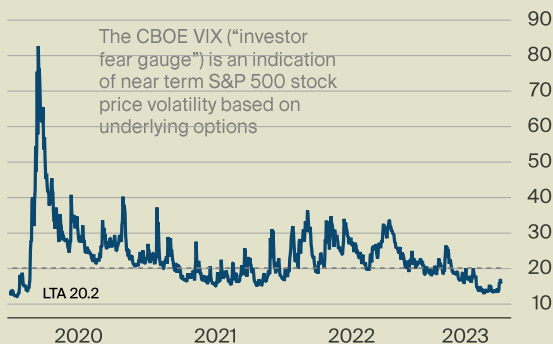
Source: Knight Frank, Macrobond

	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Baltic Dry	1145	1.51	1.6	13.5	5.05

Volatility index

Near term stock price volatility indicator

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



Source: Knight Frank, Macrobond

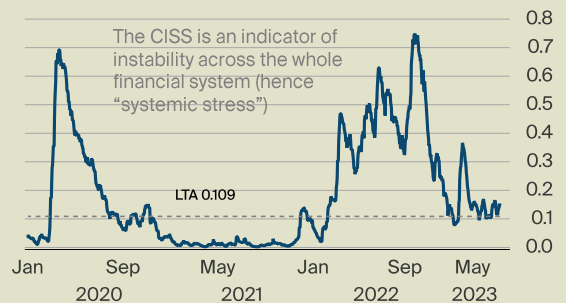
	Last	1 day	1 week	1 month	Jan '20
CBOE VIX	15.8	15.8	13.9	14.8	13.8
Euro Stoxx 50 VIX	18.6	18.6	17.2	17.5	14.0
Nikkei VIX	20.1	20.4	18.0	20.3	14.8
KOSPI VIX	15.4	15.7	14.1	14.6	14.7

Systemic stress

Measures FX, money, sovereign and bond yield volatility

— New ECB Composite Indicator of Systemic Stress (CISS)

--- Long term average



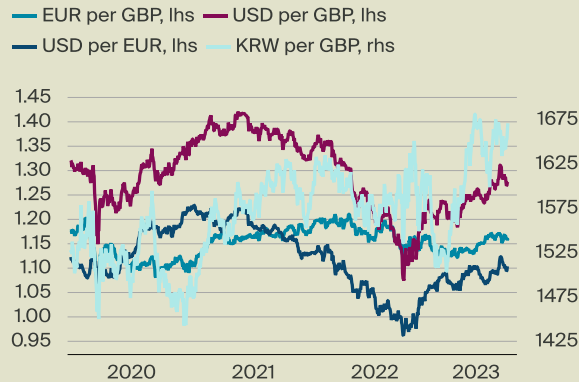
Source: Knight Frank, Macrobond

	Last	1 week	1 month	Jan '20
Systemic stress composite	0.188	0.178	0.264	0.023
Equity markets stress sub index	0.067	0.068	0.083	0.009
Bond markets stress sub index	0.068	0.074	0.089	0.02
FX markets stress sub index	0.022	0.054	0.032	0.004

Currencies & Monetary Policy

Currencies

Spot prices

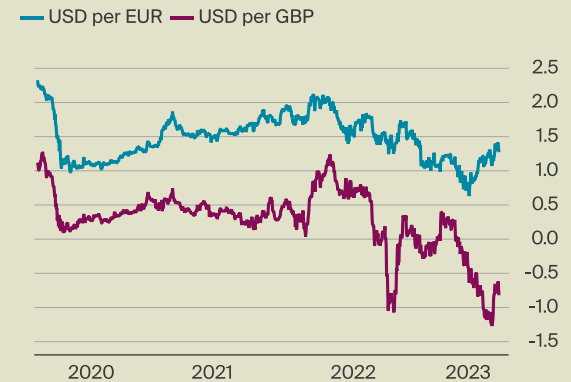


Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
EUR per GBP	1.161	1.157	1.167	1.171	1.177
KOR per GBP	1,671	1,662	1,642	1,666	1,525
USD per GBP	1.277	1.276	1.286	1.283	1.321
USD per EUR	1.104	1.104	1.102	1.096	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	1.27	1.33	1.36	1.29	2.32
USD to GBP	-0.82	-0.71	-0.72	-1.07	1.12

Inflation and monetary policy

Inflation rate (%)

	July	June	May	Apr
Australia	n/a	6.1	6.1	6.1
Canada	n/a	2.8	3.4	4.4
China	n/a	0.1	0.3	0.3
Euro Area	5.3	5.5	6.1	7.0
France	4.3	4.5	5.1	5.9
Germany	6.1	6.4	6.0	7.1
India	n/a	4.8	4.3	4.7
Italy	6.0	6.4	7.6	8.2
Japan	n/a	3.3	3.2	3.5
Saudi Arabia	n/a	2.7	2.8	2.7
South Korea	2.3	2.7	3.3	3.7
Spain	2.3	1.9	3.2	4.0
Sweden	n/a	9.3	9.7	10.5
UK	n/a	7.9	8.7	8.7
US	n/a	3.1	4.1	5.0

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

Interest rates (%)

	Last	Jan '21
	4.10	0.10
	5.00	0.25
	4.35	4.35
	4.25	0.00
	4.25	0.00
	4.25	0.00
	6.50	4.00
	4.25	0.00
	-0.10	-0.10
	6.00	1.00
	3.50	0.50
	4.25	0.00
	3.75	0.00
	5.25	0.10
	5.50	0.25

Asset purchasing

	Latest (\$)	1m change (%)
	0.39 tn	-1.9
	270 bn	-2.5
	5.77 tn	2.8
	7.94 tn	-2.3
	1.83 tn	-6.0
	2.81 tn	-3.8
	360 bn	2.6
	1.44 tn	-0.2
	5.22 tn	1.2
	489 bn	-2.1
	411 bn	-2.1
	487 bn	-5.3
	133 bn	0.6
	1.37 tn	-0.5
	8.21 tn	-1.3

Source: Knight Frank, Macrobond



Active Capital 2022/2023

Our flagship capital markets research programme, Active Capital, will guide you through the complexities and challenges of global real estate, whilst highlighting the opportunities that lie ahead over the next 18 months.

[Watch the launch](#)



(Y)OURSACE 2023

Knight Frank | Cresa's research indicates that corporate real estate leaders are increasingly challenged by managing complexity across their business, with real estate playing a critical strategic role in supporting business transformation. (Y)OUR SPACE investigates how the future of the workplace is likely to unfold over the next three years.

[View Report](#)

Recent research



Quantifying ESG in real estate

This report covers a selection of our recent analytical projects, as well as practical applications and considerations for clients. It offers clear messages that we hope will inform decision-makers as they make decisions against a rapidly evolving backdrop. We also hope the ideas will spark debate and unlock new areas of investigation.



Retail Property Market Outlook 2023

The 2023 Retail market outlook discusses predictions for the Retail market, providing in-depth commentary on retail sub-sectors and occupier activity amidst economic distress.

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



Antonia Haralambous
Associate
Capital Markets Research
+44 20 3866 8033
antonia.haralambous@knightfrank.com



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