Leading Indicators

Key economic and financial metrics, updated weekly

Are we out of the woods yet? The latest BoE forecasts suggest we might be

+0.9%
y/y Q2 2024 Bank of England GDP growth forecast

26%
of UK MSCI Monthly Index yields softened on a monthly rolling average basis in April 2023

+$7tn
forecast annual rise in global GDP over the next 10 years due to AI adoption

CAUTIOUS OPTIMISM

The UK has (so far) avoided the recession that nearly all official forecasters anticipated at the beginning of the year. Meanwhile, the expected underperformance of the UK economy versus its European counterparts hasn't widened further, with both the UK and Euro Area GDP growing by +0.1% q-q in Q1 2023. Pointing to this improved sentiment, the Bank of England provided its largest upgrade to growth projections since 1997, removing its previous expectation of the UK's longest recession on record. The central bank now forecasts the UK economy to grow by +0.9% in the year to Q2 2024, which compares to its previous forecast of a -0.3% contraction. Meanwhile, some economists have suggested that today's labour market data alleviates some of the pressure on the Bank of England to hike rates any further at its next meeting on 22nd June. Indeed, UK unemployment increased by 0.1ppts to 3.9% and headline total pay growth slowed in Q1.

POLARISATION PERSISTS

Across the UK Monthly MSCI index, commercial property yields have started to rise. In April, 26% of MSCI sector yields softened on a monthly rolling average basis, the highest proportion of softening yields since August 2020. However, it remains below the 76% share in March 2009. Meanwhile, 22% of MSCI yields compressed in April, and 52% were stable. However, our latest Investment Yield Guide shows that prime yields are more stable, indicating polarisation within the market. In May, 67% of prime yields were stable, whilst 16% were softening and 16% were compressing. Polarisation in the performance of prime and secondary assets will likely continue, as prime yields are expected to stabilise quicker than secondary. Here, the Yield Guide points to positive or stable market sentiment for most retail subsectors, industrial and the specialist sectors.

CAN AI DRIVE THE ECONOMY?

New research suggests that AI adoption could lead to a +7% increase or c.$7 trillion rise in annual global GDP over the next 10 years. In line with this, other studies estimated a 3ppt rise in annual labour productivity growth in firms that adopt the new AI technology. While time will tell if this transpires, this could be significant for the UK, which has seen sluggish productivity growth, with an hour of work in 2022 producing just +0.4% more output than in 2021, according to the ONS. AI could be game changing for many professions, with studies suggesting the legal services, accountancy and travel sectors to be the most impacted.
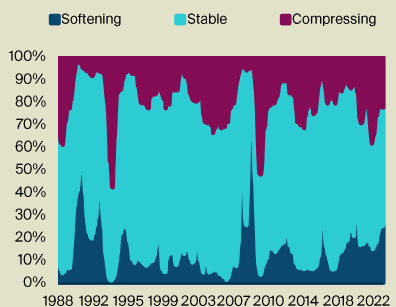
The BoE upgrades its growth outlook
Bank of England real GDP forecast, £bn
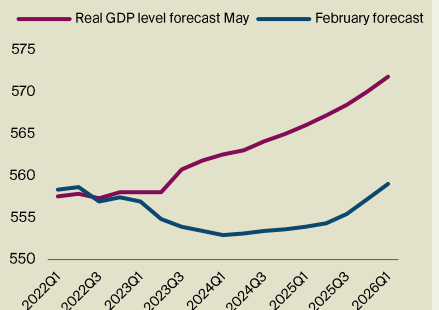
Sources: Knight Frank Research, Bank of England
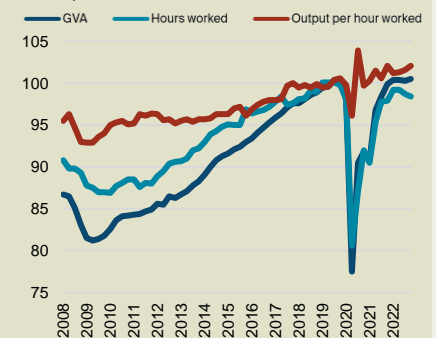
26% of MSCI sector yields are softening
Proportion of NIYs that are softening, stable or compressing, monthly rolling average, %

Sources: Knight Frank Research, MSCI

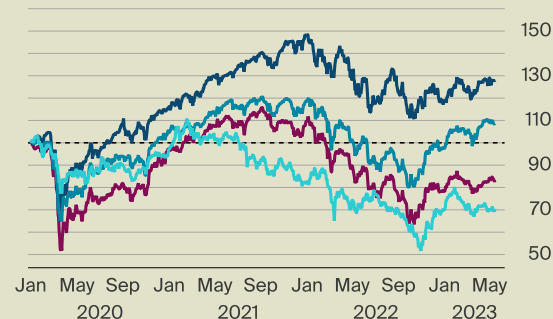### Will AI boost UK labour productivity?
Index, 2019 = 100

Source: Knight Frank Research, ONS

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			
Original value and base		1 day	1 week	1 month	Jan '20
DAX 30	6,873	-0.4	-2.3	-2.8	3.8
FTSE 250	24,092	-0.2	-1.8	1.0	-16.9
Hang Seng	2,548	1.1	-0.3	-1.7	-29.6
IBEX 35	9,998	-0.3	-0.7	-2.8	-6.7
MIB	29,605	0.1	-1.7	-3.0	12.5
S&P 500	4,136	0.1	0.0	-0.2	28.0
STOXX 600	507	0.2	-1.0	-1.1	8.7
TOPIX	16	0.9	1.7	3.1	-1.0

Equity regional sectors
Price return index percentage change since Jan 2020
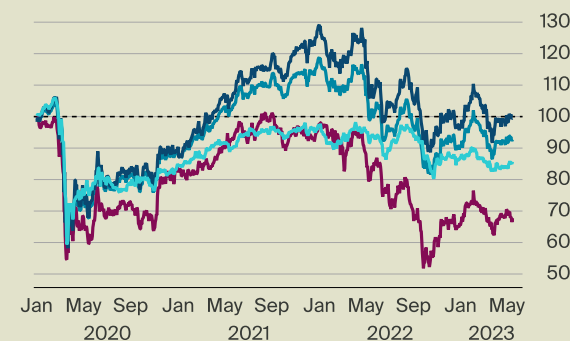
■ US ■ Europe ■ Emerging Markets
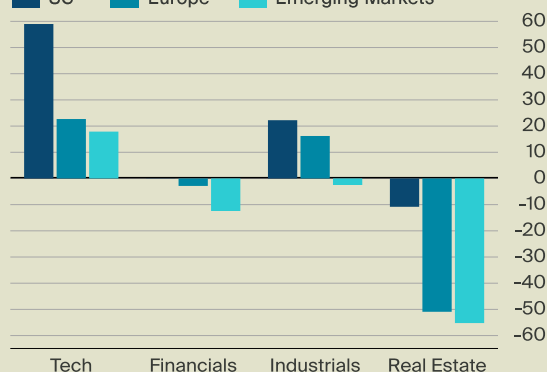
Source: Knight Frank, Macrobond

Percentage change since Jan 2020			
	US	Europe	World
Tech	59.0%	22.7%	17.9%
Financials	-0.1%	-2.8%	-12.4%
Industrials	22.2%	16.2%	-2.5%
Real Estate	-10.8%	-50.9%	-55.2%

REITs by region
EPRA/NAREIT total return index, Jan 2020 = 100, US$

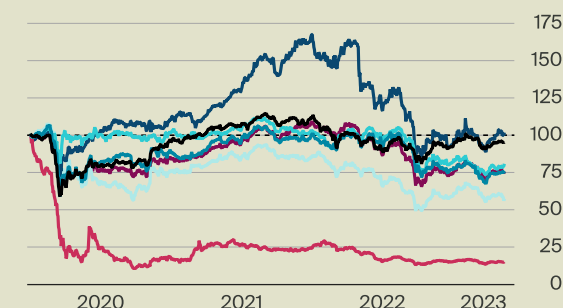— World — Europe — US — Asia Pacific

Source: Knight Frank, Macrobond

Index, total return	Last	Percentage change since			
Original value and base		1 day	1 week	1 month	Jan '20
US	2,378	-0.2	-1.4	1.3	-0.5
Europe	1,932	0.0	-2.7	-1.4	-32.2
World	2,977	-0.1	-1.3	0.9	-7.3
Asia Pacific	3,363	0.5	0.6	2.6	-14.3

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			
Original value and base		1 day	1 week	1 month	Jan '20
All REITs	775	0.4	-2.0	0.3	-24.3
Office	1,701	-1.6	-5.1	-3.4	-42.6
Industrial	1,262	1.4	-1.0	4.5	1.8
Retail	54	1.7	-0.5	0.7	-84.9
Healthcare	1,833	2.2	2.0	1.2	-19.2
Residential	1,155	0.0	0.8	1.7	-24.3
FTSE 250	16,238	0.0	-0.9	1.3	-4.7

Bonds & Rates

Knight Frank

Government bond yields

10 year government bond yields, %

— US — UK — Germany — Italy — Japan — Singapore
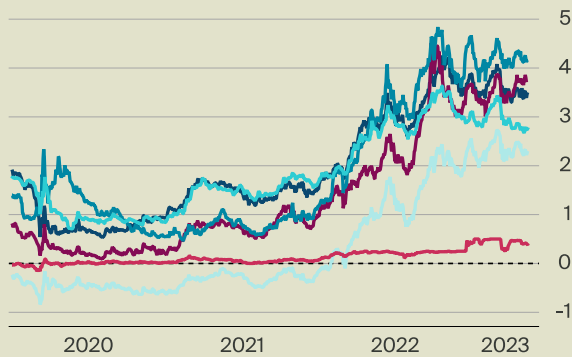
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Italy	4.17	4.17	4.26	4.28	1.40
Japan	0.41	0.38	0.41	0.46	-0.03
Singapore	2.74	2.77	2.77	2.78	1.74
UK	3.71	n/a	3.86	3.67	0.82
US	3.50	3.50	3.53	3.52	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

The yield curve is an indication of the risk free rate at different maturities
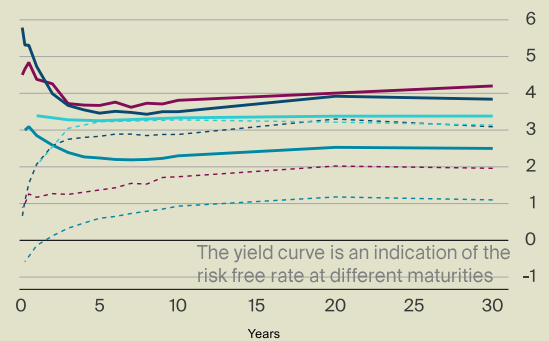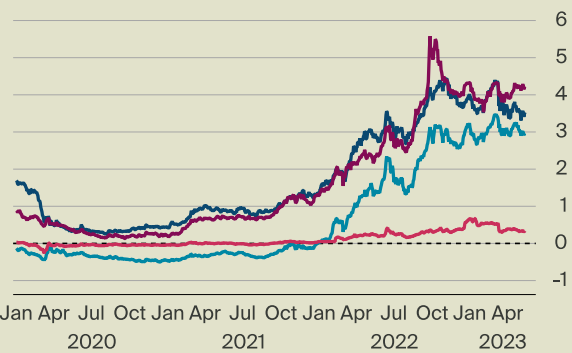
Years

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	2.97	2.96	3.00	3.13	-0.13
Japan	0.34	0.32	0.34	0.39	0.03
Singapore	3.54	3.54	3.54	3.54	1.50
UK	4.23	4.21	4.23	4.12	0.88
US	3.53	3.50	3.51	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

Years
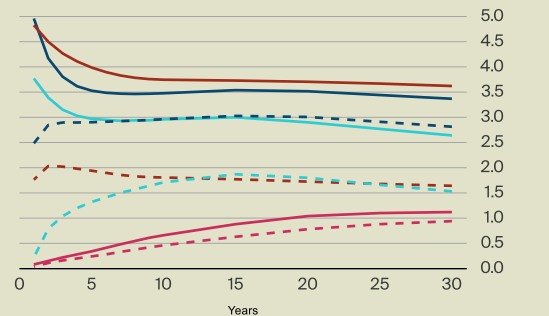
Source: Knight Frank, Macrobond

Commodities & Volatility

Energy
Oil spot prices, $ per barrel

— Brent Crude — West Texas Intermediate (WTI)

Brent crude monitors the level of demand for raw materials and is a measure of economic activity.

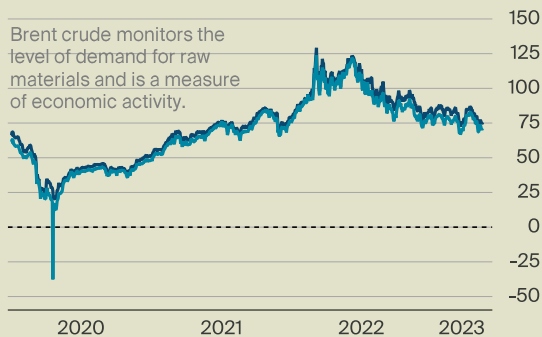Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
Brent, $ per barrel	75.5	74.2	76.6	86.4	66.0
WTI, $ per barrel	71.1	70	73.2	82.5	61.1

Baltic dry index
Baltic Exchange, Shipping Dry index (BDI), US$
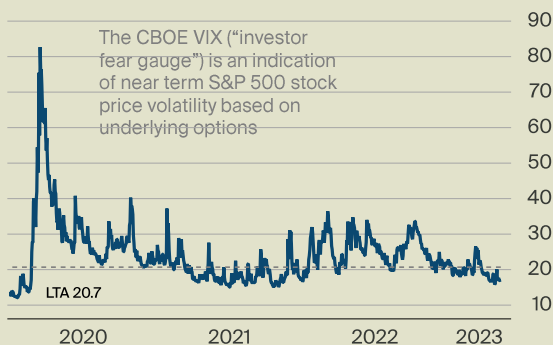
— Baltic dry index

Baltic Dry Index is a measure of what it costs to ship raw materials and is a leading indicator of global demand

Source: Knight Frank, Macrobond

	Last	Percentage change since			
		1 day	1 week	1 month	Jan '20
Baltic Dry	1522	-5.35	-2.31	6.06	39.6

Volatility index
Near term stock price volatility indicator

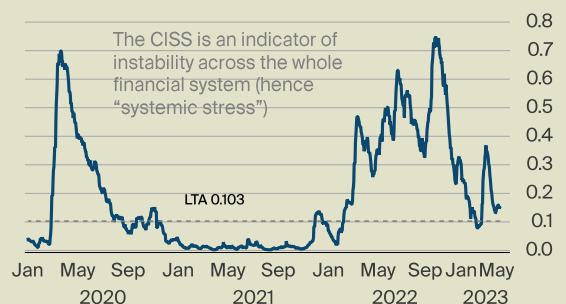— CBOE Volatility Index (VIX) --- Long term average

The CBOE VIX ("investor fear gauge") is an indication of near term S&P 500 stock price volatility based on underlying options

LTA 20.7

Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
CBOE VIX	17.1	17.1	17.7	17.1	13.8
Euro Stoxx 50 VIX	17.2	17.2	18.9	16.4	14.0
Nikkei VIX	17.2	16.1	15.8	16.6	14.8
KOSPI VIX	13.6	13.8	14.4	15.4	14.7

Systemic stress
Measures FX, money, sovereign and bond yield volatility

— New ECB Composite Indicator of Systemic Stress (CISS)
--- Long term average

The CISS is an indicator of instability across the whole financial system (hence "systemic stress")

LTA 0.103

Source: Knight Frank, Macrobond

	Last	1 week	1 month	Jan '20
Systemic stress composite	0.234	0.298	0.239	0.023
Equity markets stress sub index	0.078	0.113	0.075	0.009
Bond markets stress sub index	0.078	0.092	0.072	0.02
FX markets stress sub index	0.026	0.054	0.020	0.004

Currencies & Monetary Policy

Knight Frank

Currencies
Spot prices

- EUR per GBP, lhs
- USD per GBP, lhs
- USD per EUR, lhs
- KRW per GBP, rhs
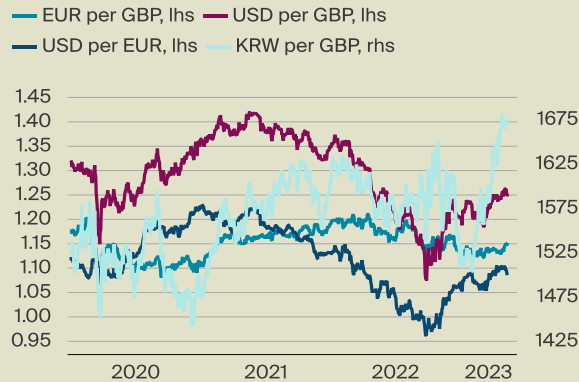
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
EUR per GBP	1.151	1.148	1.146	1.131	1.177
KOR per GBP	1,675	1,672	1,665	1,623	1,525
USD per GBP	1.251	1.248	1.263	1.244	1.321
USD per EUR	1.086	1.086	1.102	1.098	1.123

Hedging benefits
Hedging benefit p.a. on a 5 year forward

- USD per EUR
- USD per GBP
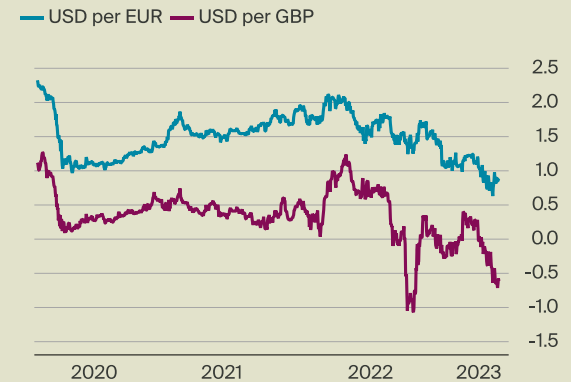
Source: Knight Frank, Macrobond

	Last	1 day	1 week	1 month	Jan '20
USD to EUR	0.89	0.88	0.89	0.78	2.32
USD to GBP	-0.61	-0.58	-0.59	-0.31	1.12

Inflation and monetary policy

Inflation rate (%)

	Apr	Mar	Feb	Jan
Australia [1]	n/a	7.1	7.1	7.1
Canada	n/a	4.3	5.2	5.9
China	0.3	0.8	1.1	2.2
Euro Area	7.0	6.9	8.5	8.6
France	5.9	5.7	6.3	6.0
Germany	7.1	7.4	8.7	8.7
India	4.7	5.7	6.4	6.5
Italy	8.2	7.6	9.1	10.0
Japan	n/a	3.2	3.3	4.3
Saudi Arabia	2.7	2.7	3.0	3.4
South Korea	3.7	4.2	4.8	5.2
Spain	4.1	3.3	6.1	5.9
Sweden	10.5	10.6	12.0	11.7
UK	n/a	10.1	10.4	10.1
US	5.0	5.0	6.0	6.3

Interest rates (%)

Last	Jan '21
3.85	0.10
4.50	0.25
4.35	4.35
3.75	0.00
3.75	0.00
3.75	0.00
6.50	4.00
3.75	0.00
-0.10	-0.10
5.75	1.00
3.50	0.50
3.75	0.00
3.50	0.00
4.50	0.10
5.25	0.25

Asset purchasing

Latest ($)	1m change (%)
0.413 tn	-4.1
281 bn	0.0
5.96 tn	-2.0
8.49 tn	-0.2
1.94 tn	-2.9
2.95 tn	-3.3
345 bn	-5.9
1.6 tn	0.0
5.5 tn	0.9
493 bn	-3.7
454 bn	2.6
487 bn	-1.3
140 bn	-7.6
1.37 tn	1.4
8.5 tn	-1.4

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

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

Future Gazing 2023

In the latest edition of the Future Gazing Report, the sectors and locations which could benefit from reconfiguring supply chains are explored. Through the past three years, we have experienced a supply-side crisis. Simply restoring the old order is unlikely to solve the crisis and provide much-needed resilience amidst a shifting geopolitical landscape.

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

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