Media release

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Leading Index signals more encouraging growth outlook

The six month annualised growth rate in the Westpac-Melbourne Institute Leading Index, which indicates the likely pace of economic activity relative to trend three to nine months into the future, rose from –0.37% in May to –0.14% in June.

Westpac Chief Economist, Westpac's Chief Economist, Bill Evans, commented, "While the growth rate of the Index remains below zero, indicating a continuation of the below trend momentum seen over the last 14 months, it has improved significantly since the start of the year. Indeed this latest reading suggests growth over the next 3 to 9 months will be almost around trend. That outlook is more consistent with Westpac's forecast for growth holding steadily around a 3% pace over the next year.

"The Leading Index growth rate has lifted from being 1.19% below trend in January to 0.14% below trend in June.

"The main contributors to this growth improvement are: commodity prices (+0.71ppts); the sharemarket (+0.37ppts); US industrial production (+0.21ppts); and dwelling approvals (+0.16ppts). Partially offsetting these improvements have been a deterioration in aggregate monthly hours worked (–0.34ppts). Both confidence

Indexes (the Westpac- MI CSI expectations and Westpac-MI Unemployment Expectations Index) were largely unchanged over the last six months. The yield curve spread exerted a modest downward pressure over the period (–0.04ppts).

“In assessing the components of the Index that have contributed to the lift since January, improving international conditions have been largely responsible for result. These components (the sharemarket, commodity prices, US industrial production) would have captured some of the initial impact of ‘Brexit’ providing further evidence of the limited expected drag from the UK plebiscite on the outlook for the Australian economy.

“The Reserve Bank Board meets on August 2. We expect that the Board will decide to reduce the overnight cash rate by a further 0.25% following its move in May. The minutes of the July board meeting emphasise that over the last month the Board has become somewhat more cautious around the labour market and the housing market. However the key to the August decision will be the June quarter inflation report which is expected to confirm that inflation in Australia remains very low and further monetary stimulus will be required to return inflation to the targeted 2–3% zone by the end of 2017”, Mr Evans said.

Issued by: Westpac Banking Corporation

Bill Evans
Chief Economist
Westpac Banking Corporation
Ph: (61-2) 8254 8531

Dr. Tim Robinson
Melbourne Institute
Ph: (61-3) 83442325