

Media release

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Leading Index posts modest gain, growth remains above trend

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, increased slightly from +0.77% in March to +0.82% in April.

Westpac’s Chief Economist, Bill Evans, commented, “The growth rate in the Leading Index remains in positive territory signalling above trend growth over much of the remainder of 2018. Drivers of the above trend growth in the Index over the last six months have been almost exclusively international – commodity prices and US industrial production. Domestic components which focus on Confidence; housing; and the labour market have been largely flat.

“Westpac’s own forecast for growth in 2018 is 2.7%, around trend, and therefore somewhat weaker than is currently implied by the Leading Index.

“Both the Reserve Bank and the government have recently refreshed their growth forecasts and remain of the view that growth will track above trend in 2018 and 2019.

“Whilst experiencing some volatility in recent months, the Leading Index growth rate has remained above trend and lifted slightly over the last half year from 0.74% in November to today's 0.82% for April. The main components driving this gain have been gains in US industrial production (+0.18ppts) and commodity prices (+0.33ppts).

“These gains have been offset by a narrowing yield spread (–0.22ppts) and declines in the S&P/ASX 200 (–0.09ppts) index both of which are influenced by a combination of domestic and international factors.

“The other components of the Leading Index which capture domestic effects (namely dwelling approvals, Westpac-MI Unemployment Expectations Index, Westpac Melbourne Institute CSI expectations and aggregate monthly hours worked) are largely unchanged over the last half year.

“The Reserve Bank Board next meets on June 5. The minutes of the May Board meeting which were released on May 15 indicate that the Board feels no urgency to move on rates. Indeed the Board implies that there should be no ‘embarrassment’ in holding rates steady in a world where rates are being increased in other countries as it has become a “source of stability and confidence”.

“We expect that the conditions required to justify an interest rate increase are remote. Westpac continues to expect that the cash rate will remain on hold for the remainder of 2018 and 2019”, Mr Evans said.

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