

Media release

17 October 2018

Strict Embargo 10:30am

Leading Index still pointing to growth slowdown

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, lifted from -0.02% in August to $+0.21\%$ in September.

Westpac Chief Economist, Bill Evans, commented, “Despite a lift back above trend this month, the Index growth rate continues to point to slowing momentum heading into year end.

“Over the seven months from October last year to April this year the growth rate averaged 0.89% . In the five months since April the growth rate has averaged only 0.13% – a clear step down.

“Those readings to April were consistent with the strong, above trend momentum in the official growth figures that showed the Australian economy growing at a 4% annualised pace in the first half of 2018. However the weaker, though volatile, reads we have seen in recent months point to a slower growth pace over the second half of 2018 and into 2019.

“Westpac expects momentum to slow to around 2.5% in the second half of 2018, which will be slightly below trend, with this slower pace to be sustained through 2019 at around trend of 2.7%.

“Factors that we anticipate will be important headwinds for growth going forward are: an uncertain outlook for the consumer with ongoing weak wages growth; falling property prices in Sydney and Melbourne which will be associated with a negative wealth effect; and a slowdown in jobs growth as both political uncertainty and global volatility weigh on firm’s employment decisions.

“In that regard it is interesting that the minutes of the Reserve Bank Board meeting for October noted: “Members observed that uncertainty about how consumption would respond if there were an extended period of low income growth, and/or declining housing prices, remained an important consideration for the forecasts.”

“Over the six months from April to September the growth rate in the Index slowed from +0.82% to +0.21%. Six of the eight components of the Index contributed to the slowdown, including: a sharp turnaround in dwelling approvals (contributing 0.28 percentage points to the growth slowdown); and reduced support from commodity prices (–0.19 percentage points); US industrial production (–0.17 percentage points); the Westpac-MI Unemployment Expectations Index (–0.14 percentage points) and aggregate monthly hours worked (–0.12 percentage points). This has been partially offset by improved contributions from the S&P/ASX 200 (+0.20 percentage points) and a reduced drag from a narrowing yield spread (+0.16 percentage points).

“The Reserve Bank Board next meets on November 6. The minutes of the Board’s October meeting confirm that there is no urgency to move on rates although the Board maintains its view that, eventually, the overnight cash rate is more likely to rise than fall. Westpac confirms its view that the cash rate will remain unchanged for the remainder of 2018 and through 2019 and 2020”, Mr Evans commented.

Issued by: Westpac Banking Corporation

Bill Evans

Dr. Tim Robinson

Chief Economist

Melbourne Institute

Westpac Banking Corporation

Ph: (61-3) 83442325

Ph: (61-2) 8254 8531