

# Media release

27 January 2016

**Strict Embargo 10:30am**

## **International developments weigh on the Leading Index**

The six month annualised deviation from trend growth rate in the Westpac-Melbourne Institute Leading Index, which indicates the likely pace of economic activity three to nine months into the future, decreased from  $-0.40\%$  in November to  $-1.03\%$  in December.

Westpac's Chief Economist, Bill Evans commented, "This is another disappointing result. The Index has now been growing below trend for the last eight months. It continues to signal that growth in the Australian economy in the first half of 2016 will be below trend. Apart from in August 2015, this negative deviation represents the largest deviation we have seen since the second half of 2011.

"Recall that both Treasury and the Reserve Bank are now assessing trend (or potential) growth at  $2.75\%$ . Westpac's current forecast for 2016 entails an annual growth pace in the first half of 2016 of  $2.75\%$  (trend). The signal from the Leading Index indicates that our forecast may be somewhat optimistic.

"The government's near term growth forecasts (2015/16 and 2016/17) are slightly weaker than our own forecasts after the government's forecasts were revised down

**Institutional  
Bank**

from the May Budget when the government released its Mid-Year Economic and Fiscal Outlook last month.

“In the Budget the government forecast growth of 2.75% in 2015/16 and 3.25% in 2016/17. These forecasts have now been revised back to 2.5% and 2.75% respectively.

“Westpac is expecting growth of 2.8% in 2015/16 and 2.7% in 2016/17.

“The Reserve Bank has slightly different forecasts of 2.25% for 2015/16 and 2.5%–3.5% in 2016/17. Using the mid-point of the Bank’s forecast range we can see a slightly more cautious outlook in the near term but more optimistic outlook further out than the Westpac and Government forecasts. The Reserve Bank does provide sufficient information to impute their forecast for the first half of 2016 with a trend pace of around 2.75% implied – the same as Westpac.

“As discussed last month, it appears that the signal from the Leading Index is more down beat on growth in the first half of next year than the RBA and Westpac. Given the further deterioration in the Index from last month the warning from the Index of below trend growth in the first half of 2016 is even stronger than last month.

“The Reserve Bank will release its revised forecasts for growth on February 5.

“Over the last six months growth in the Index has slowed from 0.43% below trend to 1.03% below trend.

“Components of the Index which have contributed to the slowdown are: ASX 200 (–0.15 percentage points); dwelling approvals (–0.21 ppt’s); yield spread (–0.58 ppt’s);

**Institutional  
Bank**

US industrial production (–0.09 ppt's) and commodity prices (–0.12ppt's). These falls have been partially offset by Westpac – MI Consumer Sentiment Expectations Index (0.25 ppt's); Westpac MI Unemployment Expectations Index (0.11 ppt's); and aggregate monthly hours worked (0.20 ppt's).

“The theme of international factors which are represented by the share market; the yield curve; US industrial production and commodities weighing on the Index while being partially offset by an improving labour market and solid confidence is clearly captured in the divergent movements of the components of the Index.

“The Reserve Bank board meets next week on February 2. While volatile developments in world markets will figure in discussions we expect that the solid improvements in the labour market, partly assisted by further falls in the Australian dollar, will keep the Bank on hold. Indeed we expect that rates will remain on hold for the remainder of 2016”, Mr Evans said.

**Issued by: Westpac Banking Corporation**

Bill Evans

Viet Nguyen

Chief Economist

Melbourne Institute

Westpac Banking Corporation

Ph: (61-3) 9035 3621

Ph: (61-2) 8254 8531