Media release

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Leading Index improves but still points to below trend momentum

The six month annualised growth rate in the Westpac-Melbourne Institute Leading Index, which indicates the likely pace of economic activity three to nine months into the future, rose from –1.19% in April to –0.42% in May.

Westpac Senior Economist, Matthew Hassan commented, "Although the index continues to point to sub-trend growth, the May update showed a material improvement and marks the best reading since October."

"Most notably the drag from falling commodity prices which has been a consistent feature over the last two years has eased significantly with the component now having a neutral effect on the index growth rate. This is an important development. While commodity prices are likely to remain weak near term, 2016 is expected to see an end to the strong underlying downtrend that in prices that has dominated since 2011. The reduced pressure on incomes is, in turn, expected to see a gradual improvement in conditions over the course of the year. The May Leading index update may be the first sign that this shift is coming through."

“Between December and May the six month annualised growth rate of the Index has lifted from 1.15% below trend to 0.42% below trend. The main components driving the improvement have been: a reduced drag from commodity prices in AUD terms (contributing +0.59ppts); and a stabilisation in both equity markets (+0.22ppts) and dwelling approvals (+0.21ppts). This has been partially offset by weaker reads from aggregate monthly hours worked (–0.15ppts); the Westpac MI Consumer Expectations Index (–0.10ppts); and the Westpac MI Unemployment Expectations Index (–0.04ppts). Drags from US industrial production and the yield spread have been unchanged.

“The Index rose 0.20pts in the May month, from 96.80 to 97.00. Out of the eight components, five increased and three declined. On the positive side: the RBA AUD commodity price index rose 3.8%; dwelling approvals rose 3.0% and the ASX 200 rose 2.4%. The main negative was from a 1.7% fall in total hours worked and a 0.4% decline in US industrial production.

“The Reserve Bank Board next meets on July 5. The key considerations are still around the outlook for inflation, with the June quarter inflation report due on July 27 the key data release. The timing makes the July Board meeting a ‘dead rubber’ – barring the outside chance of ‘Brexit’ risks coming to pass. We expect no change in the cash rate and no substantive changes in the Governor’s statement accompanying the decision. However, it remains our assessment that the June quarter inflation read will reconfirm to the Board that, on a ‘no policy change’ basis, inflation is unlikely to return to the Bank’s 2-3% target over the forecast horizon and that another 25bp cut is necessary with that cut being delivered at the Board’s meeting on August 2”, Mr Hassan said.

Issued by: Westpac Banking Corporation

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