Media release

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Leading Index suggests growth is stalling

- **Leading Index growth rate drops to –0.36%.**
- **Signal broadly consistent with quarterly GDP growth stalling flat.**
- **Detail suggests combination of fuel price spike earlier in the year and rate rises are weighing on growth through a variety of channels.**

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, dropped to –0.36% in June from –0.25% in May.

“The latest update points to a further loss of momentum across the Australian economy. The June update marks the sixth consecutive below-trend read on the Leading Index growth rate and the weakest pace since late 2023, when quarterly GDP growth stalled flat. While the latest growth pulse is still not overly weak it is broadly consistent with stalling activity through the middle of the year.

“The detail suggests the conflict-related spike in fuel prices in March–April and the RBA’s interest rate rises in February, March and May are now weighing materially on growth, with the effects working through a variety of channels.

The Leading Index growth rate has seen an abrupt turnaround since late last year, flipping from +0.36% in December to –0.36% currently. Just over half of the 0.72ppt reversal has come from a sharp narrowing in the yield spread (–0.40ppts). The move in the spread, which is the difference between short- and long-term interest rates, is a direct reflection of the RBA's rate moves. The tightening has likely had an indirect hand in weaker reads across other components as well, including: dwelling approvals (which account for –0.21ppts of the swing in headline growth since December); the Westpac-Melbourne Institute Consumer Expectations Index (–0.08ppts); and a softening in monthly hours worked (–0.03ppts).

"Where this goes next is a little uncertain. Most of the weakness in the Leading Index growth rate – which is based on a six-month window – came in the first three months of the year, with the underlying index actually stabilising since then. The more recent pattern reflects both the easing in fuel costs locally and the RBA's decision to leave interest rates unchanged at its June meeting. However, both could come back into frame negatively in coming months with conditions deteriorating in the Middle East and the RBA still clearly uneasy about persistently high inflation.

"The Reserve Bank Monetary Policy Board next meets on August 10–11. While the latest Leading Index update confirms that growth momentum is slowing, high inflation remains the Board's primary concern. As such, the June quarter CPI update on July 29 will be the critical reading ahead of the August meeting. On balance we expect it to show inflation running too high and a further 25bp rate increase from the RBA Board in August," Mr Hassan commented.

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