Media release

16 December 2020

Strict Embargo 10:30am

Leading Index still rising

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, rose from +3.77% in October to +4.38% in November.

Westpac's Chief Economist, Bill Evans, commented, "This is the strongest growth rate in the sixty year history of the measure. That said, the gains still largely reflect the severity of the preceding contraction which saw the Index growth rate drop to an extreme low of –5.5% in April."

"In level terms, the Index has now recouped 80% of that fall."

"Last week Westpac lifted its growth forecasts for 2020 and 2021, from –3% and 2.8% to –2% and 4% respectively. That 4% growth rate in 2021 is comfortably above trend and is highlighted by a 4.5% annualised growth pace in the first half of 2021. The forecasts are consistent with the 'above trend' signal coming from the Leading Index.

"The Leading Index growth rate has risen an extraordinary 8.79ppts since June. Seven of the eight components have contributed to the gain but two stand out: US industrial production (+4.42ppts) and aggregate monthly hours worked (+2.46ppts). These two components have driven most of the volatility this year – accounting for

80% of the lift in the Index growth rate since mid-year, and 88% of the contraction over the first half.

“The second half has also seen more positive contributions from several other components including: the S&P/ASX 200 (+0.78ppts); the Westpac-MI Unemployment Expectations index (+0.56ppts); Westpac-MI CSI expectations index (+0.48ppts) and dwelling approvals (+0.31ppts). The contribution from commodity prices has been largely unchanged. The only drag has come from a widening yield spread (-0.26ppts), mainly reflecting RBA measures that have taken short term rates to extreme lows.

“The Reserve Bank Board next meets on February 2. Earlier this week Westpac forecast significant extensions to the RBA’s current Quantitative Easing program. We expect the RBA to introduce a second $100 billion program following the expiry of the first one in late April/early May. That will then be followed by two smaller programs of $50 billion each in the year to October 2022.

“With the second program expected to begin in late April/early May, it will need to be announced at a preceding Board meeting in February, March or April – although February seems less likely than the later dates. There is some support for this view in the December Board Minutes where it is noted that “members agreed to keep the size of the bond purchases program under review”, Mr Evans commented.

Issued by: Westpac Banking Corporation

Bill Evans
Chief Economist
Westpac Banking Corporation
Ph: (61-2) 8254 8531

Dr. Tim Robinson
Melbourne Institute
Ph: (61-3) 83442325