



# Media release

19 August 2020

**Strict Embargo**

**10:30am**

## **Leading Index bottoms out but still deep in negative territory**

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  $-4.43\%$  in June to  $-4.37\%$  in July.

Westpac's Chief Economist, Bill Evans, commented, "The Index growth rate remains in deep negative territory consistent with recession. However, it appears to have bottomed out in April at  $-5.61\%$  and, without the recent disaster in Victoria, it seemed certain that the June quarter would have marked the low point in the growth cycle.

"Victoria represents around 25% of national output. We expect the hard lockdown following the renewed virus outbreak to see the Victorian economy contract by 9% in the September quarter. That will offset the ongoing recovery we expect to be unfolding in other states as they continue to reopen, albeit at varying speeds.

"For Australia overall, we expect growth in the economy to be flat in the September quarter before lifting by 2.8% in the December quarter on the assumption that Victoria moves through Stage 4 to Stage 2 and the other states avoid 'second wave' outbreaks.

"The Leading Index growth rate has now lifted 1.24ppts out of what was a deep hole in April (growth relative to trend bottoming at  $-5.61\%$ ). That has been led by strong initial



rebounds in two components: US industrial production (adding +1.75ppts) and hours worked (adding 0.78ppts). However, these gains have been materially offset by deteriorations in several other components, including: dwelling approvals (–0.47ppts); the Westpac-Melbourne Institute Unemployment Expectations Index (–0.43ppts); and the Westpac-Melbourne Institute Consumer Expectations Index (–0.31ppts).

“Indeed, the three-monthly improvement would have been about double the size, and much more convincing, if it had not been for the renewed weakening in these other components. In the case of sentiment-based components, the weakness since April clearly captures the initial impact of the Stage 4 lockdown in Victoria – which saw a particularly disturbing nationwide drag on confidence in the August month.

“Looking over the six months since the onset of the COVID-19 pandemic, the Index still shows a large, broad-based weakening. July’s growth rate is 3.26ppts below its February pace. Six of the eight components have driven the fall: US industrial production (–1.52ppts); aggregate monthly hours worked (–0.78ppts); the S&P/ASX200 (–0.45ppts); dwelling approvals (–0.40ppts); and the two consumer sentiment based components (a combined–0.48ppts). Commodity prices (+0.14ppts) and the yield spread (+0.23ppts) have provided some slight offsets.

“While we always provide this standard six month comparison the key in these extraordinary times is the lift we have seen since April, which is signalling some improvement, while noting the recent impact on confidence components in response to the Stage 4 lockdown in Victoria.

“The Reserve Bank Board next meets on September 1 and we can expect the Board to maintain current policies.



“From a policy perspective the next major event will be the Commonwealth Budget which will be announced on October 6. Westpac expects the government will be committed to providing generous ongoing support to the economy. However, most of this support is likely to be of a non-recurring form including bringing forward the July 2022 tax cuts; one off payments; and infrastructure spending”, 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