

# Media release

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## **Leading Index growth rate falls below trend**

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, fell from 0.5% in July to -0.02% in August.

Westpac Chief Economist, Bill Evans, commented, “The growth rate in the Index has been volatile through 2018 but appears to be signalling a slowing in growth momentum as we move through the second half of 2018 and into 2019.

Over the seven months from October last year to April this year the growth rate averaged 0.89%. In the four months since April the growth rate has averaged only 0.1% – a clear step down.

Those readings to April were consistent with the strong, above trend momentum in the official growth figures that showed the Australian economy growing at a 4% annualised pace in the first half of 2018. However the weaker, though, volatile reads we have seen in recent months point to a slower growth pace over the second half of 2018 and into 2019.

Westpac expects momentum to slow to around 2.5% in the second half of 2018, which will be slightly below trend, with this slower pace to be sustained through 2019 at around 2.7%.

Factors that we anticipate will be important headwinds for growth going forward are: an uncertain outlook for the consumer with ongoing weak wages growth; falling property prices in Sydney and Melbourne which will be associated with a negative wealth effect; and a slowdown in jobs growth as both political uncertainty and global volatility weigh on business' employment decisions.

Over the six months from March to August the growth rate in the Index slowed from +0.7% to -0.02%. Six of the eight components of the Index contributed to the slowdown: the RBA commodity price index (-0.30 percentage points); US industrial production (-0.17 percentage points); dwelling approvals (-0.18 percentage points); the yield spread (-0.14 percentage points); the Westpac-MI Consumer Sentiment Expectations Index (-0.06 percentage points); and the Westpac-MI Unemployment Expectations Index (-0.04 percentage points). The two remaining components provided small offsetting positives: the S&P/ASX 200 (+0.12 percentage points) and aggregate monthly hours worked (+0.05 percentage points).

The Reserve Bank Board next meets on October 2. The minutes of the Board's September meeting confirm that there is no urgency to move on rates although the Board maintains its view that, eventually, the overnight cash rate is more likely to rise than fall. Westpac confirms its view that the cash rate will remain unchanged for the remainder of 2018 and through 2019 and 2020.

**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